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## Abbreviations and Acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>AWP</td>
<td>Annual Work Plan</td>
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<tr>
<td>CGAS</td>
<td>Computerized Government Accounting System</td>
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<tr>
<td>CEHRD</td>
<td>Center for Education and Human Resource Development</td>
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<tr>
<td>COA</td>
<td>Chart of Accounts</td>
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<tr>
<td>COP</td>
<td>Chief of Party</td>
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<tr>
<td>DCC</td>
<td>District Coordination Committee</td>
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<tr>
<td>DCOP</td>
<td>Deputy Chief of Party</td>
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<tr>
<td>DDA</td>
<td>Department of Drug Administration</td>
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<td>DFID</td>
<td>Department for International Development</td>
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<tr>
<td>DLI</td>
<td>Disbursement-linked Indicator</td>
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<tr>
<td>DOAAM</td>
<td>Department of Ayurveda and Alternative Medicine</td>
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<td>DOHS</td>
<td>Department of Health Services</td>
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<tr>
<td>DP</td>
<td>Development Partner</td>
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<td>DTCO</td>
<td>District Treasury Controller Office</td>
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<td>EDCU</td>
<td>Education Development and Coordination Unit</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>FCGO</td>
<td>Financial Comptroller General Office</td>
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<td>FMIS</td>
<td>Financial Management Information System</td>
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<tr>
<td>GARIS</td>
<td>Government Accounting and Reporting Information System</td>
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<tr>
<td>GESI</td>
<td>Gender Equality and Social Inclusion</td>
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<tr>
<td>GHSC-PSM</td>
<td>Global Health Supply Chain – Procurement and Supply Chain Management</td>
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<td>GON</td>
<td>Government of Nepal</td>
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<td>ICM</td>
<td>Internal Control Manual</td>
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<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
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<td>IDPG</td>
<td>International Development Partner Group</td>
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<td>IPSAS</td>
<td>International Public Sector Accounting Standards</td>
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<td>IRs</td>
<td>Intermediate Results</td>
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<td>IEMIS</td>
<td>Integrated Educational Management Information System</td>
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<td>IFMIS</td>
<td>Integrated Financial Management Information System</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>LG</td>
<td>Local Government</td>
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<tr>
<td>LOE</td>
<td>Level of Effort</td>
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<td>LMBIS</td>
<td>Line Ministry Budget Information System</td>
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<tr>
<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
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<tr>
<td>MDTF</td>
<td>Multi-Donor Trust Fund</td>
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<tr>
<td>MOEST</td>
<td>Ministry of Education, Science and Technology</td>
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<tr>
<td>MOF</td>
<td>Ministry of Finance</td>
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<tr>
<td>MOFAGA</td>
<td>Ministry of Federal Affairs and General Administration</td>
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<td>MOHA</td>
<td>Ministry of Home Affairs</td>
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<td>MOHP</td>
<td>Ministry of Health and Population</td>
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<td>MOPIT</td>
<td>Ministry of Physical Infrastructure and Transport</td>
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<td>MOSD</td>
<td>Ministry of Social Development</td>
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<td>MTOT</td>
<td>Training of Master Trainers</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>MuAN</td>
<td>Municipal Association of Nepal</td>
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<td>NARMIN</td>
<td>National Association of Rural Municipality in Nepal</td>
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<tr>
<td>NASC</td>
<td>Nepal Administrative and Staff College</td>
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<td>NFY</td>
<td>Nepali Fiscal Year</td>
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<td>NHSSP</td>
<td>Nepal Health Sector Support Program</td>
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<td>NNRFC</td>
<td>National Natural Resource and Fiscal Commission</td>
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<td>NPC</td>
<td>National Planning Commission</td>
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<tr>
<td>NPR</td>
<td>Nepali Rupees</td>
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<td>NPSAS</td>
<td>Nepal Public Sector Accounting Standards</td>
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<td>NRA</td>
<td>National Reconstruction Authority</td>
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<td>OAG</td>
<td>Office of the Auditor General</td>
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<td>PBO</td>
<td>Parliamentary Budget Office</td>
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<td>PEFA</td>
<td>Public Expenditure and Financial Accountability</td>
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<td>PFM</td>
<td>Public Financial Management</td>
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<td>PFMRAF</td>
<td>Public Financial Management Risk Assessment Framework</td>
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<td>PFMSP</td>
<td>Public Financial Management Strengthening Project</td>
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<td>PFMTCA</td>
<td>Public Financial Management Training Center</td>
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<td>PLGSP</td>
<td>Provincial and Local Governance Support Program</td>
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<tr>
<td>P-LMBIS</td>
<td>Provincial Line Ministry Budget Information System</td>
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<tr>
<td>PMO</td>
<td>Prime Minister’s Office</td>
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<td>PMP</td>
<td>Performance Management Plan</td>
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<td>PPMO</td>
<td>Public Procurement Monitoring Office</td>
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<td>P-TSA</td>
<td>Provincial Treasury Single Account</td>
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<tr>
<td>RMP</td>
<td>Risk Management Plan</td>
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<tr>
<td>SAS</td>
<td>School Accounting Software</td>
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<tr>
<td>SNG</td>
<td>Sub-national Government</td>
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<td>SSDP</td>
<td>School Sector Development Plan</td>
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<td>SUTRA</td>
<td>Subnational Treasury Regulatory Application</td>
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<tr>
<td>TABUCS</td>
<td>Transaction Accounting and Budget Control System</td>
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<td>TOGAF</td>
<td>The Open Group Architecture Framework</td>
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<tr>
<td>TOT</td>
<td>Training of Trainers</td>
</tr>
<tr>
<td>TSA</td>
<td>Treasury Single Account</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Program</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
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<tr>
<td>WNP</td>
<td>Whole of Nation Portal</td>
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Executive Summary

The five-year, $14.9 million USAID Public Financial Management Strengthening Project (PFMSP) began implementation in Nepal in August 2016 and completed in August 2021. Designed towards the end of a long period of political uncertainty that resulted in promulgation of the Nepal’s 2015 Constitution – which in turn would take substantive effect in 2017 through elections for representatives of 760 new subnational governments (SNGs) – PFMSP proceeded with a high need of flexibility implementation.

Since local elections for SNGs in 2017, as mandated under the 2015 Constitution, Nepal has undergone a major restructuring of government from a unitary to a federal system. With this devolution of powers, responsibility for major public services like education and health have been delegated to SNGs, including 753 local governments (LGs) and seven Provincial Governments (PGs). Consequently, the sourcing of these services – both financial and human resources – also changed significantly. For example, all major education and health service delivery points, including 29,035 community schools and 4,377 health centers, health posts, and district or zonal hospitals located in the SNGs became primarily funded through grants and other revenue transfers from the federal government. SNGs, and especially LGs, were also empowered to plan for and expend the funds per local needs, led by newly elected local officials. Many civil servants were shifted from serving the national government to serving subnational governments, albeit with uncertainty over their careers. Turnover remained high, and senior civil servants began to be rotated across different government levels.

In parallel with the constitutional changes, the GON, USAID, and many of Nepal’s other Development Partners (DPs) thus recognized the urgent need to improve accountability and transparency in the use of public funds, especially for grant funds sent from the federal government, as well as funds provided by DPs. In short, the country’s notoriously weak fiscal accountability under the unitary government could become worse under fiscal federalism without new, consistently implemented Public Financial Management (PFM) systems put in place. PFMSP’s implementation thus proceeded with a need for great flexibility, amid a simultaneous, dual transition: i) bureaucratic restructuring through a constitutional devolution of powers, and ii) modernization of bureaucratic systems to better manage the country’s money.

The main goal of PFMSP was to contribute to enhanced capacity of targeted GON ministries and agencies for improved transparency and accountability of PFM systems. PFMSP was implemented under three components:

**Component A: Improved budget planning and execution capacity of the government of Nepal [Ministry of Finance (MOF)/Financial Comptroller General’s Officer (FCGO)/National Natural Resources and Fiscal Commission (NNRFC)]:** PFMSP worked collaboratively with its multiple counterparts to provide PFM hardware, software, training and process improvement support, and the guidance and tools to modernize Nepal’s PFM systems. The hardware and software innovations helped fix the gap and set the foundation for an advanced Integrated Financial Management Information System (IFMIS) in the future. PFMSP training improved the abilities of civil servants tasked with PFM, while shifting from a manual to automated environment. GON staff were provided with skills for operating systems [e.g. the Line Ministry Budget Information System (LMBIS) and Sub-National Treasury Regulatory Application (SUTRA)]. In addition, leaders have been provided, international, best-practice capacity building to manage the transition to federalism (e.g.

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1 Education in Figures 2017 (At A Glance), 30 June 2018
2 This includes: 123 public hospitals, 200 primary health centers, 3,808 health posts, and 246 urban health centers, according to the Annual Report (2016/17), Department of Health Services, April 2018
experiential learning) and roadmaps/tools to fully modernize Nepal's PFM systems in the coming years [e.g. to prepare for the next Public Expenditure and Financial Accountability (PEFA) Assessment; to become fully compliant with ISO 27000 IT Security Planning and Compliance Audit; and to undertake a transition from cash to accrual accounting]. Organization support for the new, constitutional NNRFC was critical for its ability to become an established, respected institution.

Component B: Improved control environment and procurement capacity [Ministry of Education, Science and Technology (MOEST)/Ministry of Health and Population (MOHP)]: PFMS worked collaboratively with MOEST and MOHP to provide PFM software, equipment, training, support, guidelines, and important knowledge resources to modernize and strengthen their internal control and procurement practices. For MOEST, the development, piloting and first-phase implementation of the groundbreaking School Accounting Software (SAS) the operations of which are part of a dedicated server integrated with the Integrated Educational Management Information System (IEMIS) housed at Center for Education and Human Resource Development (CEHRD), and the development, distribution of a comprehensive School Accounting Manual (SAM) updated to align with GON acts and requirements. Trainings on these manuals and systems helped the GON to initiate solutions in addressing the lack of uniform and standardized approach to accounting, and financial reporting at the school level – which is the major source of audit arrears the education sector faces every year. The Planning and Budgeting Guidelines (MOEST and MOHP) and Business Plans (MOHP) enabled these ministries to perform the planning and budgeting functions effectively and in line with the medium-term results-based budgeting. The Internal Control Guidelines – 2077 of MOEST has become a crucial reference document for the ministry personnel to carry out day-to-day business per existing acts and regulations. Trainings on internal control, financial management, procurement planning and execution, and use of e-GP were important to build capacity of the GON staff in performing these core PFM functions. PFMS’s frequent advocacy and support to build or strengthen the audit committees helped in part to sensitize the officials on the importance of such mechanisms in reducing audit irregularities. Procurement historically has been a challenging issue in both education and health sectors, and the challenges have only increased in the recent years after several important procurement functions were devolved to provincial and local governments. PFMS’s support to develop procurement guidelines of health sector, and procurement improvement plans of education in both federal and province level serve as important guidelines and models in the effort to improve procurement planning and execution.

Component C: Strengthened PFM functions of National Reconstruction Authority (NRA): PFMS worked collaboratively with the NRA to provide PFM software, equipment, training, support, guidelines, and important knowledge resources to modernize and strengthen their overall financial management and to help improve accounting and reporting on use of 2015 earthquake reconstruction and recovery funds. PFMS supported a customized financial management information system (FMIS), NRA-FMIS, which was fully utilized by the NRA. Collaborative efforts with the NRA and other DPs helped tailor the system to cater the specific needs of the newly established NRA. PFMS’s regular and intensive technical assistance to the NRA through a help desk and embedded PFM IT experts, and frequent user-focused trainings, resulted in full use of the system by all spending units of the NRA. This enabled NRA to keep accounts of 100 percent of reconstruction funds and produce comprehensive and categorical financial reports per the needs of GON and DPs. NRA publicly reported on financial progress through their website, social media outlets and print magazines.

PFMS also made significant contributions to advancing a review of the concept gender responsive budgeting (GRB) in Nepal so that it may become more results focused in the years to come. PFMS’s GRB work was just one of many efforts requiring complex
coordination and collaboration to achieve the projects key outputs. **Box 1** provides a selection of the project’s key outputs.

**Conclusion:** While no single project can tackle Nepal’s PFM challenges – especially amidst the ongoing dual transition described above – PFMSP has helped the GON significantly through what will, in the long run, prove to be foundational changes to the way that Nepal not only manages its money, but ultimately delivers improved services to its citizens to better meet their needs. PFMSP mitigated the numerous PFM reform and program operational risks and challenges through a flexible implementation approach and strong adaptive management to help push through critical reforms in Year 4 and Year 5. PFMSP and USAID jointly resolved numerous contractual challenges precipitated by the introduction of fiscal federalism, including through issuances of key contractual modification to the PFMSP contract. PFMSP remained results-focused despite numerous administrative requirements. PFMSP also effectively worked through numerous leadership changes among GON counterparts and strengthened relationships and mutual commitments to agreed-upon activities that have fostered significant PFM reforms for USAID, the GON and DPs working on PFM to build upon in the near future, especially providing more of the “interim” support until Nepal can achieve an IFMIS. Although PFMSP could not help avoiding a programming gap before USAID’s plans to provide follow-on support – a situation significantly exacerbated by the ongoing COVID-19 pandemic -- PFMSP’s innovations and interim solutions to Nepal’s numerous PFM challenges have helped place Nepal on a path of sustainable reforms led by PFMSP’s counterparts. Improved transparency and accountability of PFM will lead to better development outcomes for Nepal’s citizens.
### Box 1: A snapshot of key PFMS outputs

#### Key Outputs of PFMSP - A Snapshot

**Component A**
- Upgraded LMBIS to new chart of accounts GFS 2014 and new architecture/IT platform. Addressed the evolving needs of fiscal federalism, and supported training for full use of LMBIS at the federal level, now used by all federal ministries/agencies to formulate their budgets and make amendments.
- Developed a new version of LMBIS for Provinces (i.e., P-LMBIS) and trained officials to help prepare provincial budgets, thereby enabling all seven provinces to prepare and submit their budgets for the first time.
- Upgraded/enhanced the national TSA and introduced the provincial TSA for payments, enabling the processing of payments of NPR 1.26 Trillion at the federal level and NPR 103 Billion at the provincial level in NFY 2078/79 (2021/2022).
- Completed current functional integration between LMBIS/P-LMBIS and TSA/P-TSA, and nascent integration with the upgraded CGAS for better budget execution (CGAS has been upgraded with MDTF financial support; through day-to-day collaboration with FCGO, PFMSP provided technical advice on CGAS upgradation and integration issues). Upgraded RMIS to ensure compatibility with the LMBIS/TSA upgrade/linkage.
- Supported implementation of SUTRA by LGs for budget preparation and execution through a SUTRA help desk in the FCGO, nationwide capacity building through training, and bug identification and recommendations for SUTRA enhancements. This enabled all 753 LGs to use the system fully to develop annual estimations of their revenue and expenditures and account for expenditure.
- Developed the WNP as an interim step towards automating a system for consolidated national financial reporting (in 2018, PFMSP supported manual collection of expenditure data from all 753 LGs; in 2019 and 2020 SUTRA and the WNP were used for financial data collection from government entities at all three government tiers – national, provincial, and local).
- Provided significant hardware resources and other technical support to support the data centers of both MOF and FCGO, facilitating smooth backbone operations of Nepal’s PFM IT systems.
- Assisted in the institutional strengthening of the newly established constitutional body, NNRFC, to develop fair, objective, and data-driven grant transfer mechanisms; to produce print and online resources for knowledge enhancement and capacity building of SNGs in fiscal federalism; and to promote incentive-based performance management of LGs.

**Component B**
- Developed separate Planning and Budgeting Guidelines for MOHP and MOEST, and Business Plans for the MOHP and its three departments, thereby helping these ministries to understand, improve, and agree on the planning and budgeting procedures especially with the changes under the federal government structure.
- Developed Internal Control Guidelines-2077 of MOEST to enhance their capacity to understand and comply with emerging new standards in Nepal for improved internal controls, safeguarded assets, production of more accurate financial reports, and reduction of audit irregularities.
- Developed, piloted, and successfully rolled out the ground-breaking SAS in selected public schools of Nepal, and developed and disseminated updated SAM enabling the schools in effective, timely and accurate accounting and reporting of the education funds that flow to schools. Supported full takeover of the system by the government, including establishment of new data center for SAS and integration with IEMIS.
- Developed procurement guidelines for federal health sector and federal and provincial Procurement Improvement Plans for education sector, and provided needed capacity building support, enabling more effective planning and execution of procurement functions in both sectors.

**Component C**
- Developed, and supported full and successful roll out of the customized NRA-FMIS, to cater to the financial management needs and requirements of the newly established NRA, enabling the agency to carry out effective, timely, accurate, and transparent accounting and reporting of 2015 earthquake reconstruction and recovery funds to the GON, DPs and the public.
1. Overview of the Project

The five-year, $14.9 million USAID Public Financial Management Strengthening Project (PFMSP) began implementation in Nepal in August 2016 and completed in August 2021. Designed towards the end of a long period of political uncertainty that resulted in promulgation of the Nepal’s 2015 Constitution – which in turn would take substantive effect in 2017 through elections for representatives of 760 new subnational governments (SNGs) – PFMSP proceeded with a high need of flexibility implementation.

1.1 PFMSP Project Development

The importance and urgency of PFM reform cannot be understated in Nepal, as “good PFM” necessarily boosts the prospects for better development outcomes across all public service sectors and can lay the fundamental groundwork for Nepal to achieve its sustainable development goals. The GON has long faced limited domestic resources available for effectuating PFM reform, including the switch from outdated manual ledgers to the modern international standard of an IFMIS. Internationally, the modern day conception of “good PFM” also touches broadly on issues including government policy setting (e.g., “Is a policy affordable within revenue constraints?” or “Are there adequate funds in the budget to implement previously approved policies/projects?”); determining whether a particular implementation strategy will be “good value for money”; assessing whether the outcomes of spending were actually achieved; and communicating to legislative bodies and the general public in a meaningfully transparent way how all of the many dimensions of PFM work together to enable quality service delivery.

These and other core questions underlie USAID’s mandate to conduct Public Financial Management Risk Assessment Framework (PFMRAF) assessments when engaging in the PFM sector. With such potential in mind, USAID/Nepal conducted a Stage 2 PFMRAF Assessment of select GON ministries in 2013, including the then-named Ministry of Education and Ministry of Health, as USAID was considering Government to Government (G2G) support for those ministries. In 2014, as part of the PEFA program, the GON and the World Bank (WB) undertook a critical review of Nepal’s PFM system based on the PEFA framework, a standard methodology for PFM diagnostic assessments. The USAID PFMRAF and PEFA assessments measured the soundness of Nepal’s PFM framework by assessing numerous indicators, such as: fiscal and debt management, budget formulation, budget execution, internal controls, procurement, accounting and reporting, auditing, transparency, and external scrutiny. Compared with an earlier assessment in 2005/6, the PEFA assessment findings reported that Nepal had made substantial progress in deepening the structures and processes of PFM, particularly in seeking to enhance the use of IT in PFM processes. Among 28 PFM performance indicators within the PEFA framework, 16 indicators improved; 10 indicators remained unchanged; and 2 indicators deteriorated. Subsequently, the GON’s PEFA Secretariat developed a PFM reform plan that identified and prioritized several changes needed to improve the GON’s financial management across its major aspects including budget preparation, execution, accounting, reporting, legislative oversight, and auditing.

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4 Stage 2 PFMRAF is a USAID’s risk management process to identify, mitigate and manage the fiduciary risks encountered when considering Government to Government (G2G) assistance.
5 Initiated in 2001 by seven international DPs; see: https://www.pefa.org/about
In the years preceding (and subsequently during PFMSP’s implementation\textsuperscript{7}), the GON and its DPs broadly agreed that donor support for PFM performance improvement should focus on four main areas: 1) upgrading PFM software systems and the PFM IT infrastructure required to support them; 2) developing guidelines and manuals to support understanding and compliance with evolving legislation and regulation; 3) improving internal controls and responses to audits; and 4) training staff to build PFM capacity and use new business processes and integrated PFM software applications.

In this context, USAID joined a consortium of DPs through a multi-donor trust fund (MDTF) managed by the WB to support central level, ongoing PFM reforms anchored in Nepal’s PEFA Secretariat.

Recognizing that bilateral project support to the GON would help catalyze PFM reform momentum and address challenges identified in USAID’s PFMRAF, USAID also designed PFMSP to provide targeted and coordinated PFM reform support. In addition to core resources for further improving MOF’s IT infrastructure and software, USAID included ministry-specific support needed for MOEST and MOHP, given the potential for G2G funding, as well as support for the nascent National Reconstruction Agency, which had been established in response to the devastating dual-earthquake national tragedy of 2015. Nepal also passed a new Constitution in 2015 that would lead to major structural changes to the GON in 2017. This in turn would require significant adjustments to PFMSP’s work in the course of implementation.

\textbf{1.2 Theory of Change, Project Goal and Expected Results (IRs)}

In the design process, USAID recognized that good PFM, in short, is an enabling tool, without which good delivery of promised services cannot be achieved effectively or efficiently. Accordingly, PFMSP’s initiating theory of change was: If the GON receives adequate PFM training and capacity-building support, as well as targeted Information and Communication Technology (ICT) and systems support, then budgeting and budget execution – and the associated PFM outcomes – will significantly improve. \textbf{Figure 1} presents a graphical description PFMSP’s theory of change, which approved and incorporated into PFMSP’s initial Monitoring, Evaluation and Learning Plan, approved in Year 1 of the project.

\footnotesize\textsuperscript{7}It must be noted that the formal reviews had been conducted under the GON’s former unitary system, prior to the advent of fiscal federalism. With the decentralization/devolution of authority, it became clear that these assessments would need to be reconducted to reconfirm some of the soundness of the PFM indicators. USAID thus began another PFMRAF system in 2019, and the PEFA Secretariat and WB sought to find an appropriate date for the next PEFA assessment in Nepal.
The main goal of PFMSP was to contribute to enhanced capacity of targeted GON ministries and agencies for improved transparency and accountability of PFM systems through three Outcomes/Intermediate Results (IRs) by accomplishing the seven output level results as shown in the Table 1 below:
Table 1: Results Framework of PFMSP

<table>
<thead>
<tr>
<th>Impact/Goal: To enhance the capacity of targeted ministries and agencies of Government of Nepal to improve the transparency and accountability of PFM systems.</th>
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<tr>
<td><strong>Outcome 1 (IR 1)</strong></td>
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<tr>
<td>Improved budget planning and execution capacity of the government of Nepal</td>
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<tr>
<td>Output 1.1 (IR 1.1)</td>
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<tr>
<td>Improved procedures, guidelines and systems for PFM functions established in targeted agencies; and GON’s capacity to operate and maintain them</td>
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<td>Output 1.2 (IR 1.2)</td>
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<tr>
<td>Selected ministries/agencies are capable of executing the budget and producing timely, uniform and accurate reports on different aspects of the budget cycle in compliance with GON requirements.</td>
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<tr>
<td>Output 1.3 (IR 1.3)</td>
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<tr>
<td>The PFM is strengthened and extended resulting in modern, transparent, reliable, secure and resilient system that follows international best practices</td>
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</table>

PFMSP began implementation in late 2016, but with the effectuation of devolution through 2017 local elections and other changes due to the 2015 Constitution, PFMSP’s specific activities, targets, and expected results were modified significantly over the course of the project to address the GON’s evolving PFM reform needs. However, the project’s guiding outcomes and outputs remained consistent throughout the project’s implementation period of August 2016 to August 2021.

1.3 PFM Cycle in Nepal

As mentioned above, the advent of fiscal federalism and establishment of 760 new SNGs heightened the complexity of the PFM cycle in Nepal. In addition, the 2015 Constitution established the NNRFC, which is primarily responsible for making grant recommendations for fiscal transfers to SNGs. Figure 2 below illustrates shows not only the many bureaucratic functions of the complex PFM process, but also identifies the many “clients” that the PFM process must serve – not only to enable delivery of the services government has promised to its citizens, but also to keep many groups clearly informed about how well funds are being used so that they can act as “countervailing” powers to keep the system operating in the public’s interest.
As guided by the results framework, PFMSP implementation focused primarily on improving the bureaucratic functioning of PFM processes so that the “clients” of the PFM cycle can benefit from the improved transparency and accountability that modern PFM can facilitate.

1.4 Project Stakeholders/Beneficiaries

PFMSP’s primary beneficiaries were the Ministry of Finance (MOF) and its Financial Comptroller General Officer (FCGO); the National Natural Resources and Fiscal Commission (NNRFC – added mid-project following its constitutional induction), Ministry of Health and Population (MOHP), Ministry of Education, Science and Technology (MOEST), and the National Reconstruction Authority (NRA). Secondary Government of Nepal stakeholders and collaborators as part of PFMSP included the Public Procurement Monitoring Office (PPMO); Office of the Auditor General (OAG); National Administrative Staff College (NASC); Public Financial Management Training Center (PFMTC); and interim coordination entities [such as the District Treasury Control Offices (DTCOs) and Education Development and Coordination Units (EDCUs)] placed at the district level under the federal government. Finally, as PFMSP implementation evolved, civil service trainees from all 760 SNFs received benefits from PFMSP’s activities. PFMSP’s stakeholder map over the course of its life is presented in Figure 3 below.
1.5 Project Geographical Coverage

Although PFMSP worked mainly at the federal/national level, by working through the primary counterparts the project's activities also included support that reached PFM officials in all seven provinces and all 753 LGs. Many project activities, especially for training purposes, focused on USAID’s 34 priority districts (shown in Figure 4 below), as identified prior to the constitutionally mandated fiscal devolution.

Figure 2: PFMSP Focus Districts
2. Program Implementation

PFMSP implementation proceeded in continuous partnership with GON counterparts, anchored by collaborative processes to develop the project's Annual Work Plans (AWPs). With funding managed by four offices within USAID, close consultation among USAID staff, GON counterparts, and PFMSP's team was necessary to ensure synergy across project components and to achieve desired programmatic outcomes. This report section summarizes project activities that were jointly implemented by the PFMSP implementing partner team and GON counterparts, many of whom were actively rotated regularly under the GON's senior civil service structure. This section is organized by Component/Intermediate Result and Outputs, per PFMSP's Results Framework. Recommendations at the activity level that PFMSP has made to counterpart ministries are included herein. Additional tasks recommended to help ensure sustainable outcomes and higher-level recommendations on follow-on actions that may be taken to build upon PFMSP accomplishments are provided in Section 6.

2.1 IR1/Component A: Improved Budget Planning and Execution Capacity of GON

Component A Summary

PFMSP worked collaboratively with its multiple counterparts to provide PFM hardware, software, training and process improvement support, and the guidance and tools to modernize Nepal's PFM systems. The hardware and software innovations helped fix the gap and set the foundation for an advanced IFMIS in the future. PFMSP training improved the abilities of civil servants tasked with PFM, while shifting from a manual to automated environment. GON staff were provided with skills for operating systems (e.g. LMBIS and SUTRA). In addition, leaders have been provided, international, best-practice capacity building to manage the transition to federalism (e.g. experiential learning) and roadmaps/tools to fully modernize Nepal's PFM systems in the coming years [e.g. to prepare for the next PEFA Assessment; to become fully compliant with ISO 27000 IT Security Planning and Compliance Audit; and to undertake a transition from cash to accrual accounting]. Organization support for the new, constitutional NNRFC was critical for its ability to become an established, respected institution. While no single project can tackle Nepal's PFM challenges – especially amidst the ongoing dual transition described above – PFMSP has helped the GON significantly through what will, in the long run, prove to be foundational changes to the way that Nepal not only manages its money, but ultimately delivers improved services to its citizens to better meet their needs.

Output 1.1 (IR 1.1): Improved procedures, guidelines and systems for PFM functions established in targeted agencies; and GON's capacity to operate and maintain them.

PEFA Self-Assessment Tool Development and Piloting

The PEFA framework seeks to support countries to be enabled to conduct self-assessments of their own progress towards conducting "good PFM." In collaboration with the FCGO and PEFA Secretariat in Year 2, PFMSP developed an easy-to-use Excel-based workbook for ministries/agencies to conduct such self-evaluations, finalized the tool and provided orientation to 26 (18 men and 4 women) selected officials from the FCGO, PEFA Secretariat.

USAID/Nepal’s Democracy and Governance, Health, Education, and Disaster Risk Reduction, Reconstruction, and Resilience (DR4) Offices all provided funding and elements of project management oversight for PFMSP.
and OAG in Year 3. The open-source tool, which was developed by a PFMSP Chief of Party/PFM Expert, was designed to guide users to assess PFM performance in line with the indicators laid out in the 2016 PEFA framework. After a pause in Year 4 further extended by the COVID-19 pandemic, in Year 5 PFMSP and the PEFA Secretariat jointly organized a one-day workshop on March 17, 2021, involving different GON agencies\(^9\) for a total of 23 GON officials (21 men, 2 women). PFMSP completed this work by conducting a joint, ‘pilot’ assessment of data from MOF and the MOWCSC. The results of the pilot assessments provided the basis for FCGO and PEFA Secretariat to improve and implement the Excel tool for other federal, provincial, and local level agencies.

**Outputs:** Report on Piloting; Updated self-assessment tool; 49 officials trained

**Experiential Trainings on Fiscal Federalism and Public Financial Management**

PFMSP organized experiential trainings and sponsored executive programs for a total of 25 GON staff (3 women; 22 men) on issues such as PFM, fiscal decentralization, local governance, and artificial intelligence, including one official who attended the training virtually. Counterpart ministries and agencies across all three of the project’s components selected participants for USAID’s approval, facilitated by PFMSP. The trainings were led by Georgia State University (one in Year 2 and 22 in Year 3); and Harvard University (one trainee in Year 3 and one virtual trainee in Year 5). Plans for additional in-person experiential trainings scheduled for Years 4 and 5 were cancelled due to the COVID-19 pandemic.\(^{10}\) Post-training, PFMSP also supported the trained officials to share and apply the learnings in their ministries/agencies’ works. These trainings helped enhance the knowledge of GON officials on fiscal federalism and PFM, and enabled sharing of experience, learning and international best practices between senior officials of Nepal and subnational government leaders and leading local governance experts in the USA.

**Output:** 25 GON officials trained.

**E-learning Modules on PFM Areas**

PFMSP supported a range of e-learning modules, an activity which cut across all three of the project’s components. Given the COVID-19 situation (including limits on travel and in-person training), cost savings, and PFMSP’s implementation timeline changes, the importance of e-learning increased over the project’s lifespan. Summaries of the modules developed are as follows:

**LMBIS:** In Year 2, PFMSP supported the MOF to develop an e-learning module on using the existing LMBIS system which was used by 750 GON officials.

**SUTRA:** PFMSP developed a comprehensive e-learning package on SUTRA to help the FCGO train a large number of LG officials with minimum resources and management hassles. The need for such a package was heightened by the long-term uncertainty and threat imposed by the COVID-19 pandemic, which curtailed in-person training events in the latter half of Year 4 and in Year 5.

**SAS:** PFMSP developed three separate e-learning packages on the different versions (basic, simple, and medium/advanced) of the SAS to cater the different levels of schools. The packages were in-built in the SAS and IEMIS software, which means the school and

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\(^9\) MOF, FCGO, PEFA Secretariat, MOFAGA, National Planning Commission, Public Accounts Committee, Public Debt Management, MOWCSC

\(^{10}\) Also note that during Year 4, one key counterpart from MOF was selected for the US Embassy-led Exchange Visitor Program, as nominated by USAID on PFMSP’s recommendation.
local level users of the SAS can easily access the e-learning resources if they have any challenges in operating their chosen software version. These e-learning packages were also an integral part of the virtual user-level trainings on SAS conducted in Year 5.

**NNRFC Online Learning Course:** In lieu of in-person training planned for NNRFC and SNG staff in Years 4 and 5, but curtailed by COVID-19, PFMS developed an online learning course which includes an internet-based portal [a web-based massive online open course (MOOC)], training modules on the basics of fiscal federalism, and development of content (detailed course materials and other supporting knowledge products). This activity was carried out in collaboration with the NNFRC and the NASC and will serve as a key resource for institutionalizing knowledge and capacity on fiscal federalism.

**NRA-FMIS:** PMFSP developed an e-learning package in Year 3 on the NRA-FMIS that included a total of 22 short episodes. The NRA tested the modules among its finance division staff and acknowledged that the package was very useful for the NRA.

*Output: Seven e-learning packages and One online learning portal developed and implemented*

**Output 1.1. Summary Analysis of Progress**

Activities conducted under this output were generally designed as cross-cutting activities that would support efforts across the project’s other components and outputs and leave a legacy of knowledge gained and/or innovative systems for future learning across multiple levels of government. Although the work on the self-assessment tool was delayed from Year 3 to Year 5, PFMS and FCGO agreed that the capacity to use the PEFA Self-Assessment Tool and assess the PFM capacity of ministries and other GON entities is essential to develop performance improvement plans for specific entities. PFMS thus endeavored to not only improve the PFM performance of the GON but also improve the capacity of the PEFA Secretariat to assess the PFM performance of ministries and the GON as a whole and design performance improvement solutions in SNGs. Compared to earlier time-consuming PEFA Assessments, use of pilot data for MOF and MOWSC data proved that the GON now has a significantly improved tool and method for conducting efficient and accurate PEFA assessments under the PEFA framework, the next of which is expected in 2022.

Participants in experiential training sessions universally expressed satisfaction in the selected courses and appreciated the opportunities for international learning in US-based universities provided by global experts in fiscal federalism/decentralization and through exchange with subnational government officials. The participants benefitted directly by learning about best practice in PFM reform, gained confidence in conducting reform efforts, and applied their new knowledge in day-to-day operations and management, including in collaborative efforts under PFMS. PFMS had also conceived and discussed regional learning opportunities to further deepen understanding of challenges and opportunities in implementing fiscal federalism under similar circumstances in India and Australia.

Despite delays in and evolution of circumstances on the project’s e-learning modules, GON counterparts became more comfortable with distance learning through its experience sharpened by the COVID-19 pandemic. While virtual learning and e-learning modules cannot fully replace traditional training – which allows for interaction between trainers who are highly knowledgeable in the subject and trainees – increasing e-learning has become a necessity under pandemic conditions and expanding the use of virtual meetings, including for training, have the potential for a silver lining in Nepal, especially for more remote areas (as long as internet access and power keep pace). The e-learning modules have thus improved not only the usefulness of the IT-based PFM systems, but their prospects for sustainable implementation under challenging conditions.
Output 1.2 (IR 1.2): Selected ministries/agencies are capable of executing the budget and producing timely, uniform, and accurate reports on different aspects of the budget cycle in compliance with GON requirements.

Trainings on the LMBIS and P-LMBIS

LMBIS is a planning and budgeting system developed by MOF and used mandatorily by all GON federal ministries to develop annual plans and budgets.

Throughout the project, PFMSP supported MOF to develop a total of 111 trainers (98 men, 13 women) on LMBIS and P-LMBIS using a Training of Trainers (TOT) approach. The project also supported MOF to train a total of 2771 GON officials (2470 men, 301 women) on LMBIS and P-LMBIS. Details on trainings and trained officials is summarized in the Figure 5 below.

Figure 5: Summary of LMBIS and P-LMBIS Training Outreach

Through support to a secure data center, upgradation of the LMBIS software, and development and roll out of training systems, PFMSP support was crucial for the GON and all seven provincial governments to carry out an improved budget formulation process for Nepali Fiscal Year (NFY) 2076/77 (2019/20), NFY 2077/78 (2020/21), and NFY 2078/79 (2021/22).

Output: 111 LMBIS/P-LMBIS trainers produced and 2771 GON officials trained in these systems

LG Trainings on SUTRA and Good PFM

From 2018 to 2021, PFMSP supported FCGO to develop a total of 479 SUTRA trainers (449 men, 30 women) using a TOT approach, and supported to train a total of 6447 LG officials (5951 men, 496 women) on the knowledge and skills to operate SUTRA successfully. As of the end of the project, all 753 LGs were using the SUTRA for expenditure estimation and revenue estimation, and all LGs were keeping accounts of their transactions directly in
SUTRA. In FY2021 alone, SUTRA will account for a total of Nepali Rupees (NPR) 262.75 billion ($2.23 billion) in fiscal transfers (i.e. grants) to the 753 LGs, as well as manage local revenue.

The details of trainings and trained officials in the project period is summarized in Figure 6 below.

Figure 6: Summary of SUTRA Training Outreach

In Year 5, PFMSP worked jointly with the FCGO and the PFM Training Center to develop a full curriculum and training materials for the LGs covering most of PFM functions. The PFM training center owned the materials and included in their regular curriculum. PFMSP supported the PFMTTC to provide trainings to 55 LG officials in Kailali district using the newly approved curriculum.

Operation and Handover of SUTRA Help Desk at the FCGO

PFMSP in Year 2 supported FCGO to establish and operate a help desk within the FCGO, well-equipped with experts and essential infrastructure. The help desk continued to perform a critical role (in particular in the first two years of SUTRA implementation in absence of FCGO staff), and in later years and providing continuous “on the job” capacity development to LG’s and FCGO through remote support to operate the system accurately and effectively, including during the COVID-19 lockdown period. As a result of this support, the number of LGs using SUTRA for budgeting and accounting, as mandated by the GON’s Cabinet of Ministers in April 2019, increased significantly each year. By the end of the project, all LGs were using SUTRA for the estimation of revenue, estimation of expenditure, and for accounting the expenditures of the current NFY. Figure 7 below compares the use of SUTRA by LGs in the last three NFYs, and by the end of the project.

In addition to this, the help desk experts provided expertise and assistance to the United Kingdom/FCDO funded technical enhancements/improvements in the system, and movement of SUTRA to a JAVA platform. PFMSP also regularly shared key feedback received during the trainings to the FCGO and the software developers funded by FCDO, verbally and in writing, to help further improvements of the IT system.
FCGO in Years 4 and 5 gradually added GON accountants into the SUTRA support unit in addition to the PFMS sponsored experts. By the end of the project, the FCGO had institutionalized the SUTRA help desk under its newly formed Inter-governmental Fiscal Coordination Section and had assigned a total of six GON staff to supervise and operate the help desk. This provided evidence that the FCGO took full ownership of the SUTRA support and is able to continue operating the help desk after the termination of PFMS, whether funded directly through in-budget or through use of joint funding from DPs.

Figure 7: Status of SUTRA use by LGs, per Nepali Fiscal Years and by the end of PFMS

<table>
<thead>
<tr>
<th>SUTRA Modules</th>
<th>By the end of PFMS NFY 2074/75 (2017/18)</th>
<th>By the end of PFMS NFY 2017/18 (2020/21)</th>
<th>By the end of NFY 2075/76 (2018/19)</th>
<th>By the end of NFY 2076/77 (2019/20)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure Accounting</td>
<td>269</td>
<td>365</td>
<td>122</td>
<td>753</td>
</tr>
<tr>
<td>Expenditure Budgeting</td>
<td>240</td>
<td>457</td>
<td>122</td>
<td>753</td>
</tr>
<tr>
<td>Revenue Estimation</td>
<td>269</td>
<td>470</td>
<td>122</td>
<td>753</td>
</tr>
</tbody>
</table>

Institutional Strengthening of NNRFC

In Years 2 and 3, PFMS staff supported various technical discussion sessions related to the NNRFC’s constitutionally mandated role. This included several knowledge sharing sessions on best practice in grant formulas and transfers, and a high-level analysis of costs in the education sector, noting the potential for unfunded mandates in the context of ongoing fiscal federalism. PFMS also supported initial development of knowledge products for NNRFC to publicize its role and importance. However, without a set of commissioners in place, with NNRFC staff coming from the MOF and other GON entities, and with information sharing protocols not yet in place, progress was limited. In Years 4 and 5, PFMS made important progress towards institutional strengthening of NNRFC, as follows:

Technical Assistance on Fiscal Federalism: In Years 4 and 5, PFMS provided embedded technical assistance and other intermittent support to the Chairman of the Commission and other officials on various aspects of fiscal federalism, through in-person meetings, verbal briefings, written policy briefs, presentations, engagement in background research and providing expert views. In response to the Commission’s emergent needs, PFMS produced a total of 27 briefs, reports and presentations for the NNRFC’s internal use.

In addition, PFMS experts interacted with ministries and DPs on behalf of NNRFC for the assessment of education sector funding at the local level and in reviewing and improving the NNRFC’s “Fiscal Gap Study” supported by the WB and the “Natural Resources Study” supported by the United Nations Development Program (UNDP). PFMS developed knowledge products entitled “The NNRFC: Prospects, Challenges, and Action Arena”,

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“Assessment of Education Sector Funding”, “Financial efficiency analysis of school funding at local level”, and also published several articles in Nepali media about fiscal federalism and the macroeconomy (See table 8 in full report- redacted in this version).

Technical Assistance on Natural Resources Management: PFMSP worked closely with the Commission to strategize ways to proceed with regard to natural resources. This culminated in formal meetings, presentations, and assessments to discuss priority themes and begin developing a future action plan. Based on these interactions, PFMSP developed a comprehensive policy note that unbundled the NNRFC’s roles and responsibilities pertaining to the natural resources and to outlines key activities to be carried out. Given the early stages of natural resource federalism practice in Nepal, PFMSP provided important support to shape the scoping of NNRFC’s future work in this area.

Output: 27 briefs, reports and presentations produced.

Grant/Transfer Development under Fiscal Federalism: Enhancing capacity of officials on grant funding schemes was crucial for NNRFC, as its jurisdiction is to ensure just and equitable distribution of natural and fiscal resources among federal, state, and local governments. Thus, PFMSP conducted a series of applied trainings on developing grant funding schemes for subnational governments, with a focus on good practices of grant design, including the especially important matter of estimating costs for SNGs to deliver the services for which they are now responsible.

PFMSP provided several policy briefs and presentations to inform the NNRFC’s grant distribution decisions. PFMSP participated in discussions, grant formula review processes, and reviewed documents prepared by the NNRFC secretariat for this work. This support covered wide-ranging issues of fiscal federalism – reviewing fiscal transfers and the distribution of natural resources royalties, performing sectoral assessments, providing internal borrowing recommendations for subnational governments, and making recommendations for conditional grants.

Output: Two applied trainings conducted.

Fair and Objective Grant Transfer Formulas: One of the key tasks of NNRFC is to develop fair and objective grant transfer formulas. To be able to do so, NNRFC required a comprehensive database of information from various sources and tiers of GON that are crucial to develop the formulas. PFMSP presented a brief guidance note on the consolidation of relevant SNG data for formula development. PFMSP also supported NNRFC to develop a data protocol document that identified the nature and features of the data needed by the NNRFC to perform its fiscal transfer work and helped train NNRFC officials on using the document to develop grant transfers.

Output: One data protocol document developed.

Knowledge Products for Local Governments: With the relatively quick adoption of fiscal
federalism, LGs were effectively required to develop their own planning, budgeting, financial management, reporting, and auditing systems. However, in the absence of clear and appropriate standards and systems, sound financial management practices are unlikely to emerge in most LGs. PFMSP supported the NNRFC to develop several knowledge products: i) A Simple Information Booklet on Natural Resource and Fiscal Management in the Federal System of Government, ii) Booklet on Fiscal Federalism, iii) Booklet on Local Taxation, for the LGs. The first of these is designed to simplify the complex legal and policy language related to NNRFC and covered all aspects of fiscal federalism in a question-and-answer format (i.e. FAQs). The NNRFC intends to publish and distribute this booklet widely, primarily to the local government officials but also to the general public.

Output: Three Knowledge Products Developed

Incentive-based Performance Measurement: PFMSP supported the NNRFC to develop the performance-based incentive design manual "State and Local Level Performance Indicators and Measurements" which helps the NNRFC to implement a more robust performance-based and evidence-driven incentive mechanism to inform intergovernmental fiscal transfers. PFMSP developed comprehensive indicators for the performance-based grant distribution formula. The NNRFC has now circulated a performance framework to provincial and local governments which was, to most part, informed by the indicators developed.

Further, in response to the COVID-19 situation (including limits on travel and in-person training), cost savings, and PFMSP’s implementation timeline changes, PFMSP, in collaboration with NASC, developed and released an online learning platform

Box 2: USAID supported Institutional Strengthening of the National Natural Resources and Fiscal Commission

With the promulgation of 2015 Constitution, significant service delivery and fiscal responsibilities became shared among the federal, seven provincial and 753 local governments. Under the previous unitary government, allocation human and financial resources among Nepal’s many service delivery points (now under the control of provinces and LGs) were not entirely transparent.

As part of decentralization, the National Natural Resources and Fiscal Commission (NNRFC) became a new constitutional entity with new set of responsibilities. The NNRFC was tasked to bring some discipline and allocation objectivity to the myriad grants and transfers that were previously under the control of multiple ministries. However, without a set of commissioners in place; with NNRFC staff coming from the MOF and other GON entities; and with information sharing protocols not yet in place, the NNRFC faced immediate challenges to make desired progress.

In this context, USAID supported institutional strengthening of the commission, through PFMSP, particularly by placement of an in-house federalism expert, conduction of applied trainings, and through support to develop knowledge products, policy briefs and reviews. USAID’s support enabled NNRFC to develop database management protocols to carry out its important role of developing objective and fair grant transfer formulas to the SNGs. USAID supported the NNRFC to develop knowledge booklets on the fiscal federalism and local taxation, and a manual on the state and local level performance indicators and measurements. An online training platform and online resources (curriculum, audio/visuals) were also developed.

These were acknowledged as important resources for the NNRFC and SNGs to fulfill their mandates effectively, and in compliance with PFM related laws and regulations. This support by USAID enable NNRFC to implement sustainable capacity building efforts for the SNGs. NNRFC decided to print 30000 copies of the knowledge product: "A Simple Information Booklet on Natural Resource and Fiscal Management in the Federal System of Government", with the GON budget which was evidence that the commission took ownership of the resources that USAID supported.
which included an internet-based massive online open course (MOOC), training modules on the basics of fiscal federalism, and detailed course materials and other supporting knowledge products required to finalize the MOOC.

**Outputs: One performance-based incentive design manual developed, One Online Training Course developed**

**Output 1.2. Summary Analysis of Progress**

Activities under this output were generally designed to improve the capacity of the GON in budget formulation, execution, accounting, and reporting. The LMBIS and P-LMBIS trainings allowed the GON federal and provincial governments to successfully use the systems for the formulation and execution of annual budgets of multiple fiscal years in a more scientific, accurate, and timely manner. Due to transfers of trained staff from the ministries/agencies, GON’s transition to GFS 2014, and the integration of these budget software with payment and accounting software of GON, PFMSP and MOF conducted LMBIS and P-LMBIS trainings multiple times. PFMSP supported development of skilled master trainers/trainers on the systems who have been and will be the most essential human resource to help GON train more users when needed. Both the process of budgeting under a pandemic and the responsiveness of the budget to the COVID-19 crisis itself were more easily addressed with LMBIS and P-LMBIS in place and users ready to use the PFM IT

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**Box 3:**

**USAID supported Financial Comptroller General’s Office to Implement Financial Management Software for 753 Local Governments**

Nepal’s 2015 constitution mandated a new federal structure, so that more development spending is driven by local needs. Decision-making, revenue-raising, and public service delivery became shared responsibilities of federal, provincial, and local government bodies and, with these constitutionally mandated changes, new systems for PFM at all levels were essential.

To respond to the imperatives of fiscal federalism, the MOF sought a fresh, standard solution for budget preparation, accounting, and reporting for the country’s new 753 LGs, especially as federal grants comprise the bulk of development funding. With development partner support for software coding from the FCDO of the United Kingdom, and nationwide training support from USAID, the MOF’s FCGO commenced initial roll-out of the SUTRA in 2017.

However, FCGO faced significant human resources, financial, technical, and logistical challenges as staff in the new LGs were more familiar with paper-based systems under a unitary government, not the IT based PFM system now needed under fiscal federalism. In addition, no policy directive clearly required SUTRA to be utilized by the LGs. Thus, through the PFMSP in 2018 USAID supported FCGO to establish a SUTRA help desk staffed by PFM and IT experts. The desk has complemented technical training efforts – and was essential to nurture adoption and acceptance of the software. Seeing rapid progress, in April 2019 the GON mandated the use of SUTRA by all 753 LGs.

From 2018-2021, PFMSP has supported FCGO to develop a total of 479 SUTRA trainers and to train a total of 6447 LG officials on the knowledge and skills to operate SUTRA successfully. As of April 2021, all 753 LGs were using the SUTRA for expenditure estimation and revenue estimation, and 751 (99.73 percent of LGs) were keeping accounts of their transactions directly in SUTRA. In FY2021 alone, SUTRA will account for a total of NPR 262.75 billion ($2.23 billion) in fiscal transfers (i.e. grants) to the 753 LGs, as well as manage local revenue.

PFMSP’s support for the help desk and training will end in August 2021, but PFMSP and FCGO have worked jointly to institutionalize SUTRA management and support. The FCGO has taken over the ownership of SUTRA system implementation, including assignment of government officials to supervise and operate the help desk. In April 2021, the desk responded to an average of 90 calls per day and will ultimately serve as a model for the GON as it seeks to provide support for its various PFM IT systems.
That is, as opposed to limited functionality and legacy manual processes associated with the old LMBIS, the upgraded systems can now be used by users remotely at multiple locations. In addition, all data is consolidated on one database and information is available to users as their authority level permits and as is required for their positions.

The GON implemented SUTRA to respond to the imperatives of fiscal federalism, as a fresh, standard IT solution for budget preparation, accounting, and reporting for the country’s new 753 LGs, especially as federal grants comprise the bulk of development funding. In April 2019, the GON mandated the use of SUTRA by all 753 LGs. However, FCGO faced significant human resources, financial, technical, and logistical challenges as staff in the new LGs were more familiar with paper-based systems under a unitary government, not the IT based PFM system now needed under fiscal federalism. In addition, no policy directive clearly required SUTRA to be utilized by the LGs. PFMSP support to the MOF/FCGO/PEFA Secretariat to operate the SUTRA help desk, develop master trainers/trainers, develop PFM training curriculum and materials, and to train local level users on the SUTRA comprised a significant accomplishment for the GON. This was evidenced by the fact that by the end of PFMSP, all 753 LGs were using SUTRA fully for estimation of revenue and expenditure and for expenditure accounting for NFY 2077/78 (2021/22), and help desk was taken over and operated fully by the FCGO with the GON’s resources. In FY2021 alone, SUTRA will account for a total of NPR 262.75 billion ($2.23 billion) in fiscal transfers (i.e. grants) to the 753 LGs, as well as manage local revenue.

With the restructuring of the country into federalism, the NNRFC itself was a newly formed constitutional entity with new a set of responsibilities. Without a set of all commissioners in place, with NNRFC staff coming from the MOF and other GON entities, and with information sharing protocols not yet in place, the NNRFC was facing challenges to make desired progress. In this context, PFMSP support ed institutional strengthening of the commission, particularly by placement of an in-house federalism expert and through support to develop knowledge products, policy briefs and reviews, was instrumental. PFMSP’s support for developing database management protocols and applied trainings helped NNRFC carry out its important role of developing objective and fair grant transfer formulas to the SNGs. The PFMSP developed knowledge products on the fiscal federalism and local taxation, and the manual on the state and local level performance indicators and measurements will be important resources for the NNRFC and SNGs to fulfill their mandates effectively, and in compliance with PFM related laws and regulations. The online training platform and the online resources developed with support from PFMSP will enable NNRFC to implement sustainable capacity building efforts for the SNGs.

Output 1.3 (IR 1.3): The PFM is strengthened and extended resulting in modern, transparent, reliable, secure, and resilient system that follows international best practices.

**PFMSP’s Initial Assessments and Plans**

PFMSP’s initial focus was primarily on the enhancement of the LMBIS system. The rapidly evolving process of fiscal federalism under the new constitution and increasing development partner interest in PFM issues required maximum flexibility in programming and continuous stock taking of the evolving implementation environment. In Year 1, PFMSP produced a series of analyses and plans, as required by the PFMSP contract. These included a Business Process Analysis (BPA) and Capacity Building Plan (CBP) for MOF focused primarily on LMBIS, but with an eye on what should come next; combined CBPs/BPAs for

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11 This is not to say that the improved IT systems alone can redirect questionable procurement/spending choices, as witnessed by the limited accountability and transparency related to scandals such as the MOHP’s procurement of COVID-19 related supplies at inflated prices.
MOEST and MOHP focusing on procurement including internal controls and accounting (see Component B below); and a BPA for NRA PFM functional improvements was conducted jointly with NRA and other DPs, which in Year 2 led to PFMSP’s primary focus on instituting the NRA-FMIS (see Component C below).

PFMSP’s groundbreaking “IT and business process assessment,” completed early in Year 1 (late 2016), catalyzed the GON and DP community on the way forward for an integrated financial management systems strategy, and shaped the bulk of PFMSP’s work from Year 2 onwards. The assessment also identified shortcomings in the GON Chart of Accounts (COA), which was then updated in 2017 based on GFS 2014, a development which also provided a basis for PFM software development and enhancements supported by PFMSP and other DPs. In Year 2 PFMSP conducted a rapid comparative assessment of available IT based accounting systems -- CGAS, TABUCS and SUTRA as MOF/FCGO considered the challenges of converging disparate IT systems across the three new tiers of government. Additionally, PFMSP and GON officials jointly conducted a functional and technical requirement analysis of the school accounting tool which was later developed fully as SAS. Building on various dialogues with FCGO’s and the potential for PFMSP to support development of a new accounting software, PFMSP subsequently conducted an in-house assessment of the maturity level of two independent financial accounting and reporting systems with similar purposes – the CGAS which was developed in-house by the FCGO with the support of MDTF, and TABUCS [developed with Department for International Development (DFID) funding for the MOHP, and additionally modified for use by PFMSP for the NRA]. The report was based on international standards for good PFM.

Box 4: USAID PFMSP Supported the Installation of an Intelligent Modular Data Center and Software Enhancements for Nepal’s Ministry of Finance

Nepal’s 2015 constitution mandated a new federal structure, so that more development spending is driven by local needs. However, most funding for provincial and local governments must come from federal government grants. Therefore, it was imperative for the GON to improve its systems for accountable and transparent PFM at all government levels IT based hardware and software systems, as well as new business processes, are thus critical for Nepal to transform from a paper-based to an electronic-based bureaucracy. The GON was thus applying IT interventions to improve PFM capacity and build better systems that reduce fiduciary risks and improve fiscal discipline.

To support Nepal’s structural and bureaucratic transformations, USAID helped the MOF construct a secure, state-of-the-art, modular data center. The center was crucial for the GON to centralize and consolidate IT resources; house network operations; facilitate e-business; and provide uninterrupted service to mission-critical data processing operations. The data center consists of a hyper-converged physical infrastructure; automatic financial data back-up; protection against hackers; fire suppression and pest repellency; precision air conditioning; non-stop power back-up; advanced networking; software application security; and disaster recovery capability.

The new data center also significantly strengthened functionality of MOF’s core financial management software, including an upgraded LMBIS and other PFM software, including the newly integrated TSA application. The data center provided a secure backbone so Nepal can improve day-to-day operations and adherence to international best practices in PFM. A strengthened LMBIS and TSA at the federal level – and Provincial LMBIS and Provincial TSA at the provincial level – allowed for more efficient production of the overall national budget. 24.6 percent of which goes to subnational governments. (Source: MOF Budget Speech, FY2020/21.)

After several years of direct support from USAID/PFMSP, the data center and its critical software operate with funding from the GON’s national budget.
practice (including the PEFA framework).\textsuperscript{12}

The assessment reports were shared with the GON counterparts to inform their PFM IT systems operation and ongoing integration strategy development.

\textit{Output: BPAs and CBPs produced for MOF, MOEST, MOHP and NRA}

**LMBIS and P-LMBIS Enhancements and Integration**

PFMSP completed an IT maturity assessment\textsuperscript{13} of LMBIS and TSA in Year 3 to evaluate LMBIS and TSA relative to the need of the country, recognized international standards (such as the PEFA framework) established for PFM business processes, as well as standards for efficient and secure ICT design and implementation of PFM systems. LMBIS enhancements, specifically upgradation of the system to comply with GFS 2014 and the development of the first provincial budgeting tool (P-LMBIS), was completed in Year 3. These enhancements helped prepare the GON’s Redbook budgets for federal and provincial governments.

In Years 3, 4 and 5, PFMSP worked rigorously with the MOF and FCGO to upgrade the federal LMBIS and TSA systems, to further develop the new P-LMBIS and P-TSA systems, and to develop linkage between these systems and with the upgraded CGAS. The real time integration of LMBIS, TSA and CGAS at the federal level was successfully completed by the end of the project, thereby enabling better budget/spending control, management and reporting. Most of the integration of P-LMBIS and P-TSA was finalized but will be tested and implemented by the government after PFMSP’s closure. PFMSP also supported trainings on the systems to real users which helped further improve the systems based on the feedback received from the participants.

PFMSP also supported the MOF/FCGO to develop a receptacle to consolidate financial information from the various levels of government, under the Whole-of-Nation Portal (WNP) hosted on FCGO’s website, particularly to capture financial data from the LGs before SUTRA was fully functional. The portal can be accessed at: \url{http://wnp.fcgo.gov.np:8082/}. FCGO did not suggest any further enhancements given other priorities and their plan to integrate the receptacle into the medium-term system that PFMSP supported before a fully functional IFMIS is feasible.

\textit{Output: Federal LMBIS and TSA upgraded and integrated, Provincial LMBIS and TSA developed, LMBIS and TSA integrated with CGAS in federal and province level}

**Enhancement of Revenue Management Information System (RMIS)**

PFMSP completed support to the FCGO to enhance the existing RMIS to become what is expected to be known as a “National Revenue Platform.” PFMSP provided support services to the FCGO for a one-year time period after the enhanced system went live. The completed work was formally handed over to the FCGO and the RMIS has been fully functional. The government also endorsed the pending policy related issues and the electronic funds transfer system was active and operational.

\textit{Output: RMIS upgraded.}

\textsuperscript{12} CGAS was subsequently upgraded with MDTF funding.

\textsuperscript{13} An IT maturity assessment is an analysis of whether existing software meets functional needs.
Document Digitization, Document Archiving, Document Management and Workflow Management system

In Year 4, PFMSP completed installation, configuration, and deployment of the Electronic Document Management System (EDMS) to the selected divisions of MOF. The main objectives for installing the EDMS were to help:

- Document capture with centralized storing, organization and locating documents;
- Integration with core system (LMBIS, P-LMBIS, RMIS, CGAS, AMIS, HRMIS, and other system);
- Controlled searching and access to documents by the number of distributed users;
- Document workflow through previously defined routes, adjusted with individual business processes;
- Tracking activities of documents during their lifespans;
- Versioning of documents (i.e. handling different versions of the same document); and
- Archiving documents.

The completed work included the supply, delivery, and installation of licenses for 15 Libraries and 10 Concurrent Users and providing two years' warranty from the completion date. This system ensures that policy and decision makers have instant reference to supporting documents and past decisions, as well as the file decision process at MOF is streamlined so that service delivery is consistent and uniform.

*Output: EDMS software implemented in selected divisions of MOF*

Secure Modular Data Center in MOF

As part budget set-aside for the upgraded and physically secure LMBIS system and related IT software and support work, PFMSP in Year 2 supported MOF to establish a secure and hi-tech Modular Data Center. The Data Center infrastructure and its components such as Fire Suppression, Precision Air Condition (PAC), Rodent Repellent System, Power Distribution Unit (PDU), Access Control, UPS and Generator ensure the uninterrupted services of the Data Center. The power and cooling system maintenance ensures that procedures for calendar-based scheduled maintenance inspections are established and condition-based maintenance practices are considered. Timely maintenance provides protection against downtime risk.

In Year 3, PFMSP completed the installation of additional hardware upgrades, testing of the Hyper-Converged Infrastructure (HCI) system and back-up solution, and the testing, installation and implementation of the Network Security within the data center.

The objective of the installation of the HCI system was to allow consolidation of IT resources, facilitate e-business, improve uninterrupted service, provide more efficient data management, exchange and interfaces with various PFM applications. Specific benefits provided to the MOF were:

*Workload consolidation:* Core storage, networking and computing functionality were merged
into a single, highly virtualized solution. [In other words, it has the ability to consolidate multiple IT functions such as backup, de-duplication, and Wide Area Network (WAN) optimization into the same platform.] This facilitates all workloads to fall under the same umbrella, making it easier to migrate Virtual Machines (VMs) between different appliances, or even between data centers.

**Flexibility and scale:** As it is based in software, it is able to provide superior levels of flexibility and agility to businesses when compared to traditional infrastructure. This allows expansion of data center capacity by simply bolting on an additional unit (more storage or compute capacity).

**Data protection:** Backup and disaster recovery are built in as a part of the infrastructure, making data protection more efficient and affordable.

**Automated Infrastructure:** The HCI systems works on the principles of the software-defined data center (SDDC), where everything including storage, servers and supporting services are virtualized. This automated routine operations by implementing centralized management tools, such as scheduling.

Regular maintenance and licensing agreements were built in as a part of the HCI contract starting in Year 2. This support continued for three years on an annual renewal basis, through the end of the contract.

*Output: One State-of-art Modular data Center established in MOF which includes HCI, Network Security and several hi-tech features.*

**IT infrastructure support for FCGO and DTCOs**

PFMSP provided assistance with hardware/equipment support at FCGO’s data center and selected districts to operationalize the upgraded CGAS system; to integrate it with FCGO's other financial management systems; and to support existing systems. PFMSP delivered, installed, and handed over a SAN device and switches for an extra layer of data storage and security.

PFMSP also provided support to FCGO and its DTCOs with power backup equipment to facilitate uninterrupted business processes. Approximately 4,000 federal and provincial cost centers were required to use CGAS. In Years 4 and 5, PFMSP supported procurement and installation of a total of 26 power backup systems, based on FCGO and DTCO’s determined needs.

*Output: One SAN device and switch, and 26 power back-ups supported.*

**Roadmap to Perform ISO Audit to ensure MOF system complies with ISO 27000 IT Security Planning and Compliance Audit**

Information security remained a top priority of the GON. With the numerous systems that MOF was hosting or planning to host, an information security management system was important to ensure a systematic approach to managing sensitive information so that it remained secure.

In Year 4 PFMSP and MOF’s IT section jointly worked to complete the development of a roadmap for refining and realigning its internal processes in line with international best practices described in the ISO 27001 standards. PFMSP also provided a six-day training on “Lead Implementer ISO 27001:2013 Information Security Management System” to 10 GON IT staff (10 men, 0 women) from the MOF, FCGO, Inland Revenue Department, Department
of Customs and Department of Information Technology. PFMSP completed a Gap Analysis Report for Data Center Security against the ISO 27001 Standard and shared with the MOF.

Output: One roadmap developed, 10 IT staff trained, one report developed.

**TOGAF Certification for GON staff**

PFMSP supported The Open Group Architecture Framework (TOGAF) training for a total of 12 GON officials. Based on progress during the training, seven GON staff were selected to pursue full certification, and PFMSP provided the necessary funding for registering the selected staff for certification (payment was required whether certification could be completed or not). A total of four GON staff completed the TOGAF certification fulfilling all requirements by the end of PFMSP. The project regularly encouraged the remaining officials to complete the rigorous process, but the COVID-19 pandemic and workload demands deferred their expected completion until after the PFMSP project period.

Output: 12 GON officials trained, Four officials certified on TOGAF.

**Study on Transition from Cash to Accrual Accounting**

Transitioning to accrual accounting is not an easy task and can take several years to achieve. With PFMSP support, FCGO developed a concept paper describing the major changes that GON must prepare for to insure an orderly transition. Particularly important steps will be the development of procedures and systems to record, control and report commitments, as well as begin development of asset registers to keep track of the government’s assets and their value. In Year 3, PFMSP provided FCGO with a comprehensive note regarding the rationale and impact on moving to accrual accounting system. FCGO appreciated the document, however, requested PFMSP to help provide them with a detailed roadmap to transition into accrual accounting. In Year 4 and 5, PFMSP assisted FCGO and the PEFA Secretariat to prepare a comprehensive, seven-year implementation plan for transition from cash to accrual accounting.

Output: One roadmap document developed.

**Output 1.3. Summary Analysis of Progress**

Overall, work under this output exhibited significant progress for Nepal in moving towards a resilient PFM system that follows international best practice, despite the many new challenges posed by the transition to federalism and the COVID-19 crisis. PFMSP’s software-related contributions were critical and have become an integral component of the GON strategy to upgrade and link existing systems as an interim step towards a full IFMIS reporting system. Both the federal and provincial LMBIS and TSA systems were upgraded, integrated and fully functional as of the end of PFMSP. PFMSP’s support for the systems’ linkage\(^\text{14}\) was widely appreciated and regarded by the GON as a major reform milestone, and they serve as the skeleton of the GON’s medium-term PFM IT solution before a full IFMIS is in place.

The LMBIS, TSA, RMIS, WNP, and EDMS systems will likely be in use for the next five to ten years (updating and support will be needed, as with all software, of course). With these systems developed under PFMSP, the GON’s ability to improve financial controls, facilitate internal and external auditor, and provide greater fiscal transparency and accountability on

\(^{14}\) At the end of PFMSP’s implementation timeframe, there had not been enough function time (i.e. a full fiscal year budget process) to fully “prove” a seamless linkage. However, PFMSP’s support also linked the upgraded RMIS, and laid the foundation for nascent linkage with the upgraded CGAS (upgraded with WB/MDTF funding), which is expected to provide full accounting data in FY2077/78.
financial transactions has been greatly improved since the beginning of the project.

Complementing the software-based PFM reform under Nepal’s structural and bureaucratic transformations, PFMSP’s support to MOF to construct a secure, state-of-the-art, modular data center provided a previously unavailable backbone for the systems to work consistently and smoothly. The data center has become crucial for the GON to centralize and consolidate IT resources; house network operations; facilitate e-business; and provide uninterrupted service to mission-critical data processing operations. The new data center also significantly strengthened functionality of MOF’s core financial management software, including the upgraded and linked software supported both by PFMSP and other DPs. Similarly, the hardware and power supply systems for FCGO and the DTCOs facilitate continuous SUTRA operations across the entire country.
2.2 IR 2/Component B: Improved control environment and procurement capacity in Targeted Ministries and Agencies

Component B Summary

PFMSP worked collaboratively with MOEST and MOHP to provide PFM software, equipment, training, support, guidelines, and important knowledge resources to modernize and strengthen their internal control and procurement practices. For MOEST, the development, piloting and first-phase implementation of the ground-breaking SAS (the operations of which are facilitated by a new server and integration with IEMIS, housed at CEHRD), and the development, distribution of a comprehensive SAM updated to align with GON acts and requirements, and trainings on these manuals and systems helped the GON to initiate solutions in addressing the lack of uniform and standardized approach to accounting, and financial reporting at the school level- which is the major source of audit arrears the education sector faces every year. The Planning and Budgeting Guidelines (MOEST and MOHP) and Business Plans (MOHP) enabled these ministries to perform the planning and budgeting functions effectively and in line with the medium-term results-based budgeting. The Internal Control Guidelines – 2077 of MOEST has become a crucial reference document for the ministry personnel to carry out day-to-day business per existing acts and regulations. Trainings on internal control, financial management, procurement planning and execution, and use of e-GP were important to build capacity of the GON staff in performing these core PFM functions. PFMSP’s frequent advocacy and support to build or strengthen the audit committees helped in part to sensitize the officials on the importance of such mechanisms in reducing audit irregularities. Procurement historically has been a challenging issue in both education and health sectors, and the challenges have only increased in the recent years after several important procurement functions were devolved to provincial and local governments. PFMSP’s support to develop procurement guidelines of health sector, and procurement improvement plans of education in both federal and province level serve as important guidelines and models in the effort to improve procurement planning and execution.

Ministry of Education, Science and Technology

Output 2.1 (IR 2.1): Strengthened capacity of selected line ministries to operationalize and sustain adequate control environment policies and procedures.

Strengthening Planning and Budgeting of MOEST

In Year 3, PFMSP, in consultation with MOEST, prepared a draft Planning and Budgeting Guidelines for MOEST under the new federal structure. However, in Year 4 MOEST requested PFMSP to revise further and update the guidelines based on the latest developments in the federal context, including new guidelines issued by MOF. PFMSP accordingly submitted the revised guidelines to MOEST for further feedback and organized a validation workshop on February 14, 2020, to collect the inputs from the related MOEST officials.

MOEST and PFMSP in Years 4 and 5 made further changes in the guidelines in consultation with other agencies and incorporated relevant indicators. PFMSP continued to follow-up with MOEST regarding the finalization of subsequent trainings on the guidelines. Based on the discussion with the Planning Under-secretary of MOEST, MOEST decided to finalize the Planning and Budgeting Guideline themselves, building on the draft that PFMSP delivered. Per MOEST they would approve the guideline and provide the training themselves prior to the NFY 2078/79 (2021/22) budget cycle and is expected to be used on yearly basis.
The new guidelines will help MOEST strengthen the comprehensiveness of planning and budgeting at the federal and provincial levels to ensure alignment with national and sector strategic plans; introduce a medium-term results-based approach to planning and budgeting; and develop objective budgets (based on realistic expected costs) for the operation of community schools based on adopted and uniformly applied standards for service delivery.

Output: One planning and budgeting guidelines developed.

**Strengthening Internal Controls of MOEST**

PFMSP commenced the development of Internal Control Guidelines for the MOEST in Year 2. After several meetings, workshops, and draft versions shared with MOEST, as well as multiple layers of updating to align with the new Financial Procedures and Fiscal Accountability Act – 2076 and the Internal Control Guidelines of FCGO, the MOEST approved the PFMSP-supported *Internal Control Guidelines – 2077* in Year 4. MOEST published the approved guidelines through its website which can be accessed at: [http://moe.gov.np/article/1332/internal-control-guideline.html](http://moe.gov.np/article/1332/internal-control-guideline.html).

In September 2020, PFMSP and MOEST conducted a virtual training (two half days) on the *Internal Control Guidelines – 2077* for the concerned education staff of federal and provincial governments. At MOEST’s request, PFMSP also printed and handed over 150 copies of the guidelines for delivery to MOEST’s federal entities, including EDCUs at the district level.

Output: One IC Guidelines developed and approved; 150 hard copies disseminate; one training conducted.

**Support to MOEST on Timely Financial Reporting**

In Years 4 and 5, PFMSP—through a consultant embedded in MOEST for a total of 19 months—supported MOEST to collect and produce timely consolidated reports and prepare required financial statements for the Year 2019/20.

**Strengthening MOEST’s Audit, Audit Committee, and Support in Irregularities Settlement**

In line with PFMSP’s consultations with MOEST regarding formation of an audit committee, MOEST formed an audit support committee in Year 4. PFMSP developed a draft suggested TOR for the newly formed audit support committee and shared it with MOEST for feedback and potential adoption. The draft TOR contained details for the committee to also serve as a policy and procedure document that outlined the committee’s membership, the frequency of meetings, key tasks to be undertaken, and possible tools to be used to support the committee’s work. While MOEST did not determine whether to adopt PFMSP’s suggestions, with a proper TOR in place, it was expected that the relatively new MOEST audit support committee could become functional and active in helping reduce audit irregularities concerned with the ministry. The process for GON audit, which cuts across the GON bureaucracy and is not fully owned by MOEST, however, has limited the ability of MOEST to make wholesale reform and will require a broader whole-of-government reform approach to update the GON’s overall audit system.

PFMSP also supported a workshop on audit compliance and clearance under the chairmanship of MOEST’s Secretary. The objective of the workshop was to discuss the roles...
and responsibilities of the newly formed audit support committee and to lay out a plan to settle outstanding audit irregularities per GON target.

Additionally, PFMSP provided technical assistance to MOEST in helping settle audit irregularities through technical consultants deputed to work under the supervision of MOEST. These consultants prepared and reviewed documents for settling audit irregularities particularly in infrastructure works. The work was completed in four districts in Year 4: Surkhet, Kalikot, Rukum West, and Achham, while work in six other districts were curtailed due to COVID-19 related restrictions. The EDCUs of the concerned districts submitted the work progress report to CEHRD.

Output: Draft TOR developed, one workshop conducted, Audit settlement support in four districts completed.

**TOT on the CGAS**

In Year 2, PFMSP conducted a TOT on CGAS with an aim to develop a pool of trainers to provide cascade trainings to district level offices of the Ministry and CEHRD on the use of CGAS. A total of 24 trainers (5 women, 19 men) were developed through this TOT, who were trained by experts from FCGO. Follow-on trainings on the new CGAS were later provided by FCGO.

Output: 24 trainers developed on CGAS.

**Development, Publishing and Dissemination of School Accounting Manual, and Trainings**

In Year 2, PFMSP reviewed the MOEST’s existing School Accounting Manual (SAM) and started updating it to develop a School Integrated Financial Management (SIFM) manual taking into consideration the Chart of Accounts (COA) for schools in line with LG COA. The SIFM manual integrated the updated version of the pre-existing Schools Accounting Manual, and PFMSP developed the Schools Internal Control Manual, the Schools COAs, and the Schools Assets and Inventory Management Guidelines. In Years 1 and 3, PFMSP trained a total of 212 participants (191 men, 21 women) comprising of school accountants, headmasters and school management committee heads on the SIFM through events conducted in Banke, Surkhet, Bardiya, Dolakha, Dang, Gorkha and Mahottari districts. This support was crucial to improve financial management and accounting system in participating schools.

In Year 3, PFMSP supported MOEST to re-update and finalize the SIFM Manual, after which integrated document became known as the School Accounting Manual (SAM). The new SAM, which fully or partially included the documents included in SIFM, was approved by MOEST in Year 3. MOEST published the SAM on its website at the following location: [http://moe.gov.np/article/1316/School-Accounting-Guideline.html](http://moe.gov.np/article/1316/School-Accounting-Guideline.html)

In Years 2 and 4, PFMSP, jointly with MOEST officials, conducted follow-up studies to
evaluate the effectiveness of School Integrated Financial Management (SIFM) trainings conducted by PFMSP and MOEST in Years 1 and 3. The studies were helpful to analyze the effectiveness of training program and will guide future trainings on school accounting. The Year 4 assessment report including the key findings and recommendations was shared with USAID in April 2020.

In Year 5 PFMSP completed the printing of 30,000 copies of the SAM. PFMSP’s vendor dispatched 29,799 copies to the 753 LGs, along with the cover letter from MOEST requesting the LGs to take responsibility for distributing one copy each to the schools under their jurisdiction (one copy for each of 29,046 schools and one copy for each LG). PFMSP handed over the remaining copies to the MOEST to distribute to the EDCUs in all districts and the Ministry of Social Development (MOSD) in the seven provinces.

Output: One SIFM developed and upgraded to approved SAM; 30000 copies printed and disseminated, 212 schoolteachers and management officials trained.

Design, Development and Piloting of School Accounting Software (SAS)

In Year 2, PFMSP and CEHRD officials carried out a study to assess the need of a school-level accounting tool. A functional and technical requirements analysis was done based on the field visit findings. This analysis informed the design and development of a School Accounting Software (SAS) in Years 2-4. PFMSP demonstrated the software with the MOEST and CEHRD on several occasions and visited public schools of varying capacity to make continuous improvements in the system, including to ensure compatibility with SUTRA and embed report generation functions that meet GON financial reporting requirements across all tiers of government in Nepal.

PFMSP completed a comprehensive piloting of SAS in Year 4 by entering real financial data of the seven community secondary schools of Madhyapur Thimi Municipality, Bhaktapur, and Budhanilkantha School, Kathmandu. PFMSP provided the schools’ accountants hands-on training on the operations and functionalities of the system. The developers incorporated direct feedback received from the pilot testing process into the software. PFMSP finalized the Pilot Study Report on SAS and shared it with USAID in Year 4. PFMSP also circulated the report widely to MOEST, CEHRD, FCGO and EDCU, Bhaktapur (which coordinated the pilot test locally) following USAID review and approval. PFMSP also finalized the SAS user operating manual and the training manual, incorporating feedback and recommendations received from the pilot testing, and translated the manuals into Nepali.

Output: One SAS developed and successfully piloted, User and Training Manuals developed.

Nation-wide roll-out of School Accounting Software (SAS)

Early in Year 5 PFMSP completed a Training of Master Trainers (MTOT) on SAS virtually and developed a total of 19 GON officials (17 men, 2 women) as master trainers. However, the real breakthrough on SAS implementation was made through the joint workshop (February 12-13, 2021) between PFMSP and CEHRD at Club Himalaya, Nagarkot, which helped outline an implementation strategy of SAS with a concrete timeline. The workshop was instrumental in agreeing on key milestones and a complete timeline for implementation.

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16 PFMSP anticipated integrating SAM and SAS training, but COVID-19 and other challenges delayed SAS finalization, and COVID-19 precluded integrated, in-person accounting training within PFMSP’s implementation timeframe.

17 Three from FCGO, four from CEHRD, six from MOEST, three from MOFAGA, one from Budhanilkantha School (SAS piloted school), and one former staff from Madhyapur Thimi Municipality, Bhaktapur (SAS piloted LG).
of SAS in the context of limited time available for PFMSP’s support. The workshop resulted in an agreement to form a SAS facilitation team to anchor the SAS implementation during and beyond the project.

PFMSP carried out several follow-up meetings and demonstrations with MOEST and CEHRD to proceed with the agreed timeline, including a meeting on March 19, 2021, wherein PFMSP presented a chart outlining the features available in the three modes of SAS (Simple, Medium, Advance) for further discussion/finalization. PFMSP provided a demo of the three modes, discussed the status of the server specifications, and the selection of the trainers for the MTOT and TOTs, and finalization of school selection for roll-out. In this meeting, CEHRD brought up the need of having a further simpler system, i.e. an Excel-based or compatible “basic” version of SAS, in addition to the three versions PFMSP had presented. PFMSP quickly responded to the need by developing and presenting a version of the basic system with the CEHRD in April 2021.

In June 2021, PFMSP through a “Training of Core Trainers,” helped develop 27 trainers (2 women, 25 men) on the Basic/Simple version of SAS. The trainers then carried out a total of 47 events of user-level trainings on SAS-basic and SAS advanced, to a total of 445 selected public schools from 276 LGs and seven provinces\(^{18}\). These nation-wide trainings helped train a total of 1449 officials from schools and local levels. On SAS basic 1167 users (1041 men, 126 women) were trained while 282 users (42 women, 240 men)

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\(^{18}\) The trainings tried to cover all schools categorized by CEHRD as model schools covering the 77 districts. The federal government continues to operate district-level education coordination units as the basis for retaining support offices for LG-led functions in LGs corresponding with those districts.

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**Box 5:**

**USAID supported the GON to Develop and Implement the School Accounting Software in Selected Public Schools of Nepal**

In the new federal structure, public schools in Nepal are under direct administration of LGs but they continue to receive funds from various sources including federal, provincial, and local levels, individual and institutional donors/partners, and other sources. In this context, one of the major challenges the GON faced was a lack of uniform and standardized approach to accounting, and financial reporting at the school level. This continued to result in a significant amount of audit arrears in the education sector as evidenced by the reports of the OAG.

To respond to these needs, the MOEST and CEHRD sought a fresh, standard solution for accounting, and reporting for the country’s 29,000 public schools, especially as federal grants comprise the bulk of education funding. With support from the USAID/PFMSP, MOEST/CEHRD developed the School Accounting Software (SAS) which enables schools to keep accounts of their financial transactions and produce timely, and accurate financial reports.

Developed through a rigorous and years-long process of assessment, design, development and piloting, the development and implementation of SAS marked an important milestone for the GON towards fiscal transparency and accountability. The system is compatible to work bidirectionally with SUTRA which enables public schools to report efficiently to the LGs and helps LGs in better monitoring of financial performance of schools. Four different versions of the software -- basic, simple, medium, and advanced – were developed to cater to the existing capacity of school staff knowledge of IT systems internet accessibility. The basic version of SAS, an offline version requiring no internet or extensive accounting knowledge on the part of user, was successfully implemented in a total of 396 selected public schools of Nepal covering all 77 districts, and advanced version was rolled out to 49 selected schools.

In addition to supporting nation-wide user-level trainings, USAID also supported IT infrastructure in the central level to help operate the system. To ensure sustainability of the system and to maximize its use by schools, MOEST/CEHRD and USAID rolled out the software as an integrated part of the IEMIS, an already recognized and widely used education management system. GON officials including from LGs, were capacitated as trainers to help meet the objective of sustainable use of the software.

SAS implementation also became part of the multi-donor and national-funded SSDP, wherein a draft DLI was added that tied DP funding to SAS implementation in approximately 2000 schools. The CEHRD has gradually taken over the ownership of SAS, including assignment of government officials to supervise the implementation, and is expected to achieve the DLI in the coming year.
were trained on the SAS-advanced. CEHRD owned the system and took full responsibility and leadership to implement it in the selected schools starting from NFY 2077/78 (2021/22). By including trainees from the LG levels, support on SAS can be localized and better integrated with SUTRA use.

In PFMSP’s final month, PFMSP supported CEHRD to procure and establish a secure server room for SAS operations and incorporated access to SAS in conjunction with IEMIS, which can now be hosted on the new server as well. This new server set-up helped ensure sustained use of the system by schools, as SAS and IEMIS can be accessed through CEHRD’s official website together, facilitating GON ownership of SAS at all levels of government. Existing school identification numbers control log-in for both IEMIS and SAS, and the necessary reports needed for IEMIS can be generated out of SAS through customized reports. SAS also has the provision to generate a Microsoft Excel/Access data file that can be uploaded to IEMIS. PFMSP also provided upgraded electrical facilities, including its project office generator for CEHRD to provide backup power for continuous server operations.

SAS implementation also became part of the multi-donor and national-funded School Sector Development Plan (SSDP), wherein a draft Disbursement-linked Indicator (DLI) was added that tied DP funding to SAS implementation in approximately 2000 schools.

*Output: SAS rolled out to 445 schools of Nepal.*

**Output 2.1. Summary Analysis of Progress (MOEST)**

PFMSP’s support for the education sector began with more of a “top down” approach to strengthen federal PFM functions within the MOEST, to address higher level management challenges. PFMSP’s initial education sector assessment (as noted under Component A above), however, also focused on the ground level up to ensure ground-level concerns were addressed at the policy level. Guidelines were developed because they reduce confusion and conflict and thus help all stakeholders to understand their role and responsibilities and execute the tasks they are responsible for effectively and collaboratively. The new Planning and Budgeting Guidelines, though delayed during PFMSP implementation, will become essential for the MOEST to be able to understand, improve and agree on the planning and budgeting procedures especially with the changes under the federal government structure. The development and finalization of the guidelines took much longer than expected due to frequent turnover of officials and varying opinion on what should be included in the guidelines and the enactment of new laws and regulations by the GON, which in turn required additional changes during the drafting process. Nonetheless, the final product was approved by MOEST and is expected to be crucial in strengthening the planning and budgeting functions of the MOEST in line with national laws and international PFM standards.

MOEST’s adoption of the Internal Control Guidelines – 2077 and PFMSP’s training on them provided key education officials the capacity to understand and comply with emerging new standards in Nepal for improved internal controls, safeguarded assets, production of more accurate financial reports, and reduction of audit irregularities. Systemic efforts, however, will need to continue at all levels in the education system. The work to prepare financial statements for NFY 2076/77 (2019/20) was essential as the MOEST has lacked the capacity to prepare these reports without assistance. This support provided MOEST and other stakeholders accurate financial information about MOEST activities across the country, but a broader effort was hampered by COVID-19 lockdown effects. Work on institutionalizing an improved MOEST Audit Committee remained limited by the end of the project, but it is essential for MOEST to create and maintain an effective internal control environment, support the internal audit function, facilitate external audits, and reduce audit irregularities.
The process for GON audit, which cuts across the bureaucracy and is not fully owned by MOEST, however, continued to limit the ability of MOEST to make wholesale reform and will require a broader whole-of-government reform approach to update the GON’s overall audit system.

Under fiscal federalism, LGs oversee funding to community schools directly so PFMSP and MOEST recognized early on that school-level improvements would be needed. It became imperative for schools to have the capacity and tools to manage and report on their finances, both for LG level purposes and federal purposes, as education grants are provided from the federal government – including funds from DPs – and with multiple conditionalities. SAS was thus conceptualized and developed as a key tool that supports schools and LGs ability to manage their finances and prepare financial reports as per GON, MOEST, and DP requirements in a timely manner. After a complex development process, PFMSP launched the implementation of basic version of SAS in hundreds of public schools in Nepal through user trainings, e-learning modules, and server support. This enabled the CEHRD to own the system and take full responsibility and leadership to implement it in the selected schools starting from NFY 2077/78 (2021/22). A total of 445 schools were trained to use the SAS basic and advanced for their financial management as of the end of the PFMSP. Through the LG officials who were trained in the system, support on SAS was localized in the selected LGs, and better integrated with SUTRA use. The successful introduction of SAS as a tool to manage finances of the public schools in Nepal is a major success for the project and a significant accomplishment for the GON in line with its PFM IT strategy.

The development, printing, and distribution of 30,000 copies of the SAM through the LGs was another key accomplishment for MOEST. The SAM has been helpful for the schools to manage their finances more effectively and efficiently and in compliance with GON and MOEST requirements, and with the last leg of distribution managed by the LGs, the SAM serves as a federal-local partnership to improve accounting functions from the ground level up. The schools trained on SAS also utilized the guidelines provided in the SAM and the schools became expected to use SAS and SAM together in their financial management. SAS implementation has thus begun to complement the SAM distribution, and LGs, which now use SUTRA, have an additional set of tools in the education sector to execute their mandated delivery of education services in public schools.

**Output 2.2 (IR 2.2): Strengthened capacity of selected line ministries to manage the procurement process in adherence with the Public Procurement Act and related rules and regulations.**

**Procurement Improvement Plans for the MOEST and Sudurpaschhim Province**

PFMSP conducted a joint assessment visit with MOEST (and MOHP, given that both education and health functions are under one provincial level ministry, the Ministry of Social Development) in April 2019 to Sudurpaschhim Province to identify specific needs/gaps to be addressed in education and health sector procurement at the federal and provincial levels. Based on the visit and discussions with MOEST and to strengthen procurement function s of the education sector at the federal and sub-national levels, PFMSP developed a total of two Procurement Improvement Plan (PIPs) – one for the MOEST and one for Sudurpaschhim province, in Years 3 and 4.

In Year 4, the MOEST approved the PIP of the federal level. MOEST published the federal PIP through its website which can be accessed at: [http://moe.gov.np/article/1331/procurement-improvement-plan.html](http://moe.gov.np/article/1331/procurement-improvement-plan.html). PFMSP has printed and handed over to MOEST a total of 150 copies of PIP for distribution to MOEST federal entities.
The MOSD of Sudurpaschhim Province approved their PIP in Year 5 at the end of PFMSP’s implementation period.

**Output:** Two separate PIPs of MOEST and MOSD Sudurpaschhim developed and approved.

**Equipment Support to Strengthen Implementation of Procurement Plans (USAID priority areas)**

PFMSP procured 35 computers and three sets of printers and handed them over to the MOEST to help strengthen the implementation of procurement plans and other systems for MOEST at federal and provincial offices.

**Output:** 35 computers and three printers supported.

**Trainings on Procurement Planning and Execution, and e-GP**

With the establishment of the federal structure, GON has new capacity development needs at the federal, provincial, and local levels to enhance the knowledge and skills on procurement planning and execution.

In Years 3 and 4, PFMSP conducted a total of two trainings on procurement planning and execution for a total of 70 federal and provincial education staff (7 women, 63 men) of the GON. The training aimed to strengthen procurement functions of the participating government ministries/offices.

In addition, PFMSP also conducted a total of two training events on the electronic government procurement (e-GP) system in Years 2 and 3. A total of 53 staff (12 women, 41 men) comprising of procurement officers of MOEST, CEHRD, federal and province level MOEST offices. The use of e-GP is made mandatory by GON for procurements of above NPR 6 Million.

**Output:** 70 officials trained on procurement planning and execution; 53 officials trained on e-GP

**Output 2.2. Summary Analysis of Progress (MOEST)**

On a practical level improving procurement is essential to ensure the MOEST and its offices comply with all GON laws and requirements but also to ensure the MOEST utilizes its financial resources efficiently. New capacity development needs emerged in the federal and provincial levels to increase the knowledge and skills on procurement planning and execution, and thus PFMSP’s support for the trainings on procurement planning, execution and the e-GP system helped strengthen procurement functions of the participating government ministries/offices. Strategically, procurement plans are essential to support effective procurement and the procurement staff need the capacity to develop these plans without assistance, and MOEST now has an important tool for following through on improving procurement practice. At the provincial level, PFMSP had hoped that the provincial PIP would also provide the basis for the USAID Sajhedari-STF project to test...
procurement reform implementation at the SNG levels, but COVID-19 forestalled further discussions on how to undertake field-level collaboration on procurement reform within PFMSP’s timeframe. Sudurpaschhim Province approved the provincial PIP document at the end of PFMSP which may serve as a model for other provinces. Overall, PFMSP’s support on procurement issues were important “first steps” in strengthening procurement practice in the education sector but continued strengthening of practical skills for actual procurement practice – especially as more funds are spent at the LG level and below – was beyond PFMSP’s scope but essential to enhance quality focused educational outcomes in Nepal.

Ministry of Health and Population

Output 2.1 (IR 2.1): Strengthened capacity of selected line ministries to operationalize and sustain adequate control environment policies and procedures.

Strengthening Planning and Budgeting of MOHP

In Year 4, MOHP approved the Planning and Budgeting Guidelines of Health Sector – 2076\(^\text{19}\) which PFMSP supported to prepare and finalize in Year 3. This was a significant achievement to help strengthen the comprehensiveness of planning and budgeting at the Federal and Provincial levels to ensure alignment with national and sector strategic plans; introduce a medium-term results-based approach to planning and budgeting; and develop objective budgets (based on realistic expected costs) for the operation of health services based on adopted and uniformly applied standards for service delivery. MOHP also published the guidelines in MOHP’s website: [https://mohp.gov.np/eng/images/PB-Guidelines--MOHP--Final.pdf](https://mohp.gov.np/eng/images/PB-Guidelines--MOHP--Final.pdf). PFMSP also supported printing of 500 copies of the guidelines and handed them over to MOHP, which took responsibility for delivering/sharing with MOHP federal and provincial entities.

In Year 5 PFMSP supported MOHP to conduct two socially distanced, in-person training events (February 26-27, 2021, and March 14-15, 2021) on the Planning and Budgeting Guidelines of Health Sector – 2076. A total of 67 officials (6 women, 61 men) representing MOHP, its three departments (i.e., MOHP’s implementation agencies, as described below), and federal offices and hospitals under MOHP were trained on the guidelines. The content included presentations and discussions on the new guidelines, basic concepts of the business plans (see below), internal control guidelines of the MOHP, MTEF-Gender Responsive Budget, and the steps in preparing annual workplan and budget.

Output: One P&B guidelines developed, approved; 67 officials trained.

Development of Business Plans for the MOHP and its Three Departments

In Year 4 MOHP approved the four Business plans for MOHP and its three departments [Department of Health Services (DOHS), Department of Drug Administration (DDA), Department of Ayurveda and Alternative Medicine (DOAAM)] for a five-year period which PFMSP supported to develop in Year 3. MOHP also published the business plans in MOHP’s website. The business plans can be accessed through the following links:

- DOAAM: [https://mohp.gov.np/eng/images/Business-Plan--DOAAM--Final.pdf](https://mohp.gov.np/eng/images/Business-Plan--DOAAM--Final.pdf); and

\(^{19}\) 2019
Training on the business plans were incorporated into the training on the new planning and budgeting guidelines, as outlined above. A total of 67 officials (6 women, 61 men) representing MOHP, its three departments, and federal offices and hospitals under MOHP were trained on the business plans.

**Output: Four Business Plans developed and approved for implementation.**

**Training on Financial Management**

With the establishment of the federal structure and changes introduced by the new Financial Procedures and Fiscal Accountability Act – 2076, GON required new capacity development needs at the federal and provincial levels to enhance the knowledge and skills on PFM and internal controls.

In Years 3 and 4, PFMSP conducted a total of two training events on financial management and internal control for a total of 61 participants (8 women, 53 men) from the MOHP and its federal entities. The trainings aimed in improving the financial management and accounting processes of MOHP offices/hospitals, provincial agencies, and other federally managed health offices.

In Years 2 and 3, PFMSP also supported trainings on TABUCS, the financial management system used by MOHP, and on Nepal Public Sector Accounting Standards (NPSAS) for a total of 77 participants (7 women, 70 men) from the MOHP and its federal entities. The training aimed in improving the use of TABUCS in the MOHP offices/hospitals, provincial agencies, and health offices.

In Year 3, PFMSP provided financial support to a total of three out of four Box 6:

**USAID Supported Nepal’s Ministry of Health and Population to Improve Planning and Budgeting**

Under Nepal’s new federal structure mandated by the 2015 Constitution, the MOHP must prepare budgets in line with the GON’s new standards. Although federalism required the MOHP to transfer and integrate former national staff across the country’s 761 municipal, provincial and federal governments, the MOHP also retained many offices and hospitals at the federal and sub-national level. The staff restructuring resulted in significant capacity gaps in MOHP’s offices, where officials must learn current PFM knowledge and skills, especially on internal controls to improve financial accountability. As such, MOHP required a new set of guidelines for planning and budgeting, as well as proper business plans to support the planning and budgeting functions.

On January 13, 2020, MOHP approved and enacted the Planning and Budgeting Guidelines of Health Sector – 2076 and four separate three-year business plans for MOHP and its three departments: the DOHS, the DOAAM, and the DDA.

Enactment of the guidelines was a significant achievement and has been instrumental in strengthening the comprehensiveness of MOHP’s planning and budgeting at the federal and provincial levels. The guidelines help ensure alignment with national and sector strategic plans; introduce a medium-term results-based approach to planning and budgeting; and develop objective budgets (based on realistic expected costs) for the operation of health services based on adopted and uniformly applied standards for service delivery.

The business plans have become significant resources for the MOHP and its departments to streamline their business processes and optimize resource use in line with a medium-term expenditure framework (MTEF), the modern key to better budgeting.

MOHP has published the guidelines and the business plans on their website.

USAID, through the five-year PFMSP, is pleased to have partnered with the MOHP to draft and finalize the guidelines and business plans. PFMSP also supported MOHP to train a total of 51 federal health officials on using these critical documents, of which a total of 800 printed copies have been provided to MOHP for targeted distribution to its entities.
workshops on PFM conducted by MOHP. The workshops were held in Biratnagar including Province 2, Pokhara, Kathmandu and Nepalgunj in which the Government-to-Government (G2G) or Redbook Support provided by the US government was discussed. USAID staff facilitated the sessions on how the USAID funds are mobilized and reimbursed. The report of these events was prepared and submitted to USAID by MOHP.

Output: 61 officials trained on financial management, 77 officials trained on TABUCS and NPSAS collectively, three events on USAID Redbook support conducted.

**Equipment Support to Strengthen Financial Management of MOHP**

In Year 3, PFMSP procured 29 computers and three sets of printers and handed them over to MOHP to help strengthen the financial management functions as well as use of other IT systems for MOHP’s federal and provincial health units.

Output: 29 computers and three printers supported.

**Digitization of Audit Irregularities**

Given the urgency and the importance of digitizing information on historical audit irregularities, PFMSP assisted MOHP in digitizing those irregularities prior to NFY 2059/60. Before digitization, all records were manually kept by a separate division (Kumari Chowk), making access difficult. The digitization/computerization of audit irregularities helped MOHP track all irregularities and resulted in timely resolution; this was accomplished in coordination with similar support for more recent NFYs provided through a United Kingdom-funded project.

Output: Audit Irregularities prior to NFY 2059/60 fully digitized.

**Strengthening MOHP’s Audit Compliance, Clearance and Settlement of Audit Irregularities**

In Year 3, PFMSP conducted two training events on audit compliance and clearance guidelines for a total of 76 GON staff (3 women, 73 men) from MOHP/DOHS and selected hospitals. PFMSP and MOHP also jointly organized an Audit Queries Clearance Workshop for MOHP, Federal Hospitals, Institutes and Centers. In Year 4, the COVID-19 pandemic delayed similar support, as in-person work was necessary, but not possible during the crisis. A total of 45 participants from 17 different federal agencies were trained on good audit practices with the objective of building capacity of MOHP’s entities to settle audit irregularities. The workshops were successful in providing basic knowledge on the procedures of audit queries clearance to the officials tasked in each agency with settling audits.

Output: 141 officials trained on audit compliance, clearance, and good audit practices.

**Third Party Audit/Verification of Equipment Inventory**

MOHP had identified weaknesses in its inventory management system, including non-compliance among federal level hospitals and health academies that have outdated lists of existing medical equipment and improper utilization of such medical equipment. In Year 5 PFMSP initially supported MOHP to develop a methodology and systematic TOR for conducting third party audit/verification or appraisal of such equipment/inventory in MOHP and its entities. Despite a limited implementation timeframe and COVID-19 related challenges, PFMSP conducted sample audits in two hospitals (Bir Hospital and Bharatpur Hospital in Bagmati Province) and provided MOHP comprehensive reports. These reports established base-line database of medical equipment in the hospitals and provided a
functional model for MOHP to systematize an asset management system in the future.

*Output: Third Party Audit Verification of Medical Equipment completed in Bir and Bharatpur Hospitals.*

**Output 2.1. Summary Analysis of Progress (MOHP)**

Approval of *Planning and Budgeting Guidelines of Health Sector – 2076* and the *Business Plans of MOHP and its three departments*, was a significant achievement for MOHP. The guidelines and plans have begun to help strengthen and bring about awareness on the planning and budgeting processes at MOHP's federal and provincial levels to ensure alignment with national and sector strategic plans; introduce a medium-term results-based approach to planning and budgeting; and develop objective budgets (based on realistic expected costs) for the operation of health services, especially in the context of ongoing transition to fiscal federalism. The documents also helped establish a baseline for uniformly applied standards for service delivery, and they have become essential for MOHP to utilize financial resources efficiently and comply with GON requirements.

The digitization/computerization of historical audit irregularities – coordinated with FCDO's supported efforts for more recent years – has helped MOHP to become more systematic in tracking irregularities and facilitating more timely resolutions. The workshops and trainings on audit compliance and clearance were successful in providing critical knowledge on the procedures of audit queries clearance to the officials tasked with settling audits, helping expedite the irregularity clearance process, and increasing the volume of settlements for the financial periods covered. For the long run, PFMSP’s support has helped MOHP to be better positioned to avoid its historical challenges in clearing problematic transactions and minimizing irregularities.

PFMSP’s support under this output provided a necessary range of PFM support to improve MOHP’s control environment. MOHP’s improved skills in planning, budgeting, accounting for financial and physical assets, and audit processes has thus generally placed MOHP in a better position to utilize its financial resources with less leakage, which in turn will lead to better health outcomes for Nepal’s citizenry. The work also amplified confidence for USAID’s work under separate G2G activities towards achieving the long-term goal of a self-reliant and well-strengthened health system.

*Output 2.2 (IR 2.2): Strengthened capacity of selected line ministries to manage the procurement process in adherence with the Public Procurement Act and related rules and regulations.*

**Development of Procurement Guidelines of Health Sector**

PFMSP supported the MOHP to develop the Procurement Guidelines of Health Sector. Given the transparency/corruption issues raised related to procurement of health/COVID-19 related goods/equipment, PFMSP updated the procurement guidelines to address transparency issues and processes in crisis situations such as COVID-19. PFMSP conducted several joint review workshops and meetings and carried out a peer review before the finalization of the guidelines. By the end of PFMSP, MOHP had forwarded the guidelines to PPMO for further review and concurrence before MOHP can approve, publish, and implement the guidance in line with Public Procurement Act.

*Output: Procurement Guidelines developed, peer reviewed and finalized.*
Trainings on Procurement Planning and Execution, and e-GP

In collaboration with the PPMO, MOHP, and DOHS, PFMSP supported two training events on e-GP for a total of 41 participants (7 women, 34 men) from federal and provincial ministries/health directorates. The key objective of the training was to build the skills and knowledge of MOHP staff in using e-GP as an electronic procurement tool. PFMSP also conducted a training on procurement planning and execution for 20 GON (1 woman, 19 men) staff representing 13 federal and provincial agencies. This activity helped strengthen the capacity of MOHP and its related agencies to manage the procurement process in adherence with the Public Procurement Act and related rules and regulations.

Output: 41 officials trained on e-GP, 20 officials trained on procurement planning and execution.

Output 2.2. Summary Analysis of Progress (MOHP)

As in the education sector, PFMSP’s support for MOHP on procurement issues was also driven by the need for up-to-date procurement guidelines that reflect current GON requirements and the new requirements due to federalism. The capacity building trainings on procurement planning, execution, and e-GP helped empower MOHP and its related agencies to manage the procurement process in adherence with the Public Procurement Act and related rules and regulations. However, institutionalization of procurement reforms is particularly challenging in the health sector because of the range of technical equipment, specialized skills on equipment and supplies, and, to some extent, overlapping jurisdictions.

One MOHP’s procurement guidelines are approved, MOHP and the GON will have a valuable tool to limit undue discretion in procurement practices in the health sector. The COVID-19 pandemic exacerbated the need for improved processes and transparency, especially after a high-level scandal on medical supply procurement emerged at the pandemic’s onset in March 2020. Overall, PFMSP’s support on procurement issues for MOHP was essential to strengthen procurement practices and to move towards compliance with the current Public Procurement Act. However, continued skills development for actual procurement practice and adequate oversight and controls – especially given the reduced “visibility” on procurement practice during lockdown conditions – was beyond PFMSP’s scope but will be essential to enhance the ability of Nepal to strengthen health systems, enhance service delivery, and improve health outcomes.
2.3 IR 3/Component C: Strengthened Financial Management functions of National Reconstruction Authority.

Component C Summary

PFMSP worked collaboratively with the NRA to provide PFM software, equipment, training, support, guidelines, and important knowledge resources to modernize and strengthen their overall financial management and to help improve accounting and reporting on use of 2015 earthquake reconstruction and recovery funds. PFMSP supported a customized financial management system, NRA-FMIS, which was fully utilized by the NRA. Collaborative efforts with the NRA and other DPs helped tailor the system to cater the specific needs of the newly established NRA. PFMSP's regular and intensive technical assistance to the NRA through a help desk and embedded PFM IT experts, and frequent user-focused trainings, resulted in full use of the system by all spending units of the NRA. This enabled NRA to keep accounts of 100 percent of reconstruction funds and produce comprehensive and categorical financial reports per the needs of GON and DPs. NRA publicly reported on financial progress through their website, social media outlets and print magazines.

Output 3.1 (IR 3.1): NRA develops policies and procedures for transparent and accountable execution of reconstruction and recovery funds.

TABUCS Enhancement to NRA-FMIS

PFMSP funded customization and implementation of TABUCS, MOHP’s simple accounting system that operates in both on-line and off-line modes to capture basic accounting transactions at source and enforce budgetary control procedures for NRA to create NRA-FMIS. This included several key steps: creating a new stance of TABUCS in MOHP’s server; importing budget data from LMBIS; preparing a payroll function; conducting a security review and testing, establishment of dedicated server in MOF’s data center; and providing enhancements of the system on an as-needed basis. PFMSP also developed system, user and training manuals, practice books, and e-learning videos to help users operate the system.

NRA-FMIS helped improved overall PFM system of NRA through improved accounting systems efficiency, better-quality of accounting data, comparison of the activities wise budget and expenditure, better financial monitoring and reporting, improved audit practices and supported governance and value for money. All spending units of NRA utilized the system. 100 percent of budget information from LMBIS for NFYs 2074/75, 2075/76 and 2076/77, and 100 percent of expenditure data from TSA for NFYs 2074/75, 2075/76, and 2076/77 (PFMSP’s Years 2-4, roughly) were captured in NRA-FMIS. In Year 5, FCGO required NRA to migrate to the upgraded CGAS, and PFMSP worked to ensure financial handover of data from NRA-FMIS to NRA.

Output: One FMIS developed, and fully implemented.

Trainings and Help Desk Support

To roll out the NRA-FMIS system, PFMSP jointly with NRA developed a total of 17 trainers (5 women, 12 men) on the NRA-FMIS and trained a total of 410 users (55 women, 355 men) in the system in the project period. Additionally, PFMSP established and operated a help desk in the NRA throughout the project with embedded experts who supported the users in day-to-day use of the system and in resolving issues/challenges raised by the users. The experts also supported to periodically review the accuracy and completeness of data.
Output: 17 trainers developed, 410 users trained on NRA-FMIS, one help desk operated.

Output 3.1. Summary Analysis of Progress

Improved understanding of NRA’s staff on NRA-FMIS was essential for the NRA to manage its funds effectively, comply with GON requirements, and prepare accurate and credible financial reports on the use of reconstruction funds. PFMSP’s embedded consultants served to keep NRA on track, particularly given NRA staff turnover. The successful tracking of 100 percent of the financial data served as a milestone in Nepal, as it proved that a homegrown “mini FMIS” could be developed and deployed in Nepal. The NRA-FMIS was built off TABUCS – the MOHP’s financial software – and it indirectly gave credence to SUTRA’s adoption, which was also developed after successful implementation of TABUCS. As NRA switched to the CGAS system PFMSP’s Year 5, the principles of reporting accurately and completely in NRA-FMIS better prepared NRA to utilize CGAS going forward given FCGO’s added effort to standardize financial accounting. In late June 2021, NRA’s deadline to cease operations and hand over ongoing projects was extended from mid-July to mid-November 2021, and the data provided by NRA-FMIS is expected to help settle outstanding accounts of previous years.

Box 7: USAID Support to Enhance Transparent and Accountable Execution of Recovery and Reconstruction Funds

Following the devastating double earthquake of 2015 and subsequent establishment of the NRA, the GON faced an important institutional challenge to ensure proper use of recovery and reconstruction funds. With wary citizens questioning the GON’s capacity, a recent history of conflict and government instability, and DPs pitching in, NRA required an IT based FMIS that did not exist across the GON. NRA also needed to establish new business processes to meet GON and DP requirements of the GON and DPs, and to ensure that the execution of funds was transparent and credible for the public.

USAID thus supported the NRA, in coordination with other DPs, to develop and implement an affordable and effective FMIS, known as NRA-FMIS. NRA-FMIS was a customized version of the TABUCS, a locally developed, comprehensive financial management software used by the MOHP. With USAID support, the NRA also trained a total of 410 officials from its central and district level spending units and established and operated a system help desk for regular technical support to the users. To accommodate staff turnover and refresh skills, USAID supported e-learning modules for NRA-FMIS, and NRA established a public financial reporting system by releasing key financial data to the public through print and online media outlets.

NRA-FMIS generated secure, timely, accurate and consolidated financial information to all stakeholders in Nepal’s reconstruction process, thereby directly enhancing financial transparency and accountability and proving that local IT solutions are available for PFM challenges. With 100 percent of NRA’s financial data added to the system, NRA-FMIS produced periodic reports by month, trimester, half-year, or year in the Office of the Auditor General’s required formats. The software also facilitated a web-based central monitoring system to track financial progress, provide required supervision and support to all NRA cost centers, and direct monitoring and tracking of internal and external audit findings.

USAID is pleased to have partnered with the NRA to strengthen its financial management systems through the PFMSP. NRA took over full management of NRA-FMIS in 2020 when GON decided to use an upgraded version of the CGAS as the required accounting software in all federal entities. In working with the Ministry of Finance, PFMSP has also helped CGAS moved towards integration with separate budgeting and transaction recording software as a key step to achieving an integrated FMIS for the federal government that is “home grown.”
Output 3.2 (IR 3.2): The 2015 post earthquake recovery process is perceived credibly by Nepal’s citizens and the international community.

**Assistance on Public Reporting of NRA financial information**

PFMSP provided technical assistance to the NRA to develop formats and graphics of the financial reports for public reporting on a regular basis. The NRA utilized the NRA-FMIS generated data, and publicized donor-wise and sector-wise budget vs expenditure reports on regular basis through the website, e-newsletter, and printed English and Nepali newsletters (i.e. “Rebuilding Nepal”) of NRA.

*Output: NRA assisted on public reporting of financial data.*

**Output 3.2. Summary Analysis of Progress**

It was essential for the NRA to assure the public that reconstruction and recovery funds (domestic and international) were being utilized appropriately, especially after many questions were raised during the country’s immediate response to the dual earthquakes in April 2015. NRA’s ability to publicize financial reports on a regular basis should serve as a broader inspiration for improving transparent and accountable PFM in Nepal.

**Additional Support.**

PFMSP provided and/or facilitated PFM-related support for other USAID project activities over the course of implementation. This support was guided by USAID through annual meetings hosted by the DGO office of USAID/Nepal and PFMSP’s annual coordination plans. Details are available in PFMSP’s Annual Work Plans and Annual Reports. Section 3 below discusses PFMSP’s major cross-cutting task on gender budgeting.
3. GESI including Gender Responsive Budgeting

USAID/Nepal's cross-cutting issues are Resilience, GESI, Youth, Science and Technology, Innovation, and Participation. Per Section H.21 Gender Consideration of the PFMSP contract, PFMSP activities intersected primarily with USAID/Nepal’s GESI issues, while technology, innovation and participation issues crosscut PFMSP’s three components. In connection with GESI issues, PFMSP regularly tracked and reported on all required indicators in concert with GESI indicators specified by USAID. PFMSP specifically worked on expanding the concept and practice of Gender Responsive Budgeting (GRB) so that it becomes a more transformative process, rather than an exercise in classifying budgetary items according to their relevance to gender.

GESI Reporting

As noted in the PMFSP contract, the amendment of the Civil Service Act in 2007 introduced the policy of setting aside 45 percent of vacant seats to women, ethnic minorities, disabled and remote regions to address group disparities and inequitable development outcomes. As of 2015 and as noted in the PFMSP contract, the number of female civil servants had doubled from seven to 15 percent which increased to around 25 percent in the fiscal year 2018-19, according to the Department of Civil Personnel Records (https://tkpo.st/38hWewj). However, at the start of PFMSP, civil servants’ caste ethnicity did not fully reflect Nepal’s demographics, as official data indicated group identities as 39.2 percent Brahmin, 22.3 percent Chhetri, 7.0 percent Newar, 0.5 percent Madhesi Dalit and 0.7 percent Muslim. In fiscal year 2018-19, Brahmins and Chhetri together made up 55 percent of all civil service candidates recommended by the Public Service Commission, according to the commission’s annual report, published recently (https://tkpo.st/2q3Cqtk).

Based on the USAID’s required GESI indicators for PFMSP, per Box 8 below.

**Box 8: Social Inclusion Reporting requirement of USAID**

| All person-level indicators for which data are collected (either through quarterly/annual reports, training/workshop reports, and reports of evaluation or assessments) will be disaggregated by sex, age, and caste/ethnicity. |
| The caste/ethnicity disaggregation will be as follows, at a minimum, the following six categories: (i) Dalit, (ii) Muslim, (iii) Brahmin/Chhetri, (iv) Newar, (v) Janajati, and (vi) Other. |
| The age disaggregation will be by the following groupings: 15-19, 20-24, 25-29, 30-39, and 40+. |
| The number of participants will be disaggregated by their ministry/agency and their positions by the following groupings: First Class, Second Class, Third Class and Assistant Level. |
| Further disaggregation may be needed as agreed upon in the approved M&E Plan. And the progress against the M&E Plan will be reported in an annex to the quarterly and annual reports in a format agreed upon between the PFMSP and COR. |

PFMSP’s achievements are displayed in Table 2 below:
Table 2: GESI Disaggregation of PFMSP’s Beneficiaries

<table>
<thead>
<tr>
<th>GESI indicators</th>
<th># of person trained in Five Year Period</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>11880</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Beneficiaries by Gender**

- Women: 1109 (9%)
- Men: 10771 (91%)

**Beneficiaries by Caste/Ethnicity**

- Brahmin/ Chhetri: 8307 (70%)
- Dalit: 320 (3%)
- Indigenous: 1455 (12%)
- Newar: 570 (5%)
- Muslim: 63 (1%)
- Other: 1165 (10%)

**Beneficiaries by Age Group**

<table>
<thead>
<tr>
<th>Age Group</th>
<th># of person</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 – 19</td>
<td>20</td>
<td>0%</td>
</tr>
<tr>
<td>20 – 24</td>
<td>813</td>
<td>7%</td>
</tr>
<tr>
<td>25 – 29</td>
<td>2657</td>
<td>22%</td>
</tr>
<tr>
<td>30 – 34</td>
<td>2590</td>
<td>22%</td>
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<tr>
<td>35 – 39</td>
<td>1835</td>
<td>15%</td>
</tr>
<tr>
<td>40 and above</td>
<td>3964</td>
<td>33%</td>
</tr>
</tbody>
</table>

**Beneficiaries by Position**

<table>
<thead>
<tr>
<th>Position</th>
<th># of person</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Class</td>
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<td>0%</td>
</tr>
<tr>
<td>2nd Class</td>
<td>396</td>
<td>3%</td>
</tr>
<tr>
<td>3rd Class</td>
<td>5066</td>
<td>43%</td>
</tr>
<tr>
<td>Assistant Levels</td>
<td>6362</td>
<td>54%</td>
</tr>
</tbody>
</table>

Table 2 indicates that PFMSP trained a total of 11,880 GON officials of the project’s five years. Out of these total beneficiaries:

- Nine percent were women while 91 percent were men, reflecting the current composition of budget and finance related staff in the GON (GON trainee participants were chosen by GON, not PFMSP);
- Despite Nepal's diversity in ethnic/caste composition and general progress towards social inclusion in the GON recent years, GON civil servants engaged in the PFM sector have remained skewed towards more advantaged groups. Given this situation, the:
  - Brahmin/Chhetri group comprised 70 percent of the total beneficiaries;
  - “Indigenous Nationalities” group made up 12 percent and “Others” made up 10 percent of the total beneficiaries;
  - Newar and Dalit groups each consisted of about five and three percent, respectively; and
  - Muslims were the least represented group, making up just one percent of the total beneficiaries.

As PFMSP’s beneficiaries were mostly male civil servants, PFMSP consistently and regularly advised its counterpart ministries/agencies to involve women participants as much as possible, including when participants were chosen from secondary ministries/agencies. Training on SUTRA for LG level participants included greater numbers of female participants, reflecting recent improvements in recruiting more equitably. However, the more senior level the participation, the fewer female direct beneficiaries could be identified for PFMSP’s support. For example, only one female participant from Administration Section of MOEST attended one procurement training. Also, over the course of PFMSP’s implementation, very few counterparts at the Under Secretary level or above were female, a
reflection of enduring structural limitations on equal representation in Nepal’s government during PFMSP’s implementation period. This situation further reflected that in the relatively specialized field of PFM, beneficiaries were significantly skewed towards advantaged groups. PFMSP nonetheless operated with the intent to assure greater representation, but GON counterparts were responsible for choosing trainers and training participants. PFMSP also did not have a specific programmatic path to increase female participation.

**Gender Budgeting/Gender Responsive Budgeting**

In accordance with USAID/Nepal’s recognition of the importance of GESI in development, PFMSP identified gender budgeting/GRB as the most relevant issue for the project to help address gender concerns and promote reform that could advance women’s equity and representation, especially as PFM related activities intersect with decisions about financial resource allocations that impact all of society.

In Year 2, PFMSP produced a report assessing “Gender-Based Budgeting in Nepal.” It contained recommendations to evolve the current practice of simple “budget classification” to a more issue-focused approach as a part of results-based budgeting (RBB). PFMSP’s efforts in Year 2 and thereafter thus focused on distinguishing between identification/classification of budgetary activities and finding a path towards making budgetary activities responsive to the gender needs of target populations. Such a shift may mean a redistribution of the budgetary allocation; it may mean designing new measures to address specific issues; and in the context of RBB, it requires specifying objectives and outcomes for service delivery. More simply, it means that “gender budgeting is good budgeting” and vice versa.

Building on the Year 2 report, in Year 3 and in collaboration with USAID’s GESI Advisor and through USAID’s role in the International Development Partner Group (IDPG) GESI Working Group’s GRB group, PFMSP co-designed and co-funded a one-day GRB training-cum-workshop to share in-depth information about GRB and gender budgeting among the IDPG Members. This included representatives of UN Women, UNDP, World Bank and other stakeholders in gender and equity issues. As a result of the July 2019 workshop, PFMSP drafted a technical paper as potential guidance to GON on how to advance the practice of gender budgeting in Nepal.

On February 19, 2020 (Year 4), USAID approved the technical paper, and USAID’s GESI Advisor shared the approved deliverable with appropriate stakeholders in Nepal. USAID shared the technical paper with DGO implementing partners, including the National Democratic Institute (NDI’s) Niti Sambad project, which worked with Nepal’s parliament to strengthen parliamentary procedures. For a session held on May 22, 2020, with the members of the parliamentary Women and Social Committee, along with Finance Committee members and National Planning Commission (NPC) officials, NDI asked PFMSP for technical support to make a presentation on RBB with the purpose of highlighting its connection to GRB. The Women and Social Development Committee of the House of Representatives soon thereafter directed the federal and provincial governments to place greater emphasis on GRB in the NFY 2077/78 (2020/21) budget process in the wake of COVID-19 pandemic.

Following consultations with MOF; USAID; and other DPs, PFMSP focused its Year 5 GRB inputs on supporting related efforts coordinated through the IDGP and the MOF. This included PFMSP’s key gender budgeting consultant’s review and recommendations on the new, WB-supported guidelines for gender budgeting at the subnational level; inputs on UN Women’s work with the NASC’s report on the forward-looking evaluation of the GON’s gender budgeting initiative; and participation in other meetings coordinated through USAID.
After providing a half-day session to other USAID DPs during Year 3, PFMSP anticipated providing follow-on training for staff of other projects. However, in Year 5 USAID determined that virtual training for USAID/Nepal and US Embassy Nepal staff would be more strategic to advance the GRB knowledge and messages that PFMSP had been fostering in Nepal. Thus, PFMSP’s consultant designed and delivered training for selected USAID/Embassy staff. The course was designed to put gender budgeting in its context, on the basis that often gender budgeting is picked up as a tool in the Gender Equality Women’s Empowerment (GEWE) agenda because it is seen as the cutting-edge tool with the potential to work in ‘app-like’ manner, with an easy-to-apply formula that will redress gender inequality. Rather, the course focused on the importance of appreciating the fundamental premises of gender budgeting – that it should be concerned with outcomes, with performance, with the alleviation of women’s unpaid care work and poverty – and to understand that gender budgeting is a ‘radical’ project and as such cannot be seen as a straightforward response. Of significance is the dearth of gender knowledge – both know-how/expertise and data/evidence – that is inputted into the process. The lack of attention to this dearth of gender knowledge is matched with the high expectations attached to gender budgeting.

The course was designed also to encourage participants to think strategically about gender budgeting, and to even consider whether and when it was appropriate to introduce it in terms of limited resources and the availability of other instruments and methods. There was also an emphasis on gender budgeting as a package which is often presented as GRB and gender budgeting as the strategy of exploiting any opportunity to make the budget work for gender equality outcomes. The latter involves a much more strategic and gender equality focused approach, in contrast to what is often an instrument-focused approach.

Following the training course, at USAID’s request PFMSP produced an annotated bibliography and two case studies of work in the Asia Pacific region (i.e. Bangladesh and South Korea) as a tool that would be of assistance to them as they work to promote gender budgeting.

In Years 3-5, PFMSP also supported development of budgeting and planning guidelines for MOEST and MOHP, in which PFMSP worked to integrate GRB. In addition to the Year 3 half-day training mentioned above, PFMSP also provided technical consultations on a periodic basis to collaborate on concept and technical practices on PFM issues for integrating GRB issues into their sub-activities and strategies wherever necessary. PFMSP had anticipated working with projects in Years 4 and 5 at the LG level, but the COVID-19 pandemic precluded the travel that would have been necessary to engage in such activities.
4. Monitoring, Evaluation and Learning

4.1 MEL Plan and System Overview

The PFMSP Monitoring, Evaluation and Learning (MEL) plan, first approved in December 2016, served as a living document throughout the life of the project. The plan served to facilitate regular monitoring of program implementation activities; to provide documentary structure for tracking output and outcome indicators; to facilitate objective observation of activities organized vis-à-vis progress towards annual and life-of-project targets; to facilitate verification of information/data collected; and to incorporate lessons learned to improve efficiency and effectiveness of PFMSP’s programmatic interventions. The MEL Plan was updated periodically to incorporate the changes per the (i) contract modifications caused by GON’s structural changes and immediate requirements and (ii) recommendations received from a) USAID’s Data Quality Assessment (Aug 2018), b) the USAID MEL Project’s “MEL Wheel” assessment (March 2019), and c) Mid-Term Evaluation (Sept 2019); and (iii) feedback received through continuous reviews and coordination/meetings with USAID (see subsection 4.3 below).

During the five-year project period, PFMSP’s MEL team including the COP and DCOP monitored project implementation activities and ensured progress towards the project’s overall goals and objectives. As specified in MEL Plan per the PFMSP contract, PFMSP regularly organized, maintained, analyzed, and verified project performance data per the MEL Plan and produced programmatic documents/reports including required cross-cutting issues mainly on GRB issues; updated data in USAID M&E portals including DIS (previously AIDTracker+), TEAMS (previously TraiNet); and uploaded approved deliverables to USAID’s DEC/DDL.

Following the basic principle that internal self-evaluation helps to improve the performance of the project, the PFMSP team carried out regular review meetings, the majority of which became virtual following the onset of the COVID-19 pandemic in March 2020. As detailed in PFMSP’s annual and quarterly reports, these included weekly PFMSP team meetings; biweekly meetings with USAID’s COR and USAID team members; monthly internal meetings virtually to review progress for monthly reports and plans submitted to USAID; quarterly reviews of implementation progress to ensure accurate quarterly reporting and activity implementation adjustments; periodic joint reviews with CO/COR/USAID teams and Health and Education teams from USAID; as-needed joint review workshop/meeting with GON counterparts and stakeholders; and continuous in-person and/or phone contact/other communication with counterparts to discuss current achievements and solutions to roadblocks that impeded smooth and timely implementation. PFMSP also conducted various observation and field visits (both internal and jointly with GON counterparts) for various purposes over the life of the project. Following COVID-19’s onset, remote monitoring tools were applied for virtual and limited in-person trainings conducted by counterparts with PFMSP support.

4.2 Progress on Key Performance Indicators

PFMSP key performance indicators are categorized into two levels – (i) Outcome level indicators and (ii) Output level indicators.

*Summary of Progress against Targets of Outcome Indicators:* Of PFMSP’s 18 outcome indicators, five were indicators of GON performance outcomes, and 13 were PEFA framework indicators, both of which were considered long-term improvement measures for PFM reform in Nepal. PFMSP’s work was designed to contribute to improvements in all of these measures but could not be directly attributable to improvements within PFMSP’s
implementation timeframe. Moreover, the GON performance indicators were notably affected by COVID-19. As Table 9 in the full report reveals (redacted in this version), in the first three years and the fifth year, the two targets on expenditure rates were achieved. However, in the following years, expected targets were only partially achieved after the pandemic began late in PFMS’s Q2 of Year 4. For the virement indicator (OCM 003), OAG’s reports indicated satisfactory achievement\(^{20}\), but the irregularities indicators (OCM 004 and OCM 018) exhibited increasing outstanding audit irregularities.

Weak fiscal compliance as part of the fiscal federalism transition; continued impunity on behalf of civil servants, challenges in transitioning from manual to IT-based PFM system/functions, evolving understanding about PFM related laws and regulations under the federalism context, etc., were likely among the reasons for the same. The 13 PEFA indicators were beyond the access and control or scope of PFMS to carryout but provide an important benchmark for the forthcoming PEFA assessment. PFMS had initially expected a PEFA assessment would be carried out in Year 3 (2018/19 or 2075/76). However, the shift to fiscal federalism and numerous ongoing reforms have meant that the GON and WB would not likely undertake the assessment until 2022.

**Summary Progress vs Targets of Output Indicators:** As Table 10 in the full report reveals (redacted in this version), out of the total of 26 output indicators, during the course of implementation through consultations between PFMS and USAID, three indicators\(^{21}\) were dropped (Modification #6); the target for one indicator\(^{22}\) was removed (Modification #6); and the remaining 22 indicators were continued. Out of 22, 17 indicators (77 percent) have been achieved and 3 indicators (14 percent) were partially achieved, and 2 indicators’ results not available during report preparation time. It will be released only after mid of August as consulted with OAG (58th Report).

### 4.3 Key findings from Evaluations, Surveys and Assessments

As part of the regularly updated PFMS MEL Plan, the MEL Task Calendar was approved along with the approval of the update MEL Plan. In accordance with the calendar, PFMS accomplished all activities except one activity: "Bi-annual PFM risk assessments" which were in fact not under control of PFMS. The expected assessments were GON, due to the devolution, structural changes in Government System, newly establishing federal system and, in Years 4 and 5, not considered due to continuous COVID-19 pandemic impacts. The Development Partner community also undertook various PFM related risk assessments that PFMS contributed to through dialogue and interviews. PFMS underwent the following assessments, per MEL Task Calendar/MEL Plan:

**Mid Term Evaluation (MTE):** During Year 3 PFMS’s external mid-term evaluation (MTE) was conducted independently by USAID/Nepal’s MEL Activity, implemented by CAMRIS International. The MTE provided short-term recommendation for PFMS and USAID, and long-term recommendations for USAID support beyond PFMS. The purpose of this external MTE was to determine whether the activity was on track to accomplish its intended goal and objectives and recommend any needed course corrections or adjustments to implementation given Nepal’s state restructuring and political transition. The evaluation also assessed the degree to which there was early evidence of the sustainability of project results, whether the project appeared to be advancing the Mission’s gender equality and social inclusion (GESI) policy and examined the validity and relevance of the project’s

\(^{20}\) Towards the end of PFMS implementation, virement looked to become a significant issue due to political instability and installment of a new government leaders who were expected to shift personnel and demand changes in budgets approved for the NFY 2077/78, beginning mid-July 2021.

\(^{21}\) Number of agencies using LMBIS system, Number of target ministries using budget norms for multi-annual planning models, Number of performance-based audits conducted for targeted ministries.

\(^{22}\) number of people trained on TABUCS (mod-6 removed target).
developmental hypothesis and theory of change (TOC). USAID and the PFMSP implementing partner would use the mid-term evaluation to guide the remaining period of project implementation and to inform future PFM programming.

PFMSP did express its concerns/differences of opinion around some of the findings of the mid-term report, and the same were documented with USAID. The main concerns raised by WSP that compromised the validity of this evaluation, included:

a) an inaccurate depiction of the GON’s joint ownership of the program, in particular the rollout of priority activities; overseeing the implementation of the PFM program; and being actively involved with PFMSP in coordination and collaboration efforts;
b) an inadequate understanding and appreciation for the demand-driven support provided to the government;
c) an unrealistic role expected of the PFMSP project in the context of the rapidly evolving fiscal federalism structure (e.g. recommending PFMSP work more directly with Local Government elected officials which was not its specific mandate); and
d) a lack of appreciation for the project’s flexibility and the IP’s ability to adjust to changing GON demands (e.g. PFMSP was one of the first development partner-funded projects to successfully support the GON as it moved forward with federalism).

The above-mentioned issues resulted in observations and recommendations that PFMSP believed were not completely justified. PFMSP also believed that the evaluation understated the significant role that PFMSP played in positioning USAID as a major player in the PFM reform space.

Data Quality Assessments: USAID conducted a significant Data Quality Assessment (DQA) June 2018 for the data reported by PFMSP against the selected PPR indicators, as outlined below:

- 2.2.2-Z01 Number of people trained on financial management systems with USG assistance.
- 2.2.2-Z06 Percent decrease in capital budget execution in last trimester of the fiscal year by GON ministries (as % of total spending)\(^{23}\)
- 2.2.2-Z27 Percent increase in GON development budget execution rate\(^{24}\)
- 2.2.2-Z24 Increase percentage of utilized donor-funded reimbursable grants (incl. USAID grants)
- 2.2.2-Z25 Percentage of GRB budget increased in national budget.
- 2.2.2-Z30 Percent of reduced irregularities
- 2.2.2-Z51 Number of agencies using SUTRA system.
- 2.2-Z08 Number of policies/regulations/administrative procedures developed/updated as a result of USG assistance\(^{25}\)

The purpose of the DQA was two-fold: 1) to build an understanding of the strengths and weaknesses of all data the USAID/Nepal Mission asks PFMSP to collect, and 2) to comply with the regulations set forth in the Government Performance and Results Modernization Act (GPRAMA) and USAID’s guidance on data quality standards. Mainly, the DQA was to help managers at USAID to understand how confident they should be in the data used to

\(^{23}\) This indicator reflects USAID PMP indicator 1.2.4-2 (percent of capital budget executed in fourth/last quarter of the fiscal year by GON ministries)

\(^{24}\) This indicator is directly related to USAID PMP indicator 1.2-2 (percentage change in GON development budget execution rate).

\(^{25}\) This indicator reflects USAID indicator CTX 1.4-1 (No. of policies/regulations/administrative procedures in each of the following stages of development as a result of USG assistance).
manage a program and report on its success. It was an ongoing process and in support of M&E system. DQA discussions were focused on 5 DQA standards\(^{26}\) (validity, integrity, precision, reliability, timeliness).

The DQA team from USAID and PFMSP met with Federal stakeholders/offices and some Local level officials. The final briefing was done by USAID DQA team with PFMSP team and recommendations were made to enhance the quality of data and M&E system in overall. The recommendations were acknowledged by PFMSP, and based on those, the MEL plan was revised.

In July 2021, USAID and PFMSP conducted a follow-on DQA for two select indicators:\(^{27}\)

- DR.2-3-NPL - Number of people trained on financial management systems with USG assistance.
- DR.2-2-NPL - Percent of capital budget executed in fourth quarter of the fiscal year by GON ministries.

USAID’s DQA team shared the final report with the following findings and recommendations:

**General findings**

- PFMSP has a good M&E system with a recently revised MEL plan.
- After the last DQA conducted in June 2018, the PFMSP M&E system has improved on clarifying the definition of the indicators better.
- Data quality per the five standards were found good across the two selected indicators assessed during this DQA.

**General recommendations**

- There are no specific recommendations on improvement of the data quality for the two selected indicators. However, the DQA team noted that PFMSP shall pay attention to wrapping up final data report against PFMSP indicators, ensuring that it is consistent with the historical data shared to USAID.

PFMSP reviewed its data carefully and identified with USAID the need for additional analysis and explanation of Indicators 001 and 002, as presented in Section 4.2 above (redacted in this version).

**M&E Process Assessment:** With the purpose of reviewing the status of the MEL processes and capacities of the PFMSP activity, and to identify areas for potential improvement, an assessment of Monitoring & Evaluation Processes and Capacity of PFMSP was conducted in February/March 2019. It was conducted independently by USAID/Nepal’s MEL Activity implemented by CAMRIS International.

The Assessment Team used a “MEL Wheel” tool to conduct the assessment more systematically. The tool assesses each of the following seven functional areas:

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\(^{26}\) **Validity:** Data should clearly and adequately represent the intended result; **Integrity:** Data collected should have safeguards to minimize the risk of transcription error or data manipulation; **Precision:** Data have a sufficient level of detail to permit management decision making; e.g. the margin of error is less than the anticipated change; **Reliability:** Data should reflect stable and consistent data collection processes and analysis methods over time; **Timeliness:** Data should be available at a useful frequency, should be current, and should be timely enough to influence management decision making.

\(^{27}\) Note USAID’s numbering system for the selected indicators changed over the course of PFMSP implementation.
1. MEL Planning and Budgeting.
2. Indicators, Baselines, and Targets.
3. Data Collection and Management.
4. Data Quality, Analysis, Reporting, and Dissemination.
5. Review, Reflection, and Evaluation.
6. Learning and Knowledge Management.
7. MEL Capacity.

Based on the findings and conclusion, PFMSP’s overall score was 90.53 points out of a possible total of 95. In addition to this, the assessment team had provided suggestions to improve the MEL processes and capacity of the PFMSP. Accordingly, the MEL Plan was revised.

**Baseline, Midline and Endline Assessments:** Per Section F.6.1 Deliverables of the PFMSP contract, PMFSP was required to produce these three assessments. These assessments were internal assessments of progress towards life of project (LOP) targets established in the initial MEL Plan on December 16, 2016, and as revised during PFMSP implementation.

**Baseline Assessment:**

As part of the project’s initial MEL plan, PFMSP established baseline value of indicators based on (i) the secondary data obtained from the GON’s budget and other final documents of FY 2015/16. With reference to the expected results, outcomes/outputs, and life of project targets outlined in the PFMSP contract, PFMSP in coordination with MOF, MOEST and MOHP conducted: (i) IT Assessment and (ii) Business Process Assessments and collected in-depth information and actual data from government concerned key stakeholders (MOF, MOEST, MOHP, NRA), sought advice from PFM experts, and set each indicator’s baseline as well as target value to be achieved. The list of key indicators and their overall target values along with baseline values is given in the MEL Plan.

**Midline Assessment:**

The midline assessment was submitted to USAID on September 30, 2019. The assessment was an internal assessment of progress towards targets established in the MEL Plan, as revised during the course of PFMSP implementation.

**Endline Assessment:**

The Endline Assessment Report was submitted to USAID on June 23, 2021. As required under Section F.6.1 (Modification #12) of the PFMSP contract, this Endline Assessment to provide the Progress Status of PFMSP’s indicators against baseline data collected as part of PFMSP’s Monitoring and Evaluation (MEL) Plan and LOP target values as revised during PFMSP implementation.
5. Collaborating, Learning and Adapting

As defined by USAID, Collaborating, Learning, and Adapting (CLA) is a set of practices that help improve development effectiveness. USAID’s Program Cycle guidance (ADS 201.3.7) states: “Strategic collaboration, continuous learning, and adaptive management link together all components of the Program Cycle.”

PFMSP’s approach to CLA, while not formalized in a separate CLA plan, was guidance by extraordinary need to remain flexible in implementation. Moreover, the very nature of the PFMSP contract’s structure – three components, with expected outputs and activities that cut across in various technical ways; four funding and oversight offices within USAID Nepal; and six major GON counterpart ministries/agencies (and numerous secondary entities) simply necessitated continuous integration of CLA into the project’s work. As noted throughout this report, the complexity of this structure was exacerbated by the adoption of fiscal federalism, and the GON’s senior civil service rotation system also necessitated constant adaptation to varying and changing points of view on programmatic implementation. The depth and breadth of DP interest in PFM reform in Nepal also necessitated extensive communication and collaboration with other DP-funded projects and/or DP representatives. **Box 9** provides a concrete example of PFMSP’s flexible approach to implementation, imbued with USAID’s CLA concepts.
Under Nepal’s transition to federalism, most of the operations and responsibility for many important public services devolved to SNGs that had little or no PFM IT systems at PFMSP’s outset. The GON’s federal PFM IT required significant adjustments, especially given the greater spending responsibilities of the new SNGs and historically weak financial, budgeting, accounting and reporting systems, whether manual or automated.

The MOF and its subsidiary FCGO thus prioritized new systems to better control planning, budgeting, execution, and reporting functions at all three tiers of government, thereby contributing to reduced fiduciary risks and improved fiscal discipline, transparency, and accountability. The GON also acknowledged the practical day-to-day challenges involved in implementing good PFM systems under federalism, particularly given serious personnel capacity and infrastructure constraints.

PFMSP’s comprehensive PFM IT Assessment1 helped GON and PFMSP in 2017/Year 1 to shift the project’s contracted priority from upgrading the central budget system LMBIS to providing a wide range across-the-board PFM support for all three tiers of government. In 2018 the GON prepared, with PFMSP inputs, a concept paper/roadmap on IT-based National PFM systems to establish durable PFM IT systems and to implement desperately needed immediate solutions. The GON’s vision included the potential for a comprehensive IFMIS in the medium to long term, a task to be studied with WB/MDTF financial support. However, in the short to medium term, existing systems urgently required system consolidation, including upgrading and linkage (e.g. LMBIS for budgeting, TSA for cash management, CGAS for accounting, and RMIS for revenue management) and development of new systems (e.g. provincial LMBIS and TSA; SUTRA for LG-level budgeting, accounting and reporting, and WNP for financial report consolidation). Various ministries had also designed and implemented stand-alone systems to solve specific PFM problems, thus adding to the complexity of PFM IT transition planning.

While the GON’s concept paper on PFM IT reform provided new critical guidance, prior to federalism’s implementation there was no overriding set of PFM IT policies or a strategic plan on how the disparate systems could be linked to create a system consistent with “international best-practice” PFM IT standards, which PFMSP sought to achieve. In December 2018, a joint GON-development partner meeting, led by the Minister of Finance, reaffirmed that PFMSP was tasked with the bulk of interim enhancement and integration support, and that MDTF’s study would guide long-term solutions, whether through further evolution of home-grown solutions or procurement of international PFM IT software.

Overall, PFMSP’s shift to respond to GON’s new PFM IT needs constituted a short to medium term solution of integrating or linking all existing “home-grown” PFM IT systems. While this was considered an interim step towards achieving a full IFMIS system, PFMSP’s support has put Nepal more firmly on a path to developing a more complete home-grown system which, as of the end of PFMSP, has the potential for Nepal not to be reliant on an expensive international system (which would have to be procured with international loan support). Additional interim support in the coming years will help determine the final course, as the country’s transition to fiscal federalism remained a work in progress.
5.1 Key Challenges and Lessons Learned

Above all, the nascent implementation of federalism begun in PFMSP’s Year 1/mid-2017 – as described throughout this report – provided an enormous PFM “technical” challenge for PFMSP’s implementation. PFMSP supported huge changes in PFM in Nepal with significant responsibilities and resources shifted from the central level to the sub-national level and particularly to LGs. The reforms proceeded with an “all in” approach despite limited political support, incomplete strategies, and new laws and regulations yet to be drafted. Even at the end of PFMSP, Nepal’s federalism must be seen as an ongoing process that has also exacerbated the pre-existing challenges for PFMSP of Nepal’s limited PFM IT systems; low PFM capacity among the civil service; and the dispersion of responsibilities for development planning, budgeting, procurement, controls, reporting, and the full range of PFM functions. In this challenging operating environment and within PFMSP’s scope and timeframe, the joint accomplishments of GON and PFMSP’s constitute significant strides in supporting Nepal’s transition to fiscal federalism and achieving “good PFM” – with or without the extraordinary implementation challenges precipitated by the COVID-19 pandemic and its restrictive lockdowns.

Recognizing the challenges of PFM reform in the uncertain reform environment, PFMSP through its Annual Work Plan processes included a broad strategic approach to implementation, risk mitigation planning, and detailed coordination and collaboration plans to help overcome the emerging challenges. These exercises, along with the attempts to establish a project steering/coordination committee, as well as the project’s Sustainability Plan and Exit Strategy (SPES – see Section 6), were all necessary for the project to remain results focused. However, these requirements resulted in a high level of reporting burdens and coupled with perennial turnover among senior leaders in the GON’s bureaucracy, distracted from what could have been an even stronger focus on achieving results, and less on planning how to achieve them. PFMSP’s bilateral implementation structure, implemented by a dedicated full team of long-term staff and short-term consultants, facilitated constant discussions, identification of roadblocks (whether due to GON constraints or USAID contracting constraints), and solutions to ensure maximum results would be achieved. Overall, the PFMSP implementation team would have been even more effective if the MOUs envisioned by USAID among USAID and PFMSP’s many counterparts could have been crafted at the start of the project. Such MOUs would have been particularly helpful given the high rate of turnover of civil servants within the GON, as the key expected outcomes could be pointed to directly when unexpected challenges or bureaucratic resistance was encountered.

Without such MOUs, PFMSP required implementation with as much flexibility as possible within USAID’s contracting rules. The PFMSP contract received multiple modifications (including two major modifications), but the administrative burden for both USAID and the implementing team was substantial and the major modifications each took many months to effectuate. While flexibility ultimately allowed PFMSP to increase its originally contracted targets and achieve the vast majority of expected targets, outputs, and outcomes, PFMSP’s particular type of contract did not lend itself to be as responsive as the GON counterparts would have preferred, especially as the project’s “momentum” began to peak just before COVID-19 struck Nepal. PFMSP’s five-year timeline and LOE limitations could not be altered, despite recognition that USAID’s first bilateral foray into PFM reform initiated great value to counterparts, but USAID’s contracting rules and processes for a follow-on project led to gap in central-level support for PFM program implementation upon PFMSP’s closure. In other words, PFMSP’s summated contributions to PFM reform has gotten the ball rolling, but the game has only begun as Nepal goes through its dual transition. For Nepal’s citizens to benefit from the long-term challenge of PFM reform, a body of evidence in the form of
improved service delivery outcomes to complement PFMS's structural contributions to PFM modernization, but PFMS's design and timeframe limitations – exacerbated by COVID-19 – led to successful but incomplete outcomes at the highest level.

Following PFMS's groundbreaking IT assessment, and follow-on meetings with GON, USAID, and other DPs, the path towards a full IFMIS was clearly identified as a complex and lengthy undertaking. While the WB/MDTF was tasked to study the issues with the likely outcome of recommendations for an expensive, highly complex international IFMIS software, PFMS dove into the hard task of piecing together existing systems so they would integrate and talk to each other, using domestic PFM IT capacity. While the progress made by PFMS is not complete, there is evidence that Nepal can “get there” and achieve its own IFMIS systems. Building off TABUCS, NRA-FMIS became a “mini FMIS” that proved the concept of developing adequate domestic PFM software. SUTRA has also become (in close coordination with FCDO and its implementing partners) used by all 753 LGs, and SUTRA performs as an integrated PFM IT system for LGs. Critical links between LMBIS, TSA and other systems have filled the gaps, and with additional development support, the federal and provincial government systems can now be conceived to achieve full connectivity. PFMS’s critical interim support requires further acknowledgement and follow-on work, but in the long run PFMS has put Nepal on a path to defer purchase of expensive software that would require additional loan assistance and massive training.

As PFM reform continues in Nepal to some degree under other USAID projects and more broadly with multiple DP support, the need for PFM capacity building has been widely recognized but capacity building efforts at the SNG level still need to be scaled up and provided widely. PFMS provided critical support to all levels of government but could not dive deep or ground truth implementation of new PFM IT systems, guidelines, and other support to ensure the project’s innovations have begun to make local level budgeting, planning, procurement, and other PFM functions work to effectuate improved service delivery. PFMS has helped immensely in supporting the roll out of SUTRA software to support the PFM needs of newly formed LGs. The nascent launch of SAS also provides standard financial management that can be linked to SUTRA and provides much needed transparency and accountability to the lowest spending units in the education sector – schools. Expansion of P-LMBIS and P-TSA to the provincial level provides a critical connection to link federal and provincial PFM processes. With the PFM IT systems in place, Staff at SNGs will continue to need substantial capacity building support to deliver quality PFM at the SNG level – and connections between citizens, their elected leaders, and bureaucratic civil servants must be analyzed to test whether the PFM reforms supported by PFMS and other DPs in continuous coordination do indeed facilitate greater transparency for and accountability to Nepal’s citizens.

The transition to decentralized government continues to face other challenges, including human resource challenges caused by high turnover of staff/new staff in SNGs with low PFM knowledge, and the GON’s perennial challenge of frequent rotation of senior staff, which fundamentally delays the process of reform, as different bureaucratic leaders led to changes in priorities and reform implementation speed. The rotation policy, which is also subject to political imperatives, creates a need for new officials to familiarize themselves with ongoing reforms and determine if they align with their vision or if they need to be adjusted. For PFMS, this invariably led to programmatic delays and significant revisions to previously agreed plans of action. Thus, on a day-to-day basis, PFMS’s implementation team spent an enormous amount of time dealing with the practical effects of changes in leadership in each of its counterpart ministries/agencies, so progress was always slower than hoped. The broad lesson here is that Nepal, while well lauded for embarking on PFM reform, must also consider undertaking a more comprehensive set of reform to modernize its bureaucracy – including human resources reform and an “apex” reform effort that has a mandate for such reform and provides consistent oversight to counter the bureaucratic inertia that is built into
Nepal’s human resources and other management systems.

That said, wholesale bureaucratic reform is also contentious. The transition to decentralized government alone has opened up a new arena of “contested spaces” in which the challenges of effective government and service delivery will continue to reveal themselves over time. Given greater control over resources at LGs under federalism, such challenges are likely to take time to settle, as evidenced by political squabbles that delayed many LGs from presenting their annual budgets on time; weak spending patterns that were otherwise overshadowed by the COVID-19; and poor quality of infrastructure through sub-standard procurement practices. Nepal’s political stability – which generally held from Year 2 through Year 4 of PFMS – reached new uncertainty in Year 5. Thus, the time for a major bureaucratic reform effort may not be on the horizon, but the momentum gained with PFM reform under PFMS and other reform efforts may be sufficient groundwork for exploring this area.

A key actor in PFM reform, the constitutionally mandated NNRFC, was hampered by the failure of the government to appoint members to the commission. Nonetheless, NNRFC has begun establishing its presence, and become more responsible for bringing some discipline and allocation objectivity to the myriad of grants and transfers that were previously under the sole control of multiple federal ministries. With PFMS support, NNRFC has taken important steps to develop more objective estimates of the costs that SNGs face in delivering the important health, education, and other services that SNGs must now deliver. With PFMS support, NNRFC has taken important steps to develop more objective estimates of the costs that SNGs face in delivering the important health, education, and other services that SNGs must now deliver. PFMS’s support for accessing and analyzing financial and other data that can lend to objective, fair grantmaking proved difficult early in PFMS, but the institutional support in Years 4 and 5 leave the commission more firmly settled into its role, and so including support for SNGs to have an improved understanding of their fiscal responsibilities under federalism.

COVID-19 also increased SNGs’ responsibilities as both health and economic response fronts are driven at the local level. While some planned central-level sanctions for poor PFM performance of SNGs were forestalled because of the pandemic, over time SNGs are likely to increasingly face significant dilemmas when they discover that the financial requirements for delivering government services in a manner consistent with mandated policies, guidelines, or rules is far greater than the budget ceilings that have evolved over the years. SNGs have challenges in raising and accounting for their own tax and other revenues; and lack the capacity to rapidly meet Federal government requirements and effectively deliver services to citizens in the new government structure. The ground-level challenges appear to be borne out not only in analyses by DPs and analysts, but also frequent news articles about the poor quality of ground level service delivery. In other words, while Nepal’s dual transition unfolds, PFM reform is squarely at the center of Nepal’s development needs. Senior bureaucrats in the GON recognize this, but an overarching strategy to overcome these challenges has yet to be finalized (and will be further challenged by the ongoing political instability witnessed in Year 5).

The PFM improvements that PFM IT systems improvements, various guidelines, and training facilitate, however, must also be complemented by the GON’s improved ability to provide greater clarity and evidence as to whether GON will institute commitment controls and/or other written statements that provide the basis for determining whether budgets are properly executed, based on plans/commitments. With improved PFM IT systems and procedures in place, MOF/FCGO have encouragingly indicated the need to improve the quality of budgeting and other PFM processes, including greater use of MTEFs and multi-year budgeting. PFMS provided potential sample budgets for reforming how budgets are presented to the public (i.e. through budgets focused on descriptive reasoning for budgeting, rather than budget amounts), but achievement of such a process requires higher-level guidance and commitment and should be a key topic of discussion among the GON and DPs engaged in PFM reform.
The COVID-19 crisis of course exacerbated existing PFM reform challenges and created new ones. The restrictions of the lockdown imposed in March 2020 made transportation difficult or impossible and prohibition of meetings in large groups made traditional meetings and training events impossible. USAID/Nepal required risk mitigation plans (RMPs) for all implementing partners, and PF MSP worked with GON partners to overcome these challenges. Training programs were adjusted to utilize virtual training and incorporate e-learning modules into PFM IT systems. PF MSP supported its first virtual training at the end of Year 4 after considerable reluctance from counterparts to shift from in-person to virtual training; later in Year 5 during COVID-19’s second wave PF MSP and its counterparts conducted more extensive virtual training. However, as this is new and there are numerous practical challenges in Nepal such as reliable access to the internet for attendees and trainers’ lack of experience using virtual platforms, the transition to virtual trainings proceeded at a slow pace.

COVID-19 of course led to day-to-day adaptive measures such as teleworking, including through the authorized departure of the COP, who worked remotely from the United States beginning April 1, 2020.

**Conclusion:** Overall, PF MSP mitigated the numerous PFM reform and program operational risks and challenges through a flexible implementation approach and strong adaptive management, including through recruitment of local PFM expertise in Year 4 to help push through critical reforms in Year 4 and Year 5. PF MSP and USAID jointly resolved numerous contractual challenges precipitated by the introduction of fiscal federalism, including through issuances of key contractual modification to the PF MSP contract. PF MSP remained results-focused despite numerous administrative requirements. PF MSP also effectively worked through numerous leadership changes among GON counterparts and strengthened relationships and mutual commitments to agreed-upon activities that have fostered significant PFM reforms for USAID, the GON and DPs working on PFM to build upon in the near future, especially providing more of the “interim” support until Nepal can achieve an IFMIS. Although PF MSP could not help avoiding a programming gap before USAID’s plans to provide follow-on support – a situation significantly exacerbated by the ongoing COVID-19 pandemic -- PF MSP’s innovations and interim solutions to Nepal’s numerous PFM challenges have helped place Nepal on a path of sustainable reforms led by PF MSP’s counterparts, so that improved transparency and accountability if PFM leads to better development outcomes for Nepal’s citizens.
6. Sustainability

PFMSP was implemented from its start-up with the vision to leave processes, products, and expertise that are positioned for longevity beyond the life of the project. This section provides an overview of the development process and strategic concept behind PFMSP’s Sustainability Plan and Exit Strategy (SPES), reports on progress against the SPES, and provides PFMSP’s concluding recommendations in this context.

6.1 Sustainability Planning

As stated in Section C.4 of the PFMSP contract, per Modification No. 6 issued December 17, 2018, “GON’s ownership and leadership is crucial for accomplishing the goals of this project and its sustainability.” As such, PFMSP collaborated continuously with key GON counterparts to implement PFMSP with the project’s sustainability goals at the forefront.

At PFMSP’s inception, USAID/Nepal anticipated entering into a number of memorandums of understanding (MOUs) to be signed between the Ministry of Finance (MOF), Financial Comptroller General Office (FCGO), Public Expenditure and Financial Accountability (PEFA) Secretariat, and selected line ministries/agencies. However, this expectation was removed through Modification No.1, issued December 14, 2016. Without the MOUs to guide stakeholders on coordination and the stakeholders’ roles, the PFMSP project itself was required to establish the procedures of project implementation.

The PFMSP contract also required establishment of a PFMSP Steering Committee (SC), and Modification 1 required submission of a draft terms of reference (TOR) for the SC (and TORs for ministry-level SCs and working groups) within 120 days of contract inception. In Year 1, PFMSP drafted a TOR for the Steering Committee (SC) and submitted it to USAID/Nepal and the Ministry of Finance (MOF). However, the MOF requested that PFMSP work separately with each of the project’s counterpart ministries/agencies. PFMSP also explored the potential of the PEFA Secretariat acting as PFMSP’s SC, as well as for other PFM-related projects. Early in Year 2, PFMSP proposed an adjustment for the project’s SC through a modification request (submitted to USAID in December 2017). The intent of the adjustment was for PFMSP to become as involved as possible in any PFM discussion groups organized by ministries or DPs. However, the proposed language regarding the SC thereunder was not approved.

Modification No. 6 subsequently updated the SC requirement to establishment of a whole-of-project SC as an expected result for Year 3. In early 2019, MOF convened a special taskforce to develop a plan for consolidating the disparate PFM IT systems across counterpart ministries/agencies into a unified financial management system. Given this development, PFMSP reentered discussions with MOF on setting up the formal SC, with the expectation that the SC would help implement the GON plan as well as ensure coordination.

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28 Submitted to USAID on September 30, 2019, and approved by USAID with the effective date of March 10, 2020.
29 Section C.4.1. included a paragraph that was removed by Modification 1 issued December 14, 2016. The original contract included this removed paragraph: “USAID anticipates entering into a number of memorandums of understanding (MOUs) to be signed between the MOF, FCGO, PEFA Secretariat, selected line ministries/agencies and USAID/Nepal. Each MOU will also include the role(s) and responsibilities of the concerned ministry and agency leading implementation of activities within the relevant component. The MOU will also describe the procedures of project implementation. The MOU will guide the stakeholders in maintaining proper coordination and playing their role. The USAID/COR shall be responsible for leading the MOU process with the assistance of the Contractor, if necessary.”
30 Section C.4 of the original PFMSP subcontract stated: “In addition to working closely with the PEFA Secretariat and PFM Committees in the line ministries, the Contractor must work to establish and comply by a PFMSP Steering Committee. The Contractor must draft a Terms of Reference for the PFMSP Steering Committees, PFM Committees and Technical Working Groups at the ministry level.”
of PFMSP support given the project’s close involvement with the overarching GON plan. The project drafted a new TOR and submitted it for USAID review on March 22, 2019. USAID provided comments and edits through a revision received by PFMSP on June 28, 2019. PFMSP presented that draft to the MOF in early July 2019. The MOF subsequently suggested the potential use of “Coordination Committee.” Follow-on communications from MOF; continued turnover among GON counterparts; the advent of COVID-19, and the revival of a PFM Working Group among Nepal’s DPs and the GON thereafter obviated formal GON approval of a PFMSP SC or Coordination Committee. Moreover, PFMSP had already established close day-to-day working arrangements and necessary coordination across primary and secondary counterparts to the point that an overarching committee was no longer warranted.

Overall, PFMSP implemented the PFMSP contract from start-up and designed activities with the vision to leave processes, products, and expertise that are positioned for longevity beyond the life of the project. PFMSP’s SPES thus captured the sustainability process and provided a baseline for assessing progress, including partial handover of project (i.e. through Year 3) and plans to ensure full handover by project completion. This plan also:

- Was oriented towards supporting USAID in assessing counterparts’ capacity to receive funds directly;
- Identified indicators and targets against for tracking and reporting; and
- Sought to support USAID and other DPs in Nepal in coordinated current implementation efforts, as well as identification of follow-on projects that can build on what PFMSP will hand over to project counterparts.

### 6.2 Sustainability Approach

From the project implementation perspective, PFMSP’s approach to sustainability was broken down into two integrated functions: A) institutional capacity building and B) human capacity development.

**Institutional Capacity Building:** This undergirded PFMSP’s work and was comprised of:

1. Documents such as budget guidelines, procurement guidelines, training materials, e-Learning Modules, PEFA Self-Assessment Tools etc.;
2. Implementation and improvement of PFM software such as TABUCS, SUTRA and SAS as well as improvements in linkages and data sharing across platforms;
3. Improvements in business process;
4. IT infrastructure such as improvement to the Data Center that supports several PFM software applications; and
5. Trainers trained.

With these types of institutional capacities being actively used, then may the GON agencies be considered “sustainable” vis-à-vis PFM. However, PFM reform is a broader process and longer-term process than either PFMSP’s scope of work or its implementation period, respectively.

Thus, over the course of the project, PFMSP continued to monitor implementation and continued use of the tools, manuals, IT systems and other materials it helped develop, and collected quantitative and qualitative data for reporting and feedback purposes.

Although the SPES was not formally adopted by counterparts, PFMSP employed change management methods to ensure stakeholder buy-in, such as when PFMSP needed to shift to greater use of virtual meetings and trainings necessitated by the COVID-19 pandemic, and as it refined the LBMIS, SUTRA, and SAS tools and provided training on them with the goal to benefit GON staff individually and to the counterpart ministries/agencies as a whole.
Generally, as the PFM software, guidelines and tools are produced by PFMSP, they are handed over to the GON. PFMSP then supports their implementation through training on the IT systems, guidelines and/or tools and help desks/on the job support.

**Human Capacity Development:** Another key element of the PFMSP SPES was building human capacity through deployment of consultants and/or teams embedded in counterparts for various support purposes, as well as targeted trainings developed and agreed upon with GON counterparts. For example, the help desk placed within the FCGO facilitated constant observation and collaborative learning, leading to the FCGO’s comfort in taking on gradual then full responsibility for the help desk upon PFMSP’s completion. In order to be effective, all PFMSP training was planned in collaboration with GON counterparts and was based on their stated needs in consultation with PFMSP technical experts.

Additionally, change management methods such as ensuring and demonstrating the commitment of senior officials in each agency at each training were utilized. Senior, mid-level, and junior staff at a ministry/agency were expected to be more likely to participate in and take seriously a training that was introduced by a senior official who stresses the relevance and importance of the training. Explaining the benefits of the training was also intended to build stakeholder buy-in. As PFMSP TA support and trainings targeted all levels of GON staff from senior to junior staff, the capacity built was expected to be retained in the GON even if staff rotated as they often are in the GON civil service, especially staff involved in financial management. However, PFM and software skills and knowledge learned for use in one agency was expected to be useful in another, and well-trained staff and trainers were expected to provide formal and on-the-job training to new staff as well.

### 6.3 Recommendations based on Lessons Learned

Based on the lessons learned, PFMSP puts forward the following higher-order recommendations for the GON, USAID and DPs.

**GON Leadership and Ownership**

**Finalize Development of a new PFM Strategy:** GON leadership is critical to carry out successful PFM reforms. The GON’s PFM steering committee should play an increasingly important role to take lead on the development of a national level, formal PFM strategy that is contextualized to the new federal context and covers the needs of the three tiers of government. The committee should take the initiative to assess, design, implement and monitor the PFM reform efforts as well as take lead in the coordination of efforts with all stakeholders. In Year 4 PFMSP held initial discussions on the potential of PFMSP to provide assistance in this area. Given other priorities, political changes, and the ongoing challenges of COVID-19, the development of this strategy has been delayed, but only becomes more important as time proceeds.

**Identify PFM Champions to Implement the PFM Strategy:** It is important to continue to develop experts/champions within the government system at the federal, provincial, and local levels who can be tasked with PFM reform leadership tasks, especially given the GON’s rotation system. Further exposure to and drawing from best international PFM practices – including the management methods and systems used to effectuate PFM reform

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31 The PFMSP contract explicitly states, regarding training on key financial software packages, that: “The training is to be provided with GON trainers to ensure sustainability, including as appropriate mobile training teams, manuals or training packages.”
– will help leaders promote innovative efforts to pave the path for implementation of good PFM practice and self-reliance.

**Link PFM Reform to Broader Bureaucratic Reform:** PFM reform is leading Nepal on a path that will contribute to reaching Nepal’s development goals, whether domestic or international (e.g. Sustainable Development Goals). Financial, performance, and service delivery reforms must be interlinked to avoid uneven progress. The GON should consider studying whether undertaking a systematic and comprehensive bureaucratic reform process, including human resources reform, should be pursued to leverage success in PFM reform.

**Collaborative Role of DPs**

**Support GON’s PFM Steering Committee:** DPs should promote the PFM steering committee’s leadership and ownership on the project implementation. DPs should collaborate with the committee and collectively with other DPs to support the GON's overarching PFM reform efforts for sustainable implementation of improved PFM functions and systems, and improve coordination mechanisms to help minimize implementation gaps between GON stakeholders, DPs, and their implementing partners.

**Include Implementing Partners in DP Working Group:** The DPs restarted a PFM working group late in PFMSP's Year 4 but PFMSP was unable to present its accomplishments directly to the group. Earlier in the project, PFMSP interacted directly with MDTF management at the World Bank to coordinate supportive activities with the GON counterparts, but this interaction was inconsistent over the life of the project. The DP working group should provide regular fora for collaborative sharing among the DPs and its implementing partners to help close gaps. Recognizing such gaps and the potential for programmatic overlap, PFMSP took an important pro-active stance in collaborating with other DP initiatives. SUTRA, SAS, and various health sector initiatives, such as the development of MOHP’s guidelines and business plans in coordination with UK-funded efforts, are just a few examples of areas of collaboration that helped strengthen programmatic outcomes. The DP working group may consider looking at the SDDP’s review structures, which included regular meetings across various topics, to bring together GON, DP and IP voices together to help amplify progress towards achieving major reform initiatives.

**Explore Flexible Response Mechanism to Fill Gaps:** PFMSP’s CLA approach, including a strong focus on adaptive management, allowed USAID to help the GON address many of the new challenges that surfaced with adoption of fiscal federalism. Looking forward, the GON and DPs should remain as responsive and flexible as possible to adapt to the changing environment to carry out the operations and programmatic activities accordingly. Given multiple stakeholder interest, both through bilateral DP support and various multi-DP efforts (e.g. MDTF, PLGSP, SSDP) and bilateral efforts, flexible mechanisms that can rapidly address programmatic gaps and emerging challenges that cannot be easily met within the GON’s financial, human resource, and operational constraints, will be key to maintaining reform momentum and tackling emerging problems. PFMSP’s flexibility to adapt to GON evolving requirements – particularly in providing “interim” support towards the long-term goal of a full IFMIS – was a definite advantage of PFMSP. PFMSP’s blend of technical expertise and strong focus on achieving technical results through project management allowed PFMSP to make progress towards Nepal’s PFM reform goals.

**Programmatic Strengthening**

**Place Increasing Emphasis on Co-creation:** PFMSP’s flexible approach became necessary from the start of implementation, especially because of the advent of fiscal federalism. Inevitably, PFM reform operating environments change between the time that
DPs and GON stakeholders design and agree on the programs, and when implementing partners are awarded resources to effectuate DP-GON mutual goals. Future reform initiatives, hence, should maximize co-creation with selected implementing partners after an award has been made.

**Further Institutionalize PFM Capacity Building:** It is important to institutionalize capacity building efforts on PFM systems to the extent possible through existing GON training institutions at the federal, provincial, and local levels, such as the PFMTTC and NASC, or through the development of new mechanisms, such as a new PFM Academy. Efforts should be put on strengthening the PFM capacity of these training institutions, actively using them to sustain capacity building efforts and avoid duplication. To improve professional development in PFM, coordination among MOF, PFMTTC/PFM Academy, NASC, MOFAGA, and support bodies (e.g. SUTRA help desk; provincial support mechanisms) should be effectuated to ensure civil service candidates and professionals are prepared for future improvements in PFM systems.

**Promotion and Integration of IT-based PFM Systems:** The GON should continue to encourage introducing standardization of PFM IT systems at all levels of government and functions and continue to integrate existing systems for better accountability and reporting. The government, in the long run, should also continue its efforts to move towards one standard and comprehensive system that covers a wide range of core PFM functions of all three tiers of government, also referred to as IFMIS. Full consideration should be given to deployment of locally-developed PFM IT systems – including “next step” linkage between the current systems used by federal and subnational governments. Improved GON-led mechanisms to sustain and develop the locally developed PFM IT systems within the GON bureaucracy should be continuously pursued. In this regard, the pending MDTF-funded IFMIS assessment/roadmap, could be shifted to become a follow-on or update to PFMSP’s initial IT assessment, which would more explicitly identify PFMSP and other project progress, with a goal to close the gaps between PFM IT systems in the next few years in a cost-effective way.

**Summary Recommendation**

**Build upon PFMSP’s Momentum, Results Orientation, and CLA for Sustainability:** Through embodiment of the CLA principles, PFMSP maintained a strong focus on achieving results, as identified in the PFMSP contract and in annual work plan processes conducted with GON counterparts. As PFMSP closed due to contractual constraints, the GON required continuity of support on several of PFMSP’s key reform initiatives, especially given the complexity of PFM reform. While the GON faces budgetary constraints, next steps in PFM reform should include developing GON planning and budgeting mechanisms that more explicitly plan for and facilitate both institutionalization of successful reform initiative (such as the absorption of the SUTRA help desk within FCGO) and domestic funding of programmatic gaps when DPs face their own constraints. Similarly, as mentioned above, DPs should consider the potential of rapid deployment of resources to fill critical gaps. PFMSP as a project has achieved success in limiting loss of momentum due to PFMSP’s closure. For example, in collaboration with other DPs and with strong support from USAID/Nepal staff, PFMSP and GON identified ways to capitalize on PFMSP’s momentum by identifying resources through other DPs to support SAS and MOF IT system reform. In other areas, programmatic momentum may face challenges, even though PFMSP and GON counterparts worked with sustainability in mind at every turn. Overall, PFMSP’s results are due to flexibility and coordination in implementation. These are the keys to a successful project like PFMSP and these principles should be increasingly strengthened to help accelerate Nepal on its path to greater transparency and accountability in PFM, and positive development outcomes for its citizens.
Annexures to Final Report

Annex A: Index of Periodic Progress Reports submitted to USAID
Annex B: Index of Periodic Financial & Accrual Reports submitted to USAID
Annex C: Index of Documents Submitted to USAID
Annex D: Non-government Institutions
Annex E: Index of GON Issued Documents/Systems with PFMSP Support

(Annexes are redacted in this version)