



@#&OPS~Doctype~OPS^blank@pidaprcoverpage#doctemplate

Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 11-Jun-2025 | Report No: PIDIA01367



For Official Use Only

BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Region	Operation ID	Operation Name
Nepal	SOUTH ASIA	P505226	Public Financial Management for Development Effectiveness Project
Financing Instrument	Estimated Appraisal Date	Estimated Approval Date	Practice Area (Lead)
Investment Project Financing (IPF)	30-Jun-2025	31-Jul-2025	Governance
Borrower(s)	Implementing Agency		
Nepal	Ministry of Federal Affairs and General Administration, Public Procurement Monitoring Office, Office of the Auditor General, Financial Comptroller General Office, National Planning Commission, Public Accounts Committee Secretariat, Ministry of Finance		

Proposed Development Objective(s)

To strengthen systems for effectiveness in public resource allocation and expenditure management.

- Components
- Strengthening Public Expenditure Management and Accountability
 - Improving Public Resource Allocation
 - Project coordination, management, monitoring and evaluation

PROJECT FINANCING DATA (US\$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?

No



Is this project Private Capital Enabling (PCE)? No

SUMMARY

Total Operation Cost	12.50
Total Financing	12.50
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Counterpart Funding	2.50
Borrower/Recipient	2.50
Trust Funds	10.00
Nepal Public Financial Mgmt Support	10.00

Environmental And Social Risk Classification

Low

Decision

B. Introduction and Context

Country Context

1. **Nepal's fiscal performance is affected by optimistic revenue and expenditure projections and weak execution on both fronts.** On the revenue side, actual collections have fallen short of budgeted targets, with revenue execution dropping below 80 percent in FY23 and FY24—well below the over 90 percent average recorded between FY13 and FY22. This underperformance is compounded by a narrow revenue base, with trade taxes contributing over 40 percent of total tax revenue on average during FY23–FY24. Such reliance heightens Nepal's vulnerability to external shocks. On the expenditure side, execution has also been weak. The overall government spending remained below 80 percent of the approved budget in both years, while capital expenditure execution fell below 65 percent.



2. **Nepal's persistently low execution of infrastructure projects has significantly constrained the accumulation of public capital, creating substantial barriers to economic growth.** Given Nepal's challenging geography and topography, improved connectivity infrastructure is essential for job creation and facilitating private sector development, tourism growth, productivity gains, and broader economic expansion. However, structural challenges in capital expenditure execution, averaging only 60 percent over fiscal years 2019/20–2023/24, have contributed to a considerable deterioration of Nepal's public capital stock to approximately 50 percent of GDP by 2019 (Public Investment Management Assessment, 2021).^[1]

3. **The budget execution for National Pride Projects has remained below 70 percent in most years, with most of the spending occurring in the second half of the FY.** The bunching of government spending toward the fiscal year's end, especially in the final month, undermines the quality-of-service delivery. In FY24, 35.2 percent of total spending occurred in the last quarter, with 16.5 percent spent in the final month. This pattern was even more pronounced in capital spending – 50 percent occurred in the last quarter and 30 percent in the final month, compared to 32.4 percent and 13.7 percent, respectively, for recurrent spending. These challenges are further exacerbated by Nepal's federal structure, where coordination and effective resource management across the three tiers of government (federal, provincial, and local) remain complex.

4. **The chronic under-execution of public investment stems from multi-layered constraints that span the entire project cycle, including structural weaknesses in resource allocation and expenditure management.** The key resource allocation issues include systematic overcommitment of the investment portfolio in the absence of robust macroeconomic and fiscal analysis, inefficient budget planning causing projects to be underfunded or not funded as per needs, and lack of streamlined procedures for budget virements and adjustments. The budget execution challenges include significant inefficiencies within the procurement system, driven by inadequate and inefficient procurement planning and management in the absence of a reliable information management system.

5. **The plans and budgets are predominantly incremental usually based on continuation of the previous years' activities with some changes in allocated amounts, while they remain insufficiently aligned with policy priorities and service delivery outcomes.** Due to this lack of focus of the budget on intended outcomes and results, the milestones/results set in the sectoral strategies of some of the sectors are not met as planned. Moreover, the lack of a results-based approach contributes to the growing disconnect between planning and budgeting at the federal, provincial, and local levels towards achieving the national development goals.

6. **The capacity constraints on public procurement significantly adds to the budget execution delay.** Majority of the bidding process starts in the second and third quarters of the FY. The procuring entities, especially the subnational governments given their capacity constraints, face challenges in applying the procurement laws and regulations in the specific instances in the absence of clear and comprehensive procurement procedures. Additionally, the subnational governments do not have the resources to follow complex procurement procedures in the absence of procedures customized to their needs. Further, there is lack of a complete set of standard procurement documents to guide the process.

^[1] The current levels stands at half the average of Low-Income Developing Countries and is well below the South Asia average of around 85%.



7. **The consultations with the three tiers of government conducted for project preparation indicated that the delay in the government's decision-making is caused by the concern for different interpretation by the oversight agencies regarding applicable laws and regulations, particularly on procurement.**

8. **In addition to the challenges resulting in low capital expenditure rate, rising audit irregularities raise concerns on the effectiveness and efficiency of the development spending.** The cumulative audit irregularities of the federal government were at 47 percent of the total budget of FY23. The rising audit irregularities are compounded by the declining trend of settling audit observations at the three tiers of government, particularly due to lack of robust internal control systems, internal audit capacity constraints and lack of coordinated risk-based oversight mechanisms. The risks are more prominent in the subnational governments due to limited human resources affecting on segregation of duties, and lack of effective oversight mechanisms. Although basic control requirements are integrated into the financial procedures law and regulations, agency-wise control system based on their specific risks is lacking. The legislative review of the audit reports has not been completed for several years. Moreover, at the local level, the Accounts Committees have not yet been systematically established in several local governments. These cumulative deficiencies in the accountability systems are affecting public trust in the usage of public funds.

Sectoral and Institutional Context

9. **The World Bank has been administering Public Financial Management (PFM) reform projects funded under the Public Financial Management Multi-Donor Trust Fund (PFM MDTF) for over a decade.** Since its establishment in December 2010^[1], the PFM MDTF has financed six projects aimed at advancing the implementation of PFM reforms. These recipient executed projects were designed with the objectives of: (a) enhancing expenditure controls and government accountability by strengthening the treasury system and improving financial reporting; (b) reinforcing the effectiveness of selected PFM and procurement institutions at federal and subnational levels; (c) improving the quality of public sector audits; and (d) promoting transparency and inclusiveness in specific PFM areas through the use of social accountability tools by Civil Society Organizations (CSOs).

10. **The last project under PFM MDTF, the Integrated Public Financial Management Reform Project (IPFMRP), which closed in July 2023 supported some of the areas prioritized in the Government's PFM Reform Strategy of FY17 to FY26.** The key ones included: Medium-Term Expenditure Framework (MTEF); project preparation and appraisal procedures and information system; gender-responsive budgeting (GRB); adoption of international standards and good practices in accounting, external audit, and internal controls; and the development, enhancement and integration of various core PFM systems for accounting, reporting, asset management, external audit and legislative oversight.

11. **Other Development Partners (DPs) have also been supporting PFM reforms.** However, in the absence of a common PFM reform strategy for the three tiers of government as the previous strategies were only for the federal government, and lack of a single-window mechanism to ensure a coordinated approach, the reform efforts have been fragmented across the three tiers of government causing inefficiencies in mobilization of resources and their results. To mitigate this, the government recently established a single-window mechanism represented by the three tiers of

^[1] Six Development Partners (DPs) continue to support the PFM MDTF, including the [Australian Department of Foreign Affairs and Trade \(DFAT\)](#), the [United Kingdom's Foreign, Commonwealth and Development Office \(FCDO\)](#), the [European Union \(EU\)](#), the [United States Agency for International Development \(USAID\)](#), the [Royal Norwegian Embassy](#), and [Switzerland's State Secretariat for Economic Affairs \(SECO\)](#).



government to prevent reform fragmentation and foster collaboration and synergy. **All the PFM reform projects will now be governed under this mechanism based on the PFM Reform Operational Guidelines, 2025.**

12. **Some of the reforms achieved under IPFMRP and through other DP support have been captured by the Third Federal Public Expenditure and Financial Accountability (PEFA) assessment, 2024.** This validates the positive outcomes of the previous reform efforts.

13. **The 2024 PEFA assessment has identified several deficient areas.** The key ones impacting on capital spending and expenditure management are deficiencies in planning and budgeting process along with the lack of alignment between them, shortcomings in procurement management, and deficiencies in internal controls, internal audit, and legislative oversight.

14. **The 2024 Gender Responsive PFM (GRPFM) assessment and Climate Responsive PFM (CRPFM) assessment, the supplementary assessments to the 2024 PEFA assessment, have also identified several deficient areas.** GRPFM assessment highlights that gender responsiveness is lacking in budgeting, public investment management, reporting, evaluation, and legislative scrutiny. CRPFM reports that climate responsiveness is lacking in public investment management, public procurement, asset and liabilities management, expenditure management, and legislative scrutiny. The Climate Change Institutional Assessment conducted by the World Bank, which informed the Country Climate and Development Report 2022, of Nepal also underscore these findings.

15. **The 16th Plan of Nepal (FY 2024/25 to FY 2028/29) recognizes the need for PFM reforms.** It identifies resource mobilization, capital spending capacity and fiscal management, as the key development challenges. The Plan aims to strengthen resource allocation capacity to ensure resources are focused on the productive sectors, along with the capacity to prepare, appraise, prioritize, and manage projects effectively and efficiently. Intergovernmental collaboration and coordination in resource mobilization is also emphasized. The Plan also aims to promote fiscal discipline at the three tiers of government and strengthen internal controls and monitoring of revenue and expenditures. These are in line with the findings of the 2024 PEFA assessment.

16. **Based on the findings of the 2024 PEFA Assessment and in line with the 16th Plan, the Government of Nepal (GoN) prepared the Third PFM Reform Strategy for 2025-30 to strengthen PFM systems within a federal framework.** The strategy outlines a roadmap for reforms in the areas of: (a) Budget reliability, (b) Budget execution and reporting, (c) Revenue management, (d) Intergovernmental fiscal management, (e) Debt and fiscal risk management, (f) Asset management, and (g) External scrutiny, transparency, and accountability. It highlights the importance of citizen engagement, transparency, and capacity building at all levels of government to foster sustainable reforms. It also emphasizes the need for strengthening climate and gender responsiveness of the PFM system. The Strategy seeks to harmonize initiatives across the three tiers of government and DPs. The strategy has been finalized and is being translated into Nepali for Cabinet approval planned by the end of FY25.

17. **The FY 2025/26 budget speech commits to implementing the PFM Reform Strategy and strengthening allocation efficiency and budget discipline in public spending.** The government is currently looking for resources to support the implementation of the Strategy. The project aims to support the government in this endeavor by focusing on key PFM bottlenecks to achieving the effectiveness and efficiency in capital spending.



18. **Considering the importance and impact of PFM in all the sectors, the World Bank's Country Partnership Framework (CPF) for FY 2025-2031 recognizes strengthening PFM as a key cross-cutting theme.** To this end, the CPF has envisioned continuation of support on PFM reforms through PFM MDTF, in collaboration with the DPs.

C. Proposed Development Objective(s)

Development Objective

19. **To strengthen systems for effectiveness in public resource allocation and expenditure management.**

Key Results

20. **Progress towards the achievement of the Project Development Objective (PDO) will be measured by the following results indicators:**

- Addressal of deficiencies in the MTEF procedures identified in the 2024 PEFA Assessment Report
- Addressal of deficiencies in the annual budgeting procedures identified in the 2024 PEFA Assessment Report
- Development of clear and transparent public procurement procedures
- Development of internal control systems based on international standards - Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework

D. Project Description

21. **Focusing on expenditure management, the project areas and activities will be based on the priorities outlined in the PFM Reform Strategy to ensure ownership and sustainability as the Strategy has been prepared with extensive consultations with the federal, provincial, and local governments.** Further, the Strategy is being requested for approval by the Cabinet to ensure the highest level of ownership.

22. **The project design and scope will be based on objectives and activities tailored to the limited timeframe of two years.** The project will close mid-July 2027 given the PFM MDTF closing date of January 31, 2028. The project aims to develop necessary procedures in the selected areas, embed those procedural requirements into the information systems, and build capacity to ensure institutionalization for sustainability.

23. **The project components will be as follows:**

Component 1 – Improving Public Resource Allocation (US\$4 million: MDTF – US\$3.2 million, GoN – US\$0.8 million):

This component will support updating and enhancement of various guidelines and information systems for planning and budgeting, and build capacity to implement the enhanced planning and budgeting framework, which includes:

- (a) Updating Project Bank Management Information System and related guidelines
- (b) Capacity building for macroeconomic and fiscal analysis
- (c) Updating MTEF guidelines and related information system
- (d) Updating annual budget formulation and execution guidelines, and Line Ministry Budget Information System (LMBIS)
- (e) Developing Chart of Activities for preparation of annual budget
- (f) Upgrading/enhancing MTEF, LMBIS and other relevant information systems through hardware and software support
- (g) Developing system interfaces between the relevant information systems, particularly Project Bank system, MTEF system, and LMBIS



- (h) Incorporating relevant citizen engagement, gender, and climate provisions into MTEF and budget formulation guidelines
- (i) Conducting assessments, research, workshops/interactions, and capacity building related to above interventions.

24. **The project will build the government's project appraisal capacity to ensure readiness and feasibility in all the projects.** This will also be ensured by developing system interfaces between Project Bank, MTEF and LMBIS information systems and embedding hard controls in the information systems to ensure only the appraised projects are incorporated into MTEF and annual budget. Further, the quality of MTEF and annual budget will be enhanced based on the deficiencies identified by the 2024 PEFA assessment, which in turn will also support alignment between the three tiers of government. To this end, the MTEF guidelines and the Budget formulation and execution guidelines will be strengthened and streamlined.

25. **Component 2 – Strengthening Public Expenditure Management and Accountability (US\$8 million: MDTF – US\$6.4 million, GoN – US\$1.6 million):** This component will support updating and enhancement of various guidelines and information systems for public procurement, funds flow management, internal controls, accounting, reporting, audit and legislative oversight, and build capacity to implement the enhanced budget execution framework, which includes:

- (a) Developing procedural manual for various aspects of public procurement
- (b) Conducting assessment to implement Open Contracting Data Standards and implementing its recommendations
- (c) Developing public procurement related documents, including standard bidding documents
- (d) Updating procedural guidelines for budget adjustment, funds flow, and relevant areas
- (e) Developing public asset management policies, procedures, standards, and asset valuation guidelines
- (f) Upgrading/enhancing PFM information systems, through hardware and software support, and developing system interfaces between them, including for: Computerized Government Accounting System (CGAS), Treasury Single Account (TSA), Public Asset Management System (PAMS), Financial Management Information System (FMIS), Nepal Audit Management System (NAMS), Public Accounts Committee Management Information System (PAC MIS)
- (g) Developing PFM Management Dashboard – an information system platform
- (h) Updating accounting standards, manuals, and reporting forms/formats
- (i) Developing a framework for model internal control systems based on COSO framework
- (j) Updating internal audit policies and procedures in line with the international standards
- (k) Updating external audit procedural guidelines on the relevant areas
- (l) Developing standard external audit report formats for risk-focused reporting
- (m) Developing Standard Operating Procedures (SOPs) for Public Accounts Committee
- (n) Capacity building and other required support for audit and legislative oversight, including citizen participatory audit
- (o) Incorporating citizen engagement, gender, and climate provisions into the above-mentioned guidelines and information systems as relevant – specifically for climate responsiveness in the procurement procedures and asset management policies and procedures; citizen participatory audit; and gender, climate, and citizen engagement focus for developing PAC SOPs and enhancement of accounting and reporting information systems, including for developing of the PFM Management Dashboard.
- (p) Conducting assessments, research, workshops/interactions, and capacity building related to above interventions.

26. **A comprehensive set of public procurement procedures and documents will be developed to guide transparent procurement of the three tiers of government.** This will be done in partnership with the oversight agencies to ensure all concerned are on board for uniform interpretation of the Public Procurement Act and Regulations.



27. **Policies and procedures for public asset management as well as internal control systems suitable for the three tiers of government will be developed.** Risk-based auditing and reporting procedures (both internal and external) will also be developed. Based on the risk-based external audit reports, procedures for risk-based oversight by the Parliamentary Committee will be developed. This will be further supported by developing a system interface between Nepal Audit Management Systems and Public Accounts Committee Management Information System.

28. **The development of system interfaces between the relevant PFM information systems will be scaled up in line with the recommended roadmap provided by the Integrated Financial Management Information System assessment conducted under IPFMRP.** The interfacing with the World Bank's Blockchain initiative will also be explored.

29. **Regarding capacity building activities of both components, in line with the recommendations of the Training Needs Assessment conducted under IPFMRP and based on their successful pilots, partnerships with relevant training institutes will be continued to institutionalize capacity building within the government system to ensure sustainability.**

30. **The recommendations of the Citizen Engagement Strategy will be implemented as part of the relevant interventions, such as budget formulation guidelines, citizen participatory audit, and legislative oversight.** The gender and climate considerations will also be integrated into relevant interventions, such as updating MTEF and budget formulation guidelines, procurement procedures manual, asset management policies and procedures, audit and legislative oversight mechanisms, enhancement of relevant information systems, and development of PFM Management Dashboard.

31. **The development of policies and procedures entails the development of necessary guidelines for the subnational governments as well.** Similarly, the enhancement and interfacing of information systems also entails that of the subnational governments, e.g. LMBIS and CGAS refer to both federal and provincial systems, and accounting systems also refer to Subnational Treasury Regulatory Application (SuTRA) system of the local level and PAMS implemented by the subnational governments.

32. **Component 3 - Project coordination, management, monitoring and evaluation (US\$0.5 million: MDTF – US\$0.4 million, GoN – US\$0.1 million):**

- (a) Supporting project coordination, management, monitoring and evaluation
- (b) Supporting necessary activities for implementation of the PFM Reform Strategy.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts



33. **The environmental and social risk for the project is classified as low. The project's focus is on strengthening the PFM systems and procedures within the country.** This will involve soft activities such as providing technical assistance and capacity building. There will be no financing of civil works, thus eliminating environmental and social risks typically associated with physical infrastructure development and land acquisition. However, the project may procure computers, servers, and other IT equipment necessary for improving digital data management and solutions. The anticipated environmental risks and impacts are primarily associated with the end-of-life management of such IT equipment, which could contribute to increase and mismanagement of e-waste. This will be addressed through adapting the existing e-waste management guidelines. Social risks include the potential exclusion of individuals based on gender or social backing to accessing capacity-building programs. Without inclusive engagement and a balanced approach to the various needs and priorities of the agencies, there could be coordination challenges and a potential neglect of gender and climate considerations in PFM reforms. Specifically, within the framework of aligning the process of the MTEF, and annual budgets across government tiers, the absence of comprehensive consultations could result in overlooking relevant gender aspects. These social risks will be managed through meaningful stakeholder engagement during both the preparation and implementation phases of the project. Risks related to Sexual Exploitation and Abuse/Sexual Harassment (SEA/SH) are assessed to be low using the social protection assessment tool primarily due to the nature of the technical assistance and capacity-building activities, which may involve interactions that could trigger SEA/SH. The project will adopt key SEA/SH mitigation measures such as the roll out of code of conduct, capacity building and SEA/SH redress provision. The Borrower's framework will be used to manage the E&S risks associated with this project. An Environment and Social Commitment Plan (ESCP) has been prepared, outlining the mitigation measures for SEA/SH, e-waste management, and stakeholder engagement actions, including provisions for grievance redress.

E. Implementation

Institutional and Implementation Arrangements

34. **The project implementation arrangements will be based on the country-wide institutional arrangement for PFM reforms outlined in the PFM Reform Operational Guidelines, 2025.** The PFM Steering Committee headed by the Finance Secretary with representation from the various ministries and subnational governments will provide the strategic direction and oversight for PFM reforms across the three tiers of government. The PFM Steering Committee will be supported by a Technical Committee, which will also have representation of the subnational governments for regular guidance, coordination, and monitoring.

35. **The respective implementing agencies will implement the reform areas as per their mandate, including supporting subnational implementation.** In line with the PFM Reform Operational Guidelines, Reform Implementation Units will be established in each implementing agency and subnational government. However, the project budget and funds flow will be limited to the federal implementing agencies, and the subnational governments will receive project support as beneficiaries.

36. **A Reform Program Secretariat housed within the Fiscal Federalism Coordination Division (FFCD) of the Ministry of Finance (MOF) will support both the Committees in discharging their responsibilities.** The Secretariat will provide coordination, supervision, and implementation support for PFM reforms on a daily basis, including for implementation of the project. While the Secretariat housed in MOF is responsible for the overall coordination on daily basis, additional coordination support will be provided by MOFAGA for coordination with the local governments. The challenges



associated with multiple implementing agencies are expected to be mitigated through such well-structured mechanisms led by MOF with a strong convening and monitoring authority for ensuring timely and effective project implementation.

37. **The project aims to consolidate efforts on fewer impactful areas focusing on key PFM challenges to expenditure management as compared to the IPFMRP which supported various areas ranging from revenue to debt management implemented by ten agencies.** To this end, the project will only have seven implementing agencies that are key to implement the identified reforms, of which MOF and MOFAGA have more of coordinating roles. While MOF will lead overall coordination efforts, MOFAGA will support coordination with the local governments. **The number of implementing agencies was identified based on the integrated nature of the planned reforms necessitating inter-agency intervention and collaboration as per the integrated approach required by the PFM Reform Strategy.** This approach also enhances the convening power of the project in bringing the concerned agencies together to address complex issues requiring inter-agency and intergovernmental coordination.

38. **Component 1 will be implemented by the National Planning Commission and MOF, and component 2 by the Public Procurement Monitoring Office, Financial Comptroller General Office, Office of the Auditor General, Public Accounts Committee Secretariat, MOF and MOFAGA.** Component 3 is for coordination support provided by MOF and MOFAGA.

39. **All the implementing agencies have experience with the World Bank's requirements having implemented the preceding IPFMRP project.**

40. **The project will not overlap in areas supported by other DPs.** Like IPFMRP, the project will continue partnering with and building on the support of relevant DPs. The DPs contributing to PFM MDTF have also been supporting PFM reforms bilaterally as well as through the pool-funded Provincial and Local Government Support Program (PLGSP) focused on subnational PFM. Building on the approach and positive outcomes of IPFMRP, collaboration with PLGSP in implementing reforms in the subnational governments will be continued.

CONTACT POINT

World Bank

Timila Shrestha
Senior Financial Management Specialist

Borrower/Client/Recipient

Nepal
Ministry of Finance
The Secretary
fso@mof.gov.np

Implementing Agencies



Ministry of Federal Affairs and General Administration

Yam Prasad Dhungana
Under Secretary
yamvictor.d@gmail.com

Public Procurement Monitoring Office

Ram Bahadur Basnet
Finance Officer
reach2rambasnet@gmail.com

Office of the Auditor General

Tikanath Aryal
Director
teeka1976@gmail.com

Financial Comptroller General Office

Yogesh Parajuli
Deputy Financial Comptroller General
yogeshpr34@gmail.com

National Planning Commission

Anita Paudel
Program Director
anita.paudel@npc.gov.np

Public Accounts Committee Secretariat

Meghraj Aryal
Section Officer
maryal119@iuja.ac.jp

Ministry of Finance

Singha Durbar, Kathmandu
The Secretary
fso@mof.gov.np

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>



APPROVAL

Task Team Leader(s):

Timila Shrestha

Approved By

Practice Manager/Manager:

Country Director:

Preeti Arora

11-Jun-2025

For Official Use Only

Page 12

Official Use Only