



DOCUMENT OF THE WORLD BANK

RESTRUCTURING PAPER  
ON A  
PROPOSED PROJECT RESTRUCTURING  
OF  
INTEGRATED PUBLIC FINANCIAL MANAGEMENT REFORM PROJECT  
APPROVED ON JUNE 27, 2018  
TO  
NEPAL

GOVERNANCE

SOUTH ASIA

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**I. BASIC DATA**

**Product Information**

Project ID P164783	Financing Instrument Investment Project Financing
Original EA Category Not Required (C)	Current EA Category Not Required (C)
Approval Date 27-Jun-2018	Current Closing Date 15-Jul-2022

**Organizations**

Borrower Nepal	Responsible Agency Ministry of Finance
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**Project Development Objective (PDO)**

Original PDO

Strengthening the effectiveness of selected PFM institutions and procurement institutions, systems and procedures at the federal and subnational levels

**Summary Status of Financing (US\$, Millions)**

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net		
					Commitment	Disbursed	Undisbursed
TF-A7474	28-Jun-2018	24-Aug-2018	24-Aug-2018	15-Jul-2022	6.12	2.34	3.78
TF-A7475	28-Jun-2018	24-Aug-2018	24-Aug-2018	30-Jul-2021	2.88	1.62	1.26

**Policy Waiver(s)**

Does this restructuring trigger the need for any policy waiver(s)?

No



## II. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES

1. **Required Extension.** A need has arisen to extend TF0A7475 of the Project up to September 30, 2021 from the current closing date of July 30, 2021. The project was earlier extended to July 15, 2022 from the original closing date of July 30, 2021 through restructuring in March 2021 based on the government's request dated June 23, 2020. The Project is funded by two TFs – TF0A7474 of USD 6.12 million and TF0A7475 of USD 2.88 million (net of cancellation) respectively. Given that the Parent TF of TF0A7475 closes in January 31, 2022, TF0A7475 was not extended through the earlier Project extension. However, due to impact of the pandemic, especially the second wave, the remaining balance of USD 1.26 million under TF0A7475 is unlikely to be spent by the TF closing date of July 30, 2021. To fully utilize the Parent as well as corresponding child TF to the extent possible, the respective Administrative Agreements with the relevant development partners, contributing to the Nepal Public Financial Management Multi-donor Trust Fund, are currently being processed for extension until January 31, 2024. As it is unlikely that the Parent TF will be extended before the child TF0A7475 closes on July 30, 2021 due to procedural requirements of the development partners, there is a need to extend the child TF to the extent possible (September 30, 2021) to utilize funding and to allow time for Parent TF extension enabling further extension of child TF at a later stage, if required.
2. Given the current closing of the Parent TF of January 31, 2022, TF0A7475 can only be extended by two months till September 30, 2021. This will also result in reduction of the disbursement grace period of TF0A7475 by two months from the current four months, i.e. the new grace period will be from October 1, 2021 to November 30, 2021. No other changes are proposed.
3. **Implementation Progress.** The project has four main components including: (i) strengthening public expenditure and revenue management in federal and subnational governments; (ii) strengthening the capacity of the Office of the Auditor General; (iii) improving public procurement capacity, monitoring and oversight, and (iv) strengthening public financial management (PFM) reform management and coordination. The original financing of the Project approved on June 27, 2018 was for USD 15 million, which was reduced to USD 9 million through restructuring in March 2021 with cancellation of USD 6 million for non-moving activities, particularly of procurement component.
4. While the implementation and disbursement of the Project was initially slow, the disbursement has recently picked up despite the pandemic challenges with the total disbursement of USD 3.96 million (USD 2.34 million for TF0A7474 and USD 1.62 million for TF0A7475) as of July 26, 2021, which is 44% of the net committed amount of USD 9 million. Given the pandemic situation, the switch to virtual mode for many of the planned activities, e.g. trainings, consultations etc. also resulted in reduction in planned disbursement. Otherwise, those activities would have increased disbursement even further. The savings are being reallocated to other additional reform activities within the project scope as per the government's needs.
5. The components implemented by PEFA Secretariat, Financial Comptroller General Office, Office of the Auditor General and Ministry of Federal Affairs and General Administration are progressing well. The procurement of activities for slow-moving agencies – National Planning Commission, Public Accounts Committee, Ministry of Finance and Institute of Chartered Accountants of Nepal have also now picked up. The Public Procurement Monitoring Office has also initiated the process of contract extension and adjustment of ITC/ILO contract due to the pandemic situation.
6. With the improvement in project performance as reflected in the significantly improved disbursement rate of 44% compared to 18% as of the previous ISR of October 2020, the overall implementation progress and procurement performance has now been upgraded to “Moderately Satisfactory”. The government has also committed to expedite



implementation and spend the entire remaining balance of USD 5.03 million by the Project closing of July 15, 2022 (if TFA07475 extended).

7. There is no outstanding audit or financial management and procurement issues. The audit of FY 2019/20 has been received with unqualified audit opinion.

8. Rationale and justification. We request for consideration of the following factors:

(a) Project will lose the remaining balance of potentially around USD 1.2 million (with some expenses expected by July 30, 2021), if TFOA7475 is not extended from the current closing of July 30, 2021;

(b) As the Project recently cancelled USD 6 million, a further reduction of USD 1.2 million of the Project funds may not be received well by the government;

(c) The unutilized amount will need to be refunded to the development partners, while their preference is to utilize the funds to the extent possible.

9. Action Plan. The following action plan has been agreed with the government to complete major activities by September 2021 (subject to pandemic risks). Nevertheless, depending on the progress made given the pandemic, TFOA7475 may require further extension beyond September 30, 2021.

(i) Strengthening public expenditure and revenue management in federal and subnational governments – Medium Term Expenditure Framework Guidelines for three tiers of the government, Internal Controls Guidelines for three tiers of the government, Training Needs Assessment for PFM capacity building of three tiers of the government, IFMIS assessment with roadmap for integrating various fragmented PFM systems of three tiers of the government and Citizen Engagement Strategy in PFM for three tiers of the government

(ii) Strengthening the capacity of the Office of the Auditor General – Piloting of the various developed audit guidelines and Nepal Audit Management System based on the international standards

(iii) Improving public procurement capacity, monitoring and oversight – Completing around 40% of the total planned capacity building activities on procurement for three tiers of government in partnership with ITC/ILO

(iv) Strengthening public financial management reform management and coordination – Ongoing

10. The following activities are expected to be completed by December 2021 (subject to pandemic risks) based on availability of financing under both TFs – TFA07475 and TFOA7474:

(a) Establishment of IT excellence centre for capacity building of OAG

(b) Accounting manual for three tiers of the government based on international standards

(d) Completing around 60% of the total planned capacity building activities on procurement for three tiers of government in partnership with ITC/ILO

(d) Various other capacity building activities

11. The Bank will also enhance and intensify efforts to monitor and support to expedite implementation as committed by the government with monthly review meetings and expanded hands-on support.

### III. DETAILED CHANGES

#### LOAN CLOSING DATE(S)



## The World Bank

Integrated Public Financial Management Reform Project (P164783)

<b>Ln/Cr/Tf</b>	<b>Status</b>	<b>Original Closing</b>	<b>Revised Closing(s)</b>	<b>Proposed Closing</b>	<b>Proposed Deadline for Withdrawal Applications</b>
TF-A7474	Effective	30-Jul-2021	15-Jul-2022	15-Jul-2022	15-Nov-2022
TF-A7475	Effective	30-Jul-2021		30-Sep-2021	30-Nov-2021