Nepal Public Financial Management Multi-Donor Trust Fund Grant Agreement

(Integrated Public Financial Management Reform Project)

between

NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

acting as administrator of the Nepal Public Financial Management Multi-Donor Trust Fund

Dated August 24, 2018
NEPAL PUBLIC FINANCIAL MANAGEMENT MULTI-DONOR TRUST FUND
GRANT AGREEMENT

AGREEMENT dated August 24, 2018, entered into between:
NEPAL through its Ministry of Finance ("Recipient"); and INTERNATIONAL
DEVELOPMENT ASSOCIATION ("World Bank"), acting as administrator of the Nepal
Public Financial Management Multi-Donor Trust Fund.

The Recipient and the World Bank hereby agree as follows:

Article I
Standard Conditions; Definitions

1.01. The “Standard Conditions for Grants Made by the World Bank Out of Various
Funds”, dated February 15, 2012 ("Standard Conditions"), constitute an integral
part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement
have the meanings ascribed to them in the Standard Conditions or in this
Agreement, including the following capitalized terms:

(a) “Fiscal Quadrimester” means, each of the following four (4) month
periods within the same Fiscal Year (as defined hereinafter), namely on or
around: (a) July 16 to November 15; (b) November 16 to March 15; and
(c) March 16 to July 15.

(b) “Fiscal Year” or “FY” means a fiscal year of the Recipient, commencing
on or around July 16 of a calendar year and concluding on or around July
15 of the following calendar year.

(c) “ICAN” means the Institute of Chartered Accountant of Nepal.

(d) “Implementing Agencies” means the following Recipient’s entities: (i) for
purposes of Part 1 of the Project: the PEFA Secretariat; the National
Planning Commission; the Public Accounts Committee Secretariat; and
the Financial Comptroller General Office, the Budget and Program
Division and the Revenue Management Division of the Ministry of
Finance; Ministry of Federal Affairs and General Administration, ICAN
or any successor thereto; and (ii) for purposes of Part 4 of the Project: the
PEFA Secretariat and the Ministry of Finance, or any successor thereto.
(e) "Incremental Operating costs" means the reasonable costs associated with the implementation, coordination and supervision of the Project, including office utilities, supplies and stationeries, operation and maintenance of office (including office equipment) and vehicles, repairs and maintenance, rental of vehicles, fuel, lease of office space, bank charges, advertising and salaries and allowances of incremental staff but excluding salaries of the Recipient's officials.

(f) "OAG" means the Recipient's Office of the Auditor General or any successor thereto.

(g) "PEFA" means Public Expenditure and Financial Accountability.

(h) "PEFA Secretariat" means the secretariat headed by the Recipient's Ministry of Finance, responsible for leading and coordinating the Recipient's public financial management reform initiatives and efforts, or any successor thereto.

(i) "PPMO" means the Recipient's Public Procurement Monitoring Office, or any successor thereto.

(j) "Project Operations Guidelines" means the guidelines referred to in Section I.D of Schedule 2 to this Agreement.

(k) "Training and Workshops Costs" means the reasonable costs associated with training and workshop participation of personnel involved in the implementation, coordination and supervision of the Project, including travel and subsistence costs for training and workshop participants, study tours, costs associated with securing the services of trainers and workshop facilitators, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training courses and workshop preparation and implementation.

Article II
The Project

2.01. The Recipient declares its commitment to the objectives of the project described in Schedule 1 to this Agreement ("Project"). To this end, the Recipient shall carry out: (a) Parts 1 and 4 of the Project with the participation of the Implementing Agencies; (b) Part 2 of the Project through OAG; and (c) Part 3 of the Project through PPMO; in accordance with the provisions of Article II of the Standard Conditions and the Project Operations Guidelines.
2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the World Bank shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

Article III
The Grant

3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant from various sources in the following amounts, which in aggregate do not exceed fifteen million United States Dollars ($15,000,000) ("Grant"), to assist in financing the Project: (a) an amount not to exceed ten million two hundred thousand United States Dollars ($10,200,000) (TFA07474); and (b) an amount not to exceed four million eight hundred thousand United States Dollars ($4,800,000) (TFA07475).

3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

3.03. The Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the donors to the trust fund. In accordance with Section 3.02 of the Standard Conditions, the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the donors under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

Article IV
Recipient’s Representative; Addresses

4.01. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Secretary of the Ministry of Finance or his/her authorized representative.

4.02. The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance
Government of Nepal
Singha Durbar
Kathmandu, Nepal

Facsimile:

(977-1) 4211-164
4.03. The World Bank's Address referred to in Section 7.01 of the Standard Conditions is:

International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America  

Telex: Facsimile:  
248423 (MCI) or 1-202-477-6391  
64145 (MCI)  

AGREED at Kathmandu, Nepal, as of the day and year first above written.

NEPAL  
By  
Authorized Representative  

Name: Shree Krishna Nepal  
Title: Joint Secretary  

INTERNATIONAL DEVELOPMENT ASSOCIATION  
acting as administrator of the Nepal Public Financial Management Multi-Donor Trust Fund  

By  
Authorized Representative  

Name: Fanis H. Hadad-Zervos  
Title: Country Manager
SCHEDULE 1

Project Description

The objective of the Project is to strengthen the effectiveness of selected public financial management institutions and procurement institutions, systems and procedures at the federal and subnational levels.

The Project consists of the following parts (i.e. components):

Part 1: Strengthening Public Expenditure and Revenue Management in Federal and Subnational Governments

1. Enhancing budgeting and revenue management: (a) top down support to establish a mid-term expenditure framework at the federal level; (b) preparing basic mid-term expenditure framework templates and guidance notes, budgeting and planning model guidelines and manuals for subnational level; (c) improving the budget ceiling setting process; (d) updating the budget calendar to bring consistency across the three government levels; (e) improving revenue forecasting processes; (f) introducing policies and procedures to reduce extra budgetary activities; and (g) supporting the carrying out of an assessment to identify the requirements for revenue reforms in the federal and subnational governments.

2. Strengthening fiscal reporting and controls: (a) preparing consolidated financial statements at the federal level following international and national accounting standards prescribed for the public sector, including developing policies and procedures to improve consolidation processes; (b) reviewing ICAN's curriculum to include public sector reporting aspects; (c) improving and simplifying chart of accounts; (d) supporting the implementation of Nepal financial reporting standards in state-owned enterprises; (e) strengthening training capacity of ICAN to deliver training on Recipient's financial reporting standards; (f) preparing an analytical framework on the use of financial/management reporting and management report as decision support tool; (g) introducing reporting formats, and model accounting and reporting manuals to subnational governments; (h) developing a basic accounting and reporting information and technology system for subnational governments; (i) preparing federal internal control guidelines; (j) preparing subnational government internal control manuals; (k) carrying out an internal audit capability assessment and designing an internal audit institutional framework; (l) preparing and implementing internal audit standards; (m) training and professionalizing internal auditors; (n) reviewing public financial management information technology infrastructure and developing and implementing a road map for establishing an integrated financial management information system; (o) training end-users on information technology manuals, procedures and systems; (p) providing on-going information technology support and
hardware to enhance data center operations; (q) improving informational technology security systems; (r) developing public financial management related information technology policies and sustainable plans; and (s) introducing reporting tools and supporting the use of fiscal information by decision makers and citizens.

3. **Strengthening public financial management training capacity**: (a) preparing a comprehensive training strategy and priority based plan underpinned by a training needs analysis; (b) establishing and implementing a sustainable organizational mechanism for delivering training in a coherent manner guided by good practices from other countries; (c) building training capacity; (d) developing training plans, training courses, and training material; (e) instructing resource persons; (f) strengthening institutions to deliver public financial management training; and (g) entering memoranda of understanding with specialized training institutions, such as ICAN, to offer professionally accredited courses.

**Part 2: Strengthening the Office of the Auditor General**

1. **Enhancing audit quality and reliability in federal government and subnational entities**: (a) carrying out ministry-level financial statements audits through a risk-based planning approach; (b) supporting the setting up of center of excellence for training and developing training curriculum and learning modules on compliance of international education standards; and (c) preparing manuals and guidelines on audit planning, execution, reporting and quality assurance.

2. **Enhancing the sustainability of the use of information technology tools for audit management**: (a) building information technology policies for ensuring the sustainability of Recipient's audit management systems; (b) enhancing the capacity of federal level auditors on the use of computer assisted auditing techniques; (c) expanding the use of Recipient's audit management systems and computer assisted auditing techniques in provincial audit offices; (d) providing software, hardware for deepening the use of Recipient’s audit management systems and computer assisted auditing techniques; and (e) establishing a two-way citizen feedback system and implementing a grievance redressal mechanism and a monitoring systems for field auditors.

3. **Strengthening citizen participatory performance audits**: developing and implementing a training plan on citizen participatory-performance audits, change management and awareness to staff from the OAG and public accounts committees and citizen-based organizations, public accounts committees.
Part 3: Improving Public Procurement

1. **Strengthening public procurement governance and oversight:** (a) strengthening PPMO to make better use of advance procurement technologies such as electronic governance procurement and to improve its research and analytical functions; (b) implementing grievance redress mechanism and supporting procurement review processes; (c) introducing public disclosure of invitation of bids and bidding outcomes, procurement processes and plans, contract data validity and procurement red flags; (d) implementing citizen government engagement and third party monitoring initiatives; (e) updating secondary legislation and bidding documents, and standardizing procurement processes; and (f) developing procurement guidelines, manuals and simple procurement documents for small value contracts.

2. **Developing and professionalizing procurement capacity:** (a) operationalizing and strengthening dedicated and functional procurement units in selected agencies; (b) strengthening selected agencies’ internal review processes; (c) designing and implementing long and short term training courses to policy level/entry civil servants, procurement officers, auditors and accountants, bidding communities, journalists, introducing international procurement accreditation programs and establishing other testing and certification programs; (d) engaging citizens in monitoring of public procurement, introducing behavioral change and improving communication with stakeholders; (e) building capacity of sub-national governments in framing local government procurement regulations, sharing effective procurement practices and making available certified public procurement trainers at local levels; (f) providing training to local level bidders to promote the use of standard bidding documents in Nepali language; (g) carrying out twinning arrangements, study tours and building capacity and training programs on procurement for procurement officials of selected agencies; and (h) developing communication strategy and implementation action plan for promoting and raising awareness for public procurement.

3. **Implementing performance monitoring with an electronic government procurement platform:** developing procurement performance measurement modules, and integrating them into existing frameworks including developing enhanced electronic government procurement features and updating existing contract management modules.

Part 4: Public Financial Management Reform Management and Coordination

1. **Strengthening PEFA Secretariat and supporting Project management:** (a) building public financial management knowledge of the PEFA Secretariat staff aligned with the overall public financial management training strategy; (b) carrying out
key research to inform public financial management policy and institutional capacity building interventions; (c) strengthening Project management skills of the PEFA Secretariat staff; (d) supporting PEFA Secretariat to implement the public financial management reform plan and implementing a change management strategy; and (e) carrying out Project management and coordination activities.

2. **Supporting citizen engagements in public financial management reforms:** Develop and implementing a citizen’s engagement strategy on public financial management.

3. **Supporting just-in-time interventions for federalization of public financial management functions:** (a) developing systems, processes and guidance to strengthen public financial management at subnational level; and (b) providing training and building capacity to subnational governments on public financial management on a targeted basis.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Public Financial Management Steering Committee

The Recipient shall maintain throughout the period of implementation of the Project, a steering committee with a mandate and composition as referred to in the Project Operation Guidelines. Without limitation to the generality of the afore-mentioned provision, the steering committee shall be responsible to provide overall policy direction and general oversight over Project implementation.

B. PEFA Secretariat

The Recipient shall maintain throughout the period of implementation of the Project, the PEFA Secretariat, with a mandate, composition, staffing and resources as referred to in the Project Operation Guidelines. Without limitation to the generality of the afore-mentioned provision, the PEFA Secretarial shall:

(a) maintain one (1) coordinator, one (1) member secretary and one (1) accountant, within the staffing structure of the PEFA Secretariat; and (b) be responsible for, inter alia: (i) coordinating, managing and facilitating the implementation of all Parts of the Project, including consolidating Project annual work plans, procurement plans and reports from OAG, PPMO and the Implementing Agencies; and (ii) coordinating activities under Parts 1 and 4 of the Project to be carried out by the Implementation Agencies.

C. Project Teams

Prior to initiating any of their respective Project activities, the Recipient shall ensure that OAG, PPMO, and each of the Implementing Agencies have formed Project teams with a mandate, composition, staffing and resources acceptable to the World Bank. Without limitation to the generality of the afore-mentioned provision, the Recipient shall ensure that each Project team is: (a) maintained throughout the period of implementation of the Project; (b) headed by one (1) coordinator; and (c) responsible for carrying out its respective Project activities in accordance with the provisions of the Project Operations Guidelines.

D. Project Operations Guidelines

By no later than one (1) month after the date of this Agreement, the Recipient shall adopt Project Operations Guidelines, satisfactory to the World Bank, setting forth procedures for facilitating the implementation of the Project. In the event of any conflict between the arrangements and procedures set out in the Project Operations Guidelines and the provisions of this Agreement, the provisions of this Agreement
shall prevail. The Project Operations Guidelines may be amended by the steering committee referred to in Section I.A of this Schedule with the written concurrence of the World Bank.

E. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016 (“Anti-Corruption Guidelines”).

F. Environmental Code of Practices

In the event that there is e-waste disposal, the Recipient shall ensure that each contract for installing/replacing equipment under the Project includes the obligation of the relevant contractor to comply with environmental codes of practice acceptable to the World Bank. The Recipient shall monitor compliance with such environmental codes of practice.

G. Donor Visibility and Visit

1. The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Project.

2. For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, take all measures required on its part to enable the representatives of the Donor(s) to visit any part of the Recipient’s territory for purposes related to the Project.

Section II. Project Monitoring, Reporting and Evaluation

A. Documents; Records

In addition and without limitation to the obligations set forth in Section 2.05 of the Standard Conditions, the Recipient shall ensure that:

(a) all records evidencing expenditures under the Project are retained for seven (7) years and six (6) months after the Closing Date, such records to include: (i) this Agreement, all addenda thereof, and any amendments thereto; (ii) the Recipient’s financial and narrative progress reports submitted to the World Bank; (iii) the Recipient’s financial information related to the Grant, including audit reports, invoices and payroll records; (iv) the Recipient’s implementation documentation (including sub-agreements, procurement files, contracts, purchase orders); and (v) the
corresponding supporting evidence referred to in Section 3.04 of the
Standard Conditions; and

(b) the representatives of the World Bank are: (i) able to examine all records
referred to above in paragraph (a); (ii) provided all such information
concerning such records as they may from time to time reasonably request;
and (iii) able to disclose such records and information to the Donor(s).

B. Project Reports; Completion Report

1. The Recipient shall monitor and evaluate the progress of the Project and prepare
Project Reports in accordance with the provisions of Section 2.06 of the Standard
Conditions and on the basis of the indicators set forth in the Project Operations
Guidelines. Each Project Report shall cover the period of one Fiscal Quadrimester,
and shall be furnished to the World Bank not later than forty-five (45) days after
the end of the period covered by such report.

2. The Recipient shall prepare the Completion Report in accordance with the
provisions of Section 2.06 of the Standard Conditions. The Completion Report
shall be furnished to the World Bank not later than six (6) months after the Closing
Date.

C. Financial Management; Financial Reports; Audits

1. The Recipient shall ensure that a financial management system is maintained in
accordance with the provisions of Section 2.07 of the Standard Conditions.

2. The Recipient shall ensure that interim unaudited financial reports for the Project
are prepared and furnished to the World Bank as part of the Project Report not later
than forty-five (45) days after the end of each Fiscal Quadrimester covering the
Fiscal Quadrimester, in form and substance satisfactory to the World Bank.

3. The Recipient shall have its Financial Statements for the Project audited in
accordance with the provisions of Section 2.07 (b) of the Standard Conditions.
Each audit of the Financial Statements shall cover the period of one fiscal year of
the Recipient. The audited Financial Statements for each such period shall be
furnished to the World Bank not later than six (6) months after the end of such
period.

Section III. Procurement

All goods and consulting services required for the Project and to be financed out
of the proceeds of the Grant shall be procured in accordance with the requirements
set forth or referred to in the “World Bank Procurement Regulations for IPF
Borrowers” dated July 2016, revised November 2017 (“Procurement
Regulations”), and the provisions of the Recipient’s procurement plan for the Project (“Procurement Plan”) dated April 11, 2018, provided for under Section IV of the Procurement Regulations, as the same may be updated from time to time in agreement with the World Bank.

Section IV. Withdrawal of Grant Proceeds

A. General

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “Disbursement Guidelines for Investment Project Financing” dated February 2017, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated from TF0A7474 (expressed in USD)</th>
<th>Amount of the Grant Allocated from TF0A7575 (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, consulting services, Training and Workshops Costs and Incremental Operating Costs under the Project</td>
<td>10,200,000</td>
<td>4,800,000</td>
<td>83%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>10,200,000</td>
<td>4,800,000</td>
<td></td>
</tr>
</tbody>
</table>

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed USD2,040,000 under
TF0A7474 and USD960,000 under TF0A7475 may be made for payments made prior to this date but on or after September 1, 2017, for Eligible Expenditures.

2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is July 30, 2021.