



# **NATIONAL PUBLIC FINANCIAL MANAGEMENT REFORM STRATEGY-III 2025 - 2030**

MINISTRY OF FINANCE  
SINGHADURBAR, NEPAL

**FINAL DRAFT VERSION**

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**Abbreviations**

ADB	Asian Development Bank
BPRS	Budget Preparation and Reporting System
CBMS	Community-Based Monitoring System
CGAS	Centralized Government Accounting System
CPA	Citizen Participatory Audits
CRPFM	Climate-Responsive Public Financial Management
CSOs	Civil Society Organizations
DOC	Department of Customs
DOMS	Debt Operation and Management System
DTCO	District Treasury Controller Office
EBUs	Extra-Budgetary Units
EFT	Electronic Fund Transfer
EMIS	Education Management Information System
FCGO	Financial Comptroller General Office
FFCD	Fiscal Federalism Coordination Division
FPFA	Financial Procedures and Fiscal Accountability
GDP	Gross Domestic Product
GRB	Gender Responsive Budgeting
GRPFM	Gender-Responsive Public Financial Management
HMIS	Health Management Information System
ICT	Information and Communication Technology
IGFT	Intergovernmental Fiscal Transfer
IMF	International Monetary Fund
IPFMS	Integrated Public Financial Management Services
IRD	Inland Revenue Department
ISO	International Organization for Standardization
ITS	Integrated Tax System
LMBIS	Line Ministry Budget Information System
M&E	Monitoring and Evaluation
MDAC	Ministerial Development Action Committee
MEL	Monitoring, Evaluation, and Learning
MTEF	Medium-Term Expenditure Framework
NAMS	Nepal Audit Management System
NCHL	Nepal Clearing House Limited
NGAS	Nepal Government Auditing Standards
NID	National ID
NNRFC	National Natural Resource and Fiscal Commission
NPC	National Planning Commission
NPSAS	Nepal Public Sector Accounting Standards
NPB-MIS	National Project Bank MIS
OAGN	Office of the Auditor General
OCDS	Open Contracting Data Standards
O&M	Organization and Management
PAC	Public Accounts Committee
PAMS	Public Asset Management System

PDMO	Public Debt Management Office
PEFA	Public Expenditure and Financial Accountability
PETs	Public Expenditure Tracking Surveys
PFM	Public Financial Management
PFMRS	Public Financial Management Reform Strategy
PFMTC	Public Financial Management Training Center
PIMA	Public Investment Management Assessment
PLGs	Provincial and Local Governments
PPMO	Public Procurement Monitoring Office
PPP	Public Private Partnership
RMIS	Revenue Management Information System
SOPs	Standard Operating Procedures
SPFM-I	Strengthening Public Financial Management System in Nepal
SuTRA	Sub-National Treasury Regulatory Application
TNA	Training Need Assessment
TSA	Treasury Single Account

## 1. Introduction

### 1.1 Purpose of the strategy

The third public financial management (PFM) reform strategy (2025-30) aims to enhance efficiency in resource allocation, maintain fiscal discipline and foster public service delivery by supporting the sustainable federal framework of Nepal. It seeks to help the government strategically allocate financial resources to meet the nation's obligations and socio-economic goals in the federal context.

The strategy guides reforms in fiscal policies, revenue mobilization, budgeting, expenditure, internal control, debt, assets, accounting, and auditing. IT system development and capacity development are central to creating sustainable reforms. The strategy ultimately aims to institutionalize sound PFM systems that promote transparency, good governance, and harmonized efforts across three tiers of government.

By 2030, this strategy aims to achieve:

- Credible, evidence-based budgets and sustainable fiscal discipline.
- Advancement towards result orientation through performance-based budgeting
- Modernized, simplified, and efficient systems for revenue collection, and reporting.
- Effective procurement and stable project governance mechanism
- Resilient debt management and reduced fiscal risks.
- Robust intergovernmental and interagency coordination, and automated fiscal transfer
- Integrated PFM system enabling access to citizens and effective public service delivery
- Participative audit process through citizen engagement
- Integration of climate and gender priorities into fiscal frameworks.
- Transparent, inclusive governance fostering trust and accountability.
- Streamlined PFM initiatives through dedicated institutional mechanisms

The Strategy also aligns with the constitutional provisions for fiscal federalism, assigning expenditure responsibilities and revenue sources to federal, provincial, and local governments. It aims to support the government in strengthening the country's efforts towards fiscal federalism with essential updates and further improvements. The strategy also emphasizes citizen engagement, climate and gender-responsive PFM at all levels of government to drive sustainable reform processes.

### 1.2 Strategy formulation process

The National PFM reform strategy was developed through an inclusive and participatory process. Agency-level consultations gathered preliminary inputs on PFM challenges and opportunities. It began with agency-level consultations where key federal government ministries and departments provide input on existing challenges, reform priorities, and opportunities in the PFM systems. This is complemented by field visits to provinces, such as Madhesh, Gandaki, and Koshi provinces, which enabled localized insights, ensuring alignment between national and subnational stakeholders' priorities.

Engagement with civil society organizations (CSOs), including NARMIN and MUAN ensured transparency and inclusiveness in the process as well as shaping the content of the reform strategy. A core working group at FFCD, including experts, led the preparation process, integrating inputs from technical experts and development partners. This collaboration brought technical expertise and global best practices to the strategy.

The process concluded with a high-level national validation meeting, where key stakeholders, including policymakers and representatives from different tiers of government and development partners, reviewed and endorsed the draft. This inclusive process ensured the National PFM Strategy aligns with Nepal's development goals, addressing challenges and opportunities in PFM at all levels of government.

## **2. Contexts Informing the PFM Reform Strategy – III**

### **2.1 PFM reform landscape**

Nepal has pursued Public Financial Management (PFM) reforms since the 1990s to strengthen governance, enhance fiscal discipline, and improve service delivery. The adoption of the PEFA framework in 2005 marked a turning point, providing a structured approach to evaluate and improve PFM systems. The first PEFA assessment in 2008 identified challenges in budget credibility, tax policy, and financial reporting, forming the foundation for successive reform phases.

Building on this, the government launched its first Integrated PFM Reform Strategy, followed by the second strategy in 2016, which spans 2016/17 to 2025/26. To support these efforts, the PFM Reform Steering Committee, chaired by the Finance Secretary, and the PEFA Secretariat under the Ministry of Finance were established. Key achievements include the implementation of the Treasury Single Account (TSA), the Revenue Management Information System (RMIS), and various digital tools such as SuTRA, CGAS, and the Public Asset Management System (PAMS). These initiatives have enhanced fiscal discipline and financial efficiency while modernizing financial management systems.

Nepal has also strengthened its legislative and regulatory framework for PFM. The Fiscal Procedures and Financial Accountability (FPFA) Act, 2019, and its accompanying regulations in 2021, along with Gender and Climate Responsive Budget Guidelines, align with international standards. Between 2017 and 2023, the government enacted several PFM laws and policies, providing a robust framework for managing public finances in a federal context.

In 2024, Nepal published its third PEFA Assessment alongside its first Gender-Responsive and Climate-Responsive PFM Assessments. These evaluations highlighted progress in PFM performance but also identified critical areas needing reform. Challenges include weak budget credibility, fragmented public asset management, and inefficiencies in expenditure and revenue forecasting. Out of 94 PEFA dimensions assessed in 2022, 27 scored a “D,” underscoring the need for substantial reform.

To address these gaps, Nepal's ongoing reforms emphasize integrating digital systems, improving intergovernmental coordination, and adopting climate and gender-responsive PFM practices. Development partners like the World Bank and ADB continue to provide essential support. Despite significant progress, challenges persist in aligning fiscal responsibilities across federal, provincial, and local governments and addressing compliance enforcement issues. A cohesive national strategy remains critical to aligning these reform efforts with Nepal's long-term fiscal and development goals.

## 2.2. Lessons learnt

Nepal's Second Public Financial Management (PFM) Reform Strategy, spanning 2016/17 to 2025/26, was conceived during a critical period of governmental transition and federalism implementation. Initially designed as a comprehensive 10-year strategy, it played a vital role in systemic reforms in the PFM process. The second PFM strategy was implemented through various PFM reform programs through multilateral and bilateral development partners and government resources. Key achievements as indicated in the reform strategy included the enhancement of various PFM-related systems and frameworks. During the second phase reform strategy, SuTRA, NPSAS, and p-LMBIS systems were designed and developed. Integrated charts of accounts were rolled out across three tiers of government. NPSAS standards and OAGN accounting formats were revised. NAMS was rolled out as a part of OAGN's commitment to reforms in external scrutiny. Citizen engagement strategy, training needs assessment and CPA audit were performed. This further cemented the need for a reform strategy and its interventions.

Despite such milestone achievements, the strategy encountered significant challenges that revealed fundamental gaps in its conceptualization and execution. The Third PEFA assessment exposed critical shortcomings across multiple dimensions of policy, structure, implementation, and monitoring. From a policy perspective, the strategy suffered from misalignment with emerging PFM processes, an inadequate understanding of federalism's impact, and a lack of detailed operational plans. Government policies and aid support remained disconnected, while the strategy's ownership remained limited at operational and leadership levels. The reform was predominantly viewed as a technical intervention rather than a holistic political transformation.

Despite being the best approach to having an integrated PFM reform program the strategy implementation faced structural challenges as well. Structural challenges included flawed implementation design, inadequate staff deployment, and neglect of change management principles. Implementation was further complicated by insufficient technical capacity, high staff turnover, and excessive reliance on external consulting services. Monitoring mechanisms failed to be functional. Despite these implementation issues, the second PFM reform strategy demonstrated the need for strategic direction towards PFM reforms.

## 2.3. Situation analysis

Public Financial Management (PFM) is a critical aspect of governance that ensures the efficient and effective use of public resources. In Nepal, PFM encompasses various components, including budget formulation, execution, reporting, and oversight. This analysis provides an in-depth look at the current state of PFM in Nepal as informed by the Third PEFA Assessment as of 2022 (please see the PEFA Assessment report [here](#)), highlighting key areas of strength, challenges, and areas needing improvement.

### **Budget Reliability**

Notable progress has been made in budget reliability through strengthened frameworks and budget formulation processes. The government has successfully implemented the Medium-Term Expenditure Framework (MTEF), which provides a structured approach to multi-year budget planning. This progress is further complemented by the development and implementation of the National Project Bank Guidelines (2020) and the Project Development, Selection, and Prioritization Integrated Standard (2023). These

guidelines establish clear methodologies for project identification, appraisal, and selection, representing a major step forward in enhancing project planning and budgeting processes. Additionally, the evolving macroeconomic and fiscal forecasting framework contributes to more informed budget decisions, showcasing the government's commitment to improving budget reliability. Despite this progress, challenges persist in the budget-making process. The budget-making process faces challenges with revenue projections and expenditure prioritization. The Public Expenditure and Financial Accountability (PEFA) Assessment-2024 reveals that government expenditure consistently falls below 85 percent of the budget, with capital expenditure utilization at around 60 percent. Interlinkage between the periodic plan, sectorial plan, MTEF and the annual budget requires a significant improvement. Similarly, reliability in macroeconomic forecasting remains a crucial challenge in resource estimation and forecasting.

### **Budget Execution and Reporting**

Nepal has established robust systems for budget execution and reporting, demonstrating significant progress in public financial management through the use of IT systems. The implementation of the e-GP System modernized the procurement system, which enhanced transparency and efficiency in government purchasing. The Public Procurement Act (2063) and Rule (2064) provide a comprehensive framework for procurement activities, ensuring standardization and accountability. Internal controls have been strengthened through clear segregation of duties, which are effectively configured in IT systems used for budgeting, treasury, accounting, and reporting. Some of the significant achievements include the establishment of a dedicated internal audit cadre, compliance with internal audit handbooks and codes of conduct, and ensuring comprehensive coverage of all government entities. The financial reporting system performs well, with budgetary units preparing accurate and timely in-year budget execution reports. The implementation of Nepal Public Sector Accounting Standards (NPSAS) has standardized financial reporting, marking a significant milestone in public financial management reform. The cash forecasting system, while basic, provides a foundation for financial planning with each spending unit preparing quarterly budgets through the Line Ministry Budget Information System (LMBIS).

However, there are some areas for improvement in budget execution and reporting. The tracking mechanism of the annual budget implementation plan with a milestone tracker is not effective. The e-GP system's limited use has hindered procurement transparency. Frequent transfer of staff affects the budget execution and professional development of government cadres. Similarly, limited practice of cash flow forecasting has a direct impact on treasury positions. The monitoring and evaluation system, while continuing to evolve, includes structured processes for reviewing both the physical and financial progress of development projects.

### **Revenue Management**

Nepal's revenue management system has undergone significant modernization and improvement. The tax administration has made notable progress in implementing modern tools and platforms, including the Integrated Tax System (ITS). The implementation of modern tax reforms and digital systems has enhanced revenue collection efficiency and taxpayer service delivery. A major achievement is the successful deployment of the Revenue Management Information System (RMIS), which facilitates seamless revenue collection and reporting. The Inland Revenue Department and the Department of Customs have established comprehensive public information systems to educate taxpayers about their obligations and



rights, encouraging voluntary compliance. In addition, the recently introduced Domestic revenue mobilisation strategy covers innovative reform in inland revenue areas.

Effective revenue administration across the three tiers of government in Nepal requires strategic reforms, particularly in the underprioritized area of non-tax revenue. The non-tax revenue seems less prioritized across all three tiers of government, hindering its potential due to the absence of umbrella laws and the inefficient use of natural resources. The revenue capability of the provincial and local governments remains low, emphasizing the need for systemic improvements. Optimizing and effectively using digital tools can further enhance taxpayers' compliance. Innovative tools such as business intelligence, and integrated, autogenerated taxpayer returns can further modernise the tax system. Key areas for reform include strengthening the central billing system and improving arrear management. Additionally, a transparent tax appeals procedure and a methodical strategy for managing revenue risks highlight the government's commitment to fair and efficient revenue administration.

### **Intergovernmental Fiscal Management**

The implementation of fiscal federalism in Nepal represents a significant achievement in public financial management reform. The fiscal transfer system is largely transparent and rule-based, guided by strong constitutional requirements and legal frameworks. The National Natural Resource and Fiscal Commission has successfully established parameters for fiscal transfers, ensuring fair and equitable distribution of resources. The system effectively utilizes modern information systems, such as the Treasury Single Account and Computerized Government Accounting System, to facilitate efficient fund disbursement. The government's provision of fiscal information to subnational governments at least six weeks before their budget submission demonstrates its commitment to supporting effective local government planning.

Despite these notable achievements, some challenges persist in the fiscal transfer system. Timeliness and automation have not yet been fully achieved, and the increasing volume of conditional grants has raised concerns about the autonomy of provincial and local governments. Additionally, better coordination of conditional grants and clarity on revenue and expenditure assignments between federal and sub-national governments are needed. The government continues to improve the alignment of finance with functions and to address the design of fiscal transfers, ensuring that local needs and service standards are met. Nepal has successfully managed the transition to federalism while maintaining fiscal stability, laying a solid foundation for fiscal federalism despite ongoing challenges.

### **Debt and Fiscal Risk Management**

A comprehensive legal and institutional structure, supported by a dedicated debt management office, has strengthened Nepal's debt management framework. The government has implemented a well-defined debt management strategy that aligns with fiscal and monetary policy objectives. A significant achievement in this strategy is the maintenance of a diversified debt portfolio, with a substantial share of concessional and domestic debt, minimizing exposure to foreign exchange and interest rate risks. In addition, the management of public enterprises has improved through enhanced oversight and governance frameworks. Despite increasing public debt levels, Nepal has maintained a sustainable debt position, with a debt-to-GDP ratio of 42% and manageable debt servicing at 2.5 percent of GDP in FY24.

The government has taken proactive steps to address this, focusing on strengthening financial oversight and governance frameworks for public enterprises and extra-budgetary units. However, managing Public Enterprises (PEs) and Extra-Budgetary Units (EBUs) remains challenging, with 35 non-financial and 9 financial public enterprises, along with 135 EBUs requiring oversight. DOMS software requires significant upgradation to meet the financing needs of provincial and local governments. Furthermore, the government securities market has yet to become fully functional. Despite these shortcomings, PDMO has made progress by starting to record government guarantees and contingent liabilities.

### **Public Asset Management**

The implementation of the Public Asset Management System (PAMS) marks a significant step forward in modernizing Nepal's asset management practices. Recent initiatives to consolidate and publish public asset reports highlight the government's commitment to transparency and accountability. The system provides a framework for managing movable and immovable assets, offering comprehensive asset tracking and oversight. However, limited focus on financial assets has diluted the essence of holistic asset management. While PDMO has been recording and reporting financial assets, the broader public asset management framework and valuation standards are in high demand for wider coverage.

The system covers non-financial assets but needs expansion to include major infrastructure, natural resources, and heritage assets. The government recognizes the need for a more comprehensive legal and policy framework to manage public assets effectively, particularly to address fragmented practices across federal, provincial, and local levels. These efforts signify a strong commitment to improving asset management practices and strengthening public financial management systems.

### **Transparency and Accountability**

Nepal has achieved significant milestones in promoting transparency and accountability in public financial management. The country's performance in the Open Budget Survey 2023, ranking 58th out of 125 countries, demonstrates its commitment to budget transparency. The government provides comprehensive information on various aspects of PFM operations, with budget classifications aligned with international standards. The implementation of citizen participatory audits has enhanced public engagement, while the external audit system, led by the Office of the Auditor General (OAGN), adheres to international standards, ensuring quality and coverage. Legislative budget review performs above basic levels, though some aspects of scope and procedures for budget scrutiny need improvement. The Public Accounts Committee plays an active role in addressing audit findings and contributes to the broader accountability framework.

Despite these achievements, modernization and professionalization of OAGN cadets remain essential. Faceless and remote audits are becoming increasingly vital. In addition, parliamentarians' capacity to execute the oversight function has been questioned. Innovative tools like accountability meters and digital governance applications are in high demand. Similarly, legal clarity on the settlement of audit irregularities and public access to complete procurement status through the procurement information system remain bottlenecks. The gradual adoption of citizen engagement and participation demonstrates a growing commitment to transparency and accountability.

**Climate Responsive PFM**

Nepal has emerged as a leader in integrating climate considerations into public financial management. The government has implemented systems to budget and track climate change-related expenditures, aligning these efforts with environmental sustainability goals. The Climate Change Policy ensures that strategies and sectoral plans align with climate goals, supported by appropriate budgetary allocations. The budget circular and formulation guidelines provide valuable guidance for tracking climate change-related expenditures and incorporating climate considerations into budget proposals. However, the quality of climate budgeting requires further improvement to yield better outcomes. Green procurement practices have yet to be adopted, highlighting an area for future focus. The government's efforts to integrate climate considerations into public investment management and procurement processes demonstrate a forward-thinking approach to addressing environmental challenges.

**Gender Responsive PFM**

Nepal has made notable progress in promoting gender equality through its public financial management systems. The implementation of gender-responsive budgeting (GRB) is a significant achievement, with allocations categorized based on their impact on women and other non-binary groups. The Financial Comptroller General Office reports gender-responsive expenditures in annual consolidated financial statements, ensuring transparency in gender-related spending. The Line Ministry Budget Information System monitors gender-responsive spending effectively, demonstrating the government's commitment to tracking and managing gender-related expenditures. The budget further reflects this commitment in Annex 9, which delineates gender-responsive allocations across all sectors.

Despite these achievements, appropriate categorization and tagging of gender-responsive expenditures remain issues. The government's initiative to include gender objectives in the annual budgets and designate specific projects for advancing gender equality shows its dedication to advancing gender equality. The integration of gender considerations into budget planning and execution processes represents a progressive approach to inclusive public financial management.

Through these various initiatives and reforms across multiple areas of public financial management, Nepal has demonstrated its commitment to building a modern, efficient, transparent and accountable financial management system. The achievements in each area contribute to the overall strengthening of public financial management in the country, supporting better governance and more effective use of public resources.

### 3. Vision, Mission and Goal

#### 3.1 Vision

“A credible public financial management.”

#### 3.2 Mission

To make a credible and integrated financial management system through comprehensive legal, institutional, systemic and procedural reforms across three tiers of government.

#### 3.3 Core values and guiding principles

- **Integrity:** Upholding the highest ethical standards in managing public funds involves transparent, accountable practices that foster trust. It requires diligent adherence to laws, policies, and ethical guidelines to prevent corruption and misuse of resources, ensuring that financial decisions serve the public interest and maintain accountability.
- **Impartiality:** Ensuring that financial decisions and processes are conducted with fairness and neutrality, without favouritism or bias. This involves equitable treatment of all stakeholders, consistent application of rules, and objective evaluation criteria, ensuring that financial resources are allocated and managed justly and without prejudice.
- **Objectivity:** Making financial decisions based on impartial analysis, factual evidence, and rigorous evaluation. It entails avoiding personal biases, external pressures, and subjective judgments to achieve rational, effective financial management. Objectivity ensures decisions are aligned with established goals and provide optimal value for the public sector.
- **Inclusion:** Ensuring diverse perspectives are considered in financial decisions and resource allocation. It promotes equitable access to financial opportunities and benefits, involving marginalized and underrepresented groups/areas in the decision-making process, thereby fostering a fair, inclusive approach to managing public funds.
- **Professionalism:** Adhering to high standards of conduct, competence, and ethics of those involved in public financial management. This involves continuous learning, effective communication, and accountability, ensuring that public financial managers perform their duties with expertise, integrity, and dedication to public service, delivering efficient and ethical outcomes.
- **Climate resilience:** Integrating environmental sustainability into financial planning and decision-making. This involves considering ecological impacts, promoting green investments, and implementing sustainable practices to mitigate climate change and preserve natural resources, ensuring that public financial management supports long-term environmental health and resilience.

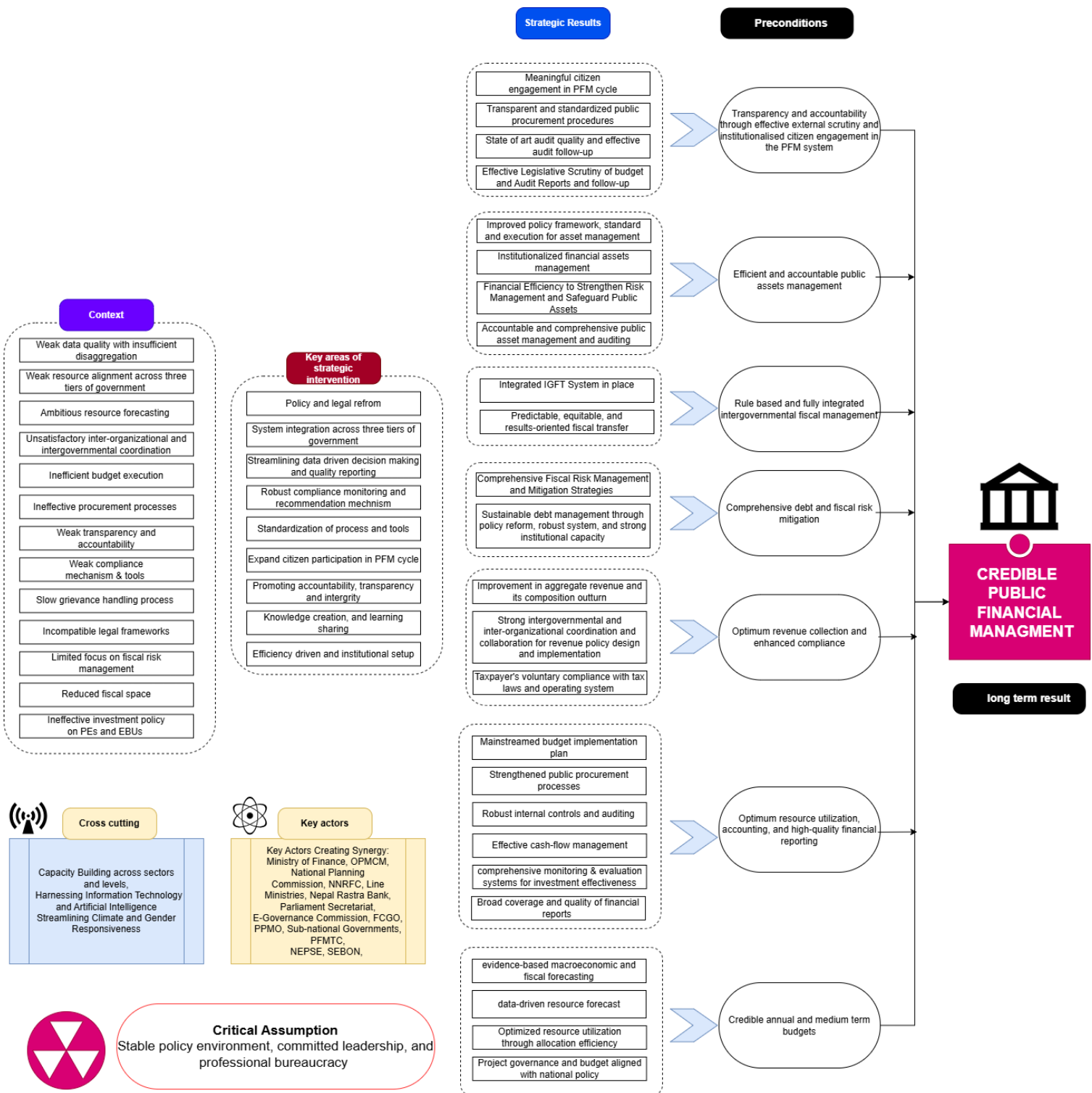
### **3.4 Theory of change**

Nepal's public financial management system faces challenges such as poor data quality, resource overlaps across government tiers, inefficient budget execution, and complicated procurement processes. To address these, the PFM Reform Strategy prioritizes interventions in policy and legal reform, system integration, data-driven decision-making, and robust compliance mechanisms. It also emphasizes standardizing processes, enhancing citizen participation, promoting accountability, and fostering efficiency-driven institutional setups. Cross-cutting efforts, including capacity building, harnessing technology, and streamlining climate and gender responsiveness, aim to support these reforms.

The strategy envisions achieving outcomes such as transparency through institutionalized citizen engagement, efficient public asset management, comprehensive fiscal risk mitigation, optimal resource utilization, and credible annual and medium-term budgets. These results hinge on preconditions like a stable policy environment and committed leadership. Key stakeholders, including the Ministry of Finance, National Planning Commission, and sub-national governments, are central to driving this transformation.

The long-term goal is to establish a credible public financial management system that ensures efficient resource allocation, transparency, and accountability at all levels of government. This system is expected to consistently deliver excellence in governance, enabling enhanced service delivery and public trust in financial processes.

Theory of change: Illustrative diagram



### 3.5 Strategic objectives: Overarching framework

The objectives and key strategies for the PFM reform (2025-2030) are

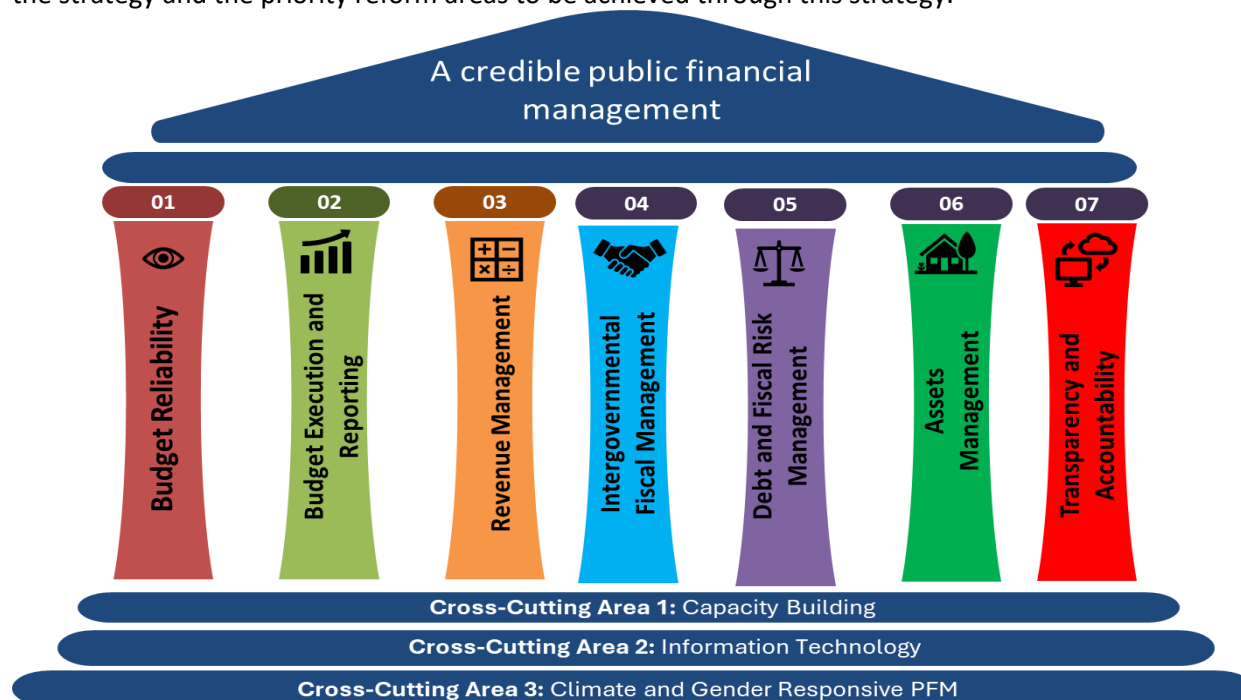
Strategic Pillars	Strategic Objectives
<p><b>Pillar 1: Budget Reliability</b> Enhance the credibility of annual and medium-term budgets through realistic fiscal forecasting.</p>	<p>1.1 Advancing evidence-based macroeconomic and fiscal forecasting 1.2 Enhancing data-driven resource forecasting system 1.3 Ensuring allocation efficiency for optimized resource utilisation 1.4 Aligning project governance and budget with national policies and plans</p>
<p><b>Pillar 2: Budget Execution and Reporting</b> Budget implemented with robust standards and processes to ensure optimized resource utilization, accounting, and quality financial reporting.</p>	<p>2.1 Increasing effectiveness of budget implementation 2.2 Streamlining procurement processes for better efficiency, accessibility, and transparency 2.3 Enhancing internal controls, and internal auditing 2.4 Ensuring effective cash flow management 2.5 Establishing comprehensive monitoring &amp; evaluation systems for investment effectiveness 2.6 Broadening coverage of accounting and quality of financial reports</p>
<p><b>Pillar 3: Revenue Management</b> Modern and efficient revenue management to optimize revenue collection and enhance compliance.</p>	<p>3.1 Improving aggregate revenue and its composition outturn 3.2 Strengthening intergovernmental and inter-organizational coordination and collaboration for revenue policy design and implementation. 3.3 Enhancing taxpayer's voluntary compliance with tax laws and operating system</p>
<p><b>Pillar 4: Inter-governmental Fiscal Management</b> Creating a transparent, timely, and rule-based intergovernmental fiscal transfer system, fully integrated with three-tier reporting.</p>	<p>4.1 Making fiscal transfers more predictable, equitable and result-oriented to reinforce inter-governmental balance. 4.2 Developing an Integrated Fiscal System</p>
<p><b>Pillar 5: Debt and Fiscal Risk Management</b> Managing fiscal risk and sustainable debt management</p>	<p>5.1 Maintaining sustainable debt through policy reform, robust system and strong institutional capacity. 5.2 Advancing comprehensive fiscal risk management and mitigation strategies</p>
<p><b>Pillar 6: Assets management</b> Enhance efficient and accountable asset management for good governance.</p>	<p>6.1 Enhancing policy framework for public asset management 6.2 Institutionalising financial assets management 6.3 Improving financial efficiency to strengthen risk management and safeguard public assets</p>

	6.4 Enhancing accountability through comprehensive public asset management and auditing
<b>Pillar 7: External Scrutiny, Transparency, and Accountability</b> Promoting transparency and accountability through effective external scrutiny and citizen engagement in the PFM system.	7.1 Promoting citizen engagement in the PFM cycle 7.2 Strengthening quality and impact of the audit 7.3 Ensuring effective legislative scrutiny of annual budget, audit reports and follow-up of recommendations.
<b>Cross-Cutting Areas</b> <ol style="list-style-type: none"> <li>1. Capacity Building</li> <li>2. Information Technology</li> <li>3. Climate and Gender Responsive PFM</li> </ol>	

The Public Financial Management (PFM) Reform Strategy aligns with and complements the sectoral strategies developed by agencies involved in the PFM process. Rather than duplicating these efforts, the PFM Reform Strategy integrates them into a cohesive national framework. This approach ensures that sectoral strategies, such as the Debt Management Strategy, Domestic Revenue Mobilisation Strategy, the Department of Customs (DOC) Strategy, and the Public Investment Management Assessment (PIMA) Action Plan, are incorporated into the broader PFM reform agenda. Additionally, sector-specific strategies for key areas such as education and health are also considered, fostering a coordinated and unified approach to public financial management across all levels of government.

#### 4. PFM Reform Priorities and Results

The pillar represents the areas of reform that are required by the strategy to achieve the goal and vision in the public financial management sector. Each of these pillars represents the PFM process, the goal, the strategy and the priority reform areas to be achieved through this strategy.





## Pillar 1: Budget Reliability

**Goal:** Enhance credible annual and medium-term budgets through realistic projections of revenue and expenditure.

### Strategic Objective 1.1. Advancing evidence-based macroeconomic and fiscal forecasting

The National Planning Commission (NPC) is responsible for preparing the medium-term macroeconomic framework, and the Technical Committee supports the NPC by analyzing the economic situation and providing recommendations. The National Resource Estimation Committee (NREC) under the NPC makes forecasts for macroeconomic indicators for three years, and these forecasts are based on a standard model. The Economic Survey published by the Ministry of Finance (MoF) analyzes the current economic scenario and provides a future scenario for the economy based on eight months of data. The NREC also prepares the budget ceiling and resource envelope for the current budget year and the next two fiscal years based on updated macroeconomic projections. The NPC prepares an outline for the three-year Medium-Term Expenditure Framework (MTEF) every year, which includes a macro-fiscal framework, budget framework, and results framework.

The analysis highlights a significant variance between the projected and actual results of key macroeconomic indicators outlined in the budget over the years. Moreover, the macroeconomic forecast notably omits predictions for interest rates and exchange rates. Additionally, the MTEF does not include macro-fiscal sensitivity analysis, and expenditure forecasts for the ensuing two fiscal years do not incorporate economic classification. Correspondingly, the MTEF does not include revenue forecasts by type for the subsequent two fiscal years. Furthermore, there is an absence of a stipulation within the current MTEF mandating a comparison with the estimates of the previous MTEF or an explanation of changes in expenditure estimates and forecasts.

The MTEF includes information about the fiscal impact of changes in expenditure policies for three years and the fiscal impact of changes in revenue policies only for the budget year. Nevertheless, the estimates of the fiscal impact of proposed policy initiatives on revenue for each policy are not prepared. The ministries' progress reports detail the fiscal outcomes of the preceding completed fiscal year. However, the government currently lacks a formal document that distinctly outlines its fiscal strategy, complete with specific numerical objectives, targets, and policy parameters. This absence of a formal fiscal strategy also translates to a deficiency in reporting on the progress of fiscal outcomes.

To address these shortcomings, the strategy prioritizes the following reforms:

1. **Fiscal Strategy and policy impact:** Develop and implement a clear fiscal strategy that assesses the fiscal impact of revenue and expenditure policy proposals to support the achievement of the government's fiscal goals.
2. **Robust database:** A robust database for macroeconomic fiscal modelling and forecasting. Database focused on macroeconomic assumptions, debt profiling, actual expenditure, extra-budgetary funds, financial and non-financial assets, expenditure arrears, and contingent liabilities.

### Strategic Objective 1.2. Enhancing data-driven resource forecasting system

The MoF and NPC coordinate the annual budget preparation. Budget ceilings and preparation guidelines are issued to the Ministries, Departments, and Authorities (MDAs), allowing them approximately four

weeks to prepare detailed budget estimates. However, the line ministries make significant in-year budget adjustments within the approved budget, leading to substantial variances in expenditure composition.

Most of the service delivery ministries have developed sector strategies and endeavor to align their annual budget and MTEF estimates with these strategies. Nevertheless, the fiscal space is insufficient to implement the sector strategies fully, and the MDAs even struggle to execute a significant portion of the allocated annual development budget. One of the primary reasons for low utilization is inadequate procurement planning as part of the annual budget preparation. The annual procurement plans, prepared during the annual budget, are frequently changed and not fully implemented. Recurrent budget estimates are prepared using an incremental approach due to the absence of budget norms. The spillover effects of unreliable budget forecasting at the federal government have seriously hampered the reliability of budgets at the provincial and local levels.

The strategy prioritizes following reforms for the MDAs to prepare reliable budget estimates.

1. **Costed Sectoral Plans on a Rolling Basis:** The MDAs will prepare their costed sector plans and operational plans on a rolling basis by December each year. These plans will be an input for the MTEF and deciding budget ceilings.
2. **Robust Procurement Planning:** As part of the annual budget submission, the MDAs will prepare and submit their detailed annual procurement plan aligned with the budget estimates. Any proposed changes to the submitted procurement plan will require thorough justification and approval in adherence to the established process.

### **Strategic Objective 1.3 Ensuring allocation efficiency for optimized resource utilization**

Despite notable progress in implementing budgetary frameworks like the Medium-Term Expenditure Framework (MTEF) and sectoral plans, challenges persist. Budget fragmentation, an incremental approach to resource allocation, and weak links between policy priorities and expenditure decisions undermine allocative efficiency. For example, significant portions of the development budget often remain unspent, with around 40% unutilized in recent years, highlighting inefficiencies in planning and execution.

To address these challenges, Nepal aims to streamline norms and standards for projects, programs, and expenditure prioritization. This includes amending budget preparation guidelines to emphasize systematic prioritization of budget activities and allocation based on impact and feasibility. Establishing a mechanism to identify and eliminate program duplication, both within and outside the budget, across the federal, provincial, and local levels will further enhance efficiency.

Additionally, adopting robust systems for systematic project evaluation and fiscal analysis will ensure that resources are directed toward high-priority and high-impact areas. These reforms aim to strengthen alignment between budgetary allocations and national priorities, reduce allocation inefficiency, and promote equitable development. Key priority reform activities include;

1. **MTEF linkages with the plan and annual budget:** Improving the comprehensiveness and quality of the Medium-Term Expenditure Framework (MTEF) by incorporating forecasts for interest rates and exchange rates, conducting macro-fiscal sensitivity analysis, providing economic classification in expenditure forecasts for the next two fiscal years, presenting revenue forecasts by type for the subsequent two fiscal years, and comparing these forecasts with previous estimates or explaining changes in expenditure forecasts.

2. **Budget Norms and Standards:** To facilitate an objective estimation of expenditure, the MoF will develop and notify budget norms and standards. These norms will establish a framework and costing standards to objectively estimate the recurrent budget.
3. **Prioritization of activity:** Evaluate the expenditure needs and tactfully prioritize the needs of each government spending agency.

#### **Strategic Objective 1.4. Aligning project governance and budget with national policies and plans**

The GoN has set ambitious investment goals with the aim of attaining middle-income country status by 2030. The 16th Plan outlines a projected increase in capital spending over the next five years, surpassing the growth in recurrent expenditure. The PEFA assessment indicates that public investment management is currently at a foundational level of performance. While some major investments undergo economic analysis, appraisal, and selection in accordance with guidelines, the Public Investment Management Assessment (PIMA) of November 2021 highlights that Nepal's primary weaknesses in public investment management effectiveness are evident in the allocation and implementation phases.

To meet its investment goals within the constraints of limited fiscal capacity, the GoN will proactively enhance the efficiency of public investment. The NPC has devised an action plan to execute the principal recommendations outlined in the PIMA. The following are the primary reforms delineated in the PIMA action plan, which have been prioritized for the PFM Reform Strategy.

## Results Framework | Pillar 1: Budget Reliability

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
<b>Strategic Objective 1.1: Advancing evidence-based macroeconomic and fiscal forecasting</b>				<b>PI-14=D+</b> <b>PI-16 = C+</b>	<b>PI-14=C</b> <b>PI-16=B</b>	
1.1.1.	Formulation of fiscal policy and fiscal rules	<ul style="list-style-type: none"> <li>▪ Fiscal rules introduced at the federal level</li> <li>▪ Gradual shift towards MTFF and MTBF</li> <li>▪ Enhanced fiscal discipline</li> </ul>	<ul style="list-style-type: none"> <li>▪ Fiscal policy developed and implemented</li> <li>▪ Fiscal policy document published.</li> <li>▪ Fiscal rules embedded in Financial Procedure Acts.</li> <li>▪ A study conducted for advancing towards MTFF and MTBF</li> </ul>	Annual Plan and policies published	Medium-term focused fiscal policy published	EPAD MoF, MoEA
1.1.2.	Strengthen the macroeconomic database and the National Data Portal	Realistic and realtime macro-economic data integrated with PFM systems	<ul style="list-style-type: none"> <li>▪ Fiscal and financial data updated on National Data Portal (NDP)</li> <li>▪ Use of Macro-econometric tools</li> </ul>	2019-20 static data available	Quadrimester updating, Gradually Realtime data update through the use of an Application programming interface (API)	NSO, EPAD-MOF, FCGO, NPC, MDAs at PLGs
<b>Strategic Objective 1.2: Enhancing data-driven resource forecasting system</b>				<b>PI-3=D+</b> <b>PI-19= C+</b>	<b>PI-3=D</b> <b>PI-19=B</b>	
1.2.1.	Develop and utilize resource forecasting tools	Resource Forecasting tools available for use	<ul style="list-style-type: none"> <li>▪ Basis defined for Resource Forecasting</li> <li>▪ Guidelines for using tools</li> <li>▪ Budget calendar updated annually and compliance checked.</li> </ul>	Partial	By 2025, and continuous	RMD, EPAD, MOF
1.2.2.	Equip National Resource Estimation Committee (NREC) and Technical Committee for realistic budget planning	<ul style="list-style-type: none"> <li>▪ Equipped and capacitated resource estimation committee at three tiers</li> </ul>	<ul style="list-style-type: none"> <li>▪ SOP developed and updated for the NREC and technical committees</li> </ul>	Formal committee exists	Technical equipped committees	MoF, NPC MOEAP, PPC

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
		<ul style="list-style-type: none"> <li>▪ Enforcement of SoP with an accuracy of recommendation of NREC</li> <li>▪ Realistic ceiling provided by NPC</li> </ul>	<ul style="list-style-type: none"> <li>▪ The National Resource Estimation Committee and Technical Committee follow the SoP in budget planning.</li> <li>▪ % of variance of Annual budget ceiling with actual budget.</li> </ul>			
1.2.3.	Streamline foreign aid-mobilization through on-treasury	Majority of foreign aid projects are channelled through country systems. (On budget on treasury mechanism)	<ul style="list-style-type: none"> <li>▪ Single window mechanism activated for PFM reforms</li> <li>▪ Number of off-budget off-treasury activities captured by AMIS system</li> </ul>	Partial	Effective from March 2025 and continuous	MOF IEECD and FFCD division
<b>Strategic Objective 1.3: Ensuring allocation efficiency for optimized resource utilisation</b>						
1.3.1.	Revise norms and standards for projects, programs, and expenditure prioritization	<ul style="list-style-type: none"> <li>▪ Effective implementation and compliance of prioritization norms</li> <li>▪ Advancement towards performance-based budgeting</li> </ul>	<ul style="list-style-type: none"> <li>▪ Various norms and guidelines, SoP, directives on projects, programs, and expenditure prioritization</li> <li>▪ Norms set for performance-based budgeting</li> <li>▪ Amendment of budget preparation guidelines with a focus on gender, climate and other sectoral process</li> </ul>	Project prioritisation classification standards	Planning and Budgeting IT systems are developed as per the norms and standards	MOF, NPC, Line Ministries
1.3.2.	Systematically prioritize budget activities and budget allocation.	<ul style="list-style-type: none"> <li>▪ Realistic budget allocation to priority projects</li> <li>▪ Selection of Projects that are well-defined and economically feasible</li> </ul>	<ul style="list-style-type: none"> <li>▪ Prioritisation criteria included in budget preparation guidelines</li> <li>▪ Prebudget interaction documented and budget prepared at three tiers of government</li> </ul>	Legal provision of the budget discussion	Document of the prioritization, and prebudget discussion	NPC, MOF, and Line agencies at all levels
1.3.3.	Establish interlinkages between the plan, policy and the annual budget	<ul style="list-style-type: none"> <li>▪ Integrated Periodic plan, project bank, MTEF, and annual budgets</li> </ul>	<ul style="list-style-type: none"> <li>▪ Reasons for deviation between MTEF and the annual budget published</li> </ul>	MTEF report published for compliance	<ul style="list-style-type: none"> <li>▪ MTEF budget taken as the basis for annual budget preparation</li> </ul>	MOF, NPC, line Ministries

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
		<ul style="list-style-type: none"> <li>Effective implementation of Medium-term Expenditure</li> <li>MTEF is used as a reform tool not only as a compliance.</li> </ul>	<ul style="list-style-type: none"> <li>NPBMIS, MTEF, LMBIS, PLMBIS, SuTRA integrated</li> </ul>		<ul style="list-style-type: none"> <li>Full integration of the system</li> </ul>	
1.3.4.	Rationalise and standardise budget activities for efficient budgeting	<ul style="list-style-type: none"> <li>Well-defined functional budgets</li> <li>Enhanced Activity-based budgeting</li> </ul>	<ul style="list-style-type: none"> <li>Chart of activity developed and incorporated into the budgeting system</li> <li>Gender and climate codes embedded into budgeting system</li> <li>Production and employment code integrated and report generated</li> </ul>	800,000 activities in LMBIS, P-LMBIS, SuTRA	Less than 40,000 activities	MoF- Budget division
1.3.5.	Establish a mechanism to identify duplication in programs/budget and off-budget programs across three tiers of government	<ul style="list-style-type: none"> <li>Efficient allocation of resources for the programs</li> <li>Effective monitoring and evaluation mechanism</li> </ul>	<ul style="list-style-type: none"> <li>Number of duplicate budgets reported</li> <li>Number of off-budget programs identified and streamlined</li> </ul>	Null	Mechanism for identification of duplicated programs activated	NPC, MOF, PAC, PPC, MOEAP, LG's, Sectorial committees, NNRFC
<b>Strategic Objective 1.4: Aligning project governance and budget with national policies and plan</b>				<b>PI-2 = D+</b> <b>PI-11 = C+</b> <b>PI-5=C</b>	<b>PI-2 = D</b> <b>PI-11 = B</b> <b>PI-5=C+</b>	
1.4.1.	Improve National Project Bank Management Information System	<ul style="list-style-type: none"> <li>Single unified project bank system rolled out by NPC</li> <li>Increased compliance with NPB procedures, guidelines and system</li> </ul>	<ul style="list-style-type: none"> <li>Modules for the province and local governments developed in NPBMIS</li> <li>NPBMIS integrated with MTEF, LMBIS, P-LMBIS, and SuTRA</li> <li>% of projects selected from NPBMIS in the annual budget</li> </ul>	PIMA recommendation	Update national project Bank system by Mar 2025	NPC, Line Ministries

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
1.4.2.	Develop guidelines for joint monitoring of 'National Priority' and 'Big Projects'	<ul style="list-style-type: none"> <li>▪ Effective monitoring of National Priority and Big Projects</li> <li>▪ On-site problem-solving mechanism activated</li> </ul>	<ul style="list-style-type: none"> <li>▪ Number of joint monitoring visits of the National priority and big projects in a year</li> </ul>	Formulation of procedure	At least 6 times per year and monitor 20 projects	NPC, OPMCM, Projects Manager
1.4.3.	Comply with the Project Readiness Filter while prioritizing the projects	<ul style="list-style-type: none"> <li>▪ Priority projects are adequately resourced</li> <li>▪ Quality of project prioritization is enhanced in the annual budget</li> </ul>	<ul style="list-style-type: none"> <li>▪ Project Readiness Filter streamlined for Province and Local governments</li> <li>▪ % compliance of project prioritization with the readiness filter parameter</li> </ul>	NPC guidelines have basic provision	Endorsement by the end of 2024	MOF, Line ministries, NPC, PLGs

## **Pillar 2: Budget Execution and Reporting**

**Goal:** Budget implemented with robust standards and processes to ensure optimized resource utilization and high-quality financial reporting.

### **Strategic Objective 2.1: Increasing effectiveness of budget implementation**

Annual implementation plans are developed by complying with the NPC formats. While budget formulation and approval frameworks have improved, gaps in the implementation phase across federal, provincial, and local levels persist. Without a structured approach, significant portions of allocated budgets remain underutilized. An annual budget implementation plan that aligns with budgetary allocations and national priorities is crucial in improving spending. This implementation plan will provide a clear roadmap for executing projects and programs, ensuring accountability and reducing delays. Also supports timely procurement by aligning procurement plans. Additionally, upgrading process and progress tracking systems across all three tiers of government will enable real-time monitoring of budget execution.

### **Strategic Objective 2.2. Streamlining procurement processes for better efficiency, accessibility, and transparency**

Procurement in Nepal has seen improvements through the implementation of the Public Procurement Act (PPA) and the e-GP system. However, inefficiencies such as delays, limited transparency, and inadequate oversight remain significant challenges. Outdated legislative frameworks fail to address modern procurement needs, while the capacity of the Public Procurement Monitoring Office (PPMO) is constrained by structural and functional limitations. As the PPMO doesn't have its functional administrative units, it has to rely on the procurement unit within each office. These units have limited capacity due to generalising human resources involved. These challenges affect the accessibility of procurement systems, particularly for smaller contractors and local governments. The procurement process is functional with a blanket approach, equal levels of effort are required for the small and large procurement.

To address these gaps, Nepal's PFM reform strategy focuses on modernizing procurement laws and regulations to reflect international best practices. The completion of a Methodology for the Assessment of Procurement Systems (MAPS) will provide actionable insights for addressing systemic issues. Upgrading the e-GP system to include end-to-end functionality and contract management will improve transparency and efficiency. Restructuring the PPMO and enhancing its capacity will ensure it can effectively fulfil its oversight mandate. Integration with the PFM system would enable real-time data sharing. These reforms will make procurement processes more efficient, transparent and accessible fostering a competitive environment and better execution.

The strategy prioritizes following reforms.

1. Update Legislative and Regulatory Framework to enable Efficient and Effective Procurement
2. Complete Methodology for Assessment of Procurement Systems (MAPS) Assessment
3. Upgrade the e-GP System for end-to-end procurement and contract management



4. Restructure and enhance the capacity of the PPMO based on a functional review so it can effectively fulfill its mandate.

Nepal's public procurement system plays a critical role in ensuring efficient service delivery and optimal resource utilization. However, challenges persist, such as incomplete disclosure of procurement plans, delayed publication of procurement statistics, and inconsistent practices among procuring entities. While progress has been made with the introduction of the Public Procurement Act (PPA) and the e-Government Procurement (e-GP) system, gaps in transparency undermine accountability and reduce trust in public procurement processes.

Standardizing procurement procedures across all levels of government is essential to address these issues. Reforms should focus on ensuring timely and comprehensive publication of procurement plans, statistics, and contract awards. Procuring entities must adhere to a unified framework, supported by clear guidelines and compliance monitoring by the Public Procurement Monitoring Office (PPMO). Integrating advanced tools into the e-GP system can enhance efficiency and accessibility while reducing delays.

Nepal must also build the capacity of procurement officials through training programs to ensure adherence to standardized practices. By improving public access to procurement information and streamlining processes, these reforms will increase transparency, foster competition, and reduce inefficiencies. Ultimately, a standardized and transparent procurement system will improve public trust and contribute to effective resource allocation and service delivery.

### **Strategic Objective 2.3: Enhancing internal controls and internal auditing**

Internal control and auditing systems have demonstrated progress, yet gaps in standardization and capacity hinder their effectiveness. Internal control frameworks are developed in the majority of the federal, provincial and local governments but implementation issues persist. Internal control implementation mechanisms are not functional. Internal audits primarily focus on compliance rather than performance, limiting their ability to provide actionable insights for improving budget implementation and risk management.

The strategy emphasizes aligning internal control mechanisms with the COSO Framework, a globally recognized model. Further uniformity across the government on the development and implementation of internal control would be the focus. This approach will ensure systematic and consistent risk management across all tiers of government. Introducing annual and multiannual commitment systems linked to budgets will improve expenditure planning and reduce fiscal risks. Professionalizing the internal audit function, in line with international standards, will transform it into an independent and objective advisory service. Rolling out the internal audit standards in line with the International standards provides an appropriate basis for capacity development.

The strategy prioritizes following reforms.

1. Design and implement internal control mechanisms aligned with the COSO Framework to facilitate budget implementation in an orderly, economical, efficient, and effective manner.
2. Professionalize internal audit function to provide independent and objective assurance and advisory services by international standards.
3. Predictable staff transfer rule for ownership, institutional memory and professionalisation.

**Strategic Objective 2.4: Ensuring effective cash flow management**

Cash flow management is a critical component of Nepal's fiscal operations, ensuring the timely availability of funds for budget implementation. However, weaknesses in forecasting and coordination often result in resource shortages or surpluses, leading to delays in project execution and inefficient use of funds. The federal treasury was under stress due to ineffective cash and treasury management. This problem of treasury stress is expected to remain until effective cash forecast mechanisms are implemented. Unpredictable cash flow affects the government's ability to meet expenditure commitments, undermining service delivery and fiscal discipline.

It is essential to address the issues by implementing a reliable cash flow forecasting mechanism. This will involve integrating forecasting with budget execution systems to provide real-time insights into resource availability. Improved cash flow management will enhance predictability, reduce the need for short-term borrowing, and support efficient budget implementation. Internal borrowing plans can be aligned with the cash needs, ensuring that critical expenditures are funded without delays.

1. Develop a system of annual and multiannual commitments regulated and linked to budgets.
2. Implement a reliable cash flow forecasting mechanism ensuring cash availability for budget implementation.
3. Implementation of functional arrear recording and reporting mechanism through the use of IT systems.

**Strategic Objective 2.5: Establishing comprehensive monitoring & evaluation systems for investment effectiveness**

Public investment management in Nepal is often hindered by weak monitoring and evaluation (M&E) frameworks. Limited tracking of project outcomes and the absence of real-time reporting systems lead to inefficiencies and delays in project completion. Additionally, a lack of independent evaluations for large development projects (Including national pride projects) reduces accountability and the ability to identify lessons for future investments.

To improve investment effectiveness, it is required to formulate a results-based M&E framework aligned with international best practices. This framework will enable systematic tracking of project outputs and outcomes. An online information system will provide real-time data for reporting and analysis, supporting planning and budgeting. Institutionalizing independent evaluations, involving academia and technical experts, will ensure objective assessments of large projects. These reforms aim to maximize the impact of public investments and improve resource allocation.

The strategy prioritizes following reforms.

1. Formulate and implement a results-based monitoring framework for public investment projects based on international best practices.
2. Implement an information system for online reporting and monitoring of public investment projects, with the capability to adopt the M&E result framework for analytical, reporting, and forward capital planning and budgeting purposes.

3. Institutionalize a mechanism for independent evaluation of large development projects in collaboration with academia and technical experts.

### **Strategic Objective 2.6: Broadening coverage of accounting and quality of financial reports**

High-quality financial reporting is essential for transparency, accountability, and effective decision-making. Significant progress has been achieved in adopting the Nepal Public Sector Accounting Standards (NPSAS) but still faces challenges in consolidating financial results, particularly for Extra Budgetary Units (EBUs). Quarterly budget execution reports are not consistently prepared, and the integrity of financial data is occasionally compromised by system limitations. IT systems are now able to generate the compiled financial information but the quality of the reporting is a major challenge.

The strategy prioritizes full compliance with NPSAS, including comprehensive disclosures of assets, liabilities, and financial results of EBUs. Implementation of NPSAS is focused on the qualitative financial statement with better disclosures. Quarterly budget execution reports will be introduced for the Central Government, accompanied by detailed analysis to enhance transparency and fiscal oversight. An MIS-based reporting system with a dashboard for management decision-making is envisioned. Additionally, certification of PFM information systems (ISO and IEC) will ensure high data integrity, supported by semi-annual verification reports. These initiatives will create a robust financial reporting ecosystem, fostering trust and accountability in public finance management.

The strategy prioritizes following reforms.

1. Annual financial statements prepared in full compliance with NPSAS, including consolidating the financial results of Extra Budgetary Units and additional disclosures of assets and liabilities.
2. Quarterly budget execution reports prepared for the Central Government, accompanied by analysis and commentary on budget execution.
3. Ensure a high level of financial data integrity through PFM information systems certification (ISO and IEC) and semi-annual reports to confirm the verification of financial data integrity.

## Results Framework | Pillar 2: Budget Execution and Reporting

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
<b>Strategic Objective 2.1: Increasing effectiveness of budget implementation</b>				<b>PI-1=D</b>	<b>PI-1=C</b>	
2.2.1	Streamline the annual budget Implementation plan through the use of IT	<ul style="list-style-type: none"> <li>▪ Increased budget outturn</li> <li>▪ Improved Budget Implementation</li> </ul>	<ul style="list-style-type: none"> <li>▪ System of AIP/AWP developed for tracking.</li> <li>▪ Annual budget implementation plan linked with annual procurement plan</li> <li>▪ Percentage of outturn of revenue and expenditure</li> </ul>	Annual plan developed by line agencies	Implementation of the annual plan through Budget and accounting system	All Budget implementing entities
2.2.2	Enhancing operational efficiency of spending units	<ul style="list-style-type: none"> <li>▪ Better expenditure outturn</li> <li>▪ Better capital expenditure and expenditure effectiveness</li> </ul>	<ul style="list-style-type: none"> <li>▪ Use of tracking system of AIP, AWP and Annual implementation plan</li> <li>▪ Procedures for spending simplified/revised</li> </ul>	NPC form 1 has the annual workplan	Use of IT system for better tracking	NPC, MOF, FCGO, PLGs
2.2.3	Upgradation of process and progress tracker for all three tiers	<ul style="list-style-type: none"> <li>▪ Milestones integrated with budgeting systems in three tiers</li> <li>▪ M&amp;E mechanism strengthened</li> </ul>	<ul style="list-style-type: none"> <li>▪ Milestone tracker upgraded along with public accessibility</li> <li>▪ % milestones tracked and reported in three tiers</li> </ul>	<ul style="list-style-type: none"> <li>▪ Milestone tracker in OPMCM</li> </ul>	<ul style="list-style-type: none"> <li>▪ Milestone tracker in all three tiers</li> </ul>	MoF, FCGO, OPMCM
<b>Strategic Objective 2.2: Streamlining procurement processes for better efficiency, accessibility, and transparency</b>				<b>PI-1=D</b> <b>PI-24= C</b> <b>PI-1 = D</b>	<b>PI-1=C</b> <b>PI-24= C+</b> <b>PI-1 = C</b>	
2.2.1	Standardize and localize procurement laws in accordance with global standards	<ul style="list-style-type: none"> <li>▪ Improved procurement transparency and efficiency.</li> <li>▪ Use of Neplease procurement law by all stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>▪ National MAPS assessment completed</li> <li>▪ Number of studies conducted for aligning procurement laws with the international context</li> <li>▪ Number of stakeholders and development partners using Nepali procurement law.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Sectorial MAP Assessment report</li> <li>▪ UNICITRAL model adopted</li> </ul>	<ul style="list-style-type: none"> <li>▪ Procurement Assessment completed – 2082/83 BS</li> <li>▪ Recommendations gradually incorporated by 2084/85 BS</li> </ul>	PPMO

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
2.2.2	Localization of Open Contracting Data Standards (OCDS)	OCDS standards are localised and implemented	Study for the OCDS localisation conducted	Null	<ul style="list-style-type: none"> <li>Localisation study completed by 2028 and implementation initiated</li> </ul>	PPMO
2.2.3	Simplify SBD to enable efficient and effective procurement	<ul style="list-style-type: none"> <li>Legislative and Regulatory Framework on Procurement is submitted</li> <li>A new simplified procurement method identified</li> </ul>	Simplified Standard Bidding Document (SBD) issued	<ul style="list-style-type: none"> <li>PPA (1st Amendment)</li> <li>PPR (1-13 Amendments)</li> </ul>	<ul style="list-style-type: none"> <li>Draft PPA/PPR prepared by 2081/82 BS</li> <li>PPA/PPR Amended by 2082/83 BS</li> </ul>	PPMO/GON
2.2.4	Implement the 'Framework Agreement Procurement' method	<ul style="list-style-type: none"> <li>Increased capital expenditure</li> <li>Increased understanding of concerned officials on the Framework Agreement Procurement method</li> </ul>	<ul style="list-style-type: none"> <li>% of Capital expenditure to budget &gt;65%</li> <li>Number of officials trained on the Framework Agreement Procurement method</li> </ul>	Null	<ul style="list-style-type: none"> <li>Guideline developed by 2081/82 BS</li> <li>Sensitization of using framework agreements is widely carried out.</li> </ul>	PPMO, OPMCM
2.2.5	Enforce e-GP System for end-to-end procurement and contract management, including e-payment	<ul style="list-style-type: none"> <li>Increased capital expenditure</li> <li>Contract management and e-payment data available in the public domain</li> <li>IT institutionalization support extended for digital advancement and adaptation of the latest technology, including AI/BI.</li> <li>Strengthen Public Procurement Governance and Oversight</li> </ul>	<ul style="list-style-type: none"> <li>% of procurement and contracts managed through the e-GP system</li> <li>Functional public procurement plan</li> <li>Manual developed and circulated</li> <li>Software inventory and log maintained</li> <li>% of activities defined by the Digital Nepal Framework incorporated</li> </ul>	e-GP was established in 2017 and functions limited to contract award	By 2083/84 BS	PPMO/MoF
2.2.6	Develop a Procurement Management Information System (PMIS) and provide access to the public to get real-	<ul style="list-style-type: none"> <li>Enhanced transparency in public procurement</li> </ul>	<ul style="list-style-type: none"> <li>Percentage of public procurement included in the PMIS</li> </ul>	Initiated but not materialized	All public procurement information is available in PMIS	PPMO, all government entities

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
	time procurement monitoring data.					
<b>Strategic Objective 2.3: Enhancing internal controls, and internal auditing</b>				<b>PI-25=C+</b> <b>PI-26=D+</b> <b>PI-23=C+</b>	<b>PI-25=B</b> <b>PI-26=C</b> <b>PI-23=B</b>	
2.3.1	Enhance compliance with internal control mechanisms.	<ul style="list-style-type: none"> <li>Active Internal control committees</li> <li>IT systems designed to align internal control system</li> <li>Internal control across three tiers of government is robust</li> </ul>	<ul style="list-style-type: none"> <li>Internal control guidelines approved in line with the COSO/ISSAI 9100 Framework by all three tier agencies</li> </ul>	<ul style="list-style-type: none"> <li>Few agencies prepared IC manuals based on the FCGO IC framework</li> </ul>	Implementation in three tiers of Government.	Ministries and Local government/ Three tiers of government
2.3.2	Upgrade/elevate the internal audit function to deliver unbiased, expert assurance and advisory services by international standards using modern ICT tools.	<ul style="list-style-type: none"> <li>Enhanced focus on high-risk areas during audits.</li> <li>Quality of internal audit standards enhanced.</li> <li>Independence of internal audit staff ensured</li> </ul>	<ul style="list-style-type: none"> <li>Percentage of audits using risk-based approaches.</li> <li>% alignment of internal audit standards with IIA standards</li> <li>Number of days taken to complete an internal audit after introducing ICT-based tools.</li> </ul>	<ul style="list-style-type: none"> <li>Lack of Internal audit standards adaptation</li> <li>Lack of Professionalization</li> </ul>	<ul style="list-style-type: none"> <li>Use of ICT and RBA techniques on Internal audit</li> <li>Gradual transformation on faceless audit practice</li> </ul>	FCGO, PFMTC
2.3.3	Develop a centralized payroll controls system for three tiers of government	<ul style="list-style-type: none"> <li>A central payroll database is in place and periodic payroll audits</li> <li>Increased effectiveness in the payroll control system</li> </ul>	<ul style="list-style-type: none"> <li>A linkage between the personnel database and payroll to ensure payroll data</li> <li>Number of monthly reconciliations conducted</li> </ul>	Payroll record exists	By 2028 Federal centralized payroll By 2030, all three tiers payroll will be centralized	PIS, MoFAGA, FCGO, MDAs
2.3.4	Strict compliance with rule-based staff transfer	<ul style="list-style-type: none"> <li>Stability and predictability of human resources</li> </ul>	<ul style="list-style-type: none"> <li>Human resource management systems exist.</li> <li>% of staff transferred based on the established rules.</li> </ul>	No linkage between the payroll management system and the human resource management system.	HRM system-enabled transfer mechanism	FCGO, DNPR
<b>Strategic Objective 2.4: Ensuring effective cash flow management</b>				<b>PI-21=B</b> <b>PI-22=C+</b>	<b>PI-21=B</b> <b>PI-22=B</b>	

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
2.4.1	Develop a system to regulate multi-year commitment and link it to budgeting and planning.	<ul style="list-style-type: none"> <li>Budget commitment, commitment liability and payment systems are integrated</li> <li>Increased fiscal discipline and reduced payment delays.</li> <li>Budget ceiling and budget disbursement of FGs to PLGs are more predictable</li> </ul>	<ul style="list-style-type: none"> <li>Full utilization of the commitment accounting module</li> <li>% variance between budget commitment, commitment liability and payment systems</li> </ul>	Budget commitment, commitment liability and payment system are not interlinked	Commitment accounting at all three tiers implemented	MOF FCGO PG's LG's
2.4.2	Upgrade the system for collecting and regulating arrears	<ul style="list-style-type: none"> <li>Real-time preparation of payment arrears</li> </ul>	<ul style="list-style-type: none"> <li>Functional arrear module within the accounting system</li> </ul>	arrears are prepared only at the end of the fiscal year	Functioning arrear module	FCGO DTCO, PTCO
2.4.3	Update SuTRA and also introduce Treasury Single Account (TSA) at the Local Level.	<ul style="list-style-type: none"> <li>All SuTRA modules implemented at all local governments</li> <li>Enhanced cash management and treasury management at local government</li> <li>SuTRA gradually covers school accounting and health accounting at local levels</li> </ul>	<ul style="list-style-type: none"> <li>SuTRA v.2 developed and rolled out</li> <li>TSA system implemented at local government.</li> <li>Percentage of local governments under TSA.</li> <li>A dedicated module for school and health included in SuTRA</li> </ul>	Decentralized bank account	<ul style="list-style-type: none"> <li>Enhanced SuTRA system for LGs</li> <li>TSA implemented at local government</li> </ul>	FCGO Local Government
2.4.4	Maintain a strong link between cash flow and debt operation	<ul style="list-style-type: none"> <li>Planned cash flow of federal government (effectiveness in liquidity and solvency management)</li> </ul>	<ul style="list-style-type: none"> <li>Quadrimester cash-flow forecast report is available across all three tiers</li> </ul>	Formation of Cash committees and procedures have been prepared	Regular and continue	MoF, FCGO and PDMO PLGs
2.4.5	Upgrade accounting manual	<ul style="list-style-type: none"> <li>The upgraded accounting manual is aligned with the NPSAS and ICT system</li> </ul>	<ul style="list-style-type: none"> <li>Updated accounting manual published</li> </ul>	Pre-federal context accounting manuals exist	Federal context accounting manual	FCGO
<b>Strategic Objective 2.5: Establishing comprehensive monitoring &amp; evaluation systems for investment effectiveness</b>				<b>PI-1=D</b> <b>PI-11=C+</b>	<b>PI-1=C</b> <b>PI-11=B</b>	

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
2.5.1	Formulate and implement a results-based monitoring framework based on international good practices.	<ul style="list-style-type: none"> <li>▪ Improved efficiency in public investment planning and monitoring.</li> <li>▪ Enhanced project tracking and timely completion</li> </ul>	<ul style="list-style-type: none"> <li>▪ Information system developed for online reporting and monitoring public investment projects</li> <li>▪ Percentage of projects monitored and appraised under the PIM framework.</li> </ul>	Simple OPMCM milestone tracker	Upgrade result-based monitoring framework by 2082/83 BS	NPC /MoF
2.5.2	Institutionalize a mechanism for independent evaluation of mega development projects	Increased accountability in public investment outcomes.	<ul style="list-style-type: none"> <li>▪ Degree of compliance with monitoring guidelines of NPC</li> <li>▪ Number of independent evaluations conducted.</li> <li>▪ Percentage of evaluation recommendations complied with</li> </ul>	Evaluation mechanisms for compliance exist	Result-based evaluation mechanisms exist	NPC/MoF PPC
<b>Strategic Objective 2.6: Broadening coverage of accounting and quality of financial reports</b>				<b>PI-27=B</b> <b>PI-28=C+</b> <b>PI-29=C+</b>	<b>PI-27=B</b> <b>PI-28=B</b> <b>PI-29=B</b>	
2.6.1	Enhance compliance with Nepal Public Sector Accounting Standards (NPSAS) in financial reporting, including consolidating the financial results of Extra Budgetary Units and additional disclosures of assets and liabilities	<ul style="list-style-type: none"> <li>▪ Annual financial statements prepared in full compliance with Nepal Public Sector Accounting Standards (NPSAS)</li> <li>▪ Accounting streamlined as per standard requirement</li> <li>▪ Improved consistency and comparability of financial reports.</li> <li>▪ Coverage of Gender-responsive and climate-responsive disclosure on NPSAS-based financial reports.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Percentage of entities complying with NPSAS.</li> <li>▪ % coverage of Extra Budgetary Units and additional disclosures of assets and liabilities</li> <li>▪ Number of entities using integrated financial management systems (IFMIS)</li> <li>▪ Revenue arrears are covered at the provincial and local levels.</li> </ul>	Limited disclosure on NPSAS-based financial statements	Extended and qualitative NPSAS-based financial reports	FCGO, PDMO, PTCO, Province Ministries, and Local Government



S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
2.6.2	Advancing paperless and faceless accounting	<ul style="list-style-type: none"> <li>Digitisation of accounting records</li> <li>Facilitate paperless audit function</li> </ul>	<ul style="list-style-type: none"> <li>Number of agencies' accounting records, including supporting documents and digitizing</li> </ul>	Accounting records in the IT system	Supporting documents digitised starting from FY 2028	FCGO, DTCO, PTCO, LGs
2.6.3	Qualitative quarterly budget execution reports prepared for the Federal Government, accompanied by analysis and commentary on budget execution.	<ul style="list-style-type: none"> <li>Management dashboard developed and rolled out</li> <li>Eliminate hard copy report back mechanism</li> <li>Consistent financial reporting across federal, provincial, and local governments every quarter.</li> </ul>	<ul style="list-style-type: none"> <li>Management dashboard system developed within IPFMS</li> <li>Develop system automated report back mechanism</li> <li>Timeliness of report published</li> <li>Percentage of entities using standardized templates for quarterly budget execution report</li> </ul>	EBUs reported 10.4% outside central government	Revised OAG reporting formats EBUs reported below 10% outside the central government	MOF, FCGO, PTCO and Local Government
2.6.4	Developing integrated mechanisms for EBUs accounting and reporting	<ul style="list-style-type: none"> <li>EBUs accounts are streamlined and standardised</li> <li>Fiscal risk arising from EBUs tracked</li> </ul>	<ul style="list-style-type: none"> <li>An integrated system of EBUs accounting and reporting developed</li> <li>EBUs mapped and system developed</li> </ul>	<p>No any system for EBUs &gt;30,000 school units &gt; 15,000 health units</p> <p>Number of EBU not known</p>	<ul style="list-style-type: none"> <li>Develop and implement an IT system to capture EBUs</li> <li>Specific module development platform for respective EBU is defined</li> </ul>	FCGO, MOF
2.6.5	Revise Chart of Account (CoA) and ensure financial data integrity through PFM information systems certification (ISO and IEC).	<ul style="list-style-type: none"> <li>Strengthened technical capacity for accurate financial reporting.</li> <li>Increased transparency and stakeholder engagement.</li> </ul>	<ul style="list-style-type: none"> <li>Data classification standards and disclosure standards are formulated</li> <li>Number of personnel trained on financial data integrity</li> <li>Percentage of reports published on time complied with international standard certification</li> </ul>	An integrated chart of accounts exist	<ul style="list-style-type: none"> <li>Chart of accounts fully compliant with GFSM,</li> <li>Streamlined chart of activities</li> <li>Certified Data classification standard for public disclosure,</li> </ul>	MOF, FCGO, IRD, and so on

## Pillar 3: Revenue Management

**Goal:** Modern and efficient revenue management to optimize revenue collection and enhance compliance.

### 3.1 Improving aggregate revenue and its composition outturn

Aggregate revenue underperformance is a critical issue in Nepal's fiscal management, with actual revenue collections often falling short of targets. One of the primary reasons for this shortfall is the disproportionate reliance on indirect taxes, which are less stable and equitable compared to direct taxes. The narrow tax base, characterized by low registration of eligible taxpayers and underreported incomes, further limits the government's ability to meet revenue objectives. Another contributing factor is the inefficiency of tax enforcement mechanisms, leading to widespread evasion and leakage.

Improving aggregate revenue and its composition requires reforms that focus on expanding the tax base while enhancing the efficiency of tax collection. Policies should prioritize shifting the composition towards more progressive taxation, including income taxes and property taxes, which are underutilized in Nepal. Modernizing the tax administration system is essential, particularly through advanced analytics and data-driven methods to identify evasion and enforce compliance effectively.

Integrating the use of digital platforms like ITS for real-time tracking and reporting of tax activities will also improve transparency and efficiency. Furthermore, the government should conduct regular assessments of tax policies to ensure alignment with economic objectives and equity considerations. These reforms will stabilize revenue flows and reduce dependency on external financing.

Priority reform areas include

1. **Revenue Base:** A scoping study of revenue areas for the province and local government and providing clarity on the revenue rights.
2. **Leverage Technology:** Introduce advanced analytics and risk assessment tools to identify tax evasion and optimize collection. Conduct comprehensive taxpayer registration campaigns and enhance enforcement mechanisms to reduce evasion.
3. **Monitor Revenue Arrears:** Implement an integrated tracking system for arrears, prioritize high-risk cases, and enforce collections effectively.

### 3.2 Strengthening intergovernmental and inter-organizational coordination and collaboration for revenue policy design and implementation.

Nepal's decentralized governance structure presents opportunities and challenges for revenue management. The Constitution grants revenue-raising authority to all three tiers of government, but weak coordination has led to policy overlaps, inconsistencies, and inefficiencies in revenue collection. Federal and subnational governments often lack clarity on their respective roles, while disputes over revenue-sharing arrangements further hinder effective collaboration.

Inter-organizational coordination is equally problematic. The Department of Customs (DOC) and the Inland Revenue Department (IRD) remain the large institutions collecting revenue from the federal

government. Institutions such as the Inland Revenue Department (IRD), the Department of Customs, and the National Natural Resources and Fiscal Commission (NNRFC) often operate in isolation, leading to fragmented policy implementation and suboptimal resource mobilization. The lack of integrated systems for data sharing further undermines transparency and accountability.

Strengthening coordination requires institutional mechanisms to harmonize revenue policies and implementation strategies across government tiers. Activating the IGFT councils can help address disputes and streamline revenue-sharing arrangements. At the organizational level, an integrated digital platform should be developed to enable real-time data exchange between tax, customs, and other revenue-related departments in all three tiers of government.

Additionally, capacity-building initiatives should be undertaken to train officials at all levels on modern revenue management practices. By fostering collaboration and aligning efforts, Nepal can improve revenue collection, reduce inefficiencies, and create a more cohesive fiscal framework.

Priority reform includes

1. **Streamline Revenue Transfers:** Automate revenue transfer processes through integration with the Treasury Single Account (TSA).
2. **Functional IGFT Committees:** Make the IGFT committees effective for the federalism issues at federal, provincial, and local levels to improve policy coordination and resolve overlaps.
3. **Risk management:** Strengthen internal control systems associated with revenue management. Conduct regular assessments to harmonize revenue policies with economic and social objectives.

### **3.3 Enhancing taxpayer's voluntary compliance with tax laws and operating system**

Low levels of taxpayer compliance pose a significant challenge to revenue administration. Many taxpayers perceive the system as overly complex, with unclear processes and limited accessibility to information. This perception, coupled with weak enforcement mechanisms, encourages tax evasion and contributes to revenue leakage. The existing IT systems, such as the Integrated Tax System (ITS), remain underutilized, and efforts to digitize tax administration have yet to yield significant improvements in compliance rates.

Enhancing voluntary compliance requires a taxpayer-centered approach. Simplifying tax processes and making information readily available are essential first steps. Establishing dedicated helpdesks and online portals to assist taxpayers with registration, filing, and payment will improve accessibility and transparency. Educational campaigns and targeted outreach programs can also raise awareness about the importance of compliance and the benefits of contributing to national development.

Moreover, modernizing IT systems to automate compliance tracking and risk assessment will significantly enhance enforcement. Predictive analytics can identify high-risk taxpayers, enabling targeted audits and interventions. Offering incentives, such as reduced penalties for early compliance, can further encourage voluntary participation. By creating a system that is transparent, accessible, and fair, Nepal can build trust among taxpayers and ensure a steady increase in compliance rates over time.

Priority reform includes

1. **Simplify Tax Processes:** Develop user-friendly systems for registration, filing, and payments to reduce complexity.
2. **Increase Awareness:** Launch taxpayer education campaigns via online portals and community outreach programs. Encourage compliance through reduced penalty programs.
3. **Capacity Building:** Train revenue officials to implement reforms and improve engagement with taxpayers.

## Results Framework | Pillar 3: Revenue Management

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
<b>Strategic Objective 3.1: Improving aggregate revenue and its composition outturn</b>				<b>PI-20=C+</b>	<b>PI-20=B</b>	
3.1.1	Assess the fiscal impact of revenue policy.	<ul style="list-style-type: none"> <li>▪ Improved accuracy in revenue forecasts.</li> <li>▪ Aspects of green taxation included in revenue policy</li> </ul>	<ul style="list-style-type: none"> <li>▪ Results of revenue forecasting tools used in target-setting mechanism.</li> <li>▪ Percentage deviation from revenue target</li> <li>▪ Quantification of revenue contribution reported</li> </ul>	Deviation of more than 31%	Variance not more than 5%	Inland Revenue Department (IRD)/RMD/MoF
3.1.3	Implement the recommendation of the Tax Expenditure report	Tax expenditure recording modules system developed	<ul style="list-style-type: none"> <li>▪ Tax expenditure annual report published</li> <li>▪ % of revenue concession provided through budget allocation</li> </ul>	<ul style="list-style-type: none"> <li>▪ 15% revenue concession provided annually</li> <li>▪ Tax expenditure report</li> </ul>	<ul style="list-style-type: none"> <li>▪ % Concession provided through budget allocation</li> <li>▪ By Feb 2025 and continuous</li> </ul>	RMD/ MOF
3.1.4	Improve taxpayer compliance and culture of revenue collection	<ul style="list-style-type: none"> <li>▪ Broadened revenue base</li> <li>▪ Improved overall compliance level.</li> <li>▪ Enhanced tax-paying culture among citizens</li> </ul>	<ul style="list-style-type: none"> <li>▪ % increase in revenue-GDP Ratio</li> <li>▪ Number of registered taxpayers.</li> <li>▪ % increase in tax returns</li> <li>▪ % reduction in tax arrears.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Adhoc practice</li> <li>▪ 17% of tax revenue contribution to GDP (2023)</li> </ul>	Achievement of revenue target	IRD, DoC, Responsible government offices, MoF
3.1.5	Develop a non-tax revenue system for all three tiers	<ul style="list-style-type: none"> <li>▪ Non-tax-related Acts formulated</li> <li>▪ Formulation of a Non-Tax Revenue Code (Sub ledgers economic code)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Umbrella Acts formulated</li> <li>▪ Integrated system for all three tiers developed</li> </ul>	A separate system for non-tax revenue and informal sub-codes exists	Defined codes and integrated system	FCGO, MoF, MOFAGA
3.1.6	Broaden the digital payment options for taxpayers.	<ul style="list-style-type: none"> <li>▪ Increased revenue collection through digital systems</li> <li>▪ Decrease in both compliance and collection costs</li> </ul>	<ul style="list-style-type: none"> <li>▪ % of total revenue collected through digital payment</li> </ul>	24% of Revenue Collected through digital payment	75% of Revenue Collected through digital payment	FCGO, RMD/MoF, IRD, DoC., MDAs

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
			<ul style="list-style-type: none"> <li>% of taxpayers using digital payment systems</li> </ul>			
<b>Strategic Objective 3.2: Strengthening intergovernmental and inter-organizational coordination and collaboration for revenue policy design and implementation.</b>				<b>PI-7=C+</b>	<b>PI-7=B</b>	
3.2.1	Implement an Integrated Taxpayer Information Management System (TIMS) at all levels of government.	<ul style="list-style-type: none"> <li>Improved synchronization of taxpayer information and revenue policies</li> <li>Streamlined and uniform tax administration processes</li> </ul>	<ul style="list-style-type: none"> <li>Automate or digital system for non-tax revenue established.</li> <li>Number of coordinated policy frameworks</li> <li>% of governments using standardized systems.</li> </ul>	No such framework exists	Integrated TIMS fully operated with common TPIN	Lead RMD/MoF, FFCD/MoF, IRD  MoFAGA
3.2.2	Promote interoperability among the government agencies' system for better revenue administration	<ul style="list-style-type: none"> <li>Improved alignment of local revenue policies with national goals</li> <li>Enhanced transparency in revenue-sharing mechanisms</li> <li>Integrated related systems interoperability with FCGO, IRD, LMD, DOTM, OCR, NID, NSO, e-GP) and other regulatory bodies</li> </ul>	<ul style="list-style-type: none"> <li>Number of consultations held</li> <li>Revenue management system integrated.</li> <li>% of transfers tracked via the database.</li> </ul>	Partial interoperability with NID and Custom	Full interoperability with NID and Custom	Lead by RMD/MoF, FFCD/MoF, FCGO, IRD, LMD, DOTM, OCR, NID, e-GP) <i>and other regulatory bodies</i>
3.2.5	Strengthen the collaboration among concerned regulatory agencies	<ul style="list-style-type: none"> <li>Increase in size of the formal economy.</li> </ul>	<ul style="list-style-type: none"> <li>Increase in revenue collection.</li> </ul>	Informal economy size in Nepal is 41% of GDP (2024)	More coordination	RMD/MoF, FFCD/MoF, FCGO, IRD, DoC, & MDAs.
<b>Strategic Objective 3.3: Enhancing taxpayer's voluntary compliance with tax laws and operating system</b>				<b>PI-8=B+</b>	<b>PI-8=B+</b>	
3.3.1	Devise a dedicated module in ITS to capture all kinds of Tax Deduction at Source (TDS) and Advance taxes rated information and to collect TDS	New TDS Portal or Module designed and implemented	New TDS Portal or Module  % increases in the tax collection in the TDS portal	The e-TDS system is in place.	10% increment	IRD, RMD/MoF

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
	and Advance taxes on a real-time basis.					
3.3.2	Improve revenue intelligence system in tax and customs administration.	<ul style="list-style-type: none"> <li>▪ Automated income tax return developed for taxpayers</li> <li>▪ Robust Data Mining/Data Warehousing System be established in IRD and DoC.</li> <li>▪ IRD's CBMS system be upgraded to capture third-party data.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Mining/Data Warehousing System in IRD and DoC.</li> <li>▪ % of third-party data captured through the CBMS system.</li> </ul>	Data are partially collected from other organizations.	<ul style="list-style-type: none"> <li>▪ Establish Data Mining/Data Warehousing System in IRD and DoC.</li> </ul>	FSCPC/MoF, IRD, NRB, BFIs, Cooperatives, NEPSE, SEBON, Insurance Authority of Nepal
3.3.3	Simplify the tax assessment process and payment system	Single window mechanism for tax payment of concurrent right-based taxes to ease taxpayers for going into multiple government offices for tax payment	<ul style="list-style-type: none"> <li>▪ % of taxpayers increased</li> <li>▪ % of taxpayers with LGs tax requirements</li> <li>▪ % of taxpayers using the automated self-assessment modules</li> </ul>	Self-assessment module	A gradual transition towards a "pay as you go" mechanism	IRD, DOC PLG's
3.3.4	Improve risk assessment and enforcement mechanisms in tax and customs administration	<ul style="list-style-type: none"> <li>▪ TADAT assessment conducted periodically</li> <li>▪ Business Intelligence (BI)-based data analysis mechanism be established</li> <li>▪ Revenue gap analysis be done.</li> <li>▪ ICT-based audit capability be increased.</li> </ul>	<ul style="list-style-type: none"> <li>▪ % of institutions with BI-based data analysis mechanism</li> <li>▪ % of revenue gap analysis study recommendations implemented.</li> <li>▪ Number of persons who graduated from ICT-based audit training</li> </ul>	Partial and ad-hoc basis	<p>Established BI-based data analysis mechanism in IRD and DoC.</p> <p>5% assessment conducted through BI</p>	IRD, RMD/MoF
3.3.5	Improve Integrated Tax System (ITS) and CBMS:	<ul style="list-style-type: none"> <li>▪ Digital Taxpayer Utilities development such as billing software</li> <li>▪ Policies defined for automation</li> <li>▪ VAT and ITR formats revised.</li> <li>▪ Auto-generation of VAT return using CBMS data.</li> <li>▪ Prepopulated ITR of individual taxpayers</li> </ul>	<ul style="list-style-type: none"> <li>▪ Percentage of system downtime</li> <li>▪ Percentage of MLTO and LTO registered taxpayer's VAT return autogenerated</li> <li>▪ Percentage of taxpayers filing early</li> </ul>	No autogenerated VAT return	<ul style="list-style-type: none"> <li>▪ System downtime= 0</li> <li>▪ All MLTO and LTO registered taxpayer's VAT return autogenerated</li> </ul>	MoF, IRD, DOC, Various stakeholders at FG, PLGs, Bank and financial institutions

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
3.3.6	Develop Arrears Management Tracking System	<ul style="list-style-type: none"> <li>▪ Significant reduction of arrears and the due collection time</li> </ul>	<ul style="list-style-type: none"> <li>▪ % of arrears in total tax collection</li> <li>▪ Time of arrears due collection</li> </ul>	<ul style="list-style-type: none"> <li>▪ 36% of total core tax collections</li> <li>▪ 25.65% of total core tax collections</li> </ul>	<ul style="list-style-type: none"> <li>▪ Total arrears due reduced to 10% of total core tax collection.</li> <li>▪ Arrears due more than one year reduced to 25% of total arrears</li> </ul>	Federal, provincial, and local government revenue-collecting agencies
3.3.7	Introduce a dedicated taxpayer grievance redressal mechanism.	<ul style="list-style-type: none"> <li>▪ Increased trust in the tax administration system</li> </ul>	<ul style="list-style-type: none"> <li>▪ Time taken to resolve grievances</li> <li>▪ % of the satisfied taxpayer</li> </ul>	Grievance mechanisms for provinces exist	Functional grievance handling mechanism	IRD, MoF



## Pillar 4: Intergovernmental Fiscal Management

**Goal:** Creating a transparent, timely, and rule-based intergovernmental fiscal transfer system, fully integrated with three-tier reporting.

### **Strategic Objective 4.1. Making fiscal transfers more predictable, equitable and result-oriented to reinforce intergovernmental balance.**

Province and local governments are suffering in budget implementation due to weak predictability and equity in fiscal transfers. Predictability of resources is a key component to planning and implementing development programs autonomously. Currently, irregular and inconsistent fiscal transfers undermine budget planning and resource allocation at the subnational level. Increasing levels of conditional grants have hampered the PLGs to develop long-term strategies with confidence. It is essential to allow fiscal autonomy to PLGs for better budget planning space. It will allow subnational governments to address region-specific priorities without excessive reliance on federal conditions. These reforms aim to create a balanced and equitable fiscal environment, reinforcing the autonomy of PLGs while promoting efficient and effective use of resources to meet local development goals.

The strategy prioritizes following reforms.

1. Enhance the predictability of the fiscal transfer in PLGs.
2. Strengthening the fiscal autonomy of PLGs by enlarging their revenue capacity
3. Linking fiscal transfer system to the expenditure needs and revenue potentiality of PLGs
4. Review and update of fiscal arrangement system

### **Strategic Objective 4.2. Developing an integrated fiscal transfer system**

The effective management of fiscal transfers requires an integrated and automated approach to streamline processes and enhance transparency. The current fiscal transfer mechanism lacks both of these components, leading to inefficiencies and delays in resource allocation. Implementing the Fiscal Federalism Roadmap will provide a strategic vision for improving fiscal transfers. The development of an Intergovernmental Fiscal Transfer System (IGFTS) will automate the entire fiscal transfer process, reducing manual errors and ensuring timely fund disbursement. Establishing a transparent, consultative process and a technical methodology for determining the divisible pool will further enhance predictability and equity in fiscal resource distribution. These reforms will not only strengthen fiscal federalism but also promote accountability, enabling better financial planning and execution at all levels of government.

The strategy prioritizes following reforms.

1. Development and implementation of fiscal federalism roadmap.
2. Implementation of the Intergovernmental fiscal transfer system to automate the fiscal transfer process.
3. Develop an integrated fiscal transfer information management system with a focus on digital governance and capacity development.
4. Strengthening the inter-governmental coordination mechanism among the key fiscal institutions and within federal units.
5. Strengthen fiscal space through expenditure rationalization, revenue enhancement, and performance-based grant system.



## Results Framework | Pillar 4: Intergovernmental Fiscal Management

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
<b>Strategic Objective 4.1: Making fiscal transfers more predictable, equitable and result-oriented to reinforce intergovernmental balance.</b>				<b>PI-9=C</b>	<b>PI-9=C+</b>	
4.1.1	Review and update the fiscal governance system of IGFT and associated laws	<ul style="list-style-type: none"> <li>▪ LGFT laws are compatible with the Constitution</li> <li>▪ Develop an integrated framework for the sustainable use of natural resources.</li> <li>▪ Fiscal transfer formula revised and made more equitable</li> <li>▪ Prepare a framework for the share of investment and returns of natural resources.</li> </ul>	<ul style="list-style-type: none"> <li>▪ No. of conflicting laws amended</li> <li>▪ Laws on natural resources enacted</li> </ul>	Discussion underway	Review by 2026 and updated by July 2027	NNRFC, MOFAGA, MOF and PLGs
4.1.2	Develop, validate, and implement the fiscal federalism roadmap	<ul style="list-style-type: none"> <li>▪ Improved clarity on fiscal federalism mechanism, processes, and tools</li> </ul>	<ul style="list-style-type: none"> <li>▪ Approval of the fiscal federalism roadmap</li> </ul>	No roadmap currently exists	All relevant laws reviewed to reflect the changes proposed in the FF Roadmap and associated studies	MOF, NNRFC, PLGs
4.1.3	Enhance the predictability of the fiscal transfer in PLGs.	<ul style="list-style-type: none"> <li>▪ multi-year fiscal transfer framework aligned with national development goals</li> <li>▪ Introduce output-based sector-specific conditional grant</li> <li>▪ Automation of transfer of revenue and royalty sharing to the respective consolidated funds of federal units.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Fiscal transfer forecasting reported in cash-flow forecasting</li> <li>▪ Number of PLGs with multi-year transfer frameworks</li> <li>▪ Integrated Federal and PLG systems for IGFT information</li> <li>▪ Percentage allocation of the divisible pool for IGFT</li> <li>▪ % of disputes regarding the IGFT documented and resolved</li> <li>▪ % of output-based CGs</li> <li>▪ IGFT calendar developed</li> </ul>	Allocation of the divisible pool for IGFT is done on an ad-hoc basis as per the budget speech allocation (32 percent)	Amount and composition of the IGFT divisible pool, which allows for improved planning by PLGs	NPC, MOF, NNRFC, Line Ministries

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
4.1.4	Strengthen own source revenue (OSR) of PLGs by enlarging their revenue capacity	<ul style="list-style-type: none"> <li>▪ Increased equity in resource distribution</li> <li>▪ Enlarging the fiscal space of PLGs through expenditure rationalization and revenue maximization</li> </ul>	<ul style="list-style-type: none"> <li>▪ Percentage of transfers allocated through the formula</li> <li>▪ Percentage of transfers released on schedule</li> <li>▪ % of conditional grants reduced</li> </ul>	<p>PLG mandates are mainly financed through conditional grants</p> <p>CG for the province government is 17.3% in FY23.</p>	The proportion of CGs reduced and FEGs commensurately increased	NNRFC, MOF, Resource Committee, Line Ministries
4.1.5	Periodic assessment of the fiscal transfers to evaluate the impact of the grants	<ul style="list-style-type: none"> <li>▪ Data-driven allocation of fiscal transfers</li> <li>▪ Results orientation of fiscal transfers</li> </ul>	<ul style="list-style-type: none"> <li>▪ Percentage of fiscal transfers based on verified data</li> <li>▪ Periodic Performance assessment of all fiscal transfers along with matching and special grant</li> </ul>	No scheduled (periodic) assessment of the FEG and CGs	Annual Assessment of the FEG and Conditional Grant	NNRFC, MOF, NPC
4.1.6	Integration of system generating fiscal resources at three tiers of government	<ul style="list-style-type: none"> <li>▪ Enhanced database of NNRFC</li> <li>▪ Enhanced predictability of fiscal resources based on a multi-year fiscal transfer</li> <li>▪ Increased trust and transparency in the IGFT system</li> <li>▪ IGFT calendar developed</li> </ul>	<ul style="list-style-type: none"> <li>▪ Number of PLGs with multi-year transfer agreements</li> <li>▪ Federal and PLG systems integrated</li> <li>▪ Percentage allocation of the divisible pool for IGFT</li> <li>▪ % of disputes regarding the IGFT documented and resolved</li> </ul>	The allocation of the divisible pool for IGFT is done on an ad-hoc basis as per the budget speech allocation (32 percent)	The amount and composition of the IGFT divisible pool, which allows for improved planning by PLGs	NPC, MOF, NNRFC, Line Ministries
<b>Strategic Objective 4.2: Developing an Integrated Fiscal Transfer System</b>				<b>PI-7=C+</b>	<b>PI-7=B</b>	
4.2.1	Design and implement an Integrated Fiscal Transfer Management System (IFTMS).	<ul style="list-style-type: none"> <li>▪ Streamlined fiscal transfer processes.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Number of systems integrated with IFTMS</li> <li>▪ Percentage of transfers processed through Integrated Fiscal Transfer Management System (IFTMS)</li> </ul>	Manual process for fiscal transfer	Automated fiscal transfer	MOF
4.2.2	Develop a knowledge bank for horizontal cooperation	<ul style="list-style-type: none"> <li>▪ Increased efficiency in system operations across the levels of government.</li> </ul>	<ul style="list-style-type: none"> <li>▪ A knowledge portal developed by OPMCM</li> </ul>	Not sufficient knowledge-sharing	At least one horizontal knowledge-sharing	MOF, MOFAGA, OPMCM, PLGs

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
	(transfer and knowledge sharing) among the PLGs		<ul style="list-style-type: none"> <li>▪ Knowledge-sharing events among PLGs</li> <li>▪ % of time spent to maintain the system</li> </ul>	events between PLGs	event between PLGs a year and transfer between PLGs	
4.2.3	Strengthen Inter-agency/ sectoral Coordination mechanism	<ul style="list-style-type: none"> <li>▪ Strengthened secretariat of the National Coordination Committee</li> </ul>	<ul style="list-style-type: none"> <li>▪ Number of coordination meetings facilitated by the National Coordination Committee</li> <li>▪ ToR of the NCC approved</li> <li>▪ No. of solutions to disputes/ conflicts/issues</li> </ul>	Partial functioning	Active role of the National Coordination Committee	OPMCM/MoF

## Pillar 5: Debt and Fiscal Risk Management

**Goal:** Managing fiscal risk and Sustainable Debt Management.

### **Strategic Objective 5.1. Maintaining sustainable debt through policy reform, robust system and strong institutional capacity.**

Nepal's debt management framework is steadily evolving with the operationalization of the Public Debt Management Office (PDMO), consolidating responsibilities previously distributed across the Nepal Rastra Bank (NRB) and the Financial Comptroller General Office (FCGO). For better debt management PDMOs capacity would be crucial. The PDMO's institutional capacity will be strengthened through distinct roles for the middle, front, and back offices, enabling a clear division between policy formulation and operational functions. Reforms for public debt management focus on modernizing the legal, institutional, and technological infrastructure governing debt management. By updating the legal framework for public borrowing and guarantees, the strategy will provide clear, comprehensive guidelines for authorization and transaction processes. The Public Debt Management Office (PDMO) will undergo significant institutional capacity enhancement, enabling it to develop and implement a Debt Management Strategy aligned with international best practices, complete with annual updates and transparent borrowing plans. A critical component of these reforms is the comprehensive upgrade of the Debt Operation and Management and System (DOMS). This upgraded system will feature comprehensive data integration, advanced reporting capabilities, and automated processes to eliminate manual data manipulation. Enabling the system would provide robust mechanisms for generating portfolio cost and risk indicators, thereby providing unprecedented transparency and analytical depth in public debt management.

The strategic reforms for fiscal risk management aim to establish a comprehensive and transparent approach to identifying, tracking, and mitigating potential fiscal risks. By developing a robust fiscal risk registry, the strategy will systematically capture and analyze major fiscal risks, providing decision-makers with critical insights into budget sensitivities and public debt projections. This will be complemented by enhanced financial supervision mechanisms for public enterprises, corporations, and sub-national governments, ensuring a consolidated view of their financial performance and potential fiscal implications. The approach extends to creating a comprehensive inventory of contingent liabilities from various sources, including treaties, agreements, and legal judgments, which will be transparently disclosed. Additionally, the reforms will establish a robust legal and regulatory framework for Public Private Partnership (PPP) projects, balancing developmental acceleration with prudent risk mitigation strategies, and ultimately strengthening the government's fiscal risk management capabilities.

The strategy prioritizes following reforms.

1. Update the legal framework underpinning public borrowing and guarantee issuing, including its implementation rules, to ensure clear authorization for borrowing, loan guarantee issuing, and on-lending transactions.
2. Strengthening the institutional capacity of the Public Debt Management Office (PDMO) to establish a Debt Management Strategy (DMS) in line with international best practices, oversee its implementation, and update it on an annual basis, while also formulating and disclosing an annual borrowing plan.

3. Enhance DOMS as the government's end-to-end debt management system with comprehensive data, improved reporting functionalities, elimination of manual data manipulation, and generation of the portfolio's cost and risk indicators.

**Strategic Objective 5.2. Advancing comprehensive fiscal risk management and mitigation strategies.**

Extrabudgetary units are playing a vital role in executing the government functions in Nepal. EBUs and public enterprises form significant contributors to the Nepali economy. They are provided with legal autonomy however financial procedures must be in line with Nepal government practices. These EBUs and Pes if unaccounted may expose the government to a significant fiscal risk. Ongoing strategy has taken this factor as one strategic direction.

A legal mandate is provided to the PLGs for raising internal debt. Sovereign debt management aims to holistically transform Nepal's debt ecosystem through multifaceted infrastructure and operational enhancements. This approach encompasses developing a robust government securities market infrastructure that promotes market depth, transparency, and investor confidence. It fosters establishing sophisticated mechanisms for liquidity and solvency management that maintain strong interlinkages between cash flow and debt operations. The strategy will systematically implement a comprehensive Mid-term Debt Strategy (MTDS) that provides strategic guidance for debt raising and management, complemented by rigorous debt sustainability analysis reports to ensure fiscal prudence and risk mitigation. Moreover, the framework will explore and integrate innovative financing tools, including blended finance mechanisms and strategic sovereign bond issuances, to diversify funding sources and optimize the government's financial flexibility.

The strategy prioritizes following reforms.

1. Develop a fiscal risk registry to capture the major fiscal risks and publish a comprehensive fiscal risk statement to systematically analyze the sensitivity of budget estimates and public debt projections to various fiscal risks.
2. Develop tools for effective financial supervision of public enterprises, corporations, extra-budgetary units, and sub-national governments. Annually publish a report that provides a consolidated overview of the financial performance of public enterprises and identifies possible fiscal risks that could affect the government.
3. Compile a comprehensive list of all contingent liabilities that may arise from treaties, agreements, guarantees, and court judgments, and disclose them in the PDMO's annual report.
4. Establish an enabling legal, regulatory, and institutional framework to guide the Public Private Partnership (PPP) projects to accelerate development, while mitigating potential fiscal risks to the government.

## Results Framework | Pillar 5: Debt and Fiscal Risk Management

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
<b>Strategic Objective 5.1: Maintaining sustainable debt through policy reform, robust system, and strong institutional capacity.</b>				PI-13=C PI-6=D PI-15=D	PI-13=C PI-6=C PI-15=B	
5.1.1	Update the policy and legal framework for sustainable debt management in three levels of government.	<ul style="list-style-type: none"> <li>▪ Framework for sovereign bond</li> <li>▪ Policy for SNGs debt issuance and operation</li> <li>▪ Capital market development</li> <li>▪ Project-based/thematic bond</li> </ul>	<ul style="list-style-type: none"> <li>▪ Updated policy</li> <li>▪ Secondary market operation guideline</li> <li>▪ SNG's guideline</li> <li>▪ Project-based/thematic bond guideline</li> </ul>	<ul style="list-style-type: none"> <li>▪ No legal provision for the sovereign bond market</li> <li>▪ No legal provision for project-based/thematic bond</li> </ul>	Achieved by 2028	MOF, PDMO
5.1.2	Strengthen middle-office, front-office, and back-office functions of debt management to distinguish policy and operation functions	<ul style="list-style-type: none"> <li>▪ Reshuffled organization structure of MoF and PDMO regarding debt management</li> </ul>	<ul style="list-style-type: none"> <li>▪ New O &amp; M approved as per debt function</li> </ul>	PDMO operating middle office function	2025	MOF, MOFAGA
5.1.3	Strengthen institutional capacity of MoF and Public Debt Management Office (PDMO)	<ul style="list-style-type: none"> <li>▪ Technical Negotiation Committee in place</li> <li>▪ IECCD and PDMO strengthened</li> <li>▪ Strong linkage between cash flow and debt operation</li> <li>▪ Informed PLGs of PDMO functions</li> </ul>	<ul style="list-style-type: none"> <li>▪ Well-equipped PDMO and MoF with capacitated staff</li> <li>▪ Policy and procedures for fiscal and debt management approved</li> <li>▪ Periodic update of MTDS</li> <li>▪ Self-assessed DSA produced</li> </ul>	<ul style="list-style-type: none"> <li>▪ PDMO has a basic functional structure</li> </ul>	Technically sound organisation and staff	MOF, PDMO
5.1.4	Enhance Debt Management System (DOMS) for end-to-end debt management	<ul style="list-style-type: none"> <li>▪ Integrated debt management system with other PFM systems including SNGs</li> <li>▪ Reliable and transparent report</li> </ul>	<ul style="list-style-type: none"> <li>▪ Integration with RTGS, e-payment system and CGAS.</li> <li>▪ Full Reconciliation and consolidation of debt reports including SNGs</li> </ul>	<ul style="list-style-type: none"> <li>▪ DOMS</li> <li>▪ Annual report published with limited reconciliation</li> </ul>	Achieved by 2027 2026	MOF, FCGO
<b>Strategic Objective 5.2: Advancing comprehensive fiscal risk management and mitigation strategies.</b>				PI-10=D	PI-10=C	



S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
5.2.1	Prepare and strengthen fiscal risk management policy, legal framework and institutions.	<ul style="list-style-type: none"> <li>▪ Formulation of fiscal risk policy</li> <li>▪ Link borrowing with the macroeconomic policy</li> </ul>	<ul style="list-style-type: none"> <li>▪ Fiscal risk policy approved</li> <li>▪ Develop a framework for capturing and monitoring SNGs, public enterprises and Extra Budgetary Entities.</li> </ul>	NA	Achieved by 2027	MoF
5.2.2	Develop a fiscal risk register and risk mitigation action plan	<ul style="list-style-type: none"> <li>▪ Risks are systematically tracked and addressed.</li> <li>▪ Fiscal Risk registry</li> <li>▪ Mapping of pensions recruited by PSC, PPSC, and project staff (Including adjusted staff)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Number of risks registered</li> <li>▪ % of risks addressed</li> <li>▪ Publication of fiscal risk statement annually</li> </ul>	Fiscal risk register in early stages	Mature and reliable fiscal risk register	EPAD/MoF MOEAP and LGs
5.2.3	Regulate recording of contingent liabilities and unfunded liabilities	<ul style="list-style-type: none"> <li>▪ Better fiscal risk management</li> <li>▪ Multi-year contracts liability recorded</li> <li>▪ Recording contingent liabilities and fiscal risks created by the PPP projects</li> </ul>	<ul style="list-style-type: none"> <li>▪ Contingent liability status published on annual debt report</li> <li>▪ Approved Contingent liability assessment technical guideline</li> </ul>	Partial manual recording	System-enabled recording of contingent liability	PDMO, FCGO, MOF
5.2.4	Explore innovative financing tools (blended finance, sovereign bonds, green bonds)	<ul style="list-style-type: none"> <li>▪ Identify new innovative tools for financing</li> <li>▪ Use innovative financing tools</li> <li>▪ Balanced debt portfolio</li> </ul>	<ul style="list-style-type: none"> <li>▪ Green bonds viability capitalized</li> </ul>	Sovereign credit rating "BB-"	Issuance of bonds by 2027	MOF/ Central bank
5.2.5	Capture all government guarantees of three tiers of the government	<ul style="list-style-type: none"> <li>▪ Fiscal risks identified on time</li> </ul>	<ul style="list-style-type: none"> <li>▪ Government guaranteed published</li> </ul>	DOMS stands only for Federal government	By 2026	MoF and PDMO

## Pillar 6: Assets Management

**Goal:** Enhance efficient and accountable asset management for good governance.

### **Strategic objective 6.1 Enhancing policy framework for public assets management**

Public asset management currently lacks a standardized policy environment. A general understanding of assets is limited to non-financial assets, so expanding the asset's concept to financial assets is vital. The existing framework covers limited non-financial assets. The absence of a unified framework has led to discrepancies in how public assets are recorded, valued, maintained, and disposed of across federal, provincial, and local levels. These gaps result in inefficiencies, underutilization, and missed opportunities to optimize the value of government/public assets. Without a clear policy framework, there is also limited integration of asset management with broader fiscal and economic planning, which constrains the government's ability to leverage assets for sustainable development. The budget document doesn't include the assets disposal, and transfer details which have largely contributed to the low PEFA scoring. The assets transfer mechanism needs to be well defined through policy and administered through the integrated PAMS system.

A robust policy framework is essential to address these challenges by standardizing asset management practices, and valuation standards and ensuring consistency across all government tiers. It will provide clear guidelines for asset registration, valuation, and lifecycle management while ensuring that public assets are used efficiently and transparently. The framework will also promote intergovernmental coordination, reducing duplication and fostering shared accountability. Moreover, aligning the framework with international best practices will enhance Nepal's ability to attract investment and optimize public asset utilization. The strategy prioritizes following reforms.

1. **Policy framework:** Development of asset management policy framework applicable for all three tiers of government covering the entire asset life cycle.
2. **Valuation standards:** Rolling out the valuation standards developed based on international standards applicable to the public sector.
3. **Upgradation of PAMS:** Upgrading the PAMS and integrating it with the PFM systems to provide accurate and reliable data on public assets.

### **Strategic objective 6.2 Institutionalising financial assets management**

Nepal's financial asset management framework has started to gradually evolve with the establishment of the PDMO office. There has been a shift in the understanding of government assets, previously the main focus was primarily on non-financial assets. This limited focus overlooks the significant fiscal risks posed by financial assets such as government loans and equity investments. While policies for managing these financial assets exist, there are no established procedures to operationalize them effectively. This procedural gap prevents the integration of an IT-enabled system.

To address these challenges, the GoN aims to institutionalize financial asset management within the Public Debt Management Office (PDMO). This includes formulating clear and standardized procedures for managing government loans and share investments. The development of a comprehensive IT system will further enable real-time tracking, ensuring transparency and informed decision-making. By prioritizing financial asset management alongside non-financial assets.

### **Strategic objective 6.3 Improving financial efficiency to strengthen risk management and safeguard public assets**

Current asset management practice faces significant fiscal risks due to financial inefficiencies in public asset management. Many public assets are undervalued or unrecorded, leading to weak oversight and

potential losses. The implementation of the Public Asset Management System (PAMS) has supported in integration of the records but it has not contributed much to effective monitoring and decision-making. Public land, buildings, technical equipment, office equipment, and vehicles are not well accounted for. Maintenance of public assets often lacks prioritization, resulting in asset deterioration and increased long-term replacement costs. Furthermore, the limited integration of asset data with financial systems such as SuTRA and software systems of EBU/PEs prevents real-time tracking and resource optimization.

This strategic objective aims to strengthen financial efficiency in asset management by addressing these critical gaps. By integrating asset management systems with financial reporting platforms, the government can ensure real-time data availability and transparency. Modern risk management tools, such as predictive analytics, can help identify and mitigate fiscal risks associated with public assets. Additionally, targeted training and capacity-building initiatives will enable public enterprises and government officials to enhance their efficiency and effectiveness. Improved financial efficiency will minimize fiscal risks, optimize resource utilization, and ensure that public assets contribute to economic sustainability and service delivery. This will also support better decision-making and long-term planning for Nepal's asset management strategy. The strategy prioritizes following reforms.

1. **Inventory module:** Enhanced inventory module for the consumable and movable assets to enhance the transparency in transfer and usage mechanism
2. **Resilience and sustainability:** Implement the insurance mechanism for the critical assets and also adhere to the climate and disaster risk mitigation measures. Critical assets are clearly defined.
3. **Replacement and Disposal plan:** Replacement and Disposal plan for high-valued assets defined and implemented.

### **6.3 Enhancing accountability through comprehensive public asset management and auditing**

Accountability is a foundation of effective public asset management, yet it remains a significant weakness in Nepal. Current audit mechanisms fail to comprehensively cover asset-related activities, while public asset registers are often incomplete and lack transparency. Government entities and public enterprises fail to publish their asset reports in annual financial statements. The absence of robust accountability systems increases the risk of mismanagement, corruption, and asset underutilization, which undermines public trust and fiscal discipline. Without systematic oversight, the government is unable to fully leverage public assets for economic growth and service delivery.

Expanding audit coverage to include all non-financial asset-related transactions and aligning these audits with international standards (ISSAI), will ensure greater scrutiny and reliability. Transparent asset registers and regular reporting will foster public confidence and enable citizen engagement in monitoring public assets. Furthermore, clear roles and responsibilities for asset oversight will create a culture of accountability and reduce irregularities. By addressing these systemic challenges, Nepal can safeguard its public assets, ensure their optimal use, and build trust in the government's capacity to manage national resources responsibly. Enhanced accountability will ultimately contribute to fiscal stability and sustainable development.

The strategy prioritizes following reforms.

1. **Public asset management unit:** Establishment of a dedicated unit for handling asset-related activities either at MoF or FCGO. Also, control the misuse and misappropriation of public assets.
2. **Performance audit:** Conduct periodic reviews and audits of the major and large infrastructure and public assets.

## Results Framework | Pillar 6: Asset Management

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
<b>Strategic Objective 6.1: Enhancing policy framework for public assets management</b>				<b>PI-12=D+</b>	<b>PI-12=C+</b>	
6.1.1	Develop and adopt a comprehensive national PAM policy and framework that are aligned with international good practices	<ul style="list-style-type: none"> <li>▪ Financial and non-financial assets coverage</li> <li>▪ Clear guidelines for asset registration, valuation, and usage</li> <li>▪ Asset management linked with long-term government planning and annual budgeting</li> <li>▪ Coverage of Long-term use and lease</li> </ul>	<ul style="list-style-type: none"> <li>▪ Approval of PAM policy and framework</li> <li>▪ Degree of alignment with ISSAI or other global standards.</li> <li>▪ % of policies with sustainability criteria</li> <li>▪ Number of financial and non-financial assets data included in the system.</li> </ul>	PAMs Policy and Framework has not been formulated.	Public Assets Mgmt Policy and framework be prepared and implemented	MoF/FCGO/Line Ministries
6.1.2	Develop and roll out the asset valuation standards	<ul style="list-style-type: none"> <li>▪ Public assets value realistically determined</li> <li>▪ Natural resources, intellectual property and infrastructure assets are clearly defined</li> </ul>	<ul style="list-style-type: none"> <li>▪ % of assets valued</li> </ul>	Null	Asset valuation standards implemented	FGCO DTCO PTCO LG's
6.1.3	Develop a roadmap for phase-wise asset accounting from the general government to the whole of the government.	<ul style="list-style-type: none"> <li>▪ National assets accounted</li> </ul>	<ul style="list-style-type: none"> <li>▪ Coverage of entities in national asset account</li> </ul>	<ul style="list-style-type: none"> <li>▪ National assets report is made public with incomplete data</li> </ul>	Phase-wise coverage of public entities and their assets	FGCO DTCO PTCO LG's
6.1.4	Enhance and upgrade the integrated Public Assets Management IT Systems (PAMs).	<ul style="list-style-type: none"> <li>▪ Assets life cycle tracked (Including category details and critical assets)</li> <li>▪ Technical register and asset register maintained by respective agencies</li> <li>▪ Accurate and reliable valuation of public assets for effective utilization</li> </ul>	<ul style="list-style-type: none"> <li>▪ Percentage of assets valued/revalued periodically.</li> <li>▪ % of public assets disposed of via online portal</li> <li>▪ Natural assets, intellectual property and</li> </ul>	<ul style="list-style-type: none"> <li>▪ PAMs version 2 is going to be finalized by this FY.</li> <li>▪ Technical register by MoUD, and DOR maintained</li> </ul>	PAMs shall cover the asset data with multiple dimensions.	OPMCM/MoF/FCGO

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
		<ul style="list-style-type: none"> <li>Linkage PAMS with CGAS, SuTRA, TSA/PTSA and sectorial systems such as DoR, MOUD</li> </ul>	infrastructure property data captured	<ul style="list-style-type: none"> <li>PAMS as an asset register</li> </ul>		
<b>Strategic Objective 6.2: Institutionalising financial assets management</b>				<b>PI-12=D+</b>	<b>PI-12=C+</b>	
6.2.1	Develop procedures for recording and management of financial assets	<ul style="list-style-type: none"> <li>Guidelines for debt and share investment prepared</li> </ul>	<ul style="list-style-type: none"> <li>PDMO issues guidelines</li> </ul>	Policy exists, No guidelines	Guidelines issued	PDMO, NRB and MoF
6.2.2	Recording of public investment through the use of IT systems at all three tiers	<ul style="list-style-type: none"> <li>Public investment in shares and loans (especially at PEs) is well-recorded and reported</li> <li>Monitoring of public corporations</li> </ul>	<ul style="list-style-type: none"> <li>Publication of status reports through software</li> </ul>	Not yet (integrated system)	By 2027 an integrated system publish the status reports	MoF and FCGO, PDMO Provincial authorities
<b>Strategic Objective 6.3: Improving financial efficiency to strengthen risk management and safeguard public assets</b>				<b>PI-12=D+</b>	<b>PI-12=C+</b>	
6.3.1	Introduce insurance and replacement mechanisms for critical public assets.	<ul style="list-style-type: none"> <li>Critical assets defined</li> <li>Reduced financial risks associated with asset loss.</li> <li>Asset replacement modality defined</li> </ul>	<ul style="list-style-type: none"> <li>Percentage of critical assets insured.</li> </ul>	Very limited critical assets insured	Major infrastructure insured	MoF, Insurance Board of Nepal
6.3.2	Improve the priority setting and support investments in climate risk reduction, resilience, protection, and restoration of critical assets	<ul style="list-style-type: none"> <li>Building the more resilient, reducing the climate risk for a sustainable financial protection program.</li> </ul>	<ul style="list-style-type: none"> <li>Public asset resilience framework/mechanism adopted</li> </ul>	No data analysis or mechanism exists.	<ul style="list-style-type: none"> <li>Enhanced capacity amid the challenges of increasing Climate risks,</li> <li>Reduction in rapid infrastructure development, and replacement.</li> </ul>	MOF/Line Ministries/FCGO PG's LG's
6.3.4	Implement risk management strategies for asset	<ul style="list-style-type: none"> <li>Risks associated with assets, such as maintenance and replacement costs in every unit of government are identified and mitigated</li> </ul>	<ul style="list-style-type: none"> <li>Asset risk management strategy developed</li> </ul>	No risk management strategy	Strategy operational	MOF/Line Ministries, FCGO, PG's LG's

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
6.3.5	Replacement and Disposal plan for non-financial assets.	<ul style="list-style-type: none"> <li>▪ Replacement and Disposal plan prepared</li> <li>▪ Technical agencies assigned to scrap the assets</li> </ul>	<ul style="list-style-type: none"> <li>▪ Created Replacement Fund</li> <li>▪ Asset scraping policy implemented through technical agencies</li> </ul>	NULL	<ul style="list-style-type: none"> <li>▪ Created Replacement Fund</li> <li>▪ Timely auction of scrap assets</li> </ul>	<ul style="list-style-type: none"> <li>▪ Line Ministries</li> <li>▪ FCGO</li> <li>▪ PG's/LG's</li> </ul>
<b>Strategic Objective 6.4: Enhancing accountability through comprehensive public asset management and auditing</b>				<b>PI-12=D+</b>	<b>PI-12=C+</b>	
6.4.1	Strengthening dedicated public asset management unit at FCGO.	<ul style="list-style-type: none"> <li>▪ A dedicated unit at FCGO to undertake this functionality</li> <li>▪ Asset disposal is initiated through this dedicated unit.</li> <li>▪ Improved accountability and reduction in the misuse of public assets.</li> <li>▪ Centralized procurement agency in coordination with PPMO</li> </ul>	<ul style="list-style-type: none"> <li>▪ Establishment of a dedicated unit for asset management.</li> <li>▪ Timey auction of scrap assets</li> <li>▪ The number of whistleblower reports acted upon.</li> </ul>	Null	Legal provision for an independent authority	MoF, FCGO
6.4.2	Conduct periodic performance audits of major public assets.	<ul style="list-style-type: none"> <li>▪ The state of public assets properly documented</li> <li>▪ IT and intellectual assets audited</li> <li>▪ Physical verification</li> </ul>	<ul style="list-style-type: none"> <li>▪ Number of performance audits conducted.</li> <li>▪ Publication of consolidated Public Assets report</li> </ul>	Null	A performance audit of public assets initiated	MoF, FCGO, OAG

## Pillar 7: Transparency and Accountability

**Goal:** Promoting transparency and accountability through effective external scrutiny and citizen engagement in the PFM system.

### Strategic Objective 7.1. Promoting citizen engagement in the PFM cycle

Citizen engagement is central to fostering transparency, accountability, and public trust in Nepal's Public Financial Management (PFM) system. The Government of Nepal (GoN) has made notable progress by publishing key fiscal information, including performance plans for service delivery and annual output data. However, critical gaps remain in pre-budget statements, macroeconomic forecasts, citizens' budgets, and other essential fiscal information. Nepal's rank of 58th in the Open Budget Survey (OBS) reflects average performance globally, with significant room for improvement in engaging citizens during budget formulation, approval, and implementation.

To address these gaps, the GoN has developed a strategy for citizen engagement in PFM, focusing on proactive disclosure of fiscal information and participatory audits involving civil society organizations (CSOs). Despite these efforts, the lack of accessible platforms for public consultations and limited integration of citizen feedback in fiscal decisions constrain effective engagement. Enhancing citizen participation requires institutionalizing public consultations across all PFM stages, leveraging digital tools to disseminate fiscal information widely, and fostering collaboration with CSOs.

The strategy prioritizes following reforms.

1. Establish and strengthen open budget portals, providing a user-friendly platform for researchers and citizens to access and use budget and expenditure data.
2. Expand pre-budget consultations and establish budget forums to enhance stakeholder understanding and involvement in the budget-making process.
3. Enhance citizen engagement in budget implementation and monitoring.
4. Publish the citizen's budget within 2 weeks of budget enactment.
5. Expand citizen's participatory audits and publish citizen's audit reports.

### Strategic Objective 7.2. Strengthening quality and impact of the audit.

Office of the Auditor General (OAGN), is adhering to international standards like ISSAI and introducing citizen participatory audits (CPA). These measures have strengthened audit quality and fostered greater transparency. However, unresolved audit irregularities and inadequate follow-up mechanisms remain significant challenges. According to recent reports, the backlog of outstanding audit irregularities amounts to billions of Nepalese Rupees, undermining fiscal accountability.

The restrictions imposed by the Financial Procedures and Fiscal Accountability (FPFA) Act prevent the OAGN from conducting follow-up audits for federal agencies, intensifying the issue. Strengthening audit follow-up mechanisms is crucial to addressing these irregularities. Revising the FPFA Act to enable comprehensive follow-up audits, supported by adequate resources, is a key reform priority. Enhancing the capacity of the OAGN through training and advanced audit tools will further improve the quality and scope of audits. Robust mechanisms for resolving audit observations must be institutionalized, involving both federal and subnational governments to ensure timely follow-up and resolution of audit findings.

The strategy prioritizes following reforms.

1. Strengthen OAGN's internal governance, audit quality and impact of the audit.
2. Enhance OAGN's institutional capacity to assist the government and legislature in addressing emerging challenges by delivering assurance in evolving domains such as Cyber Security, Climate, and Gender.
3. Amend the relevant PFM legislation and regulations, to carry on follow-up audits and settle audit irregularities regularly.
4. The annual budget to include an annex detailing the status of audit irregularities by each ministry, along with a plan for each ministry to address and resolve these irregularities during the fiscal year.

**Strategic Objective 7.3. Ensuring effective legislative scrutiny of the annual budget, audit reports and follow-up of recommendations.**

Legislative scrutiny is a foundation of accountability in public financial management, ensuring that government budgets and audit reports are thoroughly reviewed and aligned with policy objectives. In Nepal, the legislative review process is guided by the House of Representatives Rules 2018, which outline procedures for budget scrutiny. While these rules are adhered to, shortcomings persist in the scope and depth of reviews. The legislature's examination of the budget is limited to revenue and expenditure details, excluding elements like the Medium-Term Expenditure Framework (MTEF) and fiscal risks.

Strengthening legislative scrutiny requires procedural updates and the establishment of specialized committees with technical expertise. These committees can provide in-depth analysis and ensure comprehensive oversight of budgets and audit reports. Mechanisms for public consultations should also be institutionalized to include citizen feedback in the legislative review process.

Improving the follow-up on legislative recommendations is equally important. Clear timelines and accountability for implementing recommendations will enhance their impact. These reforms will ensure that the legislature not only reviews budgets and audits effectively but also holds the executive accountable for implementing its recommendations.

The strategy prioritizes following reforms.

1. Enhance the capabilities of the secretariats and parliamentarians of pertinent parliamentary committees to deliver high-quality analytical, advisory, and administrative support, empowering the committees to manage the legislative oversight process effectively.
2. Adopt parliamentary oversight tools and mechanisms in line with international standards to effectively scrutinize budgets and audit reports and hold the government to account by using ICT.
3. The relevant parliamentary committees undertake annual self-assessments of their oversight mandate and performance, and publish reports encompassing planned measures aimed at enhancing the effectiveness of legislative scrutiny.



## Results Framework | Pillar 7: Transparency and Accountability

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
<b>Strategic Objective 7.1: Promoting citizen engagement in the PFM cycle</b>				<b>PI-17=B</b> <b>PI-9=C</b>	<b>PI-17=B</b> <b>PI-9=C+</b>	
7.1.1	Implementat the Citizen Engagement Strategy	<ul style="list-style-type: none"> <li>Enhanced participation of citizens in the budgetary process</li> </ul>	<ul style="list-style-type: none"> <li>Citizen engagement implementation roadmap executed</li> </ul>	Citizen Engagement Strategy available	Roadmap of CE strategy executed	MoF, OAG, NPC, PAC, FCGO, PG's, LG's
7.1.2	Expand pre-budget consultations and establish participatory budget forums at federal, provincial, and local levels	<ul style="list-style-type: none"> <li>Increased citizen input in pre-budget consultation</li> <li>Budget formulation with adequate consultation with stakeholders through the establishment of formal budget forums.</li> </ul>	<ul style="list-style-type: none"> <li>Number of pre-budget participatory forums conducted</li> </ul>	<ul style="list-style-type: none"> <li>Limited pre-budget</li> <li>Consultation – mostly limited to organized groups only.</li> <li>No formal mechanism.</li> </ul>	Extended Pre-budget discussion with related stakeholders;	MOF, Local Governments
7.1.3	Establish and strengthen open budget portals, providing a user-friendly platform for researchers and citizens to access and use budget and expenditure data.	<ul style="list-style-type: none"> <li>Improved accessibility and understanding of budget data.</li> <li>The simplified version of the budget is disseminated to ensure better awareness among citizens.</li> </ul>	<ul style="list-style-type: none"> <li>Open budget portals developed and deployed</li> <li>Publication of the citizen's budget within 2 weeks of budget enactment.</li> </ul>	Non-existing.	open budget portals accessible to the public	MOF, FCGO Province and Local Governments
7.1.4	Develop digital tools for citizen engagement in the budgetary process	<ul style="list-style-type: none"> <li>Digital applications and mobile Apps developed</li> </ul>	<ul style="list-style-type: none"> <li>Percentage of citizens using the application</li> </ul>	No such application exists	Widely feedback received from the application	MoF
7.1.5	Explore innovative methods in project selection by engaging citizens	<ul style="list-style-type: none"> <li>Projects or programmes are selected through a survey and pooling mechanism</li> </ul>	<ul style="list-style-type: none"> <li>Pooling tool developed and rolled out</li> <li>Number of projects selected using survey and polling</li> </ul>	No project selection through a pooling mechanism	Demand-based project selection through using ICT	MOF, various ministries, Provinces and Local Governments

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
7.1.6	Provide project implementation or budget execution information regularly	<ul style="list-style-type: none"> <li>Regular publication of project implementation or budget execution on a proactive basis through a website or publishing report</li> </ul>	<ul style="list-style-type: none"> <li>Number of entities publishing budget execution information</li> </ul>	Nonexistence	Citizens receiving budget information regularly	MOF, FCGO, Ministries Province and Local Governments
7.1.7	Implement Public Expenditure Tracking System (PETS)	<ul style="list-style-type: none"> <li>Procedures developed and PETS organized in selected projects or programme</li> </ul>	<ul style="list-style-type: none"> <li>Number of projects or programs that organize PETS</li> </ul>	Not existed	PETS are organized regularly	MOF, FCGO Ministries, Province and Local Governments
7.1.8	Enhance the use of various social monitoring tools such as public hearings, social audits and citizen procurement monitoring practice	<ul style="list-style-type: none"> <li>Various social monitoring tools are used in local-level projects or programme</li> </ul>	<ul style="list-style-type: none"> <li>Number of projects or programs that used various social monitoring tools</li> </ul>	Public hearing and social auditing tools are used in some local-level entities	Various social monitoring tools are used regularly, and feedback received	MOF, FCGO Province and Local Governments
7.1.10	Expand citizen's participatory audits	<ul style="list-style-type: none"> <li>Enhanced citizen participation and accountability.</li> <li>citizen's audit reports published</li> </ul>	<ul style="list-style-type: none"> <li>Number of citizen audits conducted</li> <li>Number of feedback submissions annually</li> </ul>	Limited citizen's participatory audits.	At least 10 CPAs per year.	OAG
7.1.11	Identify a check and balance mechanism for being unaccountable at the PFM process	<ul style="list-style-type: none"> <li>Strengthened accountability by elected representatives and bureaucracy staff</li> </ul>	<ul style="list-style-type: none"> <li>Accountability provision included in PFM-related laws</li> <li>A code of ethics is issued and a mechanism for compliance built</li> </ul>	Null	July 2028	FG-OPMCM, PSC PGs-OCMCM, PPSC LGs
<b>Strategic Objective 7.2: Improving audit quality and effective audit follow-up</b>				<b>PI-30=D+</b>	<b>PI-30=D+</b>	
7.2.1	Strengthen quality control and quality assurance practices in audit	<ul style="list-style-type: none"> <li>Improved and enhanced Internal governance, audit quality</li> <li>Strong quality control framework developed.</li> </ul>	<ul style="list-style-type: none"> <li>The audit report is well structured to facilitate irregularities settlement.</li> <li>No. of audit observations in the action plan resolved</li> </ul>	Less uniformity in Audit observation and Lack of implementation of Audit reports	Increased uniformity in audit observations	OAG, Audited entities

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
		<ul style="list-style-type: none"> <li>▪ Pre and post-issuance quality assurance review strengthened.</li> <li>▪ Uniformity in audit observations and audit report</li> </ul>	<ul style="list-style-type: none"> <li>▪ Percentage of pre and post-issuance quality assurance review</li> </ul>			
7.2.2.	Enhance OAGN's institutional capacity in evolving domains such as Cyber Security, Climate, and Gender.	<ul style="list-style-type: none"> <li>▪ Annual Audit Report includes audit of Cyber Security, Climate, and Gender,</li> <li>▪ OAGN staff are skilled in the audit of Cyber Security, Climate, and Gender dimensions</li> </ul>	<ul style="list-style-type: none"> <li>▪ Percentage inclusion of cyber security, climate, and gender in annual audit report</li> <li>▪ Number of OAGN staff are trained in auditing Cyber Security, Climate, and Gender issues</li> </ul>	Inadequate institutional capacity	OAGN's annual report has a dedicated section for evolving domains	OAGN
7.2.3	Strengthen performance audit	<ul style="list-style-type: none"> <li>▪ The annual report includes the number of performance audits.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Number of performance audits carried out each year</li> </ul>	8-12 performance audits per year	30 performance audits per year	OAGN
7.2.4	Regular updates of audit standards, guidelines and manual	<ul style="list-style-type: none"> <li>▪ Standards and guidelines are updated as per ISSAI or INTOSAI Pronouncement for Professional Framework</li> </ul>	<ul style="list-style-type: none"> <li>▪ Number of standard guidelines updated and new guidelines developed</li> </ul>	ISSAI and more than 10 guidelines are implemented	Implemented standards and guidelines are updated if required	OAGN
7.2.5	Strengthen collaboration with stakeholders including other constitutional bodies	<ul style="list-style-type: none"> <li>▪ Model of collaboration defined and strengthened</li> </ul>	<ul style="list-style-type: none"> <li>▪ Number of stakeholders collaborated</li> </ul>	No such collaboration	Financial accountability promoted	
7.2.6	Amend the relevant PFM legislations and regulations to resolve follow-up audits and settle audit irregularities.	<ul style="list-style-type: none"> <li>▪ Relevant PFM legislation is amended and cumulative audit observations reduced</li> <li>▪ Improved accountability in addressing audit findings.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Percentage of audit recommendations implemented.</li> <li>▪ Number of follow-up audits conducted</li> </ul>	Follow-up audit slow-paced/stagnated	Follow-up audits are regularly carried out	OAG, PAC
7.2.7	Make the annual budget inclusive of an annex	<ul style="list-style-type: none"> <li>▪ Streamlined action plan to address the audit</li> </ul>	<ul style="list-style-type: none"> <li>▪ Audit follow-up action plan published</li> </ul>	Not existing	Audit irregularities are	MoF

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
	detailing the status of audit irregularities and the action plan by the Ministry.	irregularities and track progress.	<ul style="list-style-type: none"> <li>Percentage of audit irregularities settled in a year</li> </ul>		included in an annex of the Budget with a revolving plan.	
7.2.8	Establish all-time follow-up mechanisms and initiate the practice of preparing separate follow-up report	<ul style="list-style-type: none"> <li>Continuous follow-up of audit observation before and after the submission of an annual audit report and submitting separate follow-up report</li> </ul>	<ul style="list-style-type: none"> <li>Percentage of audit irregularities settled in a year</li> <li>Follow-up report published annually</li> </ul>	Follow-up audit slow-paced/stagnated. No follow-up report	Round the year follow-up and irregularity amount reduced	OAG, MOF and other ministries
7.2.9	Support timely reporting and timeliness in tabling audit reports in the parliament.	<ul style="list-style-type: none"> <li>Submission of the audit report by 9 months after the end of the fiscal year and tabling the report within 15 days</li> </ul>	<ul style="list-style-type: none"> <li>Meeting the deadline</li> </ul>	Delay in tabling audit report in parliament	Timely reporting and tabling of the Auditor General's report	OAG, President Office, OPMCM
7.2.10	Strengthen remote or faceless auditing by leveraging technology and establishing paperless accounting	<ul style="list-style-type: none"> <li>Accounting is maintained in a paperless manner and remote or faceless audits conducted</li> </ul>	<ul style="list-style-type: none"> <li>Number of entities using paperless accounting and conducting remote or faceless auditing</li> </ul>	No paperless accounting limited number of remote auditing	Full implementation of remote or faceless auditing	OAG, FCGO
<b>Strategic Objective 7.3: Ensuring effective legislative scrutiny of budget, audit reports and follow-up of recommendations.</b>				<b>PI-31=C</b>	<b>PI-31=C+</b>	
7.3.1	Enhance the capabilities of the secretariats of the Public Account Committee.	<ul style="list-style-type: none"> <li>High-quality analytical, advisory and administrative processes</li> <li>Defined PAC role</li> </ul>	<ul style="list-style-type: none"> <li>Number of initiatives taken by the Research wing of PAC</li> <li>Number of published Reports.</li> <li>Average time taken to submit reports (days).</li> </ul>	<ul style="list-style-type: none"> <li>Inadequate capacity of the existing Human Resources of the PAC Secretariat.</li> <li>Fewer staffs</li> </ul>	Resourceful PAC secretariat	PAC and PS
7.3.2	Enhance the scrutiny capacity of parliamentarian	<ul style="list-style-type: none"> <li>Quality of the scrutiny of audit reports</li> </ul>	<ul style="list-style-type: none"> <li>Number of parliamentarians trained in national and international programs</li> </ul>	Inadequate capacity of the existing parliamentarians.	Competent legislative committee	PACs and other relevant committees

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
7.3.3	Develop the mechanism of Reporting on fiscal outcomes compared with fiscal strategy	<ul style="list-style-type: none"> <li>Better fiscal policies and budgeting</li> </ul>	<ul style="list-style-type: none"> <li>Fiscal policies outcome report published internally</li> </ul>	Null	Internal report for fiscal outcome published	NPC, MOF
7.3.4	Timeliness in audit scrutiny, timeliness in discussion of audit report	<ul style="list-style-type: none"> <li>Timeliness in audit irregularity settlement</li> </ul>	<ul style="list-style-type: none"> <li>Time taken to discuss Auditor General's report</li> </ul>	Delay in discussion	All AG's annual reports are discussed within one year	PAC
7.3.5	Empowering the committees to scrutinize the annual Audit Report of OAG and other PFM cycles.	<ul style="list-style-type: none"> <li>Enhanced timeliness and quality in legislative oversight.</li> </ul>	<ul style="list-style-type: none"> <li>Number of Workshops and interaction programs conducted.</li> <li>Number of technical assistance provided through specialists.</li> </ul>	Partially	MPs familiarised with PFM issues. Workshops and interaction programs conducted. Specialists hired	PAC
7.3.6	Establish a separate track record mechanism to monitor the implementation status of recommendations issued by the committee to related govt. Ministries and agencies.	<ul style="list-style-type: none"> <li>Improved follow-up on audit recommendations and decisions made by PAC.</li> <li>Increased public engagement in fiscal oversight.</li> </ul>	<ul style="list-style-type: none"> <li>Adopt parliamentary oversight tools and mechanisms in line with international standards</li> <li>Annual track record report will be published</li> <li>Percentage of recommendations acted upon.</li> <li>Improved follow-up on the PAC recommendations</li> </ul>	Not existing	A separate track record mechanism will be established.	PAC
7.3.7	Upgrade PAC MIS, and provide access of NAMS to PAC	<ul style="list-style-type: none"> <li>PAC MIS is upgraded and access received</li> <li>PAC MIS and NAMS interoperable</li> </ul>	<ul style="list-style-type: none"> <li>Read-only Access of PAC into NAMS</li> <li>Interfacing of PAC MIS and NAMS</li> </ul>	Not Access	Will be upgraded and operated and interfaced.	PAC/OAG

## Cross-Cutting Areas

The strategy outlines mainly three cross-cutting areas crucial for enhancing public financial management (PFM) in Nepal. One key area is **Capacity Building**, where the Government of Nepal (GoN) has conducted a Training Need Assessment (TNA) to identify training gaps and align training goals with government objectives. This initiative aims to optimize resources, improve output, and provide quality services by addressing specific technical deficiencies in PFM.

Another significant area is **Information Technology**, where ICT-based PFM systems have been extensively developed. These systems cover the entire budget cycle, from budgeting to auditing, enhancing accountability and transparency. The interim-state and end-state proposed by the Integrated Financial Management Information System (IFMIS) study report aims to further improve IT system management in the PFM area.

Lastly, the focus of the strategy highlights **Climate and Gender Responsive PFM**, emphasizing the need for tracking climate-related expenditures and promoting gender equality through budget allocations and policy implementations. These efforts aim to align fiscal policies with climate goals and gender equality objectives.

### Results framework for the cross-cutting areas

S.N.	Reform Activities	Expected Results	Result Indicator
<b>Cross-cutting area 1: Capacity Building</b>			
1.1	Capacity-building plan roll-out (Organize thematic capacity-building programs informed by the capacity-building plan)	<ul style="list-style-type: none"> <li>▪ Standardized capacity-building program implemented to ensure the quality of capacity-building outputs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Number of capacity-building events organized</li> <li>▪ Number of post-capacity building knowledge-sharing events documented</li> </ul>
1.2	Provide technical assistance for institutional strengthening	<ul style="list-style-type: none"> <li>▪ TA support mobilised in specialized areas</li> </ul>	<ul style="list-style-type: none"> <li>▪ Number of technical human resources produced</li> </ul>
1.3	Periodic review of capacity-building program and results and update the plan for continuous improvement	<ul style="list-style-type: none"> <li>▪ Increased effectiveness and efficiency in government offices across three tiers</li> <li>▪ Increased transparency and governance-related indicators</li> </ul>	<ul style="list-style-type: none"> <li>▪ % of satisfied taxpayers and citizens participated in the exit poll</li> <li>▪ % of capacity-building program graduate staff serving at the same station</li> <li>▪ % increment in the score of performance appraisal of staff who graduated from the capacity-building program</li> <li>▪ Success stories and case stories demonstrating the effectiveness of a capacity-building plan</li> </ul>
1.4	Transformation of PFMTTC into PFM Excellence Center	<ul style="list-style-type: none"> <li>▪ PFMTTC institutional capacity enhanced</li> </ul>	<ul style="list-style-type: none"> <li>▪ Number of capacity-building-related best practices and lessons learned shared</li> </ul>

S.N.	Reform Activities	Expected Results	Result Indicator
1.5	Professionalization on group-specific cadets	<ul style="list-style-type: none"> <li>▪ Professionalization with the service group</li> <li>▪ Certification courses on each group (e.g., Internal audit, Tax audit) rolled out</li> </ul>	<ul style="list-style-type: none"> <li>▪ Professionalisation course rolled out.</li> <li>▪ Civil service rules amended</li> </ul>
<b>Cross-cutting area 2: Information Technology:</b>			
2.1	Implementation of IFMIS recommendations and action plan	<ul style="list-style-type: none"> <li>▪ Various IT systems associated with PFM integrated</li> </ul>	<ul style="list-style-type: none"> <li>▪ Interim IFMIS roadmap implemented and base for long-term roadmap developed</li> </ul>
2.2	Interoperability of various IT systems across three tiers of government	<ul style="list-style-type: none"> <li>▪ IT systems across all three tiers of government are interoperable</li> <li>▪ The sectoral IT system made interoperable (VRS, BPRS)</li> <li>▪ National data portal integrated</li> </ul>	Policy and Infrastructure of IT system for integration enabled
2.3	Development of integration MIS for extra-budgetary units with special focus on health, education, and large infrastructure of government bodies	<ul style="list-style-type: none"> <li>▪ EBUs system integrated with national PFM systems</li> </ul>	<ul style="list-style-type: none"> <li>▪ HMIS, EMIS and other MIS systems integrated with PFM systems</li> </ul>
2.4	Development and implementation of digital governance framework in the PFM system	<ul style="list-style-type: none"> <li>▪ Digital governance framework streamlined in the reform process</li> </ul>	<ul style="list-style-type: none"> <li>▪ Code of ethics, data standard, and software formulation standards implemented</li> </ul>
2.5	Increase accessibility of citizens to the PFM database	<ul style="list-style-type: none"> <li>▪ Increase transparency and citizen engagement</li> </ul>	<ul style="list-style-type: none"> <li>▪ CE strategy implemented</li> </ul>
2.6	Big data management and use of business intelligence for decision-making and public service delivery	<ul style="list-style-type: none"> <li>▪ PFM data utilized for decision-making</li> <li>▪ Management dashboard with public accessibility</li> </ul>	<ul style="list-style-type: none"> <li>▪ BI, Data warehousing concepts implemented</li> </ul>
2.7	Periodic IT audit and implementation of risk mitigation measures	<ul style="list-style-type: none"> <li>▪ Risk mitigation aspects included in PFM systems</li> </ul>	<ul style="list-style-type: none"> <li>▪ IT audit and security audit conducted on a periodic basis</li> </ul>
2.8	Engaging the private sector in ethical hacking of the PFM system	<ul style="list-style-type: none"> <li>▪ Secured IT systems</li> </ul>	<ul style="list-style-type: none"> <li>▪ Number of security vulnerabilities identified and resolved.</li> </ul>
<b>Cross-cutting area 3: Climate and Gender Responsive PFM</b>			
3.1	Reform the budgeting framework in line with the government's international commitment to climate change and CEDAW	<ul style="list-style-type: none"> <li>▪ Gender-responsive and climate-responsive budgets prepared</li> </ul>	<ul style="list-style-type: none"> <li>▪ Inclusion of Climate and gender dimensions in Planning and budgeting guidelines</li> </ul>
3.2	Periodic assessment of budgeting framework based on the Climate Change and Gender Responsive indicators	<ul style="list-style-type: none"> <li>▪ Implementation of GRPFM and CRPFM</li> </ul>	<ul style="list-style-type: none"> <li>▪ GRPFM and CRPFM framework developed and rolled out</li> </ul>

S.N.	Reform Activities	Expected Results	Result Indicator
3.3	Development of a disaggregate database and tagging on budget and accounting system	<ul style="list-style-type: none"> <li>▪ Disaggregated information available for informed decision-making towards gender and climate-responsive budgeting and execution</li> </ul>	<ul style="list-style-type: none"> <li>▪ PFM system upgraded with these tagging functionality</li> </ul>
3.4	Climate-responsive public procurement	<ul style="list-style-type: none"> <li>▪ Procurement made climate-responsive</li> </ul>	<ul style="list-style-type: none"> <li>▪ e-GP system addresses the requirements through system controls</li> </ul>
3.5	Gradual shift towards green procurement	<ul style="list-style-type: none"> <li>▪ Procurements done with green and climate-friendly practices</li> </ul>	<ul style="list-style-type: none"> <li>▪ % of procurements that meet green and climate-friendly parameters</li> </ul>
3.6	Mainstreaming climate and gender responsiveness in public finance management	<ul style="list-style-type: none"> <li>▪ The PFM process includes these aspects.</li> <li>▪ Gradual adoption of green procurement practices</li> </ul>	<ul style="list-style-type: none"> <li>▪ PFM laws and processes explicitly include these requirements. Legal compliance</li> </ul>

## 5. Implementation Arrangements

### 5.1 Institutional arrangements

Successful implementation of the National Public Financial Management (PFM) strategy requires robust institutional arrangements that ensure coordination across all levels of government. A dedicated PFM Reform Unit will be established within the Ministry of Finance (MoF) based on an O&M (Organization and Management) survey. The existing Fiscal Federalism Coordination Division (FFCD) will be the focal division for implementation before the completion of the O&M survey. This unit will act as the central hub for planning, monitoring, and evaluating PFM reforms, ensuring alignment with national fiscal policies. **Subnational representation** would be done at the PFM steering committee and the technical committee to ensure province and local government voices are well represented.

To streamline operations and enhance efficiency, a single-window mechanism will be introduced. A single window mechanism will ensure all PFM-related interventions are channelled through this mechanism across all three tiers of government. This platform will enable seamless communication and data sharing among federal, provincial, and local governments, reducing duplication and effective implementation of strategy. At the provincial level, dedicated committees within the Provincial Ministries of Economic Affairs will oversee PFM reforms, ensuring that provincial priorities align with national objectives while addressing province-specific challenges.

For effective implementation at the local level, a Local Government Coordination Unit will be established within the Provincial Ministry of Economic Affairs (MOEA). This Unit will facilitate dialogue and coordination between local governments and provincial authorities, ensuring that PFM reforms are uniformly applied across jurisdictions. This strategy would act as a **frame of reference**, province and local government can develop their reform strategy in coordination with the federal government.



## 5.2. Funding arrangements

PFM reform strategy will require a multi-source funding approach to ensure effectiveness and sustainability. As a guiding document, the strategy will provide the overarching framework, while agency-specific implementation plans will detail the actions and corresponding budgets required for execution. Each agency will identify and allocate the necessary resources through its specific plans, ensuring targeted and coordinated efforts across all levels of government.

To support the strategy, the Government of Nepal (GoN) will collaborate with development partners through a single-window mechanism to streamline funding contributions. While the World Bank is expected to introduce a dedicated PFM reform program, this initiative will be one of several avenues to fund the strategy's implementation. Other development partners, including bilateral and multilateral organizations, can align their support with the strategy's objectives, leveraging the single-window mechanism for efficient resource mobilization and management.

Additionally, Nepal's government will need to provide continued budget support to bridge gaps and ensure ownership of the reform agenda. This will include dedicated allocations in national and subnational budgets to meet the envisioned results. By combining domestic resources and external funding, the strategy aims to establish a resilient PFM system.

## 5.3. Monitoring and evaluation

A crucial component of this PFM reform strategy's effective execution is Monitoring, Evaluation, and Learning (MEL). The MEL plan integrates lessons learned from past PFM reform initiatives and international best practices, serving as an early warning system during implementation. The plan not only aligns with global norms like the Public Expenditure and Financial Accountability (PEFA) framework but also incorporates contextual elements specific to Nepal to ensure legitimacy and sustainability. Likewise, Public expenditure tracking surveys (PETs) are quantitative surveys tracing the flow of resources from origin to destination. They assess the supply side of public service to verify how much of the allocated resources reach their final destination, and how long they take to get there.

The MEL system focuses on evaluating progress, identifying bottlenecks, and ensuring that reform efforts lead to meaningful changes in the PFM system. The PFM requires rigorous monitoring and evaluation where monitoring needs to cover the implementation of reform measures identifying how institutional and systemic changes have been implemented. This can be achieved by embarking on sustainable review exercises with carefully established targets and outcomes over a specific period and this has been highlighted in the revised & updated PFM strategy. This requires (i) Setting performance-related benchmarks and indicators vis-à-vis the agreed objectives (ii) Empirical measurement of these benchmarks (iii) The production of a PFM performance report once every year as far as possible & needs to be published (iv) Measuring progress by assessing outcomes, rather than inputs or agencies activities.

To implement the MEL function, a detailed MEL Plan will be developed within **two months** of the approval of the PFM Reform Strategy from the cabinet. The **PFM Reform Unit** within the Ministry of Finance at the federal government will be the focal agency to develop and implement the MEL Plan. A dedicated MEL team in the PFM reform Unit will be responsible for this task. Key features and outline content of the proposed MEL plan from the PFM reform strategy are provided in *Annex 2*.

Apart from these dedicated mechanisms, the Parliamentary oversight role would be crucial, especially for the Public Accounts Committee, Finance Committee (Federal and Provincial) and Office of Auditor General. The parliamentary oversight of PFM needs to be strengthened through the tabling of relevant specific documents, debates and questions, raising and explanation of issues including PFM, and through the effective operation of parliamentary finance committees. The empowerment of the Finance Committee is essential to oversee budget formulation and appropriation, implementation of policies and outcomes of budget allocations. Parliament itself is required to be more independent, and adequately resourced, and must have knowledgeable members through regular capacity enhancement with sufficient resources at their disposal even for interrogation of PFM issues to ensure value for money in PFM through results and outcomes. Examining the Auditor General's annual financial reports is decisive not only for PFM but also for good governance. Equally, oversight from international agencies like the World Bank, IMF, development partners etc., is also necessary to reinforce effective oversight and best international practices.

The oversight from the ***PFM Steering Committee*** which is also an apex body of PFM reform is regularly carrying out monitoring & evaluation of PFM reforms for robustly driving the PFM reform initiative through examining the progress made by different implementing agencies with policy advice to PFM reform unit & concerned stakeholders. The meetings of the PFM Steering Committee need to be organised as stated in the Public Financial Management Reform Operation Guideline, 2018. Being members of such bodies, different working group interactions/discussion is required more effectively with full ownership from the respective working group leaders. The media and civil society are recognised as PFM stakeholder organizations therefore it is essential to encourage them to play a role in the success of PFM initiatives. All stakeholders including, civil society, the private sector and professional organizations are required to be proactively engaged in the reform process with the foundation of workable infrastructure, good governance and deliverable policies.

In addition to this, the PFM reform unit will review and update the “Operating Guidelines” for effective implementation of the PFM reform activities in three tiers of government. As a led agency, the PFM reform unit will carry out its monitoring & evaluation of implementation regularly through effective coordination & facilitation. Under the federal structure, the initiatives of PFM reform have been extended to three tiers of government, the formation of a new additional steering committee or other appropriate mechanism at the SNGs level is required for the establishment of regular coordination & collaboration mechanism between three tiers of governments to initiate PFM reforms initiatives effectively.

In conclusion, it is highly recommended that each implementing agency develop its monitoring framework based on the national strategic framework according to its focused area of reforms to track the PFM progress regularly. Focus is required by examining the link between the strength of the country's PFM systems and public investment outcomes while designing the framework. It also supports another year of reform efforts and provides detailed information to the PFM Steering on the progress achieved and challenges encountered in meeting the Strategy's objectives and outcomes.

Besides this, at present, the World Bank and DP's periodic missions take place for review, support, guidance and suggestions. The Program Coordination Committee (PCC) is organised for the MTDF project evaluation. Similarly, the Nepal Project Portfolio Review (NPPR) meeting assesses the progress and proactively addresses the issues of various development projects in Nepal for the timely delivery of development results. The Ministerial Development Action Committee (MDAC), chaired by the concerned ministries is designed for the progress review, discussion of implementation problems and making appropriate decisions.

The proposed PFM reform project evaluates the design, implementation and performance of a project or program, and provides an overall assessment and recommendations. The M & E guidelines from NPC will provide legitimate status with its recognition. This will support mainstreaming the current M & E system by providing a road map as a basis for broad reforms in the government. The periodic PEFA assessment will acknowledge the PFM progress along with identified strengths & weaknesses for further improvements in the PFM reform process within the PFM cycle.

## Annexes

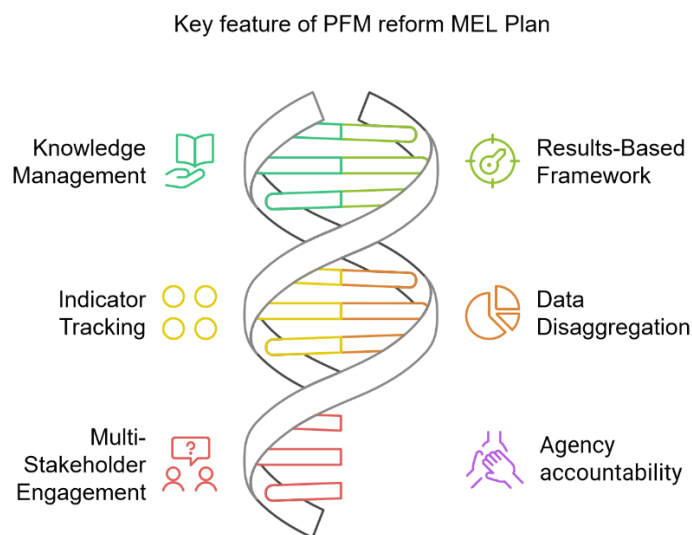
## Annex 1: Third PEFA assessment score

## Third PEFA Assessment Summary of PEFA Scores by Indicator

PFM Performance Indicator		Scoring Method	Dimension Score				Overall Score
			i.	ii.	iii.	iv.	
<b>I. Budget reliability</b>							
PI-1	Aggregate expenditure outturn	M1	D				D
PI-2	Expenditure composition outturn	M1	D	D	A		D+
PI-3	Revenue outturn	M2	D	C			D+
<b>II. Transparency of public finances</b>							
PI-4	Budget classification	M1	A				A
PI-5	Budget documentation	M1	C				C
PI-6	Central government operations outside financial reports	M2	D	D	D		D
PI-7	Transfers to subnational governments	M2	B	C			C+
PI-8	Performance information for service delivery	M2	B	B	A	B	B+
PI-9	Public access to fiscal information	M1	C				C
<b>III. Management of assets and liabilities</b>							
PI-10	Fiscal risk reporting	M2	D	D	D		D
PI-11	Public investment management	M2	C	B	B	C	C+
PI-12	Public asset management	M2	B	C	D		C
PI-13	Debt management	M2	C	B	D		C
<b>IV. Policy-based fiscal strategy and budgeting</b>							
PI-14	Macroeconomic and fiscal forecasting	M2	D	C	D		D+
PI-15	Fiscal strategy	M2	D	D	D		D
PI-16	Medium-term perspective in expenditure budgeting	M2	C	A	C	D	C+
PI-17	Budget preparation process	M2	B	A	C		B
PI-18	Legislative scrutiny of budgets	M1	C	C	A	B	C+
<b>V. Predictability and control in budget execution</b>							
PI-19	Revenue administration	M2	A	C	D	B	C+
PI-20	Accounting for revenue	M1	B	A	C		C+
PI-21	Predictability of in-year resource allocation	M2	C	D	A	A	B
PI-22	Expenditure arrears	M1	A	C			C+
PI-23	Payroll controls	M1	B	A	B	C	C+
PI-24	Procurement management	M2	D	D*	B	B	C
PI-25	Internal controls on non-salary expenditures	M2	C	D	A		C+
PI-26	Internal audit	M1	A	D	A	D	D+
<b>VI. Accounting and reporting</b>							
PI-27	Financial data integrity	M2	B	NA	B	B	B
PI-28	In-year budget reports	M1	C	A	C		C+
PI-29	Annual financial reports	M1	C	B	C		C+
<b>VII. External scrutiny and audit</b>							
PI-30	External audit	M1	B	D	B	C	D+
PI-31	Legislative scrutiny of audit reports	M2	D	C	C	B	C

## Annex 2: Key features of the MEL plan

The MEL Plan offers a guide for meticulously monitoring development, assessing performance, and promoting learning. To make sure that each activity is in line with the overall objectives of the PFM Reform Strategy, it integrates a results-based approach. The strategy places a strong emphasis on openness, responsibility, and flexibility to make sure that lessons learnt are consistently applied. Additionally, it emphasizes data-driven decision-making and multi-stakeholder participation as essential components of the monitoring and evaluation process.



### ***a. Knowledge Management cycle is at the core of the MEL Plan.***

Knowledge management is the foundation of the MEL Plan, ensuring that data and insights are effectively utilized to drive reforms. The cycle includes:

- **Knowledge Generation:** Collecting disaggregated data and evidence from various sources, including integrated databases, financial reports, audits, and stakeholder feedback, to understand the progress of reforms.
- **Knowledge Capturing:** Documenting lessons learned, case stories, success stories, best-fit practices, and challenges faced during the implementation to preserve institutional memory.
- **Knowledge Storage:** Establishing accessible repositories for storing data and reports in formats that are easy to retrieve and use.
- **Knowledge Dissemination:** Sharing findings through workshops, reports, and online platforms to engage stakeholders at all levels.
- **Knowledge Usage:** Applying insights from the knowledge cycle to improve decision-making, refine policies, and enhance the effectiveness of the reform process.

### ***b. Learning questions inform the MEL functions.***

The MEL Plan is driven by learning questions designed to evaluate the effectiveness of the strategy. These guiding questions help measure progress and identify areas for improvement. For instance:

- How successful has the implementation been in achieving a credible public financial management system that promotes excellence in service delivery?
- What policies, institutional frameworks, or processes have contributed to or hindered progress?

Answering these questions ensures that the strategy remains adaptive and responsive to evolving challenges and opportunities.

Annual review and reflection will be based on and revise the learning question for the upcoming years. Broader learning questions will, in addition, guide the independent evaluations of the PFM Reform Strategy implementation.

***c. Interorganizational and intergovernmental learning sharing is a priority.***

This MEL plan is founded on the principle that collaborative learning among various organizations and government levels is essential for the success of the PFM Reform Strategy. The reform activities envisioned in the strategy would be implemented through various agencies namely the National Planning Commission, MOF, Public Procurement Monitoring Office, Financial Comptroller General Office, Ministry of Federal Affairs and General Administration, Office of the Auditor General, and Public Accounts Committee. Sharing experiences, best practices, and challenges across institutions fosters collective growth and innovation. This approach ensures that local governments and agencies at all tiers are aligned in their objectives, reinforcing the reform's impact across the country. Mechanisms and processes will be a part of this MEL plan to systematize inter-governmental and inter-organizational learning sharing.

***d. Results-based MEL framework in place as a basis.***

The MEL Plan adopts a results-based MEL framework that prioritizes results (outputs, outcomes, and impact) rather than just accomplishing planned activities. While tracking the progress on activity accomplishment is important, the results-based MEL framework helps see the significance of those reform activities. It further helps the implementing agencies and stakeholders to see the extent to which the specific reform activity helps achieve the desired results. It tracks the results by measuring progress against predefined indicators. This approach ensures that every reform action meaningfully contributes to the broader objectives, creating accountability and focus.

***e. Standard (Global) indicators for PFM as well as custom indicators are both tracked.***

The MEL Plan integrates globally recognized indicators for PFM, such as those from PEFA (Public Expenditure and Financial Accountability), alongside custom indicators tailored to Nepal's unique context. Blending these indicators ensures alignment of the MEL database and progress reports with international standards while taking due consideration of contextual needs.

***f. Disaggregation of data is a priority.***

The MEL Plan prioritizes data disaggregation by location, GESI dimension, and governmental levels to guarantee inclusivity and focus changes. This ensures equitable progress by assisting in the identification of discrepancies and the design of actions that target particular issues. The detail of the data disaggregation plan is described in the Results-based MEL Framework (a backbone of the MEL Plan).

***g. Each implementing agency is accountable for monitoring progress against the action plan and reporting.***

The MEL Plan ensures the engagement of all implementing agencies in monitoring their progress against the agreed action plan and reports regularly. Agency-specific Action Plans will be the basis for action tracking. Their engagement serves as an accountability mechanism with clarity in their responsibilities, which helps in tracking and communicating progress consistently and clearly.

***h. MEL Plan includes a mechanism for multi-stakeholder engagement.***

The MEL Plan incorporates a structured mechanism to involve stakeholders from the government, civil society, development partners, and the private sector. This participatory approach ensures diverse perspectives and fosters transparency, trust, and collaboration in the reform process.

Whereas the scope of monitoring includes internal audits, external audits, parliamentary oversight and external oversight (from the development partners including the World Bank, International Monetary Fund, Asian Development Bank, and bilateral development partners), periodic review and reflection will also be a key function of the MEL plan. Similarly, an independent evaluation of the PFM reform strategy implementation will be carried out.

The PFM reform MEL plan includes, but is not limited to:

- a. Purpose and Scope of MEL Plan
- b. Principles guiding the MEL Plan
- c. Key concepts and terminologies in the PFM Reform MEL Plan
- d. Key monitoring and evaluation questions
- e. Mechanisms for MEL (interlinkages between focal agency and other implementing agencies, including responsibilities and feedback mechanism)
- f. Annexes:
  - Results-based MEL Framework (that details out indicators, definition of indicators as appropriate, data disaggregation parameter, baseline, target, frequency of data gathering, responsibilities)
  - Key tools for monitoring and review/reflection
  - Formats for periodic reporting, best-fit practices, success stories, case stories
  - Performance Indicator Reference Sheets (PIRS)