



NATIONAL PUBLIC FINANCIAL MANAGEMENT REFORM STRATEGY-III 2025 - 2030

MINISTRY OF FINANCE
SINGHADURBAR, NEPAL

Table of Contents

1. Introduction	5
1.1 Purpose of the strategy	5
1.2 Strategy formulation process	6
2. Contexts Informing the PFM Reform Strategy – III	6
2.1 PFM reform landscape	6
2.2 Political economy informing third PFM reform strategy.....	7
2.3 Lessons learnt.....	8
2.4 Situation analysis.....	9
3. Vision, Mission, Goal, Theory of Change, and Strategic Objectives	18
3.1 Vision	18
3.2 Mission	18
3.3 Core values and guiding principles.....	18
3.4 Theory of change.....	19
3.5 Strategic objectives: Overarching framework	21
4. PFM Reform Priorities and Results	22
Pillar 1: Budget Reliability.....	23
Pillar 2: Budget Execution, Accounting and Reporting.....	30
Pillar 3: Revenue Management	40
Pillar 4: Intergovernmental Fiscal Management	47
Pillar 5: Debt and Fiscal Risk Management	50
Pillar 6: Assets Management.....	54
Pillar 7: External Scrutiny, Transparency, and Accountability	59
Cross-Cutting Areas	66
5. Implementation Arrangements	68
5.1 Institutional arrangements.....	68
5.2. Funding arrangements	69
5.3. Monitoring and evaluation.....	69
Annexes	71
Annex 1: Third PEFA assessment score	71
Annex 2: Key features of the MEL plan	72

Abbreviations

ADB	Asian Development Bank
BPRS	Budget Preparation and Reporting System
CBMS	Central Billing 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
ICAN	Institute of Chartered Accountants of Nepal
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 Budgetary Information System
M&E	Monitoring and Evaluation
MDAC	Ministerial Development Action Committee

MEL	Monitoring, Evaluation, and Learning
MTEF	Medium-Term Expenditure Framework
MuAN	Municipal Association of Nepal
NAMS	Nepal Audit Management System
NARMIN	National Association of Rural Municipalities in Nepal
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 Nepal
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	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. As the first PFM reform strategy after the implementation of federalism in Nepal, it helps the government strategically allocate and utilize financial resources to meet the nation's obligations and socio-economic goals in the federal governance context.

This strategy aims in achieving the following:

- 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 IT systems 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.

The strategy guides reforms in fiscal policies, revenue mobilization, budgeting, expenditure, internal control, debt, assets, accounting, and auditing. Information technology (IT) system development and capacity development across sectors and levels 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. 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.

The Strategy aligns with the constitutional provisions for fiscal federalism, assigning expenditure responsibilities and revenue sources to federal, provincial, and local governments. The strategy is informed by key national frameworks and assessments, including the 16th Five-Year Plan (2025–2029), the Third PEFA Assessment (2022), and reports from various oversight institutions such as the Office of the Auditor General (OAG), Parliamentary Committees, the Commission for the Investigation of Abuse of Authority (CIAA), the National Natural Resources and Fiscal Commission (NNRFC), the National Vigilance Center (NVC) and Public Procurement Monitoring Office (PPMO). Furthermore, it incorporates insights from the Domestic Revenue Mobilization strategy (DRMS), Public Investment Management (PIM), the Tax Administration Diagnostic Assessment Tool (TADAT), the Debt Management Performance Assessment

(DeMPA), the Medium-Term Debt Strategy (MTDS), and other sectoral strategies relevant to the Public Financial Management (PFM) cycle.

1.2 Strategy formulation process

The National PFM reform strategy was developed through an inclusive and participatory process. The third PEFA assessment formed the basis for the strategy formulation. Agency-level consultations gathered preliminary inputs on PFM challenges and opportunities. Key federal government ministries and departments provided input on existing challenges, reform priorities, and opportunities in the PFM systems. This is complemented by field visits to Madhesh, Gandaki, and Koshi provinces, which enabled localized insights, ensuring alignment between national and subnational stakeholders' priorities. During the strategy formulation, more than 18 agency-specific presentations and consultation sessions were conducted. Additionally, 34 consultation sessions were held, engaging over 700 decision-makers from provincial and local governments.

Engagement with civil society organizations (CSOs), including the National Association of Rural Municipalities in Nepal (NARMIN) and Municipal Association of Nepal (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 good practices to the strategy.

The comprehensive and participatory approach to finalizing the National PFM Reform Strategy ensured broad stakeholder engagement and alignment with Nepal's development priorities. The process concluded with a high-level national consultation meeting, where key stakeholders, including policymakers and representatives from different tiers of government and development partners, provided feedback on the draft. The final draft of the strategy paper was published on the Ministry of Finance (MoF) website to solicit public feedback. In addition, written feedback was received from stakeholders, including the World Bank, the International Monetary Fund (IMF), the Asian Development Bank (ADB), the Foreign, Commonwealth & Development Office (FCDO), the Institute of Chartered Accountants of Nepal (ICAN), and Public Financial Management (PFM) experts. The finalization process involved translating the English version into Nepali and submitting the document to the Cabinet for final approval. This inclusive process ensured the National PFM Reform 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 2009-2015, followed by the second strategy in 2016 spanning from 2016/17 to 2025/26. To facilitate the implementation, 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, NAMS 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 Financial Procedures and Fiscal Accountability (FPFA) Act, 2019, and its accompanying regulations in 2021, along with Gender and Climate Responsive Budget Guidelines, align with international standards and the National Gender Equality Policy, 2077. 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 (as of 2022) alongside its first Gender-Responsive and Climate-Responsive PFM Assessments. These evaluations highlighted progress in PFM performance but also identified 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. Out of 9 GRPFM indicators only one was rated as “B” and the majority of them were “D” scores. Similarly, in regards to the CRPFM out of 14 indicators two were rated as “B”, four as “C” and six received “D” score. Nepal is the second country in Southeast Asia after Bhutan conducting the GRPFM and CRPFM.

Addressing these gaps, Nepal’s ongoing reforms emphasize integrating digital systems, improving intergovernmental coordination, and adopting climate and gender-responsive PFM practices. Along with the Nepal government's resources the development partners continue to provide essential support in reform initiatives. 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 vital to aligning these reform efforts with Nepal’s long-term fiscal and development goals.

2.2 Political economy informing third PFM reform strategy

Nepal's Public Financial Management (PFM) Reform Strategy is shaped by the country's broader governance transformation, especially its transition to federalism. The country has undergone significant political transitions, including the end of a decade-long civil war in 2006 and the establishment of a federal democratic republic in 2008. Nepal's shift to federalism in 2015 marked a major restructuring of governance, devolving significant fiscal and administrative powers to provincial and local governments. Political and economic factors also influence the effectiveness of PFM reforms. Political ecology continues to affect budget allocations, often prioritizing short-term electoral gains over long-term fiscal sustainability. Political instability, frequent changes in government, and patronage politics have often undermined long-term PFM reforms. Short-term political interests sometimes take precedence over fiscal discipline and efficient resource allocation. However, Nepal's PFM reform journey reflects a commitment to financial transparency, accountability, and decentralized governance. With continued political will and stakeholder collaboration, the reform strategy will play a pivotal role in achieving Nepal’s long-term fiscal and development goals.

Nepal's economy is heavily reliant on remittances, which contribute approximately 25% of the GDP (World Bank, 2023). This dependence makes the country vulnerable to external shocks such as global economic downturns or changes in migration policies in host countries. Additionally, Nepal's narrow tax base and large informal sector limit revenue mobilization. The revenue accounts for only around 15.6% of the GDP

(IMF, 2022). According to the Fourth Living Standard Survey (2022-23), poverty remains pervasive, with about 20.27% of the population living below the poverty line (Economic Survey, 2023/24), necessitating substantial public spending on social services. However, inefficiencies in public financial management, including low capital expenditure absorption rates (below 70% of allocated budgets, particularly after COVID-19), and process-oriented procurement systems, constrain effective resource allocation.

Structural economic challenges further constrain Nepal's growth prospects. The country's limited industrial base and underdeveloped infrastructure exacerbate unemployment and underemployment, with the youth unemployment rate hovering around 12.6% (NLSS, 2022/23). Frequent natural disasters, such as earthquakes and floods, place additional strain on public finances and disrupt economic activities. Nepal has consistently run fiscal deficits, averaging 4-5% of GDP in recent years (IMF, 2023). These deficits are financed through domestic borrowing and external loans, increasing public debt. Public debt stands at around 44.46% of the GDP (PDMO Second Quarter Report, 2025). Additionally, revenue-sharing mechanisms and intergovernmental fiscal transfers remain contentious, as subnational governments rely heavily on federal grants. Over 60% of local government budgets are funded by federal transfers. Strengthening Nepal's public financial management is crucial for achieving its development goals, including the Sustainable Development Goals (SDGs) and the 16th Periodic Plan.

Despite these political and economic challenges, Nepal has made significant progress in strengthening its PFM system, particularly in aligning fiscal policies with federal structures. Key achievements include the decentralization of fiscal governance through the Intergovernmental Fiscal Management Act, which has enhanced financial autonomy at the subnational level, improved budget transparency through the adoption of integrated financial management systems, and promoted budget credibility and expenditure tracking. Similarly, strong oversight institutions such as the National Natural Resources and Fiscal Commission (NNRFC) were established to promote equitable resource distribution. Efforts to integrate PFM-related systems are being made. This has enabled the faster implementation of fiscal federalism in Nepal. While these reforms demonstrate Nepal's commitment to modernizing its financial management practices, the evolving political and economic landscape necessitates strategic interventions to sustain and amplify these gains.

Institutionalizing evidence-based budget planning and reinforcing independent audit mechanisms can help to ensure that fiscal policies align with national development priorities. Furthermore, while development partner support has been instrumental in driving PFM reforms, ensuring that external assistance aligns with national priorities remains essential for sustainable progress. Strengthening donor coordination and embedding reform objectives within Nepal's broader development strategies will enhance reform effectiveness. Moving forward, clarifying fiscal responsibilities through legal reforms, fostering citizen engagement in budget planning, and leveraging technology for real-time budget monitoring will be vital steps in strengthening Nepal's public financial management system.

2.3 Lessons learnt

A key lesson from Nepal's Second PFM Reform Strategy (2016/17–2025/26) is the importance of adaptability in reform implementation, particularly during periods of transition to federalism. Initially designed as a comprehensive 10-year strategy, it played a crucial role in driving systemic reforms in PFM. The successful implementation of various reform programs, government resources and engagement with development partners underscores the value of collaborative efforts in achieving meaningful progress. The enhancement of PFM-related systems and frameworks highlights the need for continuous innovation, capacity building, and improvements.

Technology and citizen engagement play a vital role in strengthening PFM systems. The development of SuTRA, NPSAS, and p-LMBIS, alongside the rollout of integrated charts of accounts across all levels of government, demonstrated the effectiveness of digital solutions in improving financial management. Additionally, the revision of NPSAS standards, the introduction of NAMS, and initiatives such as Citizen Participatory Audits (CPA) reinforced the importance of transparency and public participation in governance. These experiences emphasize the need for embedding reform strategies within a broader institutional framework, ensuring sustained commitment, and fostering continuous learning to enhance the effectiveness of future PFM reforms.

It is important to align conceptualization and execution with evolving PFM processes and governance structures. The Third PEFA assessment highlighted major gaps in policy coherence, structural design, implementation, and monitoring. One major takeaway is that reform strategies must be adaptable to the dynamic nature of federalism, ensuring a clear understanding of its impact on public financial management. Additionally, stronger integration between government policies and resources is essential to enhance coherence and effectiveness.

There is a need for greater ownership of reforms at both operational and leadership levels. The strategy was often perceived as a technical initiative rather than a comprehensive political and institutional transformation. To drive meaningful and sustainable change, future reforms should foster a sense of shared responsibility among all stakeholders and emphasize the broader governance implications of PFM improvements. Strengthening operational plans, enhancing cross-sectoral coordination, and embedding reforms within a broader governance framework will be crucial for ensuring long-term success.

Despite having the best approach to an integrated PFM reform program, the strategy implementation faced several challenges, including complex implementation mechanisms, inadequate staff deployment, and low-prioritised change management principles. Implementation was further complicated by insufficient technical capacity, high staff turnover, and excessive reliance on external consulting services. Government monitoring mechanisms were inadequate for such a broader sector strategy. Despite these implementation issues, the second PFM reform strategy demonstrated the need for concrete strategic direction for PFM reforms.

2.4 Situation analysis

Public Financial Management (PFM) is a key 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 section provides an in-depth look at the current state of PFM in Nepal as informed by the Third PEFA Assessment as of 2022 ([https://www.pefa.org/assessments?c_ids\[\]=162](https://www.pefa.org/assessments?c_ids[]=162)), highlighting key areas of strength, challenges, and areas needing improvement. A Strengths, Weaknesses, Opportunities and Challenges (SWOC) analysis explores and uncovers the areas of intervention that demand strategic actions.

Table 1: SWOC analysis

Strengths	Weaknesses	Opportunities	Challenges
Budget Reliability			
<ul style="list-style-type: none"> ▪ Macroeconomic data analysis mechanisms exist. ▪ Clear budget guidelines and adequate circulars. ▪ The predictability of resource availability is high. 	<ul style="list-style-type: none"> ▪ Macroeconomic fiscal data are not adequately analysed. ▪ Limited use of evidence and data-driven resource forecasting. 	<ul style="list-style-type: none"> ▪ Revision of budget guidelines to improve budget realism. ▪ The planning process can be streamlined through innovative tools and IT systems. 	<ul style="list-style-type: none"> ▪ Macro fiscal forecasting lacks key elements like interest rate forecasts. ▪ Uneven institutional capacity exists across tiers of government. ▪ Political leadership support is required for a credible budget.
<ul style="list-style-type: none"> ▪ Adherence to international standards (GFSM and COFOG) ensures transparency. 	<ul style="list-style-type: none"> ▪ Unrealistic budget and revenue projections and weak policy-budget linkages. 	<ul style="list-style-type: none"> ▪ Capacity building programs for government officials in budget formulation. 	<ul style="list-style-type: none"> ▪ Unstable political commitment across tiers of government.
Budget Execution, Accounting and Reporting			
<ul style="list-style-type: none"> ▪ Budgets are driven through the IT system ▪ Public procurement institutions and laws are already in place ▪ Accounting is maintained as per the NPSAS standards 	<ul style="list-style-type: none"> ▪ Budget realism is poor, with average expenditure below 85% of the budget. ▪ Process-oriented public procurement and limited public transparency. 	<ul style="list-style-type: none"> ▪ Annual Workplan and implementation plan to be tracked through monitoring systems. ▪ Upgrading information systems to improve financial reporting and procurement. 	<ul style="list-style-type: none"> ▪ Low capital expenditure ▪ Qualitative financial reportings require adequate disclosures.
<ul style="list-style-type: none"> ▪ Internal controls are detailed and guidelines are issued. ▪ Internal audits are functional. 	<ul style="list-style-type: none"> ▪ Internal control mechanisms are not yet activated adequately ▪ The internal audit function needs better independence and professionalism. 	<ul style="list-style-type: none"> ▪ Internal audit cadres can be separated and made more professional in all three tiers. 	<ul style="list-style-type: none"> ▪ Internal control implementation can be an additional task without any incentive apart from the regular jobs.
<ul style="list-style-type: none"> ▪ Cashflow forecasting and monitoring systems are developed. 	<ul style="list-style-type: none"> ▪ The contract management system is still paper-based, affecting procurement quality. 	<ul style="list-style-type: none"> ▪ The e-GP system is gradually being upgraded. 	<ul style="list-style-type: none"> ▪ Effective budget execution time is limited, leading to rushed spending at year end. ▪ The borrowing plan is not analysed with the treasury and cash flow forecasting.
Revenue Management			

Strengths	Weaknesses	Opportunities	Challenges
<ul style="list-style-type: none"> Revenue Management Information System (RMIS) facilitates revenue collection. DRMS strategy developed. 	<ul style="list-style-type: none"> Revenue outturn is low due to ambitious targets and structural issues. Weak intergovernmental and inter-organisational coordination 	<ul style="list-style-type: none"> Modern tax reforms and digital systems are improving revenue collection. Revenue collection systems are interfaced and integrated. 	<ul style="list-style-type: none"> Over-reliance on indirect taxes and weak enforcement mechanisms. Taxpayers' culture towards the tax payment.
<ul style="list-style-type: none"> Transparent tax appeals procedure and reliable taxpayer information. 	<ul style="list-style-type: none"> Limited diversification of revenue sources. 	<ul style="list-style-type: none"> Efforts to digitize and modernize the tax system. 	<ul style="list-style-type: none"> Voluntary compliance is low due to perceived complexity and lack of education.
Intergovernmental Fiscal Management			
<ul style="list-style-type: none"> The fiscal transfer system is transparent and rule-based. Intergovernmental mechanisms are established. 	<ul style="list-style-type: none"> The nature of royalty and natural resources needs additional clarification. 	<ul style="list-style-type: none"> Three tiers of governments are working collaboratively. 	<ul style="list-style-type: none"> Increasing public debt and limited own-source revenues at SNGs.
<ul style="list-style-type: none"> Strong constitutional and legal frameworks govern fiscal transfers. 	<ul style="list-style-type: none"> Increasing trend of conditional grants. 	<ul style="list-style-type: none"> An automated and integrated fiscal transfer management system can be developed. 	<ul style="list-style-type: none"> Resource constraints at the federal government.
Debt and Fiscal Risk Management			
<ul style="list-style-type: none"> Strong debt management framework with a diversified debt portfolio. 	<ul style="list-style-type: none"> High debt service ratio (Revenue to Debt ratio). 	<ul style="list-style-type: none"> Strengthening governance and financial oversight of public enterprises. 	<ul style="list-style-type: none"> Increasing public debt due to infrastructure and social spending needs at all three tiers.
<ul style="list-style-type: none"> Prudent borrowing practices and minimal exposure to foreign exchange risks. 	<ul style="list-style-type: none"> Public enterprises contribute to fiscal risks through loans and guarantees. 	<ul style="list-style-type: none"> Efforts to mitigate fiscal risks through better debt management strategy. 	<ul style="list-style-type: none"> The economic impact of debt mobilisation.
Assets Management			
<ul style="list-style-type: none"> The Public Asset Management System (PAMS) is operational. 	<ul style="list-style-type: none"> Fixed asset records are incomplete, and major infrastructure and natural resources are excluded. 	<ul style="list-style-type: none"> Consolidating and publishing public asset reports to improve transparency. Establishing a dedicated unit for asset management 	<ul style="list-style-type: none"> Lack of a comprehensive legal and policy framework for asset management. Technical registers and valuation standards are yet to be developed.

Strengths	Weaknesses	Opportunities	Challenges
<ul style="list-style-type: none"> ▪ Recent initiatives to consolidate and publish public asset reports. 	<ul style="list-style-type: none"> ▪ Poor maintenance practices leading to asset depreciation. 	<ul style="list-style-type: none"> ▪ Integrating PAMS with broader financial management systems. ▪ Expand assets coverage to financial assets. 	<ul style="list-style-type: none"> ▪ Fiscal risks due to undervalued or unrecorded assets. ▪ Asset lifecycle management within each organisation.
External Scrutiny, Transparency, and Accountability			
<ul style="list-style-type: none"> ▪ Public disclosure of PFM information, aligned with GFSM and COFOG. 	<ul style="list-style-type: none"> ▪ Legislative scrutiny of audit reports is delayed, with a significant backlog. 	<ul style="list-style-type: none"> ▪ Citizen engagement strategy in PFM to improve transparency and accountability. 	<ul style="list-style-type: none"> ▪ Limited oversight by the legislature and supreme audit institution.
<ul style="list-style-type: none"> ▪ External audit coverage and quality are good, with reports publicly available. 	<ul style="list-style-type: none"> ▪ Other aspects such as procurement, gender, climate information and statistics are not fully disclosed or are delayed. 	<ul style="list-style-type: none"> ▪ Introduction of citizen participatory audits to enhance public participation. 	<ul style="list-style-type: none"> ▪ Outstanding audit irregularities and lack of audit follow-up.

Unofficial Transition

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 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). MoF issued GRB guidelines in 2007 for the federal government, and in 2020, the MoF issued model GRB guidelines for the subnational governments. 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 these initiations, revenue projections and expenditure prioritization challenges continuously persist in the budget-making process. The Public Expenditure and Financial Accountability (PEFA) Assessment, 2024, reveals that government expenditure consistently falls below 85 percent on an average of the annual allocation, with capital expenditure utilization merely at around 60 percent. Interlinkage among the periodic plan, sectoral plan, MTEF and the annual budget is strongly required. Meanwhile, reliability in macroeconomic forecasting remains a crucial challenge in resource estimation and forecasting.

Budget Execution and Reporting

Nepal has made significant progress in budget execution and reporting through the use of Information Technology (IT) systems. The e-GP System modernized the procurement system, enhancing transparency and efficiency in government procurement. The Public Procurement Act (2063) and Rules (2064) provide a comprehensive framework for procurement activities, ensuring standardization and accountability. Internal controls have been strengthened through clear segregation of duties, effectively configured in IT systems used in budgeting, accounting, reporting, and treasury management. Some of the achievements include the establishment of a dedicated internal audit team, compliance with internal audit handbooks and code of conduct, and ensuring comprehensive coverage. 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. Although it is basic, the cash forecasting system provides a foundation for financial planning, with each spending unit preparing quarterly budgets through the Line Ministry Budgetary Information System (LMBIS).

However, there are some areas for improvement in budget execution and reporting. The tracking mechanism of the annual budget implementation and expected result, along with the milestone tracker, is not effective. The partial use of the e-GP system has affected procurement transparency. Frequent transfer of staff affects the budget execution and their professional development. Similarly, the limited practice of cash flow management has a direct impact on treasury positions. The monitoring and evaluation system is not strong enough to review 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 duties and rights, encouraging voluntary compliance. In addition, the recently introduced Domestic Revenue Mobilization Strategy covers innovative reform measures in inland revenue.

Effective revenue administration across three tiers of government in Nepal requires strategic reforms, particularly in the underprioritized area of non-tax revenue. Undermining its potential due to the absence of umbrella laws and the inefficient use of natural resources. Despite having constitutional rights for specified revenue, 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 and auto-generated taxpayer returns can further modernize the tax system. Key areas for reform include strengthening the central billing and monitoring system (CBMS) and improving arrears management. Additionally, a transparent tax appeals procedure for managing revenue risks highlights 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 provisions and legal frameworks. The NNRFC has established parameters for fiscal transfers, ensuring fair and equitable distribution of resources. Modern information systems, such as the Treasury Single Account (TSA) and the Computerized Government Accounting System (CGAS), facilitate efficient fund transfers. 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.

The government continues to improve the alignment of finance with functions and address the design of fiscal transfers, ensuring the local needs and service standards. Nepal has successfully managed the transition to federalism while maintaining fiscal stability, laying a solid foundation for fiscal federalism despite ongoing challenges. Despite these notable achievements, some challenges persist, such as timeliness and automation of fiscal transfer. Similarly, the increasing volume of conditional grants has raised concerns about the autonomy of provincial and local governments. Additionally, better coordination of conditional grants and further clarification on revenue and expenditure assignments between federal and sub-national governments are needed.

Debt and Fiscal Risk Management

A comprehensive legal and institutional structure, supported by a dedicated debt management office, has strengthened Nepal's public 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. This approach helps minimize exposure to foreign exchange and interest rate risks, ensuring greater financial stability. In addition, the management of public enterprises has improved through enhanced oversight and governance frameworks. Despite increasing public debt, Nepal has complied with the fiscal rule without affecting macroeconomic stability.

The government has taken proactive steps to address the aforementioned gaps, focusing on strengthening financial oversight and governance frameworks for public enterprises (PEs) and Extra-budgetary units (EBUs). However, managing PEs and EBUs remains challenging, with 35 non-financial and 9 financial public enterprises, along with 135 EBUs requiring oversight. The Debt Operation and Management System (DOMS) needs significant upgrading to meet the financing needs of provincial and local governments. Furthermore, the government securities market has yet to become fully functional. Despite these shortcomings, the Public Debt Management Office (PDMO) has made progress in recording government debt, guarantees, and contingent liabilities.

Public Asset Management

The implementation of the Public Asset Management System (PAMS) marks a significant step forward in modernizing and strengthening 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. These efforts signify a strong commitment to improving asset management practices and strengthening public financial management systems.

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.

External Scrutiny, Transparency, and Accountability

Nepal has achieved significant milestones in promoting transparency and accountability in PFM. 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 international standard budget classifications. The implementation of citizen participatory audits has strengthened public engagement in financial oversight. Additionally, the external audit system, led by the Office of the Auditor General Nepal (OAGN), adheres to international standards, ensuring quality and comprehensive coverage. Legislative budget review exists, but some aspects of scope and procedures for budget scrutiny need improvement. The federal parliament's Public

Accounts Committee (PAC) plays an active role in addressing audit findings and contributes to the broader accountability framework. The gradual adoption of citizen engagement and participation demonstrates a growing commitment to transparency and accountability.

Despite these achievements, capacity enhancement and professionalization of OAGN staff remain essential. Faceless and remote audits are becoming increasingly vital. The expectation of parliamentarians' oversight is always high. Innovative tools like accountability meters and digital governance applications are widely used globally. Similarly, legal clarity on the settlement of audit irregularities and public access to complete procurement status through the procurement information system remains challenging.

Climate Responsive PFM

Nepal has emerged as a leader in integrating climate considerations into public financial management. Pioneering the Climate Public Expenditure and Institutional Review (CPEIR), Nepal has implemented systems to budget and track climate change-related expenditures, aligning with environmental sustainability goals. The Climate Change Policy ensures that strategies and sectoral plans align with climate goals, supported by appropriate budgetary allocations. The separate budget code, 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, signaling 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. Since 2007, GoN's GRB guidelines have demanded that the government's budget be marked as directly responsive, indirectly responsive and neutral to gender-related spending. Nepal is amongst the pioneer countries in Southeast Asia in undertaking interventions of gender issues in the PFM system. 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 (FCGO) reports gender-responsive expenditures in annual consolidated financial statements, ensuring transparency in gender-related spending. Since 2013, the Line Ministry Budget Information System (LMBIS) has monitored gender-responsive spending effectively, demonstrating the government's commitment to tracking and managing gender-related expenditures. The budget further reflects this commitment in budget speech annexes, which delineate gender-responsive allocations across all sectors. In 2020, the MoF issued model GRB guidelines for the subnational government to develop their budget following a GRB process.

Despite these achievements, appropriate categorization and tagging of gender-responsive expenditures remain an issue. The government's initiative to include gender objectives in the annual budgets and designate specific projects for advancing gender equality shows its dedication to gender justice. 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.

Unofficial Translation

3. Vision, Mission, Goal, Theory of Change, and Strategic Objectives

3.1 Vision

“A credible public financial management.”

3.2 Mission

To make a credible and integrated public 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 the 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 the 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 and result-oriented financial management. Objectivity ensures that 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 global climate targets and resilience.

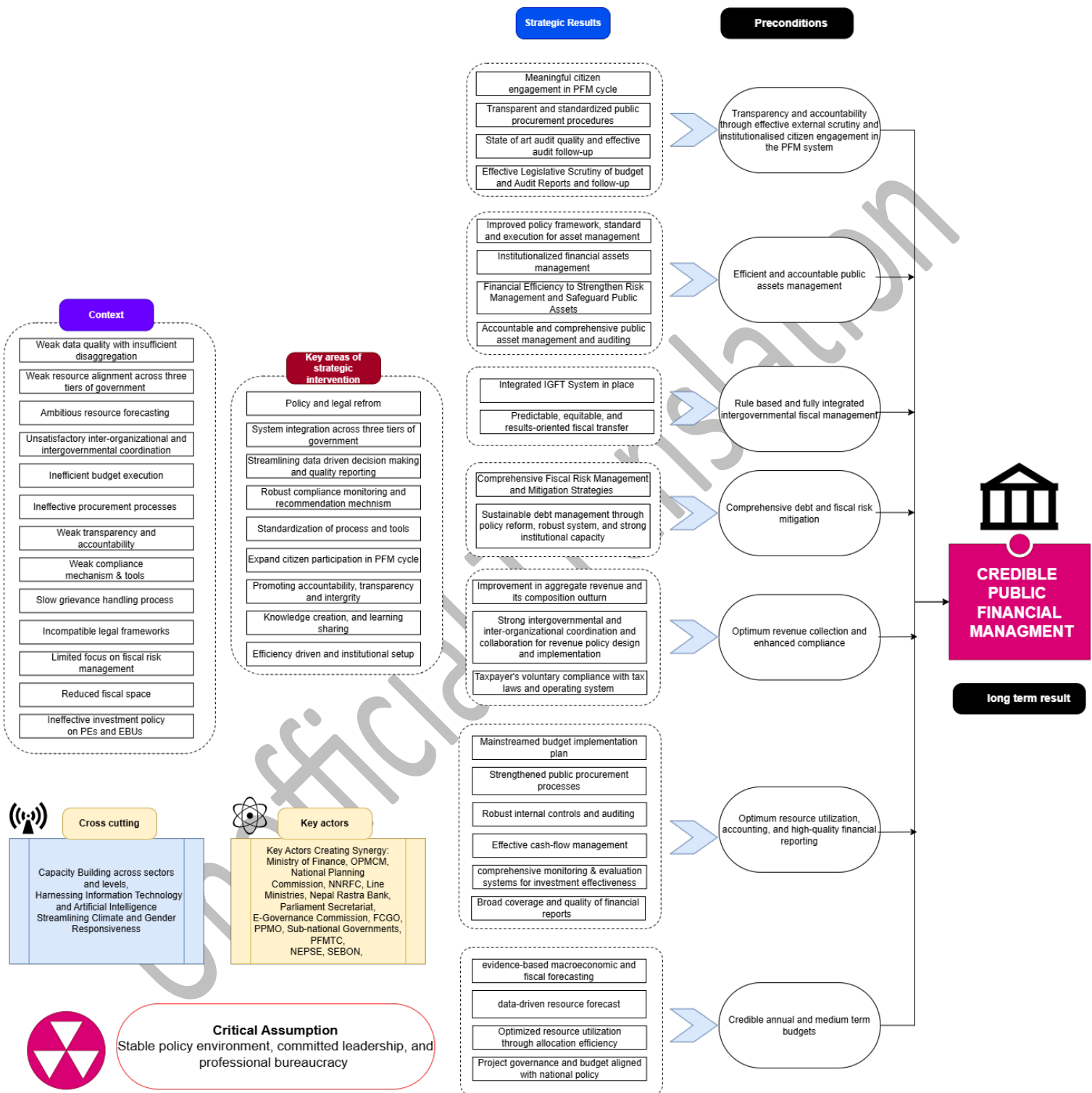
3.4 Theory of change

Nepal's public financial management system faces challenges of data quality, resource overlapping across government tiers, weak budget execution, and process-oriented procurement processes. To address these, the PFM Reform Strategy prioritizes interventions in policy and legal reform, system integration, evidence-based 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, the National Planning Commission, and sub-national governments, are central to driving the 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. The PFM strategy is expected to deliver excellence in governance, enabling enhanced service delivery and public trust in financial processes. Intended results are subject to the realization of the critical assumptions, such as the policy environment, committed leadership, and professionalization are favorable.

Theory of change: Illustrative diagram



3.5 Strategic objectives: Overarching framework

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

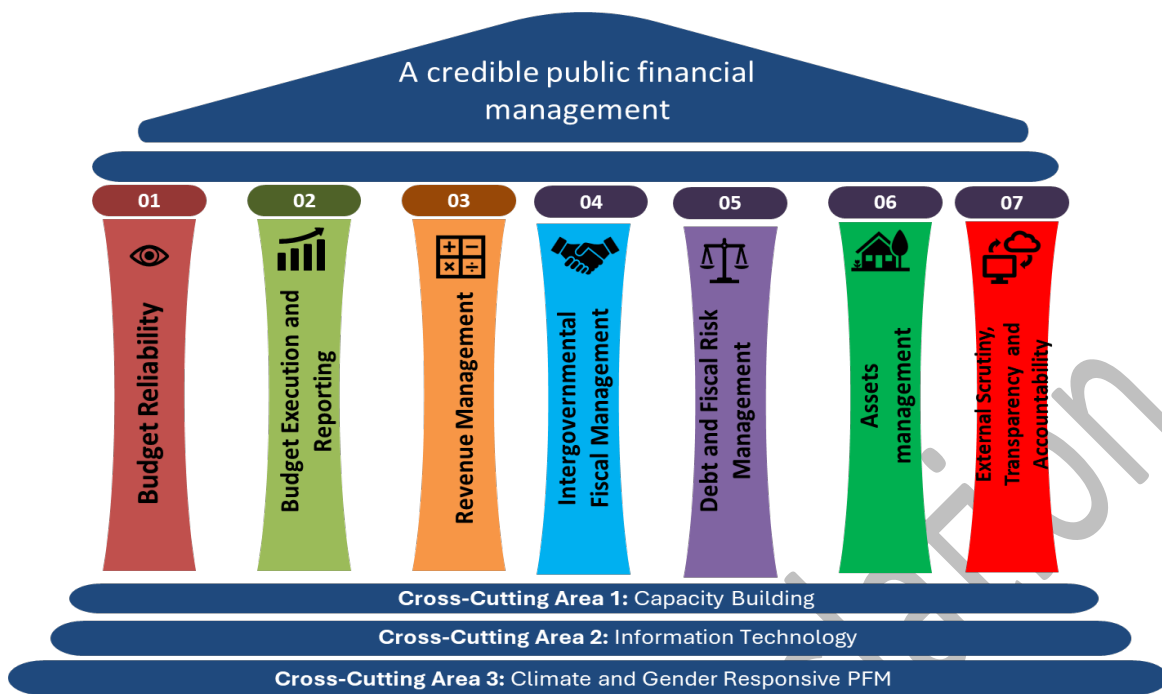
Strategic Pillars	Strategic Objectives
<p>Pillar 1: Budget Reliability Enhance the credibility of annual and medium-term budgets through realistic fiscal forecasting.</p>	<p>1.1 Advancing evidence-based macroeconomic and fiscal forecasting 1.2 Enhancing data-driven resource forecasting system 1.3 Ensuring allocation efficiency for optimized resource utilisation 1.4 Aligning project governance and budget with national policies and plans</p>
<p>Pillar 2: Budget Execution, Accounting and Reporting 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 & evaluation systems for investment effectiveness 2.6 Broadening coverage of accounting and quality of financial reports</p>
<p>Pillar 3: Revenue Management 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 taxpayers' voluntary compliance with tax laws and operating system</p>
<p>Pillar 4: Inter-governmental Fiscal Management 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 Transfer System</p>
<p>Pillar 5: Debt and Fiscal Risk Management 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>Pillar 6: Assets management Enhance efficient and accountable asset management for good governance.</p>	<p>6.1 Enhancing policy framework for public asset management 6.2 Institutionalizing 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
Pillar 7: External Scrutiny, Transparency, and Accountability 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.
Cross-Cutting Areas <ol style="list-style-type: none"> 1. Capacity Building 2. Information Technology 3. Climate and Gender Responsive PFM 	

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, Custom Reform and Modernization Plan (2078-83 BS), and 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 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 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 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 that particularly focus on the total budget ceiling for the upcoming fiscal year, including the ministry-wise budget ceiling.

The Economic Survey, an annual publication of the Ministry of Finance (MoF), analyzes the current economic scenario and provides a future scenario as well. The National Statistics Office (NSO), Nepal Rastra Bank (NRB), PDMO and FCGO provide technical support and required data.

The PEFA assessment 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. Expenditure forecasts for the subsequent 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.

The strategy prioritizes the following reforms:

1. 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. 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, allowing them 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 sectoral strategies fully, and the agencies 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 dedicated data analysis practice and the availability of such data to each spending unit. The spillover effects of such budget forecasting at the federal government have hampered the reliability of budgets at the provincial and local levels.

The strategy prioritizes the following reforms:

1. Preparation of costed sector plans and operational plans on a rolling basis. These plans will be an input for the MTEF and deciding budget ceilings.
2. Aligning the annual procurement plan with the budget. As part of the annual budget submission, the agencies 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.

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 the alignment between budgetary allocations and national priorities, reduce allocation inefficiency, and promote equitable development.

The strategy prioritizes the following reforms:

1. Linking MTEF with the plans 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 forecast by types for the subsequent two fiscal years, and comparing these forecasts with previous estimates or explaining changes in expenditure forecasts.
2. Development of 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 estimate the overall budget objectively.
3. Evaluate the expenditure needs and strategically 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, thereby achieving all SDGs by 2030. The 16th Periodic 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 2021 highlights that Nepal's primary deficiencies 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 strategy prioritizes the following reforms:

1. Simplify the project bank guidelines and update the National Project Bank information system, making the system more user-friendly and integrated with the budgeting system.
2. Making the monitoring mechanism effective, especially for the national priority and mega projects.

Results Framework | Pillar 1: Budget Reliability

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
Strategic Objective 1.1: Advancing evidence-based macroeconomic and fiscal forecasting				PI-14=D+ PI-16 = C+	PI-14=C PI-16=B	
1.1.1.	Formulation of fiscal policy and fiscal rules	<ul style="list-style-type: none"> ▪ Fiscal rules introduced at the federal level ▪ Gradual shift towards MTBF and MTFE ▪ Enhanced fiscal discipline 	<ul style="list-style-type: none"> ▪ Fiscal policy developed and implemented ▪ Fiscal policy document published. ▪ Fiscal rules enacted. ▪ A study conducted for advancing towards MTBF and MTFE 	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	<ul style="list-style-type: none"> ▪ Realistic and real-time macro-economic data integrated with PFM systems 	<ul style="list-style-type: none"> ▪ Fiscal and financial data updated on the National Data Portal (NDP) ▪ Use of Macro-econometric tools 	2019-20 static data available	Quadrimester updating, gradually real-time data update through the use of an Application Programming Interface (API)	NSO, EPAD-MOF, FCGO, NPC, MDAs at PLGs
Strategic Objective 1.2: Enhancing data-driven resource forecasting system				PI-3=D+ PI-19= C+	PI-3=D PI-19=B	
1.2.1.	Develop and utilize resource forecasting tools	<ul style="list-style-type: none"> ▪ Resource Forecasting tools available for use 	<ul style="list-style-type: none"> ▪ Basis defined for Resource Forecasting ▪ Guidelines for using tools ▪ Budget calendar is updated annually and compliance is checked. 	Partial	Basis and guidelines prepared by 2027, and continuous compliance	NPC, RMD-MOF
1.2.2.	Equip National Resource Estimation Committee (NREC) and Technical Committee for realistic budget planning	<ul style="list-style-type: none"> ▪ Equipped and capacitated resource estimation committee at three tiers ▪ Realistic ceiling provided by NPC 	<ul style="list-style-type: none"> ▪ SOP developed and updated for the NREC and technical committees ▪ The National Resource Estimation Committee and 	Formal committee exists	Technically equipped committees	MoF, NPC MOEAP, PPC

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
			<p>Technical Committee follow the SoP in budget planning.</p> <ul style="list-style-type: none"> Percentage of the variance of the Annual budget ceiling with the actual budget. 			
1.2.3.	Streamline foreign aid-mobilization through on-treasury	<ul style="list-style-type: none"> The majority of foreign aid projects are channelled through country systems. (On budget on treasury mechanism) 	<ul style="list-style-type: none"> Single window mechanism activated for PFM reforms. Number and volume of off-budget off-treasury activities captured by AMIS system 	Partial	Single window mechanism effective from July 2025 onward	MOF IEECD and FFCD division
Strategic Objective 1.3: Ensuring allocation efficiency for optimized resource utilisation						
1.3.1.	Revise norms and standards for projects, programs, and expenditure prioritization	<ul style="list-style-type: none"> Effective implementation and compliance with prioritization norms Advancement towards performance-based budgeting (i.e., results orientation) Simplified norms, standards and guidelines for planning and budgeting 	<ul style="list-style-type: none"> Various norms and guidelines, SoP, and directives on projects, programs, and expenditure prioritization Norms set for performance-based budgeting Amendment of budget preparation guidelines with a focus on gender, climate and other sectoral process 	Basis and standards for project classification.	<ul style="list-style-type: none"> Planning and Budgeting systems are developed as per the norms and standards Simplified guidelines developed 	MOF, NPC, Line Ministries
1.3.2.	Systematically prioritize budget activities and budget allocation.	<ul style="list-style-type: none"> Realistic budget allocation to priority projects Selection of Projects that are well-identified and economically feasible 	<ul style="list-style-type: none"> Prioritisation criteria included in budget preparation guidelines Documentation of Prebudget interaction 	Legal provision of the budget discussion	Document of the prioritization and pre-budget 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"> Integrated Periodic plan, project bank, MTEF, and annual budgets 	<ul style="list-style-type: none"> Reasons for deviation between MTEF and the annual budget published NPBMIS, MTEF, LMBIS, PLMBIS, SuTRA integrated 	MTEF report published for compliance	<ul style="list-style-type: none"> MTEF budget taken as the basis for annual budget preparation 	MOF, NPC, line Ministries

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
		<ul style="list-style-type: none"> Effective implementation of Medium-term Expenditure MTEF is used as a reform tool, not only as a compliance. Public investment management (PIM) adhered to the planning process. 			<ul style="list-style-type: none"> Full integration of the system 	
1.3.4.	Rationalize and standardize budget activities for efficient budgeting	<ul style="list-style-type: none"> Well-defined functional budgets Enhanced Activity-based budgeting 	<ul style="list-style-type: none"> Chart of activity developed and incorporated into the budgeting system Gender and climate codes embedded into the budgeting system Production and employment code integrated and report generated 	800,000 activities in LMBIS, P-LMBIS, SuTRA	Less than 40,000 major activities incorporated into the budgeting system	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"> Efficient allocation of resources for the programs Effective monitoring and evaluation mechanism 	<ul style="list-style-type: none"> Number of duplicate budgets reported Number of off-budget programs identified and streamlined 	No mechanism exists to report duplicate budgets	Mechanism for identification of duplicated programs activated	NPC, MOF, PAC, PPC, MOEAP, LG's, Sectorial committees, NNRFC
Strategic Objective 1.4: Aligning project governance and budget with national policies and plan				PI-2 = D+ PI-11 = C+ PI-5=C	PI-2 = D PI-11 = B PI-5=C+	
1.4.1.	Improve National Project Bank Management Information System	<ul style="list-style-type: none"> Single unified project bank system rolled out Increased compliance with NPB procedures, guidelines and system 	<ul style="list-style-type: none"> Modules for the province and local governments developed in NPBMIS NPBMIS integrated with MTEF, LMBIS, P-LMBIS, and SuTRA 	National Project Bank established	Updated national project Bank MIS system by Mar 2026	NPC, Line Ministries

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
			<ul style="list-style-type: none"> Percentage of projects included in the annual budget outside of NPBMIS 			
1.4.2.	Provisioning of an onsite monitoring committee with the authority to resolve problems/issues on development projects	<ul style="list-style-type: none"> Effective monitoring of National Priority and Big Projects On-site problem-solving mechanism activated 	<ul style="list-style-type: none"> Number of joint monitoring visits of the National priority and big projects in a year Develop detailed guidelines for effective monitoring 	M&E Act and regulation	Amendment of the M&E Act and regulation	NPC, OPMCM, Projects Manager
1.4.3.	Comply with the Project Readiness Filter while prioritizing the projects	<ul style="list-style-type: none"> Priority projects are adequately resourced Quality of project prioritization is enhanced in the annual budget 	<ul style="list-style-type: none"> Project Readiness Filter streamlined for Province and Local governments Percentage of projects that complied with the readiness filter parameter 	NPC guidelines have provision	Endorsement of project readiness filter by mid-2026	MOF, Line ministries, NPC, PLGs

Pillar 2: Budget Execution, Accounting 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

Budget formulation and approval frameworks have improved, but gaps in the implementation phase across federal, provincial, and local levels persist. Due to limited effort during planning preparation, 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. Process-oriented legislative frameworks and the use of few procurement methods have created challenges to addressing modern procurement needs. The capacity of the Public Procurement Monitoring Office (PPMO) is constrained by structural and functional limitations. As the PPMO doesn't have a functional administrative mechanism, it has to rely on procuring entities for data collection and expertise mobilisation. These challenges affect the accessibility of procurement systems. Current procurement practices do not differentiate between the nature, size, and complexity of procurement activities. As a result, smaller-value procurements also have to follow a lengthy and complex process.

To address these gaps, Nepal's PFM reform strategy focuses on modernizing procurement laws and regulations to reflect good international 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.

Standardizing procurement procedures across all levels of government is essential to address the federalism context. 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.

The activities will reform the overall ecosystem of public procurement including profiling procurement practitioners (Contractors and suppliers) and such information be linked with the evaluation, and award

of the contract. Such a process supports the gradual development of procurement practitioners. Furthermore, the capacity of procurement officials through training programs ensures adherence to standardized practices. By improving public access to procurement information and streamlining processes, these reforms will increase transparency, foster competition, and reduce inefficiencies. A standardized and transparent procurement system will improve public trust, and contribute to effective resource utilization and service delivery.

The strategy prioritizes the 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.

Strategic Objective 2.3: Enhancing internal controls and internal auditing

Internal control and Internal 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 embedded within the IT and governance system rather than creating a separate mechanism. 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 the 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 the 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 technical component of Nepal's fiscal operations that ensures the timely availability of funds for budget implementation. However, limited 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.

The strategy prioritizes the following reforms:

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 has direct relations with the monitoring and evaluation (M&E) mechanism. 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) restricts 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 good practices. This framework will enable the 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. The on-site problem-solving mechanism would facilitate qualitative M&E mechanisms. These reforms aim to maximize the impact of public investments and improve resource utilization.

The strategy prioritizes the following reforms:

1. Formulate and implement a results-based monitoring framework for public investment projects based on international good 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, planning and budgeting purposes.
3. Institutionalize a mechanism for the 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 published publicly, 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 is a major challenge.

The strategy prioritizes full compliance with NPSAS, including comprehensive disclosures of assets, liabilities, and financial results of EBUs. The 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, the 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 the 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
Strategic Objective 2.1: Increasing effectiveness of budget implementation				PI-1=D	PI-1=C+	
2.1.1	Streamline the annual budget Implementation plan through the use of IT	<ul style="list-style-type: none"> ▪ Improved Budget Implementation ▪ Increased budget outturn 	<ul style="list-style-type: none"> ▪ System of Annual Implementation Plan (AIP)/ Annual Work Plan (AWP) developed for streamlining. ▪ Annual budget implementation plan linked with annual procurement plan ▪ Percentage of outturn of revenue and expenditure 	Annual plan developed by line agencies	AWP and AIP developed	All Budget implementing entities
2.1.2	Enhancing operational efficiency of spending units	<ul style="list-style-type: none"> ▪ Better capital expenditure and its effectiveness ▪ Better expenditure outturn ▪ 	<ul style="list-style-type: none"> ▪ Simplified/ revised procedures 	Procedures, norms and guidelines exist	Simplified and revised guidelines	NPC, MOF, FCGO, PLGs
2.1.3	Development of process and progress tracker for budget implementation in three tiers	<ul style="list-style-type: none"> ▪ Milestones integrated with budgeting systems in three tiers ▪ M&E mechanism strengthened 	<ul style="list-style-type: none"> ▪ The budget implementation tracker was developed to address budget implementation along with public accessibility. ▪ Percentage milestones tracked and reported in three tiers 	The milestone tracker in OPMCM focuses on policy and program perspectives only.	Budget implementation tracker in all three tiers	MoF, FCGO, OPMCM, NPC and PLG's
Strategic Objective 2.2: Streamlining procurement processes for better efficiency, accessibility, and transparency				PI-1=D PI-24= C PI-1 = D	PI-1=C PI-24= C+ PI-1 = C	
2.2.1	Standardize and localize procurement laws in accordance with global standards	<ul style="list-style-type: none"> ▪ Improved procurement transparency and efficiency. ▪ Nepalese procurement law for all development partners 	<ul style="list-style-type: none"> ▪ National MAPS assessment conducted ▪ Number of stakeholders and development partners using Nepali procurement law. ▪ Procurement specialists accredited and deployed. 	<ul style="list-style-type: none"> ▪ Sectoral MAPS Assessment report ▪ UNICITRAL model adopted 	<ul style="list-style-type: none"> ▪ Procurement Assessment completed – 2027 ▪ Recommendations will gradually be incorporated by 2029 	PPMO, OPMCM

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
			<ul style="list-style-type: none"> Number of procurement practitioners trained and capacitated 			
2.2.2	Localization of Open Contracting Data Standards (OCDS)	<ul style="list-style-type: none"> OCDS standards are localized and implemented 	<ul style="list-style-type: none"> A study for OCDS localization conducted 	Null	<ul style="list-style-type: none"> Localisation study completed by 2028 and implementation initiated 	PPMO
2.2.3	Simplify SBD to enable efficient and effective procurement	<ul style="list-style-type: none"> Legislative and Regulatory Framework on Procurement is submitted A new simplified procurement method identified 	<ul style="list-style-type: none"> Simplified Standard Bidding Document (SBD) issued 	<ul style="list-style-type: none"> PPA (1st Amendment) PPR (1-13 Amendments) 	<ul style="list-style-type: none"> Drafting of amendment of PPA/PPR prepared by 2026 PPA/PPR Amended by 2027 	PPMO/GON
2.2.4	Implement the 'Framework Agreement Procurement' method	<ul style="list-style-type: none"> Increased capital expenditure Increased understanding of concerned officials on the Framework Agreement Procurement method 	<ul style="list-style-type: none"> Percentage of Capital expenditure to budget allocation >65% Number of officials trained on the Framework Agreement Procurement method 	Null	<ul style="list-style-type: none"> Guideline developed by 2026 Sensitization of using framework agreements is widely carried out. 	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"> Increased capital expenditure Contract management and e-payment data available in the public domain IT institutionalization support extended for digital advancement and adaptation of the latest technology, including AI/BI. Strengthen Public Procurement Governance and Oversight 	<ul style="list-style-type: none"> Percentage of procurement and contracts managed through the e-GP system Functional public procurement plan Manual developed and circulated Software inventory and log maintained Percentage of activities defined by the Digital Nepal Framework incorporated 	e-GP established in 2017 limited to contract award	Contract management through the e-GP system begins by 2028	PPMO/MoF
2.2.6	Strengthen a Procurement Management Information System (PMIS) and provide	<ul style="list-style-type: none"> Enhanced transparency in public procurement 	<ul style="list-style-type: none"> Percentage of public procurement included in the PMIS 	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
	access to the public to get real-time procurement monitoring.					
Strategic Objective 2.3: Enhancing internal controls and internal auditing				PI-25=C+ PI-26=D+ PI-23=C+	PI-25=B PI-26=C PI-23=B	
2.3.1	Enhance compliance with internal control mechanisms.	<ul style="list-style-type: none"> ▪ Active Internal control committees ▪ IT systems designed to align internal control system ▪ Internal control across three tiers of government is robust 	<ul style="list-style-type: none"> ▪ Internal control guidelines approved in line with the COSO/ISSAI 9100 Framework by all three tier agencies 	<ul style="list-style-type: none"> ▪ Few agencies prepared IC manuals based on the FCGO IC framework 	Implementation in three tiers of Government.	FCGO, All entities of 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"> ▪ Enhanced focus on high-risk areas during audits. ▪ Quality of internal audit standards enhanced. ▪ Independence of internal audit staff ensured 	<ul style="list-style-type: none"> ▪ Percentage of audits using risk-based approaches. ▪ Percentage alignment of internal audit standards with IIA standards ▪ Number of days taken to complete an internal audit after introducing ICT-based tools. 	<ul style="list-style-type: none"> ▪ Lack of Internal audit standards adaptation ▪ Low level of Professionalism 	<ul style="list-style-type: none"> ▪ Use of ICT and RBA techniques on Internal audit ▪ The gradual transformation toward faceless audit practice 	FCGO, PTCOPFMT, ICAN
2.3.3	Develop a centralized payroll control system for three tiers of government	<ul style="list-style-type: none"> ▪ A central payroll database is in place and periodic payroll audits ▪ Increased effectiveness in the payroll control system 	<ul style="list-style-type: none"> ▪ Interlinkage between the personnel database and payroll system ▪ Number of monthly reconciliations 	Payroll record exists	Federal centralized payroll in place by 2028	PIS, MoFAGA, FCGO, MDAs
Strategic Objective 2.4: Ensuring effective cash flow management				PI-21=B PI-22=C+	PI-21=B PI-22=B	
2.4.1	Develop a system to regulate multi-year commitment and link it to budgeting and planning.	<ul style="list-style-type: none"> ▪ Budget commitment, commitment liability and payment systems are integrated ▪ Increased fiscal discipline and reduced payment delays. 	<ul style="list-style-type: none"> ▪ Full utilization of the commitment accounting module ▪ Percentage variance between budget commitment, commitment liability and payment systems 	Budget commitment, payment system and commitment liability are not interlinked	Commitment accounting at all three tiers implemented	MOF FCGO PG's LG's

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
		<ul style="list-style-type: none"> Budget ceiling and budget disbursement of FGs to PLGs are more predictable Predictable treasury positions 	<ul style="list-style-type: none"> Various government funds are reported and linked in cash flow projections. 			
2.4.2	Upgrade the system for recording and regulating arrears	<ul style="list-style-type: none"> Real-time reporting of payment arrears 	<ul style="list-style-type: none"> Functional arrear module within the accounting system 	Arrears are prepared 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"> All SuTRA modules implemented at all local governments Enhanced cash management and treasury management at local government SuTRA gradually covers school accounting and health accounting at local levels 	<ul style="list-style-type: none"> SuTRA v.2 developed and rolled out TSA system implemented at local government. Percentage of local governments under TSA. A dedicated module for school and health included in SuTRA 	Decentralized bank account	<ul style="list-style-type: none"> Enhanced SuTRA system for LGs TSA implemented at local government 	FCGO Local Government
2.4.4	Maintain a strong link between cash flow and debt operation	<ul style="list-style-type: none"> Effectiveness in liquidity and solvency management 	<ul style="list-style-type: none"> Quarterly cash-flow forecast report is available across all three tiers 	Formation of Cashflow management committees and procedures have been prepared	Regular and continued cash-flow forecast reports across all three tiers	MoF, FCGO and PDMO PLGs
2.4.5	Upgrade accounting manual	<ul style="list-style-type: none"> The upgraded accounting manual is aligned with the NPSAS and ICT system 	<ul style="list-style-type: none"> Updated accounting manual published 	Accounting manuals exist	Federal context accounting manual developed	FCGO
Strategic Objective 2.5: Establishing comprehensive monitoring & evaluation systems for investment effectiveness				PI-1=D PI-11=C+	PI-1=C PI-11=B	
2.5.1	Formulate and implement a results-based monitoring framework based on global good practices.	<ul style="list-style-type: none"> Improved efficiency in public investment planning and monitoring. Enhanced project performance tracking 	<ul style="list-style-type: none"> Information system developed for online reporting and monitoring public investment projects 	Milestone trackers exist at OPMCM.	Upgrade the result-based monitoring framework by 2027 at all three tiers.	NPC, MoF, OPMCM, and OCMCM

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
			<ul style="list-style-type: none"> Percentage of projects monitored and appraised under the PIM framework. 			
2.5.2	Institutionalize a mechanism for independent evaluation of mega development projects (national pride and transformational)	<ul style="list-style-type: none"> Increased accountability in public investment outcomes. Independent evaluation of national priority and transformational projects 	<ul style="list-style-type: none"> Number of independent evaluations conducted. Percentage of evaluation recommendations complied. 	Evaluation mechanisms for compliance exist	Result-based evaluation mechanisms exist	NPC/MoF PPC
Strategic Objective 2.6: Broadening coverage of accounting and quality of financial reports				PI-27=B PI-28=C+ PI-29=C+	PI-27=B PI-28=B PI-29=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"> Annual financial statements prepared in full compliance with NPSAS Improved consistency and comparability of financial reports. Coverage of Gender-responsive and climate-responsive disclosure on NPSAS-based financial reports. Coverage of funds and its reporting within and beyond government treasury 	<ul style="list-style-type: none"> Percentage of entities complying with NPSAS. Percentage coverage of Extra Budgetary Units and additional disclosures of assets and liabilities Number of entities using integrated financial management systems (IFMIS) Revenue arrears are covered at the provincial and local levels. Percentage increase in public funds tracked and reported 	Limited disclosure on NPSAS-based financial statements	Extended and qualitative NPSAS-based financial reports inclusive of various indicators	FCGO, PDMO, ICAN, PTCO, Province Ministries, and Local Government
2.6.2	Advancing paperless and faceless accounting	<ul style="list-style-type: none"> Digitization of accounting records The national payment system operationalized 	<ul style="list-style-type: none"> Number of agencies' digitized accounting records Digitized National payment system. 	Accounting records in the IT system	Supporting documents digitisation starting from FY 2028	FCGO, DTCO, PTCO, LGs, Spending units
2.6.3	Prepare qualitative quarterly budget execution reports, accompanied by analysis and	<ul style="list-style-type: none"> Management dashboard developed and rolled out Elimination of hard copy report mechanism 	<ul style="list-style-type: none"> Management dashboard system developed Timeliness of report published 	Paper-based reporting system exists	Management dashboard developed and deployed	MOF, FCGO, ICAN, PTCO and Local Government

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
	commentary on budget execution.	<ul style="list-style-type: none"> Consistent and timely financial reporting 	<ul style="list-style-type: none"> Percentage of entities using the management dashboard for reporting 			
2.6.4	Develop integrated accounting and reporting mechanisms of EBUs	<ul style="list-style-type: none"> EBU's accounts are streamlined and standardized Fiscal risk of EBUs tracked PEs publish their financial statement within the prescribed timeframe. 	<ul style="list-style-type: none"> An integrated system of EBU's accounting and reporting developed EBUs mapped and system developed 	NPSAS standard rolled out	<ul style="list-style-type: none"> Develop and implement a system for EBUs EBUs financial statement published on time. 	FCGO, MOF, EBUs
2.6.5	Revise the Chart of Accounts (CoA) and ensure financial data integrity through PFM information systems certification (ISO and IEC).	<ul style="list-style-type: none"> Strengthened technical capacity for accurate financial reporting. Increased transparency and stakeholder engagement. 	<ul style="list-style-type: none"> Standards for Data classification and disclosure are formulated Number of personnel trained on financial data integrity 	An integrated chart of accounts exists.	<ul style="list-style-type: none"> Chart of accounts fully compliant with GFSM, Streamlined chart of activities Certified Data classification standard for public disclosure 	MOF, FCGO, IRD, ICAN and Spending units

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 frequently discussed 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 shortcomings 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. 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.

The strategy prioritizes the following reforms:

1. 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.
2. Implement an integrated tracking system for arrears, prioritize high-risk cases, and tax expenditure through reimbursement methods, and enforce effectively.
3. A scoping study of revenue areas for the Federal, province and local government, providing clarity on the revenue assignments.

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

Nepal's federal 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 and inefficiencies in revenue collection. Federal and subnational governments have still ongoing discussions on their respective roles, while disputes over revenue-sharing arrangements further hinder effective collaboration.

Inter-organizational coordination is equally challenging. 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 IRD, DoC, and the NNRFC often operate in isolation, leading to fragmented policy implementation and suboptimal resource mobilization. The absence of integrated systems for data sharing further undermines transparency and accountability.

National ID and PAN numbers are made mandatory information during business registration. The profile of a business owner is hard to track in the absence of these, resulting in tax evasion, duplication and complexities for enforcement agencies. Even the general public is suffering from these administrative hassles. OCR has recently introduced such a mechanism in business registration, but it is yet to be implemented in provincial and local business registration.

Strengthening coordination requires institutional mechanisms to harmonize revenue policies and implementation strategies across government tiers. The proactive role of the IGFT councils and sectoral committees 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 business registration agencies, IRD, DoC, 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, all three tiers of government can improve revenue collection, reduce inefficiencies, and create a more cohesive fiscal mechanism.

The strategy prioritizes the following reforms:

1. Automated revenue transfer processes through integration with the associated IT system at all three tiers of government.
2. Make the sectoral committees effective for the issues related to federalism at federal, provincial, and local levels to improve policy coordination and resolve overlaps.
3. Strengthen internal control systems associated with revenue management. Ensure harmonization across the internal control system of all three tiers of government.

3.3 Enhancing taxpayers' 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 complex, with unclear processes and limited accessibility to information. This perception, coupled with low motivation for taxpayers, leads to tax evasion and revenue leakage. The existing IT system, such as the Integrated Tax System (ITS), is yet to be made user-friendly. 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. 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.

The strategy prioritizes the following reforms:

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

Unofficial Translation

Results Framework | Pillar 3: Revenue Management

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
Strategic Objective 3.1: Improving aggregate revenue and its composition outturn				PI-20=C+	PI-20=B	
3.1.1	Assess the fiscal impact of revenue policy.	<ul style="list-style-type: none"> Improved accuracy in revenue forecasts. Aspects of green taxation included in revenue policy 	<ul style="list-style-type: none"> Results of revenue forecasting tools used in target-setting mechanism. Percentage deviation from revenue target Quantification of revenue contribution reported 	<ul style="list-style-type: none"> Deviation of more than 31% 	<ul style="list-style-type: none"> Deviation not more than 5% 	Inland Revenue Department (IRD)/RMD/MoF, DOC and revenue-related agencies
3.1.2	Implement the recommendation of the Tax Expenditure report	<ul style="list-style-type: none"> Tax expenditure recording modules system developed 	<ul style="list-style-type: none"> Tax expenditure annual report published Percentage of revenue concession provided through budget allocation 	<ul style="list-style-type: none"> 15% revenue concession provided annually Tax expenditure report 	<ul style="list-style-type: none"> Concession provided through budget allocation By Feb 2025 and continuous 	RMD/ MOF
3.1.3	Improve taxpayer compliance and tax-paying culture	<ul style="list-style-type: none"> Broadened revenue base Improved overall compliance level. Enhanced tax-paying culture among citizens 	<ul style="list-style-type: none"> Percentage increase in revenue-GDP Ratio Number of registered taxpayers. Percentage increase in tax returns Percentage reduction in tax arrears. 	<ul style="list-style-type: none"> Ad-hoc practice 18.56% of tax revenue contribution to GDP (2024) 	Achievement of revenue targets	IRD, DoC, Responsible government offices, MoF
3.1.4	Develop a non-tax revenue system for all three tiers	<ul style="list-style-type: none"> Non-tax-related Acts formulated Formulation of a Non-Tax Revenue Code (Sub-ledgers economic code) 	<ul style="list-style-type: none"> Umbrella Acts formulated Integrated system for all three tiers developed 	<ul style="list-style-type: none"> A separate system for non-tax revenue and informal sub-codes exists 	<ul style="list-style-type: none"> Defined codes and integrated system 	FCGO, MoF, MOFAGA
3.1.5	Broaden the digital payment options for taxpayers.	<ul style="list-style-type: none"> Increased revenue collection through digital systems Decrease in both compliance and collection costs 	<ul style="list-style-type: none"> Percentage of total revenue collected through digital payment 	<ul style="list-style-type: none"> Partial revenue Collected through digital payment 	<ul style="list-style-type: none"> All 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"> Percentage of taxpayers using digital payment systems 			
Strategic Objective 3.2: Strengthening intergovernmental and inter-organizational coordination and collaboration for revenue policy design and implementation.				PI-7=C+	PI-7=B	
3.2.1	Implement an Integrated Taxpayer Information Management System (TIMS) at all levels of government.	<ul style="list-style-type: none"> Improved synchronization of taxpayer information and revenue policies Streamlined and integrated tax administration processes 	<ul style="list-style-type: none"> An automated or digital system for non-tax revenue established. Number of policy frameworks coordinated 	<ul style="list-style-type: none"> No such framework exists 	<ul style="list-style-type: none"> 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"> A single registration mechanism for taxpayers introduced Integrated related systems interoperability with FCGO, IRD, LMD, DOTM, OCR, NID, NSO, e-GP, SuTRA) and other regulatory bodies 	<ul style="list-style-type: none"> Revenue management system integrated. Number of systems integrated 	<ul style="list-style-type: none"> Partial interoperability 	<ul style="list-style-type: none"> Full interoperability 	Lead by RMD/MoF, FFCD/MoF, FCGO, IRD, LMD, DOTM, OCR, NID, e-GP) <i>and other regulatory bodies</i>
3.2.3	Strengthen the collaboration among concerned regulatory agencies	<ul style="list-style-type: none"> Increase in size of the formal economy. 	<ul style="list-style-type: none"> Increase in revenue collection. 	<ul style="list-style-type: none"> The informal economy size in Nepal is around 40% of the GDP (2024) 	<ul style="list-style-type: none"> Reduction in the informal economy 	RMD/MoF, FFCD/MoF, FCGO, IRD, DoC, & MDAs.
Strategic Objective 3.3: Enhancing taxpayers' voluntary compliance with tax laws and operating system				PI-8=B+	PI-8=B+	
3.3.1	Devise a dedicated module in ITS to capture all kinds of Tax Deductions at Source (TDS) and Advance taxes on a real-time basis.	<ul style="list-style-type: none"> New TDS Portal or Module designed and implemented 	<ul style="list-style-type: none"> Percentage increases in the tax collection in the TDS portal 	<ul style="list-style-type: none"> The e-TDS system is in place. 	<ul style="list-style-type: none"> 10% increment of tax collection through the e-TDS system 	IRD, RMD/MoF

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
3.3.2	Improve revenue intelligence system in tax and customs administration.	<ul style="list-style-type: none"> Automated income tax return developed for taxpayers Robust Data Mining/Data Warehousing System be established in IRD and DoC. IRD's CBMS system be upgraded to capture third-party data. 	<ul style="list-style-type: none"> Percentage of taxpayers who received a tax return Mining/Data Warehousing System in IRD and DoC. Percentage of third-party data captured through the CBMS system. 	<ul style="list-style-type: none"> Data are partially collected from other organizations. 	<ul style="list-style-type: none"> Establish a Data Mining/Data Warehousing System in IRD and DoC. 	FSCPC/MoF, IRD, NRB, BFIs, Cooperatives, NEPSE, SEBON, Insurance Authority of Nepal
3.3.3	Simplify the tax assessment process and payment system	<ul style="list-style-type: none"> Simplified and taxpayer-friendly assessment and payment process. 	<ul style="list-style-type: none"> Percentage of taxpayers using the automated self-assessment modules 	<ul style="list-style-type: none"> Self-assessment module 	<ul style="list-style-type: none"> 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"> TADAT assessment conducted periodically Business Intelligence (BI)-based data analysis mechanism be established Revenue gap analysis is done. ICT-based audit capability is increased. 	<ul style="list-style-type: none"> Percentage of institutions with BI-based data analysis mechanism Percentage of revenue gap analysis study recommendations implemented. Number of persons graduated from ICT-based audit training 	<ul style="list-style-type: none"> Partial and ad-hoc basis 	<ul style="list-style-type: none"> Established BI-based data analysis mechanism in IRD and DoC. 5% assessment conducted through BI 	IRD, RMD/MoF
3.3.5	Improve Integrated Tax System (ITS) and CBMS:	<ul style="list-style-type: none"> Digital Taxpayer Utilities developed, such as billing software Policies defined for automation VAT and ITR formats revised. Auto-generation of VAT return using CBMS data. Prepopulated ITR of individual taxpayers 	<ul style="list-style-type: none"> Percentage of system downtime Percentage of MLTO and LTO registered taxpayer's VAT return autogenerated Percentage of taxpayers filing early 	<ul style="list-style-type: none"> No auto-generated VAT return 	<ul style="list-style-type: none"> System downtime= 0 All MLTO and LTO registered taxpayer's VAT return autogenerated 	MoF, IRD, DOC, Various stakeholders at FG, PLGs, banks, and financial institutions
3.3.6	Develop Arrears Management Tracking System	<ul style="list-style-type: none"> Significant reduction of arrears and the due collection time 	<ul style="list-style-type: none"> Percentage of arrears in total tax collection 	<ul style="list-style-type: none"> 36% of total core tax collections 	<ul style="list-style-type: none"> Total arrears due is reduced to 10% of 	Federal, provincial, and local

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
			<ul style="list-style-type: none"> ▪ Time of arrears due collection 	<ul style="list-style-type: none"> ▪ 25.65% of total core tax collections 	<ul style="list-style-type: none"> total core tax collection. ▪ Arrears due more than one year reduced to 25% of total arrears 	government revenue-collecting agencies
3.3.7	Introduce a dedicated taxpayer grievance redressal mechanism.	<ul style="list-style-type: none"> ▪ Increased trust in the tax administration system 	<ul style="list-style-type: none"> ▪ Time taken to resolve grievances ▪ Percentage of satisfied taxpayers 	<ul style="list-style-type: none"> ▪ Grievance mechanisms exist 	<ul style="list-style-type: none"> ▪ Functional grievance handling mechanism 	IRD, DoC, RMD, MoF

Unofficial Translation

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.

The predictability of resources is a key component to planning and implementing development programs autonomously. Effects on province and local governments' budget implementation are being observed due to weak predictability and timeliness in fiscal transfers. Currently, the way fiscal transfers are being transferred by the federal government undermines budget planning and resource allocation at the subnational level. Increasing levels of conditional grants have affected the PLGs in implementing their periodic/strategic plans. 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 fiscal transfers. These reforms aim to create a balanced and equitable fiscal environment, reinforcing the autonomy of PLGs while promoting the efficient and effective use of resources to meet local development goals.

The strategy prioritizes the 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 the fiscal transfer system to the expenditure needs and revenue potentiality of PLGs
4. Review and update the fiscal transfer system

Strategic Objective 4.2. Developing an integrated fiscal transfer system

The effective management of fiscal transfers requires an integrated, automated approach to streamline processes and enhance transparency. The current fiscal transfer mechanism has a partial component of these approaches. The development of an Intergovernmental Fiscal Transfer System (IGFTS) will automate the 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. Implementing the Fiscal Federalism Roadmap will provide a strategic direction for improving fiscal management. 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 the following reforms:

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

Results Framework | Pillar 4: Intergovernmental Fiscal Management

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
Strategic Objective 4.1: Making fiscal transfers more predictable, equitable and result-oriented to reinforce intergovernmental balance.				PI-9=C	PI-9=C+	
4.1.1	Review and update the fiscal governance system of IGFT and associated laws	<ul style="list-style-type: none"> ▪ IGFT laws are aligned with norms of fiscal federalism 	<ul style="list-style-type: none"> ▪ No. of conflicting laws amended ▪ Laws on natural resources enacted 	<ul style="list-style-type: none"> ▪ Discussion underway 	<ul style="list-style-type: none"> ▪ Review of IGFT laws 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"> ▪ Improved clarity on fiscal federalism mechanism, processes, and tools ▪ Strategic direction for fiscal federalism 	<ul style="list-style-type: none"> ▪ Approval of the fiscal federalism roadmap 	<ul style="list-style-type: none"> ▪ No roadmap 	<ul style="list-style-type: none"> ▪ FF Roadmap approved 	MOF, NNRFC, PLGs
4.1.3	Enhance the predictability of the fiscal transfer.	<ul style="list-style-type: none"> ▪ Multi-year fiscal transfer framework developed. ▪ Fiscal Equalization grant would be linked with GDP/Revenue growth ▪ Automation of fiscal transfers. 	<ul style="list-style-type: none"> ▪ Fiscal transfer forecasting reported in cash-flow management. ▪ Percentage of GDP/revenue growth transferred as FEG. ▪ IGFT calendar developed 	<ul style="list-style-type: none"> ▪ Fiscal transfer timeline defined. 	The amount and composition of the IGFT would be predictable.	NPC, MOF, NNRFC, PLGs
4.1.4	Strengthen own source revenue (OSR) of PLGs by enlarging their revenue capacity	<ul style="list-style-type: none"> ▪ Enlarging the fiscal space of PLGs through expenditure rationalization and revenue maximization 	<ul style="list-style-type: none"> ▪ Reliable database of taxpayers and vital properties at PLGs ▪ The contribution of OSR increased 	<ul style="list-style-type: none"> ▪ OSR for the province government is 8.5% in FY23. 	<ul style="list-style-type: none"> ▪ OSR commensurately increased 	NNRFC, MOF, Resource Committee, PLGs
4.1.5	Periodic assessment of the fiscal transfers to evaluate the impact of the grants	<ul style="list-style-type: none"> ▪ Data-driven allocation of fiscal transfers ▪ Results orientation of fiscal transfers 	<ul style="list-style-type: none"> ▪ Percentage of fiscal transfers based on verified data ▪ Periodic Performance assessment of fiscal transfer. 	<ul style="list-style-type: none"> ▪ No scheduled (periodic) assessment of the fiscal transfer 	<ul style="list-style-type: none"> ▪ Annual Assessment of the Fiscal Transfers 	NNRFC, MOF, NPC
4.1.6	Integration of system generating fiscal resources at three tiers of government	<ul style="list-style-type: none"> ▪ Enhanced database of NNRFC ▪ Enhanced predictability of fiscal resources based on a multi-year fiscal transfer 	<ul style="list-style-type: none"> ▪ Federal and PLG systems integrated. 	<ul style="list-style-type: none"> ▪ 	<ul style="list-style-type: none"> ▪ The amount and composition of the IGFT divisible pool, which allows for 	NPC, MOF, NNRFC, Line Ministries

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
		<ul style="list-style-type: none"> Increased trust and transparency in the IGFT system 			improved planning by PLGs	
Strategic Objective 4.2: Developing an Integrated Fiscal Transfer System				PI-7=C+	PI-7=B	
4.2.1	Design and implement an Integrated Fiscal Transfer Management System (IFTMS).	<ul style="list-style-type: none"> Streamlined fiscal transfer processes. 	<ul style="list-style-type: none"> Number of systems integrated with IFTMS Percentage of transfers processed through the Integrated Fiscal Transfer Management System (IFTMS) 	<ul style="list-style-type: none"> Partially exists 	<ul style="list-style-type: none"> Automated and integrated fiscal transfer 	MOF, NNRFC, FCGO, PFCO
4.2.2	Develop a knowledge bank for horizontal and vertical cooperation (transfer and knowledge sharing) among the PLGs	<ul style="list-style-type: none"> Increased efficiency in policy formulation and system operations across the levels of government. 	<ul style="list-style-type: none"> A knowledge portal is developed. Knowledge-sharing events among PLGs Percentage of time spent to maintain the system 	<ul style="list-style-type: none"> Few knowledge-sharing events among PLGs 	<ul style="list-style-type: none"> horizontal and vertical knowledge-sharing event each year 	MOF, MOFAGA, OPMCM, NNRFC, PLGs
4.2.3	Strengthen Inter-agency/sectoral Coordination mechanism	<ul style="list-style-type: none"> Strengthened secretariat of the National Coordination Committee 	<ul style="list-style-type: none"> Number of coordination meetings facilitated by the National Coordination Committee ToR of the NCC approved No. of solutions to disputes/ conflicts/issues 	<ul style="list-style-type: none"> Partially functioning 	<ul style="list-style-type: none"> Fully functioning 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), Ministry of Finance (MoF) and the Financial Comptroller General Office (FCGO). For better debt management, PDMO's capacity would be crucial at all levels of government. 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. The PDMO will undergo significant institutional capacity enhancement, enabling it to develop and implement a Medium-term Debt Management Strategy (MTDS), aligning with transparent and annually updated borrowing plans. A major component of these reforms is the comprehensive upgrade of the Debt Operation and Management 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 enhancing 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 insights into budget sensitivities and public debt projections. This will be complemented by enhanced financial supervision mechanisms for EBUs, public enterprises, and subnational 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 development acceleration with prudent risk mitigation strategies and ultimately strengthening the government's fiscal risk management capabilities.

The strategy prioritizes the following reforms:

1. Update the legal framework underpinning public borrowing and guarantee issuing, including its implementation rules.
2. Strengthening the institutional capacity of the Public Debt Management Office (PDMO) to develop and implement a MDTS, 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 and improved reporting functionalities.

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

Fiscal risk in Nepal emerges from various sources, with natural disasters being one of the prominent areas. Nepal is highly vulnerable to natural disasters such as earthquakes, floods, landslides, and wildfires. The 2015 earthquake, for example, caused damages exceeding USD 10 billion, straining public finances and requiring large-scale reconstruction efforts. Climate change further increases these risks, affecting agriculture, infrastructure, and livelihoods. The government's disaster response often leads to unplanned fiscal spending, increasing budget deficits and reliance on external aid.

The transition to federalism has created new fiscal challenges, particularly in resource distribution and financial management across federal, provincial, and local governments. While fiscal decentralization aims to enhance service delivery and local governance, many subnational governments remain heavily dependent on federal grants, struggling with weak revenue generation and financial mismanagement. The lack of proper expenditure planning and capacity-building at local levels increases the risk of inefficient spending and budget outcomes. These directly trigger long-term fiscal risks.

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 the establishment of sophisticated mechanisms for liquidity and solvency management that maintain strong interlinkages between cash flow and debt operations. The strategy will systematically implement a comprehensive Medium-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 the following reforms:

1. Develop a fiscal risk registry to capture the major fiscal risks and publish a comprehensive fiscal risk statement.
2. Develop tools for effective financial supervision of public enterprises, extra-budgetary units, and sub-national governments.
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
Strategic Objective 5.1: Maintaining sustainable debt through policy reform, robust system, and strong institutional capacity.				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 tiers of government.	<ul style="list-style-type: none"> ▪ Framework for sovereign bond ▪ Policy for SNGs debt issuance and operation ▪ Project-based/thematic bond 	<ul style="list-style-type: none"> ▪ Updated debt and investment policy ▪ Issuance of SNG's debt operation and management guidelines ▪ Secondary market operation guideline ▪ Project-based/thematic bond management guidelines 	<ul style="list-style-type: none"> ▪ Public Debt Management Act, regulation, and other relevant policies exist 	Updated policy for sovereign bond and thematic bond	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"> ▪ The reshuffled organizational structure of MoF and PDMO regarding debt management reviewed 	<ul style="list-style-type: none"> ▪ New O & M approved as per debt function 	<ul style="list-style-type: none"> ▪ PDMO operating middle office function 	O&M approved by 2026	MOF, PDMO, MOFAGA
5.1.3	Strengthen the institutional capacity of MoF and Public Debt Management Office (PDMO)	<ul style="list-style-type: none"> ▪ Technical Negotiation Committee in place ▪ IECCD and PDMO strengthened 	<ul style="list-style-type: none"> ▪ Well-equipped PDMO and MoF with capacitated staff ▪ Approved policies and procedures for fiscal and debt management ▪ Periodic update of MTDS ▪ Self-assessed DSA 	<ul style="list-style-type: none"> ▪ PDMO has a basic functional structure 	Technically sound organization and staff	MOF, PDMO
5.1.4	Enhance Debt Operation and Management System (DOMS) for end-to-end debt management.	<ul style="list-style-type: none"> ▪ Integrated debt management system with other relevant PFM systems ▪ Reliable and transparent report 	<ul style="list-style-type: none"> ▪ Integration with RTGS, e-payment system and CGAS. ▪ Full Reconciliation and consolidation of debt reports, including SNGs 	<ul style="list-style-type: none"> ▪ Functional DOMS ▪ Annual report published 	Integration achieved by 2027	MOF, FCGO
Strategic Objective 5.2: Advancing comprehensive fiscal risk management and mitigation strategies.				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"> ▪ Formulation of fiscal risk policy ▪ The linkage between borrowing and macroeconomic policy established 	<ul style="list-style-type: none"> ▪ Fiscal risk policy approved ▪ A framework capturing and monitoring SNGs, public enterprises and Extra Budgetary Units is developed. 	<ul style="list-style-type: none"> ▪ NA 	Fiscal Risk Policy developed by 2027	MoF, NPC
5.2.2	Enhance the fiscal risk register and develop a fiscal risk mitigation action plan.	<ul style="list-style-type: none"> ▪ Risks are systematically tracked and addressed. ▪ Fiscal Risk Registry operationalized ▪ 	<ul style="list-style-type: none"> ▪ Number of risks registered ▪ Percentage of risks addressed ▪ Publication of fiscal risk statement annually 	<ul style="list-style-type: none"> ▪ Fiscal risk registers in early stages 	Mature and reliable fiscal risk register	EPAD/MoF MOEAP and LGs
5.2.3	Manage contingent liabilities and unfunded liabilities	<ul style="list-style-type: none"> ▪ Better fiscal risk management ▪ Multi-year contracts liability recorded ▪ Recording contingent liabilities and fiscal risks 	<ul style="list-style-type: none"> ▪ Contingent liability status published on annual debt report ▪ Approved Contingent liability assessment technical guideline 	<ul style="list-style-type: none"> ▪ Partial manual recording 	<ul style="list-style-type: none"> ▪ 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"> ▪ Identify new innovative tools for financing ▪ Use innovative financing tools ▪ Balanced debt portfolio 	<ul style="list-style-type: none"> ▪ Green bonds viability capitalized 	<ul style="list-style-type: none"> ▪ Sovereign credit rating "BB-" 	Credit rating maintained at the current level Issuance of new types of bonds by 2027	MOF/ Central bank
5.2.5	Capture all government guarantees	<ul style="list-style-type: none"> ▪ Fiscal risks identified on time 	<ul style="list-style-type: none"> ▪ Government-guaranteed report published 	<ul style="list-style-type: none"> ▪ DOMS stands only for Federal government 	Publication of government guarantee begins 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 is guided by the Financial Procedure and Fiscal Accountability Act, and asset-specific separate standards and policies are yet to be formulated. A general understanding of assets is limited to non-financial assets, so expanding the 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 asset 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 governments. 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 good practices will enhance Nepal's ability to attract investment and optimize public asset utilization.

The strategy prioritizes the following reforms:

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

Strategic objective 6.2 Institutionalizing financial assets management

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

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 borrowings 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 fiscal risks due to capacity deficits in public asset management. Many public assets are undervalued or unrecorded, leading to potential losses. The implementation of the Public Asset Management System (PAMS) has supported the 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 the 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 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 asset management.

The strategy prioritizes the following reforms:

1. Enhanced inventory module for the consumable and movable assets to enhance the transparency in usage and transfer mechanism
2. Implement the insurance mechanism for the critical assets by clearly defining it and also adhering to the climate and disaster risk mitigation measures.
3. Replacement and Disposal plan for high-valued assets defined and implemented.

Strategic objective 6.4 Enhancing accountability through comprehensive public asset management and auditing

Accountability is a foundation of effective public asset management, yet it remains a significant area for reform. The current audit mechanism does not comprehensively cover asset-related activities, while public asset registers are often incomplete and are not adequately transparent. Government entities and public enterprises partially publish their asset reports in annual financial statements. The absence of robust accountability systems increases the risk of mismanagement, irregularities, and asset underutilization, which undermines public trust and fiscal discipline. The government could have fully leveraged public assets for economic growth and service delivery by establishing better and systematic monitoring mechanisms.

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 the following reforms:

1. The establishment of a dedicated unit for handling asset-related activities.
2. Conduct periodic reviews and audits of the large infrastructure and critical public assets.

Results Framework | Pillar 6: Asset Management

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
Strategic Objective 6.1: Enhancing policy framework for public assets management				PI-12=D+	PI-12=C+	
6.1.1	Develop and adopt a comprehensive national PAM policy and framework	<ul style="list-style-type: none"> ▪ Financial and non-financial assets coverage ▪ Clear guidelines for asset registration, valuation, and usage ▪ Asset management linked with long-term government planning and annual budgeting ▪ Long-term use and lease of public assets 	<ul style="list-style-type: none"> ▪ Approval of PAM policy and framework ▪ Degree of alignment with ISSAI or other global standards. ▪ Percentage of policies with sustainability criteria ▪ Number of financial and non-financial assets data included in the system. 	<ul style="list-style-type: none"> ▪ PAMs Policy and Framework has not been formulated. 	Public Assets Management Policy and framework be prepared and implemented	MoF/FCGO/Line agencies, PLGs
6.1.2	Develop and roll out the asset valuation standards	<ul style="list-style-type: none"> ▪ Public assets value realistically determined. ▪ Natural resources, intellectual property and infrastructure assets are clearly defined. 	<ul style="list-style-type: none"> ▪ Percentage of assets valued 	<ul style="list-style-type: none"> ▪ 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"> ▪ National assets accounted 	<ul style="list-style-type: none"> ▪ Coverage of entities in a national asset account 	<ul style="list-style-type: none"> ▪ The national assets report is partially published 	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 Systems (PAMS).	<ul style="list-style-type: none"> ▪ Assets life cycle tracked (Including category details and critical assets) ▪ Technical register and asset register maintained by respective agencies ▪ Accurate and reliable valuation of public assets for effective utilization 	<ul style="list-style-type: none"> ▪ Percentage of assets valued/revalued periodically. ▪ Percentage of public assets disposed of. ▪ Natural assets, intellectual property and infrastructure property data captured 	<ul style="list-style-type: none"> ▪ PAMs version 2 is going to be finalized by this FY. ▪ Technical register by MoUD and DOR maintained 	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"> Linkage PAMS with CGAS, SuTRA, TSA/PTSA and sectoral systems 	<ul style="list-style-type: none"> The road asset management system (RAMS) is integrated. 	<ul style="list-style-type: none"> PAMS as an asset register 		
Strategic Objective 6.2: Institutionalising financial assets management				PI-12=D+	PI-12=C+	
6.2.1	Develop procedures for recording and management of financial assets	<ul style="list-style-type: none"> Guidelines for debt and share investment prepared Financial asset management meets international standards. 	<ul style="list-style-type: none"> PDMO issues guidelines 	<ul style="list-style-type: none"> 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"> Public investment in shares and loans (especially in PEs) is well-recorded and reported Monitoring of public enterprise 	<ul style="list-style-type: none"> Publication of status reports 	<ul style="list-style-type: none"> Not yet (integrated system) 	By 2027, an integrated system will publish the status reports	MoF and FCGO, PDMO Provincial authorities
Strategic Objective 6.3: Improving financial efficiency to strengthen risk management and safeguard public assets				PI-12=D+	PI-12=C+	
6.3.1	Introduce insurance and replacement mechanisms for critical public assets.	<ul style="list-style-type: none"> Critical assets defined Reduced financial risks associated with asset loss. Asset replacement modality defined 	<ul style="list-style-type: none"> Percentage of critical assets insured. 	<ul style="list-style-type: none"> limited critical assets insured 	Major infrastructure insured	MoF, line agencies
6.3.2	Improve the priority setting and support investments in climate risk reduction and resilience,	<ul style="list-style-type: none"> Building the more resilient public investment, reducing the climate risk for a sustainable financial protection program. 	<ul style="list-style-type: none"> Public asset resilience framework/mechanism adopted 	<ul style="list-style-type: none"> No data analysis or mechanism exists. 	<ul style="list-style-type: none"> Enhanced capacity amid the challenges of increasing Climate risks, Reduction in rapid infrastructure development and replacement. 	MOF/Line Ministries/FCGO PG's LG's
6.3.3	Develop and implement risk management strategies for asset	<ul style="list-style-type: none"> Risks associated with assets, such as maintenance and replacement costs, are identified and mitigated. 	<ul style="list-style-type: none"> Asset risk management strategy developed. 	<ul style="list-style-type: none"> No risk management strategy 	Strategy operational	MOF/Line Ministries, FCGO, PGs, LGs
6.3.4	Replacement and Disposal plan for non-financial assets.	<ul style="list-style-type: none"> Replacement and Disposal plan prepared 	<ul style="list-style-type: none"> Replacement Fund created 	<ul style="list-style-type: none"> Null 	<ul style="list-style-type: none"> Replacement Fund created 	<ul style="list-style-type: none"> Line Ministries FCGO PG's/LG's

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
		<ul style="list-style-type: none"> ▪ Technical agencies assigned to scrap the assets 	<ul style="list-style-type: none"> ▪ Asset scraping policy implemented 		<ul style="list-style-type: none"> ▪ Timely auction of scrap assets 	<ul style="list-style-type: none"> ▪ Technical agencies
Strategic Objective 6.4: Enhancing accountability through comprehensive public asset management and auditing				PI-12=D+	PI-12=C+	
6.4.1	Strengthening the dedicated public asset management unit at FCGO.	<ul style="list-style-type: none"> ▪ A dedicated unit at FCGO to undertake this function ▪ Asset disposal is initiated through this dedicated unit. ▪ Improved accountability and reduction in the misuse of public assets. 	<ul style="list-style-type: none"> ▪ Establishment of a dedicated unit for asset management. ▪ Timely auction of scrap assets ▪ The number of whistleblower reports acted upon. 	<ul style="list-style-type: none"> ▪ No dedicated unit 	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"> ▪ The state of public assets properly documented ▪ IT and intellectual assets audited ▪ Physical verification 	<ul style="list-style-type: none"> ▪ Number of performance audits conducted. ▪ Publication of consolidated Public Assets report 	<ul style="list-style-type: none"> ▪ Few audits initiated by OAGN 	A performance audit of public assets initiated	MoF, FCGO, OAG

Pillar 7: External Scrutiny, 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, 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 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 the 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 the 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. Expand citizens' participatory audits and publish citizens' audit reports.

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

The 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, increasing audit irregularities and inadequate follow-up mechanisms remain significant challenges. According to recent reports, the backlog of outstanding audit irregularities amounts to NPR 669 billion (OAGN 61st report), which has been a benchmark to measure fiscal accountability.

Strengthening audit follow-up mechanisms is crucial to addressing these irregularities. Revising the PFPA 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 the 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 cybersecurity, Climate, and Gender.
3. Amend the relevant PFM legislation and regulations to carry out 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 outlines 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 the 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 accountable.
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
Strategic Objective 7.1: Promoting citizen engagement in the PFM cycle				PI-17=B PI-9=C	PI-17=B PI-9=C+	
7.1.1	Implement the Citizen Engagement Strategy	<ul style="list-style-type: none"> Enhanced participation of citizens in the budgetary process 	<ul style="list-style-type: none"> Citizen engagement roadmap executed 	<ul style="list-style-type: none"> 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"> Increased citizen input in pre-budget consultation Budget formulation with adequate consultation with stakeholders through the establishment of formal budget forums. 	<ul style="list-style-type: none"> Number of pre-budget participatory forums conducted 	<ul style="list-style-type: none"> Limited pre-budget consultations Consultation – mostly limited to organized groups only. No formal mechanism. 	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"> Improved accessibility and understanding of budget data. The simplified version of the budget is disseminated to ensure better awareness among citizens. 	<ul style="list-style-type: none"> Open budget portals developed and deployed Publication of the citizen's budget 	<ul style="list-style-type: none"> 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"> Digital applications and mobile Apps developed 	<ul style="list-style-type: none"> Percentage of citizens using the application Number of citizens' feedback 	<ul style="list-style-type: none"> 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"> Projects or programs are selected through a survey and pooling mechanism 	<ul style="list-style-type: none"> Pooling tool developed and rolled out Number of projects selected using survey and polling 	<ul style="list-style-type: none"> No project selection through a pooling mechanism 	<ul style="list-style-type: none"> Demand-based project selection through using ICT 	<ul style="list-style-type: none"> 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"> Regular publication of project implementation or budget execution on a proactive basis through a website or publishing report 	<ul style="list-style-type: none"> Number of entities publishing budget execution information 	<ul style="list-style-type: none"> 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"> Procedures developed and PETS organized in selected projects or programs Regular publication of project implementation or budget execution on a proactive basis through a website or published report 	<ul style="list-style-type: none"> Number of projects or programs that organize PETS Number of entities publishing budget execution information 	<ul style="list-style-type: none"> No recent report 	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"> Various social monitoring tools are used in local-level projects or programs 	<ul style="list-style-type: none"> Number of projects or programs that used various social monitoring tools 	<ul style="list-style-type: none"> 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
7.1.9	Expand citizens' participatory audits	<ul style="list-style-type: none"> Enhanced citizen participation and accountability. citizen's audit reports published 	<ul style="list-style-type: none"> Number of citizen audits conducted Number of feedback submissions annually 	<ul style="list-style-type: none"> Limited citizens' participatory audits. 	At least 10 CPAs per year.	OAG
Strategic Objective 7.2: Improving audit quality and effective audit follow-up				PI-30=D+	PI-30=D+	
7.2.1	Strengthen quality control and quality assurance practices in audit	<ul style="list-style-type: none"> Enhanced Internal governance and audit quality Strong quality control framework developed. 	<ul style="list-style-type: none"> The audit report includes major irregularities to facilitate settlement at the PAC and agency levels. 	<ul style="list-style-type: none"> Less uniformity in audit observation and inadequate 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"> ▪ Pre- and post-issuance quality assurance review strengthened. ▪ Uniformity in audit observations and audit reports 	<ul style="list-style-type: none"> ▪ No. of audit observations in the action plan resolved ▪ Percentage of pre- and post-issuance quality assurance review 			
7.2.2	Enhance OAGN's institutional capacity in evolving domains such as cybersecurity, Climate, and Gender.	<ul style="list-style-type: none"> ▪ Annual Audit Report includes audit of Cyber Security, Climate, and Gender, ▪ OAGN staff are skilled in the audit of cybersecurity, Climate, and Gender dimensions 	<ul style="list-style-type: none"> ▪ Percentage inclusion of cybersecurity, climate, and gender in annual audit report ▪ Number of OAGN staff trained in auditing cybersecurity, Climate, and Gender issues 	<ul style="list-style-type: none"> ▪ 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"> ▪ The annual report includes the number of performance audits. 	<ul style="list-style-type: none"> ▪ Number of performance audits carried out each year 	<ul style="list-style-type: none"> ▪ 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"> ▪ Standards and guidelines are updated as per ISSAI or INTOSAI Pronouncement for Professional Framework 	<ul style="list-style-type: none"> ▪ Number of standard guidelines updated and new guidelines developed 	<ul style="list-style-type: none"> ▪ ISSAI and more than 10 guidelines are implemented 	Implemented standards and guidelines are updated	OAGN
7.2.5	Strengthen collaboration with stakeholders, including other constitutional bodies	<ul style="list-style-type: none"> ▪ Model of collaboration defined and strengthened 	<ul style="list-style-type: none"> ▪ Number of stakeholders collaborated 	<ul style="list-style-type: none"> ▪ No such collaboration 	Financial accountability promoted	OAGN, MoF
7.2.6	Amend the relevant PFM legislation and regulations to resolve follow-up audits and settle audit irregularities.	<ul style="list-style-type: none"> ▪ Relevant PFM legislation is amended and cumulative audit observations reduced ▪ Improved accountability in addressing audit findings. 	<ul style="list-style-type: none"> ▪ Percentage of audit recommendations implemented. ▪ Number of follow-up audits conducted 	Follow-up audit slow-paced/stagnated	Follow-up audits are regularly carried out	OAGN, PAC
7.2.7	Establish all-time follow-up mechanisms and initiate the practice of preparing	<ul style="list-style-type: none"> ▪ Continuous follow-up of audit observation before and after the submission of 	<ul style="list-style-type: none"> ▪ Percentage of audit irregularities settled in a year 	<ul style="list-style-type: none"> ▪ Follow-up audit slow-paced. 	Round-the-year follow-up and	OAG, MOF, and other ministries

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
	separate audit follow-up reports.	an annual audit report and submitting a separate follow-up report	<ul style="list-style-type: none"> Status of audit irregularities and the action plan by the Ministry. Follow-up report published annually 	<ul style="list-style-type: none"> No follow-up report 	irregularity amount reduced	
7.2.8	Support timely reporting and timeliness in tabling audit reports in the parliament.	<ul style="list-style-type: none"> Submission of the audit report by 9 months after the end of the fiscal year and tabling the report within 15 days 	<ul style="list-style-type: none"> Meeting the deadline for submitting reports 	<ul style="list-style-type: none"> Delay in tabling audit report in parliament 	Timely reporting and tabling of the Auditor General's report	OAG, President Office, OPMCM
7.2.9	Strengthen remote or faceless auditing by leveraging technology and establishing paperless accounting	<ul style="list-style-type: none"> Accounting is maintained in a paperless manner, and remote or faceless audits are conducted 	<ul style="list-style-type: none"> Number of entities using paperless accounting and conducting remote or faceless auditing 	<ul style="list-style-type: none"> No paperless accounting A limited number of remote auditing 	Full implementation of remote or faceless auditing	OAG, FCGO
Strategic Objective 7.3: Ensuring effective legislative scrutiny of budget, audit reports, and follow-up of recommendations.				PI-31=C	PI-31=C+	
7.3.1	Enhance the capabilities of the secretariat of the Public Account Committee.	<ul style="list-style-type: none"> High-quality analytical, advisory, and administrative processes Defined PAC role 	<ul style="list-style-type: none"> Number of initiatives taken by the Research wing of PAC Number of Reports published. Average time taken to submit reports (days). 	<ul style="list-style-type: none"> Inadequate capacity of the existing Human Resources of the PAC Secretariat. Inadequate technical staff 	Resourceful PAC secretariat	PAC and PS
7.3.2	Enhance the scrutiny capacity of parliamentarian	<ul style="list-style-type: none"> Quality of the scrutiny of audit reports 	<ul style="list-style-type: none"> Number of orientations to parliamentarians Number of parliamentarians participating in audit report discussion 	<ul style="list-style-type: none"> Inadequate technical know-how of the existing parliamentarians. 	Competent legislative committee	PACs and other relevant committees
7.3.3	Develop the mechanism of Reporting on fiscal	<ul style="list-style-type: none"> Better fiscal policies and budgeting 	<ul style="list-style-type: none"> Fiscal policies outcome report published internally 	<ul style="list-style-type: none"> Null 	Internal report for fiscal	NPC, MOF

S.N.	Reform Activities	Expected Results	Result Indicator	Baseline (2025)	Target (2030)	Implementing Agency
	outcomes compared with fiscal strategy				outcome published	
7.3.4	Timeliness in audit scrutiny and its discussion	<ul style="list-style-type: none"> Timeliness in audit irregularity settlement 	<ul style="list-style-type: none"> Time taken to discuss Auditor General's report 	<ul style="list-style-type: none"> Delay in discussion 	All AG's annual reports are discussed within one year	PAC, OAG
7.3.5	Empowering the committees to scrutinize the annual Audit Report of OAG and other PFM cycles.	<ul style="list-style-type: none"> Enhanced timeliness and quality in legislative oversight. 	<ul style="list-style-type: none"> Number of Workshops and interaction programs conducted. 	<ul style="list-style-type: none"> Partially 	MPs familiarised with PFM issues. Workshops and interaction programs conducted.	Parliamentarian committees, MoF
7.3.6	Establish a separate track record mechanism to monitor the implementation status of recommendations issued by the committee to related line ministries and agencies.	<ul style="list-style-type: none"> Improved follow-up on audit recommendations and decisions made by PAC. Increased public engagement in fiscal oversight. 	<ul style="list-style-type: none"> Adopt parliamentary oversight tools and mechanisms. Annual track record report published Percentage of recommendations acted upon. Improved follow-up on the PAC recommendations 	<ul style="list-style-type: none"> Not existing 	A separate track record mechanism will be established.	PAC
7.3.7	Upgrade PAC-MIS and interface with NAMS	<ul style="list-style-type: none"> PAC-MIS is upgraded and accessed PAC-MIS and NAMS interoperable 	<ul style="list-style-type: none"> Read-only Access of PAC into NAMS Interfacing of PAC MIS and NAMS 	<ul style="list-style-type: none"> No Access 	PAC MIS upgraded, operated and interfaced.	PAC, OAG

Cross-Cutting Areas

The strategy outlines 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. The 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 improve and integrate 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
Cross-cutting area 1: Capacity Building			
1.1	Capacity-building plan roll-out (Organize thematic capacity-building programs informed by the TNA)	<ul style="list-style-type: none"> Standardized capacity-building program implemented 	<ul style="list-style-type: none"> Number of capacity-building events organized Number of post-capacity building knowledge-sharing events documented
1.2	Periodic review of capacity-building programs/results and update the plan for continuous improvement	<ul style="list-style-type: none"> Increased effectiveness and efficiency in government offices across three tiers Improved transparency and governance-related indicators 	<ul style="list-style-type: none"> Percentage of graduated staff serving at the same station Success stories and case stories demonstrating the effectiveness of a capacity-building plan
1.3	Transformation of PFMTTC into PFM Excellence Center	<ul style="list-style-type: none"> PFMTTC institutional capacity enhanced 	<ul style="list-style-type: none"> Number of capacity-building-related good practices and lessons learned shared
1.4	Professionalization of thematic cadets	<ul style="list-style-type: none"> Professionalization within the service group Certification courses on each group (e.g., Internal audit, Tax audit) rolled out 	<ul style="list-style-type: none"> Professional courses rolled out. Training policy revised
Cross-cutting area 2: Information Technology:			
2.1	Implementation of IFMIS recommendations and action plan	<ul style="list-style-type: none"> Various IT systems associated with PFM integrated 	<ul style="list-style-type: none"> Interim IFMIS roadmap implemented and base for long-term roadmap developed
2.2	Interoperability of various IT systems across three tiers of government	<ul style="list-style-type: none"> IT systems across all three tiers of government are interoperable The sectoral IT system made interoperable (VRS, BPRS) 	<ul style="list-style-type: none"> Policy and Infrastructure of IT system for integration enabled

S.N.	Reform Activities	Expected Results	Result Indicator
		<ul style="list-style-type: none"> National data portal integrated 	
2.3	Development and integration of MIS for extra-budgetary units with a special focus on the health and education sectors.	<ul style="list-style-type: none"> EUBs system integrated with national PFM systems. 	<ul style="list-style-type: none"> EUB's systems, including HMIS, EMIS and other MIS systems integrated with PFM systems
2.4	Develop a national payment system.	<ul style="list-style-type: none"> Public services and entitlements such as social security, scholarships, relief assistance, grants, etc., are provided through a single system. 	<ul style="list-style-type: none"> National payment system integrated with National ID and other government IT systems.
2.5	Development and implementation of digital governance framework in the PFM system	<ul style="list-style-type: none"> Digital governance framework streamlined in the reform process 	<ul style="list-style-type: none"> Code of ethics, data standard, and software formulation standards implemented
2.6	Increase accessibility of citizens to the PFM information	<ul style="list-style-type: none"> Increase transparency and citizen engagement 	<ul style="list-style-type: none"> CE strategy implemented
2.7	Big data management and use of business intelligence for decision-making and public service delivery	<ul style="list-style-type: none"> PFM data utilized for decision-making Management dashboard with public accessibility 	<ul style="list-style-type: none"> Business Intelligence and data warehousing concepts implemented Data warehousing and data classification are guided by relevant standards.
2.8	Periodic IT audits, including forensic studies and implementation of risk mitigation measures	<ul style="list-style-type: none"> Risk mitigation aspects included in PFM systems 	<ul style="list-style-type: none"> IT audit and security audit conducted periodically Testing system through ethical hacking
Cross-cutting area 3: Climate and Gender Responsive PFM			
3.1	Update the budgeting framework in line with the government's international commitment to gender and climate change.	<ul style="list-style-type: none"> Gender-responsive and climate-responsive budgets prepared Outcomes of gender and climate budget assessed and reported in major budget documents and financial reports 	<ul style="list-style-type: none"> The chart of activities includes the gender and climate codes at the subgroup level for disaggregated data. Budget circulars include directions for gender-responsive budgeting Updating of Climate and gender dimensions in Planning and budgeting guidelines at all three tiers of government
3.2	Incorporating the recommendations of impact analysis during budget preparation and budget proposals	<ul style="list-style-type: none"> Impact analysis is done by NPC, MOF and respective line ministries at all three tiers. Annual report of line ministries includes gender and climate policy impact 	<ul style="list-style-type: none"> NPC project selection guidelines and MoF budget preparation guidelines include impact analysis. Impact analysis of gender and climate budget assessment in reports MTEF, budget associated reports.

S.N.	Reform Activities	Expected Results	Result Indicator
3.3	Making gender and climate-responsive public investment management	<ul style="list-style-type: none"> ▪ PIM is assessed through the lens of gender and climate requirements 	<ul style="list-style-type: none"> ▪ National project bank guidelines include a section for gender and climate impact analysis
3.4	Periodic assessment of budgeting framework based on the Climate Change and Gender Responsive indicators	<ul style="list-style-type: none"> ▪ Implementation of GRPFM and CRPFM assessment recommendations 	<ul style="list-style-type: none"> ▪ GRPFM and CRPFM framework developed and rolled out ▪ Periodic assessment and evaluation reports include gender and climate dimensions.
3.5	Development of a disaggregated database	<ul style="list-style-type: none"> ▪ Disaggregated information available for informed decision-making towards gender and climate-responsive budgeting and execution 	<ul style="list-style-type: none"> ▪ A year or end-year report includes gender and climate-disaggregated information on service delivery programs.
3.6	Gradual shift towards green procurement	<ul style="list-style-type: none"> ▪ Procurement done with green and climate-friendly practices 	<ul style="list-style-type: none"> ▪ Percentage of procurements that meet green and climate-friendly parameters ▪ The e-GP system addresses the climate-responsive requirements through system controls.
3.7	Legislative scrutiny on gender and climate impacts	<ul style="list-style-type: none"> ▪ Gender and climate impact audits are conducted 	<ul style="list-style-type: none"> ▪ OAGN and PAC conduct gender impact audits and issue a separate audit report. ▪ Compliance with Nepal Audit Act 2019 regarding gender audit.

5. Implementation Arrangements

5.1 Institutional arrangements

Successful implementation of the National Public Financial Management (PFM) Reform 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 ensured at the PFM steering committee and the technical committee. Existing PFM Reform Operation Guidelines (2075) will be revised to address these structural changes.

To streamline operations and enhance efficiency, a single-window mechanism will be introduced. A single window mechanism will ensure all PFM-related interventions across all three tiers of government are channeled through this mechanism. This mechanism/representation will enable seamless communication and data sharing among federal, provincial, and local governments and development partners supporting PFM reforms. This would contribute to reducing resource duplication, standalone approaches of development partners and effective implementation of this strategy. At the provincial and local levels, a dedicated unit may be formed to oversee PFM reforms, ensuring that provincial and local priorities align with national objectives.

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 a dedicated PFM reform program (On budget on treasury) is being prepared, this initiative will be one of several avenues to fund the strategy's implementation. Development partners can align their support with the strategy's objectives, leveraging the single-window mechanism for efficient resource mobilization and management.

Additionally, GoN ensures 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 good 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 country-specific contextual elements 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 Reform Strategy. This requires

- (i) Setting performance-related milestones and indicators vis-à-vis the agreed objectives
- (ii) Empirical measurement of these milestones
- (iii) The production of a PFM performance report once every year as far as possible & its dissemination
- (iv) Measuring progress by assessing outcomes, rather than inputs or agency activities.

To implement the MEL function, a detailed MEL Plan will be developed within two months from the approval of the PFM Reform Strategy by 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 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 committees. Equally, feedback from international agencies and development partners, etc., is also necessary to reinforce effective oversight and best international practices.

The **PFM Reform Steering Committee**, as the apex body of PFM reform, plays a crucial role in overseeing the reform initiatives. It periodically conducts monitoring and evaluation to assess the progress made by different implementing agencies and provides policy advice to the PFM Reform Unit and other stakeholders to ensure effective implementation. 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 “PFM Reform Operation Guidelines” for effective implementation of the PFM reform activities in three tiers of government. As a lead agency, the PFM reform unit will carry out its monitoring & evaluation of implementation regularly through effective coordination & facilitation.

Each implementing agency develops its monitoring framework based on the national strategic framework and agency-specific implementation plan to track the PFM reform 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 Committee on the progress achieved and challenges encountered in meeting the Strategy's objectives and outcomes.

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 M & E guidelines from NPC will provide broader review guidelines. 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

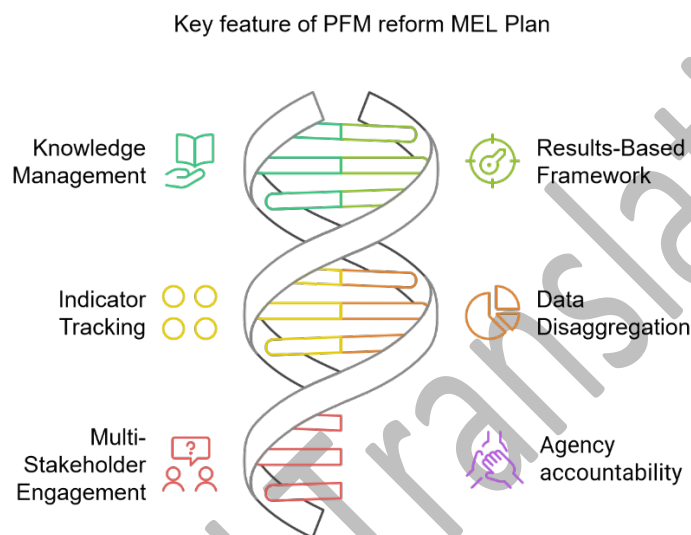
Annex 1: Third PEFA assessment score

Third PEFA Assessment: Summary of PEFA Scores by Indicator

PFM Performance Indicator		Scoring Method	Dimension Score				Overall Score
			i.	ii.	iii.	iv.	
I. Budget reliability							
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+
II. Transparency of public finances							
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
III. Management of assets and liabilities							
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
IV. Policy-based fiscal strategy and budgeting							
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+
V. Predictability and control in budget execution							
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+
VI. Accounting and reporting							
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+
VII. External scrutiny and audit							
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 and other questions as outlined in the MEL Plan 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, good 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 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, 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 feedback, 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.

Unofficial Translation