



# NEPAL PORTFOLIO PERFORMANCE REVIEW NPPR 2010

HUMAN RESOURCES MANAGEMENT FOR  
EFFECTIVE PORTFOLIO PERFORMANCE

September 9-10, 2010

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Government of Nepal  
**MINISTRY OF FINANCE**

SINGHADURBAR  
KATHMANDU, NEPAL

**Message From Finance Secretary**

Nepal government accords high priority to making effective use of the resources made available through foreign assistance. This is the reason why we periodically sit with development partners and conduct a review of program implementation, identify issues and prepare action plan for improvement. The annual Nepal Portfolio Performance Review meeting is one such important meeting.


I am happy to note that we are able to hold this meeting within less than two months' period of the closure of Fiscal Year 2009/10. This is an occasion to review what progress we made in increasing overall aid effectiveness. Of particular importance is the report card on the progress of the implementation of the action plan that we agreed last year.

I remember we agreed on 14 actions to be taken to improve the portfolio quality last year. From the report, I see that we have accomplished eight, five actions are still under way and in the case of making our budget results-based, we have selected five ministries and eight different agencies where budgetary allocations will be made on the basis of results framework. As budget for FY 2010/11 has delayed, we hope to have MfDR-led budgets for these agencies.

For the portfolio review this year, we have selected human resources management as the theme. We shall also be discussing pertinent issues on financial management.

Several officers of my Ministry under the leadership of Joint Secretary Lal Shanker Ghimire have spent days in making preparations for this meeting. In particular, I would like to thank Under Secretary Kailash Raj Pokharel for his hard work. I would also like to thank relevant officials of sector ministries, National Planning Commission. This NPPR would not have been held so early in the year without valuable contributions by the officials of ADB, DfID, JICA and the World Bank. I would like to thank them all. Finally, I hope that the meeting will be very helpful in improving the overall development effectiveness in Nepal.

September 8, 2010

  
Rameshore Prasad Khanal

# **PART I**

## **MAIN REPORT GOVERNMENT OF NEPAL BACKGROUND PAPER**

# **Review - 2010**

## **Human Resources Management for Effective Portfolio Performance**

### **Part I**

#### **1. Background**

Human Resource Management (HRM) has become increasingly important in the competitive environment of 21st century in improving efficiency and quality of services delivered by the government to the people. Overall performance of loyalty and capabilities of civil service largely depends on the quality of various facets of Human Resource Management (HRM) -recruitment, training and development, utilization and security provision.

Efficient and effective Human Resource Management is vital for plans, policies and project implementation. It is the human resources that activate energies and mobilize other resources.

The right Project Portfolio Management (PPM) solution can save time and money by guaranteeing the availability of competencies and resources upon which project success depends, providing key stakeholders a complete view of the project portfolio, directing cost savings by prioritizing beneficial projects and eliminating unproductive projects, aligning IT and other projects with the enterprises business strategy.

Although Nepal's civil service is not overstaffed, it suffers from poor incentives, fragmented decision-making, lack of adequate delegation of authority, large numbers at the lower levels, and inflexible working practices. Civil Service has been reasonably praised for its general recruitment system which Public Service Commission has adopted merit based, competitive and fair approach. At the same time, it has been criticized for its promotion and transfer system which is not always merit based and transparent due to various reasons including political interference and patronage.

The government of Nepal has initiated a number of reform measures to improve and strengthen existing mechanisms and practices of human resource management including enhance project management capacity. Government continuously monitors existing human resources situation and realities. The efforts so far done have yet to show the results to improve the situation. Therefore, it is imperative to carry out further reform measures in this area.

In this context, the theme of Nepal Portfolio Performance Review Meeting (NPPR) - 2010 has been chosen as **“Human Resources Management for Effective Portfolio Performance”**. Though, NPPR has continuously bringing this issue on board almost in every meeting in the past, this year NPPR has specifically focused on human resources.

There have been some issues that development partners raised time to time as to improve project's performances such as frequent transfer of project's staff, slow recruitment, low incentives, and lack of enough training, absence of robust system of rewarding/recognition of good performers and the like. This is why HR is given high priority in NPPR mechanism as a part of government's continued commitment to improve overall human resources situation related to project implementation.

## **2. Overview of Human Resource Management Practices in Nepal**

Ministry of General Administration (MOGA) is a central personnel agency responsible for overall management of Civil Service System in the country. Management of civil service has received constitutional recognition and has a strong legal framework with a separate **Civil Service Act and Regulation**. At present, organizational structure and position of civil service are designed on the basis of organization and management study and the **vacant positions are fulfilled** by an independent constitutional body- the Public Service Commission, on the basis of established principles of merit system.

In view of developing human resources to meet the contemporary challenges of civil service and its management, civil service employees have an opportunity to take part in the **training** and to pursue further study within and outside the country. Civil service employees are entitled to have paid study leave up to three years to carry out study in the area that is useful and relevant to the civil service. Recently, the government has prepared a training need assessment report of all ministries. The government has a policy of providing training to all civil service employees. To these end Personnel Training Academy has been established recently.

The government has introduced **Performance Based Pay System** in Internal Revenue Department and Department of Customs under Ministry of Finance and the Department of Civil Personnel Records (DoCPR) under Ministry of General Administration and in the Office of the Auditor General on pilot basis to promote performance culture in the civil service in tandem with the policy of performance based management system. Some other government agencies including few major projects are also in the process of implementing this scheme.

In order to boost motivation and morale of civil service employees, the government has established a well equipped **Civil Service Hospital** in Kathmandu. Similarly the government has initiated to build **residential apartments** for the civil service employees in different parts of the country. Likewise, the government has initiated to establish **School for the children** of civil service employees. The government has a policy of providing experience of different geographical parts of the country to its employees through transfer. Ministry of General Administration manages inter ministerial **transfer of Civil Service Employees** where the office of the Financial Comptroller General (FCGO) is entrusted with the authority to manage transfer of civil service employees of accounts group. Line ministries have a right to manage transfer within the respective

ministries. Ministry of General Administration is regulating and monitoring all of the civil services provisions, including transfers, and issues on the basis of Civil Service Act, Regulation and related Guidelines.

In view of correcting and mitigating deviation and discrepancies from the established norms, rules and regulation pertaining to human-resources management in civil service, the MOGA carries out **Management Audit** of various government offices and submits management audit **reports to the Cabinet** for further action.

Department of Civil Personnel Records (DoCPR), known also as “Nijamati Kitab Khana” is a **central record-keeping agency** for government employees assigned to maintain scientific record keeping & to deliver effective services acting as Human-Resource Information Center for the government. Data are being computerized through a system known as **Personnel Information System (PIS)**. The DoCPR has also completed setting up of the optical fiber networking at central government ministries premises as back-bone infrastructure for government network which makes it possible for policy makers and executives to make HR related decision with access to the PIS.

The Ministries located inside Singhadurbar are securely connected to DoCPR through optical Fiber. DoCPR has introduced fast, reliable and transparent PIS system and services. Personal data entry of civil services employees has been continuing. As of July, 2010, out of about ten thousands Gazetted Officers, data of 100% special class officers (66), 75% Gaz- I class officers out of total 420 and 56% Gaz II class officers out of total 2488, has been updated in PIS. For rest of the classes, the updating is continuously progressing and is expected to have a report including of transfer scenario soon.

Similarly, on accounting staff, FCGO has captured a good number of data in PIS such as-out of total number of staff -4460, PIS has updated 100% of Gazetted -II and III class officers out of 510. Also, 95% of non Gazetted staff out of 3950 has been updated.

### **3. Key Areas for Effective Portfolio Performances**

#### **3.1. Reforms in Human Resource Management**

The most frequently raised issues regarding human resources, particularly in the context of project implementation by development partners are that transfer is being done frequently particularly in project implementation offices and incentives to the staff is very low. Similarly, delayed fulfillment of vacant positions of the project, lack of proper mechanism of overlapping and alternative capable person, inadequate training, lack of handover and takeover mechanism and low morale are some of the other issues in Nepal



Civil Service that need reform. The impact of these issues, particularly through those key personnel who are directly involved in the project activities like project managers, accountant, procurement officer and other key staff, has sometimes been serious as this causes time and cost overrun of a project. Some of the key interventions being carried out by the government are described below:

### **Human Resource Management Plan**

The government has already initiated to prepare a comprehensive human resource development plan for civil service. Ministry of general administration (MOGA) is conducting sector specific Human Resource Development need assessment study in coordination with various line ministries. MoGA recently organized a interactive workshop with the concerned authorities of all the line ministries and central level offices of the government. Based on the need assessment report, Ministry of General Administration will prepare a time bound sector specific Human Resource Development Plan.

### **Performance based Management Plan**

The government has a plan to expand and replicate the ongoing performance based management system at the department of civil personnel records management (DoCPRM) and department of internal revenue management (IRD) to six other Projects and offices where Performance Indicators are visible and measureable on the basis of experience and lessons learned from the DoCPRM and IRD. To this end, the government has been continuously monitoring the ongoing performance based management plan in these departments.

### **Sectoral Transfer Guidelines**

Ministry of General Administration conducts inter-ministerial transfers of the civil employees to various ministries and central government offices as per the Civil Service Act to various projects and offices under the respective ministry. Ministry of General Administration has requested the sectoral ministries to prepare a separate transfer guidelines to sort out the issue of transfer as raised by the development partners.

### **New Structure of Civil Service**

As Nepal is headed toward the federal system of government, the administration restructuring commission is working on the redesign of current administrative structure along with the preparation consecutive study reports by the concerned experts. To this end, the government is studying best practices throughout the world.

## **Personnel Information System (PIS)**

Department of Civil Personnel Records (DOCPR) under MOGA has taken initiative towards e-governance by providing a successful base for the government to incorporate and build other e-governance initiatives. Bringing PIS online and accessible to other ministries through inter-ministry high speed optical fiber network, ministries, departments and constitutional bodies will fulfill their immediate need of information. While at the same time it allows them to participate in data updating process which ultimately benefits the system.

Major functional features of PIS are:

- Captures entire service record of each employee from appointment to retirement
- Automates personnel management tasks: appointments, transfers, promotions, retirements, etc.
- Captures all sanctioned posts within the government
- Identification of vacancies & forecasts staff requirements and retirements
- Prevents overstaffing
- Captures asset details of employees
- Payroll generation, budget forecasting & planning.
- Information on pension/family pension & gratuity holders including automated pension and gratuity count and calculation.
- Provides a range of gender-based & demographic information

As of July 2010, DOCPR has updated civil service information as following:

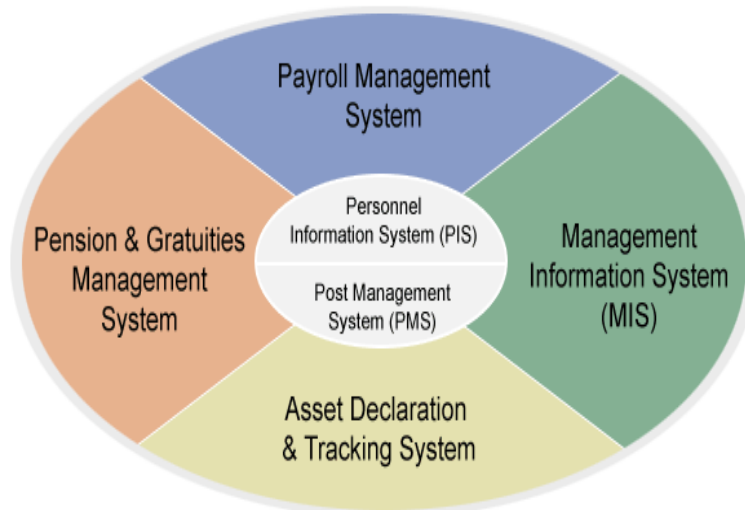
<b>Class</b>	<b>Total employee</b>	<b>Update Count</b>	<b>Percentage</b>
Special class	66	66	100.00%
Gazzated I	420	315	75.00%
Gazzated II	2488	1408	56.59%

Ministry of General Administration is committed to strengthen PIS focusing on capacity building, infrastructure development and expansion and decentralization of PIS service.

### Box- 1

## Personnel Information System (PIS)

*Personnel Information System (PIS) is an Oracle based database system that has been designed and deployed at the Department of Civil Personnel Records (DoCPR) to maintain and keep track of all the activities of civil service employees, right from the date of appointment until retirement to death. The system maintains the vital information of a civil servant such as name, address, birth date, retirement date, service history and staff movements, salary and grade, pension and gratuity amount, award, leave, medical, educational, training, disciplinary actions etc.*



### PIS Sub-system Design

#### SOFTWARE PLATFORM

*The following development tools and platform are used in PIS*

<i>Back end (Database):</i>	<i>Oracle 10g</i>
<i>Front end (Web Design):</i>	<i>PHP</i>
<i>Application Server:</i>	<i>Apache</i>
<i>Operating System:</i>	<i>Linux Enterprise Edition</i>
<i>Hardware:</i>	<i>Dell PowerEdge Server (Dual Core Processor)</i>
<i>Interface Brower compatibility:</i>	<i>Internet Explorer/ Mozilla/Opera compatible</i>

## **3.2. Reforms in Public Financial Management**

Over the years, there has been a growing consensus about the importance of public financial management for both developed and developing economies. Sound public financial management helps ensure that public services are delivered successfully and financial aid is used to the best effect. And that in turns creates social and economic prosperity and builds confidence in aid donors.

OECD has described in Harmonizing Donor Practices for Effective Aid Delivery – Good Practice Papers – A DAC Reference Document that "Public Financial Management includes all phases of the budget cycle, including the preparation of the budget, internal control and audit, procurement, monitoring and reporting arrangements, and external audit. The broad objectives of public financial management are to achieve overall fiscal discipline, allocation of resources to priority needs, and efficient and effective allocation of public services."

During past reviews in Nepal, weak Public Financial Management (PFM) practices were recognized and the Public Expenditure and Financial Accountability (PEFA) assessment concluded a high risk environment in public financial management. The assessment has identified a number of actions that constituted a Development Action Plan (DAP) where government is implementing as a continuous reform to reduce fiduciary risks and improve transparency and accountability. The government has established a PEFA Steering Committee and Secretariat to oversee the implementation of action plan. Public Financial Management Reform Program has been initiated as three year strategy plan by PEFA Secretariat which has been endorsed by the Steering Committee.

### **Public Financial Management Reform Program Phase I (2009-12)**

Public Financial Management Reform Program (PFMRP) has been approved by the government recently which envisages the long term reform in PFM in order to make it a sound modern system. In the first phase (FY 2009/10- FY 2011/12), the strategy will focus implementation on revenue, budget planning and implementation, debt and cash management, accounting and auditing. Development Partners (World Bank and DFID) have committed for its implementation, mainly the three components of the Reform Program, which are described below:

#### **a. Treasury Single Account (TSA)**

Recently, the Government of Nepal has also decided to establish a Treasury Single Account (TSA) regime. It is being introduced in Bhaktapur and Lalitpur districts as a pilot scheme and necessary steps have been initiated to roll out this system to other districts as well from the FY2010/11 onwards. There are six more districts added for TSA implementation – Dhading, Nuwakot, Baglung, Kaski, Banke and Surkhet. Once the TSA regime is fully operationalized, most of the responsibilities related to payment services,

management of bank accounts and government accounting and reporting will be shifted from the Nepal Rastra Bank (NRB), banks and the spending units to the District Treasury Controller Offices (DTCOs).

**Box - 2**  
**Planned Roll-out of TSA**

- *Consolidation of expenditure and revenue accounts in 8 districts: implemented.*
- *Consolidation of revenue accounts in the 8 districts: by mid-August 2010;*
- *Transfer of responsibility for bank-TSA settlement to DTC in the 8 districts: September 2010;*
- *Roll-out of the TSA to additional 19 districts: by June 2011;*
- *Roll-out to all the 75 districts: by March 2012;*
- *Intensive monitoring through field visits to stabilize the TSA operations: till mid-July 2012.*

**b. Nepal Public Sector Accounting Standard (NPSAS)**

High quality financial reporting in the public sector is the basis for enhancing accountability and transparency in Public Financial Management (PFM). The institutional framework for public sector accounting should include adherence to international accounting standards and the use of qualified accounting staff to provide timely, relevant and reliable financial information that is needed to support fiscal and budget management, decision making and reporting process. In this context, the GON has committed to implement NPSAS in line with cash based International Public Sector Accounting Standard (IPSAS).

On 5th September 2009, the government approved Nepal Public Sector Accounting Standard (NPSAS) pronounced by the Accounting Standards Board of Nepal (ASBN) for use in public entities<sup>1</sup>. The Financial Comptroller General Office (FCGO) has already stated that it will start publishing its financial statements by referring to the NPSAS from financial year 2010/11.

**c. Sustained Reform Effort to improve Public Financial Management**

Through the sustained reform in PFM over time, it is expected that the PEFA Secretariat capacity to institutionalize the PFM reform process is strengthened, PEFA secretariat be institutionalized, PEFA units in line ministries and development of capacity building to support technical outcome will be enhanced to achieve the objective defined in PFMRP strategy.

**Integrated Financial Management Information System (IFMIS)**

Integrated Financial Management Information System (IFMIS) is being operationalized in FCGO.

## **Budgeting**

There are number of reform measures that are undergoing to improve deficiency on current budgeting system. There is a need to improve in setting overall budget ceilings, to enhance coverage of government operations, average under- performance of capital budget, despite some improvement seen in the current fiscal year. To overcome various anomalies seen in the current budget planning and execution, the Government has constituted a Government Budget Management and Expenditure Review Commission (PERC) under the chairmanship of Honorable Member of the Public Account Committee to review and suggest improve the government budget and expenditure system. It has submitted its interim report to the government recently. Getting the full report and its implementation will certainly help in bringing effectiveness in public expenditure management.

A practice has been initiated from FY2009/10 to submit Three-year Expenditure Projection based on the **Mid-term Expenditure Framework (MTEF)** before the Parliament. However, there is a need to improve the quality of MTEF process.

As the Nepal's Budget and Public Expenditure Format is not yet internationally compatible and helpful for intensive economic financial analysis, the government has been completing standard format preparation and it will be implemented from Fiscal Year 2010-11 full-fledged-budget based on international standard format - **IMF Government Finance Statistics 2001**. New chart of account will be introduced soon. With these changes, the existing expenditure classification into three categories as recurrent, capital and principal payment will be classified as recurrent, capital and financing (investment). Revenue classification will also be revised.

## **Accounting**

The present system of accounting in Nepal, while having some strength has some obvious weaknesses. Hence, the plan is to move to international accounting standards in Nepal with Nepal Public Sector Accounting Standards (NPSAS) by Accounting Standards Board of Nepal (ASBN). The migration is planned in phased manner by mid 2012. The plan also includes implementation of International Accounting Standards (IAS) in the State Owned Enterprises (SOEs) and the introduction of 'commitment accounting' in budgetary and non budgetary entities in the government.

At present, the accounts do not capture many fiscal operations such as off-budget donor financed activities and the operations of off-budget entities.

Apart from institutional coverage, the accounts also lack key information on fiscal operations such as contingent liabilities arising in the broader public sector where a liability would ultimately fall on the government. Similarly, it is also not clear if there is accurate information on quasi fiscal operations of the government.

The accuracy of accounting information is in suspect, in some cases, due to the methodological issues. For example, the revenues collected are recorded on gross basis

and the refunds (such VAT refunds) made in the same fiscal year are treated as expenditures.

The final annual accounts are not prepared timely, since these are prepared nearly one year after the end of the fiscal year. The main reason underlying the delay seems to be that these accounts are used as historical data and not for any management or accountability purposes. Another and more technical reason is that 12 remote districts are allowed to keep their accounts open for four months after the close of the fiscal year due to logistical difficulties.

## **Auditing**

A strong oversight system is critical to ensure improved reporting and strong financial compliance within the PFM system. The main oversight institution on public finance in Nepal is the Office of the Auditor General (OAG) and this institution has in the recent years been considerably weakened.

To improve compliance in financial system, the most important challenge is to strengthen the institutions of the OAG. As a part of the overall PFM reform agenda, OAG has prepared a 'strategic plan' to improve the effectiveness of audit. This plan includes capacity building through provision of greater manpower and training. The discussion is also undergoing whether concurrence audit is possible with further enhancing the capacity of the Office of the Auditor General, including the recent launching of performance-based incentive scheme.

## **Internal Auditing**

The internal audit function has received increasing attention as an important component of public financial management and a tool for improving the performance of the government sector. The internal audit function has evolved in many advanced countries to take a more comprehensive view of the assessment of the impact of government operations. It enables management to have a self remedial system in place, to oversee the functioning of programs and projects, compliance with internal controls and financial regulations; and the performance of the given objects and targets to various entities.

### **3.3. Reforms in Public Procurement**

The Government of Nepal (GoN), like most of the governments around the world, is the largest buyer of goods, services and works, in the country. Some 60 to 70 per cent of the annual national budget goes to public procurement. Hence public procurement plays a critical role in the economy and is an important factor in economic growth. Sound and efficient use of scarce public resources is the responsibility of the Government and every Public Entity. Public Procurement is the fundamental and integral part of the good

governance and public financial management in the country. Sound procurement practices plays important role in the service deliveries and to produce timely result and accomplish the goals and objectives of the entity.

The GoN has initiated governance reform program in various areas for effective public service delivery. Among others, Public Procurement is one of the prime areas of reform. As a part of this reform agenda, GON has promulgated **Public Procurement Act (PPA) and Regulations (PPR)** in 2007 to make the procurement system transparent, fair, competitive and efficient. These two legislations aim to maximize returns of public expenditures in an effective and efficient manner by promoting competition, fairness, accountability and reliability in public procurement processes by ensuring the equal opportunity to the bidder to participate in public procurement processes without any discrimination.

Responsibility of **Public Procurement Monitoring Office (PPMO)** is to provide guidance/directives/guidelines in the implementation of Public Procurement Law provisions effectively through the development of operational instruments and monitor the enforcement of legal provisions as well as to deliver efficiency and value for money in the use of public funds adhering to the principles of non-discrimination, equal treatment and transparency. Besides, PPMO has to recommend the procurement policy to the government along with the measures for reforming the procurement laws and initiate actions to implement the public procurement law so as to enhance the quality of procurement outcomes.

PPMO has recently prepared a **Result Based Strategic Framework (2010-2013)**. Mainly, it has summarised the activities on Public Procurement into three major pillars. It has visualised to improve the institutional capacity in public procurement as a first pillar. To establish embedded learning process is a second pillar and to improve public procurement operations and market practice is a third pillar of the strategic framework. Nine outputs will be delivered from the Framework to achieve the outcomes, namely (a) human resources in Public Procurement (PP) developed, (b) PPMO capacity enhanced, (c) PP planning, programming and budgeting capacity improved, (d) PMMIS established in PPMO, (e) Results-based monitoring and evaluation system established, (f) effective grievance handling and appeals mechanism established, (g) PPMO website fully operationalized, (h) PP system standardized, and (i) e-procurement system developed.

A **High Level Coordination Committee** has been established to integrate and coordinate activities under the chairmanship of the Chief Secretary of the Office of Prime Minister and Council of Ministers (OPMCM). The Secretary of the Ministry of Finance, the Secretary of Ministry of Physical Planning, the Secretary of Ministry of General



Administration and the Financial Comptroller General of FCGO are the members of the committee. The Secretary of the PPMO is as the Member Secretary of the committee.

PPMO submitted its **First Annual Report** on June 30, 2010 to the Prime Minister. It has primarily highlighted review of the past activities, major contemporary issues and analysis of public procurement and the way forward.

There has been a regular practice of conducting a weekly public grievance handling meeting and a hotline has also been at the PPMO Secretary's chamber. The representatives of the contractors association and PEs as per requirement participate in the meeting. An anonymous "**Hotline**" has been established to receive and keep log of procurement complains in PPMO and receiving the call regularly. The **PPMO website** is operational and has uploaded various types of information such as: Public Procurement Act and Regulations, Annual Report, Strategic Framework Document, nine interim **Standard Bidding Documents**. The Office of Prime Minister and Council of Ministers has recently approved the SBDs of Goods and Works and these SBDs along with advice and opinion and related documents have been uploaded in the Website. There is still a room to improve in the PPMO website.

In order to improve the anomalies in public procurement system and make e-bidding mandatory, necessary steps have been undertaken for the amendment of Procurement Act and Regulations. **E-Tendering Process** has already started in public bidding. This has contributed to reduce the cost of the project, promotion of healthy competition and removing drawbacks in tendering processes. PPMO has already prepared a strategic policy document to implement electronic government procurement (e-GP).

### **3.4. Reforms in Result based Monitoring and Evaluation**

The Government of Nepal has initiated several reform measures to strengthen monitoring and evaluation system. Result Based Monitoring & Evaluation (RBME) Guidelines 2010 has been approved by the National Planning Commission (NPC) in July, 2010. This Guideline was prepared with wide consultation of sectoral ministries and other stakeholders including donor partners. Dissemination work is underway. At first stage, this guideline will be implemented for donor funded projects /programs and other P1 projects/programs. RBME Guideline has focused on result based M&E instead of traditional input output based M&E. Similarly, this guideline has focused on computer based monitoring and evaluation system at different levels.

NPC has issued policy guidelines to prepare sectoral Monitoring and Evaluation Plan to all sectoral ministries. M&E plan will be mandatory as procurement plan from the Fiscal

Year 2010/11 to all concerned offices. NPC is preparing a **National level Monitoring and Evaluation Plan** as well.

**District Poverty Monitoring and Evaluation Analysis System (DPMAS)** Software has been modified, updated and piloted in 10 districts. Some DPMAS indicators were refined with wide consultation of stakeholders. DPMAS Guideline draft is being prepared and will be finalized soon. At the first half of this FY, DPMAS software will be installed and implemented to all 75 districts. This software will be linked with Poverty Monitoring and Evaluation System (PMAS) and Project Performance Information System (PPIS) software. Once the linked established, online monitoring will be possible. **Poverty Monitoring and Evaluation System (PMAS) Software**, a central level monitoring software, is being developed to monitor the sectoral indicators. This software will be linked with DPMAS at district level and PPIS at national level.

**Project Performance Information System (PPIS) Software**, national level software is being developed and is in testing phase. This software will be linked with PMAS and DPMAS system. After the full operation of these three systems at different levels, M&E system will be more effective.

On the spirit of RBME, independent or **third party evaluation mechanism** will be implemented in selected development projects and programs. Special and regular monitoring mechanism has been developed for large, high priority and public concern projects and this mechanism will be continued. Regular field visit will be conducted to make it more effective.

Emphasis has been given to conduct **National Development Action Committee (NDAC) and Ministerial Development Action Committee (MDAC)** meeting regularly and will be continued in future as well.

**M&E training** has been provided to more than 60 officers working in M&E in different line ministries and projects.

NPC has issued policy guidelines to all line agencies to include enough resources for M&E function. Ministry of Finance has **created a separate budget head** in some sectors like health, education and physical Planning and Works. Allocation has been proposed to increase for M&E activities in other sectors in the next full-fledged budget of FY2010/11.

### **3.5. Improving Project's Quality at Entry**

Quality work in the preparation stage for new projects is one of the main elements for the successful project implementation. Experience shows that implementation of projects are also affected by startup delays in various stages such as project management set up, loan signing, effectiveness, initial delays in contracting and disbursement, insufficient and delayed environmental and Social Safeguard Framework and so on. Keeping in view of the importance of improving project's quality- at- entry, this was one of the key areas of focus in the Nepal Portfolio Performance Review (NPPR) meeting - 2009 with designing of few action plans. Following the NPPR -2009, meetings were held at the Ministry of Finance with the representatives of the four development partners (ADB, DFID, JICA and the World Bank). During these meetings, the primary and secondary responsible agencies for each of the key project preparation elements of the revised Project Readiness Filter were identified. As a result, project readiness filter has been revised and circulated to all concerned agencies and development partners for implementation.

Likewise, budget provision for project preparatory work has been proposed in the next FY 2010-11 Budget opening a separate budget code in which line agencies can access the fund. Similarly, budget provision will be made in the Red Book for those projects whose project agreement has not been done but fund is assured by donors to be disbursed during that Fiscal Year. A mechanism is being developed to ensure the process intact.

Although this area has not been continued in NPPR- 2010, continuous follow up of implementation of Project Readiness Filter needs to be done with some mechanism. If the remaining actions of the Quality at Entry have been complied, there is a need for dissemination and monitoring whether such provisions are being utilized by the line agencies. Further, we need to check on the types of project preparatory activities that have been described for utilization of special code fund. Also, there may be a need to develop a mechanism to further expedite and monitor the preparation works so that the FACD of the Ministry of Finance, the Ministry of Law and Justice, line agencies and related DPs are able to work on expediting signing and declaring effectiveness for newly approved projects including project management and other required preparatory activities.

## **4. Major Challenges in Key Areas**

Enhancing portfolio performance has continuously been a challenging issue in Nepal. It has been deepened further due to the effects of extraneous factors on top of the project's generic issues. NPPR mechanism is trying its best to discuss these issues/challenges annually and come up with an agreed solution as developing of an Action Plan Matrix which is being implemented and monitored leading by the Government. Major challenges in key areas are identified from the experiences of project's implementation in which various government agencies and development partners are engaged. Major challenges are outlined below:

### **4.1. Human Resources Management**

Overall performance of civil service in Nepal is poor in spite of highly qualified and competent officials in the government. The public service delivery is criticized as inefficient and ineffective and weak project management capacity as well. There may be various factors that attributes for such a situation like social, economic, political, cultural and administrative. However, from project management perspective, the following are some of the challenges:

1. Transfer system is unpredictable in many cases despite the clear provision in Civil Service Act and Rules, including with political interference. Also, there is lack of clear guidelines for line agencies, and transfer tracking is weak due to absence of information and effectiveness of management audit.
2. Nepal Civil Service is poorly paid and pay is not based on performances. This is one of the factors for de-motivating civil servants. The full utilization of their capacity has not been utilized as civil servants, especially technical manpower, seek outside job for their survival which hampers their performance in the organization.
3. Training and human resource development aspects are highly criticized as unpredictable, particularly in the context of improving project management. Training is wrongly conceptualized as part of promotion and incentive rather than for better service delivery and performances. Maintaining the roster of trained Project Manger and key project staff is lacking.
4. Promotion system in civil service is one of the highly debated issues in Nepal despite it is said to be merit based. It is unpredictable. The performance

evaluation is criticized as unfair and not based on clear criteria. Usually, equal rating is done for performers and non- performers.

5. There is absence of strong and effective institution base for overall human resources management and development. The management audit is not effective due to lack of its compliance and effective monitoring mechanism of line agencies.

## **4.2. Public Financial Management**

Despite a well conceived PFM system, with a detailed legislation and regulation, there is increasing evidence that this is not working well in Nepal. It is threatened by lack of monitoring of fiscal risks, poor capital budget preparation and implementation and weak reconciliation of revenue accounts. Despite advanced set of laws, regulation and processes, there are gaps in the framework and implementation and large fiscal activities remain outside the scope of the government budget. More specifically, the following are some of the deficiencies in Nepal PFM system:

1. There are significant problems in the present **budget and planning system** arising from a number of factors, among the most important of which are: the approach to setting overall budget ceilings; incomplete coverage of government operations; the high level of in-year re-budgeting and the persistent and increasingly significant under-performance of the capital budget. The effectiveness of MTEF is minimal to have a connection between planning and budgeting.
2. **Budget execution** in Nepal follows elaborate and complex processes and monitoring of the budget implementation process is weak. The pace of expenditure is uneven, with 60 percent of spending taking place in the last two months of the Fiscal Year, especially in the capital budget.
3. There are number of constraints in **current accounting system**. Its coverage of the general government transaction is incomplete. Some key data, especially on liabilities, are not captured adequately. There is no comprehensive Chart of Accounts, (COA) which hinders standardized capturing and classification of all transactions. There are also some methodological issues for quality data.

4. It is observed that **internal audit system** in Nepal falls far below international standards as a part of effective compliance and control.
5. The **Office of the Auditor General** has been weakened considerably.
6. The final annual accounts are not prepared timely, since these are prepared nearly one year after the end of the Fiscal Year which causes delay in final auditing.
7. There is significant insufficiency in **training and education** in accounting and financial management which is critical for sustaining accounting and financial management reforms.
8. **As a result, claiming reimbursement** is being slowed which has created significant deficit in government treasury.

### **4.3. Public Procurement**

Public procurement reform is one of the major reform areas in improving financial governance in the country. Public procurement system is relatively new in Nepal and is undergoing various strengthening activities. Despite the efforts, it is facing several challenges. Some of the major challenges are outlined below:

1. Absence of efficient and effective organizational structure in Procurement is felt. Organizational Structure of PPMO has been poorly designed.
2. PPMO staffs are not adequately motivated. Employees are not willing to join PPMO due to their inadequate knowledge on career opportunities in public procurement. As a result some positions in PPMO have not been fulfilled.
3. Public Procurement Act and Regulations have not been implemented effectively due to insufficient backstopping services to public entities, inadequate guidelines and technical notes, inadequate trained manpower in public entities. Procuring entities have not emphasized the need to establish and strengthen Procurement Units. Most of the procurement entities do not have Annual Procurement Plan/ Master Procurement Plan. They have low capacity in preparing quality specification and realistic cost estimation and in the finalizing bidding documents.
4. Public procurement is inadequately monitored by PPMO because of inadequate trained staff, underfunded resources and inadequate motivated staff in PPMO and lack of information data base.
5. Due to political protection and lack of effective cooperation of security agencies, collusion among the bidders and intimidation at the time of bid submission are increasing both in the central and district level.

6. Functional coordination with stakeholders is weak. Mechanism for establishing coordination has not been developed. There are inadequate interactive programs to provide platform to thrash and resolve public procurement related problems and issues. PPMO activities are not well linked with overall Public Financial Management (PFM) reform agenda. PPMO has not focused on the issues raised by the PEFA report. PPMO has weak linkages with PEFA secretariat and PEFA Steering Committee. Periodic assessment of PP system using the OECD-DAC Tool for Benchmarking and Assessing Procurement System has to be done by PPMO in regular intervals.
7. Users Groups/committees are not mandated as per PPA/PPR. Users groups could be contracted only for labour intensive works. Monitoring of user groups' works is very weak. There is a tendency to divide works into small pieces so as to meet threshold for awarding contract to user's groups. Furthermore, guidelines for user groups have not been developed.

#### **4.4. Monitoring and Evaluation**

The Government of Nepal has initiated several reform measures to strengthen M&E system. Development Partners also have provided support. There are some foundations established for M & E activities in the National Planning Commission Secretariat (NPCS) and efforts are continued to strengthen the system. Despite these efforts there are several challenges:

1. Traditional input output based M&E system is still in place. It focused on input output rather than results.
2. Lack of regularity of NDAC and MDAC meeting.
3. Less effective functional and operational mechanism of Monitoring and Evaluation.
4. Less effective coordination among the line ministries and National Planning Commission.
5. Most of the M&E units established in the ministries are either under-funded or under-staffed with low profile.
6. Lack of capable human resources and adequate financial resources in M& E activities. M&E is in low priority, difficult to retain qualified manpower in M&E section.
7. Ineffective use of IT in Monitoring and Evaluation.

## **5. A Way Forward**

### **5.1. Human Resources Management**

1. MOGA and line Ministries will prepare a Performance-based Management Plan to make civil service more accountable, result oriented, more productive, responsive and motivated. The current status of Performance-based Pay System, which is being piloted in some of the government agencies, will be evaluated and rolled over, on the basis of experiences, to other government agencies including some of the major projects. For this purpose, lessons learned seminar will be held by MOGA in coordination with the Ministry of Finance.
2. As Human Resource Development (HRD) Plan is a key for overall civil service performances. A HRD Plan will be formulated to enhance the capacity of civil servants, especially some of the key project personnel including project managers. Roster of trained project managers will be maintained by line Ministries.
3. The existing promotion system will be transformed into various types such as merit based, performance and seniority based in order to make it predictable. The promotion will be tied up with performances and results. Necessary reforms will be introduced to improve current performance evaluation mechanism.
4. The Ministry of General Administration will be fully converted into the Ministry of Human Resources Management (MOHRM). The operational functions will completely be delegated to the line ministries. MOHRM will regulate and monitor the performances of line agencies with set guidelines and criteria. The management audit function will be made effective.
5. A Human Resources Management Guidelines targeting development projects, which also includes sectoral transfer guidelines will be prepared.
6. Personnel Information System (PIS) will be completely updated to understand and analyze overall human resource management aspect in Nepalese Civil Service.



## **5.2. Public Financial Management**

1. The report of PERC will be implemented once it is submitted to the government which helps to improve budget planning and implementation. Similarly, IMF Study Report on Public Financial Management: Strengthening the Basic Systems is being submitted to the government which covers a broad range of activities to deepen government's reform in public financial management.
2. The establishment of Single Treasury Account system will be further accelerated as planned with coverage of all districts by March, 2012.
3. Implementation of Nepal Public Sector Accounting Standards (NPSAS) will be started.
4. FMIS will be fully operationalized in FCGO which enables producing financial reporting for monitoring of various financial activities including reimbursement.
5. FCGO will formulate a strategy to strengthen the internal audit function by reviewing current internal audit operations, staffing, organizational structure, responsibilities, preparation of manual, training, etc. with a view to generating compliance of the existing rules and regulation within PFM system, which is identified as one of the major lapses in financial governance.
6. The PFM Strategy will be implemented in a phase wise manner.
7. FCGO will start publishing its financial statements by referring to the NPSAS from FY2010-11.
8. To facilitate OAG for conducting final audits on time, more support will be provided to OAG and the possibility of concurrence audit will be explored.
9. Independent Debt Management Office (DMO) will be set up, institutional capacity will be built, and will operationalize it.
10. Decentralized pension distribution through DTCO will be started.
11. As PEFA functional coordination with line ministries is weak, mechanism will be developed to establish coordination to implement the PFMRP in a sustainable way.

### **5.3. Public Procurement**

1. Recommendation of Task Force on PPMO Organization and Management Survey (O&M) will be implemented gradually to enhance organization structure and management operations including personnel issues.
2. Effective implementation of Public Procurement Act and Regulations will be ensured with establishing procurement units in public entities gradually; preparation of procurement plan and its implementation will be started.
3. Institutional capacity in public procurement will be improved through various measures such as introduction of procurement information system (PPMIS), fully operational web site, staff retention and training, fulfillment of vacant posts, etc.
4. PPMO will develop capacity building strategy to build the training capacity of public and private sector for scaling up Basic Procurement Training, Refresher Training, TOT, Accreditation Policy, and Awareness Campaign as well as develop partnership with public and private institutions to impart training.
5. PPMO will strengthen planning, programming and budgeting process to make procurement effective and efficient. It will initiate planning as dialogue and create a platform by organizing regular planning workshops. Using these platforms, PPMO will thrash out problems and issues.
6. Procurement management information system (PMIS) shall be based on Result Based Framework and OECD/DAC indicators. It will mainly include advertisement of bid opportunities, publication of awards, time for preparation of bids, bidder's participation, bid acceptance/quality/responsiveness, method of procurement, bid processing lead time and cancelled bid process.
7. E- Bidding system will be rolled over within a year to the major procuring entities facilitated with e-service in compliance with the procurement regulatory framework.
8. The government is committed to launch the Electronic Government Procurement (eGP) as soon as possible. GON has approved e-GP Strategic Policy Document in principle on June 20, 2010.

#### **5.4. Monitoring and Evaluation**

1. Result based Monitoring and Evaluation Guideline, 2010 will be implemented with proper networking with DPMAS, PMAS and PPIS. An effective functional and operational mechanism will be adopted for its effective implementation.
2. Coordination mechanism will be developed among the line ministries and National Planning Commission regarding M&E issues.
3. Independent Evaluation will be done in some of the projects.
4. Regularity of NDAC and MDAC meeting will be ensured.
5. Adequate resources for M&E will be ensured with a separate budget head and higher allocation to M&E activities.
6. Mandatory provision of Monitoring and Evaluation plan for all public sector agencies will be adopted.
7. Functional M&E software at different levels with proper linkage will be established in phased manner.
8. Massive and comprehensive training programs will be launched in M&E activities.