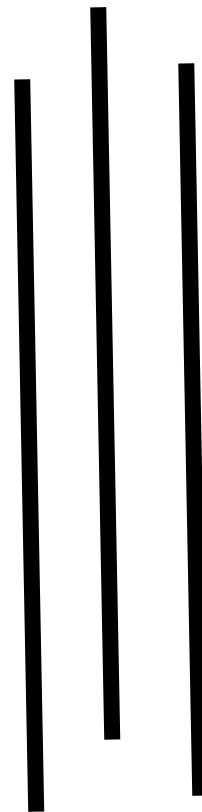


GOVERNMENT OF NEPAL
MINISTRY OF FINANCE
(EFFECTIVE DEVELOPMENT FINANCE COORDINATION – EDFC 11)
SUBMITTED BEFORE

STUDY REPORT RELATING TO PROBLEMS OF REIMBURSEMENT OF FOREIGN AID



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CHAPTER – 1

INTRODUCTION

1.1. Background

Foreign aid has been playing an important role in Nepal's development effort. Foreign aid has remained a large component of the budget in order to make up for the deficit in public expenditure for the economic and social development of Nepal as a land-locked underdeveloped country. After the initiation of Nepal's Government budget in 2008 BS, foreign aid was begun to be incorporated in Nepal's national budget. During that time, such assistance used to be received only from India and USA. Up to the end of the 15th Plan, the number of development partners providing foreign aid has remained around thirty. In the decade prior to the commencement of the 15th Plan, the proportion of foreign aid compared to the total GDP was 3.7%, and its share in public expenditure had remained at 11%. However, in FY 2077/78, the utilization of foreign aid remained at 4.81% of the total GDP, and in FY 078/79, it remained with some decline at 3.24% (Economic Survey, 2079/80).

The contribution of foreign aid has remained not only as a significant component of public expenditure on the economic, social and physical infrastructure development of Nepal but also on the reduction of trade imbalance by enhancing the capability related to trade and transfer of new knowledge and technology. There is no perception of decline in its need owing to the necessity of disseminating the fundamental rights adopted by the Constitution of Nepal including the context of effective implementation of fiscal federalism necessitating the mobilization of foreign assistance. Moreover, foreign aid also appears to be necessary to upgrade the country, by mobilizing the needed resources to attain the goal of sustainable development, to a developing middle income country by 2087 BS (2030 AD). Besides, in order to make Nepal's presence felt in the world context and to establish an interactive relation with the world community as well, foreign aid seems necessary. Similarly, foreign assistance is also necessary to mitigate the effects of climate change.

Albeit it has been a long time since Nepal began receiving foreign aid, there exist extensive problems in its effective utilization. The primary problems facing the sector are the lack of a capable management and monitoring system in projects implemented through foreign assistance, minimum capability in utilizing the assistance and inability

to integrate all kinds of foreign support into the national priority and system. Inability to bring all kinds of bilateral assistance into the national budgetary system and huge sums remaining to be reimbursed due the inability to receive reimbursable budget on time may be considered problems in aid mobilization and utilization.

Following the adoption of the federal system, there have been noticed new challenges as well in the mobilization and utilization of foreign assistance. Primary challenges remain in this sector are the mobilization of development assistance among the federal, provincial and local levels in a coordinated manner, removal of fragmentation and duplication in development management by ensuring the good practices like accountability, responsibility at all levels, minimizing the gap between commitment and utilization, including mobilization of assistance through the state system. Moreover, the context of the development partners evincing interest in collaborating with the provincial and local Governments and NGOs without notifying the federal Government has added a new challenge in the mobilization of foreign aid.

Against the afore-mentioned backdrop, this study aims to suggest the problems and their solution in context to mobilization and utilization of foreign assistance relating to reimbursement.

1.2. Objective of Study

As per the TOR given, the following are the objectives of this Study:

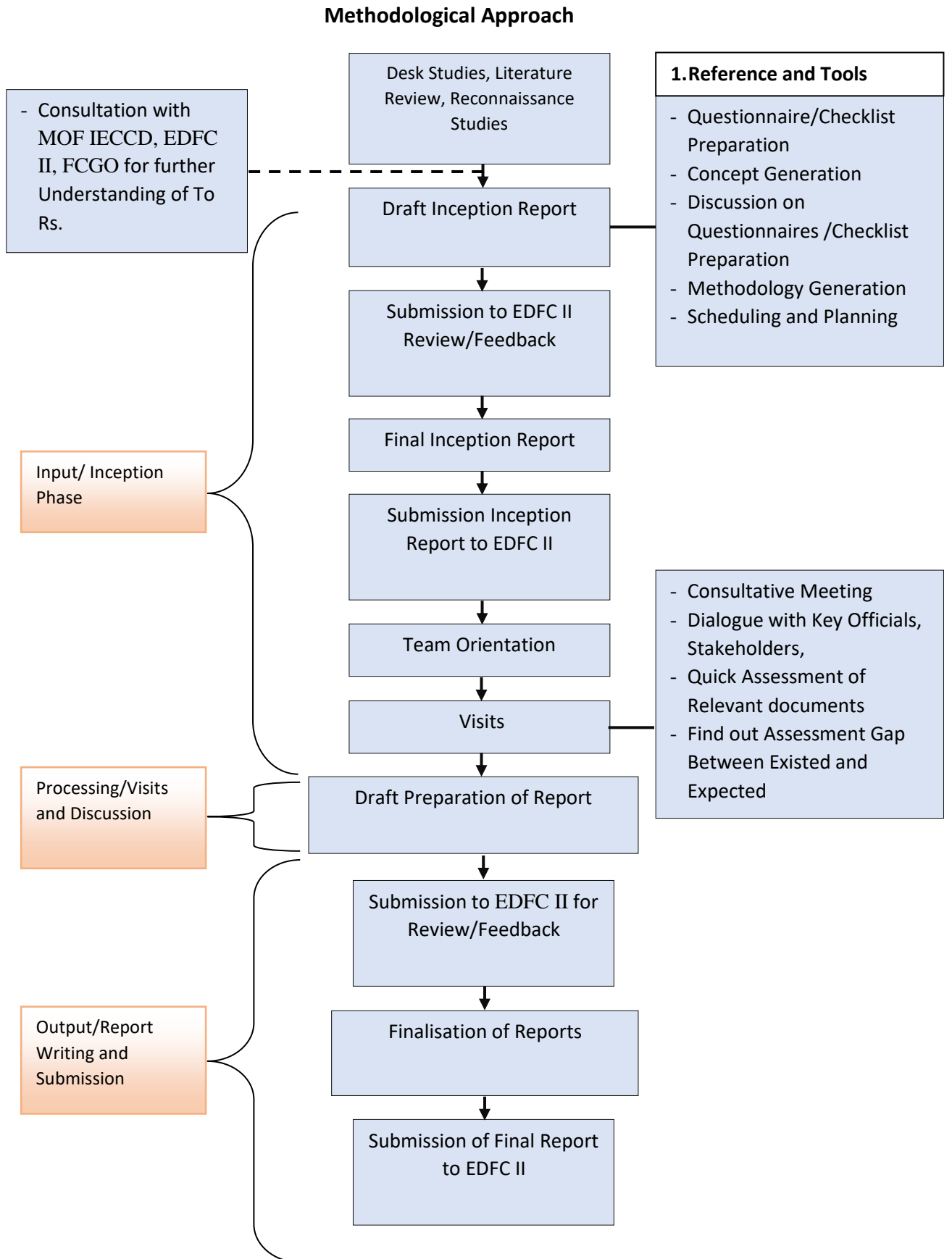
- To present about existing laws and structural provisions related to reimbursement;
- To identify the requirement, work procedures, format and/or software to facilitate reimbursement procedure;
- To present recommendations on the reforms directed at the Ministry of Finance and development partners in order to simplify the existing reimbursement procedures and render them more efficient by ascertaining whether the reform measures need to be adopted;
- To identify the required system and /or procedure to enable the Ministry of Finance to produce an integrated report on reimbursement on real time basis.

1.3. Methodology of Study

In this Study in the form of applied study, the qualitative method has been adopted primarily. In the analysis of primary data, qualitative data and quantitative data have also been naturally utilized. The presentation of this Study is both descriptive and analytical. Both primary and secondary data have been gathered, analyzed and synthesized here. While gathering primary data under the non-probability sampling method purposive sampling method, or judgmental sampling method have been employed. Here, questionnaire was distributed to six personnel experienced in foreign aid of the International Economic Cooperation Division (IECED) of the Ministry of Finance, Similarly, questionnaire was distributed among 15 personnel working in reimbursement work at project level of the Financial Comptroller General's Office, Reimbursement Section and Treasury Administration Section. Besides, qualitative primary data have also been used based on interaction among the stakeholders. The study has been accomplished based on the following study procedure.

In the course of this study, interaction and collective discussion among personnel of the International Economic Assistance Coordination Division of the Ministry of Finance including Joint Secretary and persons working in or having worked in the World Bank and Asian Development Bank. The methodology and process employed in this Study is exhibited in the following Chart -1.

Figure 1: Methodological Approach



CHAPTER – 2

LEGAL AND PROCEDURAL PROVISION OF FOREIGN AID REIMBURSEMENT

2. 1. Modality of Foreign Aid

2.1.1. Cash (Prefunding)

In this modality, the donor usually deposits in the Central Treasury of Government of Nepal as per the provision made in the Aid agreement, prior to project implementation or such aid expenditure in the form of grant or loan. For such deposit, the project implementing agency/entity must request the donor country/entity. Such money received is collected under Ka-7 account of Nepal Rastra Bank, Banking Office from various countries or institutions. For example, the grant assistance received from the American Government is deposited in Ka-7.1 American account, and the amount received as grant from the Government of India is deposited in Ka-7.2 India account. Apart from the accounts in the name of development partners, other accounts received from other development partners is provisioned to be deposited under Ka-7.1 Miscellaneous Account. Thus, upon receiving the vouchers deposited under Ka-7 account, the Comptroller General's Office maintains the record in the Treasury Administration Branch on a source-wise and project-wise basis.

Similarly, there is also the provision of maintaining a Designated Account or Imprest Account in order to reduce the fund deficit in treasury management. The account opened for World Bank assistance is called Designated Account and such account of Asian Development Bank is termed Imprest Account. According to the project loan agreement, a certain portion of the total loan account is called as advance in the Imprest or Designated Account. In such account, money provisioned in the agreement is prefunded as revolving fund in the concerned project account by the development partner. Such account is operated by the concerned project. The sooner the reimbursement request for the fund deficit of the expenditure incurred from such account is enabled, support would be provided to Nepal Government treasury in like manner. If request is not made continuously over a period of six months on the loan assistance of the World Bank, as the Special Account would be immobilized, the project must request for reimbursement within the prescribed time.

2.1.2 Commodity Aid

Commodity Aid is received only under grant assistance. Under this system, the development partner provides the concerned project the commodities necessary for

project implementation through bill or invoice. Upon receipt of the commodity assistance in this manner, the project is required to maintain the record and report to the concerned office and Financial Comptroller General Office (FCGO). In this system, even though there is no cash transaction and thus no direct effect on the central treasury, central account must be maintaining by equalizing income and expenditure.

2.1.3 Direct Payment

Aid may be received through direct payment towards both loan and grant aid. Where foreign currency is to be paid against necessary services or commodity provided to the project, the development partner gives direct payment to the supplier or contractor. Project assistance for scholarship, technical support and turnkey project is also done through the direct payment system. Similarly, the provision of implementing a program whereby the development partner sends the aid money direct to the project for jointly operating the account through the development partner's representative and project chief or personnel is also called direct payment system. In this manner, upon receiving information of direct payment assistance, the project is required to maintain the record of income and expenditure. In connection with this, the project is also required to submit a report to the FCGO. Under this system, as there is no cash transaction and thus no direct effect on the central treasury, account must be maintaining by equalizing income and expenditure in the central treasury.

Under the afore-mentioned process in connection with the loan amount received under direct payment, as Nepal Government's resources need not be mobilized in advance, there should be no reimbursement problem. However, on the one hand, under the prefunding procedure, the loan amount being received in advance, and on the other hand, on condition of reimbursement, disbursement and expenditure from Nepal Government's source continuing, until such expenditure has been delivered in advance from Designated Account/Imprest Account has been recovered/liquidized from Designated Account, Imprest Account, it seems that reimbursement calculation would still remain to be reconciled. Until the reimbursable amounts have been reimbursed by the development partner, it remains a problem for GON. Such reconciled reimbursable amounts have remained pending since years.

As per the above, how much money has been received by GON under foreign aid; how much has been spent, and how much is remaining to be received from development partners? Such records are required to be kept by projects and report sent to the FCGO.

The procedure to be followed by the districts and central level in mobilizing, keeping account and reconciliation in an orderly manner of the foreign aid to be received by GON have been described hereunder.

2.1.4 Reimbursable Aid

While the reimbursable system has been provisioned especially for loan assistance, it is rather minimal in case of grant assistance. Under this system, eligible expenditures are initially incurred from GON source in the project or program. Such eligible expenditure acceptable to the development partner is received by GON's central treasury. As such amount adds to the burden of GON's treasury until reimbursement is received, request for reimbursement is required to be done soon. The amount received as reimbursement is also collected in the concerned development partner's Ka – 7 category account. Based on the voucher received from the Rastra Bank, record of such amount is kept at the FCGO and tallied/verified with the details received from the concerned Project.

2.2 Legal Provisions Related to Reimbursement

Provision for reimbursement of foreign assistance has been made in the Financial Procedure and Fiscal Accountability Act 2076 and Rules 2077. The provisions of the mentioned Act and Rules are as the following:

2.2.1 Provisions of the Act

Financial Procedure and Fiscal Accountability Act 2076 does not seem to have any such notable detailed related to reimbursement. In clause 25, under the heading Monitoring and Evaluation of Budget and Program under sub-clause 30 is such: "While conducting monitoring and evaluation, upon review of program-wise, heading-wise and source-wise expenditure, received reimbursement and foreign assistance mobilization as well as status of revenue collection, such report shall be required to the Ministry of Finance on a quarterly basis.

Apart from the afore-mentioned provision regarding reimbursement, other provision has not been seen in the Financial Procedure and Fiscal Accountability Act 2076. All provisions have been made in Financial Procedure and Fiscal Accountability Rules 2077. If only the requirement to duly request reimbursement on time could be linked to punishment and incentive, its effectiveness would increase. Thus, just the provision made in the Rules would not be capable of punishing the concerned Office-in- Charge and Accounts Chief who do not initiate due reimbursement process on time. Thus, it seems appropriate that the substantive provision for reimbursement be made in the Act

itself and to enforce its procedural provisions in the Rules. Even though the management of financial procedures is done under the name of the Act, it is not that the procedural topic of reimbursement could not be embraced in the Act. Even then the substantive topic only may be mentioned in the Act. For this, it seems that the provision of sub-rule 110, Rule 42 of the Financial Procedure and Fiscal Accountability Rules 2077 is required to be provided in the Act. Accordingly, it seems that provision should be made by adding Clause 29 (Ka) in the Act as:

To the extent that GON has been harmed due to not maintaining the records, spending ineligible money, and not requesting reimbursement within the prescribed time, by the inability to effect reimbursement, the concerned Office –in-Charge and Accounts Administration Chief shall be held responsible. It seems that if provision is made in the Act to take departmental action against the Office Chief and accounts Chief who do not duly request for reimbursement on time, the effectiveness of the reimbursement provision would be enhanced.

In order to make the afore-mentioned proposed provision effective under sub-clause 30, clause 57 “Punishment”, it is appropriate to add:

To the extent that GON has been harmed due to not maintaining the records, spending ineligible money, and not requesting reimbursement within the prescribed time, by the inability to effect reimbursement, departmental action shall be taken against the concerned Office-in-Charge and Financial Administration Chief. It is appropriate to include the provision of taking departmental punishment against officials who do not request reimbursement duly on time in the Act. In addition to the provision of punishing the Office Chief and Accounts Chief who do not duly request for reimbursement on time, it would be appropriate to include the provision of rewarding with incentive the personnel who duly request for reimbursement on time and do not keep such expense pending or at a minimum.

2.2.2 Existing Procedural Provisions in the Rules

The detailed provisions in connection with reimbursement of foreign assistance has been made in the Financial Procedure and Fiscal Accountability Rules 2077. Rule 42 of the Rules has made the following provisions regarding reimbursement:

- (1) In context to project implemented through foreign assistance where reimbursement is to be claimed upon expenditure from GON source, the Ministry of Finance, based on

the concerned Ministry's recommendation and Agreement with the donor party, shall appoint an official either to request reimbursement for expenses incurred by each project or request for direct payment.

- (2) Upon appointment of the official to request for reimbursement or direct payment pursuant to sub-rule (10), he/she shall make the necessary arrangement for the conduct of transactions to be operated with the joint signatures of the Project Chief and Accounts Chief.
- (3) The concerned project or office shall be required to make available to the requesting official the details of expenditure along with the necessary documents within 7 days of disbursement, and it shall be required to maintain account of the expenditure incurred but reimbursable as per prevalent law in addition to the provisions of agreement.
- (4) In case of foreign aid money being provisioned for implementation, the concerned provincial or local level shall be required to submit the details of expenditure along with the necessary documents to the office of the official requesting for reimbursement within 7 days of the termination of the month.
- (5) The concerned official shall be required to do the following while requesting for reimbursement of foreign aid:
 - (a) To send to the cost center (spending office) or to its subordinate office or program implementing unit information on what type of money may be spent or not, what amount of money may be spent, what amount may be reimbursable from the donor side, the necessary documents, and proportion of budget from donor source;
 - (b) To demand from subordinate office or program implementation unit in addition to the necessary details of expenditure other necessary details or documents by prescribing a deadline;
 - (c) To request the concerned donor party the reimbursable amount determined by verifying the details of expenditure received and other necessary details within 30 days, to send one copy of the details so received to the Comptroller General's Office, and in case of loan, to the loan management office, and upon reaching the minimum threshold, to request reimbursement;
 - (d) The project is to maintain a record of the requested reimbursable expenditure incurred by subordinate office or program implementation unit, amount pending reimbursement including direct payment request and disbursement, and to reconcile with the records kept at the FCGO every 3 months;
 - (e) Upon receiving information on direct payment expenditures and commodity aid from foreign sources, to make entry to the Single Treasury System, and to send to the District Treasury Comptroller Office (DTCO) the payment order.

- However, the details of direct payment under the fiscal management shall be required to be sent to the FCGO and Public Debt Management Office;
- (f) To submit to the FCGO the reimbursement of the past FY and consolidated details of direct payment of foreign sources within the last day of the month of Aswin;
 - (g) To instruct the subordinate office or program implementation unit to spend only the amount that would be reimbursable from the donor side.
- (6) The Project or Program Chief shall be required to submit before the Accounts Accountability Officer the status of foreign aid reimbursement in accordance with the format pursuant to Annex – 9 on a quarterly basis.
 - (7) The Accounts Accountability Officer shall be required to monitor regularly the status of foreign aid reimbursement based on the details received pursuant to sub-rule (6) and send the annual details in connection with it to the Comptroller General's Office and Auditor General's Office.
 - (8) The Accounts Accountability Officer shall be required to prepare and submit before the concerned donor side unaudited Project Financial Statement upon attestation by the FCGO.
 - (9) The Accounts Accountability Officer shall be required to send to the concerned Donor Party the audited project statement within the period prescribed in the Agreement or 6 months of termination of the fiscal year if not prescribed in the Agreement.
 - (10) The Accounts Accountability Officer shall be required to submit a monthly account to the FCGO by opening separate Special account of loan or grant in the name of project implemented under foreign aid, reconciling and updating the income and expenditure of such account on a monthly basis along with the bank statement.
 - (11) As per these Rules, to the extent that GON has been harmed due to not maintaining the records, spending ineligible money, and not requesting reimbursement within the prescribed time, by the inability to effect reimbursement, the concerned Office-in-Charge and Financial Administration Chief shall be held responsible.
 - (12) The FCGO shall be required to regularly monitor or cause to monitor whether the reimbursement requesting Official has regularly requested reimbursement of foreign aid, and has kept updated record of such reimbursement.
 - (13) On analyzing the afore-mentioned provisions of Financial Procedure and Fiscal Accountability Rules 2077, some provisions seem to be of such nature as should be included in the Act. It has already been mentioned above that the provision made in sub-rule (11) seems to be required in the Act. It has been said that "As per these

Rules, to the extent that GON has been harmed due to not maintaining the records, spending ineligible money, and not requesting reimbursement within the prescribed time, by the inability to effect reimbursement, the concerned Office-in-Charge and Financial Administration Chief shall be held responsible.”

- (14) However, it is not clear how to be responsible, and what sort of action is to be taken. Therefore, it is necessary that provision be made in the Act itself to link the above provision with punishment.

Part (c), Rule (20) of Financial Procedure and Fiscal Accountability Rules 2077, under the function, duty and power of the Accounts Administration Chief, it seems appropriate to add the provision: “The necessary details required for reimbursement to be duly prepared and sent to the concerned entity within the prescribed time.”

Such additional provision, it seems would make effective among the numerous functions of the Accounts Administration Chief, to also include the function of duly requesting for reimbursement.

Under the responsibility of the Accounts Accountability Officer pursuant to Rule 119, it seems appropriate to include the topic of requiring to monitor whether reimbursement was requested on time and availability of skilled human resources. Such provision would help to strengthen the responsibility of the Financial Accountability Officer regarding reimbursement.

It seems appropriate that in Rule 121, under the function of duty and power of the Treasury and Accounts Control Office, the provision of inspection the topic of whether reimbursement has been requested be added. Such a provision would create a situation whereby the Treasury and Accounts Comptroller Office while inspecting invariably looks into the topic of reimbursement.

It seems that in Rule 122, Function, Duty and Power of Office Chief, part (a) the provision of causing to duly request for reimbursement should be added. It appears that such provision would help to make the Office Chief and Accounts Chief responsible for the function of reimbursement.

In Rule 123, it is appropriate to add part (i) to make the following provision:

“In order to strengthen the reimbursement system, arrangement is to be made to implement training program for the development of skilled human resources regarding project accounts, and criteria for transfer and posting of only trained personnel to operate the project account.”

The presented arrangement seems to contribute to the requirement of invariably conducting project accounting training and to implement the criteria of transferring and posting of only trained personnel to the project. At present, the situation is such that reimbursement has not been able to be effected on time owing to the inexperience of accounts personnel lacking the relevant knowledge and skill.

2.3 Process of Foreign Aid Mobilization

2.3.1 Project Evaluation and Feasibility Study

At the first stage of loan assistance mobilization, detailed study and investigation regarding the project is undertaken. In the course of detailed study, both the development partner and recipient Government prepare a Project Appraisal Report by ascertaining the scope of the project, cost, benefit to be accrued, source bearing the expenditure of the project, and so on. Thus, after the feasibility study of the project, negotiation is held with the development partner on modality of agreement regarding project implementation. Upon consensus by both parties on the clauses of agreement, aid agreement is done. In the agreement, the conditions to be abided by the recipient country, general process of procurement, technical and financial reports to be made available to the development partner, deadlines to submit reports, and provisions regarding disbursement of loan etc. are mentioned. Thus, in case the terms of agreement are not adhered to, a situation might arise to rescind the assistance. Therefore, the recipient country is required to be always attentive to abide by the conditions of agreement.

Generally, in projects implemented through foreign assistance, provision is that expenses like land acquisition, salary of personnel, wages etc., are required to be borne by the Government. Direct expenses of the project are met from assistance money. Thus upon having spent the foreign assistance money on the prescribed functions, it is required to submit a withdrawal application form and Summary Sheet by enclosing the documents mentioned in the agreement with extensive details to the development partner. The development partner upon scrutiny of whether the documents comply with

the agreement, if it deems that disbursement is to be given, shall deposit the money as per the request form to the specific account to be deposited.

2.3.2 Topics to Be Included in the Assistance Agreement

- a. Word definitions relating to the assistance and relevant general details;
- b. Methodology of the project to be implemented;
- c. Administrative arrangements of the project under loan;
- d. Fiscal arrangements and related conditions;
- e. Date of implementation of agreement and related conditions of cancellation of agreement;
- f. Financial disbursement process, currency arrangement and time for payment;
- g. Regarding interest on loan, service fee and other expenses to be met;
- h. Conditions of repayment of capital, time period and location;
- i. Regarding other potential matters and conditions depending on the nature of project.

The loan agreement becomes effective only after scrutinizing whether the terms and conditions acceptable to GON have been maintained in the assistance agreement upon being signed by the authorized GON official and representative of the development partner. However, for the effectiveness of certain assistance agreements like MCC, legal opinion shall be required for ratification by Parliament, as well as legal opinion in context to World Bank and Asian Development projects.

2.3.3 Withdrawal Application and Summary Sheet

Following the effectiveness of the loan agreement in this manner, the proposed project is included in the Annual Plan, Program and Budget. The program would not be in a state of implementation even if incorporated in the budget without agreement. In Nepal, it is seen that in numerous projects, even if budget is allocated with no assistance agreement, a situation is created whereby the budget cannot be spent. For requesting reimbursement against expenditure incurred according to agreement, application should be submitted by filling in the withdrawal application and Summary Sheet. The withdrawal application form should only signed only by the representative authorized by Nepal Government. For this, the concerned is required to send to the Finance Ministry the specimen signature of the authorized official appointed by the Government. The Finance Ministry is then required to send this specimen signature for approval to the donor agency.

A recipient country receives assistance in two ways generally. According to the first procedure, the development partner provides Loan/Grant Loan/Grant Disbursement to the recipient country directly from the loan/grant account or through its recommendation to a third party. According to the second procedure, the development partner provides the amount covered by the Letter of Credit through Special Commitment Guarantee to the concerned party.

For the purpose of disbursement in the withdrawal application form, it is required to include the details regarding various contractors, suppliers and service provider organizations. However, on account of the mentioned form having been proposed in a certain format, there not being sufficient space for such data and details in the withdrawal application form, a Summary Sheet is required to be attached for additional information. As the expenditure amounts to be disbursed from the Loan/Grant accounts are likely to be associated with more than one expenditure category according to agreement and subsidiary projects, it is necessary to reveal in detail in the Summary Sheet.

The withdrawal application form and summary sheet may be different for different development partners. For example, for projects invested by the Asian Development Bank or World Bank, the forms may be different, but their purpose is the same. The development partners obtain the details and data from these forms. Besides, these help to correctly maintain the expenditures on the project. This makes it easy and simple to maintain the disbursement status of the assistance. This also reveals clearly and also includes the amount of expenditure in each category and currency, as well as the percentage amount borne by the partner, agreement amount, exchange rate and other details. Through the medium of this form, it becomes useful to maintain project-wise account as it is the primary document of the preliminary action on project-wise account expenditure. Based on these documents, withdrawal monitoring register, subsidiary loan account and main loan register, designated and Imprest Account are prepared.

Request application form and Summary Sheet are required for all kinds of disbursement systems by the development partner. These documents are used for reimbursement, special commitment procedure, and treasury replenishment in Special Imprest Account including Retro-active financing.

Upon agreement between the development partner or donor country and Government, the formal procedure of foreign assistance begins. In any foreign assistance, provision is made to accomplish a specific task within a specified time. For such assistance amount as per agreement with the development partners, account is kept accordingly and it is required to submit to them the report of income and expenditure in a specified format. In case the task is not completed within the specified time period, it is not possible to obtain the assistance money mentioned in the agreement. In such a situation, optimal utilization of foreign aid cannot be materialized. Therefore, it is necessary that due attention is paid to obtain the assistance from foreign source for proper utilization, and to adopt the due procedure prior to expenditure, overall account balance and reporting.

2.4 Treasury Administration of Foreign Aid

2.4.1 District Treasury Administration of Foreign Aid

The Financial Procedure and Fiscal Accountability Act, 2076 and Rules, 2077 guides the treasury operation management of the Government. The release of the budgeted amount for foreign aid projects is done by the Comptroller General's Office to the concerned project's Kha – 2 account based on Votes on Account or Appropriation Act, approval of budget and program including directives of FCGO, and so on.

Such release is done for writing the expenditure from the released amount of bank based in the district headquarter. With the purpose of managing the account of the release from the preliminary level, it is required to match with the foreign grant amount, foreign grant reimbursement, foreign loan reimbursement and foreign loan amount with the Bank for the released amounts from the projects located in the districts. Upon matching the project-wise accounts in this manner, there is a provision to send the account to the FCGO. Based on this provision, foreign assistance account keeping and adjustment is done at the FCGO.

Due to this arrangement, a basis is made for ascertaining the account of what and how many projects are being implemented under foreign aid district-wise, under which medium foreign assistance has been mobilized. In this regard, the District Treasury Comptroller Office (DTCO) based in the districts play a significant role in administering the respective treasuries.

Similarly, it has been provided that the bank operating government transactions in the districts is required to submit a report including foreign aid disbursement to the District Treasury Comptroller Office (DTCO), Nepal Rastra Bank and FCGO on a monthly basis.

On account of the negative impact on the Central Treasury having been aggravated by not receiving on time of grant money from the development partner, the donor country providing grant money only upon prior expenditure in some situations, problems like not requesting reimbursement on time of the reimbursable money released causing an increase in the investment from GON source, lack of attention to defreeze the frozen money among the reimbursable grant money, arrangement has been made whereby the DTCO releases the foreign aid money only upon receiving the order of the FCGO.

2.4.2 Central Treasury Administration of Foreign Aid

The Constitutional provision is that the accumulated treasury management shall be done only through the directive and control of Parliament. Each year under the power granted by the Appropriation Act, Parliament empowers the Executive to receive income in the Federal Consolidated Fund and to spend according to the Votes on Account including other Acts. The Executive arranges the authorization of income and expenditure and serially devolves it to district level.

2.4.3 Provision for Operation of Central Treasury

While the responsibility for the management of the Federal Consolidated Fund and other funds lies on the FCGO, the banking operation of the accumulated fund lies on the Central Bank, the Nepal Rastra Bank. As per the provision of the Nepal Rastra Bank to appoint other commercial banks as well to operate the accumulated fund, the collection of GON's revenue, expenditure and operation of other funds are being carried out other commercial banks in addition to Nepal Rastra Bank.

Legal provisions have been made in order to manage the process of revenue receivable by GON, grant, loan including all kinds of receivables and expenditures, in addition to the Financial Procedure and Accountability Act 2076 and Rules 2077, Government accounting Guidelines, Treasury Single Account (TSA) Guidelines and Government Transaction Guidelines, etc.

2.4.4 Deposit of Foreign Aid Money

The foreign aid money to be received by GON are deposited to the Ka – 2.4 and Ka- 2.5 category accounts in the name of the concerned project, Ka -7 category accounts operated by the FCGO. The money thus received is transferred to the accumulated fund

based on the actual expenditure in the project. Under a single development partner, in connection with assistance for more than one project, project-wise accounts are kept in separate ledgers for project assistance.

2.4.5 Process for Release

For the mobilization of foreign aid money, the donor agency, in the case of grant money and loan money, deposit is made in Ka -7 category account of FCGO and expenditure release letter is issued depending on the amount. Based on the letter of release and project disbursement order, the concerned District Treasury Comptroller Office (DTCO) disburses the money to the concerned person. In this manner, based on the expenditure by the DTCO the money deposited in the account of category Ka -7 of the donor agency is transferred to the accumulated fund. In the case of reimbursable grant and reimbursable loan, expenditure is initially done by the concerned DTCO, and on the basis of expenditure upon request by the concerned project, the donor agency reimburses such expense to the account of FCGO.

Where budget has been provisioned towards grant money, by monitoring whether grant money has been received, request for reimbursement has been made on time for the money released previously and spent, agreement has been made as per the money provided in the approved budget, the money released in previous years from foreign sources has been reconciled and so on, release order is sent. The office/Department/Ministry implementing the project, by obtaining the necessary details from subordinate offices, is required to cause to deposit to GON account the money as per agreement from the development partner. Similarly, the necessary details are required to be sent to the FCGO as well and account to be matched and updated.

2.4.6 Adjustment Process

The concerned project is required to prepare project account and report on, amongst the money received as foreign assistance, how much money has been spent; how much has been frozen; how much reimbursement was received from the development partner and how much is pending reimbursement. The fiscal report to be prepared thus by the project, prior to giving it final form, is required to be matched against the records at FCGO. Besides, the project-wise money pending reimbursement is also required to be finalized.

In last Fiscal Year, the entire grant money released from the Ka -6 account was written in Ka – 7 account as expenditure. Thus, while writing the entire money released in the

foreign aid account, it was probable that frozen money included in it; it was required to transfer the frozen development purpose money for the purpose of de-freezing to the Ka -2 transfer account. And having noted the proof of de-freezing, the FCGO had to write the expenditure from Ka -2 account and register income in the concerned development partner's Ka – 7 category account. However, now among the released amount, only the money spent by matching the district level and central level financial details is written as expenditure in the Ka -7 account, the remaining task of de-freezing the unspent amount has been removed.

2.5 Weaknesses in the Implementation of Fiscal Federalism

There is a provision of making available conditional grant to the provincial and local Governments. A large portion of such conditional grants comprises reimbursable foreign assistance in the form of loan or grant. Now the situation is such that by reason of the fact that such money going to the province or district level by the medium of conditional grant is not mentioned as being borne by foreign source, such money is not reimbursable.

In context to the conditional grant provided in this manner, the source of expenditure must have been entered in the LMBIS as the concerned development partner's reimbursable loan/grant; however, it is seen that this was not done. Similarly, as there is no system of mentioning clearly even in the budget allocation Red Book the source of foreign aid, a situation has arisen where such money spent by the provincial and local levels is not amenable to reimbursement. In Fiscal Year 075/076 when fiscal federalism was introduced, even though reimbursement was received on the basis of expenditure in TSA, a situation has arisen when the development partners do not reimburse in later years.

Even though the report of expenditure incurred at the local level with noted activity level were entered into the SUTRA (Sub-National Treasury Regulatory Authority) system received at the FCGO, the inability to obtain separate reports from PCU: Project Coordination Unit or concerned Ministry/Department/Project has caused obstacles for reimbursement. As the responsibility of the PCU has been appointed to the Ministry of Federal Affairs and General Administration, it is observed that that the Unit looking after reimbursement at the Ministry needs to be strengthened. At the PCU of the said Ministry, it is deemed that at least three personnel are required to be assigned for the purpose of reimbursement.

CHAPTER – 3

Analysis of the Situation of outstanding Reimbursement

3.1 Necessity of an Effective Reimbursement System

The money for which reimbursement is to be received is a time gap receipt amount. Therefore, increase in reimbursable money means that Government expenditure also increases, which is not bad in itself. However, it is a problem when reimbursement is not received for a long time. In case due reimbursement is not received on time, in addition to problems arising in GON's treasury management, it creates pressure on Government's internal resources. On the other hand, it entails forfeiting non-returnable grant money and loan assistance receivable on concessional interest. Therefore, it is indispensable that for facilitating foreign assistance, receiving reimbursement be made effective on time basis.

3.2 Status of Money Pending Reimbursement

In Table 1 is exhibited the money due for reimbursement over the past 8 years, money adjusted in the current year and money due for reimbursement up to the current year. As shown in the mentioned Table, it is seen that whereas the maximum amount reimbursable in FY 2074/75 is Rs.48.59 Billion and the minimum amount in FY 2076/77 remains at 21.75 Billion.

Table 1: Reimbursable and Outstanding Amount (Source: FCGO)

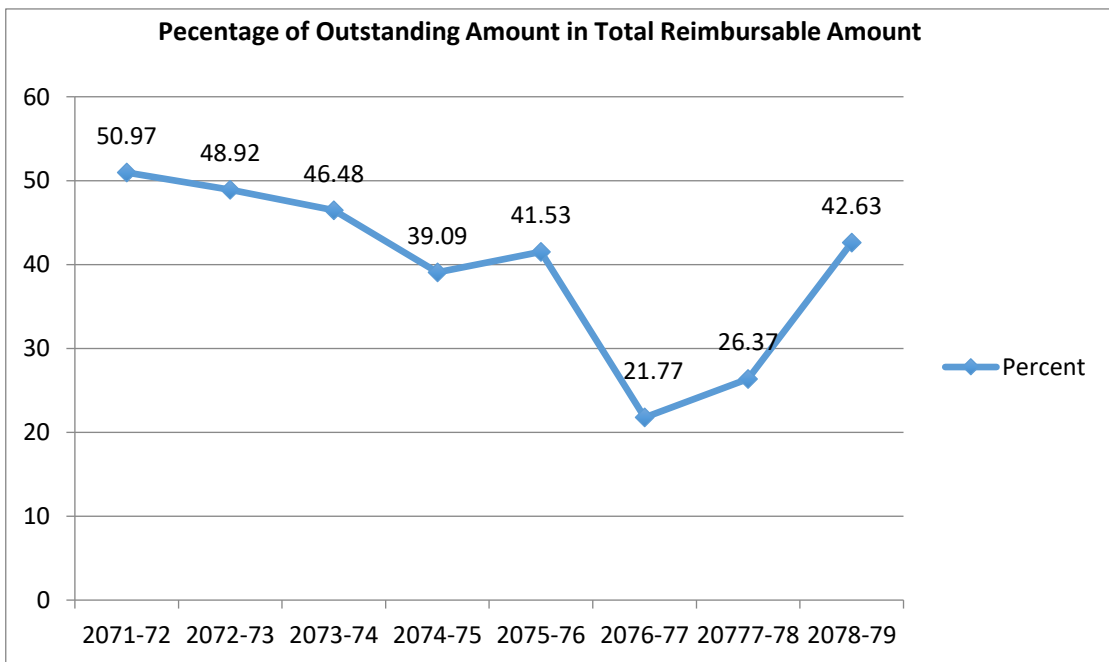
Reimbursement Amount (Amount in Rs)												
FY	Outstanding Amount from Previous Year			Reimbursement Receipt for the Year			Adjustment for the Year			Outstanding Amount		
	Loan	Grant	Total	Loan	Grant	Total	Loan	Grant	Total	Loan	Grant	Total
2079-80	21804888208	15060618009	36865506217									
2078-79	60381816964	26094644564	86476461527	53254721496	11395201965	64649923460.53	14677792740.27	361175410.47	15038968150.74	21804888208.21	15060618009.16	36865506217.37
2077-78	64991152711	25806228256	90797380967	53837204195	15758943887	69596148081.76	1215119020.41	1522536889.38	2737655909.79	12369067537.22	11569821258.09	23938888795.31
2076-77	73752284227	26129862267	99882146494	60586885914	17143693079	77730578993.79	-431120543.90	27452552.99	-403667990.91	12734277769.21	9013621740.31	21747899509.52
2075-76	86655531188	34262410557	120917941745.36	61965155520	19393356751	81358512270.16	1878482041.16	47721044.20	1926203085.36	26568857709.73	14916774850.83	41485632560.56
2074-75	80007761037	44314277464	124322038501.54	50113572438	22217082028	72330654465.86	-2058221895.05	-1334617322.15	-3392839217.20	27835966704.10	20762578114.38	48598544818.48
2073-74	45912244157	46504618397	92416862554	21871366154	26694969713	48566335866.85	-1662783975.49	771741435.93	-891042539.56	22378094027.89	20581390119.40	42959484147.29
2072-73	28958480027	46371184344	75329664371	14653403673	23715336093	38368739765.58	32111435.93	-138181888.37	-106070452.44	14337187789.52	22517666363.07	36854854152.59
2071-72	17845549814	40819926560	58665476375	9074907086	17293340200	26368247285.92	-91144439.78	-2305480711.74	-2396625151.52	8679498288.99	21221105648.50	29900603937.49

Table-2
Ratio of Outstanding Amount in Total Reimbursable Amount

			(Amount in Rs)
FY	Total Reimbursable Amount	Outstanding Amount	Percent
2078-79	86476461527	36865506217.37	42.63
2077-78	90797380967	23938888795.31	26.37
2076-77	99882146494	21747899509.52	21.77
2075-76	120917941745.36	41485632560.56	41.53
2074-75	124322038501.54	48598544818.48	39.09
2073-74	92416862554	42959484147.29	46.48
2072-73	75329664371	36854854152.59	48.92
2071-72	58665476375	29900603937.49	50.97
Average			39.72

Source: Financial Comptroller General Office

In Table -2 is presented the reimbursable money, outstanding reimbursable amount and the proportion and proportion of due reimbursable, from FY 2071/72 to 2078/79, spanning over the past 8 years. Whereas in FY 2078/79, the money remaining to be received as reimbursement was 42.63% of total reimbursable amount; up to FY 2076/77 it seems to have declined to 21.77%; after that it kept gradually escalating to 51%. Thus it is observed that with the increase outstanding reimbursable amount, along with decrease in the utilization of foreign aid, there has been pressure on GON.



CHAPTER – 4

Analysis of Problems Regarding Reimbursement

4.1 Preliminary Data Collection and Analysis

In this chapter, based on preliminary data, by analyzing the problems of reimbursement and causes, measures to solve problems have been identified. For this while collecting primary data under the Non-probability Sampling Method or Judgmental Sampling have been employed. For this, response was received from 6 personnel working in the International Financial Aid Coordination Division of Ministry of Finance. Likewise, questionnaire was distributed to 15 personnel of FCGO, who had worked at project level from the Reimbursement Section and Treasury Administration Section. The distributed questionnaire and the responses received and analyses are as presented hereunder:

Chart-1

(1) What system of obtaining foreign aid by GON would be most comfortable in your opinion?				
Respondents	(a) Direct Funding	(b) Prefunding/ Special/Imprest Account	(c) Reimbursable	Total
FCGO	1	9	5	15
MOF	4	1	1	6
Total	5	10	6	21
Percentage	23.81%	47.62%	28.57%	100%

As per the above Chart-1' among the 21 respondents, 47.62% mentioned that prefunding system would be comfortable for implementation. However, observing the respondents of the Ministry of Finance, the direct payment system would be most comfortable; however, respondents from FCGO did not think so. The reason for this could be a topic for a separate study.

(2) What is the reason that the system you deem easy would be comfortable?

(a) Reasons for Direct Funding to be comfortable:

- Not having to fulfill the cumbersome process of reimbursement
- Less time consuming because of easy procedure
- Indicators of performance to be known on time
- Enables to save means and resources
- Reduction in interest liability
- Direct payment to the concerned person/party
- Only eligible expenditure to be paid
- Less pressure exerted upon Government's revenue source

(b) Process of Prefunding/Special/Imprest Account

- As money would be obtained prior, no pressure on GON's accumulated fund, and easier to manage fund
- It is good to go for Prefunding in the health sector
- Prefunding is ongoing for budgetary support, but not on time
- As the accounting procedure is based on cash, there would be no lack of cash in Prefunding
- Ensuring cash and facilitation of cash management
- Less cumbersome
- Not necessary to transfer source to GON
- Accelerating the process of disbursement and release.

(c) Reasons for the easier of Reimbursable process

- Reimbursable process existing in the main development partners WB, ADB, JICA, IFAD, and so on
- Implementation and Accounting System to be made comfortable
- As assistance money is collected in Government Fund, transparency, control and reporting would be desirable
- Interest to be effective only after expenditure and disbursement
- Even though there would be pressure on Government Fund in the beginning, the overall fiscal discipline would be good in the process
- Direct payment would not be practical for small projects as Prefunding would entail more investment (interest)
- Even though there would be pressure on the Government Fund the overall fiscal discipline would be fine
- There would be check and balance in document and tendency to spend

Chart-2

(3) Whose necessity and priority is the adoption of the Reimbursable System?				
Respondents	(a) Direct Funding	(b) Donor	(c) Both	Total
FCGO	1	0	11	14
MOF	4	1	4	6
Total	5	1	15	20
Percentage	20%	5%	75%	100%

According to Chart-1 above, even though the Prefunding Method has been deemed to be the most comfortable assistance system, as per Chart -2, it seems that the reimbursement system is a priority for both the donor and Nepal. As per Chart -2, 75% respondents deemed that the reimbursement system remains a priority for both.

Chart -3

(4) What is the reason for reimbursement not being effected on time?				
Respondent	(a)Reimbursement process is cumbersome	(b) Our capacity is weak in implementing reimbursement	(c)Development Partner not flexible in reimbursement process	Total
FCGO	1	12	2	15
MOF	2	3	1	6
Total	3	15	3	21
Percentage	14.28%	71.43%	14.29%	100%

As exhibited in Chart-3, our capacity itself in implementing reimbursable system is weak, it is confirmed that reinforcement is not effected on time and a large amount is remaining to be reimbursed. It is seen that respondents having such opinion constitute 71.43%.

Reimbursement of Foreign Aid in Nepal

Chart -4

(5) Please rank the following in priority of 1,2,3,4,5 for the reason such big reimbursable amount to remain due.					
Possible reason		Respondents			
		FCGO	MOF	Total	Percentage
(a)	Lack of knowledge and skill of the employees involved in reimbursement.	5	0	5	23.815
(b)	Lack of effective monitoring from the parental entity and Project Coordination Office	0	1	1	4.765
(c)	Lack of awareness of the responsibility of Office Chief as well as the employees	5	1	6	28.575
(d)	Frequent transfer of the Project Chief and employees	3	1	4	19.055
(e)	Transfer and placement of employees are not made based on the knowledge and experience of the employees to be transferred and placed.	2	3	5	23.815
Total		15	6	21	100

In the Table (4) the respondents have perceived, as first cause (28.57) among the 5, the lack of sense of responsibility among the project chief and the employees for the problem of reimbursement. In the situation of lack of sense of responsibility, reimbursement has to be tied up with reward and punishment. Similarly, 23.82 percent of the respondents has accepted the lack of knowledge and skill about reimbursement, and transfer and placement of employees as not based on knowledge, skill and experience while transferring and placing the concerned employees as the being main cause of the problem.

Chart -5

(6) Please rank the following reasons in order of priority as 1,2,3,4,5 for the imbursement as being not made on time resulting into the due amount to become large. Please tick (✓) for responsible and (x) for not responsible cause.				
The probable reason	Respondents who put			
	FCGO	MOF	Total	Percent age
The statement of expenditure is not collected on time	9	6	15	71.45
The statement of expenditure is not received in proper to the Project Coordination Office for lack of training	9	6	15	71.45
Unable to apportion the expenditure according to the category of expenditure	13	4	17	81.05
Employees are unaware/ignorant of the terms and reimbursement procedures of the agreement	13	3	16	76.25
Unable to apportion the expenditure for the project managed by different development partners.	11	4	15	71.45
Counterpart Budget is not provisioned from Nepal Government as mentioned in the agreement	11	3	14	66.675
Budget is provisioned from the loan sources for the project whose due date is closed according to the agreement.	10	1	11	52.385
Budget is provisioned to the project for which agreement has not been reached including the project for which	8	2	10	47.625

agreement had been reached but not implemented.				
The copy of agreement and appraisal is not made available to the operating/functional units.	12	3	15	71.435
The differences in procedures adopted by Nepal Government and donor, and between the two parties while making expenditure.	13	5	18	85.715
The practice of accepting advances also as expenditure in the Nepal Government.	12	3	15	71.435
Lack of coordination between the projects managed under the same loan	10	5	15	71.435
Failure of projects to maintain Main Loan Register as well as other Register managed under same loan number	8	5	13	61.95
Among the expenditures, the amount deposited in the retention is not reimbursed	11	6	17	80.955
Lack of effective system to monitor and control by the Project Coordination Office	13	6	19	90.485
Total	15	6	21	

In question number 5, 15 reasons were asked to the respondents to select from if they were the reason for the problem of reimbursement. The answer is presented in the Chart-5. Among the 21 respondents except for one reason, more than 50 percent of the respondents have ticked mark (✓) as correct. Since 47.625 percent of respondents have ticked as correct for the provision of budget allocation being made to the projects that have not been not implemented for which agreement has been concluded and not concluded. So, this could not be accepted as being the important reason. Viewed in this way, all other mentioned reasons could be accepted as being correct. Among these reasons, majority of the respondents have ticked as correct, the lack of effective monitoring and control (90.48%), the difference in the procedure to be followed by the Nepal Government and donor agency, between the two donor agencies (85.71%), unable to categorize expenditure according to the category (81%), and among the expenditure, the amount deposited in the retention are not reimbursed (80.95%).

7. Please mention if there are other reasons for the reimbursement not being made on time in addition to those that have been mentioned in question 6.

The summary of responses received for the questions mentioned above as follows:

- The actual amount of account concerning the aid which includes fiscal transfer is not received
- The unspent expenditure from the fiscal transfer made to the province and local level is not returned in the same fiscal year
- The amount that is not reimbursable due to fair and valid reason is not transferred from the source by the Ministry of Finance on time.
- All the concerned entities are not responsible for their word at the final stage of project implementation and at the moment of writing off
- Reward and Punishment System based on performance appraisal is not implemented
- The provision requiring bill and receipt to be submitted to the donor agency
- The requirement of bill and receipt to be submitted frequently
- Difficulty in abiding by the terms of donor agency
- Reimbursement requests are not made on time

- The different policy and procedures are in place according to the development partners
- Ineligible expenditure is requested while making request for reimbursement; and the implementation progress to be weak
- The Counterpart Fund to be borne by Nepal Government is insufficient
- Ministries are not concerned about obtaining the source in the Program for Result
- The concerned entity may be less interested for reimbursement due to the psyche' that the expenditure is made elsewhere while the ministry has to achieve result

8. How can information technology be used to make reimbursement procedures effective?

The following were the response received:

- There is need to have an integrated information system up to the level of Ministry of Finance, FCGO and project, where FCGO is currently working,
- Software is to be developed to make information technology friendly and the reimbursement procedures digital, and to link the reimbursement system and project recording/accounting to the software system,
- To digitalize the procedures of budget release process
- To bring out IT Based Program by including donor agency and the concerned entity,
- To link MIS with CGAS,
- To make software-based Accounting and Reporting
- To develop the simplified Standard Operating Procedure and make it update,
- To link the Portal of Nepal Government with the Portal of Developing Agency and monitor, and give access to the entity responsible for facilitation so that reimbursement can be made effective,
- To arrange for developing Project Code and upload all information of all entities in the integrated system,
- Accounting of expenditure to be placed in MIS and work in it.

9. What are the areas to be reformed to receive imbursement on time? Please mention them?

The responses received have been categorized by the entities with regard to shouldering the responsibility for fulfilling their duties:

(A) Project Office:

- Employees of the Cost Center to be abreast of information with regard to Eligible/ineligible Expenditure, Mis-procurement, Financing Ratio,
- To strengthen and reform the project management and accomplish task according to the timetable,
- Expenditures to be made according to the category, keep record and request for reimbursement to be made systematically, on time.

(B) Project Coordination Office and the authority responsible for requesting the reimbursement

- Project Coordination Office to conduct effective monitoring,
- An integrated Information System shall be developed by accommodating the reimbursement through Comptroller General Office (FCGO).

- An implementable reward and punishment system based on performance appraisal to be made,
- To enhance the competency of the concerned employee,
- The employees to be transferred and placed shall be transferred and placed by the entity responsible for personnel management, based on ability, experience, interest, etc. and not to let the vacancy unfulfilled. (including FCGO),
- The concerned employee shall be held accountable and action taken against those who do not make due request for reimbursement on time, systematically. (including FCGO)
- Effective Information shall be passed on to the Cost Centre with regard to Eligible/Ineligible Expenditure, Mis-procurement, Financing Ratio,
- To keep quantitative and qualitative performance appraisal indicator,
- The concerned project to be held additionally responsible with regard to reimbursement procedures.

(C) Ministry of Finance:

- To facilitate in the work of reimbursement, remove obstacles, and send the financial details, audited account in time,
- To ensure the Matching Fund for the project,
- To transfer the source transfer within the due time for such transfer,
- To make effective coordination among the donor agency, Ministry of Finance and concerned entities,
- Category and Line Item are to be put together as one and mentioned in the Agreement
- If possible, emphasize the system of direct payment ,
- While concluding agreement with the donor agency, Ministry of Finance shall accommodate the subject of receiving reimbursement based on DLI (Disbursement Linked Indicator),
- To strengthen the International Economic Cooperation Coordination Section of the Ministry of Finance and Reimbursement Section of FCGO, and to allocate Program and Budget showing the Fiscal transfer in the local and province level with sources-wise account, to develop a Reporting System accordingly,

(D) Development Partner:

- Reimbursement to be made timely; rather than the procedural terms, the performance result should be tied up with reimbursement,
- The donor agency shall implement the provisions of agreement honestly by monitoring the implementation to see if the agreement has been effective,
- The reimbursement procedures shall be refined according to the Nepalese perspective.

4.2 The causes of problem related to reimbursement

On the basis of factual analysis done in Chapter 2, problem has been created in cash flow of the Government on account of the inability to reconcile for years the account of reimbursable

fund released. Additionally, a large portion of the foreign aid mobilized through hard efforts pending reimbursement is evidence that foreign aid has not been utilized as desirable.

The problem of reimbursement of foreign aid has arisen according to the nature of project. Various types of problem of reimbursement have also arisen according to the nature of project. From the view point of budget mobilization, there are usually four types of projects.

- (a) A plan that has programs with only a single component in one district
- (b) A plan that has programs managed in different districts
- (c) A plan managed through the sources of more than one partner
- (d) A plan having different components (projects) managed under different entities.

The causes of reimbursement not able to be received in due time are as follows:

4.2.1 Policy-wise and legal problem

- Reimbursement not received on the specified time as prescribed in the Regulation on Fiscal Procedure and Fiscal Accountability, Loan and Grant Support Agreement and Procedure of Release
- Recommendation by Ministry of Finance for release of source even though reimbursement was not received as per reimbursement procedures
- The provision of Matching Fund not sufficient to be borne by Nepal Government in accordance with the Loan and Grant Agreement.
- While releasing a lump sum amount according to the agreement concluded between Nepal Government and Donor Agency comprising of subsidiary agreements done again between the Ministry of Finance and autonomous entity/corporation, more reimbursement expenditure is seen in the Treasury Single Account, but when the concerned entity and enterprise/Corporation fail to spend all the amount, reimbursement could not be requested for the unspent balance.
- When reimbursement is asked based on the DLI (Disbursement Linked Indicator) system, it shall be done on the basis of indicator, and if the indicator calculation is made before the prescribed deadline, it would cause the reimbursement to be higher than the total expenditure, and the figures of expenditure would not match the actual reimbursement.
- Due to the system of giving reimbursement after a third party has verified in DLI, the reimbursement is not received until third party has verified it in due time.
- Due to the practice of making verification on yearly basis, the payment of Government amount as reimbursement has been long overdue.
- **Discrimination in the Process of Expenditure Adopted:**

There is no uniformity observed in the process of procurement on account of the differences in the process required to be adopted according to the Procurement Act of Nepal Government and the procurement process to be followed as per loan agreement in procurement and construction works as well as the different work procedures of the development partners. Due to this, employees are confused as to making the payment appropriately and ask for reimbursement and account keeping thereby causing a situation where reimbursement accounting is not reconciled on time.

- **Failure to manage counterpart budget from Nepal Government in proportion to that mentioned in the agreement:**

There is mention of percentage to be borne by Nepal Government and development partners under every budget head in the loan agreement. Apart from this, the amount including custom duty/fee, tax amount charged by Nepal Government are not borne by the development partners. As sufficient budget is not sanctioned by Nepal Government in proportion to meet such cost, the budget sanctioned for reimbursement is used from Nepal Government's sources to pay the cost. Until such amounts are received through source and budget head transfer, the reimbursement cannot be reconciled and even if so, it takes unduly longer time for reconciliation giving rise to a situation where reimbursement cannot be reconciled on time.

4.2.2 Problems related to the Reporting System

- **The Project Coordination Office** not maintaining the receipt of reimbursed expenditure, the reimbursement due and other details related to reimbursement.
- Failure to draft the project account IMR/IPR actively in time and send the withdrawal application to the Coordination Office.
- The province and local level are unclear of the system and format related to reimbursement
- **Details of expenditure details not received on time:** It is the responsibility of Project Coordination Office/Unit to apply for reimbursement of expenditure made by the different districts and entities. It is impossible for the Project Coordination Office to apply for reimbursement if the detail of the expenditure statement is not sent by the districts and units.
- **The statement not exactly correct:** Even if the statement is received, they shall have to be categorized according to the expenditure ratio as mentioned in the category provided for in the loan agreement. As the expenditure being sent in not received in correct order this consumes a longer time to make correspondence leading to the reimbursement account to remain due for a longer time.
- **Applying for reimbursement of ineligible expenditure:** It is possible that withdrawal applications have included the ineligible expenditure as revealed in the course of review by the development partner of expenditures. In case such expenditures have been asked for reimbursement, there is a system in place to reduce such expenditure from the next withdrawal and the balance reimbursement is made accordingly.
- **Inability to segregate expenditure according to the expenditure head:** Loan amounts are categorized under different expenditure heads. As such, every expenditure made under the project is categorized according to the category head provided in the loan agreement and applied for reimbursement on the basis of percentage loan to be borne. But, failing to calculate such expenditure correctly, has caused the reimbursement application to be delayed.
- **The expenditure of variation order:** In many contracts, a situation arises for variation to be made: The reimbursement is not made when the development partners are not informed of the expenditure made according to such variation. For example, with reference to Asian Development bank the details of such variation have to be updated in the Loan/Grant Financial Information System. Because reimbursement is made based on the contract balance, the details related to variation order must be communicated and updated in the contract ledger in time.
- **Failure to reply on the matter sought by the development partner on time:**

Failure to reply on the question asked by the development partners with regard to the implementation of project and the situation leads to reimbursement not being made on time.

- **Price Adjustment:** The issue of price adjustment is not mentioned in the initial contract agreement. Price adjustment is given later according to the agreement. The development partner releases the amount equal to its percentage of each category. The reimbursement is hindered in the situation when the project fails to send the details of price adjustment to the development partner. As such, details of price adjustment should be sent to update Contract Ledger of the development partner.

4.2.3 The problem of personnel management:

Qualification, ability, experience, skill development and institutional memory are not considered objectively while transferring and placing the Project Chief and the section Chief of Fiscal Administration. The reward and punishment system is not put into practice by appraising the performing and non-performing employee, objectively.

- **Not aware of the terms of agreement:** Inability to comprehend fully about some terms of the agreement and absence of information about them have created barriers to the timely reconciliation of reimbursement.
- **Unaware of the reimbursement procedures:** It is generally necessary to apply for reimbursement in the project managed under the foreign debt. But, as the employee does not get knowledge on procedures and work system to be fulfilled in applying for reimbursement without working in this area, complexity arises in the accounting of reimbursement due to the lack of experience and mistake committed unintentionally.
- **Lack of proper training system:** The employees involved are not aware of complete knowledge of the program and its terms for lack of training. Similarly, the employees involved are not trained to enable them in a way to find solution of the problem that arises in the course of implementing the program/plan. In this way, the act of receiving reimbursement and reconciling account could not be performed for lack of knowledge and skill.
- The high level of staff turnover in the Project Coordination Unit have caused barrier in the procedures of reimbursement. It is imperative to put in place of a system where the employees, who have acquired knowledge and skill related to reimbursement, are not transferred and their responsibility changed for a specific period (at least for two-years).
- **Language Problem:** Since all acts of reimbursement are performed in English, some barriers have been caused to the act of reconciling the reimbursement account due to language problem.

4.2.4 Weak Financial Governance

- Having studied the Loan and Aid Agreement, not spending the Eligible Expenditures and not applying on time for all the receivable money,
- The acts conforming to the rules of the aid agreement not being executed, the procurement plan is not formulated and got approved, selection of wrong procurement system and expenditure made from different budget heads,
- Updated record on retention and advance not prepared, and the reimbursements are not applied for on time by preparing reports including project account,

- Details of the expenditure made, reimbursement applied for and amount received during the service period of which Project Chief or Chief of Fiscal Administration Section are not available.

4.2.5 Problem related to the reimbursement of closed projects and the projects for which agreements were never concluded.

- **Projects Already Closed:**

Reimbursement requests received after six months following the Financial Closing of a project are not entertained by the development partners. In case reimbursement is due in already closed projects. Such amount is seen as pending in FCGO. According to the provision of Financial Procedure and Fiscal Accountability Act, after five years have expired, the pending reimbursable amount has to be source- transferred and as to be borne by the Nepal Government. However, in practice, it does not appear that such amounts of projects have been adjusted through source-transfer, which entails that in the record, more amount to be adjusted may be observed.

- **To arrange budget for project not yet agreed or not implemented even though agreement has been made**

For projects whose loan deadline has elapsed as per the loan agreement, or not implemented even though agreement was made, based on the estimated loan availability as well, it has been complex to reconcile the reimbursement account for the budget having been arranged, released and disbursed.

4.3.6 Problem related to Management and Coordination.

- **Copies of Agreement and Appraisal not made available up to the work execution unit:**

Copies of loan agreement and details of appraisal of any project should be made available to execute the program and incur expenditure as per loan agreement. But when such details fail to reach from the coordination unit to the operation units, it has become complex to reconcile the reimbursement account on time owing to ambivalence on many issues.

- **Lack of coordination among the various projects/component operated under a single loan agreement:**

Due to different components operating under a single loan agreement, and lack of coordination between these components, the reimbursement of expenditure spent over the sanctioned budget in the expenditure head is not received. This leads to the reimbursement account to remain reconciled.

- **Delay in Source Transfer:**

Ministry of Finance does not decide the source transfer without it being clearly substantiated. In some situations, it has been seen that a decision of Source Transfer has not been made even though it has been clearly substantiated.

4.2.7 Related to book keeping:

- **The system of treating the amount of advance as expenditure in Nepal Government:**

According to the Nepal Government Accounting System, the advance amount is also accepted as expenditure. But, in regard to the application for reimbursement and receipt, the reconciliation of reimbursement account is hampered by accounting the total expenditure only.

- **Failure of keeping the loan account by the project itself:**

The failure of maintaining the required Main Loan Register, Subsidiary Register, Withdrawal Monitoring Register of the foreign loan in the project run under the same loan number have caused the expenditure to be more than the agreement making the reimbursement account to be reconciled on time.

- **The problem of segregating the cost correctly in the projects operated under different development partners:**

Though there has been the system of bearing cost by the different development partners for a single project, the reconciliation of reimbursement account is disturbed when the source of expenditure is not segregated according to the percentage mentioned in the agreement.

- **Among the expenditure, the amount submitted to retention (head) have not been reimbursed:**

Certain amount payable against the work performed under contract is deducted from the bill and deposited in the retention account. As the development partner does not reimburse the retention amount until the project has made payment to the contractor, the reimbursement of such amount usually gets delayed.

4.2.8 Lack of result-oriented monitoring and evaluation system.

- **Lack of sufficient monitoring by the Coordination Office:**

The work of reconciling reimbursement amount gets delayed due to the delay of monitoring by Coordinating Office's from time to time with regard to obtaining the statement of expenditure, proportioning the percentage of expenditure and ascertaining the sources.

4.2.9 Abidance by the Non-Fiscal terms and conditions

The reimbursement has been found to be withheld in some cases, where Non-Financial Terms and Conditions in most cases of foreign aid, have not been abided by. For example, the reimbursement has not been able to be received for failing to abide by the terms and conditions of social safeguard measures of the aid agreement for building the Marshyangdi Corridor Transmission Line. Therefore, the Project Coordination Office and Project Office must pay attention to abide by such terms and conditions. Similarly, receiving reimbursement has been hampered by fully not abiding by the FPIC (Free, Prior and Informed Consent) system related to the rights of indigenous community. Therefore, enough information must be provided to the

employees working in the Project Coordination Office and Project Office before the projects are implemented by abiding by such Non-Fiscal Terms and Conditions.

4.2.10 Weaknesses observed in the course of implementing Fiscal Federalism

There is a provision in place for making available conditional grant from the Federal to the Province and Local Government. A large portion of the grant donation used to be in the form of foreign aid (loan and grant), which is reimbursable. In a situation where the expenditure of the conditional grant that passes to the provincial and local level is not mentioned as not being borne from foreign source, such amount is in a state of not being reimbursed at present. In context to such conditional that is granted, the source of expenditure to be entered in LMBIS as reimbursable loan and grant of the concerned development partner has not been seen to have done as such. In the same manner, as there is no system in place of mentioning the source of foreign aid clearly in the Budget Allocation Book/Red Book, a situation has been created whereby reimbursement of expenditure incurred by the Province and Local level will not occur. In the first year (Fiscal Year 2075/76) Fiscal Federalism implementation, even though the amount of such expenditure was reimbursed on the basis of above-mentioned expenditure as mentioned in the TSA, a situation has been created whereby reimbursement is not granted in such manner by the development partners in the subsequent years.

Even though budget from the local level is spent and entered in the SUTRA System in a manner where activities level are seen and its report made available to the Financial Comptroller General's Office, it is likely that the report for separate projects is not received at the PCU (Project Coordination Unit)/or the concerned Ministry and Department. This has caused an obstacle to reimbursement. As the responsibility for the local level has been assigned to the Ministry of Federal Affairs and General Administration, there is a need to strengthen the reimbursement unit of that Ministry. At least 3 employees have to be present at the Unit, entirely for the purpose of reimbursement.

Chapter 5

Suggestions and recommendations

5.1 Policy-wise, Legal and Procedural Reform

5.1.1 Reform related to ensuring the fiscal responsibility

The provision made in Sub-rule (11) of Rule 42 of Financial Procedures and Financial Accountability Rules, 2077 should be made also in the Financial Procedures and Fiscal Accountability Act, 2076. As such, Section 29 A shall be added in that Act: "To the extent that GON has been harmed due to not maintaining the records, spending ineligible money, and not requesting reimbursement within the prescribed time, by the inability to effect reimbursement, the concerned Office –in-Charge and Accounts Administration Chief shall be held responsible." It seems that if provision is made in the Act to take departmental action against the Office Chief and accounts Chief who do not duly request for reimbursement on time, the effectiveness of the reimbursement provision would be enhanced.

- Provision made in the Sub-rule (11) of Rule 42 of Financial Procedure and Fiscal Accountability Rules, 2077 should be incorporated in the Act. The mentioned provision of Sub-rule (11) is as follows. "To the extent that GON has been harmed due to not maintaining the records, spending ineligible money, and not requesting reimbursement within the prescribed time, by the inability to effect reimbursement, departmental action shall be taken against the concerned Office-in-Charge and Financial Administration Chief."
Here it is said that concerned Office Chief and the Chief of Fiscal Administration are held responsible. But what and how they are made to be responsible, what type of action will be taken in case work is not performed (as mentioned) is not clear. Therefore, it is appropriate to associate the provision of punishment in the Act itself. "
- In the provision of Sub-rule (120), part C) of the Financial Procedures and Fiscal Accountability Rules, 2077, it would be appropriate to add under the heading: "The functions, duty and power of the Financial Administration Chief", 'In order for reimbursement to be made, the required details are to be sent to the concerned entity with due procedure.' Such additional provision, it seems would make effective among the numerous functions of the Accounts Administration Chief, to also include the function of duly requesting for reimbursement.

- In Rule 119, It shall also be desirable to mention under the subject of responsibility of the Accounts Responsive Officer to supervise and monitor on whether reimbursement has been applied for on time, qualified/skilled/ expert human resources are available. Such a provision helps strengthen the Accounts Responsive Officer's reimbursement responsibility.
- Under Rule 121, part (h), It would be appropriate to add the provision of also inspecting the issue of whether or not request for reimbursement has been made under the function, duty and power of the District Treasury Comptroller Office (DTCO). Such a provision would create a situation whereby the DTCO would be invariably required to look into the subject of reimbursement.
- Under Rule 122, functions, duties and powers of the Office Chief, in Part (c), it would be appropriate to add the provision of duly requesting or causing to request for reimbursement. Such provision would help to make the Office Chief and Accounts Chief responsible in the task of reimbursement.
- It would be appropriate to add Section (i) under the function, duty and power the Financial Comptroller General's Office under Rule 123, and make following provision, ' "In order to strengthen the reimbursement system, arrangement shall be made to conduct training program for the development of qualified human resources and arrangement for the Project Operation Account to be managed by the trained employees, as well as develop standard for their placement and transfer."

Such a system provides for conducting mandatory training of Project Account and contributes to implementing standard for their placement and transfer. Such system provides for conducting mandatory training on project account and contributes to implementing standard of transfer and placement of only the trained manpower. At present, the situation is such that reimbursement is not happening on time due to the unexperienced employees in the subject matter of Accounting Group who have not undergone Accountancy related training and lack knowledge and skill on the relevant subject.

- Even if the concerned/relevant Ministry and Project has not received reimbursement, but have applied for its release to the Ministry of Finance, the withheld reimbursement shall be recommended to be released only, after the reasons for the non-receipt of reimbursement have been examined objectively and deemed to be reasonable.
- Reform to be made at the budget Formulation phase:
Ministry of Finance shall hold intensive discussion with the concerned Ministry on the budget formulation process and arrange budget sufficient enough to meet the Matching Fund as provided in the Agreement.
- While formulating the budget of the project to be implemented under loan aid, it shall be formulated by giving due attention the percentage to be borne by Nepal Government, tariffs, customs, tax not to be borne by the development partners,

deadline of loan agreement, the time period of effectiveness of loan agreement as well according to the agreement.

- Instead of releasing budget to the autonomous organization or enterprise from the secondary/subsidiary aid agreement under the fiscal provision, provision is required to be made through direct payment procedure instead of the reimbursement system and to arrange for the balance of money not able to be spent to be returned to the Accumulated Fund.
- It is appropriate to budget under direct payment for money payable under International Competitive Bidding (ICB)

5.1.3 Procedural Reform:

- While releasing the disbursement toward fiscal provisions, the Loan and Investment Section shall arrange to release the fund against the investment in the loan and share only after taking the advice of the Budget Implementation Section.
- Once the Project Coordination Unit has issued recommendation in the beginning of the year, the DTCO shall arrange to release the budget until such time that it is blocked. With regard to the release of budget to the Project Coordination Unit, the Reimbursement Section of the Comptroller General Office shall recommend for the release of budget on the basis of the status of reimbursement account, and appropriate as afore-mentioned
- Such arrangement shall be made to ensure that budget shall be released on the basis of efficient performance of any entity, and the Coordination Unit shall not be permitted to raise the problem of reimbursement not having being reconciled citing the reason of not receiving the detailed statement of expenditure (SOE) from any entity . Such system shall cause to remove the lack of coordination automatically among the different entities operating under the same loan agreement. While causing to be verified by a third party, the concerned entity shall cause to verify on a trimester basis and shall arrange to apply for reimbursement on the basis of the indicator of expenditure amount.
- If the agreement prescribes for applying for reimbursement only at the end of the year, the agreement document shall have to be reconsidered. Additionally, for the indicators specified in the Disbursement Linked Indicators (DLI), 50 percent reimbursement shall be received on the basis of report prepared by the project, and the remaining 50% of reimbursement shall be arranged to be received following the verification conducted by the third party.
- It may not be possible to make available Loan Agreement, Appraisal Report, project implementation booklets, as required to each and every unit of the project. Therefore, prior to the implementation of project, the Project Coordination Unit shall make arrangement to prepare and send a manual in Nepali accommodating the procedures to be fulfilled prior to project implementation, the modality to be adopted in incurring expenditure, the expenditures towards project operation, method of separating sources, the form, time and details for reporting, the method of reporting on advance expenditure as well as other necessary matters.

- It would be easy to reconcile the reimbursement account on time by arranging to deposit the amount, which has to be kept over the maintenance period or Defect Liability period, by the contractor itself instead of deducting it from the contractor's bill.

5.1.4 Reforming the accounting system

- After the loan agreement has been concluded, prior to implementation of the project, arrangement is to be made for separating the respective budgetary number of Nepal Government, defining each expenditure category provided under the agreement. By defining in this manner, the ambivalence related to separating the category of expenditure is expected to end.
- It shall be made mandatory by the coordination office of the project managed under the loan source to maintain the loan account, component-wise and category-wise. Similarly, arrangement shall be made for the Project Coordination Office to invariably maintain Main Loan Register, Sub-Loan Register, and Withdrawal Monitoring Register. The Reimbursement Unit of Comptroller General Office shall arrange to monitor this provision at least once a year.
- Arrangement shall be made to block the budget equivalent to the due reimbursable amount in the TSA if reimbursement of expenditure made in one quarter is not received in the next quarter.
- The accounting of reimbursement submitted by the reimbursement Unit of Comptroller General's Office and presented by the Project also do not match. Therefore, arrangement shall be made mandatory by the Project Coordination Office to match the reimbursement account maintained in the Comptroller General's Office on a quarterly basis.
- Strengthening the Reporting System
- Add Reimbursement Application in FMIS. To arrange for inclusion into it according to project-wise, loan number or Aid or Grant number, Fiscal Year and Withdrawal Application, Reimbursable expenditure, the amount of reimbursement requested for, reason for reimbursement not received and the attempts made from the project to solve the problem; etc. and overall transaction related to reimbursement.
- Computerized Government Accounting System (CGAS) is to be applicable in all projects. To link among the LMBIS, TSA and CGAS and develop a system/model that automatically creates and produces overall report related to the project as soon as expenditure is incurred or budget is released.
- Arrangement shall be made for instantly reporting of expenditure by using software at all provinces and local level. That software should be affiliated with FMIS of Nepal Government.
- To arrange for getting integrated report of expenditure made by Federal, Province and Local Level by way of activity coding of foreign aid projects in real time.

- To strictly put in place a system of reward and punishment by appraising the performance of Project Chief and Account Chief with regard to the project's overall progress, state of reimbursement, clearing of irregularities; etc. An Integrated Information System appears to be needed at the Finance Ministry, Finance Comptroller General's Office and the project level. Currently, FCGO is working on it.

Use of Information and Communications Technology

- To develop software to make the reimbursement process IT friendly and digital for donor entity and all entities of Nepal Government associated with the reimbursement process. To link the reimbursement system and project accounting with the software system. To digitalize the process of budget release.
- To reform the AMIS (Aid Management Information System) and obtain the project-wise expenditure and details of pending reimbursement.
- To make arrangement for creating Project Code and incorporate all information of all entities in an integrated system of information.

To strengthen the Good Financial Discipline

- As the illegible Expenditure does not form the part of Loan and Grant agreement of the concerned project, and it is not reimbursable by the donor agency, such expenditure shall be recovered from the concerned employee as government dues and make responsible toward the receipt of reimbursement. The project and Fiscal Administration Chief who is currently serving in the current development project, upon transfer and prior to receiving the release letter, shall handover the cash and kind according to the Rule 103 of Financial Procedures and Fiscal Accountability Rules, and Annex 1 and 2 of reimbursement work procedures and keep record of such handover/transfer. This record shall be arranged to be tied up with Performance Appraisal, transfer, foreign travel and deputation.

Enhancing the efficiency of the employees

- Project Coordination Unit shall, after the placement of employees arrange to mandatorily train the employees on the fundamental skills on aid agreement, conditions of payment, project accounting (Reporting System), process of reimbursement application and such other relevant fundamental skills and dispatch them .
- With regard to the guideline developed by Project Coordination Unit and provisions mentioned therein, training should be given to the employees of the Project Coordination Unit at the beginning of every fiscal year.
- Project Coordination Office, shall have to train the concerned employees on matters such as the type of account, design/form of account keeping and deadline for making available the statement prior to project implementation. After they have been trained, arrangement should be made for making available of statements by the offices located in the district and units on time.

- A system shall be initiated whereby the employees to be transferred to the projects are imparted with the basic skills on project accounting, reimbursement system and its importance.

To develop result-oriented monitoring and evaluation system

- In order to make the reimbursement process effective, and implement the existing Financial Procedure and Fiscal Accountability Act, Regulation and unblocking procedure of pending reimbursement, arrangement is to be made to prepare the concerned Ministry and FCGO shall set up a time table for regularly monitoring each project or entity and also prepare a periodic report of the same.
- The concerned Ministry FCGO shall give highest priority to monitoring and evaluation activities by also accommodating the area of reimbursement. For this purpose, result oriented monitoring and evaluation action plan is to be drafted. Feedback received from monitoring shall be immediately reformed and lessons learnt from the evaluation and monitoring shall be used in the next policy and similar project.
- While formulating a work plan for monitoring, it should be arranged based on a checklist. The subject matter to be included in the checklist shall be as follows: whether information concerning aid agreement and expenditure head have been informed to the concerned employees. Has reporting been done on time and applied to the donor agency to receive reimbursement? Were the requested reimbursement amount and received amount equal? What was the reaction of the donor in the situation the reimbursement was not received on time? Has the Project Coordination Unit accorded priority to prepare a record of reimbursement expenditure, request, receipt, and due reimbursement amount and match it with the FCGO every quarter? When and during whose tenure due reimbursement money due to project closure was spent? Is there a clear record of the reason for failure to receive it? Upon project implementation, what sort of efforts was made during the period of reconciling the account?
- The Reimbursement Section of the Comptroller General's Office shall monitor at least once a year to ascertain whether the reimbursement expenditure made was transferred to account number Ka.7.15 from the designated/ Imprest account on time, whether the expenditure made from that have been applied for replenishment, and expenditure incurred as per rule.
- If Project Coordinator Unit arranges to monitor the Project unit office at least once a year, the problem of receiving the statement of expenditure, the act of proportioning the expenditure and reconciling the account are solved on time, a situation can be created whereby emergent problems could be identified and resolved on time.

Writing off the reimbursement account dues of a closed project on time

- The loan and grant amount received due to over payment of reimbursement amount continuing to be deposited to the Treasury Fund every year from the loan and grant accounts to be written off by the FCGO following the request of the concerned Ministry to the Ministry of Finance and with its consent.
- For projects which had been phased out before the Fiscal Year 2060/61 but have reimbursement due and are un-reimbursable from the donor agency and lack the evidence to substantiate the reimbursement, the concerned Ministry shall request the Ministry of Finance for its consent on the expenditure made with due reason. Similarly, in the case of reimbursement that had not been written-off due to rounding figure, the concerned Ministry shall request the Ministry of Finance to consent to the expenditure. FCGO shall reconcile the account after the Ministry of Finance has consented to the expenditure.

To reform the reimbursement system at the Province and Local Level

- As there is no mention of foreign source to bear the expenditure of conditional grant going to the provincial and local level, the reimbursement of such amount is in a state of being unsettled. In this regard, arrangement should be made to make the entry into the LMBIS as reimbursable loan/grant as the concerned development partner being the expense bearing source.
- Likewise, as there is no system of clearly mentioning the source of foreign aid in the Red Book/Budget Allocation Book, the expenditures made by the Province and Local level are in a state of not being reimbursed. Therefore, the source of expenditure should be clearly mentioned and sent to the concerned entities.
- Even though the report of expenditure showing Activities Level and being entered into the SUTRA system and its report obtainable at FCGO, arrangement is to be made to make available the project-wise report to the Project Coordination Unit, or concerned Ministry/Department.
- As the responsibility of the PCU at local level has been assigned to the Ministry of Federal Affairs and General Administration, the unit looking after reimbursement needs to be strengthened. At the PCU, for the purpose of reimbursement, a minimum of three personnel need to be existent.
- In project managed through foreign aid, by reason of reimbursement not being effected on time, the state having to forego the grant it is supposed to get, as this causes pressure on Government source, additional effort needs to be exerted in obtaining reimbursement on time. It is seen that the provincial and local level need to report to the federal Government on foreign aid and need to make appropriate arrangement for requesting reimbursement on time.

Reform to be made on the part of development partner with regard to reimbursement.

In order to make the reimbursement process of Foreign Aid, simple and efficient, the following reform is expected on the part of the development partners:

- **Streamlining the Procedures:** The development partner can make the procedure of reimbursement more simplified and standardized. It can reduce the number of necessary papers by requiring only very necessary and relevant documents. This can remove duplicate information and unnecessary paper procedures. For this, in order to reduce paperwork, minimize the bureaucratic barriers, issue clear cut guidelines related to reimbursement, it can develop a system to conclude the reimbursement application within a specified period.
- **Accepting the digital copy:** To accept the physical form of papers as well as the digital copy. The paper work becomes reduced in reimbursement leading the procedures to become simple and fast, if the scanned bill, receipt and other reporting papers are accepted.
- **Accepting the electronic signature:** There is a need to adopt the policy of granting acceptance to the electronic and physical signatures of both development partner and recipient. For this, both parties need to reach a bilateral consensus on giving recognition to the electronic signatures and develop guideline in this regard. The authenticity, integrity and security of electronic signature, can be ensured by a capable system of authorization and encryption technique. By defining properly the special process of obtaining and examining the electronic signature, information on it needs to be disseminated to all parties involved in the reimbursement process.
- **Simplify the Approval Process:** The development partner is required to clearly specify the level and rank of the official involved in reimbursement and arrange for the process to become efficient and transparent.
- **Digital reimbursement management system:** This system makes the reimbursement process to become automatic and streamlined. The use of this system identifies the request for reimbursement, automatic calculation, facilitates communication as well as making the overall process transparent.
- **The use of Information Technology:** The reimbursement procedures can be made automatic and streamlined through the use of online digital payment platform. The use of information technology helps to promote transparency, minimize mistakes and helps the flow of information between the two sides. A distinct type of software can be used in the procedure of reimbursement. Such software must have the following characteristics.
 - Online Submission and Tracking
 - Automated Validation and Verification
 - Standardized Template and Reporting
 - Integration with Financial Systems
 - Workflow Management
 - Document Management
 - Currency Conversion and Exchange Rate Integration
 - Reporting and Analytics
 - Audit Trail and Compliance
 - User-Friendly Interface
 - Data Security and Privacy
- **Simplifying the Reporting System:** The administrative burden of the aid recipient is reduced by simplifying the reporting system. The development partner should

streamline the reporting system. Data Collection and Reporting procedures should be made automatic by using technology, and it is essential to give attention to remove duplication by linking up the reporting system with the national system.

- By assessment of reimbursement procedures on a regular basis, and identifying the bottlenecks concerning this, such as the bureaucratic hassles and the scope for improvement, continue to improve it.
- **Enhanced Communication:** Effective communication between the development partner and the beneficiaries is important for an efficient reimbursement system. Regular and transparent communication helps to address the problem and concerns of reimbursement instantly, to clarify the necessary matters necessary for reimbursement and facilitate the necessary coordination work for the overall process.
- **Predictable the funding arrangement:** The predictable Funding mechanism helps good facilitation in the formulation and implementation of project under aid. The multi-year commitment and flexible funding arrangement helps the recipient to allocate resources efficiently and reduce the uncertainties of the annual funding cycle.
- **Result based reimbursement System:** While transiting from the process oriented system to result oriented, the accountability and effectiveness of reimbursement system shall be enhanced. While linking the reimbursement with preset target and measurable outcome, this will encourage both sides to concentrate towards achieving result and to ensure the effective use of aid.
- **Harmonization and Alignment:** The development partner should adopt the reimbursement process aligned to the system of the recipient government. This includes the task of harmonizing fiscal law, procurement process, the standard of reporting, which help to simplify the reimbursement procedure and reduce the administrative load.
- **Knowledge Sharing and Learning:** The exchange of knowledge and learning between the development partners and recipients of aid related to reimbursement procedures promotes good practice and re-innovation. Exchange of experiences, and the provision of a platform for learning lessons from success or failure enables continued reform and work efficiency.
- **Monitoring and Evaluation:** The establishment of a strong monitoring and evaluation mechanism can promote accountability and facilitate the reimbursement process. Regular progress monitoring and fiscal report facilitate the identification of challenges through independent assessment, the measurement of effects, and to make decision on future assistance.
- **Capacity Development:** The investment made to enhance the capability of the aid recipient helps to manage the project under aid effectively and helps to enhance the capacity of reporting. The system of fiscal management, budget formulation, capacity building programs like strengthening of the reporting system like helps to streamline the reimbursement procedure.

Reference

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