



Technical Assistance Report

Project Number: 36172-064
Policy and Advisory Technical Assistance (PATA)
July 2016

Nepal: Strengthening Subnational Public Management

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 6 July 2016)

Currency unit	–	Nepalese rupee/s (NRe/NRs)
NRe1.00	=	\$0.00926
\$1.00	=	NRs107.96400

ABBREVIATIONS

ADB	–	Asian Development Bank
DFID	–	Department for International Development
e-GP	–	e-government procurement
GESI	–	gender equity and social inclusion
PFM	–	public financial management
SPMP	–	Strengthening Public Management Program
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government of Nepal ends on 15 July. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2015 ends on 15 July 2015.
- (ii) In this report, "\$" refers to US dollars.

Vice-President	W. Zhang, Operations 1
Director General	H. Kim, South Asia Department, (SARD)
Director	B. Carrasco, Public Management, Financial Sector and Trade Division, SARD
Team leader	C. Akin, Public Management Economist, SARD
Team members	C. Damandl, Senior Counsel, Office of the General Counsel A. Gacutan, Senior Operations Assistant, SARD R. Shrestha, Senior Public Management Officer, SARD R. Tuladhar, Senior Public Management Specialist (Governance), SARD

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POLICY AND ADVISORY TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 36172-064	
Project Name	Strengthening Subnational Public Management	Department /Division	SARD/SAPF
Country	Nepal	Executing Agency	Ministry of Finance
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Public sector management	Decentralization		0.17
	Public administration		0.17
	Public expenditure and fiscal management		0.17
		Total	0.50
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Anticorruption Institutional development Institutional systems and political economy Organizational development Public financial governance Knowledge sharing activities	Some gender elements (SGE)	✓
Knowledge solutions (KNS)			
Partnerships (PAR)	Bilateral institutions (not client government) Official cofinancing		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Nation-wide	High
6. TA Category:	B		
7. Safeguard Categorization	Not Applicable		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		0.50	
Policy and advisory technical assistance: Technical Assistance Special Fund		0.50	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		0.50	
9. Effective Development Cooperation			
Use of country procurement systems	No		
Use of country public financial management systems	No		

I. INTRODUCTION

1. The promulgation of a new Constitution in Nepal in September 2015 introduced a federal system of governance with a three-tier (federal, provincial, and local) government structure. In the context of this transition from a unitary to a federal structure, the Government of Nepal has requested policy and advisory technical assistance (TA) from the Asian Development Bank (ADB) to develop an operational framework for the country's fiscal federal orientation. The TA will constitute the analytical basis for the design of the proposed policy-based program, the Second Strengthening Public Management Program (SPMP), which will be a follow-on to the ongoing SPMP,¹ and assist the government in implementing various aspects of fiscal decentralization as required under the new Constitution.²

2. The TA will help carry out a comprehensive assessment of reform priorities to strengthen the building blocks of the fiscal decentralization framework under the new Constitution through detailed and operationally relevant studies, and help the government prepare a coherent sector plan.³ The findings of the TA will be presented to the government for deliberation and endorsement, and strengthen the policy dialogue with respect to improving the political commitment to fiscal decentralization reforms, including strengthening of public financial management (PFM) at the subnational level within the broader contours of the fiscal federal structure, and raising awareness of policy reform options in all tiers of government.

3. The TA will enhance the capacity and the readiness of the government to adopt fiscal federalism. This is aligned with the transition to fiscal federalism under the Constitution of Nepal (2015).⁴ It is related to the government's development strategy and priorities to increase capital investment through improved governance and PFM, as stated in the Thirteenth Plan, FY2014–FY2016; and to improve transparency, accountability, and inclusive delivery of public goods and services, channeled through subnational administration, as stated in the Good Governance Act of 2008.⁵ The TA is also in line with the Ministry of Finance budget for FY2017, which provides the legal basis for revenue and expenditure allocations, including provisions for taxes in the budget.⁶ It is also consistent with ADB's country partnership strategy, 2013–2017 for Nepal,

¹ ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Grant, Administration of Grant, and Technical Assistance Grant to the Government of Nepal for the Strengthening Public Management Program*. Manila (Grant 0305). The program was approved on 26 September 2012 for \$25 million, along with a TA of \$5.95 million to support program implementation. The program is jointly financed by ADB (\$21 million) and the Department for International Development (DFID) (\$4 million). The TA is also jointly funded by ADB (\$0.5 million), DFID (\$2.5 million), and the European Union (\$2.95 million). The program is scheduled to close on 31 December 2016.

² A fact-finding mission was conducted during 25–28 January 2016. The Office of the Prime Minister and Council of Ministers, Ministry of Finance, Ministry of Federal Affairs and Local Development, Financial Comptroller General Office, Public Expenditure and Financial Accountability Secretariat, Public Procurement Monitoring Office, National Vigilance Center, and Office of the Auditor General were consulted in designing the proposed assistance. Development partners such as DFID, the European Union, United Nations Development Programme, and United States Agency for International Development in Nepal were also consulted. The proposed design and monitoring framework (Appendix 1), implementation, cost, financing arrangements, and terms of reference of consultants were confirmed with the Aide Memoires on 20 March 2016 and on 1 July 2016.

³ The TA first appeared in the business opportunities section of ADB's website on 18 May 2016.

⁴ Government of Nepal, Constituent Assembly of Nepal. 2015. *Constitution of Nepal 2015*. Kathmandu (unofficial translation). <http://www.icnl.org/research/library/files/Nepal/Nepalconst.pdf>

⁵ Government of Nepal. 2014. *Thirteenth Plan, FY2014–FY2016*. Kathmandu.

<http://www.npc.gov.np/images/download/13th-Plan.pdf>; and Nepal Law Commission. 2008. *Good Governance (Management and Operation Act), 2064 (2008)*. Kathmandu. <http://faolex.fao.org/docs/pdf/nep137755.pdf>

The government enacted the Good Governance Act in 2007 and followed up with regulations in 2008.

⁶ Government of Nepal, Ministry of Finance. 2015. *Budget Speech of Fiscal Year 2016/17*. Kathmandu. http://www.mof.gov.np/uploads/document/file/Budget_Speech_final_2016_20160602105902.pdf

which emphasizes improving PFM capacities and systems, public procurement, and accountability mechanisms for effective and efficient governance.⁷ The TA also builds on ADB's existing SPMP, which aims to strengthen PFM systems and mitigate fiduciary risks. The TA is included in ADB's Nepal country operations business plan, 2016–2018.⁸

II. ISSUES

4. **Key development issues to be addressed.** The government faces two major development issues during the transition from a unitary to a federal structure. First, there is a critical need to strengthen the fundamental building blocks of fiscal federalism at the subnational level, stemming from the constitutional reforms. Second, weak PFM systems and high fiduciary risks, especially at the subnational government level, continue to be key development challenges, and thus subnational PFM needs to be improved in line with the requirements of the new federal structure. The proposed TA includes a commitment to strengthen (i) new areas associated with fiscal decentralization; and (ii) PFM measures with deepening of SPMP, as well as other follow-up activities.

5. **New areas stemming from constitutional reform.** The Constitution of Nepal has introduced fiscal federalism, giving powers to all three levels of government to enact laws, prepare budgets, impose taxes, and collect own-source revenues. A critical aspect of fiscal decentralization is that the provincial and local governments have revenue-raising powers through taxation. To improve the subnational revenue mobilization, the government needs to undertake a thorough assessment of (i) the revenue generation potential of subnational governments; (ii) appropriate tax policies, including the design of acts, codes, and procedural manuals for local government taxes based on the ability to pay the principle; and (iii) requirements to expand tax administration systems that are based on information and communication technology (such as a municipal administration and revenue system) to streamline tax administration and collection, and link such systems with broader governance, PFM, and anticorruption objectives.

6. The new Constitution also recognizes the need to address the vertical and horizontal imbalances among federal, provincial, and local levels of government. A permanent constitutional body, the National Natural Resources and Fiscal Commission, has been proposed to determine the appropriate levels of fiscal transfers and revenue distribution among the three government tiers, and recommend equalization grants. It is critical to assist the government to (i) establish the commission with a clear institutional structure, function, and mandate; and (ii) provide the necessary technical and capacity building support, specifically in relation to principles of intergovernmental fiscal transfers, including the design of a devolution formula.

7. Another important dimension of fiscal decentralization is the establishment of a suitable framework and mechanism for onlending to subnational governments. To maintain overall fiscal discipline, the framework must have clear terms and conditions; enforceable rules, regulations, and procedures for onlending to subnational governments and repayment; and obligations and responsibilities between the central and subnational governments.

8. Finally, to improve the allocative efficiency of scarce public resources, appropriate linkages between planning of expenditures and budgeting need to be established and be gradually made operational in line with the capacity and readiness of subnational governments. Multiyear medium-term expenditure and medium-term budget frameworks with linkages to

⁷ ADB. 2013. *Country Partnership Strategy: Nepal, 2013–2017*. Manila.

⁸ ADB. 2015. *Country Operations Business Plan: Nepal, 2016–2018*. Manila.

outcome-based budgeting need to be prepared and adapted to the new federal framework and extended to the subnational level in coordination with central government.

9. **Strengthening public financial management measures with a follow-up of the Strengthening Public Management Program.** Weak PFM systems and high fiduciary risks, especially at the subnational government level, were identified as part of the key development challenges in Nepal by the review of the governance support program, funded by ADB. SPMP was designed with the aim of strengthening core public management components with a focus on subnational PFM systems. SPMP supported the government's Local Governance and Community Development Program Phase II with the intention of implementing PFM reform activities under the fiduciary risk reduction action plan prepared by the Ministry of Federal Affairs and Local Development. The program's focus includes mitigating fiduciary risks through (i) greater transparency and public participation, (ii) modernizing public procurement systems, and (iii) enhancing the effectiveness of oversight and accountability agencies.

10. While many PFM reform activities are currently being implemented, key achievements under SPMP include (i) the development of the e-government procurement (e-GP) system, which has improved regulatory compliance and transparency in government procurement; and (ii) improved planning, budgeting, and accounting at the subnational government level with extensive capacity development support. A public expenditure and financial accountability assessment at the subnational level has been undertaken under the program, and a PFM reform action plan is being developed.

11. Implementation experience with the ongoing SPMP and findings of the public expenditure and financial accountability assessment indicate that revenue generation, intergovernmental fiscal transfers, budgeting, internal control systems, accounting and reporting standards, and procurement planning and management are weak and in need of strengthening.⁹

12. In line with the requirements of the new federal structure, there is a need to carry out a comprehensive assessment of PFM issues at the subnational government level to identify policy options for (i) addressing the weaknesses and revitalizing the institutions designed under SPMP, and (ii) providing institutional development and capacity building support to the government to successfully manage the transition to fiscal federalism.¹⁰ For improving transparency in PFM and reducing fiduciary risks at the subnational level, there is a need to strengthen (i) integrated financial management; (ii) accounting and reporting systems; (iii) e-GP system, including the nationwide rollout; and (iv) internal, external, and technical audit systems by building on and deepening SPMP reforms. These reforms are essential for strengthening accountability of the flow of funds, including for the recent post-earthquake reconstruction work; improving monitoring of the use of public funds; and reducing associated fiduciary risks. Implementation of such reforms can create an enabling environment for effective delivery of public services and public and private investment, thereby supporting the government's goal to become a middle-income country by 2030.

⁹ Details on achievements under SPMP and areas that need strengthening are in Supplementary Appendix A (available on request).

¹⁰ ADB will collaborate with development partners in supporting PFM reforms. The United Nations Development Programme is providing support to the Government of Nepal in preparing a road map to implement various proposals under the new Constitution related to functional and organizational restructuring of public sector, transition management, and fiscal decentralization. Close consultation and coordination will also be maintained with the Nepal Multi-Donor Trust Fund, managed by the World Bank, in relation to the proposed PFM reforms, including fiscal decentralization and external audit. The list of development partners supporting national and subnational PFM reforms in Nepal is in Supplementary Appendix B (available on request).

III. THE POLICY AND ADVISORY TECHNICAL ASSISTANCE

A. Impact and Outcome

13. The impact of the TA will be enhanced capacity and readiness of the government to adopt fiscal federalism, aligned with the Constitution of Nepal 2015; the Government of Nepal's Thirteenth Plan, FY2014–FY2016; the Good Governance Act of 2008; and the Ministry of Finance budget for FY2017 (footnotes 5 and 6). The outcome will be a framework for strengthening fiscal federalism at the subnational level developed and presented to the government.

B. Methodology and Key Activities

14. The TA outputs will be assessment and identification of policy options for (i) improving revenue mobilization, (ii) revenue sharing among the different tiers of the government, (iii) establishing borrowing arrangements for the provincial governments, (iv) improving expenditure allocations, and (v) improving transparency in PFM and reducing fiduciary risks.¹¹ The assessments and feasibility studies completed under each output will lead to the achievement of the outcome through formulation of a practical set of implementable policy options for strengthening fiscal federalism, including subnational PFM systems and capacity in line with the requirements of the new Constitution. The planned knowledge-sharing workshops will guide government officials in adopting effective and flexible approaches to structure and operationalize the fundamental building blocks of fiscal decentralization based on best practices that will fit Nepal's circumstances. Workshops will increase the understanding and knowledge of government officials on transition and change management and enable them to effectively incorporate these elements in policy reforms.

15. At the outcome level, the major risk is associated with the political vacuum at the subnational government level that may delay discussions on policy options. The risk arises from (i) overall weak governance in the country in terms of PFM and increased fiduciary risks (there are no locally elected government officials to date); and (ii) polarization among political parties on the issue of demarcation of provincial boundaries for implementation of the new Constitution, leading to governmental gridlock on the passage and implementation of key legislation related to decentralization. At the output level, risks include weak coordination among concerned government agencies.

16. The TA design will mitigate these risks by identifying and working closely with reform-minded government officials at the executing and implementing agencies, establishing TA steering and working-level coordination committees, facilitating regular dialogue among all relevant government agencies, and strengthening overall institutional implementation capacity. The TA will be designed and executed as part of a collaborative multi-donor effort to ensure a firm government commitment and insulate the implementation from short-term politics and bureaucratic changes. Acknowledging the challenges posed by the political transition, the design and approach of the TA will be flexible to ensure continued relevance in the event of further changes to the fiscal federalism framework.

¹¹ The new Constitution proposes that the Office of the Auditor General will have to audit local governments. ADB has already agreed to expedite a \$100,000 grant to develop its capacity for this purpose. To complement the feasibility studies for strengthening of audit systems under the TA, the proposed assistance will support (i) developing audit strategy and methodology for the local governments, (ii) workforce analysis, and (iii) training. The grant will be financed under ADB. 2013. *Technical Assistance for Improving Procurement Capacity in South Asia*. Manila (TA 8555-REG).

C. Cost and Financing

17. The TA is estimated to cost \$600,000, of which \$500,000 will be financed on a grant basis from ADB's Technical Assistance Special Fund (TASF-V). The government will provide counterpart support in the form of counterpart staff, office accommodation, office supplies, office space, communication facilities for consultants, and other in-kind contributions.

D. Implementation Arrangements

18. The Ministry of Finance is the proposed executing agency. The implementing agencies are (i) the Ministry of Federal Affairs and Local Development, mainly for subnational government reforms on fiscal federalism and improved PFM (outputs 1–4); (ii) the public procurement monitoring office for the e-GP system (output 5); (iii) the National Vigilance Center for technical audit (output 5); and (iv) the Office of the Auditor General for financial audit at the subnational level (output 5). A TA steering committee, chaired by the chief secretary (or the alternate) with representatives from the implementing agencies¹² (i–iii) and the National Planning Commission Secretariat, will provide overall policy guidance and meet quarterly after the inception mission. A working-level coordination committee, led by the Ministry of Finance, will supervise the implementation and coordinate the capacity building activities. The TA is proposed to start in August 2016 with an implementation period of 18 months, and to be completed in January 2018.

19. A consulting firm will be recruited to provide 21 person-months of international consultants and 15 person-months of national consultants, including (i) tax specialists and a team leader, (ii) intergovernmental fiscal transfer specialists, (iii) public sector budget specialists, (iv) capital market specialists, (v) internal and external audit specialists, (vi) technical audit specialists, and (vii) information and communication technology, and management information system specialists. A change management specialist will be recruited as an international individual consultant for 3 person-months.¹³ The consultants will be recruited using quality and cost-based selection method with a quality–cost ratio of 90:10 at an expected cost of \$450,000.¹⁴ The consultant outputs are assessment reports with policy recommendations and capacity building support. Stakeholder consultation workshops will be held at least quarterly to present findings and solicit feedback. The expected cost of the workshops and training is \$40,000 (Appendix 2).

20. TA monitoring and evaluation will be through (i) biannual review missions, (ii) monthly teleconferences, and (iii) ADB's internal contract award and disbursement monitoring and evaluation system. The findings, good practices, and lessons will be shared through workshops, publications, and case studies under the South Asia Seminar Series.

IV. THE PRESIDENT'S DECISION

21. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$500,000 on a grant basis to the Government of Nepal for Strengthening Subnational Public Management, and hereby reports this action to the Board.

¹² The Office of the Auditor General will not be part of the steering committee as an independent constitutional body.

¹³ A change management specialist will be hired individually to expedite implementation prior to recruitment of a consulting firm. The specialist will provide an assessment of change needs for different tiers of government given the political economy context and communicate with policy makers to strengthen their support and capacity for transition and reforms. These inputs will be provided to the technical consultants under the firm.

¹⁴ Output-based (lump-sum) contracts may be considered for consulting services. All consultants will be engaged by ADB following the Guidelines on the Use of Consultants (2013, as amended from time to time). All TA disbursements will be made following ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).

DESIGN AND MONITORING FRAMEWORK

Impact the TA is Aligned with			
Capacity and readiness of the government to adopt fiscal federalism enhanced (the Constitution of Nepal 2015; Government of Nepal's Thirteenth Plan, FY2014–FY2016; Good Governance Act of 2008; and Ministry of Finance budget for FY2017) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risk
Outcome Framework for strengthening fiscal federalism at the subnational level developed and presented to the government	By 2018 a. Policy options recommended for strengthening fiscal federalism under the new Constitution (Baseline: limited) b. Senior government officials attended knowledge sharing workshops (Baseline: none)	a–b. Consultant reports	Political vacuum at the subnational government level may delay discussions on policy options.
Outputs 1. Policy options for improving revenue mobilization assessed and identified 2. Policy options for revenue sharing among different tiers of the government assessed and identified 3. Policy options for establishing borrowing arrangements for the provincial governments	By January 2018 1a. Assessment report on subnational government tax policy and revenue base, including recommendations to expand revenue base completed (Baseline: none) 1b. Feasibility report on requirements for expansion of ICT-based tax administration systems, (i.e., MARS) at major municipalities completed. (Baseline: Report on a pilot project in Kathmandu implemented since 2014) 2a. An organizational study for the establishment of NNRFC completed (Baseline: none) 2b. Assessment report on revenue-sharing potential of subnational governments, including options for devolution formulas for intergovernmental fiscal transfers completed (Baseline: none) 3. Framework with rules, regulations, and procedures related to onlending to subnational governments and repayment completed (Baseline: none)	1a–b. Periodic reports and statistics from the Nepal Rastra Bank, Financial Comptroller General Office, Central Bureau of Statistics, Local Bodies Fiscal Commission, MOF and NNRFC; stakeholder consultation reports 2a–b. Periodic reports and statistics from the Nepal Rastra Bank, Financial Comptroller General Office, Central Bureau of Statistics, Local Bodies Fiscal Commission, MOF, NNRFC, and MOFALD; stakeholder consultation reports 3. Periodic reports and statistics from MOF, NNRFC, and MOFALD; and stakeholder consultation reports	Weak coordination among concerned government agencies

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risk
<p>assessed and identified</p> <p>4. Policy options for improving expenditure allocations assessed and identified</p> <p>5. Policy options for improving transparency in PFM and reducing fiduciary risks assessed and identified</p>	<p>4. Feasibility study report on requirements for preparing and implementing MTEF and MTBF, and linking them with outcome-based budgeting at the subnational level in coordination with central government completed (Baseline: none)</p> <p>5a. Feasibility study report on expansion of e-GP system completed (Baseline: report on a pilot project in select ministries and departments implemented since 2015)</p> <p>5b. Feasibility study report on developing integrated financial management system for all tiers of the government (federal, provincial, and local) completed (Baseline: none)</p> <p>5c. Assessment report on a risk-based financial audit system at the subnational level completed (Baseline: none)</p> <p>5d. Framework on technical audit (including standards, sector-specific manuals and guidelines) completed (Baseline: none)</p>	<p>4. Periodic reports and statistics from MOF, NNRFC, MOFALD, and NPC; stakeholder consultation reports</p> <p>5a–d. Periodic reports and statistics from MOF, PPMO, MOFALD, NVC, and OAG; and stakeholder consultation reports</p>	
Key Activities with Milestones			
<p>1. Policy options for improving revenue mobilization assessed and identified (August 2016–January 2018)</p> <p>1.1 Review the existing tax policy and system at the subnational government level.</p> <p>1.2 Assess institutional capacity gaps to implement new tax regulations.</p> <p>1.3 Provide policy options for local government tax administration based on best practices.</p> <p>1.4 Assess the effectiveness of MARS and develop a replication strategy to expand the system to other municipalities.</p> <p>1.5 Provide relevant capacity building workshops and seminars.</p> <p>2. Policy options for revenue sharing among different tiers of the government assessed and identified (August 2016–January 2018)</p> <p>2.1 Assess appropriate institutional and governance structures for NNRFC.</p> <p>2.2 Assess the gaps between the existing intergovernmental revenue-sharing system and the new requirements mandated by the Constitution.</p> <p>2.3 Provide policy options on intergovernmental fiscal transfer mechanisms based on best practices.</p> <p>2.4 Provide relevant capacity building workshops and seminars.</p>			

3. Policy options for establishing borrowing arrangements for the provincial governments assessed and identified (August 2016–January 2018)

- 3.1 Review the relevant policies, regulations, and practices on subnational debt and borrowings (existing and as mandated by the new Constitution) and recommend appropriate policy measures.
- 3.2 Assess the rules, regulations and procedures related to onlending to subnational governments, repayment procedures, obligations, and responsibilities between the central and subnational governments.
- 3.3 Provide policy options on forecasting of public sector cash flow and borrowing based on best practices.
- 3.4 Provide relevant capacity building workshops and seminars.

4. Policy options for improving expenditure allocations assessed and identified (August 2016–January 2018)

- 4.1 Review the existing budget formulation process, including fund flow at the subnational government level and recommend policies, systems, and institutional changes under the new federal structure.
- 4.2 Assess the institutional, technical, and financial requirements for the implementation of and linkages between MTBF and outcome-based budgeting at the subnational level.
- 4.3 Provide policy options on public sector budgeting based on best practices.
- 4.4 Provide relevant capacity building workshops and seminars.

5. Policy options for improving transparency in PFM and reducing fiduciary risks assessed and identified (August 2016–January 2018)

- 5.1 Assess the existing internal control framework, including the risk-based internal audit at the subnational government level, in relation to the requirements under the new federal structure.
- 5.2 Assess gaps in external audit of subnational governments.
- 5.3 Share best practices on internal and external audit.
- 5.4 Develop technical auditing standards, sector-specific manuals, and guidelines.
- 5.5 Provide capacity building workshops and seminars on financial and technical audit systems.
- 5.6 Provide user training on MARS, e-GP system, and the integrated financial management system.
- 5.7 Provide capacity building workshops and seminars on change management and conduct international study visits on public financial management under the federal structure.

Inputs

ADB: \$500,000

Note: The government will provide counterpart support in the form of counterpart staff, office accommodation, office supplies, provision of office space, communication facilities for consultants, and other in-kind contributions.

Assumptions for Partner Financing

Not applicable.

ADB = Asian Development Bank, e-GP system = e-government procurement system, ICT = information and communication technology, MARS = municipal administration revenue system, MOF = Ministry of Finance, MOFALD = Ministry of Federal Affairs and Local Development, MTBF = medium-term budget framework, MTEF = medium-term expenditure framework, NNRFCC = National Natural Resources and Fiscal Commission, NPC = National Planning Commission, NVC = National Vigilance Center, OAG = Office of the Auditor General, PFM = public financial management, PPMO = Public Procurement Monitoring Office, Q = quarter.

^a Government of Nepal, Constituent Assembly of Nepal. 2015. *Constitution of Nepal 2015*. Kathmandu (unofficial translation). <http://www.icnl.org/research/library/files/Nepal/Nepalconst.pdf>; Government of Nepal. 2014. *Thirteenth Plan, FY2014–FY2016*. Kathmandu. <http://www.npc.gov.np/images/download/13th-Plan.pdf>; Nepal Law Commission. 2008. *Good Governance (Management and Operation Act), 2064 (2008)*. Kathmandu. <http://faolex.fao.org/docs/pdf/nep137755.pdf>; Government of Nepal, Ministry of Finance. 2016. *Budget Speech of Fiscal Year 2016/17*. Kathmandu. http://www.mof.gov.np/uploads/document/file/Budget_Speech_final_2016_20160602105902.pdf

Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	350.0
ii. National consultants	70.0
b. International and local travel	30.0
2. Workshops, training, seminars, and conferences ^b	40.0
3. Contingencies	10.0
Total	500.0

Note: The technical assistance (TA) is estimated to cost \$600,000, of which contributions from the Asian Development Bank are presented in the table above. The government will provide counterpart support in the form of counterpart staff, office accommodation, office supplies, secretarial assistance, domestic transportation, office space, communication facilities for consultants, and other in-kind contributions. The value of government contribution is estimated to account for 16.7% of the total TA cost.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-V).

^b Workshops, training, seminars, and conferences

Purpose	Venue
Capacity building workshops and seminars on:	
(i) Best practices in tax administration at subnational level	Ministry of Finance
(ii) Best practices for intergovernmental fiscal transfers	Ministry of Finance
(iii) Forecasting of public sector cash flow and borrowing requirements	Ministry of Finance
(iv) Best practices on public sector budgeting	Ministry of Finance
(v) Best practices in financial and technical audit systems	Office of the Auditor General and National Vigilance Center
(vi) Transition and change management in public administration	Ministry of Finance
(vii) User training of municipal administration and revenue system	Ministry of Federal Affairs and Local Development
(viii) User training of e-government procurement system	Public Procurement Monitoring Office
(ix) User training of integrated financial management system	Ministry of Finance
(x) International study visit on public financial management under the federal structure	To be determined

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. The policy and advisory technical assistance will require 24 person-months of international consultants and 15 person-months of national consultants.¹

2. **Tax specialist(s) and team leader** (international, 3 person-months and national, 2 person-months). Each specialist will have a graduate degree in economics, finance, public administration, or a related field; and at least 5 years of experience working on public finance and local government finance issues, preferably in South Asia. The team leader will be the international consultant. The specialist(s) will (i) conduct a feasibility study on the identification of a revenue base, including introduction of new taxes at the subnational level; (ii) design tax codes and manuals; (iii) provide policy options to the government regarding local government tax administration by sharing similar experiences and best practices from other countries; and (iv) support capacity building. The feasibility study will be informed by socioeconomic indicators, and gender equity and social inclusion (GESI) dimensions at the subnational level.

3. **Intergovernmental fiscal transfer specialist(s)** (international, 3 person-months and national, 2 person-months). Each specialist will have a graduate degree in economics, finance, public administration, or a related field; and at least 5 years of experience working on public finance and local government finance issues, preferably in South Asia. The specialist(s) will (i) conduct a feasibility study on the revenue-sharing potential of subnational governments in Nepal; (ii) design devolution formulas, informed by socioeconomic indicators, and GESI dimensions at the subnational level; (iii) provide policy options to the government regarding intergovernmental fiscal transfer mechanisms by sharing similar experiences and best practices from other countries; and (iv) support capacity building. The specialist(s) will also conduct an organizational study regarding the establishment of the National Natural Resources and Fiscal Commission, including its institutional structure, functions, and mandate.

4. **Public sector budget specialist(s)** (international, 3 person-months and national, 2 person-months). Each specialist will have a graduate degree in economics, finance, public administration, or a related field; and at least 5 years of experience working on public finance and local government finance issues, preferably in South Asia. The specialist(s) will (i) conduct a feasibility study on the requirements for preparing and implementing medium-term expenditure and medium-term budget frameworks, and linking them with the outcome-based budgeting at the subnational level in coordination with the central government in Nepal; (ii) design budget preparation guidelines; (iii) provide policy options to the government on public budgeting by sharing similar experiences and best practices from other countries; and (iv) support capacity building. Socioeconomic indicators and GESI dimension will also be considered in designing the framework.

5. **Capital market specialist(s)** (international, 3 person-months and national, 2 person-months). Each specialist will have a graduate degree in economics, finance, public administration, or a related field; and at least 5 years of experience working on public finance and capital market development issues, preferably in South Asia. The specialist(s) will (i) conduct a feasibility study on a borrowing mechanism for subnational governments in Nepal's capital markets; (ii) develop a framework with clear and enforceable rules, regulations, and

¹ The primary responsibility of delivery of outputs lies with the international consultants, while the national consultants will provide the required support to the international consultants mainly to liaise with government agencies, conduct research and data collection, conduct technical training, and provide other support as required.

procedures related to onlending, repayment procedures, obligations, and responsibilities between the central and subnational governments; (iii) provide policy options to the government on forecasting of public sector cash flow and borrowing requirements for subnational governments by sharing similar experiences and best practices from other countries; and (iv) support capacity building.

6. **Internal and external audit specialist(s)** (international, 3 person-months and national, 2 person-months). Each specialist will have a graduate degree in economics, finance, public administration, accounting, or a related field; and at least 5 years of experience working on public finance, accounting and audit systems, preferably in South Asia. The specialist(s) will design procedures and manuals for risk-based financial audit and support capacity building.

7. **Technical audit specialist(s)** (international, 3 person-months and national, 2 person-months). Each specialist will have a graduate degree in economics, finance, public administration, engineering, accounting, or a related field; and at least 5 years of experience working on public finance, accounting and audit systems, preferably in South Asia. The specialist(s) will design procedures and manuals for technical audit of infrastructure projects and support capacity building.

8. **Information and communication technology and management information system specialist(s)** (international, 3 person-months and national, 3 person-months). Each specialist will have a graduate degree in computer science, economics, finance, or a related field; and at least 5 years of experience in implementing information and communication technology solutions in public administration projects, preferably in developing countries or South Asia. The specialists will conduct feasibility studies on the requirements to expand the municipal administration revenue system, e-government procurement system, and integrated financial management at the subnational government level, and provide user training on these systems.

9. **Change management specialist** (international, individual, 3 person-months). The specialist will have a graduate degree in public administration, economics, business management, law, or a related field; and at least 5 years of experience on providing change management advisory services to governments and international development organizations, preferably in South Asia. The specialist, in coordination with other development partners, will (i) advise on the implementation of change in the governance structure and system from unitary to federal; (ii) advise on effective and flexible approaches in the given context of political transition in Nepal, based on best practices from other countries; and (iii) provide training to relevant government officials on transition and change management.

Table A3: Summary of Consulting Services Requirement

Positions	Person-Months Required	
	International	National
Tax specialist(s) and team leader (international)	3	2
Intergovernmental fiscal transfer specialist(s)	3	2
Capital market specialist(s)	3	2
Public sector budget specialist(s)	3	2
Internal and external audit specialist(s)	3	2
Technical audit specialist(s)	3	2
ICT and MIS specialist(s)	3	3
Change management specialist	3	
Total	24	15

ICT = information and communication technology, MIS = management information system.

Source: Asian Development Bank.