

Budgetary Reform: Implementing Medium Term Budgeting Framework (MTBF) in Nepal

Suresh Pradhan¹

1. Background:

Budgeting process in Nepal is still in its traditional form adopting the incremental approach in preparation. The budget execution has also been problematic as the basis of estimation (i.e. expenditure norms) has not been fact based. So though the expenditure outturn in relation to approved budget has been high it does not reasonably reflect that the programs, policies that government has been running through-out the periodic plans have been able to fulfill the people's aspirations, needs and expectations. Because linking of budget with the program performance and the output as well as the outcome have still been a far cry. Therefore, being a basic of Public Financial Management (PFM) reform there is a sheer necessity of reforming the budgeting process in Nepal, which is a *sine qua none* for the development of the country.

Reform in PFM ensures macro-fiscal stability and sustainability of the public finances and also provides a mechanism for allocation of government resources according to political priorities and desired societal outcome. Similarly, it ensures the effective and efficient implementation of programs, resources mobilization and assurance for the appropriate and transparent use of government resources to parliament citizens and development partners. In order to improve PFM systems, among others, there is a need of a credible annual budget and effective budget implementation. Actually the budget needs to cater the planning management and operational control. The general practice of budget reform is mostly the expenditure control, performance budgeting and relating the planning with the budgeting.

Budgeting is generally conceived as a process for systematically relating the expenditure of funds to the accomplishment of planned objectives. For this there is the need of the legislation, institution, systems, processes and capacities for managing the public resources. A whole array of strategic planning, macro-fiscal forecasting, budget preparation, budget review and approval and execution, fiscal reporting and internal and external are major actors in the budgeting process. Such function need to be supported by systems as treasury and cash management, procurement and performance measurement frameworks.

2. Priorities the core PFM functions: In the budgeting reform certain activities and reform measures need to priorities the core PFM functions, which are as follows:

¹ Mr. Pradhan is Coordinator in PEFA Secretariat and Joint Financial Comptroller General in Financial Comptroller General Office.

- Establishing / strengthening the central macro-economic, planning and budgetary institutions.
- Preparing a credible annual budget with clear and reliable estimates
- Ensuring uninterrupted and full execution of the budget with strong financial controls
- Developing a clear government accounting system that can track the use of budget appropriations, produce accurate and timely reports on outturns, and support the government's financial reporting obligations.
- A clear legal and regulatory framework for budget preparation and execution
- Taking steps to link the government strategic planning framework to the budget so that the budget reflects political priorities and societal needs
- Strengthening line ministries planning and implementation capacity.

Among the priorities mentioned above for the reform, mostly all measures have almost been prevailing in Nepal, except the budget reflecting political and societal needs, budget execution and accuracy in the government accounting system and regulation of budget preparation as well as execution. The Public Expenditure and Financial Accountability (PEFA) assessment carried out in 2008 found that the budget was credible at the aggregate level in Nepal. The budget outturn is about 94 percent in comparison to total budget. But still main exception was for capital expenditure, which has tended to remain below the budgeted levels. This shortfall was resulted from PFM-related implementation weaknesses such as lack of or delays in preparing annual work plans along with procurement plans; implementation constraints (e.g. conflict and security issues, technical capacity); and uncertainties related to donor funds. In addition, the credibility is undermined by significant deviations in terms of expenditure composition (in part due to shortfalls in capital spending) and large fiscal activities outside the budget. The situation has not been much different even now. So, the PFM reform especially the budget execution is still a prime concern of reform in Nepal. In this regard, implementing Medium Term Budgeting Framework (MTBF) could be one of the basic areas of reform in Nepal.

3. The approach of MTBF:

A MTBF is a technical and institutional mechanism for setting multi-year objectives for budget expenditure and ensuring that they are respected in budget formulation, approval and execution. It is an approach to budgeting which links the spending plans of government to its policy objectives. The main feature of a MTBF is that annual budget preparation is carried out within a framework, which takes into

account the resources expected to be available to the government over the medium term. The main objectives of the MTBF are to have:

- **Improved aggregate fiscal discipline** through estimation of realistic medium term resource envelopes and setting of aggregate and sectoral ceilings.
- **More effective fiscal policies** through improved planning and execution of stimulus and exit strategies by identifying fiscal space and possible or required policy measures over medium-term.
- **Linkage of annual budget to long-term fiscal targets**
- **Enhanced strategic prioritization** by linking budget to strategic planning and sectoral priorities, and building in decision-phase on new expenditure priorities in budget cycle.
- **Increased planning certainty for budget authorities**
- **Increased fiscal policy transparency and accountability** through the linkage to expenditure outputs and outcomes, shift from administrative to managerial culture.
- **Improve operational and expenditure efficiency** by strengthening the capacity of line ministries to prepare and manage the budget.

Government of Nepal (GoN) currently has a traditional budget management system. This is characterized by centralized control of individual appropriations and budget items with limited opportunity for strategic direction at either the central level or by line ministries. The system confers centralized authority for resource allocation on the Ministry of Finance. The MTBF emphasizes fundamental principles of fiscal discipline, strategic prioritization and strengthening the system of budgetary management by line ministries. The new system is based on gradual empowerment of line ministries in budgetary management within a medium term fiscal framework. MTBF has the following main benefits:

- It supports predictability in the budget process by ensuring the budget is based on a medium term macroeconomic and fiscal forecast;
- It ensures that fiscal policy objectives (levels of revenue, expenditure and fiscal deficit) provide the overall framework for budgetary management;
- It relates budgetary allocations to strategic priorities by focusing the budget more clearly on services (i.e. outputs) and providing budgetary ceilings to line ministries that reflect these priorities;
- It creates a more efficient budget management system based on delegated authority to line ministries.

Considering the above benefits Nepal can enhance its budget implementation capacity and realization of necessary service to the public by linking the sectoral policy / priorities through the MTBF. But in this

process GoN need to examine and follow the process for its successful implementation. It can be realistic approach in Nepal as the line ministries shall have more responsibilities in terms of setting priorities, planning, budgeting and its implementation. The qualitative matters can be achieved through the effective monitoring and supervision by Ministry of Finance.

4. Main components and features of the MTBF reform: The MTBF has two complementary components:

- A strategic, ‘top-down’, component, which sets the overall fiscal framework and provides guidance in the form of indicative budget preparation ceilings to each line ministry by Ministry of Finance/NPC.
- A ‘bottom-up’ component, which supports line ministries to allocate resources strategically and in accordance with ceilings of line ministries.

The main features of a fully developed MTBF process can be summarized as follows:

- The budget cycle starts with a strategic phase in which existing policies and new proposals are considered in a medium- to long-term context;
- The budget is based on a clear and reliable statement of macroeconomic and fiscal policy objectives and targets based over the medium term;
- The Ministry of Finance sets the overall expenditure ceiling for the MTBF period at the start of the budget preparation process;
- There is a political process at the center of government that establishes budgetary priorities within the overall medium term resource constraint;
- Expenditure priorities are communicated to line ministries in the form of budget preparation ceilings.
- Detailed resource allocation decisions are left to individual ministries within their expenditure ceilings. A claim for resources above the ceilings indicated would have to be justified by reference to a ministry plan and set of forward expenditure estimates in the context of the overall expenditure ceiling for the MTBF;
- Three-year forward estimates of the costs of existing and new policies form the basis of the annual budget;
- The MTBF and the annual budget are not two separate processes; the annual budget represents the first year of the MTBF.

Each year, the MTBF process involves the rolling forward of the previous three-year estimate by one year and the addition of a new outer year. Each year, the MoF adjusts the previous MTBF figures for centrally determined factors such as pay and inflation. However, only major fiscal problems or changes in priorities

should lead to centrally determined changes in the previous year's estimates. The adjusted figures are then issued as budget preparation ceilings for the new MTBF cycle.

5. The Role of Sectoral Line Ministries:

MTBF allows greater flexibility to the sectoral line ministries and departments in the budget preparation and execution. Their responsibilities for achieving the sectoral priorities and policies are the major concerns for the MTBF reform process. The following arrangement shall provide a clear role of the sectoral ministries in the MTBF budgeting process:

- The key feature of budgetary management under the MTBF is delegated authority to line ministries.
- Detailed internal resource allocation decisions in each ministry are left to individual ministries as long as they observe their ceilings.
- Line ministries are required to identify their objectives, outputs and outcomes and to link outputs to their budget.
- Issue their spending units with budget preparation ceilings that reflect their overall ministry ceiling and their internal priorities for expenditure.
- Line ministries are also required to take greater responsibility for budgetary management and performance.
- MTBF 'empower' a line ministry as the budget ceilings provide greater predictability to line ministries during the budget preparation process, to support improved planning by line ministries. If line ministries prepare their budgets within the approved ceiling, the central agencies of Finance and Planning will retreat from detailed control of internal resource allocation decisions;
- Provide improved methodologies for aligning budgets with available resources;
- Support line ministries to take greater control of their own financial management. This will involve a reduction of detailed involvement of Budget and Program Division in the management of approved budgets.
- Under the MTBF, the role of the Budget and Program Division changes from one of detailed control of the budget preparation process to a focus on the quality of budgets produced.

6. Usual development path for MTBF: Implementation of MTBF needs to pass through a number of sequencing reforms or paths to follow. The development path generally depends upon the PFM infrastructure available to the country. However, it is a phase wise approach and need to be introduced accordingly. Based on the experience of other countries, it has to pass through the 3 phases for its implementation, which are as follows:

- **Phase 1:** In this phase the following steps need to be followed:
 - **Fiscal Outlook:** macroeconomic forecast and top-down estimates of fiscal aggregates, debt sustainability analysis

- **Multi-year Budget Estimates:** Bottom-up estimates of budget items (often using very simple parameters)
- **Medium Term Fiscal Framework (MTFF):** It involves cabinet decision on fiscal aggregates over the medium term; agreement on major policy direction; use high level economic presentation (*In case this is achieved then it need to jump to forward estimates*)
- **Phase 2:** The steps in this stage are as follows:
 - **Forward Estimates:** incorporation in budget estimates of existing and planned policies; Development of baseline methodologies and multi-year baseline estimates. Starts top-down with economic classification, can gradually incorporate bottom-up estimates aligned with budget classification.
 - **MTBF or Partial MTEF:** cabinet decision making on aggregate and line ministry spending ceiling over the medium term, reconciliation with forward estimates; decision making over medium-term cutbacks, new initiatives, fiscal space for planning reserve for policy changes, contingency reserves etc. (*If this step is achieved then the step will be jumped interlinking policy to MTB*).
- **Phase 3:** In this phase the following steps shall be followed and policy and budget linkages are established:
 - **Linking Policy to MTB:** Development of programmatic budget classification, linkage of sectoral strategies and policy initiatives to MTB. Not constrained yet by expenditure ceilings.
 - **Full MTEF or Programmatic MTEF:** It involves cabinet decisions on sectoral expenditure ceilings, fiscal space, policy priorities and expenditure programs (and their outputs and outcomes) over the medium term.

Nepal has already initiated the process of adopting the MTBF for reforming the budgeting process from the current fiscal year. It seems that sequencing of reform measures have not been followed in accordance with the stage wise approach as mentioned above. However, some reform measures have been functioning simultaneously without proper considering the said approach. As the country is gearing towards adopting the MTBF it would be useful to consider the factors favoring the process. Similarly it is necessary to do analysis of the factors that poses the risks in the implementation process.

7. Factors supporting MTBF in Nepal: The existing of following factors has positive impact in the implementation of MTBF in Nepal:

- PEFA indicators for credible budget and indicators relating to budget execution provide a sound basis for improving the budgetary reform process.

- There is general comprehensiveness and transparency in the budgeting process. Because the budget is based on a good classification system and is published.
- Significant progress has been made toward a sound policy-based budget with the adoption of the Medium Term Expenditure Framework (MTEF) and the creation of “business plans” for sectoral ministries.
- Predictability in budget execution has improved significantly. It is due to the provision of guaranteed cash releases for high priority (“P1”) projects and Payroll controls are also well developed. Similarly, a basic control framework for non-salary expenditures is also in place.
- The Public Procurement Act 2063 (2007) has made provision of preparation and implementation of procurement plan, which has created a basis for objective budget implementation.
- There is established practice of effective participation in the budget formulation process by other Ministry/Departments/Agencies (MDAs) and that of political leadership through pre-consultation process.
- There is established provision for full participation as an integrated top-down and bottom-up budgeting process, involving all parties in an orderly and timely manner, in accordance with a pre-determined budget formulation calendar.
- Clear dates and timelines for budget preparation along-with the Budget Preparation Directory and Budget Operation Manual guide has been a well-established practice by all MDAs programs and projects.
- Sectoral MDAs have their sectoral priorities and policies for the implementation as per the periodic plans.
- The budget preparation as per budget ceilings and priorities has been an established practice.
- The charts of accounts has already been redesigned and in implementation.
- The budget classification as recurrent and capital as well as financing is well practiced and in use.
- The real time budget data can be captured through the Treasury Single Account (TSA) that is implemented by Financial Comptroller General Office (FCGO).
- The web-based Information Technology architecture used by FCGO and DTCOs has created a sound basis for budget controls and execution.
- Multi-year perspective in fiscal planning, expenditure policy and budgeting have long been in practice after the adoption of MTEF.

- The provision of budgeting and expenditure procedures has been clearly mentioned in the Financial Procedure Act, 2055 and Financial Procedure Regulation, 2064.

8. Factors that need to be considered for successful MTBF implementation: As mentioned above many supporting factors are present in the current PFM system for the introduction of MTBF in Nepal. However, there are various significant factors, which need serious attention for its effective and successful implementation. The following factors elements need a meticulous consideration in this regard:

- For the implementation of MTBF a separate legal and regulatory framework for PFM is required. So there is need for the modification in current financial procedure act and regulation to support the establishment of the MTBF system of budgetary management. Specifically, it is necessary to have a separate Budget and Fiscal Responsibility related act.
- Fiscal Space policy needs to be well carved in the policy for MTBF implementation. This may cause in determining the program, cost, and revenue and policy implementation.
- The extra-budgetary activities still pose serious threats for MTBF operation. There are fiscal activities of many development funds and boards and that of local governments outside of the budgetary process. A policy to this regard is necessary for its capturing in the MTBF process.
- Engagement of the political leadership in the process is necessary so that realistic budget with little variance could be formulated and implemented.
- There is the need for the senior level authority in sectoral line ministries having the background in PFM area. So the change in organizational structure for accommodating this arrangement is useful. Similarly, capability of middle and lower-level government officials should be enhanced.
- Introduction of commitment accounting system along with Cash basis of accounting is necessary for the accuracy of financial data that provide good linkages between annual programs and MTBF.
- Preparation of sectoral “business plans” and action plans are necessary for the sectoral line ministries as per the sectoral policy and priorities. This is also necessary for stronger monitoring of outputs.
- Setting of Internal Control and Internal audit system should be in place for the effective operation of MTBF in line ministry. Introduction of such system to comply with international standards need a focused attention

- The TSA system should be revised to accommodate the pre-audit of transactions to make more reliable financial discipline at the district level.
- Monitoring of actual expenditures and outputs at the Service delivery units level is necessary. So a comprehensive monitoring system should be in place for the effective fund utilization.
- Sectoral line ministries need to carryout and establish baseline expenditure norms for accurate budgeting, program and activity costing in the program and procurement management with the help of Public Procurement Monitoring Office and FCGO. Such norms need to be approved by MoF and updated on a regular basis (preferably on yearly) by the concerned sectoral line ministries.
- The use of procurement plan and adherence of procurement procedures is fundamental for budget execution and budget surrender. So line ministries need to reorient for the enforcement of procurement law for proper implementation.
- Budget surrender policy need to be well conceived in the Budget law for synchronization of revenue and expenditure along with program implementation with the procurement system.
- The MTBF process involves a number of complementary reforms in functional coordination, integrating the Information technology and strengthening the capacity of Budget and Program Division at MoF and line ministries and FCGO. It is also necessary to think about functional restructuring of MoF and FCGO in the context of MTBF and related functioning.
- The Integrated Financial Management Information System (IFMIS) should be developed in FCGO for access to budget and expenditure related data and statistics to MoF and sectoral line ministries.
- The adherence of Fixed Date Budget Calendar should allow by passing of the budget law before the start of the fiscal year as well as for sufficient time for the MDAs to meaningfully prepare their detailed budget proposals as per the guidance and budget ceilings.
- Quality of prioritization process is still an issue. So strict adherence of priority policy and comparative advantage process need to be institutionalized in the sectoral line ministries. So strict although partially addressed during the revision of MTEF.
- Capacity to implement the result-based monitoring is limited in some MDAs only which need to be spread in all MDAs.
- The extent to which forward estimates include explicit costing of the implication of new policy initiatives, involve clear, strategy linked selection criteria for investments and are integrated into the annual budget-formulation process will then complete the budget policy link. So this should be considered in the implementation process.

- Last but not least, considering the prolonged political transition there is a necessity for the consultation with political stakeholders for its inception and educating them the MTBF process for their greater ownership.

9. Conclusion: Despite the various challenges for implementation, MTBF need to be implemented as early as possible in Nepal. This arrangement gives flexibility to the sectoral line ministries to implement the sectoral policy with a budgeting authority within the budget ceiling given by MoF/NPC. The priorities of the sector can be address properly. With this arrangement the budget tug-of-war that has been running between line ministries and MoF can be addressed substantially. MoF can be, to a large extent, relieved from additional and miscellaneous budget burden and can concentrate on the qualitative aspects of the budgeting and program implementation. Further this can enhance the budget credibility and execution. This achievement can move the PEFA indicator ranking of Nepal in higher level. Consequently, the donor's partner's assurance in the PFM system can be enhanced and the aid management system could be effective. Therefore, all stakeholders should give due attention and supports for the implementation of MTBF in Nepal.

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Need for Public Debt Management Office in Nepal

- Mahesh P. Dahal²

1. Background

Management of public finance is an important activity of any government. Public Financial Management (PFM) is simply understood as the management of financial spheres of government. PFM in general includes planning and programming; budgeting and expenditure management; revenue management; debt management; reimbursement; public procurement; accounting, recording and financial reporting; internal audit and control; external audit and public scrutiny. PFM system in any country aims to achieve aggregate fiscal discipline by developing a predictable, transparent and accountable financial governance system and institutionalizing the good governance practices. Hence, a strong and functional PFM system is accepted as one of the fundamental elements of good governance in many countries. Management Public Debt is a key element and important activity in the context of improving country's PFM system. Understanding and managing Public Debt in Nepal is considered weak among policy makers and development practitioners. Public Debt, in general, is understood as the amount of debt owed by a sovereign government to its creditors within and outside the country. This is the total of all bonds and other debts owed by a government. Any country requires borrowings in the times of - financing development projects, additional resources needed to resolve immediate crises, meeting budgetary deficit, managing economic and emergency situations.

Public debt management is the process of establishing and implementing a strategy for prudently managing the government's debt in order to meet government's financing needs efficiently, ensure that government portfolio is managed according to the government's cost and risk objectives and developing and maintaining an efficient government security markets. This article basically aims to deal with the debt management in Nepal and sees the relevance of the establishment of Public Debt Management Office (PDMO) with a view to provide single window in managing public debt in Nepal.

2. Current Public Debt Management Scenario

No specific goals of the public debt management have been specified in Nepal though it is implied from government policies, plans and programs. Public Debt is managed with an objective of meeting resource gap in the course of financing development projects. The focus of the public debt management in Nepal is

² Mr. Dahal is Joint Secretary in Ministry of Finance.

to mobilize domestic and foreign loan to meet the expenditure requirements. The other concern of the domestic debt management is to support the development and stability of the local financial market as well as facilitate the open market operation. At the same time, foreign debt has remained a major component of the development assistance from external development partners. As foreign debts are concessionary and have a long gestation period, Nepal has mobilized such foreign debt only from the bilateral and multilateral sources. The institutions currently involved in the debt management in Nepal are the Ministry of Finance (MoF), Financial Comptroller General Office (FCGO) and Nepal Rastra Bank (NRB) - the Central Bank of Nepal. Though the annual budget being presented to the Parliament by the government specifies the amounts proposed to be raised through the domestic and external loans as well as the amounts set aside for the debt servicing (principal and interest payments), the regulatory arrangements for the domestic and external debt management are also not well developed compared to other countries.

The MoF is involved with the policy-related functions such as amounts and limits of annual borrowings, their terms and conditions, projecting and concluding external loan agreements with the bilateral or multilateral lenders and facilitating other public debt management related activities. The NRB performs the domestic debt management operations of the government in line with the provisions laid down in the National Debt Act 2002 and related regulations. The NRB is also engaged in the domestic and external debt operations in its capacity as the government's banker. The FCGO functions as the accounting and recording of domestic as well as external debt. Besides, it also manages debt servicing operations on behalf of the government. Foreign debt management functions are also carried out by the FCGO in collaboration and coordination with the MoF and the NRB under the Loan and Guarantee Act. FCGO keeps all records of debt agreements, debt receipts and payments. It is also responsible for ensuring timely debt repayment, maintaining accounting system of such payments and records the domestic as well as external debt. It is also accountable for timely reporting of debt data to the government and dissemination of the debt related information to the concerned stakeholders.

The main sources of the domestic debt have been the financial institutions and the general public. Foreign debt has been raised through agreements with the official bilateral sources and the multilateral financial institutions. Nepal's domestic debt portfolio mostly comprises short-term maturities of up to one year and is based on the market-based interest rate. The foreign debt portfolio comprises long-term debt which is of the concessionary nature. Nepal has so far not raised debt from the international capital markets yet.

The Interim Constitution of Nepal has the provision that no loans would be raised or guarantees provided by the government of Nepal without the legal mandate. The foreign loan has been raised and guarantee provided through the authority granted by the Loan and Guarantee Act 1968. The National Debt Act 2002, National Debt Regulations 2003, Primary and Secondary Transactions of the Long-Term Government Securities Act 2005, the annual Act for Authorizing the Raising of National (Domestic) Debt, and the NRB Act 2002 along with the agreement between the NRB and the MOF govern the domestic debt operation and management functions in Nepal. The Financial Administration Act 1999 and the Financial Administration Regulations 2007 mandate the FCGO the responsibility for foreign debt management under the overall guidance and direction of the MoF and the National Planning Commission. Government of Nepal (GoN) had authorized to raise domestic borrowing to the extent of Rs. 37.41 billion for FY 2011/12. Foreign Aid Policy 2002 guides decision-makers in matters relating to the foreign aid (loans and grants) mobilization. The Foreign Aid Policy provides that the loan assistance will be utilized selectively, after careful scrutiny of the purpose, content, and benefits of the projects and programs. Nepal encourages a closer partnership between the government and multilateral donors so that they can jointly examine the implications of these loans in terms of their contribution to the economic and social development. In mid-July 2012, total debt outstanding of the GoN reached Rs. 509.6 billion of which Rs. 201.5 billion was domestic and Rs. 308.1 billion was foreign. As percent of GDP the total debt outstanding in mid-July 2012 was 32. 7 percent (domestic 12.9 % and foreign 19.8%). Similarly, Per capita debt outstanding has reached to around NRs 19000.00. Yearly debt servicing expenditure is about 10 percent of the annual budget.

3. Issues on Public Debt Management

Traditional structures, ad-hoc decision-making, lack of market research, little awareness about market perceptions and lack of willingness to adapt to changes are some of the key issues on debt management in Nepal. The debt management function has been suffering from inefficiency, uncertainty and instability syndrome. The debt management has also not been serving as the important means for financing of socio-economic development of the nation in a stable and prudent manner. The dimensions of the government debt inflows and its servicing along with the associated risk features have been widening over the years. Similarly, the debt management has not received adequate priority in terms of managing it in global standards. It has been conducted on a traditional way that lacks comprehensive, specialized and separate legal, institutional and operational framework. In the absence of specialized and unified institutional arrangement to carry out debt management functions and conduct appropriate studies and analyses with a view to increasing the efficiency and effectiveness of the debt, the problems and challenges of the debt

management are continue to remain. Debt resources have been confined to serve as the regular means for financing the fiscal deficits only. Debt management has not yet been considered as an important component of the macroeconomic structure. Decision making with respect to debt management has been done without adequate analysis and preparedness. Scattered work responsibilities along with the problems of coordination within the debt management operation institutions have created obstacles in making the debt management system sound and effective. In this context, the significance of the establishment of an independent PDMO is being relevant. Many countries have acknowledged the importance of it and institutionalized the full-fledged PDMO as a means for effective government debt management framework. Since debt management function has been scattered across the various legal, policy related, institutional and operational arrangements, its overall management seems difficult. Hence, a sound debt management system with appropriate policies and strategies, institutional restructuring, human resources development and improvements in the relevant areas of debt management such as IT-hardware and software are required to ensure expected outcomes from public debt management system. Considering this very fact, the detailed work plan of MoF issued in February 2012, as part of the GoN's immediate work plan for economic development and prosperity, also incorporate possibility of establishing a PDMO as one of the urgent actions. Hence, realizing the ever growing development financing requirements of Nepal, the implementation of an appropriate debt management framework has become extremely important. Similarly risk mitigation strategies need to be reinforced to make debt management efficient, less costly, less risky and non-volatile.

4. Public Debt Management Office (PDMO)

A separate structure with unified legal, regulatory and institutional arrangements would be a first step to move forward establishing a PDMO. Similarly, debt management functions (domestic and foreign) are to be streamlined and coordinated to ensure accountability, improve debt operations, adapt changed technology and retain capable staff. This step ultimately contributes in institutionalizing a prudent public debt management system in the country. The creation of a full-fledged Public Debt Management Office would be a right choice in this direction. PDMO would make the debt management effective, result oriented and sustainable. To respond to the huge development challenges of the economy and rising expectations of the people in the context of globalization, the PDMO would turned to be an effective instrument. Under this strategy the prevailing structure, organization, and management of the debt management should be fully reviewed and devolved to the proposed PDMO. Specifically, the debt management functions presently undertaken by the FCGO and NRB along with the debt related activities

of the MoF would also be merged into the new PDMO. The scattered legislative arrangements, regulations, and procedures need to be streamlined and recast so that the debt management responsibility is efficiently discharged and the objective of debt management is attained on a sound and sustained manner.

The services rendered by the PDMO would be (i) external debt negotiation, (ii) debt recording, (iii) debt servicing and settlements, (iv) domestic debt operations—market development and securities issuance, (v) public debt education, (vi) public debt management capacity-building, and coordination of donor support in debt management, (vii) policy and strategy—debt strategy, monitoring and compliance, and research and documentation, (viii) risk management, (ix) human resources and administration, and (x) corporate affairs and external stakeholders relations strategy. The functions relating to the PDMO are comprised in three separate categories:

- The Front Office is responsible for debt mobilization and management functions so as to ensure that the rules and regulations and guidelines regarding the debt management are followed. The front office applies the guidelines when negotiating new loans or issuing new instruments. The front office should have the proper legal mandate to conduct its functions. The functions of this office are related to the mobilization of financial resources to address the public sector needs. Therefore, it comprises the use of various sources of debt funds whether domestic or international. All the processes involving the negotiation and contract of new borrowing is taken care by this office. Hence, the front office basically implements debt strategy and provides market feedback to improve the system.
- The Middle office is responsible for the debt and risk management. The functions are related to the portfolio analysis, debt sustainability analysis, risk analysis, borrowing policy and plan, borrowing strategy, policy for on-lending, policy for the issue of government guarantees etc. Broadly, the middle office functions are divided into two categories: (i) analytical function, and (ii) risk analysis function. It conducts the debt analysis which is required by the executive levels for designing the debt management strategy and monitoring risk and control. Regular debt portfolio reviews to ensure PDMO's control over the debt and public debt sustainability analysis should be integral part of the activities of this office. Hence, Middle Office develops strategy, monitors risks and reports to the management.
- The Back Office conducts the loan operations and the Management Information System. The tasks relating to this office includes transactions recording and administration, debt servicing,

maintaining the debt database, cash management, statistical reporting, debt accounting and recording contingent liabilities. In other words, the back office centralizes all the operations concerning (i) the registration of the operations of public debt (ii) monitoring (iii) control of disbursements (iv) execution (v) management of public debt service operations, and (vi) production of statistical information. Hence, the back office records operations, provides MIS and prepares books of accounts.

Each of these offices has its own distinctive function, accountability and reporting liability. Such an arrangement is designed to ensure adequate control and reduce exposure to risk to the public debt.

Location of the PDMO: The practices of locating the PDMO vary from country to country. Separate PDMO outside the government are more frequent in developed economies where financial markets are well developed. The location of PDMO as an agency for implementing debt strategies of the government is to be determined by MoF. The existence of a single institution in charge of implementing debt policies permits greater attention and concentration on debt management issues and provides support to the idea of ensuring a clear separation between fiscal, monetary and debt management policies. To ensure government control over the debt management, there is a need to establish monitoring controls to ensure that the PDMO will comply with the objectives determined. This is usually accomplished by setting up strategic objectives and benchmarks for debt management. Clear governance, legal, and institutional arrangements need to be in place for controlling and monitoring a separate DMO. The main advantages of separate DMO can be summarized as (i) greater efficiency in managing debt, (ii) more independence from political influence, (iii) attraction of qualified staff with better salaries, and (iv) application of international best practices into the debt management field.

PDMO inside the MoF are more common in the less developed economies where more coordinated efforts are needed between debt management and other development policies. Debt management in low and middle income economies is a strategic and vital component of development policies. Sources of international financing may vary from multilateral or bilateral sources in those countries. Debt portfolio management is not the only concern in low and middle income countries. Fiscal discipline, social and economic growth and debt sustainability are intertwined areas of significance in these countries.

An increasing number of independent DMOs have been established in the OECD countries so as to give the operational arm for debt management. More autonomy for the execution of debt management is entrusted to these offices there. Sweden leads of having established the Debt Office date back to the 18th

century and Finland in the 19th century. Lately, PDMOs are established in Australia, Austria, Belgium, France, Germany, Greece, Hungary, Iceland, Ireland, the Netherlands, New Zealand, Portugal, Nigeria and the UK. In USA the Treasury Department manages the public debt not the Federal Reserve.

Table – 1: Practices of DMO in various Countries

| Separate DMO | | DMO within MoF or Treasury Department | DMO within Central Bank |
|---|--|---|---|
| Independent DMO | Agency of MoF | | |
| Sweden Germany Hungary Portugal Ireland | UK Australia Belgium Netherlands Nigeria | US, Canada (Shared with BoC), Spain, Italy, France, Russia, Mexico, Brazil, Chile, Columbia, Argentina, Korea, Japan, China, Thailand, Indonesia, Turkey, New Zealand | Denmark India (New DMO is under consideration) |

In India, the budget speech for FY 2007/08 had identified the need for the establishment of an independent DMO. After the announcement in the budget, a middle office was set up in the finance ministry to prepare a medium-term debt management strategy, issue periodic calendars for borrowings and manage government cash requirements. A draft Bill that paves the way for the creation of a separate DMO, independent from the finance ministry and the RBI, has been prepared and is currently under consideration.

In our context, the proposed PDMO should have to be established as a separate office under the Ministry of Finance. The NRB would continue to discharge its role as the government banker for the debt management in accordance with the NRB Act 2002. Besides the front, middle, and back office roles of the PDMO, other functions like the determination of the terms, conditions, and composition of the debt along with other policy level and strategic matters would be decided by the high level Debt Management Co-ordination Committee (DMCC) which would be headed by the Finance Ministry at the recommendation of the PDMO. The ceiling of the domestic and foreign debt to be received during the fiscal year would continue to be the exclusive domain of the Parliament. The constant research and analysis on debt and related matters conducted by the middle office of the PDMO would undoubtedly help make such decisions of the higher political bodies more informed, credible, and sound manner.

5. Conclusion

As an independent agency with the mandate of managing the sovereign debt, the PDMO helps the government manage borrowing efficiently. An independent and professionally managed PDMO would help create a vibrant and dynamic government debt market and would also reduce the government's borrowing cost in the long-run. Establishing and successful running of a full-fledged PDMO requires appropriate legal, institutional and operational mechanisms. It should be backed by a sound debt management policy with clear mandates, goals and objectives. Accordingly, a national debt management strategy consisting of risk management framework, transparency and accountability mechanism, development of an efficient local capital market etc. are also essential. An integrated legal framework - the enactment of Public Debt Management Act is the pre-requisite. Operationalize Commonwealth Secretariat Debt Recording and Management System (CSDRMS) Software to strengthen debt database and reporting requirements is also compulsory to institutionalize the PDMO. A regular Debt Sustainability Analysis system and management of Local Government Borrowing mechanism needed. A common understanding on public debt management among various actors is vital. Managing borrowing risks and debt servicing capacity along with clear accountability arrangement on information, accounting and reporting are required. Finally, institutionalization of the debt management system of global standards and a separate fiscal responsibility law to strengthen the monitoring of fiscal risks and enforcement of the rules is to be ensured.

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Outputs and Outcomes Budgeting: Perspective and Practices

Udaya Pant³

Budget is the instrument in the hands of the Governments for achieving their objectives of public finance. The Finance Ministry is entrusted the task to prepare the Budget after coordinating with all Line Ministries, Departments etc. to obtain legislative sanctions. In the traditional budgeting, once the proposals are approved the Budget execution is left to the concerned authorities/Departments. The scrutiny and oversight functions are watched through the internal controls, internal audit and auditing authorities. The process of budgeting, i.e., preparation, sanction, execution, scrutiny; monitoring and performance appraisal and measurement etc. is a complex task.

One of the primary functions of the government is to assess and ensure that the resources consumed by the system are commensurate with the benefits to the society. In recent times, budget has become an instrument of performance appraisal rather than a control tool, in the hands of the legislature. The new concepts of transparency, value for money, economy-efficiency-effectiveness paradigm, people's participation in the development process, have transformed the role of the State drastically. Results monitoring and performance orientation are the key words now. The shift from inputs and compliance, to outputs and outcomes, has been a long journey in the public sector financial management.

Budgeting for Results

One of the prime concerns of the public policy managers today is to have a result oriented budgetary system instead of monitoring of the authorized levels of spending by various agencies. Performance outputs and measurement of the performance of the spending activities of the public sector is considered the key objective of the budgetary process. The concept of performance monitoring and measurement is a complex one to implement, particularly because of the nature of public spending; which is often said to be directed towards the maximization of the welfare of the society. Performance measurement analyzes the success of a work group, program, or organization's efforts by comparing data on what actually happened to what was planned or intended measurement.

³ Udaya Pant is IMF's PFM Advisor in Ministry of Finance. Besides working in senior PFM positions in the Indian Civil Service, he has worked as the international expert in several countries with the ADB, UN; and UNDP. Views expressed here are his personal.

Hierarchy of Results for Performance Management:

The result is a change, which can be an improvement, an increase, a strengthening, a reduction, or a transformation in attitudes and behavior of a given group. Clearly defined expected results are at the heart of successful program management. The coverage or reach identify the expected number of beneficiaries of the intended change. The Inputs are direct or indirect human, organizational or material resources required for implementing and carrying out the planned Activities. The short-term consequences of completed activities are Outputs or “sub-results” necessary to produce outcomes. The Outcomes are specific, measurable, institutional or community-level results that are the logical consequences of the project outputs. Outcomes are the changes necessary to achieve the project purpose. The long-term socioeconomic results to which projects contribute are Impacts, and are necessary to achieve the project goal-the ultimate achievement by the project.

A very important aspect to consider here is the focus of the services. The benchmark for ascertaining the nature of services is to identify whether the services are directed towards the public/social good or the private good. As an example, the World Bank studied the education system in Indonesia in the 80’s and found that almost entire benefits of higher education provided under the public funds are monopolized by the richest class of the society. These results may hold good for most of the developing countries. Similarly, a distinction has to be made between providing the clinical services to the citizens, which serve the private or individual health interests; and the preventive and community health programs, serving the interests of the entire society. Such distinctions serve the purpose of governments’ end-user beneficiaries; individuals or identified groups.

The fertilizer subsidy scheme, which was started in the early 1950’s in India, may have been a good scheme at that time; but it is now widely believed that the beneficiaries of this scheme are mostly the rich farmers and the scheme as such is no longer relevant in serving the interests of the society as a whole. On the flip side, it goes well with the larger objective of the government to increase the agriculture and farm production, by providing incentives to this sector. Such subsidies are very much prevalent in the developed countries. The issue thus, will be to have a flexible approach to suit the “outcomes” of the specific departments/agencies and their schemes.

Wherever necessary, governments will have to make a provision for such section of the society, who need to be provided a cover due to social and economic reasons. The resources and savings available due to withdrawing of activities may be channelized towards the social programs and schemes of the government. However, as remarked earlier, the benchmark should again be 'whether the schemes are meant for the representative groups to the whole society, or they are targeted for the particular beneficiary group'?

The Output Methodology

The Output Methodology, as has been viewed in Australia and OECD countries, is an approach to the management of the total public resources of the State which focuses attention on the Outputs the Government is providing to the community and whether these Outputs are having the intended effect on the Government's policy objectives. Each input is related to the outputs it has produced, with reference to the targets set.

Outputs and Outcomes

In the traditional budgeting, focus is on the inputs; and objectives are carried out by allocation of the inputs. In the outputs and outcomes based budgeting and performance appraisal, inputs are defined as the resources to produce the service. In terms of their social value their cost is the parameter to quantify them; while their budgetary performance corresponds to compliance.

Outputs are the 'service' itself. OECD definitions read with Australian guide on the subject suggest that Outputs are goods and services produced by, or on behalf of, a department and provided to customers outside that department. The Government (in a contracts scenario) purchases Outputs from departments in order to achieve policy objectives, or Outcomes. An Outcome is the effect on the society of outputs from governmental entities

The outcomes and outputs framework helps answer three fundamental questions:

- What does government want to achieve?- **outcomes**
- How does it achieve this?- **outputs and administered items**
- How does it know if it is succeeding?- **performance reporting**

Outcomes can be further segregated into Community Outcomes, Government Policy Priorities and Agency Outcomes.

Community Outcomes are those Outcomes which are achieved over the longer term through contributions from all sectors of the community. The related benchmarks assist in determining the extent to which the Outcomes are achieved. Government Policy Priorities are those policy directions which indicate a change in direction, an area of reform or a change in priority by the Government. Agency Outcomes are those Outcomes for which an agency is accountable and which contribute to the achievement of both Government Policy Priorities and Community Outcomes.

The reporting on planned and actual performance against outcomes and outputs can be through the Budget proposals and annual reports on:

- their plans
- what they intend to do;
- how they intend to measure it;
- what they believe to be an appropriate performance; and their results
- effectiveness of outputs' and their extent of contributions to outcomes;
- linkages of particular outputs to the 'composite outcome' or any 'multiple outcomes'
- the quality, quantity and price of their outputs;

Advantages of the Outputs and Outcomes Budgeting

- greater emphasis on performance information, reporting of processes and results
- clearer idea of what is expected of the inputs that are consumed in the process
- identification of what is to be delivered to meet those requirements in a price-based performance management environment, in contrast to earlier cost-driven, inputs focused arrangements;
- assessments against agreed performance indicators, derived directly from the specific outcomes and outputs for which the managers and agencies are accountable;
- greater flexibility in the disposition of the resources (inputs) used to deliver the outputs agreed with government
- enhanced levels of transparency
- Outcome statements facilitate effectiveness indicators for decision making and legislative reporting
- Outputs that contribute to more than one outcome are appreciated better
- review government activities by testing cost and effectiveness, to make improvements

Benchmarking

The role of benchmarking will be crucial to appreciate the outputs and outcomes based budgeting and performance measurement. Benchmarking is the process of internal and external comparisons, with the objective of improving the performance of an organization. It is termed as a technique of comparing business practices and performance levels between organizations to identify opportunities for making improvements in the economy, efficiency and effectiveness of an organization's activities. The internal and external comparisons will bring out better alternatives and better performance measures at an economic and efficient manner. The point to be note here is the fact that efficiency and quality do not come hand in glove. It has to be harmonized to suit the overall objectives of the organization, without providing a shelter to poor performance under the garb of quality.

Multiple Outcomes

As mentioned elsewhere, there can be cases of multiple outputs and outcomes through single schemes; and similarly, there will be cases of multiple schemes contributing to the similar outcomes. This will be true for both

the social sector and infrastructure operations. For example, the development of infrastructure and facilities for the Nepal Tourism Year, would contribute equally towards the development of rural and urban infrastructure, and associated facilities in Nepal; spending on the public health engineering and preventive health measures will have similar outcomes; social welfare schemes of several Indian ministries will contribute towards planned outcomes of the urban and rural development ministries; spending of the civil services dispensaries and hospitals for the health facilities will contribute towards the outcomes of the Health Ministry; public construction activities will also generate wage employment and spin-offs in the employment sector; and so on.

In contrast, the several schemes of the ministries of Tourism, Health, Urban Development, Roads may have similar outcome of upgrading the urban infrastructure and amenities. The collective contribution of these individual schemes may be difficult to be quantified or segregated in a single time period and geographical area.

Forward Budgeting

It is important that at least in respect of developmental or capital expenditure; a medium-term budgeting plan is drawn up, not only to avoid the time and cost overruns and availability of financing at the right time; but also to measure the outputs and outcomes during and after the completion of the projects/schemes. In cases of any delays in commencement of schemes/projects, it should be possible to make internal adjustment within the projects, wherever necessary. A three year forward plan with rolled over annual budget plan will greatly help the decision makers as well as the projects. The spending ministries will be allowed to carry forward the savings to the forward period and make necessary annual corrections in the estimation of the resources by themselves, within the overall objectives and performance plan.

Forward budgeting has to have backward and forward linkage with strategic planning and will help in all aspects of budgetary objectives. It will have visible effect on the cash management, lowering the instances of wastage, managing the commitments and liabilities, greater anticipation of the utilization of financial resources, management of better and effective utilization of resources; and establishment of the performance indicators; and monitoring of results against resources provided and utilized.

Accounting Classification

The Australian Government's accrual-based, outcomes and outputs framework is aimed at improving both how the work of government agencies is measured (through the application of the accrual-based budgeting and reporting) and what is measured (through specifying outcomes, administered items and outputs). For

any help that may be required, online accounting policy guidance provides advice on accounting issues. Also equally important is to harmonize accrual accounting with accrual budgeting.

In the Indian initiative, quantification and accounting for measurable outputs and outcomes is the key area to be focused upon. The existing initiative is based on the premises that this will be achieved through the system of cash budgeting and accounting. The problem of measurement with the cash accounting will remain, in cases of spillover outputs over the time period and multiple outputs contributing to the single outcome. Also true will be the cases of multiple outcomes though the operation of the single project or program.

A medium-term view of expenditure, accounting and budgeting will, thus, be imperative for measurement of quantifiable outputs and outcomes. The Chart of Account will have to undergo the metamorphosis to the extent that it can be adapted to suit the new requirements of outputs and outcomes based budgeting and accounting. The present Chart of Accounts may not be able to reflect the outputs and outcomes in its present form. As a matter of fact, the core Chart of Account may not be able to reflect the outputs and outcomes budgeting and accounting. There is a need to have a policy decision on the issue as to whether the accounting classification should have an economic classification as its object or we need to have a provision of mapping the outputs and outcomes that may be provided in the budget through a correlation program.

Even if we decide to go in for an accounting classification that may reflect the outputs and outcomes *visa a vis* the targeted or planned outcomes; it would be a very difficult task to handle. In the budgetary system it would be possible to map the outputs (and perhaps outcomes to certain extent) by comparing the budget bids of agencies of the previous year and their performance reported periodically and through the next budget bids. The accounting classification may, therefore, not cater to the reporting of outputs and outcomes; and the accounting standards at the same time. In my view, the accounting classification may not be able to map the outputs and outcomes; but through a correlation program it may be possible through the budgetary system.

Decentralization

Decentralization is seen as a precondition for holding managers accountable for what they spend and do. But there is a realization at central levels that accountability cannot hinge solely on the expectation that, once given the opportunity, managers will take charge and turn their organizations into more productive work places.

Letting managers manage, past experience has taught, does not mean that they will. The current emphasis is on making them manage by nailing down the performance levels to which they will be held responsible.

Delegation of previously centralized controls has stirred a rethinking of the role of the central budget organization. The old controller role is slipping away and, along with it, the leverage that budget officials exercised over departments as well as a part of their data base for monitoring expenditures. Central staff views performance measures as a handle for reviewing and possibly intervening on other matters of management. The measures provide "talking points" in dealing with departments, move the discussion to a more objective plane, and enable budget makers to question what the departments have accomplished or intend to do. But they believe these measures will be fresh and relevant only if; (a) the affected departments have the lead role in selecting them; (b) the measures are principally used for internal management rather than for central review ; (c) the data are not turned into evidence for reducing budgets but are a means of spending agencies to "spend better"; and (d) the measures are part of a larger framework which encourages managerial initiative and accountability, within which there is a clear definition of the expectations of both spending agencies and central budget staffs.

Balancing these requirements can be a difficult task. On the one hand, central budget experts must take an active role in designing and promoting managerial innovation; on the other, performance measures must be indigenous to departments and accepted by them. In the early stages of development, there is widespread understanding that central staff must take the lead in moving innovation along; if performance measurement matures, central budget staff will have to withdraw to a more circumscribed role. It remains to be seen whether they will be content to be supporting players.

Changing the culture of public management, getting finance staffs to divest the tools that have given them power and access, and prodding managers to reallocate resources for efficiency's sake are all difficult, time-consuming tasks. Shortly after the British Government launched FMI, a White Paper described it as "a program for the life of a Parliament and beyond." It should be noted that initially reforms may end up with a relaxation of financial controls and somewhat more performance information, but fail to bring about a real transformation in financial management. The transformation will be seen over the medium plan period, with continued reforms and necessary modifications. The shift of the central control will have to be redirected towards the macro-system performance results rather than interfering too much with the day to day micro-system management and expenditure behavior of the managers.

Accountability

The report of the Independent Review Committee (1975) on the office of the Auditor General of Canada, defined accountability as:

Accountability in its simplest term means the obligation to answer for a responsibility that has been conferred. It presumes the existence of at least two parties. One who allocates responsibility and one who accepts it with the undertaking to report upon the manner in which it had been discharged.

Accountability framework is significant to introduce and reinforce due to overall results and impacts achieved from the large amount of resources consumed by the public sector. With the continuance of reforms and structural changes like greater delegations and functional independence, it is all the more necessary to attempt at prescribing the managerial responsibility and accountability for the effectiveness and maximization of the benefits from the expenditure from the public exchequer.

In the context of outcomes budgeting, accountability is linked with the planned/targeted outcomes and actual outcomes. The risk factors and any associated inputs and policy constraints have to be analyzed carefully and professionally. If the resource constraint is the reason of underperformance, it has to be anticipated as to how much of this can be attributed to the gap in the actual outcome and the planned or targeted outcome. Identification of clear authority and responsibility centers will be crucial here.

Performance Management, Monitoring and Evaluation:

Performance measurement can be used as an essential tool to by the management to clarify goals, document the feedback on the contribution toward achieving those goals, and the benefits received from the investment in each program. Therefore, performance measurement (management for results) seeks to assess, verify and demonstrate results, while performance management (management by results) focuses more on experimentation, innovation, process, learning and responsiveness.

Monitoring is defined⁴ as a continuing function that aims primarily to provide the management and main stakeholders of an ongoing intervention with early indications of progress, or lack thereof, in the achievement of results. Evaluation provides a judgment based on assessments of relevance, appropriateness, effectiveness, efficiency, impact and sustainability of development efforts. It involves a rigorous and systematic process in the design, analysis and interpretation of information to answer specific questions. It highlights both intended

⁴ UNDP (2002) A Handbook on Monitoring and Evaluating of Results, UNDP Evaluation Office

and unintended results, and provides strategic lessons to guide decision-makers and inform stakeholders. Though monitoring can provide critical inputs to evaluation by way of systematic collection of data and information, yet an evaluation system serves a complementary but distinct function from that of a monitoring system within a performance management framework (Jody Zall and Ray Rist, 2002)⁵.

The **Performance-based M&E** links both implementation progress with progress in achieving the desired objectives or goals of government policies and programs that make PM&E most useful tool for public management. It allows the organizations to amend, modify and make adjustments to the implementation processes for achievement of desired results and outcomes. However, introducing PM&E for Result-based Management will often require interventions that address a wide range of possible ‘determinants of performance’. These determinants are technical, organizational and behavioral⁶.

BUDGETING for RESULTS: Budgeting for results is often associated with the performance evaluation and management. The measurement of performance is a practice grown with the time. Briefly speaking, it means the adoption of the private sector techniques into the public sector environment. This primarily involves structural and cultural changes in the bureaucratic system of governance. The overhauling of the environment to achieve new target-based activities in the public systems is the performance based management. Budgeting and Budgetary techniques take the precedence over all other aspects of financial management in this direction. This does not, however, imply that good management practices alone will provide the solutions to the problems of performance based management and performance measurement. The commitment of the politicians and the bureaucrats, both holds the key to the effective system of performance evaluation and output. In all the countries where these practices have been adopted, the initiative and commitment has been noticed at the political level. Under the ‘New Public Management’, budgeting is now viewed as a "Contract for Performance"

The landmark reforms in the area are “Financial Management Initiative” (FMI) of the UK, Increased Ministerial Authority and Accountability (IMAA) reforms introduced in Canada, Financial Management Improvement Program (FMIP) in Australia, Sweden’s performance measures linked to the budget in the three-year budget frames’, "National Performance Review" of the USA.

⁵ Jody Zall Kusek, and Ray C. Rist, (2002) *Building Results-Based Monitoring and Evaluation Systems: Assessing Developing Countries Readiness* Journal of Zeitschrift fuer Evaluation, No. 1, pp. 151-158.

⁶ Sohail Amjad (2006) “Result-based Management Implementation for Outcomes: An agenda for action in developing countries”: https://copmfd.adb.org/QuickPlace/mfdr/PageLibrary4825713E001A9475.nsf/h_Toc/B28F49552A397F1B48257196002C72B3/?OpenDocument

New Public Management reforms in New Zealand and Australia:

The New Zealand system has been supported by the legal framework within the Public Finance Act (1989), Fiscal Responsibility Act and the Appropriation Act. The output cost accounting is based on the accurate costing. The costing principles are based on Activity Based Costing (ABC), which enables activity review, resource accounting, output accounting and the cost centre accounting. Together with the accrual accounting, output cost accounting serves an important management tool.

A number of other countries which have embarked upon the task of rejuvenating the financial management systems and practices, Malaysia launched a Public Sector Reforms Program by the end of last century, with common features with those in the developed countries. Singapore has commenced 'Budgeting for Results' programs, with much wider decentralization of powers to the line agencies. These reforms also envisage the usage accrual accounting. The Governments of Republic of South Africa, most CIS republics, Ireland too have switched over to the accrual accounting. France has already launched a major performance reporting and measurement system. India has adopted Outcomes Budgeting now; earlier the performance budgeting was installed on the basis of outputs of the development programs and projects, since the mid 1980's. From 2004-05, India launched the Outcomes Budgeting and its system is making a steady improvement since.

Countries like China, Japan, Germany and South Korea also introduced performance measures, with much lower standard of transparency in those countries. These countries have also maintained their output performance with strong centralization tendencies in their system. Japan has been able to achieve economic growth and phenomenal financial performance with a relatively very small number of public sector employees in the country; yet with effective public sector management. These countries have some unique management practices and administrative culture, which are not common in the other societies. In most of these countries, except China, privatization program has been kept high in the agenda of the governments. With the increased privatization and global process, transparency norms are also expected to be given more attention.

Concluding Remarks:

The Outcome Budget establishes a framework for evaluating this aspect and helps in reviewing the performance of government against the expected outcomes. The champions of the outcomes budgeting (UK, Canada, USA, Scandinavian countries etc.); and the practitioners of New Public Management (Australia and New Zealand) have introduced landmark performance reporting measures through the

outcomes budgeting. Among the new entrant countries, where Outcome Budgets are now prepared, it is more of an academic exercise rather than actually being used for monitoring the Outcomes. This is because; in the most of the cases even the line ministries are not quantifying the Outcomes precisely which would be the first step towards effective monitoring of Outcomes through Outcome Budgets. In the other countries, the Outcome Budget is not brought out at all and therefore the systems for preparing and monitoring the Outcomes are mostly absent.

From the perspective of Outcome Budget, it is felt that at least the governments should initiate this process and should start bringing it out so that slowly it would mature and would help in linking budgetary priorities with actual outcomes. The exercise also gives the executive authorities an opportunity to link results with inputs put in to achieve those results. The countries should initiate the process of preparation of preparation of Outcome Budget as it is one of the foundations for sound budget management and public financial administration.

Nepal Portfolio Performance Review (NPPR) – A Reform Initiative

- Kailash Raj Pokharel⁷

Contextual

Nepal Portfolio Performance Review (NPPR) is a joint forum between the development partners (DPs) and the Government of Nepal (GoN), which covers donor funded projects to have better performances. Annual NPPR meeting discussed key reform actions and prepares an Action Plan that help overcome implementation challenges of the projects. This review traditionally used to be carried out unilaterally by development partners especially, the Asian Development Bank (ADB) and the World Bank, as mandated by their policy requirements, which later was jointly carried out by three agencies, ADB, World Bank and JBIC (now merged with JICA) since 2000 in close collaboration with the GoN. A further step in this regard was harmonization efforts which were undertaken by the government in 2006 taking a lead role organizing this forum and also inviting other development partners. DFID participated as a key partner from 2007 NPPR as an endeavor to make it a stronger forum.

NPPR provides an opportunity to review generic issues that affect project implementation environment at large. From the experience of conducting joint reviews since 2000, GON has greatly been benefited from the experience of various development partners engaged in this exercise to streamline the review into the government's planning process and its reform agenda. The review has helped the stakeholders to focus on the macro level issues that ultimately contribute to building a credible country system. This fits very well with the 2005 Paris Declaration, the high level forum at Accra and recently concluded High Level Forum at Busan on Aid Effectiveness which put emphasis on building a credible country system and all donors to align their aid assistance with such system and institutions of the country partners. This all has helped to reduce the transaction costs and to improve the country's capacity, among others.

The main objectives of this exercise is to review ongoing projects, discuss the issues that transpired during the course of implementation of foreign aided projects of the respective donors in terms of their implementation efficiency and effectiveness and discuss the ways to overcome such issues, and come out with an agreed Action Plan charting out timebound solutions.

Ownership

⁷ Mr. Pokharel is NPPR Coordinator, International Economic Cooperation Coordination Division, Ministry of Finance

Since 2006, the government has taken a full ownership of the annual NPPR and has been gradually internalized into the government's system. The government recognizes the value that portfolio review adds to achieve the development outcomes. It provides the opportunity to discuss candidly the macro issues surrounding the implementation environment and also to obtain remedies to address those issues. It is also a forum to understand various perspectives from development partners and implementing agencies. Enhanced portfolio performance is one of the means to ensure implementation of budget as the big chunk of the capital budget comes under donor funded projects.

Coverage

NPPR encompasses five major thematic areas and four sectoral areas, as follow:

- (1) Public Financial Management,
- (2) Public Procurement Management,
- (3) Human Resources management
- (4) Managing for Development results including M&E, and
- (5) Localization of Aid Effectiveness – Mutual Accountability
- (6) Local Governance
- (7) Roads
- (8) Agriculture
- (9) Energy

There are several key diagnostic works triggered towards building a good country system which include: PEFA, Gap Analysis in Public Sector Accounting and Auditing, CFAA, CPAR and the experiences gained from implementation of two Sector-wide Approaches (SWAPs) and Results-Based Management, e-bidding, human resources plan, personnel information data base, aid information data base, monitoring and evaluation tools, sector business plans and results frameworks, etc. All these are good foundation to start identifying and prioritizing critical actions to help government move into a right direction for building a credible country system.

Core Members

Though Government has welcomed all development partners to join this process as core members , so far there are seven core members of NPPR. They are ADB, World Bank, JICA, DFID, UN, Norway and EU. The first four are NPPR traditional members and later three joined from 2011. In 2012, four additional members have joined NPPR – Denmark, USAID, IFAD and Australia. The core members reach to eleven now. Switzerland has applied for it. We are expecting some more new core members in the days to come. These core members participated as working committee members for annual NPPR meeting, produced their own background papers which covers the review of their current portfolios in Nepal.

Annual Meeting

Ministry of Finance organized annual meeting jointly with core members. All development partners and all the projects funded by core members are invited to attend this meeting. Around 300 participants attend this meeting every year. Senior Government officials, Ambassadors, heads and representatives of development partners from headquarter and country offices, Projects Directors/managers and key projects staffs attend this meeting collectively and discussed issues and challenges faced by project implementators and find solutions. The discussion conducted in each key area with dedicated group discussions . High level government participation is maintained to show government commitment to endorse, implement and review the identified Action Plan.

Action Plan

As an outcome of the group discussions from the annual meeting, key actions are identified from each group. Agreed actions are consolidated, refined and produced in the form of Action Plan Matrix which seen as a reform agenda of the government and development partners for the current year. Ministry of Finance s presents this Action Plan before the Cabinet for endorsement. After the Cabinet approval, responsible Government line agencies implement these actions, which are led by the Champions , and Ministry of Finance reviews the progress periodically. Finally, every year annual progress report is presented in the NPPR Annual Meeting. This cycle continues in yearly basis.

Publications

Each year before the annual meeting, Government and core donor partners produce a report which covers GON vision papers, core members' background papers of their own project portfolios, existing implementation challenges and suggested measures. Each year, this publication carries a different theme,

for example, “Budget Implementation (2007)”, “Strengthening Country System (2008)”, “ Result based management (2009)”, “Human Resources Management (2010)” and “Aid Effectiveness (2011)” and “ Development Results (2012)”.

Accomplishment Highlights

Public Financial Management (PFM)

As strengthening Public Financial Management (PFM) is a key element of the GoN’s strategy for strengthening governance, optimizing outputs from public resources and ensuring inclusive and broad-based development, NPPR has picked up PFM as a key area of reform. The overarching goal of a PFM system is to improve efficiency of fiscal operations and enhance government accountability and transparency as well as to improve control of expenditure as identified by the PEFA assessment. PFM in general, incorporates the management of government revenue, budget, expenditure, deposits, debt, reimbursement, procurement and other important aspects of financial management such as accounting, recording and reporting. It also includes internal control, final audit and external scrutiny of the financial transactions. Hence, strengthening treasury system, financial monitoring and reporting as well as capacity building for PFM are the most critical elements of a sound public financial management practice. An effective PFM system contributes to reduce fiduciary risk of the public expenditures. Similarly, a sound and predictable PFM system not only help mobilize external resources from development partners but also ensures effective utilization of resources and establishes transparency and accountability mechanism of the public funds. It also contributes to channelize all resources and funds through the national system. However, a number of donor supported reform programs, namely by WB, ADB, DFID have already been implemented by the GoN in the PFM areas. The ongoing PFM reform initiatives undertaken by GoN and championed by Financial Comptroller General Office (FCGO) are as follows:

- Single Treasury Account (TSA)
- Public Expenditure and Financial Accountability (PEFA) (under Ministry of Finance)
- Implementation of Nepal Public Sector Accounting Standards
- GFS based New Codes and Classifications of the Budget and Expenditures

Public Procurement

Public Procurement is a key public policy tool that also regulates the public sector's interaction with domestic and international market in ways that directly impact efficiency and competitiveness. As the large buyer in many countries, the government's purchasing behavior has both short term and long term effects in many critical aspects such as the demand for goods and services in the economy, the development of technology and even in the behavior of the buyers. The regulation of production of intellectual services also affects the development of the national consulting industry and the knowledge economy.

Sound Public Procurement has multiple development outcomes. Based on the Public Procurement Act and its Regulation, Public Procurement Monitoring Office (PPMO) has been issued various Standard Bidding Documents (SBDs) to harmonize procurement activities among the Public Entities, Parastatal Agencies, Universities, Local Bodies, etc. Standard Bidding Documents of Goods and Works have been issued final version after the approval of the cabinet and other documents also are in the process of modifications and approval. PPMO has been running in the Second Year of implementation of the Three Year Strategic framework for an effective public procurement system in Nepal. Introduction of e-bidding system is taken as one of the successful reforms areas in this front in Nepal.

Human Resources Management

There are several key issues in human resource management of the GON, particularly relating to the projects implementation, such as (i) frequent transfer of staff; (ii) inadequate staffing and unfulfilled positions; (iii) lack of capacity and (iv) lack of incentives. They are hampering project implementation and portfolio performance. They are needed to be addressed urgently. In regards to the issue of transfer of project implementation staffs at the center and district level without the proper hand over of responsibilities is a major concern that has been repeatedly raised in the past NPPRs. Although the Government confirms that the staff transfer has been carried out in accordance with the Civil Service Act, frequent changes in key implementing staffs have resulted project implementation delays, disruption in the project implementation momentum and loss of institutional memory. Training is a key in HR management, which NPPR identifies "Training for All" concept in all government operations including projects. Some of the key reform initiatives under this theme are as follows:

- HRM Plan

- PIS Data Entry and Analysis of PIS data
- Enhancing PIS to monitor Transfer and Vacancy
- Implementation of Transfer Guidelines and Follow-up of Management Audit
- Performance-Based Incentive Plan
- Training and its effective Monitoring
- Strengthening Organization and Management Study (O&M Study)

Managing for Development Results (MfDR)

The Government of Nepal has taken concrete steps in developing some of the core elements of results-based management by establishing a framework that is linked to planning, budgeting, project implementation and monitoring. In the Three year Interim Plan (FY2008-FY2010), the result frameworks were prepared for the sectors ministries to deepen the Government's efforts in adopting the MfDR approaches in order to achieve development effectiveness. The results frameworks of the three year Plan, Medium Term Expenditure Framework (MTEF) and Sectoral Business Plans are important tools to align resources to expected results. Project prioritization criteria introduced since the Tenth Plan has helped trim the number of development projects and has focused resource allocations to priority sectors, which has better contributed to the Government's poverty reduction goal. Poverty Monitoring and Analysis System (PMAS) and District Poverty Monitoring and Analysis System (DPMAS) have been developed to facilitate the monitoring of development interventions and their impact at national and local levels. Recognizing the importance of results-based management (RBM) for improving portfolio performance and development effectiveness, the Government and participating development partner have agreed to make MfDR as a main theme for NPPR- 2009.

RBM aims to shift the focus of budgeting from traditional control and inputs to outcomes and efficiency. Public expenditure management is an integral part of the RBM and performance based budgeting system. In this context, recommendations made under Public Expenditure and Financial Accountability (PEFA) assessment report and Public Financial Management Strategy could provide a good guidance for selecting immediate budgetary reform measures. It is also has anticipated that a few sectoral agencies will agree on to implement the RBM with a clear linkage with the improved portfolio performance and development effectiveness indicators.

There have been some attempts to internalize MfDR concept in government agencies in a scattered way, if not so comprehensively. Result based budgeting system is being attempted to introduce in Department of Transport Management and Traffic Management office. Preparation of business plan in 13 government agencies has finalized and preparation of MfDR training manual and capacity development related trainings and workshops have also conducted. A good number of government officials have been trained in national and international MfDR training programs. Result Based Monitoring & Evaluation (RBME) Guidelines, 2067 is being implemented in all P1 and donor funded projects and programs. RBME Guideline has focused on result based M&E system instead of traditional input output based M&E. Similarly, this guideline has focused on computer based monitoring and evaluation system at different levels. NPC has issued a policy guideline to prepare M&E plan to all sectoral ministries. M&E plan has become mandatory as procurement plan to all P1 and donor funded programs and projects. District Poverty Monitoring and Evaluation Analysis System (DPMAS) Guidelines are developed and DPMAS Software is modified, updated and handed over to MLD for implementation. Installation of the software in almost all DDCs is completed and DDC staffs have been trained. This software will be linked with PMAS and PPIS software. Once the link is established, the online monitoring will be possible. Along with the Poverty Monitoring and Evaluation System (PMAS) Software, sectoral central level monitoring software is also being developed to monitor the sectoral indicators. This software will be linked with DPMAS at district level and PPIS at national level. Project Performance Information System (PPIS) software, a national level software, is being developed and is almost in the final stage. This software will be linked with PMAS and DPMAS system. After the full operation of these three systems at different levels, the M&E system will be more effective. In the above reforms in M &E related activities, JICA has provided a significant support to the government agencies, particularly to the NPC. On the spirit of RBME Guidelines, independent or third party evaluation has been completed in Karnali Employment Program and Social Security Program.

Though some of the key sectors (13 sectors) have already prepared their business plans as a commitment to implement this approach at the sectoral level, it is necessary to adopt those business plans and integrate them into the annual budget plan and the programs. Some more sectors are preparing their business plans. Few sectors are discussing to apply result based framework in a comprehensive manner, initially as a pilot basis.

Localization of Aid Effectiveness Agenda – Mutual Accountability

Effective accountability mechanisms are essential for aid effectiveness. Donors and partner country governments should be accountable to their respective citizens and to each other for their commitments on aid effectiveness.

This is one of the areas in Paris Declaration that interprets vaguely in terms of its implementation. In Nepal, mutual accountability mechanisms have so far been limited to SWAP or PBA sectors and at the national level through the Nepal Portfolio Performance Review process (NPPR). The Government of Nepal is trying to have a partnership through NPPR mechanism, which also envisages the same when government has taken its leadership some years back. As the nature of this theme has a longer term perspective, NPPR mechanism is trying its best to focus on shorter term, measurable and doable actions, probably within a year, to identify and implement them to help achieve broader development objectives and effectiveness in the long run.

NPPR has so far been focused on a few national management issues; however, since 2011 it encompasses some strong components of mutual accountability and on development results, in addition to the traditional four areas (PFM, HR, procurement and M & E). After the High Level Aid Effectiveness Forum in Busan, 2011, it has become a strong tool to implement some key components of aid effectiveness at the country level with joint commitment of the GoN and the donors. Key areas identified under this are: transparency, use of country system, reduction of PIUs, aid predictability and aid information management system.

Lessons Learnt from NPPR Process

NPPR has shown the value of focusing on a number of specific doable indicators and targets (around 25 or less), which requires both GON and Development Partners to identify the most critical issues. The limited number of targets also makes implementation easier, as each “sectoral champion” can focus on addressing a maximum of 6-7 priority issues. This avoids dilution of efforts and dilution of accountability. The strong monitoring framework, with a regular review meetings and clearly identified targets and indicators, is also a key component of the success of NPPR. One positive development over the past couple of years is that more and more resident donors are participating in NPPR meetings. This has helped enrich the process and has enhanced the dialogue during NPPR meetings. Overall, NPPR has been a relevant forum for discussion of key effectiveness issues on the national side. Recently added feature of mutual accountability has given NPPR as joint responsibility, Government of Nepal and donors.

It is observed that, in addition to the existing work on transversal efficiency and process issues, NPPR should also include a segment looking at key development results in priority sectors - In the spirit of partnership and mutual accountability, it is also believed that it is necessary to look at key development results, in order to have a more comprehensive picture of development effectiveness in Nepal. However, results framework exercise is in infantile stage in Nepal. Some scattered efforts are underway. Some agency's' business plans have been worked out but still to be adopted and implemented. Capacity building is another essential factor on overall results area. Staged approach could be the best solution moving steadily, firmly in results framework. Once all agencies adopted their business plans and sectoral results framework established, it will be the starting point for all stakeholders to formulate their own results frameworks to achieve stated objectives and targets in priority sector based on the defined outcome and output indicators. This also helps in linking it with annual budget cycle. NPPR is also expected to be further expanded to the Development Partners.

Rolled over to Sectors

The NPPR is a central mechanism of the aid architecture in Nepal. It has historically focused on key portfolio implementation issues. In the last two years, it has started to include discussions on strategic issues including the sector results and aid effectiveness commitments. Collectively these may indicate that it is the time for review jointly the entire aid architecture in Nepal. The question of institutionalization of NPPR is pertinent. How NPPR could link its previous commitments for reform actions to continue and follow up is another challenge to face. As an attempt to remain at the apex of the aid architecture in Nepal, in addition to reviewing portfolio performance focusing thematic aspects, it has also covers, from 2012; key sectors actions needed to support the delivery of key results in order to get overall development effectiveness in the long run.

References:

1. Nepal Portfolio Performance Review (NPPR) Report 2011 and 2012

Quality Assurance Review in Office of the Auditor General

- Ghanashyam Parajuli⁸

Quality, Quality Control and Quality Assurance

Quality has been defined as the totality of the features and characteristics of a product or service that bears on its ability to satisfy stated or implied needs. In public audit, quality involves a system composed of an organization- its people- the auditors- and the audit process, all working together to produce the outputs that fulfill the requirements of its stakeholders and the general public. There are certain characteristics or attributes by which the quality of an audit is measured. The general characteristics of the quality of an audit may include significance, scope, reliability, objectivity, timeliness, clarity, efficiency and effectiveness.

Quality control consists of policies and procedures that are put in place to assure that its audit work is of a consistently high quality. Quality control provides reasonable assurance that OAGN and its personnel comply with professional standards and applicable legal and regulatory requirements and audit reports issued by the Auditor General are appropriate in the circumstances. Quality Control is implemented with respect to the OAGN's activities that support the audit process and for all aspects of the audit process i.e. selecting matters for audit, deciding the timing of the audit, planning the audit, executing the audit, evaluating audit findings, reporting audit results, including conclusions and recommendations and following up audit reports to ensure that appropriate action is taken. Hence Quality control is a process through which an OAGN seeks to ensure that all phases of an audit (planning, execution, reporting, and follow-up) are carried out in compliance with the OAGN's rules, practices, and procedures. A quality control system should ensure that audits are timely, comprehensive, adequately documented, and performed and reviewed by qualified staff. Likewise quality management is concerned with all activities of the overall management function that determine the quality policy, objectives and responsibilities and implement them by means such as quality planning, quality control, quality assurance and quality improvement within the quality system of the OAGN.

Quality Assurance is the process that provides independent assurance to the Auditor General that the quality control systems and practices in the OAGN are working effectively and that the OAGN is issuing appropriate reports. Thus, Quality Assurance is the process of comparing what is required of a product and

⁸ Mr. Parajuli is Director in Office of the Auditor General

what is actually being provided to the users of that product. Quality Assurance is the process established by an OAGN to ensure that the OAGN and its personnel have adhered to professional standards and applicable legal and statutory requirements, necessary quality controls are in place, quality controls are being properly implemented and potential ways of strengthening or otherwise improving quality controls are identified. In conclusion Quality Assurance is an assessment process focusing on the operation of the quality control system. It is a review completed after the audit by persons who are independent of the audit under review. Quality Assurance necessarily involves the examination of specific audits. However, the purpose of the review is not to criticize specific audits. Rather, it is to determine what controls were intended to be applied to those audits, how those controls were implemented, any gaps in the controls, and other ways of improving the audit quality system.

Quality Assurance vs Quality Control

Although Quality Assurance and Quality Control are used interchangeably, there is a clear difference in scope and meaning of the two terms. Quality control involves the policies and procedures through which an OAGN ensures that all phases of an audit process (planning, execution, reporting and follow-up) are carried out in compliance with OAGN auditing standards, rules, procedures and practices in line with the best international practices. Basically it is a responsibility of each line function in an OAGN. QA is also a responsibility of management. On the other hand, Quality Assurance is a process through which an OAGN assesses and monitors the system of quality control, to provide reasonable assurance to its top management that its process and product meet quality standards. This assessment is designed to ensure that the OAGN's system of quality control is working effectively and that individual audits are carried out in compliance with OAGN standards, rules, practices and procedures. These should be in line with best international practices as reflected in International Standards of Supreme Audit Institutions (ISSAIs) and ASOSAI Guidelines or pronouncements on auditing standards and the code of ethics, appropriately adapted to suit the needs of national regulations and standards.

Benefits of the Quality Assurance Review

The benefits that can be derived from an effective quality assurance function include the following:

- Ensure a high standard of audit work by improving audit performance and results;
- Ensure that the audit is conducted in the most efficient and cost effective way; which can lead to savings in audit time and cost;
- Improve the capability of the OAGN;

- Maintain a high degree of integrity, accountability and competence;
- Enhance the credibility and reputation of the OAGN;
- Improve training and identification of additional training needs;
- Motivate the personnel of the OAGN;
- Facilitate self-assessment of audit work performed;
- Provide a management tool for measuring the performance of the OAGN; and
- Avoid possible litigation by ensuring the OAGN's work is of high standard and quality.

Types of Quality Assurance Reviews

There are different types of Quality Assurance Reviews (QARs) which are described below:

1. Institutional level: The objective of an institutional level QAR is to assess whether the OAGN has an adequate quality management system (QMS) in place, and the extent to which it is functioning effectively. An institutional level QMS is not specifically focused on any specific type of audit; rather, it affects all types of audits and services that an OAGN is expected to deliver as per its mandate. As such, an institutional level QAR can provide useful input for developing, or updating, the OAGN's strategic plan.
2. Individual audit level: These are QARs done at the level of individual audit engagements. The primary objective of individual audit level QARs is to assess the extent of compliance by audit teams with the OAGN's approved audit methodology for the given type of audit. They may also help draw conclusions on the extent to which the OAGN's approved audit methodology is aligned with international good practice. Individual audit level QARs may be conducted before issue of the audit report (pre-issuance) or after (post audit).
3. Internal review: An internal review is a QAR carried out by person/s within the OAGN, with knowledge of the audit procedures, practices and standards. This could be conducted through different mechanisms, such as by an established QA unit or through a peer review mechanism involving different divisions, units, directorates or sections.
4. External review: In an External Review, a peer SAI or other agencies such as a private auditing firm, management consulting firm, or academic expert could be asked to undertake a review at either the SAI level or at the audit level, or both. These reviews should be performed by qualified persons who are independent of the OAGN and who do not have any real or apparent conflict of interest.

5. **Pre-issuance review:** A pre-issuance review is a review conducted before the audit report has been issued to ensure that the audit complies with the audit methodology and practices and any other legal and regulatory requirements, and that the report is appropriate in the circumstances. A pre-issuance review should not be confused with the supervision and review. Supervision and review are quality controls in the audit process, and part of the line function of the audit departments. Pre-issuance QAR on the other hand,, is conducted by someone not associated with the day-to-day management of the audit.

6. **Post audit review:** The post audit review is that the review is conducted after the audit reports have been issued by the OAGN. A qualified reviewer from the OAGN or outside of the OAGN may do this kind of review.

Quality Assurance Review Process

1. Planning Phase: This is where the review team plans the review before it takes place. At the OAGN level QAR, the reviewer gathers information to understand the environment upon which the OAGN operates. On the other hand, at the financial audit (FA) or performance audit (PA) level, the review is intended to understand the FA or PA environment. This initial step provides the reviewer inputs to be able to define the QAR objective and scope, identify the key areas for QAR at the OAGN level or select appropriate audits for QAR at the FA or PA level, decide methodology and define roles and responsibilities of the QAR team, The other inputs include the terms of reference, budgets and background information. The output of this phase will be a plan for conducting the review. This can be a long-term plan in the case of an OAGN level review, and an annual plan in the case of a financial or performance audit level review. The expected deliverable from this phase is a QAR plan. Once the plan has been approved, it becomes the input to the second phase.

2. Conducting Phase: In the second phase, the review team conducts the review using the QAR plan to guide the gathering of evidence. A suggested first step in this phase is to conduct an entry meeting with the OAGN top management concerned (for OAGN level QARs) and the audit team that completed the audit (FA or PA level QAR), to explain the objectives and scope of the QAR to be done. The outputs of this phase are the draft findings and recommendations. This should be discussed with the senior management in the case of the OAGN level review, and with the audit teams and management for the individual audit level reviews to obtain feedback.

3. Reporting Phase: The third phase is where the review team uses the outputs (preliminary findings and recommendations) of the conducting phase as inputs to prepare a draft QAR report. The findings and

observations are discussed with audit management in an exit meeting. After soliciting their comments, the QAR report is finalised.

4. Follow-up phase: The final phase is where the review team uses the action plan prepared by the audit line functions as inputs, and assesses the extent of implementation of the QAR recommendations and reasons for non-implementation, if any. Appropriate follow-up actions are necessary to ensure that the agreed action plan is implemented or adequate steps are being taken to implement it. The output of this stage is a follow-up QAR report.

Quality Assurance Guidelines

1. International Standards of Supreme Audit Institutions (ISSAIs): INTOSAI has issued a number of standards which are relevant to quality assurance in OAGN. They have been placed along with other standards in the framework of International Standards of Supreme Audit Institutions (ISSAIs). These are four levels of standards i.e. founding principles, Prerequisites for the Functioning of SAIs, Fundamental Auditing Principles, Implementation and Specific Guidelines.

2. IDI-ASOSAI Guidelines: ASOSAI has issued Guidelines on Audit Quality Management System, Performance Audit Guidelines, Quality Assurance Handbook in Financial Auditing and IDI-ASOSAI Handbook on Quality Assurance in Performance Auditing which are relevant to quality assurance.

Quality Control and Quality Assurance in Office of the Auditor General

Office of the Auditor General (OAG) is the Supreme Audit Institution (SAI) of Nepal established in 1959. The Interim Constitution of Nepal, 2007 and the Audit Act, 1991 has mandated Auditor General (AG) to carry out audit of the accounts of the Supreme Court, the Legislative- Parliament, Constitutional Bodies, the Nepal Army, Armed Police, Nepal Police and all other Government Offices with due consideration to regularity, economy, efficiency, effectiveness and propriety of government financial operations. Similarly, AG is entrusted with the audit of the corporate bodies wholly owned by the Government of Nepal. In case of audit of corporate bodies substantially owned by government, the AG is to be consulted while appointing the auditor. Besides this, other special Acts and executive decisions also have mandated to the AG to conduct audit of different Boards, Trust, Councils and Universities etc. The following guidelines and directives have been issued in order to maintain impartiality, making the audit a system-based and to enhance quality of audit function that ensures compliance with standards and professional conduct pronounced by the International Organization of Supreme Audit Institutions:

- Government Auditing Policy Standards
- Government Auditing Operational Guidelines
- Procurement Audit Guidelines
- Project Accounts Audit Guidelines
- Revenue Audit Guidelines
- Performance Audit Guide
- Administrative Expenditure Audit Guidelines
- District Development Committee Audit Guideline
- Code of Ethics for staff of OAG
- Quality Assurance Review Handbook

Besides the above mentioned Standards and guides, OAG has issued following directives and internal circulars to administer and facilitate the audit operations:

- Audit Observations/ Finding Classification Directives
- Human Resources Development Plan
- Audit Directives to the Auditors of Public Sector Enterprises
- General Directives on Government Auditing
- Directives to prepare Overall and Entity wise audit plan.
- Directives for Supervision of Audit Teams.

Quality Assurance Handbook

OAGN has approved Quality Assurance Policy in February 2009. On the basis of Quality Assurance Policy, OAGN has implemented the Quality Assurance Handbook in August 2009 which is revised on 2012. Quality Assurance Handbook is developed and updated on the basis of IDI-ASOSAI Quality Assurance Handbook on Financial Auditing and Handbook on Quality Assurance in Performance Auditing. This Handbook covers the concept of quality, quality control and quality , ethical values, quality assurance policy, OAGN level quality assurance review process, quality assurance of financial audit and quality assurance of performance audit.

Institutional Arrangements

OAGN has formed Quality Assurance committee comprising five members whose coordinator is Deputy Auditor General. This committee will be responsible for carry out overall QA function of OAGN and responsible to Auditor General. Likewise OAGN has established a separate Quality Assurance Directorate, which works under QA committee. The size of the Directorate will depend on the decision of AG and size of audit coverage of OAGN. The Director of QA Directorate will be the Team Manager of QA function of OAGN and necessary team leader, team member and supporting staffs are provided to assist him or her. OAGN will use only auditors who have demonstrated a good understanding of the OAGN's audit procedures. The roles and responsibilities, skills and competences of team manager, team leader and team members are clearly defined.

Criteria for selecting audit files for QAR

Office of the Auditor General has adopted criteria's to select audit for QAR which are the audit has been classified as high risk, Parliamentary or media interest in audited entities or audit, The audited entities face problems that may lead to contentions and difficult circumstances and may benefit from pre-issuance review to reduce the –Auditor General's reputation risk, Significant shortcomings were identified during the audit team's previous review, The audited entities changed its accounting framework, A new area of auditing and audit was conducted by an audit firm in full or jointly with the OAGN.

The audit files of each audit team leader are selected for review. The selections are representative of all types of audits conducted by the OAG. In case of individual audit (Financial audit as well as Performance audit) level at least one audit file of every audit team leader are reviewed each year after issuance of audit report. Quality assurance review is being conducted on the basis of Quality Assurance Review Handbook whose report is submitted to Auditor General which focuses on areas for improvement.

Quality Assurance Review and PBIS

Government of Nepal had introduced performance based incentives system in OAGN since fiscal year 2008/09. The PBIS for fiscal year 2008/09 & 2009/10 was based on percentage basis but for the fiscal year 2010/11 was based on performance indicators. These indicators were related to the performance of individual employees. The performances of all employees are measured on the basis of quality assurance review. The performance indicators for quality assurance were clearly mentioned on PBIS documents. The

performances of each employee are reviewed and required to obtain 60 % marks to be eligible for getting extra incentives.

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Performance Based Incentive Scheme for TSA handling DTCOs in Nepal and its Effectiveness: a case study

Babu Ram Subedi, Nebin Lal Shrestha, Mahendra K. Yadav, Atma Ram Roy, Narahari Baral ⁹

1. Introduction and Objectives:

Performance related pay is regarded by many organizations as a fundamental part of performance management (Armstrong, 1995). PBI schemes encourage employees to enhance performance ultimately enhancing organizational performance.

Performance based incentive plans are the effective tools for enhancing performance of the employees in organizations. These plans are used to improve the effectiveness of organization.

This article is based on a study conducted to identify the effectiveness of the Performance Based Incentive Scheme (PBIS) introduced by the GoN for the employees of District Treasury Offices targeted to enhance effectiveness of the Treasury Single Accounts (TSA) System in Nepal. The study is based on the case study of the District Treasury Officer, Lalitpur.

The main objective of the article is to identify the effectiveness of the Performance Based Incentive Scheme (PBIS) introduced to the employees of District Treasury Offices (DTCOs) to enhance effectiveness of the Treasury Single Accounts (TSA) System in Nepal based on a case study conducted in December 2012. The specific objectives of the study are: to analyze the PBI scheme introduced by the Government of Nepal for the employees of DTCOs and to conduct a case study of the District Treasury Office, Lalitpur to identify the effectiveness of the PBIS and the level of motivation of the employees after the introduction of PBIS.

Methodology and Limitations:

The study covers a systemic review of the PBI scheme introduced to the employees of TSA handling DTCOs of Nepal. It also covers the effectiveness survey of the District Treasury Office, Lalitpur. The methodologies used in this study are: model review/ theoretical analysis, field observation, primary data collection in DTCO, Lalitpur using a brief questionnaire administration and secondary data collection

⁹ Mr. Subedi is Member Secretary in PEFA Secretariat, Mr. Shrestha is Director in National Statistic Bureau, Mr. Yadav is Divisional Agricultural Engineer, Mr. Roy is Senior Divisional Engineer and Mr. Baral is Under Secretary of GoN.

related to calculation of performance against the given indicators during the period of FY 2068/69. The available data were analyzed using the averaging method and simple ratio analysis method. This study is limited to a system review of the PBI system introduced to the employees of DTCOs in Nepal and is strictly limited to a case study of a TSA handling district, Lalitpur.

This study is limited to a systematic review of the PBI system introduced to the employees of the TSA handling District Treasury Offices in Nepal and is strictly limited to a case study of a TSA handling district, Lalitpur.

2. The Performance Based Incentive Scheme in TSA handling DTCOs in Nepal:

Government of Nepal has introduced the Performance Based Pay Scheme in some of the organizations (MOF, 2012). They include: Inland Revenue Offices and Customs Offices (from the Fiscal Year 2064/65), Office of the Auditor General, Department of the Personnel Records, Pension Management Office and TSA handling District Treasury Offices (38 in the Fiscal Year 2068/69). This scheme was introduced through the separate decisions (the cabinet level) made by the GoN.

PBIS had been introduced to the employees of TSA handling DTCOs in Nepal in Fiscal Year 2068/69. This scheme is introduced to enhance the effectiveness of the new treasury management system, named TSA. The TSA System is a web based integrated system of treasury management which consolidates numerous government accounts, handling by various paying units, in single accounts in a district. The PBIS model applied for the DTCOs is the “group based cash incentive model”, designed to provide up to 100 per cent of the basic salary against 31 performance indicators which are set by the Government of Nepal.

The main objective of the PBI Scheme is to enhance the effectiveness of the TSA system in Nepal. Most of the performance data are easily monitored by the reports generated through the TSA system which is highly IT sophisticated, in which all the transactions are automatically saved in the central server located in the Financial Comptroller General Office (FCGO) and Ministry of Finance (MOF).

The TSA System

The TSA System is a web based integrated system of treasury management which consolidates numerous government accounts handling by various paying units in a single account in a district. These accounts comprise of:

- Expenditure side: a capital expenditure account and a recurrent expenditure account

- Revenue account: one
- Deposits account: one
- Others account :one

These accounts are opened as zero balance accounts. These accounts are operated by District Treasury Offices in every district and all the accounts operated by the other government offices are closed. All the government financial transactions are made through the single accounts opened in the local bank authorized by Nepal Rastra Bank which are operated by the DTCOs. This system has replaced the previous budget/fund release system based on monthly expenditure reimbursement.

Instead, the new system uses payment based fund release system. The paying offices issues payment advices to DTCO in the district based on the authorization letter provided to them by their line ministries. The DTCO verifies the signatures of payment orders and the budget of the concerned paying office, issues cheques drawn in the name of concerned drawing parties as indicated in the payment. Finally, the DTCO send those cheques to the concerned paying office for payment to the vendors/concerned parties. All the transactions are recorded instantly in the central server through the web based TSA system and necessary reports are automatically generated in the system.

The DTCOs reconcile all the government transactions made by the local bank conducting government transactions and issue refund orders to Nepal Rastra Bank for reimbursement to the concerned bank on the same day. The refund of payment is made by deducting the revenue amounts collected by the bank.

It has helped in the forecasting the treasury position and has made cash management of the government more appropriately.

The TSA system aims to enhance the effectiveness of the treasury management of the GON. The main objective of the system is to enhance economy, efficiency, transparency and effectiveness and results based treasury management system of GON (FCGO, 2012):

This system was introduced in Bhaktapur district as a pilot basis and now extended to 60 districts of Nepal. In 2011/12, 38 districts were using the TSA system. It is targeted to extend the system in all 75 districts up to the Fiscal Year 2013/14.

The PBI Model for TSA Handling DTCOs in Nepal:

With the objective of enhancing effectiveness of the TSA system, GON has introduced PBI Scheme for the employees of the DTCOs those handling TSA. The Council of Ministers had decided in Falgun 15, 2068 (February, 2012) to provide Performance Based Incentives for them up to 100 per cent of the salary based on 31 performance indicators for the Fiscal Year 2011/12. The incentive is provided as a group based model. The incentive is determined by aggregating the performance of individuals against the indicators assigned to them as their responsibilities (FCGO, 2012). Based on the Government decision, FCGO has issued a PBIS Procedures Directive 2068 (2012) to manage the scheme.

The Objectives of the PBI Scheme for DTCOs

The main objective of the PBI Scheme is as follows (FCGO, 2012):

- To enhance the effectiveness of the TSA system

It is expected that;

- The scheme will enhance positive effects in the area of overall public financial management system by enhancing the performance of the employees working in the DTCOs.
- It will promote the results orientation and quality of service delivery by enhancing motivation and morale of the employees.

The Model:

The PBIS model applied for the DTCOs is the group based cash incentive model which is designed to provide up to 100 per cent of the basic salary against 31 performance indicators which are set by the government. The indicators could be revised and reset by the FCGO. This scheme focuses mainly on the time bound job indicators and efficiency of the service delivery.

The indicators are categorized in three categories of job. They include:

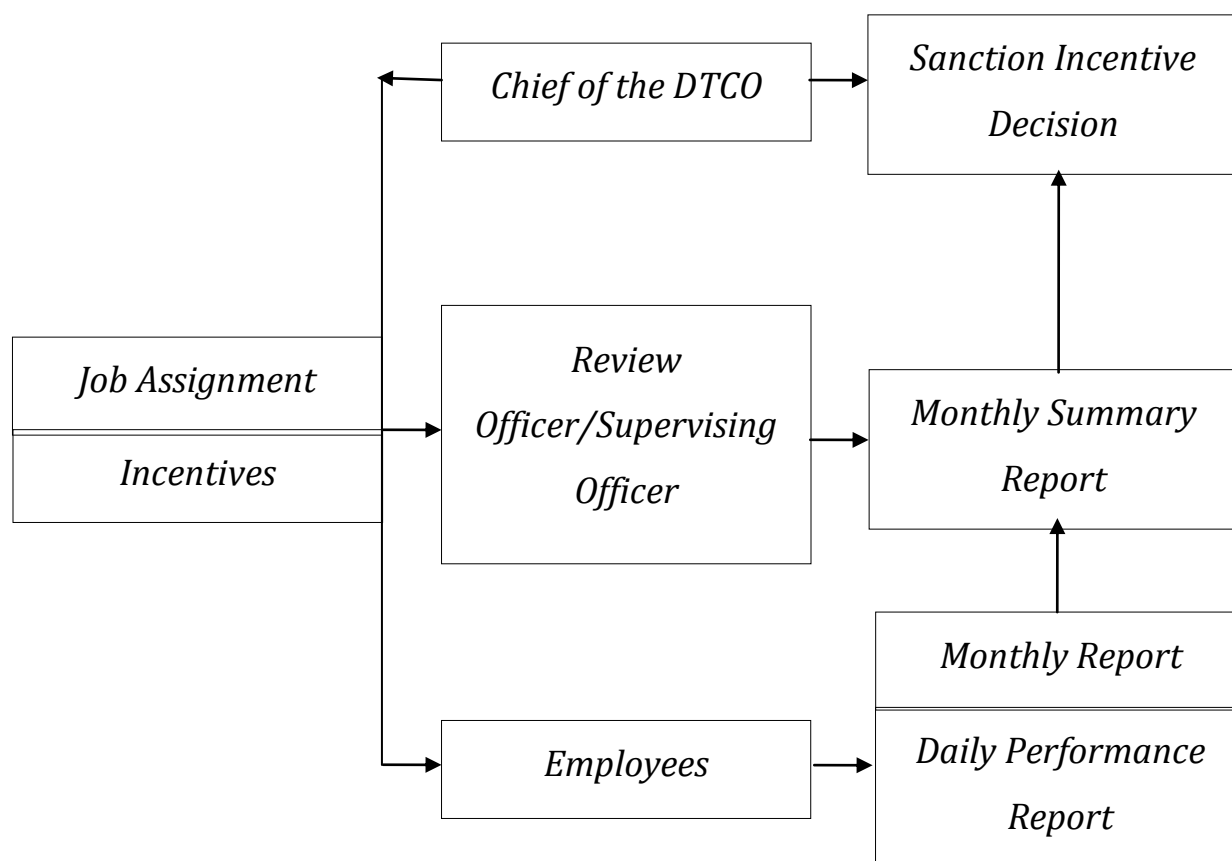
| SN | Category of indicators | No. of indicators | Marks for completion of job in the given time | Bonus marks for completing the job before the given time | Total marks |
|-----------|--|--------------------------|--|---|--------------------|
| 1 | Expenditure/ Budget release related | 16 | 50 | 20 | 70 |

| | | | | | |
|---|-------------------------------|-----------|-----------|-----------|------------|
| 2 | Deposits transactions related | 7 | 10 | 5 | 15 |
| 3 | Revenue related | 8 | 10 | 5 | 15 |
| 4 | Total | 31 | 70 | 30 | 100 |

Source: FCGO

Normal marks are provided when an employee performs his/her job within the given time with the set indicators and the bonuses marks are provided when an employee finishes his/her job well before the given time. If an employee fails to meet the time to perform the job, he/she will get zero marks. The indicators and timeline are set by the FCGO and have no discretion to change by the DTCO Chief.

The timeline against every indicator is set based on the nature of job/task, generally in minutes, hours and days



Calculation of the Performance

The chief of the DTCO should fix responsibility of each employee with a clear job description and time bound performance indicators. Three sets of forms are developed to evaluate the performance. They are:

1. Achievement Form 1 is filled by each employee, every day with a clear number of tasks to be performed, job completed in the given time, job performed before the given time and the tasks not performed during the given time, signs himself/herself and put forward to the supervisor. The supervisor, generally an officer verifies the daily performance record, sign the form and returns to the employee.
2. Achievement Form 2 is prepared by every employee on the monthly basis by summarizing his/her performance or an achievement during the month against set indicators, based on the performance indicated in the daily performance record and submits it to the review officer.
3. Based on the personal performance/achievement forms submitted by all the employees, the Review Officer (the most senior officer next to the DTCO Chief), fills the Performance/Achievement Form 3 to determine the overall organizational performance by summarizing all the monthly performance records, verifies it and submits it to the DTCO Chief.
4. After the final review, the DTCO Chief will determine the incentive to be provided to the employees and reports immediately to FCGO.

All the employees will get at the same rate of incentives based on the overall organizational level of performance on the monthly basis.

The DTCO Chief can make a decision not to provide incentives with the set criteria and due reasons in the case of severely low performance or no performance, breach of the rules and bad conducts. In the case of the DTCO Chief, the FCGO can stop the incentives up to 30 percent with due reasons. No incentive is provided in the case of absenteeism more than seven days in a month in any reasons.

Monitoring of the Performance

Most of the performance data are easily monitored by the reports generated through the TSA system which is highly IT sophisticated in which all the transactions are automatically saved in the central server located at the FCGO and MOF. The responsibility of regular monitoring and inspections rests on the DTCO Chief. He/she is also responsible for regular reporting of the system to the FCGO. There is a provision of monitoring by the FCGO twice a year.

3. Major Empirical Findings:

Effectiveness of the PBI Scheme in DTCO, Lalitpur:

The survey conducted in DTCO, Lalitpur reveals that the impact of the PBIS to improve organizational performance is very effective. An average rate of organizational performance is found 91.54 percent during the Fiscal Year 2011/12 in DTCO, Lalitpur (Table 1).

Table 1. The performance and PBI score in DTCO, Lalitpur in FY 2011/12

| Month | Expenditure/ Budget Release | | Revenue | | Deposits | | Grand Total | | |
|-------------------|--------------------------------|------------------------|-------------------------|-----------------------|-------------------------|-----------------------|-------------------------|-----------------------|-------------|
| | Normal Marks (50) | Bonus Marks (20) | Normal Marks (10) | Bonus Marks (5) | Normal Marks (10) | Bonus Marks (5) | Normal Marks (10) | Bonus Marks (5) | Total Marks |
| Shrawan | 48 | 20 | 7.67 | 3.33 | 10.00 | 5.00 | 65.67 | 28.33 | 94.00 |
| Bhadra | 48 | 20 | 6.33 | 2.66 | 9.84 | 4.92 | 64.17 | 27.58 | 91.75 |
| Ashwin | 48 | 20 | 6.33 | 2.66 | 9.85 | 4.92 | 64.18 | 27.58 | 91.76 |
| Kartick | 47.6 | 19.9 | 5.33 | 2.66 | 9.88 | 4.94 | 62.81 | 27.50 | 90.31 |
| Mangsir | 48 | 20 | 5.33 | 2.66 | 9.85 | 4.92 | 63.18 | 27.58 | 90.76 |
| Push | 48 | 20 | 7.00 | 3.66 | 9.84 | 4.92 | 64.84 | 28.58 | 93.42 |
| Magh | 48 | 20 | 5.32 | 2.66 | 9.86 | 4.93 | 63.18 | 27.59 | 90.77 |
| Falgun | 48 | 20 | 5.33 | 2.66 | 9.85 | 4.92 | 63.18 | 27.58 | 90.76 |
| Chaitra | 48 | 20 | 5.99 | 1.66 | 9.89 | 4.94 | 63.88 | 26.60 | 90.48 |
| Baisakh | 48 | 20 | 7.20 | 3.57 | 8.00 | 4.00 | 63.20 | 27.57 | 90.77 |
| Jestha | 48 | 20 | 6.26 | 3.87 | 7.84 | 3.00 | 62.10 | 26.87 | 88.97 |
| Ashar | 50 | 20 | 9.30 | 4.41 | 7.06 | 4.00 | 66.36 | 28.41 | 94.77 |
| Yearly Average | 48.13 | 19.99 | 6.45 | 3.04 | 9.31 | 4.62 | 63.90 | 27.65 | 91.54 |

Source: DTCO, Lalitpur

The employees in DTCO, Lalitpur were able to gain an average 91.54 percent of their monthly salary as an extra incentive while running the TSA system. They were able to score 63.9 marks out of 70 marks completing jobs in the given time based on set 31 indicators to handle TSA system. Furthermore, they were able to score 27.65 (92.17%) marks out of 30 marks by completing their jobs before the given time (Table 2). Therefore, the impact of PBI scheme to improve performance is prominently evident.

Table 2. Monthly overall performance scores during the FY 2068/69
(Percentage)

| Month | Incentives | Bonus | Total |
|----------------|------------|-------|-------|
| Shrawan | 65.67 | 28.33 | 94.00 |
| Bhadra | 64.17 | 27.58 | 91.75 |
| Ashwin | 64.18 | 27.58 | 91.76 |
| Kartick | 62.81 | 27.50 | 90.31 |
| Mangsir | 63.18 | 27.58 | 90.76 |
| Push | 64.84 | 28.58 | 93.42 |
| Magh | 63.18 | 27.59 | 90.77 |
| Falgun | 63.18 | 27.58 | 90.76 |
| Chaitra | 63.88 | 26.60 | 90.48 |
| Baisakh | 63.20 | 27.57 | 90.77 |
| Jestha | 62.10 | 26.87 | 88.97 |
| Ashar | 66.37 | 28.41 | 94.78 |
| Yearly Average | 63.90 | 27.65 | 91.54 |

Source: District Treasury Comptroller Office, Lalitpur

The Cost Concern

It is found that the moderate level of costs to handle PBI scheme. The total incentive distributed to the employees in DTCO, Lalitpur is found 3.05 million rupees during the Fiscal Year 2068/69 with a monthly average of Rs 254,545 (Table 3). However, the cost effectiveness of the system is not analyzed in this study.

Improvement of Performance after the Introduction of PBI Scheme:

The opinion survey conducted with the employees of DTCO, Lalitpur reveals that the performance of the employees has increased after the introduction PBIS in that organization (Table 4). According to the opinion poll, hundred percent of the people opined that performance has increased due to the PBIS in DTCO, Lalitpur. All of the people present at the office (17 out of 22 employees) during the survey period were asked through a brief questionnaire that "Do you think the performance has improved or not or there is a status quo after the implementation of the PBI scheme in your office?" All of the employees involved in the survey answered affirmatively.

It is also evident from the interaction with the managers of DTCO, Lalitpur that performance of the employees has drastically increased after the introduction of PBIS which has contributed to improve the overall organizational performance while conducting TSA system.

Table 4. Improvement in performance

| | Response | | | | | |
|-------------|--------------------------|---------|------------------------------|---------|------------|---------|
| | Performance has improved | | Performance has not improved | | Status Quo | |
| | Number | Percent | Number | Percent | Number | Percent |
| Respondents | | | | | | |
| 17 | 17 | 100 | 0 | 0 | 0 | 0 |

They have also opined that the PBIS has created a peer pressure to the less-performing employees by their fellow mates to perform more. In this system, if an employee's performance is low, it may hinder the level of collective performance leading to decrease in their incentive. So, group incentive scheme has "peer pressure effects" in performance improvement of the employees that can lead towards a better organizational performance.

The managers in the DTCO during this study have also disclosed that there is a disincentive effects to high performers under a group based PBI scheme. Because high performers and low performers were rewarded equally under this scheme, a group based or aggregate organizational incentive; there are some as "free riders" also.

In overall, both of the employee level and organizational level performance have increased as a result of the PBI scheme in Nepal.

Improvement in Motivation of the Employees after the Introduction of the PBI Scheme

The opinion survey reveals that the motivation of the people has increased after the introduction of the performance based incentive scheme in DTCO, Lalitpur. The 16 respondents out of 17 respondents opined that motivation of them has increased after the introduction of the PBI scheme to handle TSA in the DTCO, Lalitpur (Table 5). One (5.9%), out of 17 employees, has said it is status quo. It is found that she was an employee working as a contractual basis and no incentive was provided to the people under service contract in this scheme.

Table 5. Improvement in motivation

| | Response | | | |
|-------------|-------------------------|---------|-----------------------------|---------|
| | Motivation has improved | | Motivation has not improved | |
| Respondents | Number | Percent | Number | Percent |
| 17 | 16 | 94.1 | 1 | 5.9 |

The interaction with managers at the DTCO, Lalitpur reveals that motivation of the employee has considerably increased right from the introduction of the PBI scheme. It has also lead towards improvement in motivation of the whole group through peer pressure effects. They have opined that some of the evergreen avoiders of the organizational job are also being found motivated on the organizational job for the incentive money.

But “the discrimination in incentive among employees including service contract has created counter effects in motivation”. They opined that peoples working in service contract are not motivated because they were not under the jurisdiction of this incentive scheme. It is also evident from the Table 5 that 5.9 per cent of the employees were not motivated by this scheme. Therefore, in the case of motivation equity is something to account.

Both of the managers and employees are found to be uncertain that the PBI scheme will be continued or not in this fiscal year, however, they are working in the spirit and provisions of the scheme.

4. Conclusion

The survey conducted in DTCO, Lalitpur reveals that impact of the PBIS to improve organizational performance is very effective. An average rate of organizational performance is found 91.54 percent against 31 indicators and given time during the Fiscal Year 2068/69 in DTCO, Lalitpur. The employees were able to score 27.65 (92.17%) marks out of 30 marks by completing their jobs before the given time. The impact of PBIS to improve performance is evident. In overall cases, it can be concluded that both at the employee level and the organizational level performance have increased as a result of the PBI scheme in Nepal. The group incentive scheme has "peer pressure effects" in performance improvement of the employees that can lead towards a better organizational performance. The group based or aggregated organizational incentive has some of the "free riders" problems too.

The opinion survey reveals that the motivation of the people has increased after the introduction of the PBIS in DTCO, Lalitpur. The 16 respondents out of 17 respondents opined that their motivation has increased after the introduction of the PBI scheme to handle TSA in the DTCO, Lalitpur. It is found that employees working as a contractual basis are not under the jurisdiction of incentive in this scheme. They were feeling discriminated and seemed to be less motivated.

It can be concluded from the study that the PBI scheme, introduced to the employees of the DTCOs handling TSA system in Nepal has a positive effect in improving performance and motivation of the employees. It has improved both the individual level and organizational level performance. To remove the free rider problem individual performance based model will be more effective rather than a group based model.

Finally, the following things can be theorized from this study: A group incentive scheme may have "peer pressure effects" in performance improvement of the employees that can lead towards a better organizational performance. The discriminatory practices in incentive among employees create "counter motivational effects". There may be a "disincentive effects" to high performers under a group based PBI scheme. Equally, there is a risk of "free riders" problem. Therefore, further rigorous study is needed in these areas.

5 .The Road Ahead:

There are some strengths and weaknesses of the PBI Scheme introduced in the DTCOs in Nepal. It has also opportunities and threats. There is a threat of being discontinued, due to the political turmoil. As the full fledged budget is not passed, the uncertainty is being increased.

Based on the above findings and conclusion drawn from this study the following measures can be recommended for future improvements:

1. The PBI scheme introduced for the TSA handling DTCOs has a significant positive effect in performance improvement. It is found to be created the “peer pressure” to the low performing employees for performance improvement. So, this scheme should be continued for the effectiveness of the TSA system in Nepal. This can help improve the public financial management system of Nepal by enhancing the effective treasury management. It is equally important for employee motivation.
2. As there may be a “disincentive effects” to high performers under a group based PBI scheme. Equally there is a risk of “free riders” problem. Individual performance based incentive scheme should be developed for future improvements.
3. Discrimination among the employees in incentive distribution creates disincentive effects on motivation. So, all the employees in the organization applying PBIS scheme should be covered with concrete job description and performance targets.
4. The Indicators also should be revised and updated. Some of the indicators in the area of internal audit and salary and pension management should be added.
5. A mechanism for strong monitoring is crucial.
6. Leadership and coordination capability of FCGO should be enhanced

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Preparing Whole of Government Accounts (WGA): A Challenging Aspect of IPSASs

Dr. Pawan Adhikari¹⁰

Introduction:

The preparation of a consolidated set of financial statements, i.e. 'whole of government accounts (WGA)', has been one problematic requirement of IPSASs. The IFAC (2010) has acknowledged that this requirement for full consolidation has led many jurisdictions to re-consider their decision regarding the adoption of IPSASs. Governments endeavoring to make a transition towards the cash basis IPSAS should note that the concepts of the economic reality, cash equivalents, and consolidated financial statements have been applied consistently in both the cash basis and the accrual basis IPSASs. This also means that the entities included within the whole-of government reporting entity should not be different whether the general purpose financial reporting of that reporting entity are based under the cash, accrual or modified basis of accounting.

A widespread concern about the WGA is that the inclusion of cash flows and balances of all controlled entities, including government business entities (GBEs) may cause misunderstanding about the cash flows of the core government itself. Similarly, concerns have been expressed about the ambiguity in identifying all controlled entities, tackling inconsistencies in accounting at different levels of governments (many GBEs use accrual basis while the central government accounting is kept on the cash basis), and collecting and processing data of all controlled entities on a timely basis, among others. In fact, the public sector embeds a range of entities, including those which are not controlled by the government, for instance, universities, hospitals, and state-owned banks, but are entitled to receive certain budgetary support. Moreover, there has been also raised a concern about the primary beneficiaries of WGA information and reports at global level. As a result, it has been expected that the costs of developing WGA would likely to exceed its potential benefits in a number of jurisdictions. WGA has become an evolving initiative even in the context of OECD countries, let alone developing nations.

¹⁰ Dr. Adhikari is a lecturer in accounting at University of Essex.

The UK's attempt to WGA

Australia and New Zealand have been preparing WGA since the 1990s. The US and Canada also require the preparation of WGA for central and local governments, but not in accordance with the requirements laid down in IPSASs (Brusca and Montesinos, 2009). In terms of comprehensiveness of the statements, the UK is perhaps the first country attempting to incorporate a wide range of entities – almost 1500 entities across the public sector in its WGA. The chart below compares the WGA of different countries.

WGAs of some countries

| | UK | USA | Australia | New Zealand | Canada |
|--|--|---|--|--|---|
| First published | 2009-2010 | 1996-1997 | 1996-1997 | 1991-1992 | More than 30 years ago |
| Accounts included | 1500 | 149 | 203 | 156 | Not reported |
| Examples of bodies in scope of accounts | Central and local government, health sector, public corporations | Office of the President, Federal government and its agencies, Supreme court | Central government, Parliament, Courts | Central government, Crown bodies, Courts, Parliament | Central government, Crown corporations |
| Examples of bodies outside scope | Parliament, Crown estate | State and other local government, nationalized companies | State and other local government | Local government | Province territory and other local government |

The UK proposed the preparation of consolidated accounts for central government in 1997/1998. Such consolidated accounts were considered important to enable Parliament and the public to understand and scrutinize how taxpayer's money is spent. The Government Resources and Accounts Act, issued in 2000,

further mandated the preparation of WGA. At the outset, the plan was to produce the WGA embracing central government entities for the fiscal year 2005/06. However, it was only in November 2011, the government was able to issue the audited version of WGA for the financial year ending 31 March 2010. The UK's WGA is premised on EU adopted IFRS, as adapted or interpreted for the public sector context. In particular the account includes four major statements - a consolidated statement of revenue and expenditure, a consolidated statement of financial position demonstrating public sector assets and liabilities, a consolidated cash flow statement, and a statement on internal control.

The UK's Challenges in WGA

The UK treasury has stated that the WGA has made the general public more aware on the sustainability of the government by presenting information on public service pension liability, the government's commitments under Private Finance Initiative (PFI) contract, total provisions, and contingent liabilities, among others. The treasury has however disclosed two material departures questioning the relevancy of WGA in decision-making. Although the Bank of England has now been embedded in the WGA for 2010-11, the latter still excludes a wide range of organizations, including publicly-owned banks, Network rail, and Northern Rock Ltd, among others. Many publicly-owned banks are still held as available-for-sale financial assets and liabilities. Secondly, there has been a concern as to whether the WGA has understated the true value of public sector assets and liabilities. Different valuation method has been used by local and central government for infrastructure assets and this variation is expected to be continued until at least 2012-2013. It has been claimed that local authority infrastructure assets have been undervalued in the 2009-2010 WGA by at least £200 billion.

Another drawback of the WGA is its failure to elucidate how spending is distributed across policy areas such as defense and education. Along with the aforementioned material omissions and misstatements, the delay in releasing the WGA, as the WGA for 2009-10 was made public after 19 months of the year end has also led to the questioning of the usefulness of information presented. However, the treasury has clarified that it would carry on further developments of the WGA so as to make the latter more complete and internally consistent. Some of the activities that the Treasury has planned with a view to improving the future versions of the WGA include the transformation of all local government data on an IFRS basis and the review of PFI reporting and commitment accounts to address inconsistencies, among others.

Lesson to Nepal

The adoption of NPSAS has now become a key issue in Nepalese government accounting. The World Bank has recently approved a grant of approximately \$ 3 million (under the multi donor trust fund) to the Accounting Standards Board for initiating various accounting reforms, including achieving convergence with IFRSs and implementing NPSAS, among others (World Bank, 2011). What is important for the ASB and the FCGO is to realize that the implementation of IPSAS, particularly the preparation of consolidated statements has not been an easy task also in the context of developed nations. The UK has spent almost 10 years attempting to bring forward its first audited WGA. And, more importantly, the significance of the UK's WGA has still been questioned as it omits a number of controlled entities and understates the value of several government's assets and liabilities.

The experience of the UK demonstrates that there are several challenges that should be addressed prior to implementing NPSAS and developing WGA. Some of these challenges include identifying controlled entities, making accounting practice consistent at all levels, providing training to government accountants, encouraging wider participation of all major stakeholders, and creating a demand for such statements, among others. The FCGO should be clear about the scope of Nepalese public sector and the entities to be included in the WGA. Equally important is to find ways to deal with the contentious issues in contemporary accounting practice, including donors' reimbursement, commodity grant, technical assistance and direct payments; third party payments on development projects; and liabilities committed in multi –year projects; just to name a few. Without addressing the aforementioned issues, it may be difficult to ensure the benefits of NPSAS and WGA and to improve the quality of government accounting information.

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Provision to Practice: Management of Funds by Local Government Bodies in Nepal

Kamal Devkota¹¹

Introduction

Democratic governance around the world started after the World War (WW) II. Over the past three decades the developing world has seen increasing devolution of political and economic power to local governments along with the participation of local people in the decision making processes. Decentralization is considered as an important element of participatory democracy (Bardhan and Mookharjee, 2007). Local governments are equipped with the power to manage their social and economic resources through the decentralization. Local systems are being strengthened to manage the public affairs related to such resources. Hence, local governance is perceived as the rules that answer the questions who, what and how decisions are made and enforced around the local jurisdiction.

Evolution of Local Government in Nepal

Nepal's ruling history has been passed from Gopal dynasty to Shah dynasty which was abolished to establish republican in 2006. Between these eras, the Kirant had divided their territory into various districts called 'Thumbs' for administrative purposes. They had a Subba and an Upa-Subba to look after village welfare. During Lichchhavi period, each village had a local government institution called Panchali. Sthan Dwarika was another important office of local administration in that period. The Dware used to maintain an effective link between the local administration and the central government. Bhungti, Vaisya and Grama were existed in Malla period in Nepal to support the governance system. Jimmawal, Munshi, Choudhari, Dware, and Thani were the key role player in the local governance during the initial Shah period (Khanal, 2007). Such local bodies used to collect tax from the public but they had limited power over the resources.

Along with the removal of Rana regime in 1950, local governance system in Nepal was prioritized so as to strengthen the local level development which was initiated with the Tribhuvan Village Development Program. Number of policy measures has been done till the Local Self-Governance Act (LSGA) was promulgated in 1999. The, LSGA 1999 recognizes decentralization as the major policy subject to be coordinated and steered by the head of the government itself. The Act provided for the creation of Local Government Financial Commission to recommend further financial authority to local governments. The act

¹¹ Mr. Devkota is Research Fellow at South Asia Institute of Advanced Studies, www.sias-southasia.org

introduced the concept of revenue sharing between the centre and the local bodies. Moreover, it guaranteed royalty from the development projects implemented within the area of local units. LSGA, 1999 define participation, enhancing partnership of local government with civil society as the rationale of decentralization in Nepal.

The current local government system in Nepal as divided into two tiers, the bottom tier consists of village and municipal bodies and upper tier-district level. Some traditional organizations, civil society organizations, user groups, clubs, I/NGO's, social and political leaders are the key role players other than Village Development Committee-VDC, municipality and District Development Committee-DDC to drive the local governance system in Nepalese context. The Comprehensive Peace Agreement (CPA) between the Seven-Party Alliance and the Maoist Party in 2006 had the provision to form local bodies that was also included in the Interim Constitution of Nepal (2007). In July 2008, the provision in the Interim Constitution (Article 139) was amended mentioning that the interim local bodies at district, municipal and village level shall be formed with the consensus and participation of key political parties at the local level for the transition period, until the local election is held. Thus, All- Party Mechanism (APM) was formed in 2008 to facilitate development activities at local level, especially the resource allocation decisions. In January 3, 2012, the authorities were handed over to the civil servants- Local Development Officer (LDO) at DDC, Chief Executive Officer at Municipality and Secretaries at VDC with the roles and responsibilities as that of DDC President, Municipality Mayor and VDC Chairperson respectively mentioning the reason that there is a high misappropriation of local government fund due to APM. Hence these officials hold the de jure authority in local bodies, even though the APMs continue to exert influence in several LG bodies throughout the country.

Local Government Funds in the FY 2011/12

The total budget for ministry of local development in Nepal is around NPR 44 billion, which reaches somewhere around NPR 52 billion when the general expenditure, social security and the consumer contribution is added. There are 14 different international donors, providing the assistance of USD 161.5 million under Local Government and Community Development Program (LGCDP) for the period 2008-2012. There has been a huge flow of funds for local bodies in the recent years to support development activities and make it more participatory. Following table shows the total budget to ministry of local development among which grants (conditional and unconditional) to local bodies in the FY 2011/12.

| Budget to Ministry of Local Development (Rs. 000) | | | | LB Grant (Rs. 000) | Local Body Grant Break Down (Rs. 000) | | |
|---|-------------------|------------------|-------------------|-----------------------|---------------------------------------|-------------------|------------------|
| Source | Recurrent | Capital | Total | | Types | Capital | Recurrent |
| Government | 26,475,702 | 1,347,684 | 27,823,386 | 21,315,729 | Conditional | 11,231,455 | 4,658,036 |
| Grant | 9,697,659 | 4,111,371 | 13,809,030 | 9,156,229 | Unconditional | 12,182,700 | 3,327,500 |
| Loan | 878,397 | 1,989,778 | 2,868,175 | 927,733 | Total | 23,414,155 | 7,985,536 |
| Total | 37,051,758 | 7,448,833 | 44,500,591 | 31,399,691 | Grand Total | 31,399,691 | |

Source: MoF, 2011 Red Book, Annex 7, Page 3/3; Annex 3, Page 1/1 and Annex 8, Page 1/4

Types of Grants to Local Bodies in Nepal

DDC has four broad sources of income- own revenue, service charges, grants and miscellaneous. GON provides both administrative and development grants to DDC. Administrative grants to DDC are determined based on the administrative liability of the central government. LSGA 1999 and the regulation clearly mention about the types of personnel that the central government has to depute at the DDC and the types of personnel DDC can recruit locally. All the liabilities of the centrally deputed personnel plus the liability of VDC Secretaries plus some administrative expenses are borne by the central government. Development grants to DDCs constitute of both conditional and unconditional grants. The bases for determining such conditional and unconditional grants are, however, until recently, determined without assessing the need of the respective DDCs. DDCs receive recurrent grant from the center to meet their administrative expenses. The purpose of this grant is to enable the DDCs to meet salary cost of staff deputed from the center, staff hired by the DDC, welfare fund contribution of the staff so hired and salary cost of the VDC secretaries. Up to fiscal year 2002/03, the Ministry of Local Development currently the Ministry of Federal Affairs and Local Development-MoFALD used to specify the amount allocated for each purpose. With effect from 2003/04, DDCs are, however, given the discretion of budgeting funds required for this purpose out of the recurrent grant provided to them by the center. Capital grant is provided to DDCs to enable them to execute development activities in the district. DDCs have the sole discretion on the use of capital grant for the purpose they wish by following the planning and budgeting procedures as set out in the local self-governance act. Prior to fiscal year 2003/04, capital grant to DDCs was provided as the development grant. Center is also providing the DDCs with funds to implement projects in different sectors. These include rural drinking water and sanitation, local infrastructure and rural road projects, construction and rehabilitation of large and local level suspension bridges, and development

programs based on people's participation. Starting from fiscal year 2004/05, the DDCs have been given full authority regarding planning including selection of the projects and allocation of funds from the conditional grants. The MoFALD has been using an interim formula for the distribution of block grant to DDCs with effect from fiscal year 2003/04. District area, rural population in the district, level of human development and transport cost factors are considered while determining the size of block grant to DDCs. In the interim formula, the available divisible pool of the grant is divided by giving a weightage of 50 percent to the human development index whereas 20 percent weightage each is given to the rural population and cost factor of the district followed by 10 percent weightage to the area of the district. Besides the allocation of grants based on the above mentioned formula, DDC also receive annual conditional grants for initiating development activities especially in drinking water, irrigation and rural roads. On top of such grants, DDC also receive performance grants based on the performance of the DDC in fulfilling minimum conditions set for such grants. LGCDP is continuing such topping up on grants to those DDCs that met the minimum conditions set for the purpose.

The center followed the practice of providing every VDC with an equal amount of Rs. 0.5 million per annum in the form of block grant until FY 2007/08. This approach does not take into consideration the expenditure needs of VDCs lying in different geographical locations, with varying population size and area. On per capita basis, the existing practice tends to favor the VDCs of Hills and mountain districts, which are less developed and remote but have a lower population. Considering this problem, since FY 2008/09 the center has started providing block grant to VDCs with a range of minimum of RS 1.5 million to maximum of Rs 3 million on the basis of a formula that takes into account of the VDC level population, cost and area. While doing that, it took population census data for VDC population and the district cost indexes same for all VDCs in the district. MoFALD has provisioned different regulations, guidelines rules and procedures for the accountable and transparent use of fund to local government. Besides, several tools are enforced for the judicious use of funds.

Minimum Condition and Performance Measure (MC/PM)

Realizing the importance and usefulness of Minimum Conditions & Performance Measure (MCPM) in assessing the capacity of local bodies in fiscal management, service delivery and thereby ascertain the block grant, this system has been applied to measure the performance of local government bodies. Local Development Fund along with block grant shall be tied up with the result of their performance based on indicators of minimum conditions. It has been mandatory to fulfill the minimum conditions for measuring performance. Minimum conditions are arranged with such indicators by which the LBs are assessed to see

whether they observed the laws which are compulsory to them. MCs serve as threshold criteria for the LBs. In other words, a LB has to comply with the MCs if it is to be eligible to receive additional grants from the government. They are the minimum safeguards for proper utilization of public resources and for identifying the basic absorption capacity in terms of adherence to the financial discipline. Indicators for MCs are statutory requirements of LBs as provisioned in the LSGA 1999 and associated acts, rules, regulations and directives. Indicators for MCs are core functional areas of LBs such as planning and budgeting, financial management, functioning of various committees, transparency etc. There are fifteen minimum conditions within four broad areas (planning and management, financial management, formation and functioning of committees, and transparency) to the DDC. Similarly formation committees, use of formats, public procurement plan, property management, tax and income source documentation, disaster management, job description of employees, organization development plan, national building code, board meeting, and municipal budget are the eleven areas of minimum conditions to be completed by the municipalities in Nepal as the minimum condition. VDCs need to fulfill their respective eleven minimum conditions.

Performance Measures- PMs are designed to create incentives for LBs to improve their performance. PMs provide a range of score in different functional areas that help to assess the service delivery capacity and efficiency. LBs annual grant are depend on the scores achieved in PMs. The indicators of the PMs evaluate the procedures, result and quality of the different working areas of the LBs. These indicators direct the LBs to monitor its own function, to improve internal working capacity and to compare its activities with other LBs. The assessment of MCs and PMs of LBs helps to establish data on service delivery status, transparency and accountability to citizens and also identifies the capacity gap in various functional areas. Such information can be used for developing capacity building program. Furthermore, regular assessment of MCs and PMs strengthens the general monitoring and evaluation system of the LBs. A total of 62 indicators covering eight functional areas have been in place for PMs to DDCs. Out of those, 57 indicators representing eight functional areas are being applied. Remaining 5 indicators are applicable only after the elected representatives are in place. In order to receive performance grant, each DDC should met all indicators of MCs and achieve minimum score in all functional areas of PMs in order not to be sanctioned. Twenty percent reduction from the basic grants will be applied if a DDC fails to achieve minimum score in any one of the functional areas of PMs. The functional areas includes planning & program management capacity, budget management, financial management, fiscal resource mobilization capacity, budget release and program execution, communication and transparency, monitoring and evaluation, organizations,

service delivery and property management. For municipalities, thirty one indicators have been applied in five components local governance, financial management, planning and project management, human resource and service delivery. There is no provision of performance measure to the VDC till date.

Besides, government of Nepal has provisioned several tools to assure the transparency and accountability for the proper management of funds by local government in Nepal. Social audit, public audit, citizen charter, hording board, participatory planning and budgeting are some tools enforced in the local jurisdiction. Guidelines to use these tools are also prepared still there is questions of applying these tools or not. There where it is applied, again the question is there whether these are applied as per the guidelines or not.

Problems in Managing the Funds

Local governance policy of Nepal, mainly after the promulgation of Local Self Governance Act in 1999, entrusts local government units to set development priorities, allocate budget, monitor and evaluate progress of projects and programmes implementation, and maintain the transparency, accountability, and integrity of fund use. But the rights and responsibilities offered to the LG units under the LSGA are primarily premised upon the assumption that the LG units are led by those who are directly elected by the people of the respective jurisdictions (LSGA, 1999). A substantial component of the local governance has to do with the government's fiscal framework, wherein protocols on how resources are shared with local government are determined. However, after the expiry of elected representatives in July 2002, the usual course of local governance and of local democracy has been curtailed to a significant degree. In the absence of periodic local election, and in the face of Maoist insurgency and subsequent 'political transition', the government of Nepal has tried successively a number of measures and mechanisms with an expectation of good governance and judicious use of resources at the local jurisdictions. However, in more recent years, especially as All-Party Mechanisms-APM were firmly in place in the post-2006 transitional context, there has been a widespread media coverage about mis-use of resources at local government units and broad calls for effective, equitable and transparent management of LG funds, several misappropriation and embezzlement of funds has been reported at the local level. The loud outcry on misuse of funds at local level led to the APM dissolution in January 2012, providing the overall authority to government officials until alternative mechanism is formed or local election is held.

The current state of the use of LG funds goes as far back to 2002, but it has more recently come to widespread notice and discourse. This state of affairs is likely to continue at least for the coming few years, as yet it remains uncertain about promulgation of new constitution, structure of local governance, and the

election of local governments. Studies and a review of media coverage on local government functioning over the past several months show several fund management problems in local bodies. Ghimire (2011) in his report submitted to LGCDP/UNCDF has explained the large misuse of LG funds. The report further explains the higher misuse in Tarai region than in mountain and hills. The current role of political parties in local bodies and the absence of elected local government since 2002 have resulted in reduced government accountability. Parties often informally agree to divide influence on local bodies according to their overall strength in the district, VDC, or ward (Carter Centre, 2011). These issues relate to a number of factors, including the existing regulatory and policy regime, the proxy structures put in place (including the APMs and entrusting of government personnel as LG heads), the security context, and different interest groups, as well as the ways in which existing laws, guidelines, and manuals are transgressed in the name of political consensus, 'political transition', and for the sake of convenience of more powerful and knowledgeable actors.

Gap in Formal and Informal Processes

There are formal provisions using several tools to make LG funds more accountable and transparent. Social audit, public audit, citizen charter, participatory planning and budgeting, hoarding board to be placed at the site of construction mentioning the basic details of the project are some tools in this regard but the practice of using these tools are almost in the papers only. A clear guideline has been endorsed to form the user committees but the practice of single individual in multiple groups, involvement of politically affiliated people in the group are significantly found everywhere. Respective councils, integrated plan formulation committees, sectoral committees, local political leaders, civil servants- local body officials are the major stakeholder in formal process of local level planning. APM was formed envisioning the de facto role around these jurisdictions but the limitation has been deserted hence the issues of wide misappropriation have been raised in the discourses. User committees and real beneficiaries are almost unknown about the social audit and public hearing held in their localities due to the weak monitoring mechanism. Even after the dissolution, the former APM members continue to show presence and influence resource allocation decisions in local bodies in informal ways. The existence of the APMs is however fine and formless, and their role is known to government bureaucrats and a selected group of locals. APM members were found around their respective bodies, particularly during the planning and budgeting period. Even after the dissolution, most of the APM members participated in council meetings as party representatives. They still hold vital position in local bodies with the power to alter decisions, but in an informal setting. Many APMs in a VDC come from the same cultural/ethnic / kinship background in hills localities. Very frequently, the

difference of belonging to different parties matters less, the APM members are engaged in day-to-day exchanges and communication with others in locally unique ways. In many instances, the same group of people participates in leadership of most community based structures and they are often related to each other. It is therefore a messy local context, where a clear separation of power and accountability hardly work, but which requires an effective collective action and open deliberation for community led development.

An official at a municipality said that since municipality itself is an autonomous local body, it does not need to be accountable to any other body like DDC. Municipality is directly connected with ministry of local development. Funds directly come from MLD and they report directly to MLD. Though, in practice municipality has been more accountable to APM where as local people claimed that, municipality itself is not accountable to local public and beneficiaries. VDC secretaries were found more accountable towards the DDC and APM rather than the beneficiaries, APM members are not accountable since there are not any concrete law and guidelines to make them accountable. However, the accountability measures could be observed in the form of documents only. And those measures were done just for the sake of further assurance and continuity of the job.

The post-conflict established an era of politics of consensus to ensure cohesion in the communities. However, short-term interest at the community converted the politics of consensus to politics of collusion with more people struggling over the resources and alignment in their favor. Lack of accountability: while 'political representation' was sought, the representation was not down-up, i.e. of the people, but rather 'top-down', i.e. of the political parties. The problem became that in a country that has always been dominated by a politics of clientelism; this gave the bigger politicians a legal way to patronize their local cadres/supporters. The malpractice in local bodies has now become a culture, which is expected to have long term effect. While national politics is in the process of redefining the Nepali state, it is yet to comprehensively discuss on matters of local governance. This provides an opportune moment to look back at the past and identify the success and failures of the effort, as we discuss and decide on our system of local governance.

Recommendation

More nuanced analysis and proper evidencing on the problems of fund management are a must, should any advocacy and reform programme is to happen. The analysis necessarily should cover the modus operandi of decision-making on budget prioritization, use, monitoring, transparency and accountability measures, and statutory oversight. It is equally important to distinguish between formal and informal roles of different

actors, and the ways in which these actors relate to each other, make collusions and effect resource allocation decisions. The challenge will be to craft advocacy arguments that offer a basis for broad-based convergence of opinion in favor of effective fund management in local jurisdictions. This entails how to nurture and effectively mobilize opposition voice, promote deliberation, and establish accountability and transparency checks.

Provision of reward and punishment to the local officials especially the LDO, executive officer and the VDC secretary makes them strong so that they could take stand in decision making with APM. Highly strong monitoring mechanism with on the spot punishment to the people involved in misappropriation may have better impact in regulating the funds. Coordination of bureaucracy and APM is to be motivated towards how funds could be used properly rather than how they get more personal profit from the LG budget using the collusion. The capacity of the local institutions such as ward citizen forums, community awareness centers, plan formulation committees, gender and social inclusion committees and integrated plan formulation committees should be strengthened so that they may prioritize functions and allocate resources to address local priorities. Network of all service providers including I/NGOs should be strengthened so that they can response local priorities without duplication and overlapping. The best option is conduction of the election of the local bodies for interim period until the local bodies are fully established under federal system.

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An Overview of Public Financial Management Performance Measurement Indicators

- Anupama Karkee¹²

Public Finance Management (PFM)

Public financial management is a system adopted by government in an attempt to plan, utilize, control and scrutiny the incoming and outgoing of public funds and their management. It assists strengthening governance, optimizing outputs from resources and ensuring inclusive and broad based development. PFM encourages not only the national sources to promote the funding activities for the country's economy but also encourages the donor parties to take several initiatives to strengthen it.

A fine PFM system is the one which supports aggregate fiscal discipline, optimum allotment and use of resources and efficient service delivery which is vital for achievement of developmental objectives and implementation of strategic policies. It enables three levels of budget outcomes:

- Contribute to cumulative fiscal discipline by management of fiscal risks and control of budget totals.
- Planning and execution of budget for implementation of government objectives.
- Managing use of budget resources for efficient service delivery and value for money.

PEFA Performance Management Framework

Public Expenditure and Financial Accountability (PEFA) refers an assessment tool along with integrated framework. It is the program initially sponsored by The World Bank, The International Monetary Fund, The European Commission, and The United Kingdom's Department for International Development, The French Ministry of Foreign Affairs, The Royal Norwegian Ministry of Foreign Affairs, and The Swiss State Secretariat for Economic Affairs, and The Strategic Partnership with Africa. The main objective of this program is to enhance financial transparency and accountability of public expenditure. PEFA has the core objective to enhance expenditure management and reduce associated fiduciary risk through strengthening system s, processes and institutions.

¹² Ms. Karkee is Accounts Officer in PEFA Secretariat, Nepal.

PEFA Performance Management Framework allows the measurement of the PFM performance of the country over time. This framework had been developed by continuous international effort. A draft of the framework had been developed on 12th February 2004 and the PFM performance of 24 countries was assessed using the framework then. This assessment provided feedback for further enhancement of the framework. This has been useful in improving the performance of the government reform process and also facilitates harmonization of the dialogue between government and development partners around a common framework

Dimensions of Measuring PFM performance

The framework has the following six critical dimensions of performance of a PFM system:

1. Credibility of the budget
2. Comprehensiveness and transparency
3. Policy-based budgeting
4. Predictability and control in budget
5. Accounting, recording and
6. External scrutiny and audit

Elements of PEFA Framework

The framework includes two important elements:

1. A set of high level indicators

The set of indicators identifies key elements in the PFM and also measures the operational performance of the PFM system, processes and institutions of a country and The PFM performance report is prepared on the basis of the result of PFM performance based on the indicators.

The indicators include several elements that help in the measurement of the PFM performance but the countries using it can also include any country specific indicators to carry out its assessment precisely. The assessment can be carried out both at national and sub national level.

Categories of Indicators

The 28 indicators for the country's PFM system are structured into three categories:

- a. **PFM system out-turns:** these capture the immediate results of the PFM system in terms of actual expenditures and revenues by comparing them to the original approved budget, as well as level of and changes in expenditure arrears.
- b. **Cross-cutting features of the PFM system:** these capture the comprehensiveness and transparency of the PFM system across the whole of the budget cycle.

- c. **Budget cycle:** these capture the performance of the key systems, processes and institutions within the budget cycle of the central government.

In addition to the indicators of country PFM performance, this framework also includes

- d. **Donor practices:** these capture elements of donor practices which impact the performance of country PFM system.

Limitations of Framework

- The framework does not measure the factors impacting performance
- It does not carry out any fiscal or expenditure policy analysis.

2. The PFM performance report (PFM-PR)

A PFM –PR is a concise document which acts as a reference in the government – development partner communication. It is a standardized report which provides assessment on PFM performance based on the indicator led analysis.

The document follows the following structure and content:

- Introduction with the context for the assessment
- Country background information
- Evidence & justification for scoring the indicators
- Country specific issues
- Description of reform progress & factors influencing it
- Summary assessment of PFM system impact

The report does not include recommendations for reform.

Scoring methodology

The indicators used in the PFM PR may have one or more than one dimensions and each of these dimensions should be separately assessed. The assessment of individual dimensions gives the overall score of an indicator.

A four point calibration is used for scoring which may be A, B, C and D in descending order or 1, 2, 3 and 4 in ascending order.

Indicator dimensions

Most indicators have 2, 3 or 4 dimensions

- Each dimension must be rated separately
- Aggregate dimension scores for indicator; two methods M1 or M2, specified for each indicator
- Intermediate scores (B+, C+, D+) for multidimensional indicators, where dimensions score differently
 - Scoring method 1 (M1):
 - It is used for single and multi dimensional indicators.
 - In this method the lowest score among the dimensions is chosen after scoring all the dimensions and a “+” is added if other dimensions’ performance is better.
 - Also, a “+” is not to be added for a single dimension indicator.
 - Scoring method 2 (M2):
 - It is used or multi dimensional indicators with 2-4 dimensions.
 - It is based on averaging the scores of the individual dimensions based upon the conversion table. **The conversion table (for scoring method 2 only):**¹³

| Scores for individual Dimension | Overall score M2 |
|---------------------------------|------------------|
| 2-dimensional indicators | |
| D D | D |
| D C | D+ |
| D B | C |
| D A | C+ |
| C C | C |
| C B | C+ |
| C A | B |
| B B | B |
| B A | B+ |
| A A | A |
| 3- dimensional indicators | |
| D D D | D |
| D D C | D+ |
| D D B | D+ |
| D D A | C |
| D C C | D+ |
| D C B | C |
| D C A | C+ |
| D B B | C+ |
| D B A | B |
| D A A | B |
| C C C | C |
| C C B | C+ |
| C C A | B |
| C B B | B |
| C B A | B |
| C A A | B+ |
| B B B | B |
| B B A | B+ |
| B A A | A |
| A A A | A |

| Scores for individual Dimension | Overall scoreM2 |
|---------------------------------|-----------------|
| 4- dimensional indicators | |
| D D D D | D |
| D D D C | D |
| D D D B | D+ |
| D D D A | D+ |
| D D C C | D+ |
| D D C B | D+ |
| D D C A | C |
| D D B B | C |
| D D B A | C+ |
| D D A A | C+ |
| D C C C | D+ |
| D C C B | C |
| D C C A | C+ |
| D C B B | C+ |
| D C B A | C+ |
| D C A A | B |
| D B B B | C+ |
| D B B A | B |
| D B A A | B |
| D A A A | B+ |
| C C C C | C |
| C C C B | C+ |
| C C C A | C+ |
| C C B B | C+ |
| C C B A | B |
| C C A A | B |
| C B B B | B |
| C B B A | B |
| C B A A | B+ |
| C A A A | B+ |
| B B B B | B |
| B B B A | B+ |
| B B A A | B+ |
| B A A A | A |
| A A A A | A |

13 Public Financial Management (Performance Measurement Framework) report published by World Bank in June 2005

Performance Measurement Indicators

Under the Public Expenditure and Financial Accountability (PEFA) Program, the public financial management (PFM), Performance Measurement Framework (PMF) or (PEFA Framework) has been developed as a contribution to the collective efforts of many stakeholders to assess whether a country has the tools to deliver three main budgetary outcomes:

A. PFM System Outturns

PI-1: Aggregate expenditure outturn compared to original approved budget

- It compares the actual total expenditure to the original budgeted total expenditure.
- It excludes two expenditure categories (a) Debt service payments (b) Donor funded project expenditure.
- This indicator is important to implement the budgeted expenditure to deliver the public services for the year as expressed in policy statements, output commitments and work plans.

PI-2: Composition of expenditure outturn compared to original approved budget

- This indicator compares the total variance in the expenditure composition with the overall deviation in primary expenditure for each of the last three years.
- It excludes the two expenditures (a) Debt service payments (b) Donor funded project expenditure.

PI-3: Aggregate revenue outturn compared to original approved budget

- This indicator requires comparison of budgeted and actual revenue.
- This indicator signifies the performance of PFM because an accurate forecasting of domestic revenue is a critical factor in determining budget performance.

PI-4: Stock and monitoring of expenditure payment arrears

- This indicator measures the extent to which there is a stock of arrears, and the extent to which the systemic problem is being brought under control and addressed.

Dimensions to be assessed under this indicator are:

- (i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock.
- (ii) Availability of data for monitoring the stock of expenditure payment arrears.

B. Key cross cutting issues

PI-5: Classification of budget

- This indicator measures the budget formulation and execution is based on the international standard for classification systems (Government Finance Statistics -GFS) which provides the framework for economic and functional classification of transactions.

Dimensions to be assessed (Scoring Method M1):

- (i) The classification system used for formulation, execution and reporting of the central government's budget.

PI-6: Comprehensiveness of information included in budget documentation

- The annual budget documentation should cover all the information that gives a complete picture of central government fiscal forecasts, budget proposals and out-turn of previous years. This framework provides nine information benchmarks to be included in the budget documentation which help in the scoring of this indicator.

PI-7: Extent of unreported government operations

- This indicator measures if budgetary and extra-budgetary activities of central government give a complete picture of central government revenue, expenditures across all categories, and financing under two given dimensions.
 - (i) The level of unreported extra-budgetary expenditure
 - (ii) Complete income/expenditure information

PI-8: Transparency of inter governmental fiscal relations

- This indicator measures proper and timely information on allocation of budget to the sub national level and the consolidation of their fiscal reports to the general government etc.

PI-9: Oversight of aggregate fiscal risk from other public sector entities

- This indicator deals with this ability of the central government to monitor the sub national government, public enterprise, and autonomous government agencies for improved performance of the PFM.

PI-10: Public access to key fiscal information

- This indicator measures the availability of following information to the general public of the interest group and the availability of this information represents the performance of PFM:
 - (i) Annual budget documentation

- (ii) In-year budget execution reports
- (iii) Year-end financial statements
- (iv) External audit reports
- (v) Contract awards
- (vi) Resources available to primary service units

C. Budget Cycle

I. Policy Based Budgeting

PI-11: Orderliness and participation in the annual budget process

- This indicator measures the participation of the ministries, departments and agencies in formation of budget so that there are no delays and last minute changes in passing the budget.
The three dimensions are graded to give the true picture of this indicator:
 - (i) Existence of and adherence to a fixed budget calendar
 - (ii) Guidance on the preparation of budget submissions
 - (iii) Guidance on the preparation of budget submissions

PI-12: Multi-year perspective in fiscal planning, expenditure policy and budgeting

- This indicator measures the Expenditure policy decisions which have multi-year implications, and must be aligned with the availability of resources in the medium-term perspective.

Dimensions to be assessed (Scoring method M2):

- i. Preparation of multi -year fiscal forecasts and functional allocations;
- ii. Scope and frequency of debt sustainability analysis
- iii. Existence of sector strategies with multi-year costing of recurrent and investment expenditure;
- iv. Linkages between investment budgets and forward expenditure estimates.

II. Predictability and control in budget execution

PI-13: Transparency of taxpayer obligation and liabilities

- This indicator focuses on the country's ability to provide this environment to the taxpayers.
There are three dimensions to calculate the final score of this indicator.
 - (i) Clarity and comprehensiveness of tax liabilities
 - (ii) Taxpayers' access to information on tax liabilities and administrative procedures
 - (iii) Existence and functioning of a tax appeals mechanism.

PI-14: Effectiveness of measures for taxpayer registration and tax assessment

- This indicator measures the registration system which should be very clear and systematic.
This indicator also involves three dimensions for scoring purpose.

- (i) Controls in the taxpayer registration system.
- (ii) Effectiveness of penalties for non-compliance with registration and tax declaration
- (iii) Planning and monitoring of tax audit programs.

PI-15: Effectiveness in collection of tax payments

- This indicator measures the tax collection function of the government which must be carried out very smoothly to ensure least deviation from the budget

PI-16: Predictability in the availability of funds for commitment of expenditure

- This indicator measures the predictability in the availability of funds which is facilitated by effective cash flow planning, monitoring and management by the Treasury.

PI-17: Recording exists and management of cash balances, debt and guarantees

- This indicator measures the management of recording and reporting of government issued guarantees and the government debt along with position of cash balances in government bank. Three dimensions related to cash balances, debt and guarantees are important to score this indicator.

Dimensions:

- (i) Quality of debt data recording and reporting
- (ii) Extent of consolidation of the government's cash balances
- (iii) Systems for contracting loans and issuance of guarantees.

PI-18: Effectiveness of payroll controls

- This indicator measures Personnel database and payroll data as wage bill accounts for a large share of public expenditure. The personnel database should be amended in a timely manner for any changes payroll audits should be undertaken regularly to identify ghost workers, fill data gaps and identify control weaknesses.

PI-19: Transparency, competition and complaints mechanism in procurement (Revised)

- This indicator focuses on the quality and transparency of the procurement regulatory. This indicator has three dimensions for scoring:
 - i. Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases
 - ii. Justification for use of less competitive procurement methods
 - iii. Existence and operation of a procurement complaints mechanism

PI-20: Effectiveness of internal controls for non-salary expenditure

- This indicator covers only the control of expenditure commitments and payment for goods and services, casual labor wages and discretionary staff allowances

PI-21: Effectiveness of internal audit

- This indicator measures the effectiveness of internal audit. An effective internal audit function should meet international standards such in terms of appropriate structure particularly with regard to professional independence, sufficient breadth of mandate, access to information and power to report, use of professional audit methods, including risk assessment techniques.

PI-22: Timeliness and regularity of account reconciliation

- This indicator measures the timely and frequent reconciliation of data from various sources ensures reliability. There are two critical types of reconciliation as follows: (i) reconciliation of accounting data, held in the government's books, with government bank account data held by central and commercial banks (ii) clearing and reconciliation of suspense accounts and advances i.e. of cash payments made, from which no expenditures have yet been recorded.

Dimensions to be assessed (Scoring method M2):

- Regularity of bank reconciliations
- Regularity of reconciliation and clearance of suspense accounts and advances.

PI- 23: Availability of information on resources received by service delivery units

- This indicator measures routine data collection and systems which provide reliable information on all types of resources.

Dimensions to be assessed (Scoring Method M1):

- Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.

PI-24: Quality and timeliness of in-year budget report

- This indicator measures the ability to produce comprehensive reports from the accounting system on all aspects of the budget is the primary focus of this indicator.

Dimensions to be assessed (Scoring Method M1):

- Scope of reports in terms of coverage and compatibility with budget estimates
- Timeliness of the issue of reports

iii) Quality of information

PI-25: Quality and timeliness of annual financial statements

- This indicator measures the financial statements which must be understandable, transparent and consistent in nature.
- In order to maintain transparency in the PFM system consolidated financial statements is necessary which must be based on details for all ministries, independent departments and de-concentrated.

Dimensions to be assessed (Scoring Method M1):

- (i) Completeness of the financial statements
- (ii) Timeliness of submission of the financial statements
- (iii) Accounting standards used

III. External scrutiny and auditing

PI-26: Scope, nature and follow up of external audit

- This indicator measures the scope, nature and follows up of external audit. In order to create transparency in the use of public funds, external audit is necessary which comprises of the key elements of the quality of actual external audit.

Dimensions to be assessed (Scoring Method M1):

- (i) Scope/nature of audit performed (incl. adherence to auditing standards).
- (ii) Timeliness of submission of audit reports to legislature.
- (iii) Evidence of follow up on audit recommendations.

PI-27: Legislative scrutiny of the annual budget law

- This indicator measures the legislature power to give authority to the government to spend as per the annual budget law.

Dimensions to be assessed (Scoring Method M1):

- i. Scope of the legislature's scrutiny.
- ii. Extent to which the legislature's procedures are well-established and respected.
- iii. Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).
- iv. Rules for in-year amendments to the budget without ex-ante approval by the legislature.

PI-28: Legislative scrutiny of external audit reports

- This indicator examines external audit reports and questions responsible parties about the findings of the reports. They depend on adequate financial and technical resources, and on adequate time being allocated to keep up-to-date on reviewing audit reports.

Dimensions to be assessed (Scoring Method M1):

- Timeliness of examination of audit reports by the legislature (for reports received within the last three years).
- Extent of hearings on key findings undertaken by the legislature.
- Issuance of recommended actions by the legislature and implementation by the executive.

D. Donor practices

D-1: Predictability of direct budget support

- This indicator examines direct budget support which is a major source of revenue in many countries. Poor predictability of such support can have serious implications in the government's fiscal management.
- Direct budget support consists of all aid provided to the government treasury in support of the government's budget at large (general budget support) or for specific sectors which when received by government's treasury will be used in accordance with the procedures applying to all other general revenues and it may be channeled through separate or joint donor accounts.

D-2: Financial information provided by donors for budgeting and reporting on project and program aid

- This indicator examines the predictability of disbursement of donor support for projects and programs affect the implementation of specific line items in the budget.

Dimensions to be assessed (Scoring Method M1):

- Completeness and timeliness of budget estimates by donors for project support.
- Frequency and coverage of reporting by donors on actual donor flows for project support.

D-3: Proportion of aid that is managed by use of national procedure

- This indicator measures the use of national systems by donors which can help to focus efforts on strengthening and complying with the national procedures also for domestically funded operations.

Dimensions to be assessed (Scoring Method M1):

- (i) Overall proportion of aid funds to central government that are managed through national procedures.
- This proportion should be arrived at as an average of the proportion of donor funds that use national systems for each of the four areas of procurement, payment/ accounting, audit and reporting respectively.

Conclusion:

Public financial management assessment is an integral activity which supports transparency, accountability and efficiency for better planning and execution of the incoming and outgoing of public funds. It helps strengthening governance, optimizing outputs from resources and ensuring inclusive and broad based development. It helps in strategic planning and optimum utilization of the available funds. The concept and importance of PFM gave rise to the idea of PEFA-PMF and PFM-PR. The PEFA-PMF is a framework according to which the performance of any government regarding public funds can be measured. On the basis of budget allocation, composition, auditing, use of donor funds, revenue and expenditure pattern etc. the performance of any country is evaluated. There are certain criteria and dimensions based upon which the country is ranked. This helps in further planning, analysis, reforms and changes, performance evaluation, identifying variation and deviation etc. the scoring techniques are fixed and the given dimensions are only studied for the evaluation process. The evaluation is performed in an aggregate basis. And since the indicators and framework covers almost all areas the final report most likely reflects the complete cycle of public funds and its utilization.

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Media and Public Expenditure and Financial Accountability (PEFA)

- Siromani Dhungana¹⁴

Abstract

Transparency in public expenditure is fundamentally important but very hard to achieve. It is the responsibility of the government to maintain openness in governance to ensure good governance in democratic system. However, it is hard to ensure transparency in public expenditure and accountability in public bodies in nascent and fragile democracy.

Achieving transparency about public expenditure presents challenges that require well rounded efforts and informed intervention from all walks of life including from press. This article identifies the specific meaning of transparency about public expenditure and defines social responsibility of media. It identifies barriers to the media coverage of transparency of public expenditure issues in realm of principles of journalism.

Emergence of economic beat as a separate vibrant sector for reporting has opened up new avenue to play the role of 'watchdog mechanism' by press. This article tries to identify the relation between economy and journalism and traces the major role of journalism in relation with maintaining transparency of public expenditure and making public bodies more accountable. The article tries to conclude that only informed citizens can make informed decision and media has role to make the citizens more informed in democracy.

Economy and Journalism

P Kharel (2007) says: “so pervasive is communication that it affects almost every aspect of social life. Changes in society are brought about accordingly.”

¹⁴ Mr. Dhungana is a young and prominent media scholar. He is also a lecturer of Journalism and Mass Communication (JMC) at Tribhuvan University. Kathmandu-based economic journalist, researcher and media academic, Dhungana has been appointed by the Ministry of Education's Curriculum Development Center to revise the journalism syllabus for grade nine and ten as well as to rewrite journalism textbooks for the secondary level. He has recently received Narayan Shanti Mishra Gold Medal Prize for being faculty topper in JMC from Tribhuvan University in 2010 batch.

Emphasizing the importance of communication he address that the exchange of information contributes to learning and/or being aware of various data on different aspects of society and its surroundings, and on what events have occurred or are taking place. Business journalism also shares the same.

Business reporting is just like reporting any other beat. You have to know what you are writing about, what documents to look for and the correct sources (Roush, 2004).

The relationship between economy and economic journalism should be symbiotic. Both sectors have much to learn from each other. The media are obviously an important source of economic information and economists and policy makers have a considerable amount of information about how the economy works that should be useful to journalists.

Until some years back, general perception about economic and business journalism in Nepal was 'it is merely the journalistic form of advertisement'. However, it has become one of the most vibrant sectors for reporting in the Nepali media today. Business and economic reporting has established its importance as separate beat and the future of the sector is still in the process of being more wide and valuable.

Change in political system in 1990 -- reinstatement of democracy -- was the locus of departure of Nepal's various policies including that of economic one. The subsequent government formed after the change adopted liberal economic policy which helped leverage Nepalese economy. Media sector also witnessed unprecedented growth after the changes in political landscape that propelled competition in the entire industry and helped enhance commercialization.

Economic liberalization was major policy departure to change the entire economic scenario along with economic reporting. The political change in 1990 paved the way for industrializing the country.

Anirudra Neupane, a graduate in economics from Tribhuvan University, argues that the country started to witness emergence of new and diverse sectors as a contributor in national economy which gradually minimize the role of the traditional subsistence agriculture based economy of the country (personal communication, December 25, 2012).

The economic liberalization and deregulation have contributed to the expansion of private sector in the country though it has not taken its momentum due to perennial transition in political regime along with labor problems, power outage and ambiguity in policy front.

In spite of hurdles, the economic sector is in steep rise due to sophisticated consumption pattern among consumers and emergence of global consumerism trend which has obvious impact in the country. The expansion of economic sector has provided much issue for economic journalists. From commodities to natural resource management, from civil service to health and education and legal enforcement, stories of economic liberalization are changing every day.

More than ever, business journalism is comforting the afflicted, and afflicting the comfortable. Budding students interested in the field need to understand the ins and outs of business journalism, where it has come from and where it is headed. There have been numerous successes and advances as a result of business journalism; and, for that, we should all be thankful. As business has become a major focus of everyday life, the role of business journalist has become increasingly more important to both media and society (Roush, 2004)

Public Expenditure: key area of reporting

The primary vehicle that the government uses to finance itself is taxation (Case & Fair, 2007). Every individual is taxpayer and as a taxpayer they have right -- and state should ensure their right -- to know the detailed of expenditure of their taxes.

In simple term, public expenditure refers to Government -- central, state and local -- expenditure incurred by public authorities to satisfy the collective social wants of the people.

Transparency of public expenditure is fundamentally important but it is not as easy as we think. The difficulty stems from technical complexities and from the political process (Heald, 2012).

Journalism is deemed as a profession which can reveal facts in simple way. It is absolutely necessary for governments to formulate rational public expenditure policies in order to achieve the desired effects on income, distribution, employment and growth.

Public Expenditure is very important beat for business journalists due to its connection with general public. The main purpose of media performance, according to McQuail (2002), is to "set out and examine the record of a particular, though very broad, tradition of enquiry into the working of the mass media in their potential 'public interest' capacity".

Public expenditure is, without any doubt, the issue of public interest since public expenditure policy not only propels economic growth and promotes employment opportunities but also plays a crucial role in reducing poverty and inequalities in income distribution.

The role of media regarding coverage of public expenditure can be evaluated from different dimensions. First, media should provide news piece on issue in simple language so all citizens can understand what's going around. Similarly, media can be more specific by providing project-wise information detail to its readers and viewers. Third, it should carry out stories on auditing -- to check whether public expenditure is spent in reliable manner and whether there are mismatches. The media can also expose the issue of unlawful budget transfer if any allocated budget for a project has been transferred to another by the government.

Taranath Dahal emphasizes the role of media and says: “it is media which can keep its vigil on wrongdoings. Media can cover news from the beginning of budget formulation to the performance evaluation and final audit by concerned authority (personal communication, January 1, 2013).

The interest toward public expenditure is increasing every other day and the interest in more and better news reporting is linked to the growing recognition that the much of the problems have economic dimensions and that finding solutions must include improving people’s understanding and increasing their resolve.

News has power to maintain Financial Accountability

Anirudra Neupane opines: “it is generally accepted principle that those responsible for the conduct of public activity and the handling of public money should be held fully accountable to ensure that the public money is safeguarded and properly accounted for community expectation (personal communication, December 25, 2012).”

Similarly, public bodies should conduct activities in accordance with the law and standards and it is their duties to delivery services in an economic, efficient and effective manner and strengthening service delivery performance.

However, the question is who can check whether public finance is transparent or not? And ensure whether or not public bodies are efficient and effective in performance.

Taranath Dahal says in democracy, all citizens are capable enough to ask questions but media outlets are equally responsible to carry out reports on public finance and to help maintain financial accountability.

Economic journalist Dikshya Singh argues that covering news of business issue is not limited to the review of very technical policy documents, contact reserved government officials and quote economists for analysis (personal communication, January 7, 2013). He opines that business journalism is not confined to the press releases of big corporations and financial documents prepared by the government.

Business journalism has larger scope with capacity to expose much of the wrongdoings and malpractices with proof. Business journalism can be taken as a mix form of economy and journalism. Unlike to the political reporting, especially in the third world countries, business journalism should not cover the news just based on the blame and speech of political leaders. It is journalistic writing of fact, data and information.

Business journalists, by comparing fact and data, can create pressure to the public bodies to maintain transparency. Director of International Budget Partnership Warren Krafchik (2012) says: "Greater transparency enables better oversight, better access to credit, better policy choices, and better service delivery." He cited Nigeria as an example of how a lack of budget transparency allows corruption and mismanagement to go unchecked.

Nepal is ranked number 46 in the world in transparency and accountability with its national budget in 2010, according to a research by International Budget Partnership (IBP). Taranath Dahal argues that the ranking shows that the country has long to go in budget transparency front and media should follow the issue of budget transparency more meticulously.

Corruption Issue and Public Finance

Albert Camus (1913-1960) French novelist, essayist and dramatist says: "a free press can, of course, be good or bad but, most certainly without freedom, the press will never be anything but bad."

Camus has highlighted the role of media for social responsibility. The role of media can never be underestimated since it has power to invoke public against wrongdoings. Transparency International (2011) mentions: "when the media flights issues of corruption and makes them obtainable by the social community, it stimulates familiarity within them and fosters participation in identifying and highlighting corruption cases contextual to them."

Regarding the public finance, the media can intervene to check on how resources are being used and goes on to inform various stakeholders including the general public on how resources are being spent.

The media intervention can transfer power to the public and empower them to demand accountability in the use of public resources.

Bernasek (2010) quotes Robert Howell, a Republican senator from Nebraska, USA, as saying: "Secrecy is of the greatest aid to corruption."

Nepal is ranked at 139th position out of 176 countries with a score of 27 in the 2012 Corruption Perceptions Index (CPI) of the Transparency International (The Kathmandu Post, 2012). In the index, the score of zero is perceived to be highly corrupt and the score of 100 as the clean one. Chairman of Transparency International-Nepal Bishnu Bahadur KC (as cited in The Kathmandu Post, 2012) said: "we are still in the list of highly corrupt country. There is no significant progress in the field of controlling corruption."

Journalists have choice: to write news or to write news with effect. Obviously, most of the journalists choose the later. However, much of the coverage does not have the desired effect in present context. In this regard, it is responsibility of business journalists to cover the issue in its full depth.

The constitution of the country has ensured the Freedom of the Press and the constitutional freedom of media autonomy must be respected and defended. The exceptional degree of autonomy carries duties and responsibilities, that is, the media must also be accountable.

How well media can perform the role of a watchdog on corruption depends on a number of factors defined by the political, economic and legal environment in which media operate. The media has power to appeal larger section of society effectively. When the media reports major corruption issues including misuse of public finance, the issue can create discourse on the issue in communities.

RTI as a tool to combat bureaucratic hurdles

The role of the media in strengthening the demand side of the Right to Information (RTI) regime is important. The media occupies a critical place in the governance process. It promotes good governance by facilitating people's collective action for attaining sustainable socio-economic outcomes (Dahal, 2011).

Dan Bahadur Karki, an emerging RTI activist in the country, puts his opinion: "the media plays a significant role to promote transparency of public expenditure and RTI law is powerful tool to overcome bureaucratic hurdles in the case of information hide. Journalists can overcome bureaucratic hurdles using RTI law (personal communication, January 4, 2013)."

Media is a means of public disclosure of public expenditure and RTI laws make public officials responsible to reveal the information which they may want to hide.

Nepalese media has been playing a positive role in ensuring an open, transparent and democratic society. Public expenditure has also been a main topic of reporting and writing after business journalism emerged as a separate and powerful area of writing.

Journalist should ensure factual information regarding coverage of public expenditure and media outlets can use Right to Information law as an effective tool to ensure factual information to the public.

Therefore, there is an apparent need that Nepalese media should update and revise its practices so that it can be more trustworthy and be oriented towards fact.

Economic Journalism: Making Economics Easier

Economists often find fault with the way in which economic information is reported. Sometimes they accuse the press of ignorance, distortion and a misplaced emphasis on recent numbers rather than trends (Parker, 1997). On the other hand Parker (1997) says: "journalists, for their part, find much of what economists do both incomprehensible and irrelevant. Many of the issues with which academic economists are preoccupied, appear remote from the concerns of average citizens."

The dispute between economists and journalists may continue. But, it is primary fact that journalistic writing is different sector. It is duty of journalists to present fact in easy way.

Many of may think that business journalism is all about putting off lengthy texts on accounting and financial analysis in technical manner. It runs against the basic notion of business journalism. Business reporters should be capable enough to write in precious form. They should have capacity of making economy easier and understandable.

Dikshya Singh adds: "the readers are not interested in reading about the numbers but they are concerned about how the particular number is going to affect them and their lives. An ordinary reader has no interest in by how much government has transferred the fund earmarked for certain hydro project to a road

construction project, but they have right to know that government's act of transferring the project's budget will add couple of hours of power cut within next two years. That is where journalists' role becomes prominent (personal communication, January 7, 2013). ”

The journalists should not misguide and mislead their readers or viewers. Sometimes, economic journalists may commit mistakes due to hurry and immense deadline pressure.

The core economic terminologies of public expenditure and financial accountability may be strange and unusual to the many general public even if the issues are directly connected to them. So, it is responsibility of journalists to make general public realize that the issues of public expenditure are related to them and it will have impact on them. By writing issues of public expenditure and financial accountability in vernacular language, journalists can convince their audience that these are important issues for them to read. In other word, economic journalists should put their effort to make the economy easier, that is, to present the detailed financial analysis and ledger of income and expenditure in simple and easy way.

Conclusion

Governments that genuinely wish to improve public expenditure transparency must address intrinsic barriers such as low public understanding of budgeting numbers and their relationship to national accounts and desist from building constructed barriers such as misleading numbers and substituting surrogates for direct public expenditure.

Money is important in every part of society. Throughout society, most of that money is generated from business and economy.

Journalism is all about objectivity, consistency, neutrality and fairness of news coverage and economic journalists should not deviate from these principles. The sector should fulfill its responsibility of 'fourth estate' in effective manner.

Government receives tax money to operate. Where does the tax money come from? And where the government channels the revenue? Economic journalists should take care of such issues. In the end, every citizen has contribution in public expenditure and it is responsibility of state to make it transparent. Media, due to its role of 'watchdog mechanism', has even more responsibility to expose all kind of fraud so as to maintain financial accountability.

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PEFA Highlights:

1. PEFA Framework:

PEFA framework has been developed during 2000 under the leadership of the World Bank. It is currently adopted by more than 160 countries. More than 126 countries have conducted more than 245 assessments around the globe. It is used as a tool to enhance donor harmonization. Many countries have been able to reduce fiduciary risks and consolidate impact of reforms through PEFA Framework.

2. PEFA Secretariat:

PEFA Secretariat in Nepal was formed under PEFA Steering Committee in 2009. The PEFA Secretariat is headed by the Joint Financial Comptroller General as a PEFA coordinator. Currently, Mr. Suresh Pradhan is Coordinator of PEFA Secretariat. It is housed in Financial Comptroller General Office Building at Anamnagar, Kathmandu.

The Secretariat has been established to coordinate and facilitate PEFA framework Public Financial Management System reform in Nepal including PEFA framework. It also disseminates PEFA/PFM awareness to key stakeholders. The overall PEFA framework is designed to assess public system as well as to enhance PFM Reform.

3. Role of PEFA Secretariat:

- Coordinate PFM reforms activities
- Awareness raising and promotion of PEFA framework.

- Development of PEFA/PFM implementation strategies.
- Monitor implementation of Development Action Plan on PFM reform areas.
- Coordinate and facilitate Sector and local PEFA initiatives.
- Liaison with development partners in mobilizing technical and financial support to implement PFM reform programs.

4. Core agencies to promote PEFA and the overall PFM reform are as follows:

- Ministry of Finance (MoF) - Revenue and Budget management
- National Planning Commission (NPC) - Planning & Programming
- Financial Comptroller General Office (FCGO) - Accounting, Reporting and Treasury management.
- Public Procurement Monitoring Office (PPMO) - Public Procurement
- Office of the Auditor General (OAG) - Final Audit
- Key Ministries like Education, Health, Physical Planning and Local Development - Expenditure management and services delivery.

5. Ongoing PEFA Activities

Some of the ongoing PEFA initiatives are as follows:

- PEFA Orientation Programs, Seminars, Workshops and PFM related Trainings,
- Further Development of PFM/PEFA related IEC materials
- Strengthening PIUs and DPIUs
- Preparation for Repeat PEFA Assessment
- Exposure visits on PEFA/TSA/NPSAS study cum observation
- Local PFM Donors Forum (Meeting every two months)

6. Future Actions

- Roll out of TSA in all 75 districts
- Implementation and institutionalization of the NPSAS
- Convergence of IFRS.
- Repeater PEFA Assessment

NEPAL: PFM High Level Performance Indicators Set

| Performance High Level Indicators | Performance Indicators (PI) 28+3 | Thematic Groups and Indicators | Score |
|-----------------------------------|---|---|-------|
| A. PFM OUTTURNS | I. Credibility of the budget | | |
| | PI-1 | Aggregate expenditure outturn compared to original approved budget | B |
| | PI-2 | Composition of expenditure outturn compared to original approved budget | C |
| | PI-3 | Aggregate revenue outturn compared to original approved budget | A |
| | PI-4 | Stock and monitoring of expenditure payment arrears | D+ |
| B. KEY CROSS-CUTTING ISSUES | II. Comprehensiveness and Transparency | | |
| | PI-5 | Classification of the budget | C |
| | PI-6 | Comprehensiveness of information included in budget documentation | B |
| | PI-7 | Extent of unreported government operations | C |
| | PI-8 | Transparency of inter-governmental fiscal relations | C |
| | PI-9 | Oversight of aggregate fiscal risk from other public sector entities | D+ |
| | PI-10 | Public access to key fiscal information | B |
| BUDGET CYCLE | III. Policy-based Budgeting | | |
| | PI-11 | Orderliness and participation in the annual budget process | C+ |
| | PI-12 | Multi-year perspective in fiscal planning, expenditure policy and budgeting | C+ |
| | IV. Predictability and Control in Budget Execution | | |
| | PI-13 | Transparency of taxpayer obligations and liabilities | C+ |
| | PI-14 | Effectiveness of measures for taxpayer registration and tax assessment | C |
| | PI-15 | Effectiveness in collection of tax payments | D+ |
| | PI-16 | Predictability in the availability of funds for commitment of expenditures | C+ |
| | PI-17 | Recording and management of cash balances, debt and guarantees | C+ |
| | PI-18 | Effectiveness of payroll controls | C |
| | PI-19 | Transparency, competition and complaints mechanisms in procurement | C |
| | PI-20 | Effectiveness of internal controls for non-salary expenditure | C |
| | PI-21 | Effectiveness of internal audit | D+ |
| | V. Accounting, Recording and Reporting | | |
| | PI-22 | Timeliness and regularity of accounts reconciliation | C+ |
| | PI-23 | Availability of information on resources received by service delivery units | C |
| | PI-24 | Quality and timeliness of in-year budget reports | C+ |
| | PI-25 | Quality and timeliness of annual financial statements | C+ |
| | VI. External Scrutiny and Audit | | |

| | | | |
|-----------------|-----------------|---|----|
| DONOR PRACTICES | PI-26 | Scope, nature and follow-up of external audit | D+ |
| | PI-27 | Legislative scrutiny of the annual budget law | D+ |
| | PI-28 | Legislative scrutiny of external audit reports | D+ |
| | DONOR PRACTICES | | |
| | PI-29 | Predictability of Direct Budget Support | D |
| | PI-30 | Financial information provided by donors for budgeting and reporting on project and program aid | D |
| | PI-31 | Proportion of aid that is managed by use of national procedures | D |

Recipient side: A=1, B=3, C+=8, C=9, D+=7, Total=28

Donor Practice: D=3



Participants attending PEFA Regional Seminar in Kailali .



Participants attending PEFA Regional Seminar in Janakpur



A glimpse of SPFM Project Review mission on Jan-Feb 2013



A glimpse of 13th PEFA Steering Committee Meeting

Contact Details

Public Expenditure & Financial Accountability