



Managing a Huge Transition *for* Fiscal Transparency

(A Case of Nepal after Federalization)

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Presentation Outline

- ✓ Fiscal Reporting after Federalism in Nepal: Huge Transition
- ✓ How the Challenges of Transition Were Faced ?
- ✓ A Glimpse of Consolidated Fiscal Report 2017/18
- ✓ Early Performance of Fiscal Federalism in Nepal
- ✓ Findings, Lessons and the Next Steps

समग्र सरकारको वित्तीय प्रतिवेदन
(General Government Financial Report)

आर्थिक वर्ष २०७४/७५



नेपाल सरकार

अर्थ मन्त्रालय

महालेखा नियन्त्रक कार्यालय

२०७५ पौष २४

Regime Change: in 2015

Unitary State :

- ü With a hybrid devolution:
- ü (Center, 7 regions, 75 districts and VDCs /municipalities)
- ✓ Fiscal reporting by the center Government
- ✓ Only One Consolidated fund

Federal Structure: New Constitution

- ✓ **Federal government (Government of Nepal)**
- ✓ **7 States**
- ✓ **753 Municipalities/Village Municipalities(LGs)**
- ✓ **Huge numbers of 'Consolidated Funds'(1+7+ 753=761)**
- ✓ **Legislative power in all three tiers of government**

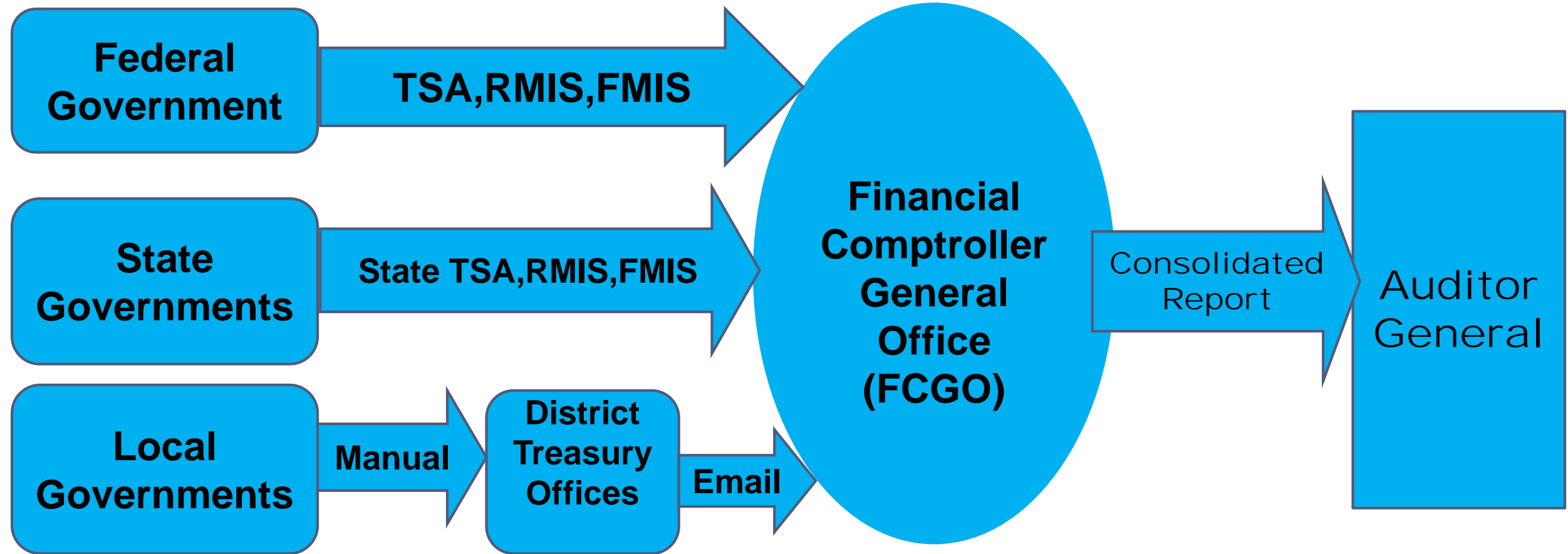
Constitutional Power and Mandate of Reporting

- ✓ **All Three Tiers of Government Have The Power of:**
 - ü Legislation on financial procedures , budget, decision
 - ü Setting policy and planning
 - ü Implementation in their jurisdiction
- ✓ **Their own “ Consolidated Fund”**

- Reporting Obligations (IGFMA):
- ✓ **Government of Nepal shall disclose the Consolidated Financial Reports:**
 - ✓ **Incorporating Financial Statements of the States and Local Governments**
 - ✓ **Within the End of Paush’ : (six months)**
 - ✓ **State and Local governments shall report to Federal MOF**



Current Reporting Mechanism



New system: New Challenges

- ✓ **Federalism: A New Practice With New Complexity**
- ✓ **Fiscal Reporting of the 753 Local Governments**
- ✓ **Lack of IFMIS:FMIS Covers only Federal and Province Levels**
- ✓ **Mindset: Power up to Me**



How Transition was Managed?

- √ Use of Existing Strengths:
 - ü **FCGO and DTCOs: as the lifelines**
 - ü **Treasury Single Accounts (TSA), RMIS and FMIS**
- √ Building Teams:
 - ü **A Taskforce formed at the federal level**
 - ü **Seven Coordinators for 7 states: training and coordination**
 - ü **District Champions: trained and mentored to the preparers(LGs)**
- √ **Collaboration with the LGs**

§ Reporting formats developed

§ ToT to District Champions

§ Preparers were trained

§ Reports consolidated and published



Sequencing of the Reporting Process

1. FCGO developed a Excel based Template

2. MOF approved the process and the reporting formats

3. FCGO formed Task Teams to coordinate the task : 1+7

4. ToT at Province HQs

5. DTCOs trained LGs staff to prepare reports

6. LGs prepared reports and sent them to DTCOs

7. DTCOs sent reports to the Coordinators and FCGO

8. Coordinators checked, and sent reports to FCGO

**9.FCGO: Consolidated and submitted to AG
(08 January,2019)**

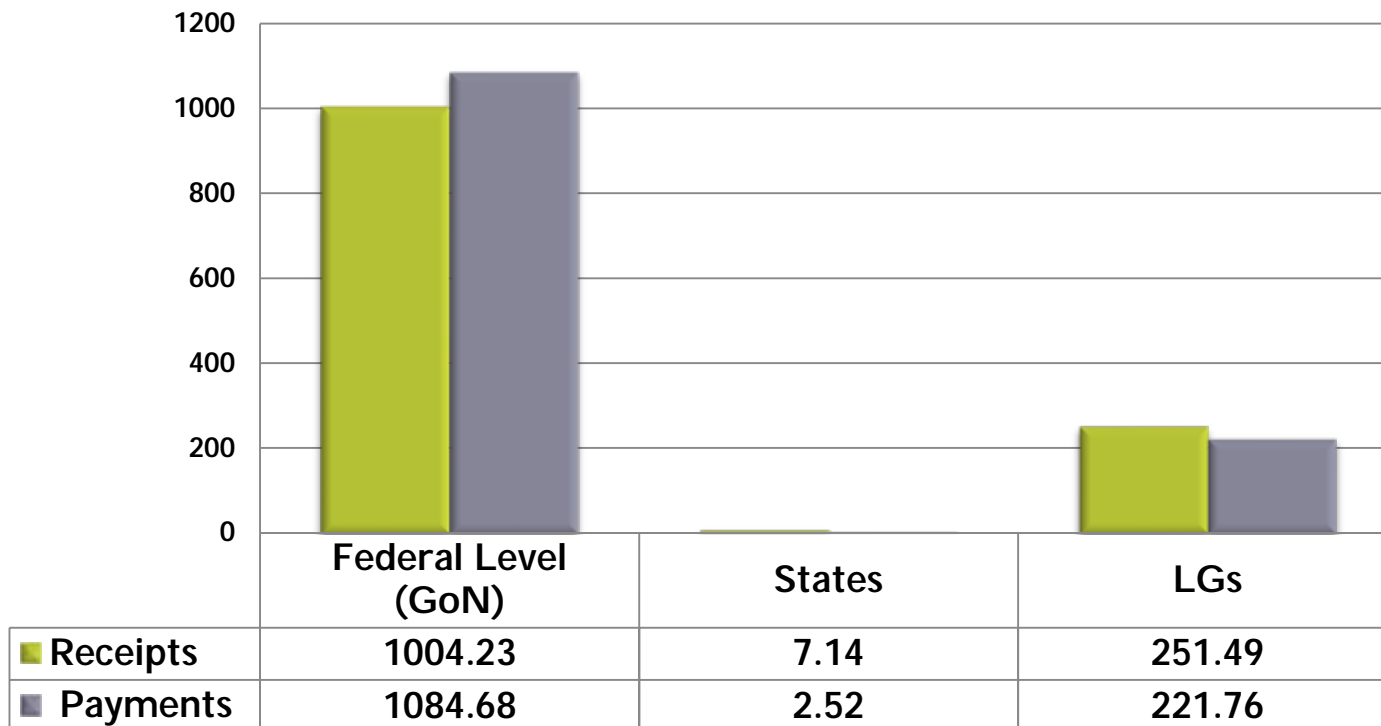
Receipts and Payments:2017/18 (billions NRs)

Receipt and Payments

Total Receipts	1262.86
Total Payments	1308.96

Treasury Surplus/Deficit:

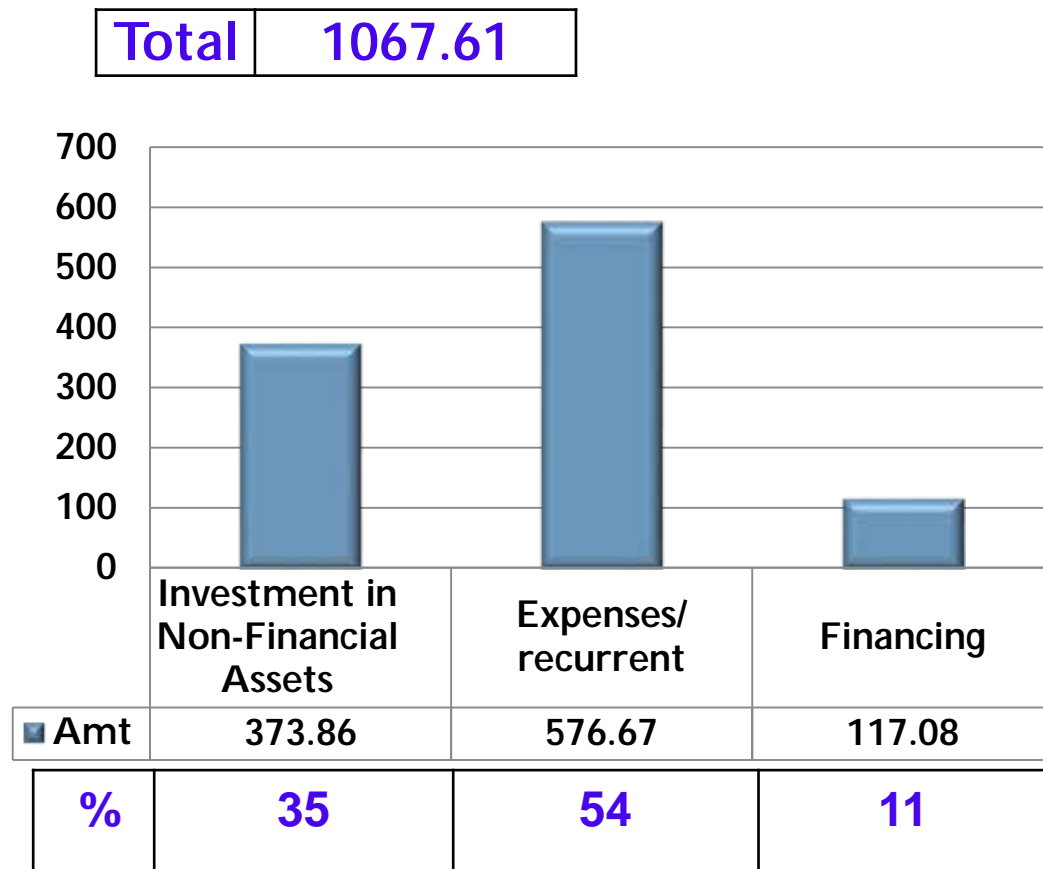
Total Surplus/Deficit:	-77.19
Federal	-123.06
States	4.63
LGs	41.25



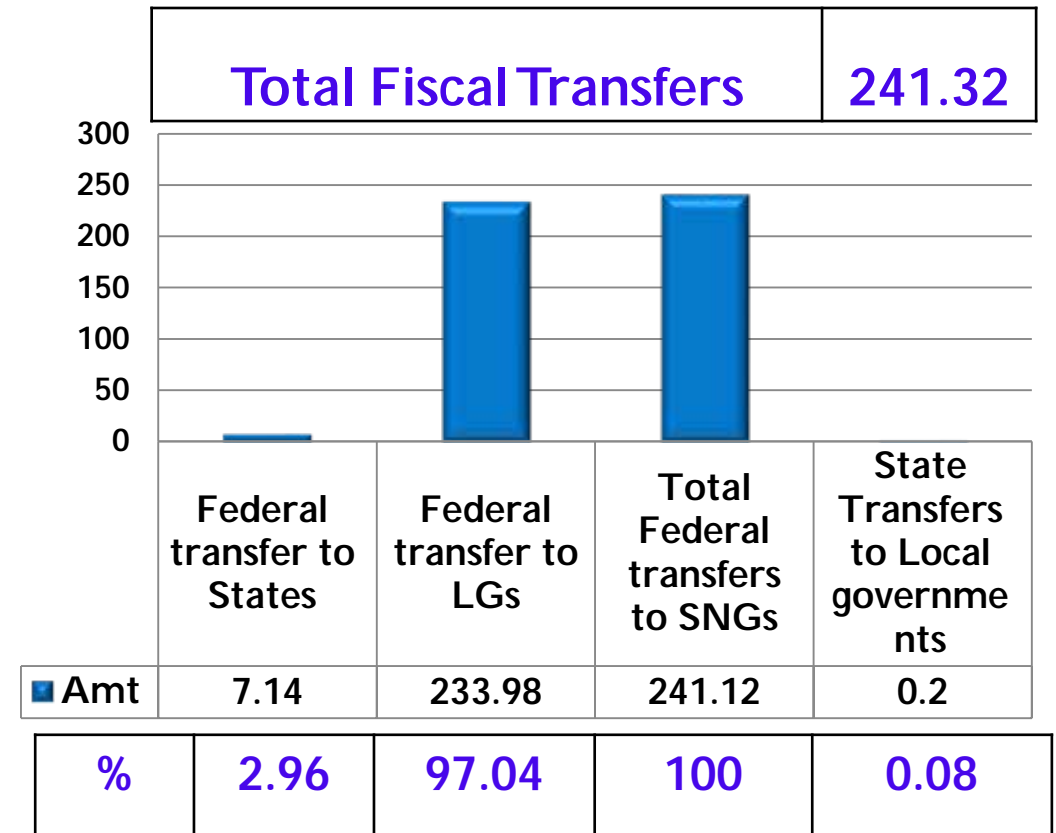
Expenditure and Fiscal Transfers

Amounts (NRs in billion)

Expenditure Type (by all)



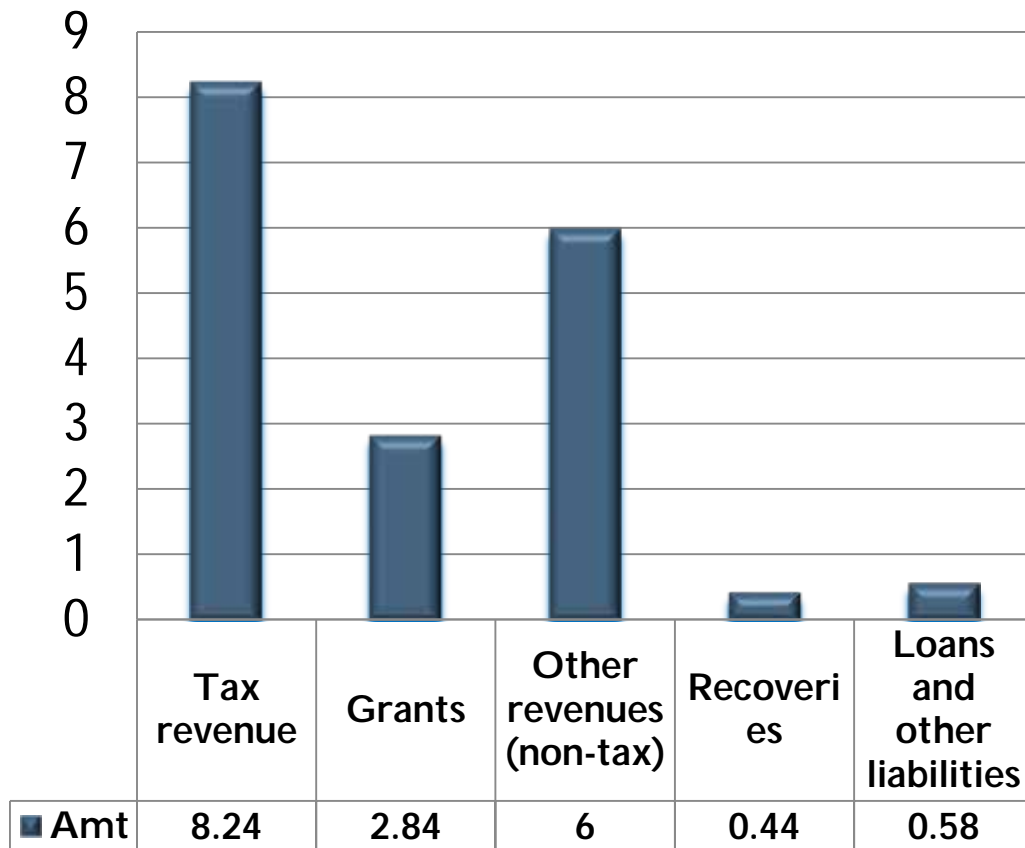
Fiscal Transfers to SNGs



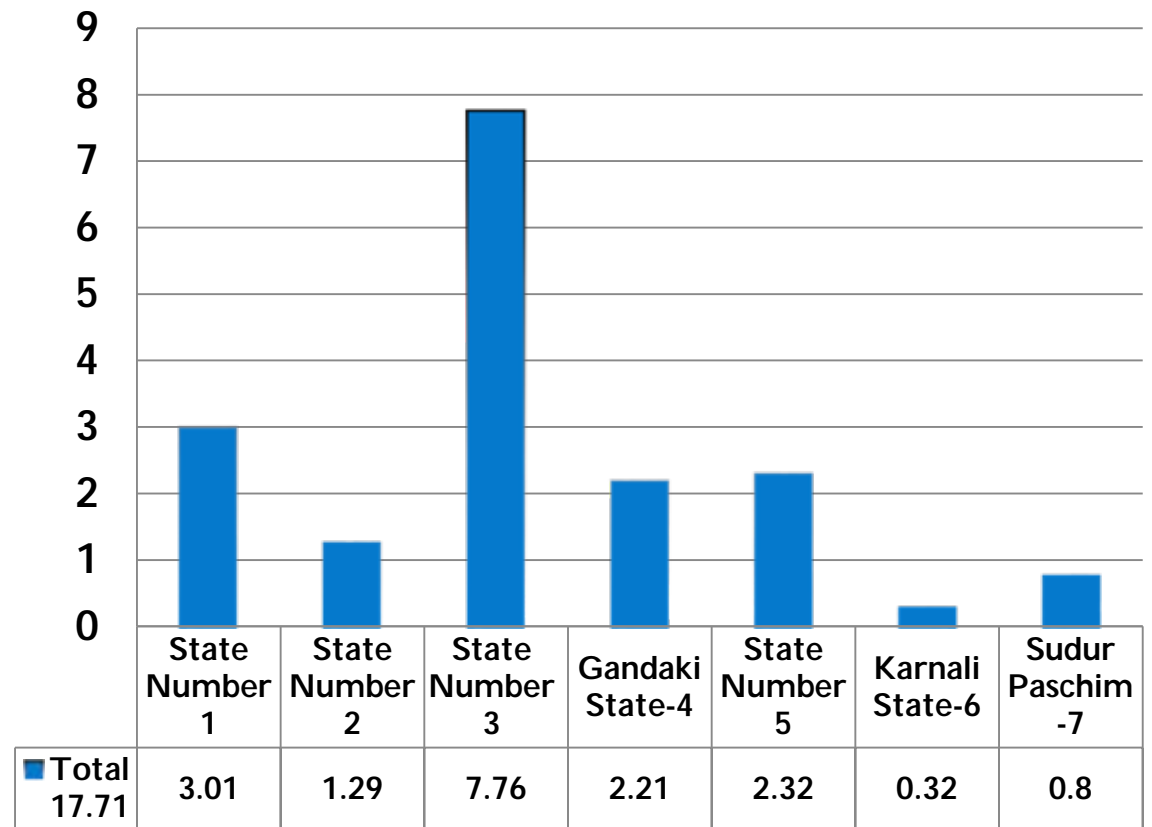
Status of Local Resources

Amount in billion NRs

Receipts of LGs :NRs 17.71 bln.



State wise Performance of LGs



Major Findings

Fiscal Performance of SNGs in FY 2018/19

- ✓ **Shape of Government Expenditure(all three tiers):**
 - ü Recurrent : 54% , Capital : 35%
 - ü Financing: 11%
- ✓ **States spent only 35.2% of their receipts**
- ✓ **LGs were able to collect revenues NRs 17.71billions (7.04%)**
- ✓ **Use of grants by LGs:**
 - Equalization(83%), Conditional(94%)
- ✓ **Transfers are mostly directed to LGs: 97%**

- § States collected no revenues except federal transfers
- § Vast difference in revenues of the LGs among the States : question of regional balance
- § Utilization of conditional grants is higher than others

Lesson learned

Major Learnings

- ❖ **Re-structuring of a State is a Herculean Task:**
 - ✓ **Fiscal issues are very sensitive**
 - ✓ **Fiscal reporting in a newly federated country is challenging**
- ❖ **Complexities of *Transition* From an Unitary State to Federal State are Enormous**
- ❖ **Fiscal Federalism, in Practice, is a Complex Issue: it does not travel in a linear path**
- ❖ **Plan Transition with Due Care of Contingencies**

Key Takeaways

- § To overcome from a complex transition: collaborate, build teams, communicate, train and develop people
- § To overcome from a transition: use your strengths first.
- § Fiscal Reporting =f(IFMIS): with a proper design and fit to the situation
- § Transition is a cost. Manage this rather quickly

Strengths of Fiscal Disclosure

Disclosure of Fiscal Data
'Created Trust' Towards
Government

*Example: Daily publication of BER
created a trust.*

*Evidence: Media defended
government programs and its
strengths based on the reports.*

Confidence of Government
Enhanced: to Take
Decisions

"Feedback Helped Enhance the
System"

*Example: Reactions , comments and
feedback helped initiate more reform.*

*Evidence: Feedback from donors,
researchers and media provided a ground
for system improvement.*

'EFT' is a net product

Created a Pressure for High
Performance



Nepal : Future Course of Action



1. Continuous Harmony , Check and Balance
2. Short -run Solutions:
 - } **Upgrade and use SuTRA: for budgeting , treasury management and reporting for LGs**
 - } **'General Guidelines' for Treasury Management of LGs**
3. Medium and Long-Term Solutions:
 - } **Integrated Financial Management Information System(IFMIS)**
 - } **Changing Mindset and Shaping the Future:
-dialogue , training and development**



Thank you

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