Managing a Huge Transition for Fiscal Transparency

(A Case of Nepal after Federalization)

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FCGO, Nepal
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
Regime Change: in 2015

**Unitary State:**
- With a hybrid devolution:
  - (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:
  - Legislation on financial procedures, budget, decision
  - Setting policy and planning
  - 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

Financial Comptroller General Office (FCGO)

- Federal Government: TSA, RMIS, FMIS
- State Governments: State TSA, RMIS, FMIS
- Local Governments: Manual, Email
  - District Treasury Offices

Consolidated Report

Auditor General
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:
  - FCGO and DTCOs: as the lifelines
  - Treasury Single Accounts (TSA), RMIS and FMIS

- Building Teams:
  - A Taskforce formed at the federal level
  - Seven Coordinators for 7 states: training and coordination
  - 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

<table>
<thead>
<tr>
<th></th>
<th>Total Receipts</th>
<th>Total Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Federal Level (GoN)</strong></td>
<td>1004.23</td>
<td>1084.68</td>
</tr>
<tr>
<td><strong>States</strong></td>
<td>7.14</td>
<td>2.52</td>
</tr>
<tr>
<td><strong>LGs</strong></td>
<td>251.49</td>
<td>221.76</td>
</tr>
</tbody>
</table>

Treasury Surplus/Deficit:

<table>
<thead>
<tr>
<th></th>
<th>Total Surplus/Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Federal</strong></td>
<td>-77.19</td>
</tr>
<tr>
<td><strong>States</strong></td>
<td>-123.06</td>
</tr>
<tr>
<td><strong>LGs</strong></td>
<td>4.63</td>
</tr>
<tr>
<td></td>
<td>41.25</td>
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</tbody>
</table>
Expenditure and Fiscal Transfers

Expenditure Type (by all)

<table>
<thead>
<tr>
<th>Type</th>
<th>Amounts (NRs in billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in Non-Financial Assets</td>
<td>373.86</td>
</tr>
<tr>
<td>Expenses/reccurent</td>
<td>576.67</td>
</tr>
<tr>
<td>Financing</td>
<td>117.08</td>
</tr>
</tbody>
</table>

Total Expenditure | 1067.61 |

Fiscal Transfers to SNGs

<table>
<thead>
<tr>
<th>Type</th>
<th>Amounts (NRs in billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal transfer to States</td>
<td>7.14</td>
</tr>
<tr>
<td>Federal transfer to LGs</td>
<td>233.98</td>
</tr>
<tr>
<td>Total Federal transfers to SNGs</td>
<td>241.12</td>
</tr>
<tr>
<td>State Transfers to Local governments</td>
<td>0.2</td>
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</table>

Total Fiscal Transfers | 241.32 |

<table>
<thead>
<tr>
<th>Type</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Federal transfer to States</td>
<td>2.96</td>
</tr>
<tr>
<td>Federal transfer to LGs</td>
<td>97.04</td>
</tr>
<tr>
<td>Total Federal transfers to SNGs</td>
<td>100</td>
</tr>
<tr>
<td>State Transfers to Local governments</td>
<td>0.08</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>35</td>
</tr>
<tr>
<td>54</td>
</tr>
<tr>
<td>11</td>
</tr>
</tbody>
</table>
**Status of Local Resources**

**Receipts of LGs:** NRs 17.71 bln.

<table>
<thead>
<tr>
<th></th>
<th>Amount in billion NRs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax revenue</td>
<td>8.24</td>
</tr>
<tr>
<td>Grants</td>
<td>2.84</td>
</tr>
<tr>
<td>Other revenues (non-tax)</td>
<td>6</td>
</tr>
<tr>
<td>Recoveries</td>
<td>0.44</td>
</tr>
<tr>
<td>Loans and other liabilities</td>
<td>0.58</td>
</tr>
</tbody>
</table>

**State wise Performance of LGs**

<table>
<thead>
<tr>
<th>State Number</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3.01</td>
</tr>
<tr>
<td>2</td>
<td>1.29</td>
</tr>
<tr>
<td>3</td>
<td>7.76</td>
</tr>
<tr>
<td>4</td>
<td>2.21</td>
</tr>
<tr>
<td>5</td>
<td>2.32</td>
</tr>
<tr>
<td>6</td>
<td>0.32</td>
</tr>
<tr>
<td>7</td>
<td>0.8</td>
</tr>
</tbody>
</table>

**Total:** 17.71
Major Findings
Fiscal Performance of SNGs in FY 2018/19

- Shape of Government Expenditure (all three tiers):
  - Recurrent: 54%, Capital: 35%
  - Financing: 11%

- States spent only 35.2% of their receipts

- LGs were able to collect revenues NRs 17.71 billions (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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