How PEFA Tool Helped Enhance PFM Reform in Nepal?

(A Country Case Study)

Babu Ram Subedi
Nepal
What is the Presentation About?

To highlight:

- Use of PEFA framework for PFM Reform in Nepal
- Compare: 2008 and 2015 PFM performance scenario
- Major PFM Reform initiatives taken in Nepal (Based on the diagnostic results of the First PEFA Assessment 2008 and Second Assessment 2015)
- Its impact on the PFM performance.
Pre – Reform Scenario

- High level of Fiscal Gap: Debt/GDP nearly 70 %
- IMF and the World Bank were recommending to enter HIPIC initiatives
- Nepal declined the proposal but opted for reforms (initiated from 1990s)
- Desired Outcomes:
  - Fiscal discipline, Strategic allocation
  - Efficiency in delivery, Accountability and Transparency
Reform Initiatives Were Targeted:

To fill the critical gaps on:
- The coverage of fiscal reports
- Treasury reform and within-year reporting
- Budget
- Access to information on taxpayer liabilities
- Procurement system
- Quality of external audit report and engagement of the legislature.
What Was Done?

- First PEFA Assessment conducted in 2007 (Report 2008)
- First Phase PFM Reform Action Plan (2008) Prepared and implemented
- PFM Reform/PEFA Secretariat established
- Repeat Assessment Conducted in 2014 (report 2015): Based on FY 2011/12 to 2013/14 data (To update the progress)

Both of the Assessments were Self-Assessments
Major Areas of Intervention

- Treasury Single Accounts
- Budgetary Reforms (FMIS/BMIS)
- Audit System Reform/Capability
- Accounting and Reporting System
- Modernization of Taxation System
- Procurement System Reform
The Progress Update 2015

- 61% of PFM performance indicators are improved
- 19 out of 31 indicators gone up in 7 years (2008 to 2014 period)
- The Repeat PEFA Assessment Report 2015 concludes:
  "Nepal has made substantial progress in deepening the structures and processes of public financial management (PFM), particularly in the use of information technology".

## Change in Performance (2008-2014)

<table>
<thead>
<tr>
<th>Change in Ratings</th>
<th>Number of Indicators</th>
<th>Percentage of Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upwards</td>
<td>19</td>
<td>61</td>
</tr>
<tr>
<td>Downwards</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Remained the same</td>
<td>10</td>
<td>32</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>31</strong></td>
<td><strong>100</strong></td>
</tr>
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</table>
## Now and Then

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>The assessment of Nepal’s performance in Public Finance Management (PFM) suggests the existence of a system that is well-designed but unevenly implemented.</td>
<td>Nepal has made substantial progress in deepening the structures and processes of public financial management (PFM), particularly in the use of information technology.</td>
</tr>
</tbody>
</table>
## Encouraging Upwards (2008 to 2014)

<table>
<thead>
<tr>
<th>Score</th>
<th>PEFA 2008</th>
<th>PEFA 2014</th>
<th>Net Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1</td>
<td>8</td>
<td>+7</td>
</tr>
<tr>
<td>B+</td>
<td>0</td>
<td>3</td>
<td>+3</td>
</tr>
<tr>
<td>B</td>
<td>3</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>C+</td>
<td>9</td>
<td>8</td>
<td>-1</td>
</tr>
<tr>
<td>C</td>
<td>8</td>
<td>3</td>
<td>-5</td>
</tr>
<tr>
<td>D+</td>
<td>6</td>
<td>4</td>
<td>-2</td>
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<tr>
<td>D</td>
<td>4</td>
<td>2</td>
<td>-2</td>
</tr>
<tr>
<td>Total</td>
<td>31</td>
<td>31</td>
<td>0</td>
</tr>
</tbody>
</table>
## Major Contributors for Up or Down

<table>
<thead>
<tr>
<th>Up</th>
<th>Down and constant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reductions in budget variances (below 5.3%)</td>
<td>Slight increase in extra budgetary operations</td>
</tr>
<tr>
<td>Stock of budget arrears reduced (less than 2%)</td>
<td>Absence of parliament</td>
</tr>
<tr>
<td>Comprehensiveness improved</td>
<td></td>
</tr>
<tr>
<td>Treasury Single Accounts/real time data on BER</td>
<td><strong>CONSTANT ?</strong></td>
</tr>
<tr>
<td>Public access to key fiscal information</td>
<td>• Internal control practices</td>
</tr>
<tr>
<td>Use of Open competition in Procurement</td>
<td></td>
</tr>
<tr>
<td>Tax obligation clear and discretionary power limited</td>
<td></td>
</tr>
<tr>
<td>Improved Audit coverage and timeliness of reporting</td>
<td></td>
</tr>
</tbody>
</table>
A. Credibility of the budget

B. Comprehensiveness and transparency

C. Policy-based budgeting

D. Predictability and control of budget execution

E. Accounting, recording and reporting

F. External scrutiny and audit

Nepal

15 Fragile States

26 Lics
What is Actually Achieved?

- An integrated TSA system: producing daily budget execution reports (http://www.fcgo.gov.np)
- Trust over government improved through real-time reporting.
- New Economic Codes implemented (IMF GFS code 2001).
- Online submission of budget and programs of line departments
- Public Sector Accounting Standards piloted: are under implementation (14 ministries completed).
- Taxation system and procurement system become more transparent.
How Has PEFA Helped PFM Reform?

- Provided information on PFM Performance
- Helped identify gaps to plan ahead reform
- Helped identify critical areas of intervention
- Created a pressure to policy makers
- Provided updated information through Repeat Assessment
- Helped enhance confidence through Self-Assessments
Conclusions:

- Better information on progress helps enhance PFM system
- Use of PEFA framework helps find the gaps
- Self-assessments can help understand deeply the problems
- A country then, can implement learning based interventions
- "Iterative system improvement model" can be helpful
- If a country improves, donors also improve
Now, PFM Reform Strategy (2016-26) is approved with:

Eight outcomes, 13 sub-projects
Short, Medium and Long-term horizon

With Great Thanks

Babu Ram Subedi
Under Secretary (Finance), DoI
Member Secretary, Second PEFA Assessment Work Team, Government of Nepal
subedi_baburam@yahoo.com