Early Warning System

ADB-36172-064

Strengthening Subnational Public Management

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Quick Facts

Countries	Nepal
Financial Institutions	Asian Development Bank (ADB)
Status	Active
Bank Risk Rating	B
Voting Date	2016-08-04
Sectors	Law and Government, Technical Cooperation
Investment Type(s)	Grant
Investment Amount (USD)	$ 0.50 million

Project Description

DESCRIPTION

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

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

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

For improving transparency in PFM and reducing fiduciary risks at the subnational level, there is a need to strengthen (i) integrated financial management; (ii) accounting and reporting systems; (iii) electronic government procurement (e-GP) system, including the nationwide roll-out; and (iv) internal, external, and technical audit systems by building on and deepening the reforms of SPMP I.

PROJECT RATIONALE AND LINKAGE TO COUNTRY/REGIONAL STRATEGY

In light of the above, the rationale for the PATA stems from the need to carry out a comprehensive assessment of PFM issues at the subnational government level to identify policy options for (i) addressing the weaknesses and revitalizing the institutions designed under SPMP, and (ii) providing institutional development and capacity building support to the government to successfully manage the transition to fiscal federalism.

IMPACT

Capacity and readiness of the government to adopt fiscal federalism enhanced (the Constitution of Nepal 2015; Government of Nepal''s Thirteenth Plan, FY2014- FY2016; Good Governance Act of 2008; and Ministry of Finance budget for FY2017)

CONSULTING SERVICES

A consulting firm will be recruited to provide 21 person-months of international consultants and 15 person-months of national consultants, including (i) tax specialists and a team leader, (ii) intergovernmental fiscal transfer specialists, (iii) public sector budget specialists, (iv) capital market specialists, (v) internal and external audit specialists, (vi) technical audit specialists, and (vii) information and communication technology, and management information system specialists. A change management specialist will be recruited as an international individual consultant for 3 person-months. The consultants will be recruited using quality and cost-based selection method with a quality cost ratio of 90:10 at an expected cost of $450,000. The

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- Asian Development Bank (ADB)

TA 9150-NEP: Strengthening Subnational Public Management
Technical Assistance Special Fund US$ 500,000.00

Contact Information

ACCOUNTABILITY MECHANISM OF ADB

The Accountability Mechanism is an independent complaint mechanism and fact-finding body for people who believe they are likely to be, or have been, adversely affected by an Asian Development Bank-financed project. If you submit a complaint to the Accountability Mechanism, they may investigate to assess whether the Asian Development Bank is following its own policies and procedures for preventing harm to people or the environment. You can learn more about the Accountability Mechanism and how to file a complaint at: http://www.adb.org/site/accountability-mechanism/main

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Bank Documents

- Project Disclosure PDF
- Strengthening Subnational Public Management: Technical Assistance Report [Original Source]