



An Introduction To Public Expenditure and Financial Accountability (PEFA) Anamnagar, Kathmandu, Nepal

1. Public Financial Management (PFM)

Improving Governance and Accountability underpins the agenda of the Government of Nepal (GoN). Strengthening Public Financial Management (PFM) is a key element of the GoN's strategy for strengthening governance, optimizing outputs from public resources and for ensuring inclusive and broad-based development. The increasing indiscipline in budget execution, ineffective expenditure control and lack of transparency mainly in procurement pose significant fiduciary risks to development projects. The GoN's intention of establishing a sound PFM system that ensures the transparent, efficient, economical and accountable use of budgetary resources and donor funds has resulted in several initiatives to strengthen PFM in Nepal.

PFM in general incorporates the management of government revenue, budget, expenditure, deposit, debt, reimbursement, procurement and other important aspects of financial management such as accounting, recording and reporting. It also includes internal control, final auditing and external scrutiny of the financial transactions. Hence, strengthening Treasury System, Financial Monitoring and Capacity Building for PFM are most critical elements of a sound public financial management practices. 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 expenditure control and monitoring. The PFM system contributes to reduce fiduciary risk of the government expenditure. A sound and predictable PFM system not only attracts foreign resources from development partners but also ensures effective utilization of such resources and establishes transparency and accountability of public funds. Similarly, an effective PFM system also contributes to channelize all resources and funds through the national system.

2. Public Expenditure and Financial Accountability (PEFA)

PEFA is basically a framework for strengthening public expenditure system of a country. It pays high priority to transparency and accountability in utilizing and managing public funds. The core objective of PEFA is to enhance expenditure management of the public funds and to reduce associated fiduciary risk. The PEFA initiative has developed a robust tool for measuring (PFM) performances and providing sound assessment of the quality of PFM for countries of all income levels. Nepal has assessed PEFA indicators and adopted action plan that serve as the national policy for the overall improvement in PFM system, process and institutions. Effective implementation of Action Plan contributes to improve PFM performances that eventually help to achieve better service delivery and bringing efficiency in public expenditure management.

3. Nepal PEFA Assessment 2008

PEFA Assessment was carried out in 2008 to assess the performance of the country's PFM system in comparison with internationally accepted benchmarks, with the initiation of GoN and supported by the World Bank to provide a basis for objectively assessing the country's PFM system. The PEFA methodology examined the soundness of the PFM framework by rating 31 indicators (three related to donor practices) using criteria provided by the assessment guidelines. The scope of the assessment covered fiscal and debt management, budget formulation, budget execution, procurement, accounting and reporting, auditing, transparency, internal controls and external scrutiny. This report is available in the PEFA secretariat

Following the PEFA assessment in 2008, the GoN formulated a Public Financial Management Reform Program (PFMRP) Strategy Phase I (2010-2013), with the objective of adopting a holistic government-wide approach to PFM reforms encompassing both the institutional and technical aspects. This is intended to be a gradual and long-term process that requires strong political will and commitment which will contribute to reducing fiduciary risks as well as improve transparency and accountability of public financial management. It provides a framework in which all related reform initiatives can be incorporated under a single 'umbrella' in which the development partners can provide their funding on a 'joint' and 'programmatic' basis.

4. PFMRP Strategy

The PFMRP strategy has two key priorities for the short term: (1) to deliver actions that yield effective results in strengthening the PFM system, and (2) to build the capacity of the PEFA Secretariat to lead the PEFA agenda and institutionalize the reform process. This Strategy will be implemented through tactical action plans and will help make decisions on mobilizing

and allocating resources and address the prioritized underlying issues. It focuses on achieving, measuring verifying the results. Over the period, it is expected to help instill "performance culture". The success of the reform program will depend on commitment and ownership by responsible agencies, strong political commitment and the sustained partnership of development partners.

Following priorities have been identified in the area of public expenditure and financial accountability Sustaining technical support on basic budgeting and treasury functions; supporting outreach and consensus building on the need for PFM reforms among government and civil society stakeholders; leveraging information technologies such as Integrated Financial Management Information Systems (IFMIS); strengthening the audit function of the Auditor General; strengthening the parliamentary oversight function carried out by the Public Accounts Committee (PAC); moving from a rules-based to principles-based approach in line with international standards; supporting the institutional development of the primary institutions of accountability in Nepal; strengthening PFM monitoring by both State and non-State actors, including independent verification interventions; and supporting the design of a sound financial management system in the context of state restructuring and transition to a possible federal system.

The strategy recognizes the need continue of the initiated reforms on improving budget and financial management system within the executive (the supply side of reforms) and actions have been taken to identifying particular reform components in next three years – namely implementation of Treasury Single Accounts (TSA) system, enhancing financial reporting based on International Public Sector Accounting Standards (IPSAS) and strengthening of PEFA Secretariat. This project embraces this strategy and intends to build gradually on the positive momentum for reform.

5. PEFA Implementation Structure

With a view to improve PFM implementation a PEFA Steering Committee has been established based on the recommendation of the PEFA Report 2008. The current composition of the Steering Committee is as follows:

5.1 PEFA Steering Committee

- Secretary, Ministry of Finance - Chairman
- Secretary, Financial Comptroller General - Member
- Secretary, National Planning Commission - Member
- Deputy Auditor General, OAG - Member
- Joint Secretary, FACD/ MoF - Member
- Joint Secretary, Budget Division/ MoF -Member
- Joint FCG/ FCGO -Member Secretary

The Steering Committee provides overall leadership and strategic direction of the Public Financial Management Reform Program (PFMRP) and also conducts oversight over the implementation of PFM reforms. It also guides the activities implemented by the PEFA Secretariat.

5.2 PEFA Working Committee

A PEFA Working Committee is also created to support the implementation of the PFM activities in Nepal. The Working Committee basically provides business to the Steering Committee and supports the implementation of PFM reform initiatives. It also coordinated the sectoral PEFA implementation activities. The composition of the Working Committee is as follows:

- Member-Secretary, PEFA Steering Committee - Coordinator
- Representative, Auditor General - Member
- Representative, Ministry of Finance - Member
- Representative, National Planning Commission - Member
- Representative, Department of Inland Revenue - Member
- Representative, Department of Custom -Member
- Deputy Financial Comptroller General - Member Secretary

5.3 PEFA Implementation Units

A PEFA Implementing Unit (PIU) is established in each line ministry to implement the PFMRP within the sectoral jurisdiction of the ministry. The composition of the PIU is as follows:

- Joint Secretary, Planning Division - Coordinator
- Chief , Planning Section - Member
- Chief , Administration Section - Member
- Chief , M&E Section - Member
- Chief, Finance Section - Member Secretary

5.4 PEFA Secretariat

The PEFA secretariat is headed by a Coordinator. Member Secretary of the PEFA steering committee has been designated as the Coordinator of the Secretariat. It is currently housed in Financial Comptroller General Office (FCGO) building.

The Secretariat has been created to facilitate PFM activities of GoN. It also monitors the progress of PEFA and PFM policies, plans and programs of the government over a specified period of time. The secretariat also organizes seminars and workshops on

various themes that relate to PFM reform and coordinates the review meetings. It also liaisons with development partners and works as focal point for PFM related activities in Nepal. The PEFA secretariat provides Technical Assistance and longer term support to line ministries and departments to implement PFM activities. It also gathers information on progress from line ministries and local government on progress in meeting program outcomes. The secretariat produces periodic and annual progress reports.

6. PEFA and MDTF

Recently, GoN and The World Bank have agreed to do out of a project on “Strengthening Public Financial Management System (Treasury System, Financial Reporting, and PFM Capacity Building)” under a World Bank led Multi Donor Trust Fund (MDTF). This project basically supports the implementation of PFM and related financial management activities in Nepal. About 5 million US Dollars worth of Technical Assistance will be channelized for this proposes. It includes the following components:

Component I - Implementation of Treasury Single Account (TSA) System

The TSA component is intended to provide support for (a) implementation of a Treasury Single Account (TSA) system that enables real time budget checks across all DTCOs in the country and at the center in the FCGO, and (b) further enhancement of the modified Financial Management Information System (FMIS)¹ to include elements of the core TSA functionality requirements (including commitment accounting) that are still missing, and any additional elements that will be required as the government moves to implement International Public Sector Accounting Standards (cash based IPSAS). This component’s design is based on the requirements to complete full rollout of the system to the remaining districts, setting up of a Central Module of the System at the FCGO and making any additional enhancements to the software. This component will include the following activities:

- Providing support for up-grading the technological infrastructure to set up the Core Treasury System (CTS),
- Providing support for further enhancement of the information systems,
- Technical Maintenance and Support for the Systems,
- Provide support for rolling out the TSA to the remaining districts,
- Training.

Component 2: Strengthening Accounting and Reporting Practices in Public and Private Sector.

This component will support initiatives of FCGO to strengthen financial accounting and reporting of the budgetary entities and State Owned Enterprises (SOEs) of GoN and

Accounting Standard Board (ASB) to convert Nepal accounting standards with IFRS. This component will include the following activities:

- Support convergence to IFRS,
- Introduce commitment accounting,
- Pilot consolidated financial reporting in accordance with International Public Sector Accounting Standards (IPSAS).

Component 3 – Supporting the Capacity Building of the PEFA Secretariat

The objective of this component is to strengthen institutional capability for sustaining reforms initiating to improve PFM system in Nepal. This component includes the following activities:

- Provide hands on support to PEFA Secretariat,
- Support finalization and implementation of work plan to implement the PFMRP Strategy Phase - I,
- Support Research and Analysis in high priority PFM areas,
- Develop and implement communication strategy to raise awareness of PFM.

7. Some Issues on PEFA Implementation

Some issues and challenges have been noticed to implement PEFA effectively. A few such issues and challenges are as follows:

- Weak Understanding of PEFA by the concerned stakeholders
- Strengthening the Steering Committee, Working Committee and PEFA Implementation Units
- Poor ownership of the key stakeholders on PEFA Framework and its Implementation
- Limited sectoral mainstreaming of the plans and programs with the PEFA framework
- Low focus of the government to implement the PEFA recommendations
- PEFA initiatives not fully acknowledged by the Local Government Bodies mainly due to poor dissemination
- Development partner's reluctance in supporting PEFA initiatives
- Weak PEFA Secretariat in terms of institution and staffing
- Some of the key agencies not represented in Steering and Working Committee
- PEFA indicators not linked with the performance incentives

- Inadequate budgetary support to implement Development Action Plans by the Line Ministries
- PFM reform process is not fully owned and acknowledged by the stakeholders
- Inadequate capacity to manage upcoming PEFA Assessment (2012) mainly due to skills, knowledge, expertise and professionalism on PFM/PEFA

8. Contact details

For detail information on PEFA activities please contact us in the following address:

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