

**ASIAN DEVELOPMENT BANK**

**TAR: NEP 36056**

**TECHNICAL ASSISTANCE**

**TO THE**

**KINGDOM OF NEPAL**

**FOR**

**STRENGTHENING INSTITUTIONAL CAPACITY FOR  
PUBLIC DEBT MANAGEMENT**

**December 2002**

## CURRENCY EQUIVALENTS

(as of 30 November 2002)

|               |   |                            |
|---------------|---|----------------------------|
| Currency Unit | – | Nepalese rupee/s (NRe/NRs) |
| NRe1.00       | = | \$0.0128                   |
| \$1.00        | = | NRs78.0                    |

The Nepalese rupee is pegged to the Indian rupee (Re) at NRs1.60 to Re1.00 and is fully convertible on all current account transactions.

## ABBREVIATIONS

|      |   |   |
|------|---|---|
| ADB  | - | Asian Development Bank                                  |
| DFID | - | Department of International Development, United Kingdom |
| DMU  | - | Debt Management Unit                                    |
| DPMC | - | Debt Policy and Management Center                       |
| EAPD | - | Economic Affairs and Policy Division                    |
| FCGO | - | Financial Comptroller General's Office                  |
| GDP  | - | gross domestic product                                  |
| IT   | - | information technology                                  |
| LID  | - | Loan and Investment Division                            |
| MOF  | - | Ministry of Finance                                     |
| NRB  | - | Nepal Rastra Bank                                       |
| OMOC | - | Open Market Operations Committee                        |
| PDCC | - | Public Debt Coordination Committee                      |
| TA   | - | technical assistance                                    |

## NOTES

- (i) The fiscal year (FY) of the Government ends on 15 July. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2002 ends on 15 July 2002.
- (ii) In this report, "\$" refers to US dollars.

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## I. INTRODUCTION

1. In October 2001, the Asian Development Bank (ADB) undertook an analysis of public debt sustainability of Nepal to provide inputs on foreign and domestic borrowing for the Tenth Five-Year Plan (FY2003-2007). Based on the findings of the analysis, during the Country Programming Confirmation Mission fielded, in December 2001, the Government of Nepal requested ADB to provide technical assistance (TA) for improving the Government's debt management capacity. Advisory TA on Public Debt Management was included in the country nonlending program for 2002.<sup>1</sup> A Fact-Finding Mission visited Nepal from 26 September 2002 to 11 October 2002. The Mission reached an understanding with the Government regarding the TA's objectives, scope, costs and financing, implementation arrangements, terms of reference for consultants, and counterpart support.

## II. ISSUES

2. Given the significant savings-investment gap and large fiscal and external deficits in Nepal, the role of public borrowing as an instrument of financing development expenditure has been particularly significant to meet the Government's poverty reduction goal. Nepal's public debt outstanding is currently about \$3.5 billion, 62% of gross domestic product (GDP), of which foreign debt is about \$2.7 billion, 48% of GDP, and domestic debt is about \$0.8 billion, 14% of GDP. A substantial portion of development expenditure, averaging about 56%, has been financed over the previous 5 years through foreign assistance. The domestic borrowing as a share of the total government borrowing and foreign grants has increased significantly from 19% in the 1990s to 27% in FY2002. Government debt service absorbs roughly one third of the country's revenue. While this debt service to revenue ratio is still manageable, it is increasing, partly due to the declining ratio of government revenue to GDP. However, the debt stock to revenue ratio is already serious at 280%,<sup>2</sup> though a large component is highly concessional. In addition to the existing debt balance, the recent sharp economic downturn since mid-2001 has had a serious adverse impact on the Government's fiscal position. The situation is not likely to be reversed in the near future. In view of this, it is imperative that public debt be managed efficiently to enable the Government to maximize development impact without undermining the country's ability to meet its medium- and long-term debt obligations.

3. Realizing the crucial importance of public debt management, the Government established the Debt Management Unit (DMU) under the Economic Affairs and Policy Division (EAPD) of the Ministry of Finance (MOF) in December 1996 with responsibility for recording loan details and transactions on domestic and external debt. In 1997, a computer-based debt recording and management system (CS-DRMS) was installed at DMU with assistance from the Department of International Development (DFID) to enhance the debt data recording, processing and reporting capacity of MOF. While a debt database was established and the users of the system were trained under the DFID assistance, the debt database has not been updated and the system has not been operational since March 2000, when the DFID project ended.

4. An ADB economic consultation mission was fielded in October 2001 to assess the sustainability of public debt and its management. Based on the recommendations of the mission, the Government relocated the server to the Financial Comptroller General's Office (FCGO) and has begun updating external loan data. A plan for upgrading the system is under

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<sup>1</sup> The TA first appeared in *ADB Business Opportunities* on 2 April 2002 (Internet edition).

<sup>2</sup> The benchmark for heavily indebted poor country (HIPC) eligibility is 250%.

consideration of the Government. The Government is now keen to ensure that this integrated debt management system is maintained properly, and that reports are generated to provide inputs to the formulation of a borrowing policy and strategy.

5. The Government noted a number of weaknesses encountered in building up capacity in public debt management. Some of the problems encountered were (i) the inadequate legal and regulatory framework, which failed to define without ambiguity the roles and responsibilities of the concerned agencies engaged in loan operations over a complete loan cycle; (ii) conflicting institutional interests among the agencies without any effective coordinating mechanism, which constrained an electronic link among FCGO, MOF, and Nepal Rastra Bank (NRB); (iii) inability to institutionalize the debt management function in any of these three agencies; (iv) inability to retain trained staff, partly due to the lack of institutional commitment and weak staff capacity, particularly in the area of debt analysis; and (v) lack of a monitoring mechanism for debt management activities.

6. The Government identified a number of areas where additional work is required to enable it to effectively manage public debt. The Government and ADB have agreed that efforts are urgently needed to address (i) the weak legislative and regulatory framework, (ii) inadequate institutional structures and coordination mechanisms among the concerned government agencies, (iii) problems associated with maintaining the loan database in the debt management system, (iv) lack of demand from users such as policy makers and the public for the reports that could be produced by the debt management system, and (v) inadequate capacity to produce analytical reports useful for debt policy-making process. The TA is consistent with ADB's Country Strategy and Program, which emphasizes the importance of institutional strengthening in Nepal. It also builds upon lessons learned from past experience that lack of adequate support for institution building hinders project sustainability.

### III. THE TECHNICAL ASSISTANCE

#### A. Purpose and Output

7. The overall objective of the TA is to strengthen Nepal's institutional capacity for sustainable and effective public debt management. The TA is also designed to complement the Government's initiatives in the area of improving public financial management with other assistance from ADB and other development partners. The TA will (i) strengthen the legal, regulatory, and institutional framework for public sector borrowing; (ii) improve its capacity for formulating debt policy and for planning; and (iii) strengthen debt accountability and transparency by improving debt recording and accounting. The TA framework is in Appendix 1.

8. The TA will cover (i) reviewing and consolidating the legal, regulatory and institutional framework for public sector borrowing; (ii) establishing a debt planning and policy capacity; and (iii) maintaining a loan database using an upgraded debt management system for ensuring timely debt service payments and transparency in public sector borrowing operations.

#### B. Methodology and Key Activities

9. **Legal, Regulatory, and Institutional Framework.** This component of the TA will review the legal, regulatory, and institutional framework for public sector borrowing and its management. It will cover both external and domestic borrowing and will include government borrowing, government-guaranteed borrowing of state enterprises, and government onlending of borrowed funds. Existing laws and regulations including the Fiscal Responsibility Act in New

Zealand will be studied with those of a few developing countries, and recommendations made for drafting a comprehensive public debt management law. It will deal with all stages of the loan cycle for public sector borrowing and assign specific responsibility for public debt management.

10. The TA will support the Government in preparing operational procedures for the effective use of loan funds and in monitoring loan utilization with a view to improving absorptive capacity. These procedures will clarify the roles of each agency involved in public sector loan operations. It will also result in the formulation of a policy for the issue and monitoring of government guarantees, although the Government has recently not issued guarantees. This is intended to minimize the risks and costs arising from defaults on explicit guarantees issued by the Government. Similarly, a policy for onlending borrowed funds will be formulated and procedures for monitoring such loans will be prepared so that MOF will have complete knowledge of the use of onlent funds, unlike at present.

11. The TA will propose effective institutional arrangements for coordination among the agencies involved in public sector borrowing at all stages of the loan cycle. Further, sustainable debt recording and management arrangements will be institutionalized to enable the Government to maintain an up-to-date and comprehensive database on public sector debt. Such a database will enable debt policy and portfolio analyses to be undertaken as an input to the formulation of a borrowing policy and strategy for the public sector.

12. The TA will enable the steering committee to review and make recommendations to the Government on a range of public debt management issues such as (i) the formulation of a new Public Debt Management Law; (ii) the preparation of a loan operations manual, and policies for issue and management of government guarantees and onlending funds borrowed from abroad by the Government; (iii) the establishment of a Public Debt Coordination Committee (PDCC) consisting of the concerned agencies to improve coordination among them for data collection and policy analysis, adopt benchmarks for leading debt indicators, and formulate a borrowing policy and strategy for implementing it; (iv) the establishment of a Debt Policy and Management Center (DPMC) in MOF to undertake debt policy and portfolio analysis, function as a secretariat for PDCC, coordinate closely with the activities of the existing Open Market Operations Committee (OMOC), and prepare quarterly and half yearly status reports on public debt for DPMC; and (v) the acceptance of the Loan and Investment Division (LID) in FCGO as the location of the central database for public sector borrowing with budgeted positions to maintain an up-to-date and complete database. The TA will study and recommend to the steering committee the need for establishing a high-level National Debt Council to set ceilings for domestic and government borrowing and provide overall guidance on public sector borrowings.

13. **Establishing a Debt Planning and Policy Capacity.** Capacity-building efforts will be directed toward DPMC, which will become the focal point for debt analysis and policy for the government. It will require close coordination among FCGO, MOF, and NRB under the guidance of PDCC. DPMC will prepare medium-term estimates of the resource gap as an input to the formulation of a medium-term borrowing policy, in close consultations with the National Planning Commission for checking macroeconomic consistency. This policy will adopt critical values for public debt indicators for Nepal. The borrowing policy and debt sustainability analysis will enable annual external and domestic borrowing levels to be estimated.

14. OMOC currently functions in NRB. It deals with the timetable for debt issues necessary to achieve the domestic borrowing ceiling and the instruments to be used for mobilizing resources. There is no similar committee that prepares a strategy for external borrowing that would enable the Government to make choices on lenders, markets to access, and currencies

of borrowing. An annual strategy will be necessary when nonconcessional borrowings including international capital market borrowing are contemplated, while it is less important now when the bulk of the external borrowing is from concessional bilateral and multilateral sources. Until such time, DPMC will prepare a strategy in consultation with the Foreign Aid Coordination Division of MOF and submit it to PDCC for approval. The TA will also review the coordination arrangements among DPMC, OMO, and PDCC.

15. Debt analysis will require access to the loan database and use of the facilities in the debt management software for analytical work. Given the difficulties of appointing qualified staff to MOF to undertake analytical work on public debt, consideration may be given to contracting out periodic debt analyses to meet the debt policy needs of the Government.

16. **Strengthening Debt Recording and Accounting.** The UNIX-based computer-based debt recording and management system used in Nepal will be upgraded to a Windows-based version to take advantage of technological improvements and overcome some technical problems. New servers will be purchased for FCGO and firm communications links established between it and new workstations that will be purchased for MOF and NRB. Additional proprietary software required for the new system to function will also be purchased.

17. The role of LID in FCGO to take responsibility for data entry on external borrowing and that of the Public Debt Department of NRB for data entry on domestic borrowing and exchange rate data obtained from the Foreign Exchange Department will be formalized. The loan database will be migrated to the new version of the debt management system at the time it is installed. Training on the use of the new system will be provided to staff for data entry and the production of single loan and aggregate debt reports at the time the system is installed. More advanced training in the use of the software will be provided for selected staff after the installation of the new system. These staff will be responsible for training a wider group of staff in the FCGO, MOF and NRB in the use of the system.

18. **Dissemination of Public Debt Data.** Debt awareness seminars will be held during the TA for senior policy makers and selected members of the public including the media. Action will be taken during the TA to place the first annual Status Report on Public Debt on the web site of MOF.

### **C. Cost and Financing**

19. The TA is estimated to cost \$500,000 equivalent, of which the foreign exchange cost is \$256,000 and the local currency cost is \$244,000 equivalent. ADB will provide a grant of \$400,000 to cover the entire foreign exchange cost and \$144,000 equivalent of the local currency costs. The TA will be financed on a grant basis by ADB's TA funding program. The Government will contribute the remaining local currency cost of \$100,000 equivalent to provide office accommodation, counterpart staff, facilities for seminars and meetings, and other administrative expenses. Details of the cost estimates and financing plan are in Appendix 2.

### **D. Implementation Arrangements**

20. MOF will be the Executing Agency for the TA; MOF, FCGO, and NRB will be the implementing agencies. While the TA activities will be guided by a steering committee that will consist of senior officers of MOF, FCGO, NRB, and the National Planning Commission and be chaired by the secretary of MOF, the primary implementation responsibility will be vested in a technical committee. The technical committee will be chaired by the joint secretary of EAPD of

MOF and include senior officers from the Foreign Aid Coordination Division of MOF, FCGO, and the Public Debt Department of NRB. The joint secretary of EAPD will also function as the project director, with assistance from FCGO and NRB. The steering committee will meet at the beginning of the project and every 6 months thereafter to guide the TA and resolve policy issues. The technical committee will meet every 3 months to discuss TA progress and implementation issues. Appendix 3 sets out the implementation arrangements. The TA team leader will be responsible for managing the funds for procurement of equipment, seminars, and meetings.

21. The TA will be implemented over an 18-month period from January 2003 to June 2004. Tripartite meetings of the Government, TA consultants, and ADB will be chaired by the secretary of MOF, and held every 4 months in the first year and every 6 months in the second year to review TA implementation priorities, address issues arising during TA implementation, and provide guidance to the TA consultants.

22. The TA will provide 8 person-months of international and 23 person-months of domestic consulting services. The international consultants will be skilled and experienced in the legal, regulatory, and institutional aspects of public debt management, debt policy and planning, and a computerized debt management system. The domestic consultants will be selected to cover legal, institutional, and debt policy and planning issues, and to support the computerized debt management system. Consultancy services and training needs will be coordinated with other government projects assisted by ADB and other important aid agencies in the area of public financial management. As the TA identifies the need for other specialists, the initial specifications might be modified. Such modification will be approved by the steering committee and ADB. Outline terms of reference for consultants are in Appendix 4.

23. The TA consultants will be selected and engaged on an individual basis in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for the engagement of domestic consultants. The TA will support the purchase of computer equipment and software, and the improvement of services for the web sites. The web site at MOF will strengthen public dissemination of public debt data. Equipment and systems procured under the TA will be handed over to the concerned agencies upon completion of the TA.

24. The consultants will prepare planning and progress reports describing TA activities and will flag institutional and technical issues. The consultants will prepare (i) an inception report including a detailed TA work program, to be submitted 1 month after TA implementation commences; (ii) reports for the tripartite meetings, indicating progress made, outstanding issues, and work plan for the period until the next meeting; (iii) a draft final report to the Government, to be submitted 1 month before TA completion; and (iv) a final report at the conclusion of the consulting services. All reports will be submitted to the steering committee and ADB.

#### **IV. THE PRESIDENT'S DECISION**

25. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance on a grant basis not exceeding the equivalent of \$400,000 to the Government of Nepal for Strengthening Institutional Capacity for Public Debt Management, and hereby reports this action to the Board.

## TECHNICAL ASSISTANCE FRAMEWORK

| Design Summary   | Performance Indicators and Targets   | Monitoring Mechanisms   | Risks and Assumptions   |
|--|--|---|---|
| <p><b>Goal</b></p> <p>Improved capacity for effective loan utilization and public debt management</p>                        | <ul style="list-style-type: none"> <li>• Strengthened legal and regulatory framework for public sector borrowing</li> <li>• Improved capacity for planning and formulating debt policy</li> <li>• Maintain up-to-date loan database using new debt management software</li> </ul>  | <p>Milestones for:</p> <ul style="list-style-type: none"> <li>• Completing reviews and introducing regulatory and institutional changes</li> <li>• Preparation of medium-term borrowing policy</li> <li>• Installation of software, training in its use, and updating the database</li> </ul> | <ul style="list-style-type: none"> <li>• Delays in Institutionalising LID as the location of the central debt database at the start of the TA and the DPMC later in the TA</li> <li>• No demand from senior policy makers for periodic portfolio and debt analysis</li> <li>• Procedures not established for training new staff in debt recording and management when trained staff move on to other assignments</li> </ul> |
| <p><b>Purpose</b></p> <p>Assist the Government in improving its capacity for public debt management and loan utilization</p> | <ul style="list-style-type: none"> <li>• Review of legal and regulatory framework leading to drafting new public debt management law</li> <li>• Preparation of loan operations manual containing procedures for government borrowing, government guarantees, and onlending</li> <li>• Maintenance of up-to-date loan database</li> <li>• Periodic loan portfolio and debt analysis that is institutionalized and circulated extensively to political leadership and senior policy makers.</li> </ul> | <p>Covers all items in Targets</p> <ul style="list-style-type: none"> <li>• TA review reports</li> <li>• Periodic reports of team leader and senior adviser</li> <li>• Periodic aggregate debt reports and analysis</li> <li>• Evaluation of training results achieved during TA</li> </ul>   | <p>Covers all items in Targets</p> <ul style="list-style-type: none"> <li>• Lack of government commitment to institutionalize public debt management as a function of the FCGO, MOF, and NRB</li> <li>• Availability of adequate qualified staff to undergo training in debt management</li> <li>• Availability of adequate IT staff to maintain a computerized loan database</li> </ul>                                    |

| Design Summary   | Performance Indicators and Targets  | Monitoring Mechanisms   | Risks and Assumptions   |
|--|---|---|---|
| <p><b>Outputs</b></p> <ol style="list-style-type: none"> <li>1. Review report on legal and regulatory framework for public debt management</li> <li>2. Institutionalizing public debt management in the government administration</li> <li>3. Improved coordination arrangements among FCGO, MOF, and NRB</li> <li>4. Development of a debt planning and policy capability in Government</li> <li>5. Establishment of a complete and up-to-date database for public sector debt</li> </ol> | <ul style="list-style-type: none"> <li>• Draft of new public debt management law and policies for the issue and monitoring of government guarantees and on lending</li> <li>• LID as a location of the central public debt database in FCGO and DPMU in MOF created with budgeted staff positions</li> <li>• Loan operations manual that clarifies the roles of the three principal agencies for public debt management at all stages of the loan cycle</li> <li>• PDCC to improve coordination among FCGO, MOF, and NRB</li> <li>• High-level national debt council with a well-defined role</li> <li>• Institutionalized capacity for debt planning and policy established</li> <li>• Installation of new debt management software, loan database migrated to it, and staff trained in its use</li> </ul> | <p>Covers all items in Targets</p> <ul style="list-style-type: none"> <li>• TA review reports</li> <li>• Periodic reports of team leader and senior adviser</li> <li>• Project steering committee reports</li> </ul>    | <p>Covers all items in Targets</p> <ul style="list-style-type: none"> <li>• Not perceived as Nepali initiative</li> <li>• No demand for TA output, specifically debt reports</li> <li>• TA components are not well coordinated</li> <li>• The steering committee and the technical committee not fully operational</li> </ul> |
| <p><b>Activities</b></p> <ol style="list-style-type: none"> <li>1. Review of legal and regulatory framework and institutional arrangements leading to <ul style="list-style-type: none"> <li>• public debt management law</li> <li>• formalization of LID as a location of the public debt data base and establishment of DMPC</li> </ul> </li> </ol>  |   | <p>Covers all items of Activities</p> <ul style="list-style-type: none"> <li>• TA review reports</li> <li>• Periodic reports of team leader and senior adviser</li> <li>• Project steering committee reports</li> </ul> | <p>Covers all items of Activities</p> <ul style="list-style-type: none"> <li>• Delays caused by TA team being unable to cope with local environment</li> <li>• Lack of commitment on the part of the Government to following through on institutional Changes</li> </ul>  |

| Design Summary   | Performance Indicators and Targets  | Monitoring Mechanisms   | Risks and Assumptions   |
|--|---|---|---|
| <p>2. Development of debt planning and policy capability</p> <ul style="list-style-type: none"> <li>• Preparation of medium-term borrowing policy</li> <li>• Preparation of debt sustainability analysis and annual borrowing plans and strategies</li> <li>• Preparation of periodic loan portfolio and debt analysis</li> </ul> <p>3. Computerized loan database</p> <ul style="list-style-type: none"> <li>• Purchase of computer hardware</li> <li>• Installation of Windows debt management software</li> <li>• Migration of loan database to new software</li> <li>• Regular maintenance of loan database based on well-defined data collection procedures</li> <li>• Staff trained in the use of the software</li> <li>• Preparation of single loan and aggregate debt reports for circulation to the cabinet and senior policy makers</li> </ul> |   |   | <ul style="list-style-type: none"> <li>• Perceived lack of local ownership</li> </ul>   |
| <p><b>Inputs</b></p> <ul style="list-style-type: none"> <li>• Consulting Services: <ul style="list-style-type: none"> <li>▪ team leader</li> <li>▪ senior adviser (debt management specialist)</li> <li>▪ IT consultants</li> <li>▪ Debt management training consultant</li> <li>▪ Legal/institutional consultant</li> <li>▪ Macroeconomic consultant</li> </ul> </li> <li>• Purchase of new software and necessary hardware</li> <li>• Training in debt management</li> <li>• Public debt seminars</li> </ul>   | <ul style="list-style-type: none"> <li>• 31 person-months</li> <li>• Software and computer equipment: \$30,000</li> </ul> | <p>Covers all items of Activities</p> <ul style="list-style-type: none"> <li>• TA review reports</li> <li>• Periodic reports of team leader and senior adviser</li> <li>• Project steering committee reports</li> </ul> | <p>Covers all items in Targets</p> <ul style="list-style-type: none"> <li>• Staff reassignment and time constraints</li> <li>• Delays caused by lack of commitment on the part of the principal agencies</li> <li>• Inability to expedite action during project implementation</li> <li>• Lack of interest among senior policy makers</li> <li>• Institutional wastage due to staff moving to other assignments after the training</li> </ul> |

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

| Item   | Foreign<br>Exchange | Local<br>Currency | Total<br>Cost |
|--|---------------------|-------------------|---------------|
| <b>A. Asian Development Bank Financing<sup>a</sup></b>         |                     |                   |               |
| 1. Consultants   |                     |                   |               |
| a. Remuneration and Per Diem                                   |                     |                   |               |
| i. International Consultants                                   | 160.5               | 0.0               | 160.5         |
| ii. Domestic Consultants                                       | 0.0                 | 80.5              | 80.5          |
| b. International and Local Travel                              | 26.0                | 0.5               | 26.5          |
| c. Reports and Communications                                  | 0.0                 | 1.0               | 1.0           |
| 2. Equipment <sup>b</sup>                                      | 30.0                | 35.0              | 65.0          |
| 3. System Operation and Maintenance                            | 7.5                 | 3.0               | 10.5          |
| 4. Trainings, Seminars and Meetings                            | 2.0                 | 4.0               | 6.0           |
| 5. Miscellaneous Administration and Support Costs <sup>c</sup> | 0.0                 | 4.0               | 4.0           |
| 6. Representative for Contract Negotiations                    | 0.0                 | 0.0               | 0.0           |
| 7. Contingencies   | 30.0                | 16.0              | 46.0          |
| <b>Subtotal (A)</b>  | <b>256.0</b>        | <b>144.0</b>      | <b>400.0</b>  |
| <b>B. Government Financing</b>                                 |                     |                   |               |
| 1. Office Accommodation and Transport                          | 0.0                 | 20.0              | 20.0          |
| 2. Remuneration and Per Diem of Counterpart Staff              | 0.0                 | 30.0              | 30.0          |
| 3. Facilities for Seminars and Meetings                        | 0.0                 | 20.0              | 20.0          |
| 4. Others  | 0.0                 | 30.0              | 30.0          |
| <b>Subtotal (B)</b>  | <b>0.0</b>          | <b>100.0</b>      | <b>100.0</b>  |
| <b>Total</b>   | <b>256.0</b>        | <b>244.0</b>      | <b>500.0</b>  |

IT=information technology

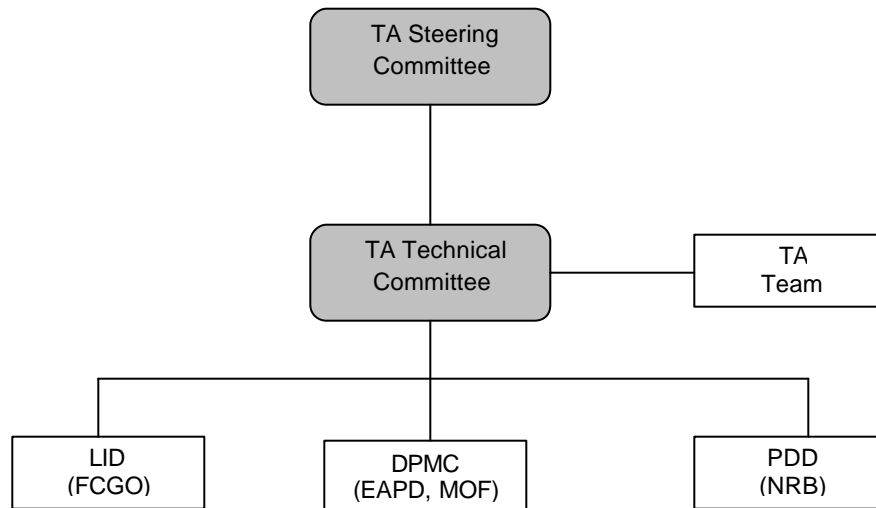
<sup>a</sup> Financed by ADB's TA funding program.

<sup>b</sup> Procurement of software, computer equipment, and other related services.

<sup>c</sup> Including office utilities, supplies and secretarial expenses.

Source: Asian Development Bank estimates.

### TA IMPLEMENTATION ARRANGEMENTS



DPMC: Debt Policy Management Center  
EAPD: Economic Affairs and Policy Division  
FCGO: Financial Comptroller General's Office  
LID: Loan and Investment Division  
MOF: Ministry of Finance  
NRB: Nepal Rastra Bank  
PDD: Public Debt Division

## **OUTLINE TERMS OF REFERENCE**

### **A. Objectives and Scope**

1. The technical assistance (TA) will complement the Government's initiatives in the area of improving public financial management with other assistance from the Asian Development Bank (ADB) and other development partners including the International Monetary Fund, World Bank, and Department for International Development (DFID). The consultant inputs and training that will be provided over an 18 month period of implementation will assist in institutionalizing and developing debt management capacity in the Financial Comptroller General's Office (FCGO), Ministry of Finance (MOF), and Nepal Rastra Bank (NRB). Coordination arrangements will be improved by preparing a loan operations manual and through the appointment of a Public Debt Coordination Committee (PDCC). The policy framework for public sector borrowing will be improved by building capacity in the principal agencies and formulating a medium-term borrowing policy and strategy and explicit policies on government guarantees and onlending. The database on public debt will be made comprehensive and updated in a timely manner. This will make it possible to undertake debt policy analysis that is necessary for formulating the policy framework.

### **B. Summary of Consulting Services**

2. The TA will provide consultancy services as follows:

#### **(i) International** (total 8 person-months)

- (a) Senior adviser - debt management specialist (4 person-months)
- (b) Information technology (IT) Consultant (1 person-month)
- (c) Debt management training consultant (1 person-month)
- (d) Macroeconomic consultant (2 person-months)

#### **(ii) Domestic** (total of 23 person months)

- (a) Team leader - financial and project management consultant (15 person-months)
- (b) Legal/institutional consultant (3 person-months)
- (c) IT consultant (1 person-month)
- (d) Macroeconomic consultant (4 person-months)

### **C. Detailed Terms of Reference**

#### **1. International**

##### **a. Senior Adviser – Debt Management Specialists** (4 person-months)

3. The international adviser will spend 4 months in Nepal over the 18 month period of Implementation. The first visit will be at TA inception, when the adviser will spend 1.5 months, then 1 month each during the second and third visits, and 2 weeks during the last visit. The adviser will:

- (i) supervise the installation of the new version of the debt management software and data migration, and assist the international IT consultant to provide training to users of the software;
- (ii) assist the legal/institutional consultant to
  - (a) review and assess the legal, regulatory and institutional framework for public sector borrowing; and prepare instructions for him/her to draft a new public debt management law;
  - (b) review the need for including some of the provisions of the Fiscal Responsibility Act of New Zealand in the new law; and
  - (c) prepare a loan operations manual that will clarify the roles of the various agencies;
- (iii) prepare a policy paper for the consideration of the Government on the issue and management of government guarantees;
- (iv) prepare a policy paper for the consideration of the Government on lending and its management;
- (v) prepare an analysis of the public debt of Nepal that could be placed on the website of MOF;
- (vi) undertake a debt sustainability analysis and prepare a borrowing policy for Nepal as guidance for the Debt Policy and Management Center (DPMC);
- (vii) work with the international training consultant to deliver a 23 week training program on public debt management;
- (viii) work with the legal/institutional consultant to draw up proposals for developing the domestic debt market including the secondary market;
- (ix) provide technical support to the team leader in project implementation; and
- (x) undertake other tasks as required by the steering committee and ADB.

**b. IT Consultant (1 person month)**

4. This consultancy will be required at the time the new debt management software is installed, which is expected to be at the beginning of the TA. The consultant should be an IT specialist and have relevant work experience in installing hardware and software for client server systems on a local area network and training staff in the use of the system. The consultant will work closely with the domestic IT consultant and the IT staff of the FCGO, MOF, and NRB. The consultant will

- (i) check the specifications of the hardware and software that have been purchased and installed in FCGO, MOF, and NRB and their connectivity to access the database that is at FCGO;
- (ii) install the new debt management software in the FCGO and ensure that staff in FCGO and a local IT consultant can reinstall the software in case the need arises;
- (iii) complete the loan database migration to the new debt management system;
- (iv) undertake data validation and prepare a diagnostic assessment on the loan database;
- (v) train staff of FCGO and the local IT consultant in database and systems maintenance activities;
- (vi) provide training to staff of the three agencies in data entry, report writing and production of single loan and aggregate debt reports; and
- (vii) undertake other tasks as required by the steering committee and ADB.

**c. Debt Management Training Consultant (1 person month)**

5. The consultant will be responsible for the delivery of a training program in public debt management in close consultation and with the assistance of the international consultant. The training consultant will prepare a draft program for review by the team leader and senior adviser. Course material will be prepared for the agreed upon program in consultation with the senior adviser and the task will be shared between them. It is expected that this training program will be held in the second year. The consultant will

- (i) prepare a course outline in consultation with the senior adviser and team leader,
- (ii) prepare the minimum profile for course participants,
- (iii) prepare training material for the agreed upon program in coordination with the international consultant,
- (iv) deliver the training program in Kathmandu on the agreed upon dates, and
- (v) undertake other tasks as required by the steering committee and ADB.

**d. Macroeconomic Consultant (2 person-months)**

6. The consultant will

- (i) develop a macroeconomic model for forecasting resource gaps for Nepal;
- (ii) using this model, undertake a debt sustainability analysis (DSA) to determine borrowing levels that are consistent with the maximum levels for public debt indicators that have been adopted by the PDCC;
- (iii) train staff in DPMC to conduct DSAs for estimating resource needs in the future that are consistent with the borrowing policy of the government; and
- (iv) undertake other tasks as required by the steering committee and ADB.

**2. Domestic**

**a. Team Leader – Financial and Project Management Consultant (15 person-months)**

7. The team leader will

- (i) oversee overall TA implementation and prepare required reports;
- (ii) work closely with the senior adviser in mobilizing the consultancy inputs as required for TA implementation;
- (iii) coordinate the procurement of hardware and software needed for upgrading the debt management software with ADB, FCGO, MOF, NRB, and the domestic IT consultant;
- (iv) discuss installation and data migration issues with the supplier of the debt management software, and ensure that the licensing agreement for the supply of the software is concluded on time;
- (v) arrange the facilities for staff training that will take place at the time of software installation and debt management training later in the TA cycle, and ensure that the training material prepared by the international training consultant is distributed to course participants;
- (vi) undertake debt and portfolio analysis under the supervision of the international consultant and learn the features of the debt management software;

- (vii) collect all the legal, regulatory and administrative documents that are relevant to public sector borrowing and debt management for review by the international consultants;
- (viii) assist the senior adviser and legal/institutional consultant in undertaking a review of the existing framework;
- (ix) assist the senior adviser in debt analysis and policy work during the consultancy;
- (x) prepare the terms of references for PDCC and the National Debt Council, if necessary in close consultation with the senior advisor; and
- (xi) undertake other tasks as required by the steering committee and ADB.

**b. Legal/Institutional Consultant (3 person-months)**

8. The consultant will be required to

- (i) prepare a report that reviews and assess the existing laws and regulations covering government and government-guaranteed borrowing by the public sector and onlending borrowed funds by the Government;
- (ii) study the laws and regulations applicable to public sector borrowing in India and one or two other Asian countries, and the Fiscal Responsibility Act in New Zealand to draw lessons for Nepal;
- (iii) in consultation with the senior adviser, prepare a set of instructions to be used in drafting the new public debt management law; Cabinet approval should be sought for these instructions before the consultant begins drafting the new law;
- (iv) following cabinet approval, draft a new law to await the reconvening of parliament;
- (v) review the role of the various agencies involved in public sector borrowing operations;
- (vi) review the operations of the domestic debt market, including the secondary market, and draw up proposals for developing the domestic debt market;
- (vii) prepare a loan operations manual in consultation with the senior adviser that will clarify the roles of the various agencies; and
- (viii) undertake other tasks as required by the steering committee and ADB.

**c. IT Consultant (1 person-month)**

9. The consultant will

- (i) supervise the installation of the hardware in FCGO, MOF, and NRB, and ensure connectivity between them;
- (ii) follow the installation procedures for the new debt management software;
- (iii) follow the data migration procedures;
- (iv) follow the database and systems maintenance activities that have to be undertaken by staff of FCGO;
- (v) participate in the training program provided by the international IT consultant to users of the software on data entry, report writing, and the generation of single loan and aggregate debt reports; and
- (vi) undertake other tasks that may be assigned by the steering committee and ADB.

**d. Macroeconomic Consultant (4 person-months)**

10. The consultant will
  - (i) provide the data inputs on Nepal required by the international macroeconomic consultant to develop a model for forecasting the resource gaps for Nepal;
  - (ii) assist the international macroeconomic consultant to undertake a debt sustainability analysis to determine borrowing levels that are consistent with the maximum levels for public debt indicators that have been adopted by the PDCC;
  - (iii) train staff in the DPMC to conduct debt sustainability analyses for estimating resource needs in the future that are consistent with the borrowing policy of the Government; and
  - (iv) undertake other tasks as required by the Steering Committee and ADB.

**D. Reporting Requirements**

11. Individual consultants shall report to the Team Leader during the consultancy. They shall submit completion reports to the Team Leader upon completion of the assignments.

12. The Team Leader (in close consultation with the Senior Adviser) shall submit the following reports to the Government and ADB:

- (i) an inception report including a detailed work program for the TA within 30 days of commencement of the TA;
- (ii) reports for tripartite meetings indicating progress made, outstanding issues and future work plans within 2 weeks of the completion of a tripartite meeting;
- (iii) draft final report to the Government and ADB to be submitted one month prior to the completion of the TA; and
- (iv) a final report at the conclusion of the consulting services.