

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: Nepal Resident Mission/South Asia Department

TA No. and Name TA 4017-NEP: Strengthening Institutional Capacity for Public Debt Management			Amount Approved: \$400,000	
			Revised Amount:	
Executing Agency: Ministry of Finance, Government of Nepal		Source of Funding: TASF	TA Amount Un-disbursed: \$31,982.85	TA Amount Utilized: \$368,017.15
Date			Completion Date	
Approval 6 December 2002	Signing 4 Feb 2003	Fielding of Consultants: 20 August 2003	Original 30 June 2004	Actual 31 December 2005
			Closing Date	
			Original 30 June 2004	Actual 26 July 2006
<p>Description.</p> <p>The role of public borrowing as an instrument of financing development expenditure has been particularly significant to meet the Government's poverty reduction goal. It is imperative for public debt to 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. However, Nepal's public debt management system suffered from several weaknesses in 2001. In particular, the following weaknesses were noted: (i) inadequate legal and regulatory framework; (ii) conflicting institutional interests among the agencies without any effective coordination mechanism; (iii) inability to institutionalize the debt management functions; (iv) inability to retain trained staff; and (v) lack of a monitoring mechanism for debt management activities. The Government and ADB designed the TA to address these weaknesses. The TA was consistent with ADB's Country Strategy and Program (CSP), which emphasized the importance of institutional strengthening in Nepal. It also built upon lessons learned from past experience that lack of adequate support for institution building hinders project sustainability.</p> <p>Expected Impact, Outcome, and Outputs</p> <p>The objective of the TA was to strengthen Nepal's institutional capacity for sustainable and effective public debt management. The TA complemented other Government initiatives in the area of financial management. The TA aimed to (i) strengthen the legal, regulatory, and institutional framework for public sector borrowing; (ii) improve capacity for formulating debt policy and for planning; and (iii) strengthen debt accountability and transparency by improving debt recording and accounting.</p> <p>Delivery of Inputs and Conduct of Activities</p> <p>A total of 31 person months of consulting services – 8 person months of international and 23 person months of domestic experts - were provided. The TA was implemented over a 35-month period, compared to the original schedule of 17 months. An extension in TA completion date was required due to (i) delays in the delivery and installation of the updated Commonwealth Secretariat – Debt Recording and Management System (CS-DRMS) 2000+ and (ii) frequent changes in Government. Consultants services were used to install the CS-DRMS 2000+ system, prepare the Nepal Macroeconomic Model (NMM), provide training on CS-DRMS 2000+ and NMM, and draft the legal regulatory and institutional framework for public debt management in Nepal. A minor change in scope of the TA was required to (i) accommodate Government requests for study of contingent and on-lending management issues and (ii) account for the delays in installation of the CS-DRMS 2000+ system. The TA consultants' performances were satisfactory¹. Reports prepared under the project were well appreciated by the Government. The TA outputs were cost effective with about 8% saving in the TA budget. TA outputs, however, exceeded those envisaged earlier.</p> <p>A technical committee comprising officials from Ministry of Finance (MOF), Nepal Rastra Bank (NRB) and Financial Comptroller General's Office (FCGO) coordinated TA activities while a steering committee chaired by secretary MOF provided overall guidance. A debt management unit was established within MOF during TA inception. But the unit did not undertake significant debt recording and analysis functions due to lack of qualified staff. Government officials participated enthusiastically in training programs conducted under the project and were able to apply their new skills. The training program on NMM was especially well received. NRB adopted the NMM for economic forecasting purposes and requested additional training programs on the use and maintenance of NMM. MOF provided adequate office accommodation, logistics and counterpart staff. Overall, the performance of the executing agency and other Government agencies was satisfactory.</p>				

¹ PER of one consultant was rated as outstanding while PERs of the remaining consultants were rated as satisfactory.

ADB closely supervised the TA activities and outputs. ADB undertook an inception and review mission to assess TA progress, and resolve policy and implementation issues through discussions in tripartite meetings. ADB also proactively facilitated TA activities, coordinated consultant visits to Nepal, monitored the consultant outputs and provided inputs for the preparation of consultants' reports. It also dialogued with the Government for the preparation of a roadmap for the adoption of the legal, regulatory, and institutional framework for public debt management prepared under the project. The EA appreciated ADB's role in facilitating and guiding TA activities. The performance of ADB was satisfactory.

Evaluation of Outputs and Achievement of Outcome

The key outputs of the TA were (i) preparation of the draft legal, regulatory, and institutional framework for public debt management; (ii) upgrading of unix based CS-DRMS (iii) preparation of the NMM; (iv) training programs on CS-DRMS and NMM; (iv) establishment of wireless radio connection among agencies responsible for public debt management; and (v) institutional linkage with Reserve Bank of India (RBI) on public debt management.

The reports prepared under the TA are of high quality. The draft legal, regulatory, and institutional framework is based on regional and international best practices and, once adopted by the Government, will help strengthen public debt management significantly in Nepal. The implementation of these proposals will also improve the monitoring mechanism for debt management activities. The training programs on NMM and CS-DRMS 2000+ helped improve the skills of Government officials and were well appreciated by the Government. In this regard, the use of resource persons to carry out in-country training programs was a highly efficient and cost effective way of providing training to large number of Government staff. The establishment of institutional linkage with RBI will enable the Government to access the institutional knowledge and training programs of RBI.

The overall effectiveness of the TA will depend to a large extent on the implementation of the draft legal, regulatory, and institutional framework for public debt management prepared under the TA. The reports prepared under the project have been well received by the Government. However, so far, little has been done to build consensus among different agencies regarding the proposed reforms or to implement the TA recommendations due to frequent changes in the Government. The current Seven Party Alliance Government is not oriented towards pushing through with major policy and reform measures. Implementation of TA proposals will likely have to wait for a Government with mandate to push reforms. Training programs conducted under the TA have built capacity among Government staff. The Government has shown increased commitment towards reducing the transfer of staff involved in debt management functions. The installation of the CS-DRMS 2000+ and NMM in Government agencies has improved debt recording and analysis capacity. However, the Government is yet to establish the official Government public debt database in the CS-DRMS 2000+ system.

Overall Assessment and Rating

The TA objective, design, and implementation arrangements were relevant to the country context, the Government's priorities and ADB's CSP for Nepal. The TA improved the capacity of Government agencies to manage debt by installing upgraded IT systems and through training programs. The preparation of the NMM was an important achievement that improved the macroeconomic forecasting and debt analysis skills of Government staff. However, the sustainability of the TA achievements will depend on the adoption of the legal, regulatory, and institutional framework prepared under the project. Overall, the TA is rated as successful.

Recommendations and Follow-Up Actions

While significant progress has been achieved in strengthening public debt management under the project, some follow up actions are needed to ensure that the gains of the TA are not lost and public debt continues to be managed prudently in Nepal. In particular, the Government needs to

1. prepare a roadmap for the adoption of the draft legal, regulatory and institutional framework for public debt management prepared under the project;
2. create a specialized unit within MOF for public debt management functions;
3. establish a official Government public debt database in the CS-DRMS 2000+ system;
4. introduce a training program on CS-DRMS 2000+ in the annual training schedule of FCGO.

Continued dialogue with Government will be required to ensure the implementation of these proposed measures.