

PEFA Journal

(The Nepalese Journal of Public Financial Management)



Government of Nepal

Ministry of Finance

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Layout Design:

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Printing:

Asmi Printing Press

EDITORIAL

Public Expenditure and Financial Accountability (PEFA) Secretariat is proud to announce the publication of the fourth volume of the PEFA Journal. As it contains articles of Public Financial Management (PFM), it has been considered as a pioneer Journal of this kind in Nepal.

Articles, the ones related to Public Financial Management, have been published often in the past. And we have continued the very process for now and in upcoming ones as well. Second PEFA Assessment Report has been launched on 18th June 2015 and second phase PFM reform action plan is being finalized. Thus, taking the earlier points into account; some of the articles, with the topic Public Financial management Reform, Nepal's Experience in PFM Assessment, Realistic Budget for Capital Expenditure, Nepal Public Sector Accounting Standard, TSA, RMIS Local level Public Financial Management Reform Initiatives etc. are included in this issue.

We expect and welcome the articles that are research-based and address as public prominent financial management issues that the country is facing in various contexts. We hope you would like this issue and look forward to receiving your constructive feedback so that we in the future would be able to enhance the quality of the Journal.

Editorial Board
PEFA Secretariat

"All views expressed in articles are those of the author and do not represent the views of PEFA Secretariat"

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Status Paper on Computerized Government Accounting System (CGAS) Implementation

Netra Subedi "*Prayas*"¹

Introduction

Financial Comptroller General Office (FCGO) is the main government agency responsible for the treasury operation of Government of Nepal. Few of the major responsibilities of FCGO are to oversee all government expenditure against budget, tracking revenue collection and other receipts and preparation of consolidated financial statements of the government. As a chief accountant of the government, institution's prime responsibility rests on maintaining financial discipline through its primary works of book keeping, internal audit and reporting as very important aspects of public financial government.

To carry out above mentioned responsibilities through its regular functions, FCGO is applying e-governance approach in its working endeavor. Application of Treasury Single Account (TSA), a system used in tracking expenditure, revenue and commitments is one of the success story demonstrated by team under the umbrella of FCGO. Full roll out of TSA is successful in bringing the government transactions (income and expenditure) to the online system by heavily lowering the number of bank accounts thus decreasing both bank commission as well as overdraft size to be bear by the government. In fact, TSA system has multiplier effect in improving our budget cycle, which is evident from the second PEFA Assessment result (*can be reached at www.pefa.gov.np*).

1 Mr. Subedi is Deputy Financial Comptroller General in Financial Comptroller General Office.

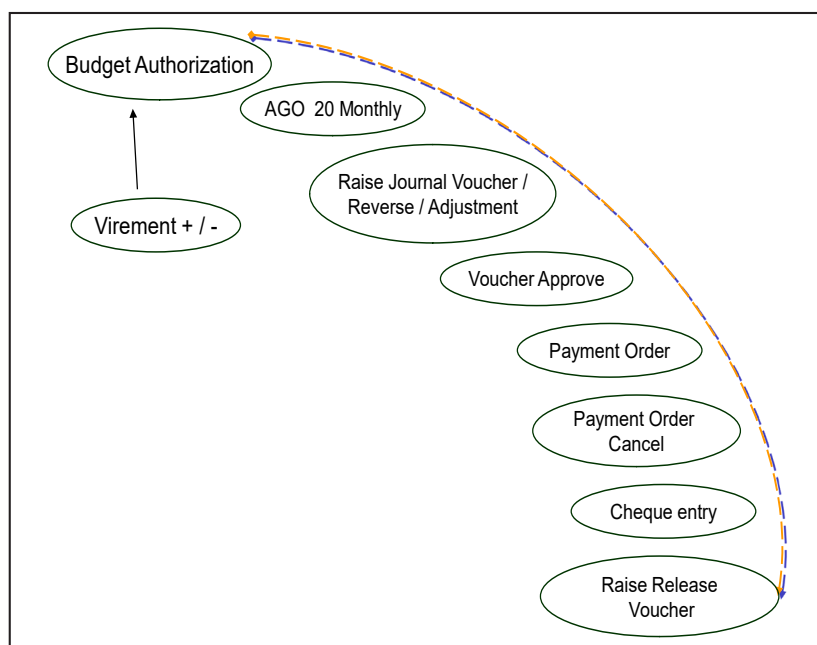
1. Use of Computerized System: Demand of the Day

FCGO has been thriving for appropriate and timely changes in the accounting system of Nepal. There are still several works to do in order to bring back all the transactions of the public financial management (income, expenditure, retention, debt, loan, direct payments, grants to public enterprises and local bodies, commitments, agreements and reimbursement of development assistance, public assets etc) into the modern and computer based system. Existing forms demands several updates, changes and additional forms need to be used and make them computer friendly in size and shape.

In order to make the government accounting system updated, world class standard and reliable, FCGO has started to develop computer based accounting system applicable for all paying offices of Government of Nepal. Basic entry level formats as well as reporting forms are already developed in accordance with the accounting formats endorsed by Office of the Auditor General, the supreme audit institution of Nepal. Few developmental works are underway to incorporate remaining accounting fields and reporting formats. Definitely it takes considerable span of period in order to address all the demands from business process side. Recently RMIS software is piloted in Kathmandu valley from last fiscal year and rolled out to other 12 districts of the country from fiscal year 2072/73 (2015/16). As interfacing software RMIS records revenue data and assist in accounting as well as reporting of the same in all the stakeholders of the revenue. Besides, FCGO has initiated gradual implementation of Nepal Public Sector Accounting Standard (NPSAS) in line with International Public Sector Accounting Standard (IPSAS) in all 44 central level entities of the government of Nepal. TSA, RMIS, NPSAS and CGAS are the software dedicated to improve public financial management of Nepal. These are mutually reinforcing to each other and made compatible so that we can integrate them once the system is prepared fully.

Manual transactions, processing and accounting of government income and expenditure have to replace by computer based system. Online system

has comparative advantage over manual system basically in the time, cost, quality and reconciliation front. FCGO has already initiated the development of Computerized Government Accounting System (CGAS) to fulfill this need. This system works alongside the budget execution so as to record and report the financial data starting from budget authorization and running up to cheque release vouching as shown in the preliminary CGAS flow chart as shown in the figure below:



Basically, deposit voucher, payment order, bank register, budget sheet, balance sheet, financial report and other reporting formats are captured by the software system. The system has been piloted in 16 government offices of Kaski district and all the district treasury offices (79) under FCGO. Feedbacks, comments and suggestions that FCGO got from those pioneering offices are crucial for further development and fine-tuning of the CGAS software. Starting from 17 July, 2015, more than 20 central level entities (ministries, departments, commissions, constitutional bodies etc) have begun to apply CGAS system after practical training and other preparatory works. Before extending to all those offices which demands CGAS software, FCGO from the developing and coordinating institution have to

carry out few robust tasks relating to the software development, sensitization and IT and telecommunication infrastructure.

1. Expected Outcome of the CGAS Full Implementation

- Fast, reliable, accurate and modern accounting-
- Timely capture of income, expenditure, retention money and other financial data into the standard system
- Enhanced public financial management and overall working environment of the public office
- Timely data reconciliation and financial reporting

2. Immediate Agenda for CGAS Development

In order to apply CGAS in all the government offices of Nepal, there are few important preparations to be made which include:

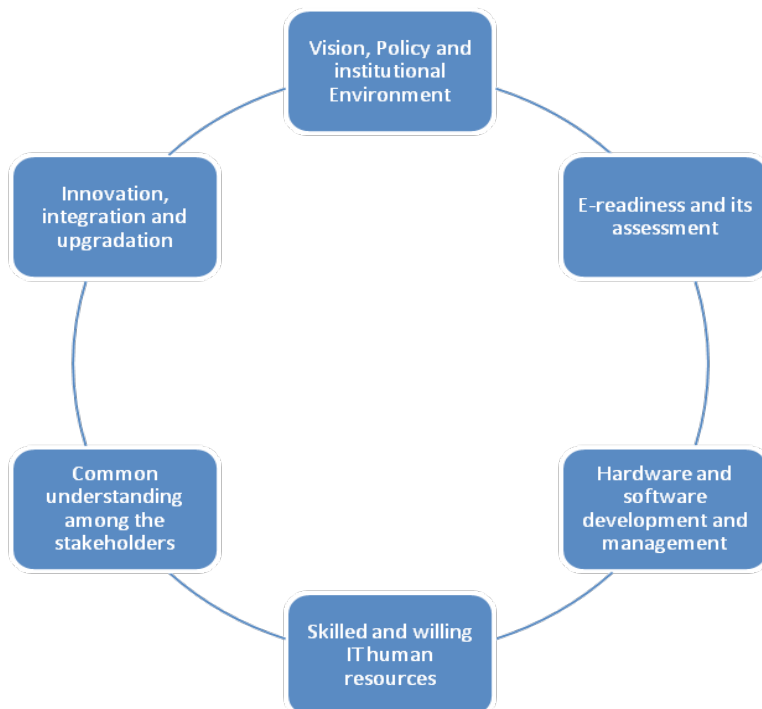
- Software development and integration (*It is in further development stage covering central level accounting formats, retention money, salary sheet etc*)
- Hardware development (*Current infrastructure is not enough for full implementation*)
- Telecommunication Infrastructure development
- Human capability development through regular training and experience sharing
- Support and troubleshooting at district level which demands at least one Computer engineer in each DTCO.
- Data back-up facilities and use of "fail over" concept
- Internet facility with uninterrupted high speed bandwidth
- Power backup alternative
- Common understanding for applying integrated software

3. Developing Possible Options

CGAS development should be priority agenda of FCGO. And for this there should be dedicated unit or task team looking after the business process back

in back with the IT team and software development consultants assigned by FCGO. And we should explore ideas and options to develop a separate project work of full implementation of CGAS with necessary financial support from Ministry of Finance. It is possible to get support from development partners working in the field of Financial Management reform. Most importantly, there is need of developing each of the following components side by side in order to achieve e-governance in public financial sector of our country.

ICT use not only create hopes and opportunities but it has multiple challenges to face with before come to the smooth functioning of the system. It is worthwhile to note that successful e-governance does not come overnight. Mutually inclusive steps for e-governance to materialize are establishing ICT functional framework (hardware, humanware and telecommunication infrastructure), digitization (conversion of business process into computer language) and use in public services with appropriate provision for citizen access to the system in use. There are few components as shown in the following diagram that need to be developed followed by regular innovation and up gradation in the system so as to result in the successful e-governance.



5. Conclusion

FCGO is not only apex governmental body in public financial management but also one of the pioneering offices to apply online based IT systems applicable in all the districts. Still there is a long way to go for the sustainable and well functioning IT system addressing the immediate demands of Nepalese public financial management. Full implementation of CGAS followed by due focus in its infrastructure and development is demand of all those involved in public financial management. Success story set by TSA implementation guides us for incremental application based on demand and capacity. The methodology that FCGO intends to apply in CGAS system is not different than the modality tested in TSA regime. Now it is high time to make the CGAS software user friendly, comprehensive and implementable. Once it is done big chunk of resources can be saved from spending to procure parallel software available in the market. And integrated system of financial data will be available to central PFM organization including ministry of finance.



Challenges of Public Sector Auditing to Promote Good Governance

Chandra Kanta Bhandari FCA*

Background

Without significant improvement in governance, all other government-led reform initiatives will have limited impact. The main focus of the public sector is on delivery of services to the citizen, including those in support of laws and regulation, rather than the generation of profits as in private sector. Users of public services, unlike consumers in the private sector, often have little or no option to use a different service provider, or to withdraw payment for services. For these reasons, the performance of public sector entities can only be partially evaluated through examining their financial performance and financial position at year end. However, general Public, as ultimate stakeholders of the government initiatives, is also interested in issues such as:

- (a) Whether the planned outputs have been delivered and outcomes achieved, and
- (b) Whether this has been done in an efficient, economic, and effective manner.

To ensure that general public is getting quality services, there should be a robust accountability framework, which can be articulated through mechanisms such as fiscal rules, budget frameworks, and input, output, and outcome targets. Public Financial Management (PFM) is one of the important aspects of accountability framework in public sector. The public sector PFM typically covers budgetary systems, revenue administration, procurement systems, expenditure management, accounting and internal control system, external auditing and oversight, inter-governmental fiscal relations and specific anti-corruption efforts. The quality of

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PFM depends on a number of important variables, including:

- (a) how well individual organizations work,
- (b) The quality of inputs provided to the system, and
- (c) The feedback and control mechanisms that ensure a rigorous focus on delivery of outputs and achievement of outcomes.

Audit by Supreme Audit Institutions (SAIs)

External audits by SAI are an essential component of an effective system to promote public accountability, transparency and integrity, ultimately promoting to good governance. The funding of public services from taxation creates a need for a different and much deeper level of accountability than what applies in the private sector. Therefore, public sector bodies should be subject to internal and external audit and review arrangements that are of high quality, and in accordance with appropriate professional standards. The deeper level of accountability resulting from the implied social contract between the public and public bodies means that public audit must not only (a) involve provision of an opinion on financial statements, but also (b) cover such issues as regularity, propriety, and value for money. The reporting entity should report on its performance, while the auditor provides assurance on that report. If the entity does not report appropriately in certain respects, the auditor may need to draw attention to this and comment on the impact, cause and provide recommendation, if any.

Result of audit work helps parliament, civil society organizations and other stakeholder hold government and public sector entities accountable as they were entrusted to work on behalf of the people.

Effective Public Sector Audits

For public sector audits to be effective, auditors must be able to make the results of their audits publicly available. Appropriate reporting arrangements are therefore required to communicate audit findings widely on an independent basis i.e. “without fear or favor” basis. This is a critical component of the accountability

process.

One of the main roles of SAIs is to contribute effectively to the transparency and accountability of the management of public funds. This is achieved by carrying out high quality audits resulting in clear, reliable and useful reports.

- Clarity of audit reports is ensured by clear and accurate drafting; setting out the audit objectives and criteria; clearly describing the findings, conclusions and recommendations; and presenting easily distinguishable main messages.
- Reliability of audit reports is ensured by complying with professional standards including independence and objectivity; as well as providing findings and conclusions based on sufficient, relevant and reliable audit evidence.
- Utility of audit reports is ensured by covering topics of relevance to stakeholders, presenting up to date findings; timely audits to contribute to upcoming changes in the legislation or budget execution; and recommending cost-effective remedial action.

How can SAI promote Good Governance?

Transparency and accountability is the key to good governance. SAI promotes good governance through reporting on overall public financial management. An SAI carries out audits to ensure that government and public entities are held accountable for their stewardship over, and use of public resources. SAIs, in accordance with their mandates and applicable professional standards, conduct any or all of the (a) audits of financial and, where relevant, non-financial information, or (b) Audits of compliance with legislation and regulations, or (c) Performance audits.

Based on audits carried out, SAI submits audit reports, in accordance with their mandates, to the legislature or any other responsible public body, as appropriate. SAIs analyze their individual audit reports to identify themes, common findings, trends, root causes and audit recommendations, and discuss these with key

stakeholders. Audit results included in SAI reports facilitate to empower the public to hold government and public entities accountable.

To maintain their credibility, SAIs' work should be based on independent professional judgment and sound and robust analysis. SAIs' work should be used to help inform the debate on improvements in the public sector without compromising their independence. SAIs should always be credible and trustworthy institution so that they can demonstrate their ongoing relevance. For this, SAIs should periodically assess whether stakeholders recognize SAIs' effectiveness and contribution to improvements in the public sector, in other words, public perceive value and benefits of SAI.

SAI's credibility depends on being seen as competent, independent and publicly accountable for their operations. In order to make this possible SAIs need to lead by example so that other entities learn from them. SAIs should perform their duties under a legal framework that provides for accountability and transparency. SAIs should make public their mandate, responsibilities, mission and strategy. SAIs should use audit standards, processes and methods that are objective and transparent, and make known what standards and methods are used. SAIs should manage their operations economically, efficiently, effectively and in accordance with laws and regulations, and report publicly on these matters using an appropriate performance measurement framework. SAIs should be subject to independent external scrutiny, including external audit of their operations. SAIs should adopt and comply with good governance principles and report appropriately thereon.

SAIs should apply a Code of Ethics that is at least as demanding as the relevant INTOSAI standards. SAIs should institute appropriate policies and processes to ensure awareness of and adherence to the requirements of the Code of Ethics within the SAI. SAIs should apply high standards of integrity and ethics, for example as expressed in a code of conduct.

SAIs' policies and procedures should require all personnel and all parties doing work on behalf of the SAI to comply with the relevant ethical requirements. SAIs'

policies and procedures should stipulate that the SAI will only undertake work that it is competent to perform, while managing the risks to quality.

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1. Achieving High Quality in the work of SAIs, SIGMA Paper No. 34, 2004
2. ISSAI 12 The Value and Benefits of SAIs - making a difference to the Lives of the Citizens
3. ISSAI 20 Principles of Transparency and Accountability
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An Overview of Foreign Capital in Nepal

*Dr. Sovit Lal Bajracharya**

Abstract

No country is self – reliant today. Basically, developing countries need foreign capital so as to supplement technology, management, saving, investment etc. The contribution of foreign loan has been declining in Nepal. But, the coverage of grants in total foreign assistance is gradually increasing. The proportion of multilateral source increased in total foreign grant. The share of bilateral source in total loan is ever increasing. Foreign capital has also weaknesses such as unnecessary pressure, tied aid etc. So foreign capital is also regarded as hero of modernization, sometimes as the villain of peace and sometimes as prop man.

Keynotes: Foreign capital, Investment, Value – added, Domestic saving, Technology transfer, Foreign exchange, Infrastructure.

Introduction

Foreign capital is the source, amount or amount of goods that is introduced in host country by a foreign country. Foreign capital plays important role in accelerating the pace of economic development of the country. Almost all the developed countries had resort to foreign capital to meet their low level of saving in the initial stage of development. For example, Britain had received a large amount of capital from Holland for industrial development in 17th and 18th century. Canada had used foreign capital from Britain and U.S.A. up to three decades of 20th century. (Haberler: 1959)

There is substantial controversy in poor countries over the role of foreign

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investment. A negative stance toward investment abroad is sometimes taken in the affluent countries as well. Export of jobs, currency speculation and tax evasion, exercise of immoral business practices, use of undue influence in the capital- all have come under attack. The simplest criterion for evaluating the effects of foreign investment considers its additions to value - added. If foreign capital in a single enterprise causes, directly and indirectly, an increase in value added to total output in all sectors greater than the amount appropriated from the enterprise by the investor, then its social returns exceed private returns and its impact is sometimes said to be beneficial. (Kindle Berger, 1976:313).

Literature Review

Millikan (1968) states that after World War II, the foreign and business has become modern in the sense that the development assistance is viewed as a part of rich country's world responsibility.

The World Bank (1998) argues that aid should only be allocated to those countries whose governments have demonstrably adopted a "good policy environment". But it is not realized that withholding aid to the government having poor policy environment is unfair to the poor citizen of that country.

Wood and Lockwood (1999) delineated that bilateral donors usually select countries according to their political or colonial alliances and perceived needs. The selectivity approach is concerned with selecting countries those who have "good economic policies and sound institutions". Defining "good" and "bad" policies is in the hand of donors and is a matter of subjective judgement. The other drawback of selectivity is that conditionality enters by the back door and it hampers for building ownership of reforms.

Uvin (2004) criticizes conditionality by considering it as unethical when suspension of aid hurts the poor because of their rulers' undemocratic behavior that donors do not like. If democracy is enforced by outside donors then it is also unethical by violating the principle of sovereignty.

Goldin and Reinsert (2006) opines that the motives of foreign aid are varied and include political, Strategic and commercial interests of donors as well as their moral and humanitarian purposes to support poor countries perceive foreign aid as financial hands out to recipient countries.

Objective

The broad objective of this study is to examine the nature and the role of foreign capital in Nepal.

Methodology and Data Source

Descriptive Cum survey method is employed here to analyze nature and role of foreign capital. The macro data used here are based on secondary source.

Statistical Interpretation

So as to show relationships amongst economic variables such as capital expenditure, foreign loan and grants, statistical tools like the coefficient of multiple determinations and the adjusted coefficient of determination have been employed.

Foreign capital and Economy

The role of foreign capital especially in developing economies may be explained in as follows manner.

1. Domestic saving: Foreign capital can play supplementary role of saving and increase the rate of investment.
2. Foreign exchange: Foreign capital can assist to solve the problems of unfavorable balance of trade and foreign exchange earnings.
3. Transfer of technology: In order to modernize agriculture, increase agricultural productivity and develop industrial sector as well, foreign capital can play crucial role.
4. Development Of infrastructure: The infrastructure like road, irrigation, electricity, communication needing heavy investment can be developed by

the help of foreign capital.

5. Utilization of natural resources: Foreign capital helps to utilize natural resources like water resource, forest, mineral, human etc.

Transformation of resources and Channels:

The foreign capital is transferred on the basis of following grounds.

- (a) Foreign direct investment (FDI): The investment made by the foreign entrepreneur and institution, is called FDI. There are two kinds of FDI.
 - i. Direct investment: To obtain ownership of the asset by making investment in any country and control the enterprise by foreign investor is called direct investment.
 - ii. Indirect investment: It is also known as portfolio or renter investment. Under indirect investment, the foreign citizens purchase the negotiable securities like shares, bonds issued or guaranteed by the government of capital importing country.
2. Public foreign investment: The investment made by one country in other country is called as public foreign investment.
3. Multilateral aid: The multilateral source is also a form of official assistance. It also includes grant and loan. The multilateral is available from two sources.
 - (i) Multilateral development banks: The World Bank, International Development Association, International Finance Corporation, Asian Development Bank and so on is multinational development banks.
 - (ii) Functional institution of United Nations: It comprises of the institution like UNICEF, UNDP and WFP.
4. Non- governmental organizations: The NGOs of developed countries

have also been providing assistance. Many institutions like Red Burna, USC Canada, and OXFAM. SAP – Nepal etc. have been working in developing countries.

5. Earning from trade: The foreign capital can also be received by earning from foreign trade.

Current foreign capital investment policy (2010/011- 2012/013) of Nepal:

In the present, sustainable economic development of Nepal is not possible with the mobilization of internal resources only. Foreign technology and management can be assumed as helping hands for our development. Even the mere investment made by the two big neighboring countries China and India whose economic growth is double digits oriented, can play significant role in the economic development of (GON, Ministry of Finance, Economic Survey, 2010:1}

The major objectives of foreign investment policy of Nepal under current plan are to mobilize foreign investments for sustainable and broad based economic growth and creation of employment opportunities.

Small internal market and lack of integration with regional markets for market on more frequency of strikes, closure (strikes) and Chakkajam, uncomfortable labor relations, limited capital markets, difficult procedural system, insecurity, lack of appropriate relation between laborer and investors are the major problems in this sector(NPC, Three Year Approach Paper , 2013:38).

There are some major foreign capital investment policies of current plan. They are:

- (a) Necessary legal, policy and institutional system will be strengthened in order to facilitate foreign investment.
- (b) Efficiency of capital, technology transfer and management will be emphasized in foreign investment.
- (c) Infrastructures will be developed by attracting foreign investment in infrastructure sectors like hydroelectricity, tourism and transport.

- (d) Investment friendly environment will be created by establishing economic zones, flexible labor policy, adopting one window system and other procedural reforms.

Defects of Foreign capital

No doubt, the proper utilization of foreign capital in developing countries can play crucial role so as to make the economy sound. In spite of its importance, there are so many defects of foreign capital. They are:

- (a) Unnecessary pressure: Donor countries may put unnecessary pressure such as political, commercial, human etc. to aid recipient country against their interests.
- (b) Tied Aid: A large amount of bilateral assistance is connected with terms and conditions. Such as assistance recipient country should purchase goods and services, technical services etc. from donor countries.
- (c) Operating: While providing aid by donor, in the form of physical capital, operating cost will not be borne by them.
- (d) Aid dependency: Foreign capital makes country aid dependency and foreign aid given to the poor is not accessed to the targeted people.
- (e) Burden to the less developed countries: Foreign capital may be in the form of loan and grant. Foreign aid in the form of grant is more desirable.
- (f) Domestic saving and trade: Foreign assistance in the form of food grain to solve the problem of starvation is actually harmful. Rather farmers like techniques and infrastructure buildings in agricultural arena.

Foreign capital in Nepal

Nepal has been achieving foreign assistance in the form of both grant and loan since 2007 B.S.. The government policy aims at reducing the reliance on foreign assistance. But, it has not been practically possible. Government of Nepal receives foreign assistance from bilateral and internal sources in order to support capital formation of the country. The situation of capital expenditure for different years is given below:

Table 1
Capital expenditure of Nepal for different years
(Ten Million Rs)

Fiscal Years	Capital Expenditure	Relative Percentage
2002/03	2235.6	-
2003/04	2309.56	3.31
2004/05	2734.07	18.38
2005/06	2960.66	8.29
2006/07	3972.99	34.19
2007/08	5351.62	34.70
2008/09	7308.90	36.57
2009/010	9023.77	23.46

Source: Economic Survey, Fiscal Year 2011/2012, GON, Ministry of Finance, 2013.

Table 1 shows that relative percentage change for capital expenditure has been increasing from fiscal year 2002/03 to 2008/09. For the years, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 and 2009/010 , capital expenses have been increased by 3.33 percent, 18.38 percent, 8.29 percent, 34.19 percent, 34.70 percent, and 36.57 percent respectively. For the year 2009/010, it increased by 23.46 percent as compared to previous year 2008/09. Government of Nepal has received foreign assistance for the different years as shown below.

Table 2
Status of Foreign Assistance
(Ten Million Rs)

Fiscal Years	Foreign Assistance	Relative Change	Relative Change in Percent
2002/03	4320.27	-	-
2003/04	2373.80	-1947.27	-45.07
2004/05	3815.23	1441.35	60.72
2005/06	2092.42	1723.23	-45.7

2006/07	3702.29	1609.29	76.91
2007/08	4998.62	1296.33	35.0
2008/09	4797.52	-2011	-4.02
2009/010	9660.90	4863.38	101.37

Source: *Economic Survey, Fiscal Year 2011/2012, GON, Ministry of Finance, 2013.*

Table 2 shows fluctuations in the flow of foreign assistance. For the years 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 and 2009/010 relative changes of foreign assistance have been -45.07 percent, 60.72, -45.7 percent, 76.91 percent, 35percent, -4.02 percent and 101.37 percent respectively.

Table 3
Status of Foreign Loan and Grants

(Ten Million Rs)			
Fiscal Year /Percent	Foreign Loan	Grant	Foreign Assistance
2002/03 Percent	1584.51 36.68	2735.76 63.32	4320.27 100
2003/04 Percent	1478.10 62.27	895.70 37.73	2373.80 100
2004/05 Percent	1275.96 33.44	2539.27 66.56	3815.23 100
2005/06 Percent	265.99 1271	1826.43 87.29	2092.42 100
2006/07 Percent	616.27 16.65	3086.02 83.35	3702.29 100
2007/08 Percent	812.20 1.62	4106.42 98.38	4998.62 100
2008/09 Percent	487.95 10.17	4309.57 89.83	4797.52 100
2009/010 Percent	2635.12 27.28	7025.78 72.72	9660.90 100

Source: *Economic Survey, Fiscal Year 2011/2012, GON, Ministry of Finance, 2013.*

Table 3 depicts that for the year 2002/03, contribution of foreign loan in the total foreign assistance was 36.08 percent. But in 2008/09, it reduced to 10.17 percent out of total foreign assistance. For the year 2002/03, contribution of foreign grants in total foreign assistance was 63.32 percent. But in 2008/09 it increased to 89.83 percent out of total foreign assistance. For the year 2009/010, contributions of foreign loan and grants have been 27.28 percent and 72.72 percent respectively out of total foreign assistance. Thus foreign loan taken by government of Nepal has been decreasing and vice versa in the case of grants.

Table 4

Foreign Grant and Loan in Bilateral and Multilateral forms

(Ten Million Rs)

Description	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/010
Foreign grant	2735.76	895.70	2539.27	1826.43	3086.02	4106.42	4309.57	7025.78
Percent	100	100	100	100	100	100	100	100
Bilateral	1518.31	822.36	2122.54	1475.55	1770.61	562.09	2365.50	3690
Percent	55.50	91.81	83.59	80.79	57.38	13.69	54.89	52.52
Multilateral	1217.45	73.34	416.73	350.88	1315.41	3544.33	1944.08	3335.78
Percent	44.50	8.19	16.41	19.21	42.62	86.31	45.11	47.48
Foreign loan	1584.51	1478.10	1275.96	265.99	616.27	811.65	487.95	2635.12
Percent	100	100	100	100	100	100	100	100
Bilateral	12.93	0	0	0	0	748.00	354.15	0
Percent	8.16	0	0	0	0	92.01	72.58	0
Multilateral	1571.58	1478.10	1275.96	265.99	616.27	63.65	133.80	2635.12
Percent	91.84	100	100	100	100	7.99	27.42	100

Source: *Economic Survey, Fiscal Year 2011/2012, GON, Ministry of Finance, 2013.*

Table 4 expounds that for the year 2009/010 foreign grant from bilateral source has been 52.52 percent out of total foreign grant. But for the year 2002/03, it had occupied by 55.50 percent. For the year 2009/010 foreign grant from multilateral source has been 47.48 percent. But for the year 2002/03 it occupied by 44.50 percent.

For the year 2008/09 foreign loan from bilateral source has been 72.58 percent out of the total foreign loan. But for the year 2002/03 it occupied by 8.16 percent.

For the year 2008/09, foreign loan from multilateral source has been 27.42 percent out of total foreign loan. But for the year 2002/03 it occupied 91.84 percent of total foreign loan.

Table 5
Sector wise Amount of Foreign Assistance

(Ten Million Rs)

Title/Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07	2007/2008	2008/09	2009/010
Agriculture, Irrigation and Forest	397.61	208.31	160.10	319.58	145.08	433.55	172.70	483.13
Transport and Communication	441.02	443	312.05	0	522.57	335.37	600.03	34.99
Electricity	628.21	186.64	0	123.03	172.86	272.50	354.15	1282.45
Industry and Mines	2.57	0	0	4.89	0	0	2.86	800.59
Rural Development	231.85	48.46	310.22	393.71	194.85	671.91	1251.18	1804.79
Drinking water and Drainage	320.12	300.72	188.84	69.13	0	0	267.32	582.82
Education	920.80	89.98	1094.59	37.24	624.34	429.64	130.82	2629.51
Health	64.27	17.66	1243.73	121.96	341.89	0	390.73	29.23
Others	1313.82	1517.60	505.70	1022.88	1700.70	2775.65	1627.74	2013.44
Total	4320.27	2373.80	3815.23	2092.42	3702.29	4918.62	4797.53	9660.95

Source: Economic Survey, Fiscal Year 2011/2012, GON, Ministry of Finance, 2013.

Table 5 shows that in 2002/03 utmost priority was accorded for education to make expenditure out of total foreign assistance. For the year 2003/04 first priority was led to transport and communication sector. For the years 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 and 2009/010 first priorities were given for health, rural development, education, rural development and rural development respectively.

Table 6
Capital expenditure and foreign loan in Nepal
(Ten Million Rs)

Fiscal Year	Capital expenditure	Foreign loan
2002/03	2235.61	1584.51
2003/04	2309.56	1478.10
2004/05	2734.07	1275.96
2005/06	2960.66	265.99
2006/07	3972.99	616.27
2007/08	5351.62	812.20
2008/09	7308.90	487.95
2009/10	9023.77	2635.12

Source: Calculated from retrospective figures.

Table 6 shows information regarding capital expenditure and foreign loan. It shows trends of capital expenditure and foreign loan of Nepal. Capital and foreign loan is supposed to be independent and dependent variables respectively. Here, we can find out the regression coefficient $R = 0.315$. It clarifies that 0.315 percent capital expenditure is covered by foreign loan. Here $R \text{ Square} = 0.099$, Adjusted $R \text{ Square} = -0.051$, Standard error of the estimate = 788.0150, F test = 0.661 at significant level 0.001.

Table 7
Capital expenditure and Grants

Fiscal Year	Capital expenditure	Grants
2002/03	2235.61	2735
2003/04	2309.56	895.70
2004/05	2734.07	2539.27
2005/06	2960.66	1826.43
2006/07	3972.99	3086.02
2007/08	5351.62	4106.42
2008/09	7308.90	4309.57
2009/10	9023.77	7025.78

Source: Calculated from retrospective figures.

Table 7 depicts relationship between capital expenditure and grants. Where as capital expenditure is regarded as independent variable and Grants as dependent variable. Here, $R = 0.926$, $R \text{ Square} = 0.835$, Standard error of the estimate = 759.8386, F test + 36.338 at significant level 0.001.

Table 8

Situation of Grants and Loan of Nepal in different years

(Ten Million Rs.)

Fiscal Year	Grant	Loan
2002/03	2735.76	1584.51
2003/04	895.70	1478.10
2004/05	2539.27	1275.96
2005/06	1826.43	265.27
2006/07	3086.02	616.27
2007/08	4106.42	812.20
2008/09	4309.57	487.95
2009/10	7025.78	2635.12

Source: Calculated from retrospective figures.

Table 8 depicts the relationship between grants and loans. Whereas grants and loan are regarded as independent and dependent variables respectively. Here, we can find out the regression coefficient $R = 0.485$, $R \text{ Square} = 0.236$, Adjusted $R = 0.108$, standard error of the estimate = 1764.7652 and F test = 1.849 at significant level 0.223.

Conclusion

On the basis of above analysis, following inferences can be drawn as given below.

1. Relative percentage change in capital expenditure has been increasing from fiscal year 2002/03 to 2009/10. For the year 2002/03 capital expenditure was 3.31 percent and reached to 23.46 percent in 2009/10.
2. The coverage of foreign loan in foreign assistance has been declining from 2002/03 to 2009/10. For the year 2002/03, it was 36.68 percent and reached to 27.28 percent in 2009/10.

3. The coverage of grant in foreign assistance has been increasing from 2002/03 to 2009/010. For the year 2002/03, it was 63.32 percent and reached to 72.72 percent in 2009/010.
4. The contribution of bilateral source in total foreign grant has been declining from 2002/03 to 2009/010. For the year 2002/03, it was 55.50 percent and reached to 52.52 percent. But contribution of multilateral source is increasing. For the year 2002/03, it was 44.50 percent and reached to 47.48 percent in 2009/010.
5. The contribution of bilateral source in total loan has been increasing from 2002/03 to 2009/010. For the year 2002/03, it was 8.16 percent and reached to 72.58 percent in 2009/010. But contribution of multilateral source is declining. For the year 2002/03, it was 91.84 percent and reached to 100 percent in 2009/010.

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Local Government Finance in Nepal:

*Subash Shiwakoti**

How to address the issues of local borrowings and financial soundness of Local Governments?

1. Local government finance system in Nepal

1.1. Context

Officially Nepal is Democratic Republic (Federal Republic with a multi-party democracy). It has two tiers of government: central and local. There are 5 development regions, 75 Districts and 191 Municipalities & 3276 Village Development Committees as a political division.

Central government (CG) provides its services to people through its line agencies and local governments (LGs)¹ are also providing certain local services. It seems that there are parallel service providing organization and overlapping the functional roles. It also indicates that local governments are acting as independent and autonomous body. There is two layers of local government: District (higher level of local government) and Municipality/or Village (lower level of local government).

Mainly ministry supervises to the LGs and LGs have power to supervise the lower level of development related central government line agencies. Although the villages have the same legal status of district and municipality, in practical, they are under the functional control of district because of lacking the overall capacity of village and managing as well as supervising purpose of that large number of local units.

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1 Officially, it is called Local Bodies which can be known as local government in practice.

1.2. Local government system in Nepal

Nepal is practicing unitary system and planning to move federal system. Therefore, the current local governance system is directly related to center and local. There is more than 60 years' decentralization history. And now (after enacted the Local Self Governance Act -LSGA² in 1999), it has been adopting that **local self-governance³** and **principle of devolution** are the main basis of local government system in Nepal. Before promulgated the LSGA, the local governments were acting as an agency function of central government.

LSGA has provided with wider autonomy and legal framework for political, administrative, financial and other development responsibilities to the local governments. There are also some specific provisions of promoting financial capacity of local government through local taxes, revenue sharing between central government and local governments, grants (inter-governmental transfers) and other financing. To operate and manage the LGs, there are other two important regulations; Local Self Governance Regulation (LSGR), 2000 and Local Bodies Financial Regulation (LBFAR), 2007 based on the LSGA.

1.3. Local finance system in Nepal

As we know that LGs in Nepal have their independent and autonomous identity, which can take their many administrative and financial decisions independently in principle (not intervening by CG). But local financing practice is not as good as principle. LGs are mostly dependent with CG on financial matters and in practically there is hidden control from ministry. Basically there are five ways (sources) of financing of LGs as follows:

- a) Local taxes: LGs have certain rights to impose local taxes on specific area

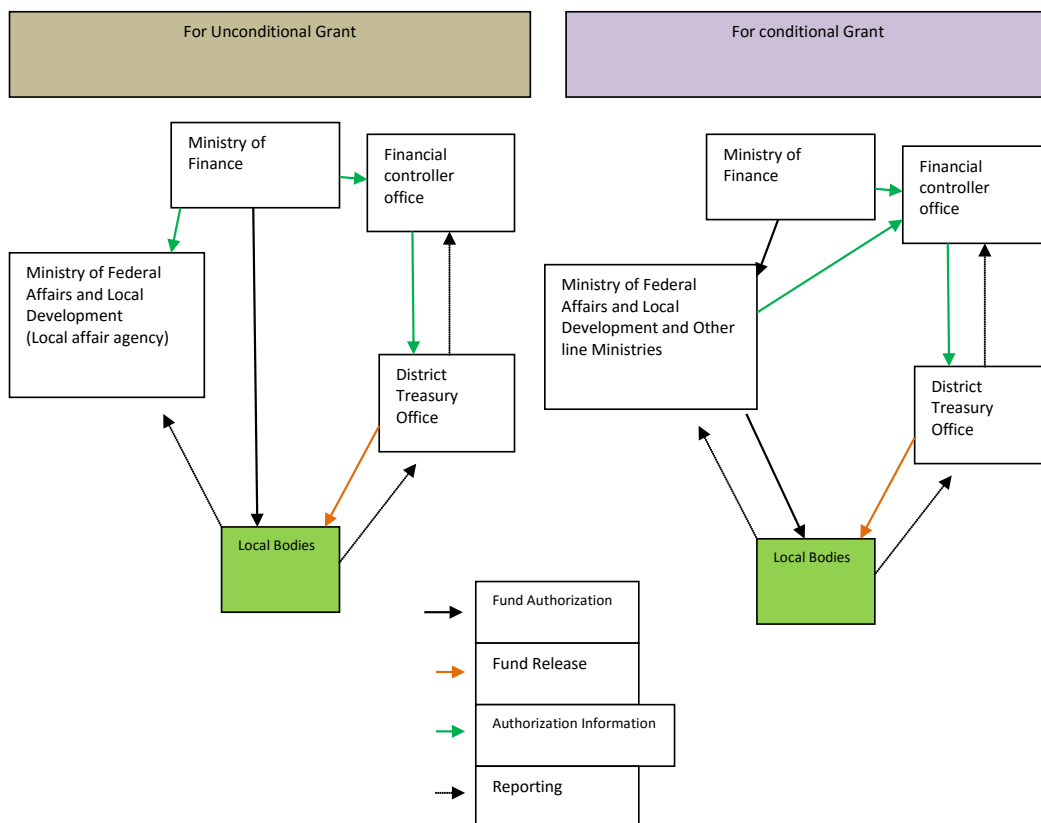
2 LSGA is the main law which has provided the legal identity of local government as well as role, responsibility & power for performing as a local government. This law has been enacted in 1999.

3 Nepal's interim constitution, 2007 (Article 34-2 and Article139) and local self-governance act (LSGA, 1999, preamble) have clearly stated about the principle of devolution and local self-governance.

and items on the specific rates. Land tax, natural resource uses fee, service fee/charge are the main sources on it.

- b) Revenue sharing: This is one of the important financial sources to LGs, but there are very limited items (only the six items) for sharing. Land and Housing registration fee, Royalty of electricity, Royalty of tourism, Royalty of forest, Royalty of protected land (National Parks and others), and Royalty of mining are defined for this purpose.
- c) Grants (unconditional and conditional): Grants are the major financing source of LGs. They are almost dependent on it. Both conditional and unconditional grants are in practice. There is general Grants which is unconditional and are distributed on formula based. There are other special grants which are generally called conditional grants and its uses are intended for specific purposes/activities. There is also a social security grant which will use for distributing senior citizen allowance, child allowance, disable person allowance, allowance for single women and allowance for socially deprived people.
- d) Loan and borrowings: LSGA has stated the loan and borrowing right to LGs. But it is not in practice because of lacking mechanism and management capacity of the local government. CG has established 'Town Development Fund (TDF)' for providing loan to municipalities. Therefore, only municipality can receive loan from TDF but not from other financial institutions. Moreover, there is no any mechanism and system to provide loan to district and village; and no any legal and institutional frame for local borrowings yet.

Others (voluntarily donations, contribution of beneficial, etc.): LG is autonomous and independent agency. Therefore, it can receive volunteer donations and other gifts from person and organizations. Moreover, there is another major source which is known as 'Beneficial's Contribution'. This is really one of the major sources in Nepal's local development area.



The transferred fund⁴ from CG flow system is shown in figure 3. The figure shows that Ministry of Finance (MoF) plays the key role and line ministries play the actual implementing role on it. It also presents the difference between unconditional and conditional grants managing system. LGs must report the income and expenditure to Ministry of Federal Affairs and Local Development (MoFALD)⁵ and district treasury office. In the case of conditional grants, they must submit their respective expenditure statement to the concern ministries.

Figure 3: Fund flow system from central government to local government in Nepal

Note: This figure is developed on the basis of general understanding of Nepal's current fund transfer system

4 The development partner's support (aids and other financial support) is also treated as transferred fund.

5 Ministry of Federal Affairs and Local Development (MoFALD) is performing as local affair agency in Nepal.

The size of LG's expenditure is around 10% in compare to national government expenditure⁶. The source of financing of such local expenditure is internal revenue, revenue sharing, grant, and loan; where grant is being main source on it, which is almost 80 % of total funding structure⁷. The funding tendency of Nepalese local public finance looks almost similar in every year. The size of internal revenue is almost small. The contribution of internal revenue in Municipality is relatively high and VDC's situation is really challengeable. Although the volume and its contribution are very small, only municipalities have loan practice. It means that there is no any practice of loan at DDC and VDC level. If we talk about the combination of financing source, it can be seen many weakness in balancing aspect among the funding sources and measuring the fiscal soundness for healthy local finance system. The major weaknesses are as follows:

- High dependency on grant
- Low capacity to mobilize internal resource
- No any policy to maintain balance the funding sources
- Inter governmental fiscal transfer is in adhoc basis
- No clear policy for utilizing local borrowing
- No practice to see the fiscal soundness al local level
- Weak institutional mechanism and capacity in both implementing level (at local government level) and facilitating level (at central government level)

Although the balancing and soundness's issues are in practice, there is growing trend of local public expenditure. It is mainly because of high increasing trend of civil works and cash transfer to targeted people for social security. This is one good sign for enabling local governance role and enhancing opportunity local public finance system.

6 The figure is taken from the analytical reports (report of Financial Analysis of Local Bodies) of Local Bodies fiscal commission.

7 This figure is derived after calculating five year's financing trend (from FY 2008/9 to 2012/13) which is shown in Local Bodies Fiscal Commission's report and annual progress report of MoFALD.

2. Major issues in the field of local finance system in Nepal

After seeing the context of local public finance situation and its weakness, we can generalize some issues in this field which are mentioned in here as follows:

- Clarity of role and jurisdiction of function and taxation between center and local government
- Limited tax base and discretion right on tax rate to LG
- Lack institutional capacity for managing local tax administration and analyzing other financial predictions
- Issue of human resources' capacity - specially on the field of financial management
- Weak information system
- Lack of promoting transparency culture
- Very low contribution of internal resources (local taxes) in overall expenditure
- High dependency on grants from CG
- Many local service functions are still providing by CG's line agencies.
- Fiscal devolution is still not sufficient
- Loan and local borrowings is still not in practice.
- Issue of financial soundness of LGs is still not the priority area.

All of the issues are very important. Among them, this paper focuses on the issue of local borrowings and fiscal soundness of LGs.

3. Causes of the issue

Local Self Governance Act (LSGA) has given right to LG for mobilizing local borrowings and loan. But there is no practice of local borrowings and almost no practice of loan (only some municipalities are received loan from Town Development Fund, managed by CG). For creating this situation, main causes are as follows:

- Absence of supporting legal provision for local borrowing. There is no sufficient attempts and studies/analysis for local borrowings.

- No separate or specific coordinating organization/unit for it.
- Weak institutional set-up of LGs in promoting the new potential resources mobilization areas.
- Weak facilitating role of the local affair agency (here: MoFALD)
- Absence of financial institutions for providing money to LG (either loan or borrowing).

LSGA has also specified some area of prosperous local governance and indicated the need of monitoring for it. By using the essence of that provision, there would be developed the monitoring system of fiscal soundness of LGs. This is very necessary if LGs want to utilize other resources from local borrowings and loans for better service delivery. We have seen some monitoring practices like financial reporting, internal and external auditing, field observation and supervision, and so on. But these are not so much effective because of timing of monitoring, analyzing the facts with standard financial needs & resources, and comparing with effectiveness of service standard. Other causes are mentioned in below.

- There is no specific provision in monitoring the fiscal soundness with certain indicators.
- Still lack of third party monitoring practices focusing on financial matters.
- Audit is only the major way to see its fiscal healthiness, but current auditing system focuses on process matters and does not fully support to predict fiscal future.
- The role of local affair agency is weak. There is no any responsible permanent unit/organization for such fiscal data analysis and technical support to LGs.

4. What should be done to address the issue

Nepal comes under the developing country. Therefore, it has heavy demand of basic local services which are compulsory liabilities to government. Even though, the fiscal size is not so big that government can fulfill many of the basic demands, they should try to attempt those basic human facilities by using the all possible funding alternatives. The size of local government funding in Nepal is relatively

small and there is high demand to upscale its funding size. Only the grant from CG is not enough and up-scaling the rate and base of local taxes is also not possible to cover the desired needs, the alternate source of financing is local borrowings. For that reason, it is the time to think about local borrowings. To address this issue, a three staged reform is needed which will be practical in the context of Nepalese local financing system.

Stage 1

1. Establish of specific coordinating organization/unit (Local Finance Support Unit) within MoFALD (it is local affair agency)
2. Conduct study/analysis about local borrowings
3. Start to prepare draft of separate local finance law based on the principle of constitution and LSGA for addressing local borrowings and monitoring the fiscal soundness of LGs.

Stage 2

4. Promulgate local finance act (with clear provision, process and responsibility of local borrowing, as well as monitoring indicators and system for fiscal soundness of LGs)
5. Redefine the role of local affair agency (role of MoFALD).
6. Establish fiscal data analysis and technical support system in MoFALD to LGs.
7. Develop a system in analyzing standard financial needs & resources
8. Develop capacity development plan in perceiving the local borrowings and implement the plan
9. Conduct study about 'how to develop and promote financial institutions for lending to LGs'

Stage 3

10. Conduct capacity development to LGs for loan/borrowings management
11. Establish and/or promote financial institutions for lending money to LG
12. Conduct third party monitoring in focusing on financial matters (time to time)

Although the issuing local bond is critical in overall economic establishment, there are two main reasons of its needed in the context of Nepalese local finance; 1) need to mobilize the alternate means of financial resource to fill the fiscal gap, and 2) need to scale up the size of economy. Therefore, if the three stage's reform plan is implemented, it will contribute not only fulfilling the financial needs, also strengthening decentralization practices, enriching size of economy, and promoting local self-governance as well.

After seeing the context, causes and potential opportunity in these two issues, we can predict that analysis of financial soundness is very important for establishing the local borrowing system. For it "Promoting Fiscal Soundness of Local Governments" related law is needed. A set of clear fiscal indicators, which will support to disclose the fiscal condition of local government in detail, should be used to strengthen LGs' fiscal condition. These broad provisions will help to LGs to be more accountable to public as well as financiers.

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Foreign Aid and Economic Development in Nepal: A Revisit

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Introduction

The revenue surplus, domestic debt and foreign aid are the tools to finance the development of a developing country. Foreign aid is the receipt from savings of the foreign citizens. In particular, foreign aid is the transfer of free or heavily discounted economic resources by a donor government to a recipient government either directly or via an international organization, for the purpose of assisting the recipient in improving its economic and social welfare (Arase, 2010). Foreign aid is necessary to meet the domestic resource gap. Moreover, aid is said to fulfill the import-export gap, investment-saving gap and technology gap faced by developing countries.

Foreign aid can be in the form of grants or concession loans or both. It also can be in the form of cash, commodity, reimbursable or direct payment from the donor. It can be bilateral or multilateral. The military aid is not considered as foreign aid. However, aid can be received as technical assistance to build the capacity of recipient country. The modality of aid can be program support, project support, sector wide approach (SWAP), humanitarian assistance and budget Support. The most common form of aid is known as official development assistance (ODA). The loans in the form of ODA also contains compulsory grants component of 25 percent.

From Foreign Aid to Development Cooperation

Going through the history of foreign aid, it is mainly a artifact of the ideological confrontation between the US and the Soviet Union in the time of cold war which

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dominated international politics for 45 years (1945-1990). After the end of the Second World War, aid was started as a program to assist the short-term economic recovery of Western Europe which was known as the Marshall Plan. The broad aim of the Marshall Plan was to stop the spread of communism to France and Italy and stabilize conditions in West Germany.

In January 20, 1949, United States President Harry S. Truman in his inaugural address announced The Point Four Program which was a technical assistance program for developing countries. The main motive of this technical assistance was to win the hearts and minds of the developing world and make US ties strong. Since Marshall Plan, the aid architecture has changed many times and even shifted towards new paradigm. The last two decades have witnessed various important changes which have pushed the aid agenda in new and interesting directions. In the recent years, new aid issues have emerged which are quite influential in policy circles.

In 2002, the UN conference named as Financing for Development, held in Monterrey. In the context of the Millennium Development Goals (MDGs) to be met by 2015, this conference had widespread consensus among bilateral donors and multilateral agencies which could successfully take a major step forward in redecorating the aid agenda. Afterwards, various initiatives towards aid dynamics aimed at improvement of whole coordination effort in the donor community. The most important ones include the Declaration on Aid Harmonization in Rome in 2003 and the Paris Declaration on Aid Effectiveness in 2005, which emphasized that donors should move fast towards aid coordination to accelerate progress with aid effectiveness and MDG attainment. The declaration clearly emphasized five indicators of aid effectiveness as- ownership, harmonization, alignment, mutual accountability and financing for development results.

The Third High-Level Meeting on Aid Effectiveness held in Accra reviewed the progress made in implementing the Paris Declaration. Further the Accra Forum was closely followed by the Follow-up International Conference on Financing for

Development to review the implementation of the Monterrey Consensus in Doha at the end 2008. In Busan, the Fourth High Level Forum on Aid Effectiveness held in 2011 and reviewed the progress of implementation of the principles of the Paris Declaration and reached to a consensus of Busan Partnership Agreement for Effective Development Co-operation. In 2014, the first High-Level Meeting of the Global Partnership for Effective Development Co-operation held in Mexico which marked a major milestone in the global fight against poverty and also reaffirmed the importance of effective development co-operation in meeting the MDGs and as a key part of the next global development framework.

From Marshal Plan to Mexico conference, the paradigm of aid architecture has changed from foreign aid to development cooperation. The relationship between the donors and recipients is not only as the lenders and borrowers but as the development partners to get the mutual benefit and shared prosperity of development in this globalized world.

Foreign aid in Nepal

Nepal received the first foreign aid from the US government under the Point Four Program in 23 January 1951. It was a technical assistance of 2000 American Dollars. Since then, Nepal has been a recipient of foreign assistance since when it joined the Colombo Plan for Cooperative, Economic, and Social Development in Asia and the Pacific in 1952. The plan was established in 1951 under Commonwealth of Nations. During the 1950s, many Nepalese student received scholarships through the Colombo Plan for higher study in the technical and professional fields.

In 2002, Nepal formulated the first foreign aid policy. Due to the gradual development in the principles and the best practices widely adopted in global aid architecture, the policy needed to be updated. Therefore, the Government of Nepal launched its new Development Cooperation Policy (DCP) in 26 June 2014 which internalized all the principles and practices of aid effectiveness such as global commitments reflected in the Paris Declaration and Busan Outcome Documents, South-South Cooperation and so on.

The main goal of DCP 2014 is to build a self-reliant economy and transform Nepal into a prosperous country through effective mobilization of development cooperation. According to Development Cooperation Policy (MOF, 2014), the main features of this policy are - it emphasizes to the use of country system, mobilizes aid in priority areas, introduces thresholds for development cooperation aiming at reduced aid fragmentation and focused aid operations. The threshold allowed by this policy is US\$ 5 million for Grant, US\$ 10 million for Concessional Loan and US\$ 20 million for hard term Loan. Moreover, this policy was a major shift in the foreign aid policy of Nepal from foreign aid to development cooperation.

A glimpse of foreign aid in Nepal is shown in the table. The table has revealed the different aspects of foreign aid in Nepal for 14 years since 2000/01. It shows the Gross Domestic Product (GDP) of Nepal, total budget, total disbursed aid, disbursed aid as percentage of GDP, aid as percentage of budget, disbursed aid as percentage of committed aid, share of loans and grants in foreign aid and share of bilateral and multilateral aid in total aid. Looking at the table we confine that in the period of 14 years (2000/01-2013/14), the disbursed aid to GDP ratio ranges from 2.8 to 4.3 percent. In 2000/01 it was 4.3 percent and in 2013/14 it reached to 3.1 percent.

Table: A Glimpse of Foreign Aid in Nepal

Year	Nepalese Rupees in Ten Millions						Loans as % of Total Aid	Grants as % of Total Aid	Bilateral as % of Total Aid	Multilateral as % of Total Aid
	GDP (at Producers Price)	Total Budget	Total Disbursed Aid							
			Amount	as % of GDP	as % of Budget	as % of Commitments				
2000/1	44151.9	7983.5	1879.7	4.3	23.5	60.1	64.1	35.9	14.7	85.3
2001/2	45944.3	8007.2	1438.5	3.1	18.0	43.3	53.5	46.5	32.5	67.5
2002/3	49223.1	8400.6	1588.6	3.2	18.9	36.8	28.6	71.4	63.2	36.8
2003/4	53674.9	8944.3	1891.2	3.5	21.1	79.7	40.3	59.7	47.7	52.3
2004/5	58941.2	10256.0	2365.7	4.0	23.1	62.0	39.2	60.8	39.0	61.0
2005/6	65408.4	11088.9	2204.2	3.4	19.9	105.3	37.3	62.7	34.7	65.3
2006/7	72782.7	13360.5	2585.4	3.6	19.4	69.8	38.9	61.1	63.5	36.5

2007/8	81565.8	16135.0	2930.1	3.6	18.2	59.6	30.6	69.4	34.8	65.2
2008/9	98827.2	21966.2	3635.2	3.7	16.5	75.8	27.4	72.6	25.7	74.3
2009/10	119277.4	22710.7	4976.9	4.2	21.9	51.5	22.6	77.4	46.0	54.0
2010/11	136695.4	25749.5	5799.8	4.2	22.5	54.7	20.8	79.2	44.6	55.4
2011/12	152734.4	29485.1	5189.3	3.4	17.6	52.9	21.4	78.6	61.8	38.2
2012/13	169501.1	30205.4	4719.9	2.8	15.6	41.0	25.4	74.6	55.1	44.9
2013/14	194162.4	37022.7	6020.5	3.1	16.3	45.1	29.9	70.1	48.2	51.8

Source: Prepared based on Ministry of Finance, Economic Surveys, Various Issues

Regarding the share of foreign aid in financing the budget expenditure, we see that it ranges from minimum of 15.6 percent in 2012/13 to maximum of 23.5 percent in 2000/01. In the recent year (2013/14) it was 16.3 percent. The data shows the low absorption capacity of foreign aid in Nepal. The disbursement to commitment ratio was 60.1 percent in 2000/01 and 45.1 percent in 2013/14. The highest disbursement to commitment ratio was seen in 2005/06 as 105.3 percent. This is because of the reason that this might be the final year of disbursement of the aid for many foreign aid funded projects.

While analyzing the share of loans and grants in foreign aid, we see that loans are decreasing and grants are increasing. Share of loans and grants were 64.1 percent and 35.9 percent in 2000/01 but they were 29.9 percent and 70.1 percent in 2013/14. Similarly, bilateral aid is increasing while multilateral is decreasing. Bilateral aid was 14.7 percent in 2000/01 but increased to 48.2 percent in 2013/14. In contrary, multilateral aid was 85.3 percent of total aid in 2000/01 but decreased to 51.8 percent in 2013/14.

In recent years, it is said that the aid servicing capacity of Nepal has increased and the multilateral development partners have already announced the curtailment of grants for Nepal. This implies that Nepal will only receive loans from multilateral development partners like the World Bank and the Asian Development Banks in future though loans also contains 25 percent of compulsory grants component as the part of ODA.

According to Development Cooperation Report 2013/14 (MOF, 2015a), Nepal received total of US \$ 1.112 billion as development cooperation in 2013/14. Among which 52% was multilateral and 48% was bilateral. Similarly 71% was on budget and 29% was off budget cooperation. While going through the development cooperation according to financial instrument, 60% was project support, 19% was sector wide approach (SWAp), 13% was program support, 5% was budget support, 1% was humanitarian assistance and 2% was others.

Role of Foreign Aid in Economic Development

Does foreign aid works for economic development of a developing country is a long debated issue in the field of development economics. There are various arguments regarding the aid-development relationship. Some researchers argued that aid has stopped local initiation, increased the size of government, enlarged the number of elite increasing corruption and created bad governance in developing world (Moyo, 2010, Easterly, 2006). But their counterpart (Sachs, 2005) stated that foreign aid has positive relation with economic development and has success to reduce the poverty.

Regarding the positive view Jeffrey Sachs in his popular book “The End of Poverty” argues that if the rich world had committed \$ 195 billion in foreign aid per year between 2005 and 2025, poverty could have been entirely eliminated by the end of this period (Sachs, 2005). In contrary, regarding the negative view, Dambisa Moyo in her book “Dead Aid” and William Easterly in his book “The White Man’s Burden” argue that aid does more bad than good for economic development (Moyo, 2010, Easterly, 2006). They further opined that aid prevents people of developing countries from searching for their own solutions, while undermining and corrupting local institutions. In addition, foreign aid also creates self-perpetuating lobby of aid agencies and more dependency in developing countries. Easterly clearly favors homegrown development rather than the development funded by foreign aid.

The evaluation of aid effectiveness in Nepal has shown mixed results (MOF, 2011). Due to the low absorption capacity, lack of fully aligned aid with the country

system, lack of mutual accountability and dearth of result based projects and donor driven syndrome are the major causes for the hindrance of aid effectiveness in Nepal. In summary, aid effectiveness is a controversial issue of debate. It appears that aid has been successful in some countries like in Rwanda but not many others and the hot issue for empirical research in identifying the relationship between aid and economic development of the developing countries.

The figure of outstanding foreign debt is gradually increasing in Nepal. Since, the total cumulative outstanding foreign debt is Rs. 346.8 billion in 2013/14 (MOF, 2015b), even a newly boomed Nepali baby bears almost 20,000 rupees as outstanding debt among which 12,574 is the outstanding foreign debt per capita. Since the burden of foreign debt is increasing and the growth rate is sluggish, it is a quite debatable issue - Is foreign aid fruitful for development or just increasing the burden? Is foreign aid helping to reduce poverty? What is the role of foreign aid in economic growth? These questions are almost unanswered in Nepalese context. There is no any evidence based study to find the answers to these questions.

Conclusion

It has been more than six decades that Nepal is receiving foreign aid for financing development in Nepal. However, the economic growth rate of the last decade is less than four percent and still one fifth of the population is under absolute poverty. If foreign aid had played a crucial role, it would have had higher growth rate and less poverty. Lack of evidence based research shows that we need an empirical study to know the impact of foreign aid in the economic development of Nepal which would certainly help the planners and policy makers to make better policies regarding the foreign aid in Nepal.

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Evolution of the Cash Basis International Public Sector Accounting Standard (IPSAS) in Nepal

*Dr. Pawan Adhikari**

1. The Cash Basis IPSAS in Developing Countries

This paper reviews Nepal's journey towards the Cash Basis IPSAS and discusses to what extent the standard is relevant to the country. As is the case of other developing countries, Nepal has also witnessed in the last few years a change in the public sector accounting reform agenda of international organisations in particularly the World Bank. The Bank, which was previously advocating for an accrual accounting reform, has now given more emphasis to the Cash Basis IPSAS issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC). This is also evident in its GAP analysis in which the Cash Basis IPSAS has been used as a benchmark through which to assess the strengths and weaknesses of accounting practices of developing nations. In many developing countries, the Cash Basis of IPSAS has become a point of departure in the sequencing of public sector accounting reforms, with accrual accounting as the final reform destination (Bietenhader and Bergmann, 2010).

The actual number of developing countries embracing the Cash Basis IPSAS has however remained controversial. The IFAC (2010) in its report has claimed that approximately 29 countries, mainly the developing countries, have so far adopted this standard and 15 more countries are considering its adoption in the near future. Others have indicated that the number of governments that have actually implemented the Cash Basis IPSAS is far more limited and that in fact not a single government has actually fully implemented the requirements of the Cash Basis IPSAS (Wynne, 2013). Nepal has been one of the front-runners among developing countries in terms of declaring the adoption of the Cash Basis IPSAS (World Bank,

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2011). In September 2009, the government of Nepal announced that a cash basis Nepal Public Sector Accounting Standard (NPSAS), corresponding to the Cash Basis IPSAS, would be implemented in Nepali budgetary entities within the next few years.

2. The Beginning of the IPSAS Project in Nepal

The contribution of the Accounting Standards Board (ASB) and the World Bank is worth mentioning in terms of providing a momentum for the Cash Basis IPSAS in the country. The ASB's involvement in the IPSAS project began in 2005 after the appointment of a new secretary. At the beginning of 2006, the ASB formally launched a feasibility study of implementing IPSASs in Nepali public entities by mobilizing its own limited resources and expertise. After a few months, however, the Board received a grant from the National Planning Commission (NPC) under the World Bank sponsored Economy Reform Project (ERP), to complete the IPSAS project. This funding allowed the Board to organize a series of seminars and workshops in which representatives from various government agencies such as the MoF, the FCGO, and the Auditor General's Office (AGO) were invited and provided with adequate information about the various aspects of the Cash Basis IPSAS and the impact the standard could have in improving financial reporting. In addition, a separate IPSAS committee was formed within the Board chaired by the retired Financial Comptroller. The committee, which consisted of two professional accountants and representatives from the MoF, the FCGO, and the Company Register Office (CRO), was tasked with recommending changes to the Cash Basis IPSAS so as to make it applicable to the Nepali public sector. The committee eventually presented the Board with a draft of the cash basis Nepal Public Sector Accounting Standard (NPSAS) corresponding to the Cash Basis IPSAS. This draft got approval by the Ministry of Finance in 2009.

3. The World Bank's GAP Analysis

The World Bank's 2007 report comparing Nepali public sector accounting practices with international standards also had a significant role in generating knowledge of

IPSASs among Nepali officials and government accountants. Through this report the Bank was able to create an argument that the Cash Basis IPSAS would not only contribute to tackling the deficiencies in Nepali cash accounting, but would also improve the quality of accounting information so it was able to meet the minimum agreed requirements for cash accounting at the international level. An important aspect of the World Bank's approach was to explain to the government officials and accountants that the Cash Basis IPSAS is not meant to overhaul the entire accounting system, but just to improve the reporting mechanisms and the format of the financial statements. The standard has been presented as the most cost effective approach to streamlining accounting practices, as well as an approach that can be adopted with the minimum of capacity development programs and other costs, compared to the demands of other reforms, for instance accrual accounting (World Bank, 2007; 2010). In the last few years, the Bank has been successful not only to get the professional accountants, the ASB and ICAN on board, but also to gain the support of other donors and development partners such as JICA, DANIDA and DFID by embracing the IPSAS project in within the Multi Donor Trust Fund (MDTF). The World Bank has been holding a joint meeting either annually or half yearly to decide on the amounts each donor can contribute to projects enlisted in the MDTF, including the IPSAS project. The government is also required to share at least a portion of the funding on each project embedded in the MDFT with a view to increasing its participation and ownership in the development endeavors (World Bank, 2011). The absence of such ownership has been alluded to as the core reason for the failure of earlier Nepali public sector accounting reforms, including the program budgeting and accrual accounting reforms. For the IPSAS project, the government has been obliged to contribute US\$. 1.4 million to the MDTF; amounts which account for almost 25% of the total funding agreed for the project (World Bank, 2011).

4. Challenges in Implementing the Cash Basis IPSAS

The FCGO has assigned the PEFA unit the duty of piloting the standard in two ministries, i.e. the Ministry of Physical Planning and Transport Management and

the Ministry of Woman, Child, and Social Welfare. It has also been agreed that the decision on the implementation of the standard across public entities would be made only after two years evaluating the success of the pilot projects. The implementation of the Cash Basis IPSAS has however remained a challenging task in Nepal given the lack of technical competence and resources. Notably, Nepal is not an exception to this, as the IFAC has itself acknowledged that the standard in its current form would be challenging for all developing nations (IFAC 2010). Certain requirements of the Cash Basis IPSAS, for instance, full consolidation, reporting external assistance and third party payments, just to name a few, have proved impractical in many developing countries (IFAC, 2010). Wynne (2013) claims that “at least 31 governments in Africa have tried to adopt this standard, but its key requirements had not proved practical”. The experience of these countries also demonstrates that it is crucial to ensure the conditions necessary for the adoption of the standard, which include, amongst others, an explicit plan and time frame detailing the articulation of the standard, adequate training to accounting staff, supporting IT, and a clear division of responsibilities among the key stakeholders, for instance, government accountants, bureaucrats, auditors, and professional accountants, who may have a key role in the implementation of the standard. As is also evident in Nepal, the dissemination of the standard without addressing such conditions may likely to prolong the implementation process. Having acknowledged these ambiguities in implementing the standard, the IFAC has already made an announcement that it would undertake a revision of the Cash Basis IPSAS, although no progress was subsequently achieved due to funding constraints (IFAC, 2010; Parry and Wynne, 2009).

5. Thinking Beyond the Cash Basis IPSAS/NPSAS

Many researchers and accounting practitioners have in recent years emphasized the need for the identification of good accounting practices for developing countries rather than forcing such countries adopt symbolic acceptance of the Cash Basis IPSAS. An example of such a good practice can be the promotion of modified cash accounting. Wynne (2013) argues that modified cash is the basis

of accounting for more than 90% of governments around the world. According to the IFAC (2010), a large number of governments in Latin America have moved away from the use of pure cash to a modified version of cash in the last decades disclosing, in addition to cash receipts and payments, receivables, payables, borrowings and other financial liabilities, non-cash assets, accruing revenues and expenses, amongst others. More interestingly, in their study of the use of IPSASs in South Asia, Adhikari and Mellemvik (2010) state that the modified version of cash accounting, embracing some non-cash elements and accrual transactions, is being implemented in all countries of the region. India and Pakistan have given more emphasis on the adoption of accrual accounting rather than embracing the cash basis IPSAS. Proposing that developing countries move back to the pure cash basis of accounting (as with the Cash Basis IPSAS) cannot be an optimal reform trajectory for them. An incremental approach to public sector accounting reform should be adopted encouraging such countries to extend the use of a modified version of cash accounting. Such an approach may not only contribute to addressing the actual accounting requirements of developing nations, but will also facilitate the on-going public sector accounting reforms in these countries into a reality. Concerns can therefore be raised whether it is a time for Nepal to think beyond the Cash Basis IPSAS and search for an alternative approach to improving the accounting practices. Can a step towards a simple form of accrual accounting or modified accounting be an alternative?

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Flexicurity

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First, a small clarification on the word *flexicurity*

The word was first coined by Denmark to reconcile seemingly incompatible concepts of job flexibility and employment security. In Denmark employers face no regulations against laying off workers for economic reasons. They only have to serve advance notification. More than 80% of the workers in Denmark belong to a voluntary unemployment insurance scheme; therefore, they do not worry about losing jobs. Workers benefit from the flexible regulations, which give them opportunity for a job in the formal sector and easy transition from one job to another. More than 70% of Danes think it is good to change jobs frequently.

While Nepal's present day politics is dragged into delay in drafting of the new constitution, people have little idea that similar process is underway, since 2002, to draft a new labor law in Nepal. As reported in the media in November 2014, after an exercise extending over 12 years, the representatives from the trade unions and the employers have, finally, signed a deal for new labor law to be tabled at the House for ratification. There is still a mile to go before the law will be enacted into a statute. Similar to drafting of the new constitution, the parties still have to resolve some contentious issues. There are two such issues: (1) whether the workers will be eligible to be paid during legitimate strike period; and (2) whether sectoral trade unions can enter into collective bargaining process with the commodity associations like tea plantation, carpet industry, construction industry, and transportation and labor supply agencies. These issues have been left at the discretion of the government – a third party in the political trio of industrial relations.

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Though Nepal first had its labor law in 1959, it was literally made defunct with the subsequent banning of trade unions by the imposition of monarchy-led one party political regime called *panchayat* system in 1960. The reinstitution of multiparty regime in 1990 led to the redrafting of the new labor law in 1992. Ever since this law came into force, both parties to the law – the employers and the trade unions – have grumbled over its legal provisions. The employers frequently complain that the law is too rigid, pro-workers and anti-management and anti-establishment. The trade unions too complain that the law is so much flexible that there is no consequence for the employers seeking to evade the law. They say that the law is pro-workers only in letter but not in spirit. Besides nitty-gritty on legal provisions, the debate has fundamentally revolved around two concepts: Employers demanding for a flexible labor law while trade unions asking for more security provisions. At point it does give an impression that more flexibility implies less security to the workers and vice versa. However, as mentioned above, Danes have proved it to be wrong with the introduction of *flexicurity*. In this small write up we will try to understand to what extent the designers of the new labor law have sought to pull together these two concepts to satisfy the demands to two important stakeholders of industrial relations system in Nepal.

The Proposed Law

Just going by the number of the chapters and the articles, the proposed law is quiet extensive. It contained 24 Chapters spread over 185 articles while the existing law has only 11 Chapters and 92 articles. In late 1990s, the labor law experts from South Asia informed this scribe that Nepal has a very simple labor law and suggested to keep it like that. This must have come amid the fact that in India there are more than 100 pieces of laws related to industrial relations. They termed it “lawyers’ paradise”. Nepal’s labor law is said to be simple, not just by volume wise but necessary ingredients of labor law, namely, terms and conditions of employment, occupational health and safety issues, dispute settlement and collective bargaining process are all embodied into a single piece of law. Let us look into the proposed law.

The Concerns of the Employers: Job Flexibility

The honchos at FNCCI are never tired of parroting flexibility measure like “right to hire and fire”, “no work no pay” “performance based pay” “labor contracts” “out-sourcing” and “total banning of labor strikes” to be introduced in the labor law. However, when confronting politically indoctrinated trade union leaders, they run out of intellectual steam and often their preferred mode is to quietly leave the negotiating room. Reading the draft law, it gives a feeling that hard work has put more by the workers’ representatives than by the private sector business representatives. The latter seems to have given go ahead signals to the efforts made by the former. However, they do have made some definite gains in spite of this scribe’s skepticism that the law will ever be enacted as is being proposed.

The first significant gain the employers have made is dropping of the word “security of the workers” from the preamble of existing labor law. The words in the preamble section of the law are meant to express the true spirit of the law. The current labor law speaks of “protecting the rights, interests and security of the workers”. Now, the word “security” has been dropped to be replaced by words like “rights and duties of the employees and employers”, “development of good industrial relations”, “ending labor exploitation” and “increasing productivity”. The application of the law shall be judged based on these criteria mentioned in the preamble of the law.

The second important gain the employers have made is on the provision related to employment of different categories of employees like regular, functional, terminal and contingent employees. There are also provisions for employing trainees, part-timers, foreign workers and the use of labor contractors. These provisions are expected to give employer substantial flexibility in hiring and downsizing work force. Another flexibility the employers have sought to gain is to have right to transfer employees, including transfer and deputation to some other units not owned by the current employer.

Third, the employers have sought to increase their power by increasing the “cooling period” while resolving individual (rights) and collective (interests) disputes. Though the existing law has also banned “wild cat” strikes, in the proposed law, compulsory arbitration process has been introduced before the workers resorting to strikes. The government can form labor tribunal to arbitrate labor disputes in case labor-management negotiation and mediation by the labor office fail to resolve labor disputes.

Fourth, the employers have retained their rights to lockout with an additional feature like the government providing adequate security measures during lockout period. To counter wild cat strikes, the employers can resort to lockout simply by giving three day notification to the government.

Finally, various grounds for terminating the services of the employees have been relaxed. There is a whole Chapter devoted to employment termination specifying terms, conditions and notifications for termination. Essentially there are two grounds for employment termination – of individual workers on the grounds of disciplinary actions and downsizing of employment also called lay-offs on the ground of economic downturns. The employers are expected to exercise more freedom to downsize employment than to fire individual employees. Moreover, collective bargaining process, formation of labor relations committees and the procedures for downsizing does not apply to units employing less than 10 people. Definitely, this is a good move.

Though the test of the pudding lies in eating, in a nutshell, the proposed labor law seeks to give employers some, not all, freedom to exercise labor flexibility at the cost of giving up, I would say, more security concerns. These security concerns are highlighted below.

The Concerns of the Workers: Employment Security

If the process of getting into and out of the job has been relaxed (the concerns of the employers); the process of strengthening on-the-job situation has been

secured (the concerns of the trade unions). This is the gist of the labor law reform in Nepal. The trade unions have made a substantial gain in increased employment security. Such security measures come in the form of: (1) the labor law is now applicable to all employment practices, there is no threshold like units having more than ten workers as is being prescribed in the existing law; (2) mentioning of decent employment practices as enshrined in fundamental principles of ILO; (3) specifying the provisions mentioned in the labor law as minimum conditions to be met by the employers; (4) ensuring all employers to issue appointment letters irrespective to nature of employment; (5) substantial increase in number of paid leaves and holidays, occupation health and safety issues, special provisions for the workers in tea plantation, tourism sector, transportation workers, construction sector, domestic workers, seasonal workers and workers employed by foreign or multinational companies; (6) mandatory provision for biannual review of minimum wages; and (7) introduction of compulsory social security contributions like provident fund, gratuity fund, medical expenses, insurance etc. The problems associated with contract labor or labor supply agents have been sought to be mitigated by requiring labor contractors to be registered companies.

The proposed law also contains enough provisions to strengthen labor administration, including labor court which is now accused of being in a stage of hibernation. A blotted Labor Advisory Council composed of 20 members has been proposed for policy advices to the government. Apart from stating that the two out of the seven members each representing employers and trade unions be female, the law is silent on how remaining five will be distributed among the ever disputing trade unions and, now, also applicable to business representatives. This scribe has a strong view that in the present context, FNCCI does not represent employers in Nepal. Without correcting this fundamental flaw, I do not know how the designers of the new law expect the law to be implemented in letters and spirit.

The representatives from trade unions and the employers may agree on principles of industrial relations in Nepal. However, what they have forgotten is that at the onslaught of overseas employment, that is, as more and more Nepali youths travel

for foreign employment, the shortage of workers within Nepal has literally made industrial relations system inside Nepal to be an obsolete factor. The concern of the government is towards maintaining external industrial relations. This is to say that the government should be more worried now by the labor strikes by Nepali workers in Malaysia, South Korea or in Gulf countries. Ironically, there is no law governing external industrial relations systems in Nepal. Hopefully, there will be some realization to this end.



Global Competitiveness and Position of Nepal

*Raju Raut**

Global Competitiveness is a kind of ability to do business in the world. It shows the overall performance of a country. There are many indicator of business competitiveness. The Global Competitiveness Report of the World Economic Forum defines competitiveness as "the set of institutions, policies, and factors that determine the level of productivity of a country".

The World Economic Forum (WEF) recently released its annual "Global Competitiveness Report," which details the strengths and weakness of 144 countries in myriad factors including education, infrastructure, health and technology. Global competitiveness includes following indicator as below :

1. Institutions
2. Infrastructure
3. Macroeconomic Environment
4. Health and Primary Education
5. Higher Education and Training
6. Goods Market Efficiency
7. Labor Market Efficiency
8. Financial Market Development
9. Technological Readiness
10. Market Size
11. Business Sophistication
12. Innovation

First pillar: Institutions

This pillar consists property rights, intellectual property rights, Judicial

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independence, ethical behavior of firms, strength of investor protection etc. The institutional environment is determined by the legal and administrative framework within which individuals, firms, and governments interact to generate wealth. The importance of a sound and fair institutional environment has become all the more apparent during the recent economic and financial crisis and is especially crucial for further solidifying the fragile recovery, given the increasing role played by the state at the international level and for the economies of many countries.

The quality of institutions has a strong bearing on competitiveness and growth. It influences investment decisions and the organization of production and plays a key role in the ways in which societies distribute the benefits and bear the costs of development strategies and policies. For example, owners of land, corporate shares, or intellectual property are unwilling to invest in the improvement and upkeep of their property if their rights as owners are not protected.

The role of institutions goes beyond the legal framework. Government attitudes toward markets and freedoms and the efficiency of its operations are also very important: excessive bureaucracy and red tape, overregulation, corruption, dishonesty in dealing with public contracts, lack of transparency and trustworthiness, inability to provide appropriate services for the business sector, and political dependence of the judicial system impose significant economic costs to businesses and slow the process of economic development.

Second pillar: Infrastructure

Infrastructure consists of quality of roads, quality of port infrastructure, quality of air transport, quality of electricity etc. Extensive and efficient infrastructure is critical for ensuring the effective functioning of the economy, as it is an important factor in determining the location of economic activity and the kinds of activities or sectors that can develop within a country. Well-developed infrastructure reduces the effect of distance between regions, integrating the national market and connecting it at low cost to markets in other countries and regions. In addition, the quality and extensiveness of infrastructure networks significantly impact economic

growth and reduce income inequalities and poverty in a variety of ways. A well-developed transport and communications infrastructure network is a prerequisite for the access of less-developed communities to core economic activities and services.

Effective modes of transport—including quality roads, railroads, ports, and air transport—enable entrepreneurs to get their goods and services to market in a secure and timely manner and facilitate the movement of workers to the most suitable jobs. Economies also depend on electricity supplies that are free from interruptions and shortages so that businesses and factories can work unimpeded. Finally, a solid and extensive telecommunications network allows for a rapid and free flow of information, which increases overall economic efficiency by helping to ensure that businesses can communicate and decisions are made by economic actors taking into account all available relevant information.

Third pillar: Macroeconomic environment

Macroeconomic environment consists of government budget balance, gross national saving, inflation, govt. debt etc. The stability of the macroeconomic environment is important for business and, therefore, is significant for the overall competitiveness of a country. Although it is certainly true that macroeconomic stability alone cannot increase the productivity of a nation, it is also recognized that macroeconomic disarray harms the economy, as we have seen in recent years, conspicuously in the European context. The government cannot provide services efficiently if it has to make high-interest payments on its past debts. Running fiscal deficits limits the government's future ability to react to business cycles. Firms cannot operate efficiently when inflation rates are out of hand. In sum, the economy cannot grow in a sustainable manner unless the macro environment is stable. Macroeconomic stability captured the attention of the public most recently when some advanced economies, notably the United States and some European countries, needed to take urgent action to prevent macroeconomic instability when their public debt reached unsustainable levels in the wake of the global financial crisis.

Fourth pillar: Health and primary education

Health and primary education consists of business impact of HIV/AIDS, quality of primary education, infant mortality rate business impact of TB etc A healthy workforce is vital to a country's competitiveness and productivity. Workers who are ill cannot function to their potential and will be less productive. Poor health leads to significant costs to business, as sick workers are often absent or operate at lower levels of efficiency. Investment in the provision of health services is thus critical for clear economic, as well as moral, considerations.

In addition to health, this pillar takes into account the quantity and quality of the basic education received by the population, which is increasingly important in today's economy. Basic education increases the efficiency of each individual worker. Moreover, often workers who have received little formal education can carry out only simple manual tasks and find it much more difficult to adapt to more advanced production processes and techniques, and therefore they contribute less to devising or executing innovations. In other words, lack of basic education can become a constraint on business development, with firms finding it difficult to move up the value chain by producing more sophisticated or value-intensive products.

Fifth pillar: Higher education and training

Higher education and training consists of internet access in school, extent of staff training quality of math and science education etc. Quality higher education and training is crucial for economies that want to move up the value chain beyond simple production processes and products. In particular, today's globalizing economy requires countries to nurture pools of well-educated workers who are able to perform complex tasks and adapt rapidly to their changing environment and the evolving needs of the production system. This pillar measures secondary and tertiary enrollment rates as well as the quality of education as evaluated by business leaders. The extent of staff training is also taken into consideration because of the importance of vocational and continuous on-the-job training—which is neglected in many economies—for ensuring a constant upgrading of workers' skills.

Sixth pillar: Goods market efficiency

Goods market efficiency consists of intensity of local competition, effect of taxation etc. Countries with efficient goods markets are well positioned to produce the right mix of products and services given their particular supply-and-demand conditions, as well as to ensure that these goods can be most effectively traded in the economy. Healthy market competition, both domestic and foreign, is important in driving market efficiency, and thus business productivity, by ensuring that the most efficient firms, producing goods demanded by the market, are those that thrive. The best possible environment for the exchange of goods requires a minimum of government intervention that impedes business activity. For example, competitiveness is hindered by distortionary or burdensome taxes and by restrictive and discriminatory rules on foreign direct investment (FDI)—which limit foreign ownership—as well as on international trade. The recent economic crisis has highlighted the high degree of interdependence of economies worldwide and the degree to which growth depends on open markets. Protectionist measures are counterproductive as they reduce aggregate economic activity.

Market efficiency also depends on demand conditions such as customer orientation and buyer sophistication. For cultural or historical reasons, customers may be more demanding in some countries than in others. This can create an important competitive advantage, as it forces companies to be more innovative and customer-oriented and thus imposes the discipline necessary for efficiency to be achieved in the market.

Seventh pillar: Labor market efficiency

Labor market efficiency consists of hiring and firing practice, venture capital, pay and productivity etc. The efficiency and flexibility of the labor market are critical for ensuring that workers are allocated to their most effective use in the economy and provided with incentives to give their best effort in their jobs. Labor markets must therefore have the flexibility to shift workers from one economic activity to another rapidly and at low cost, and to allow for wage fluctuations without much

social disruption. The importance of the latter has been dramatically highlighted by events in Arab countries, where rigid labor markets were an important cause of high youth unemployment. Youth unemployment continues to be high in a number of European countries as well, where important barriers to entry into the labor market remain in place.

Efficient labor markets must also ensure clear strong incentives for employees and efforts to promote meritocracy at the workplace, and they must provide equity in the business environment between women and men. Taken together these factors have a positive effect on worker performance and the attractiveness of the country for talent, two aspects that are growing more important as talent shortages loom on the horizon.

Eighth pillar: Financial market development

Financial Market Development consists of affordable financial services, finance through local equity, soundness of bank etc. The financial and economic crisis has highlighted the central role of a sound and well-functioning financial sector for economic activities. An efficient financial sector allocates the resources saved by a nation's citizens, as well as those entering the economy from abroad, to their most productive uses. It channels resources to those entrepreneurial or investment projects with the highest expected rates of return rather than to the politically connected. A thorough and proper assessment of risk is therefore a key ingredient of a sound financial market.

Business investment is also critical to productivity. Therefore economies require sophisticated financial markets that can make capital available for private-sector investment from such sources as loans from a sound banking sector, well-regulated securities exchanges, venture capital, and other financial products. In order to fulfill all those functions, the banking sector needs to be trustworthy and transparent, and—as has been made so clear recently—financial markets need appropriate regulation to protect investors and other actors in the economy at large.

Ninth pillar: Technological readiness

Technology readiness consists of use of latest technology , firm level technology, individual using internet etc. In today's globalized world, technology is increasingly essential for firms to compete and prosper. The technological readiness pillar measures the agility with which an economy adopts existing technologies to enhance the productivity of its industries, with specific emphasis on its capacity to fully leverage information and communication technologies (ICTs) in daily activities and production processes for increased efficiency and enabling innovation for competitiveness. ICTs have evolved into the “general purpose technology” of our time, given their critical spillovers to other economic sectors and their role as industry-wide enabling infrastructure. Therefore ICT access and usage are key enablers of countries' overall technological readiness.

Tenth pillar: Market size

Market size consists of domestic market size, foreign market size export etc. The size of the market affects productivity since large markets allow firms to exploit economies of scale. Traditionally, the markets available to firms have been constrained by national borders. In the era of globalization, international markets have become a substitute for domestic markets, especially for small countries like Nepal. Vast empirical evidence shows that trade openness is positively associated with growth. Even if some recent research casts doubts on the robustness of this relationship, there is a general sense that trade has a positive effect on growth, especially for countries with small domestic markets.

Thus exports can be thought of as a substitute for domestic demand in determining the size of the market for the firms of a country.

By including both domestic and foreign markets in our measure of market size, we give credit to export-driven economies and geographic areas (such as the European Union) that are divided into many countries but have a single common market.

Eleventh pillar: Business sophistication

Business sophistication consists of local supplier quantity, local supplier quality, extent of marketing etc. There is no doubt that sophisticated business practices are conducive to higher efficiency in the production of goods and services. Business sophistication concerns two elements that are intricately linked: the quality of a country's overall business networks and the quality of individual firms' operations and strategies. These factors are especially important for countries at an advanced stage of development when, to a large extent, the more basic sources of productivity improvements have been exhausted. The quality of a country's business networks and supporting industries, as measured by the quantity and quality of local suppliers and the extent of their interaction, is important for a variety of reasons. When companies and suppliers from a particular sector are interconnected in geographically proximate groups, called *clusters*, efficiency is heightened, greater opportunities for innovation in processes and products are created, and barriers to entry for new firms are reduced. Individual firms' advanced operations and strategies (branding, marketing, distribution, advanced production processes, and the production of unique and sophisticated products) spill over into the economy and lead to sophisticated and modern business processes across the country's business sectors.

Twelfth pillar: Innovation

Innovation consists of capacity for innovation, quality of scientific research etc. Innovation can emerge from new technological and non-technological knowledge. Non-technological innovations are closely related to the know-how, skills, and working conditions that are embedded in organizations and are therefore largely covered by the eleventh pillar of the GCI. The final pillar of competitiveness focuses on technological innovation. Although substantial gains can be obtained by improving institutions, building infrastructure, reducing macroeconomic instability, or improving human capital, all these factors eventually run into diminishing returns. The same is true for the efficiency of the labor, financial, and goods markets. In the long run, standards of living can be largely enhanced by

technological innovation. Technological breakthroughs have been at the basis of many of the productivity gains that our economies have historically experienced. These range from the industrial revolution in the 18th century and the invention of the steam engine and the generation of electricity to the more recent digital revolution. The latter is not only transforming the way things are being done, but also opening a wider range of new possibilities in terms of products and services. Innovation is particularly important for economies as they approach the frontiers of knowledge, and the possibility of generating more value by merely integrating and adapting exogenous technologies tends to disappear.

Although less-advanced countries can still improve their productivity by adopting existing technologies or making incremental improvements in other areas, for those that have reached the innovation stage of development this is no longer sufficient for increasing productivity. Firms in these countries must design and develop cutting-edge products and processes to maintain a competitive edge and move toward even higher value-added activities. This progression requires an environment that is conducive to innovative activity and supported by both the public and the private sectors. In particular, it means sufficient investment in research and development (R&D), especially by the private sector; the presence of high-quality scientific research institutions that can generate the basic knowledge needed to build the new technologies; extensive collaboration in research and technological developments between universities and industry; and the protection of intellectual property, in addition to high levels of competition and access to venture capital and financing that are analyzed in other pillars of the Index. In light of the recent sluggish recovery and rising fiscal pressures faced by advanced economies, it is important that public and private sectors resist pressures to cut back on the R&D spending that will be so critical for sustainable growth into the future.

The interrelation of the 12 pillars

Although we report the results of the 12 pillars of competitiveness separately, it is important to keep in mind that they are not independent: they tend to reinforce

each other, and a weakness in one area often has a negative impact in others. For example, a strong innovation capacity (pillar 12) will be very difficult to achieve without a healthy, well-educated and trained workforce (pillars 4 and 5) that is adept at absorbing new technologies (pillar 9), and without sufficient financing (pillar 8) for R&D or an efficient goods market that makes it possible to take new innovations to market (pillar 6). Although the pillars are aggregated into a single index, measures are reported for the 12 pillars separately because such details provide a sense of the specific areas in which a particular country needs to improve.

Stages of development and the weighted index

While all of the pillars described above will matter to a certain extent for all economies, it is clear that they will affect different economies in different ways: the best way for Nepal to improve its competitiveness is not the same as the best way for France and US to do so. This is because Nepal and France or US are in different stages of development: as countries move along the development path, wages tend to increase and, in order to sustain this higher income, labor productivity must improve.

In line with well-known economic theory of stages of development, the GCI assumes that, in the first stage, the economy is *factor-driven* and countries compete based on their factor endowments—primarily unskilled labor and natural resources. Companies compete on the basis of price and sell basic products or commodities, with their low productivity reflected in low wages. Maintaining competitiveness at this stage of development hinges primarily on well-functioning public and private institutions (pillar 1), a well-developed infrastructure (pillar 2), a stable macroeconomic environment (pillar 3), and a healthy workforce that has received at least a basic education (pillar 4).

As a country becomes more competitive, productivity will increase and wages will rise with advancing development. Countries will then move into the *efficiency-driven* stage of development, when they must begin to develop more efficient

production processes and increase product quality because wages have risen and they cannot increase prices. At this point, competitiveness is increasingly driven by higher education and training (pillar 5), efficient goods markets (pillar 6), well-functioning labor markets (pillar 7), developed financial markets (pillar 8), the ability to harness the benefits of existing technologies (pillar 9), and a large domestic or foreign market (pillar 10).

Finally, as countries move into the *innovation-driven* stage, wages will have risen by so much that they are able to sustain those higher wages and the associated standard of living only if their businesses are able to compete with new and unique products. At this stage, companies must compete by producing new and different goods using the most sophisticated production processes (pillar 11) and by innovating new ones (pillar 12).

The GCI takes the stages of development into account by attributing higher relative weights to those pillars that are more relevant for an economy given its particular stage of development. That is, although all 12 pillars matter to a certain extent for all countries, the relative importance of each one depends on a country's particular stage of development.

Nepal

Nepal is the 102nd most competitive nation in the world out of 144 countries ranked in the 2014-2015 edition of the Global Competitiveness Report published by the World Economic Forum. Competitiveness Rank in Nepal averaged 118.67 from 2007 until 2015, reaching an all time high of 130 in 2011 and a record low of 102 in 2015. Competitiveness Rank in Nepal is reported by the World Economic Forum.



According to Global Competitiveness Index, brief indications of Nepal are shown as below:

INDICATOR VALUE

Value RANK/144

1st pillar: Institutions

1.01 Property rights	3.3	119
1.02 Intellectual property protection	2.9	111
1.03 Diversion of public funds	2.8	92
1.04 Public trust in politicians	2.1	122
1.05 Irregular payments and bribes	2.9	119
1.06 Judicial independence	3.3	92
1.07 Favoritism in decisions of government officials	2.8	91
1.08 Wastefulness of government spending	2.5	111
1.09 Burden of government regulation	3.0	106

1.10 Efficiency of legal framework in settling disputes	2.9	.....120
1.11 Efficiency of legal framework in challenging regs. ...	2.9	.....101
1.12 Transparency of government policymaking	3.5	.....117
1.13 Business costs of terrorism	4.1	.....119
1.14 Business costs of crime and violence.....	3.4	.....119
1.15 Organized crime	3.5	.....129
1.16 Reliability of police services	3.8	.....87
1.17 Ethical behavior of firms	3.3	.....128
1.18 Strength of auditing and reporting standards	3.8	.....121
1.19 Efficacy of corporate boards	4.0	.....115
1.20 Protection of minority shareholders' interests	3.3	.....126
1.21 Strength of investor protection, 0–10 (best)*	5.3	.....68

2nd pillar: Infrastructure

2.01 Quality of overall infrastructure	2.9	.....126
2.02 Quality of roads	2.9	.....115
2.03 Quality of railroad infrastructure	N/Appl.	.....n/a
2.04 Quality of port infrastructure	2.2	.....137
2.05 Quality of air transport infrastructure.....	2.9	.....129
2.06 Available airline seat km/week, millions*	109.1	.....80
2.07 Quality of electricity supply	1.8	.....136
2.08 Mobile telephone subscriptions/100 pop.*	71.5120

2.09 Fixed telephone lines/100 pop.*	3.1	114
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3rd pillar: Macroeconomic environment

3.01 Government budget balance, % GDP*	2.0	11
3.02 Gross national savings, % GDP*	35.1	15
3.03 Inflation, annual % change*	9.9	136
3.04 General government debt, % GDP*	31.0	38
3.05 Country credit rating, 0–100 (best)*	23.8	123

4th pillar: Health and primary education

4.01 Malaria cases/100,000 pop.*	61.9	32
4.02 Business impact of malaria	5.2	29
4.03 Tuberculosis cases/100,000 pop.*	163.0	109
4.04 Business impact of tuberculosis	4.7	100
4.05 HIV prevalence, % adult pop.*	0.3.....	59
4.06 Business impact of HIV/AIDS	4.7	100
4.07 Infant mortality, deaths/1,000 live births*	33.6	106
4.08 Life expectancy, years*	68.0	102
4.09 Quality of primary education	3.6	89
4.10 Primary education enrollment, net %*	98.5	19

5th pillar: Higher education and training

5.01 Secondary education enrollment, gross %*	66.6	109
5.02 Tertiary education enrollment, gross %*.....	14.5	102

5.03 Quality of the education system	3.6	75
5.04 Quality of math and science education	3.8	87
5.05 Quality of management schools	3.8	94
5.06 Internet access in schools	3.5	102
5.07 Availability of research and training services	3.1	131
5.08 Extent of staff training	3.3	125
6th pillar: Goods market efficiency		
6.01 Intensity of local competition	4.8	94
6.02 Extent of market dominance	2.9	132
6.03 Effectiveness of anti-monopoly policy	3.9	84
6.04 Effect of taxation on incentives to invest	3.3	101
6.05 Total tax rate, % profits*	31.5	43
6th pillar: Goods market efficiency		
6.06 No. procedures to start a business*	7	78
6.07 No. days to start a business*	17.0	83
6.08 Agricultural policy costs.....	3.6	96
6.09 Prevalence of trade barriers	4.3	84
6.10 Trade tariffs, % duty*	17.7	141
6.11 Prevalence of foreign ownership	3.3	127
6.12 Business impact of rules on FDI	3.7	116
6.13 Burden of customs procedures	3.2	124

6.14 Imports as a percentage of GDP*	38.6	95
6.15 Degree of customer orientation	3.8	120
6.16 Buyer sophistication	3.2	95

7th pillar: Labor market efficiency

7.01 Cooperation in labor-employer relations	3.2	141
7.02 Flexibility of wage determination	4.4	115
7.03 Hiring and firing practices	3.2	119
7.04 Redundancy costs, weeks of salary*	27.2	118
7.05 Effect of taxation on incentives to work	3.5	85
7.06 Pay and productivity	3.1	128
7.07 Reliance on professional management	3.4	118
7.08 Country capacity to retain talent	2.7	116
7.09 Country capacity to attract talent	2.3	131
7.10 Women in labor force, ratio to men*	0.93	17

8th pillar: Financial market development

8.01 Availability of financial services	4.2	84
8.02 Affordability of financial services	4.1	74
8.03 Financing through local equity market	3.8	47
8.04 Ease of access to loans	2.3	116
8.05 Venture capital availability	2.2	105
8.06 Soundness of banks	4.2	103

8.07 Regulation of securities exchanges	3.4	109
8.08 Legal rights index, 0–10 (best)*	8	29

9th pillar: Technological readiness

9.01 Availability of latest technologies	4.0	115
9.02 Firm-level technology absorption	3.9	123
9.03 FDI and technology transfer	3.7	126
9.04 Individuals using Internet, %*	13.3	119
9.05 Fixed broadband Internet subscriptions/100 pop.* ...	0.8	110
9.06 Int'l Internet bandwidth, kb/s per user*	2.4	137
9.07 Mobile broadband subscriptions/100 pop.*	13.0	92

10th pillar: Market size

10.01 Domestic market size index, 1–7 (best)*	3.1	90
10.02 Foreign market size index, 1–7 (best)*	3.1	127
10.03 GDP (PPP\$ billions)*	42.1	93
10.04 Exports as a percentage of GDP*	9.4	142

11th pillar: Business sophistication

11.01 Local supplier quantity	4.2	109
11.02 Local supplier quality	3.6	124
11.03 State of cluster development	3.3	102
11.04 Nature of competitive advantage	3.0	113
11.05 Value chain breadth	3.2	118

11.06 Control of international distribution	3.3	132
11.07 Production process sophistication	3.1	119
11.08 Extent of marketing	3.4	121
11.09 Willingness to delegate authority	2.9	135

12th pillar: Innovation

12.01 Capacity for innovation	3.1	123
12.02 Quality of scientific research institutions	2.6	131
12.03 Company spending on R&D	2.6	116
12.04 University-industry collaboration in R&D	2.6	127
12.05 Gov't procurement of advanced tech products	2.8	125
12.06 Availability of scientists and engineers	3.5	109
12.07 PCT patents, applications/million pop.*	0.0	118

Conclusion

Nepal competitive position has been fluctuating year by year but entirely it is not satisfactorily. Out of 144 countries Nepal is in 102 position. 3rd Pillar macroeconomic is the best position for Nepal which is average ranked 64.6 and it is the first position, 2nd position is Health and Primary education with average ranking 74.5, 3rd position financial market development with average ranking 83.37, 4th position goods market efficiency with average ranking 98.08, 5th position Higher education and training having average ranking 103.125, 6th position labor market efficiency having average ranking 108.8, 7th position institution having average ranking 110.14, 8th position market size having average ranking 113, 9th position technological readiness having average ranking 117.42, 10th position Business sophistication having average ranking 119, 11th position infrastructure having average ranking 119.62 and finally 12th position innovation having average

ranking 121.28.

We are very poor in innovation, infrastructure, business sophistication, technological readiness, market size, institution and labor market efficiency which are below average (102 rank). The research shows that we don't have good capacity of innovation, quality of scientific research and institution. So first of all we have to introduce an institution for good research and development and we can conclude that ministry for science and technology is not effective in Nepal. The research shows that we are very poor in infrastructure we have to extent quality of overall infrastructure, quality of roads, we have to introduce city metro like india, china, japan and as developed country. We have to improve quality of goods and we are unable to produce goods as per requirement so we are also poor in business sophistication. We have to introduce good technology for business because firm level technology absorption is also not good.

According to the global competitiveness we are good in macroeconomic environment. Govt. budget balance on percentage of GDP is very good condition, gross national saving on percentage of GDP is also good but country credit rating is not in good condition.

We cannot assume our competitive will increase for coming year due to the recent earthquake, strike and Nepal Banda. So, Nepal should formulate and apply Constitution on time, reconstruction and rehabilitation program should be done properly so that we can improve global competitiveness.



A STUDY ON STRENGTHENING THE INTERNAL AUDIT SYSTEM OF THE LOCAL BODIES IN NEPAL

*Dinesh Lamsal**

1. Introduction:

1.1 Background of the Study

A **financial audit**, or more accurately, an **audit of financial statements**, is the verification of the financial statements of a legal entity, with a view to express an audit opinion. The audit opinion is intended to provide reasonable assurance that the financial statements are presented fairly, in all material respects, and give a true and fair view in accordance with the financial reporting framework. The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements.

Financial audits are typically performed by firms of practicing accountants who are experts in financial reporting. The financial audit is one of many assurance functions provided by accounting firms. Many organizations separately employ or hire internal auditors, who do not attest to financial reports but focus mainly on the internal controls of the organization. External auditors may choose to place limited reliance on the work of internal auditors.

Internationally, the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB) is considered as the benchmark for audit process. Almost all jurisdictions require auditors to follow the ISA or a local variation of the ISA.

The INTOSAI Auditing Standards distinguish basically two types of audit that a Government Auditor may perform:

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- Regularity audit or **Statutory audit**, which is a financial audit of the financial reporting or budget reporting of the audited entity.

In a regularity audit, the audit report contains the auditor's **opinion**.

- **Performance audit** refers to an examination of a program, function, operation or the management systems and procedures of a governmental or non-profit entity to assess whether the entity is achieving economy, efficiency and effectiveness in the employment of available resources.

In a performance audit, the report should contain a *statement of assurance* on those items tested for compliance, as the auditor's conclusion (as opposed to *opinion*).

Audit is the cyclical process of assessing current services against set standards, acting to bring practice in line with the standards, reviewing again, and so on. Its primary purpose is improving the quality of a service or intervention by promoting adherence to standards. Good practice and innovative work on audit, like research, should be disseminated, including publication in appropriate journals, but the main use of audit data, and the clear reason for carrying out audit is to improve or maintain practice in line with set standards.

The earliest surviving mention of a public official charged with auditing government expenditure is a reference to the Auditor of the Exchequer in England in 1314. The Auditors of the Imprest were established under Queen Elizabeth I in 1559 with formal responsibility for auditing Exchequer payments. This system gradually lapsed and in 1780, Commissioners for Auditing the Public Accounts were appointed by statute. From 1834, the Commissioners worked in tandem with the Comptroller of the Exchequer, who was charged with controlling the issue of funds to the government.

As Chancellor of the Exchequer, William Ewart Gladstone initiated major reforms of public finance and Parliamentary accountability. His 1866 Exchequer and Audit Departments Act required all departments, for the first time, to produce annual accounts, known as appropriation accounts. The Act also established the position

of Comptroller and Auditor General (C&AG) and an Exchequer and Audit Department (E&AD) to provide supporting staff from within the civil service. The C&AG was given two main functions – to authorize the issue of public money to government from the Bank of England, having satisfied himself that this was within the limits Parliament had voted – and to audit the accounts of all Government departments and report to Parliament accordingly.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal auditing is a catalyst for improving an organization's effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business processes. With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. Professionals called internal auditors are employed by organizations to perform the internal auditing activity.

The **scope of internal auditing** within an organization is broad. It involves topics such as:

- the efficacy of operations,
- the reliability of financial reporting,
- deterring and investigating fraud,
- safeguarding assets, and
- Compliance with laws and regulations.

Internal auditing frequently involves measuring compliance with the entity's policies and procedures. However, internal auditors are not responsible for the execution of company activities; they advise management and the Board of Directors (or similar oversight body) regarding how to better execute their responsibilities. As a result of their broad scope of involvement, internal auditors may have a variety of higher educational and professional backgrounds.

The Internal Auditing profession evolved steadily with the progress of management science after World War II. It is conceptually similar in many ways to financial auditing by public accounting firms, quality assurance and banking compliance activities. Much of the theory underlying internal auditing is derived from management consulting and public accounting professions. With the implementation in the United States of the Sarbanes-Oxley Act of 2002, the profession's growth accelerated, as many internal auditors possess the skills required to help companies meet the requirements of the law.

1.2 Legal Status of the Study

It is mentioned mainly these Acts or Rules about internal audit as following:

- Local Self Governance Act, 2055
- Local Self Governance Rules, 2056
- Local Bodies Financial Administration Rules, 2064
- Internal Audit Guidelines for Local Bodies, 2065
- The internal audit of incomes and expenditures of the Village Development Committee shall be carried out by the District Development Committee within four months from the date of completion of a fiscal year. -Local Self Governance Act, 2055,69(1)
- The Municipality shall itself do the internal audit of its income and expenditure. Local Self Governance Act, 2055 , 135 (1)
- The internal audit section shall do internal audit of the District Development Committee. - Local Self Governance Act, 2055 ,232 (1)
- Provision of Account Committee and their duties & responsibilities in the local bodies. -Local Self Governance Act, 2055 and Local Self Governance Rules, 2056
- Establishment of internal audit branch and managing work, duties and rights in Municipalities and District Development Committees.-Local Bodies Financial Administration Rules, 2064.

1.3 Statement of the Problem

After issuing Local Self-Governance act, 2055 and Local Self-Governance Rules, 2056, it is the historical event for the Local Bodies in the field of Decentralization. It devolved political, financial, administrative and limited legal powers to the Local Bodies. It proved that the Local Bodies are the form of local governance where front line peoples can practice their sovereign power. In 2056, Financial administration (local bodies) Rules is also issued under local Self-Governance Act-2055. The Internal Audit Branch was established in district development committees and Municipalities by its provision and also managed a Account Committee to see financial accountability. This is the vital achievement for the local democracy. But, till today, the Internal Audit of the Local Bodies is creeping on its objectives and functioning. So it is determined as the main problem that strengthening the Internal Audit System in Local bodies of the Nepal for this case study.

1.4 Objectives of the Study

The objectives of the study are determined as follows:

- To gain information of the existing internal audit in local bodies.
- To analyze the internal audit system in local bodies of the Nepal.
- To find out the problems and to recommend more valuable remedies, this can minimize the problems.

1.5 Significance of the Study

These are the points that prove the importance of the study.

- To make more responsible, accountable, effective or believable to the internal audit system of local bodies of Nepal.
- To identify the suitable method for effective implementation of the suggestion that minimizes the problem of the internal audit system in local bodies of Nepal.
- To present as good knowledge for stakeholders about the internal audit system in local bodies of Nepal.

- To improve the qualities of internal audit system in local bodies of Nepal.
- To improve the quality of internal audit system in local bodies of Nepal.

1.6 Methods of the Study

I was served as a Internal Auditor in Office of the District Development Committee, Banke up to 5 years and also served as a account chief in Achham District Court . These are my Experience which support for growing my knowledge. On the basis of above experience as well as discussion with my colleagues, study former research reports, related journals ,articles, web matters , books and other supporting documents ,it is prepared and presented to all as the my best attempt.

1.7 Limitation of the Study

The limitations of this case study are as follows.

- It is influences by the limitation of time, resources and also skill.
- This includes only minor subject.
- This depends on former and secondary data.
- It cannot include graphical presentation.
- It includes data or experience mainly in DDC's internal audit branch.

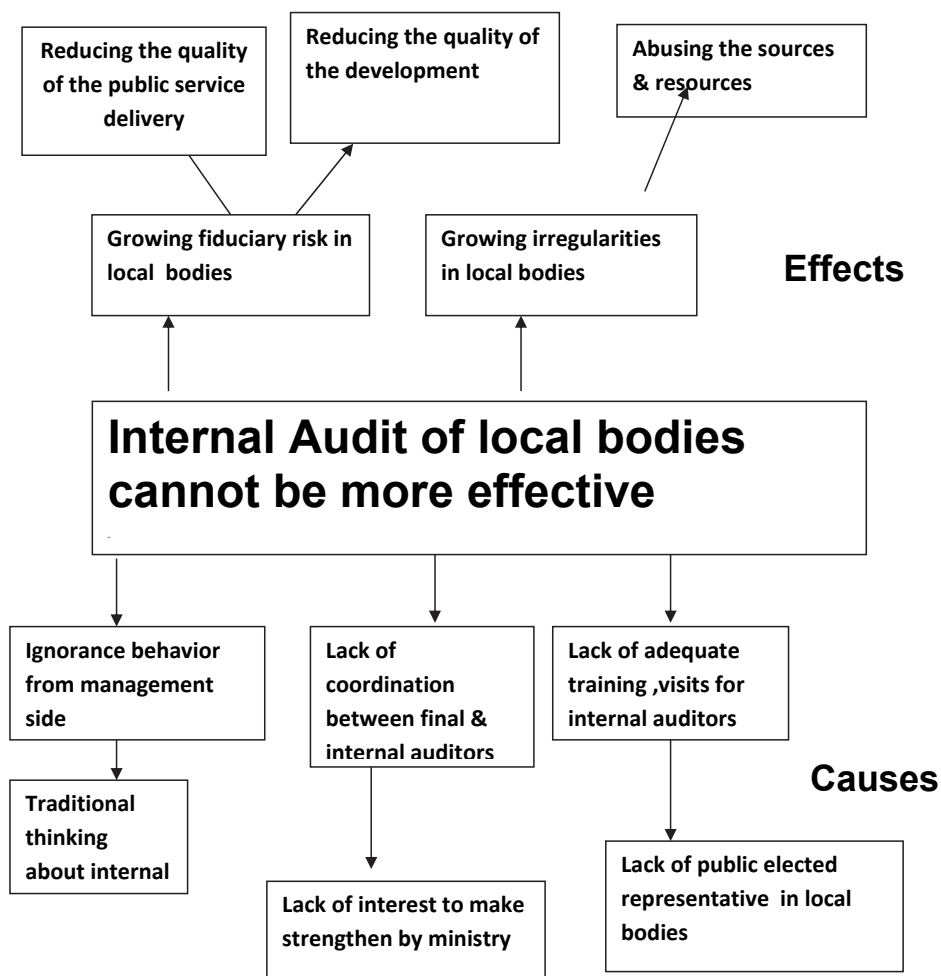
2. Problem Analysis and Findings

2.1 Stakeholder analysis

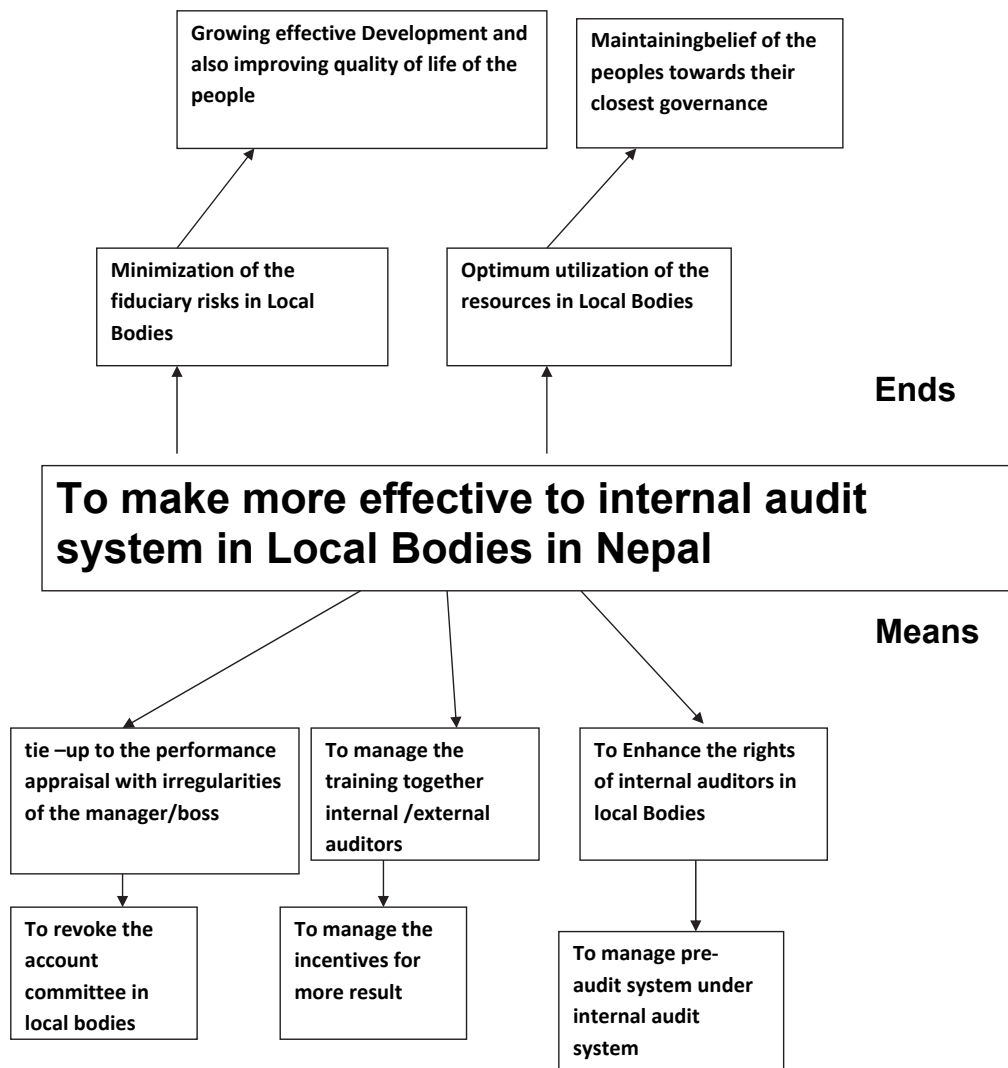
S.N.	Groups/ organizations	Expected benefit
1	Government Of Nepal	helps for reviewing the existing laws
2	Ministry Of Local development	guides for making Procedures ,guidelines
3	Local Bodies	helps for keeping accountability and effective development
4	Political parties	for making sect oral policies

5	Donor agencies	helps for assurance about anti –corruption & transparency
6	Internal Auditors of Local Bodies	strengthening the role of Internal Auditors in development process
7	Final Auditors of Local Bodies	gain the knowledge about internal audit system in Local Bodies
8	People/mass media	easy for making more accountable to the Local Bodies
9	Students	gain the knowledge about internal audit system in Local Bodies

2.2 Problem Analysis



2.3 Objective Analysis



2.4 Alternative Analysis

In internal audit system of local bodies, following alternatives are found for the alternative analysis of the study:

Alternative -1: capacity building for the auditors

Alternative-2: reviewing existing manpower and their working area

Alternative -3: manage pre- audit system

Alternative-4: To allocate the criteria for internal & external (final) audit

Analysis Table

Indicator/Alternatives	alternative 1	alternative 2	alternative 3	alternative 4
cost	2	1	2	2
Benifit	2	2	3	2
Time	1	2	2	2
Possibility of success	2	2	2	2
Risk	1	2	2	2
Total marks	8	9	11	10

Note: Basis are ranked to 1 for minimum, 2 for medium & 3 for highest.

2.5 Choosing the Best alternative: Decision

among the alternatives, alternative 2 - manage pre- audit system is chosen by the total marking of the alternatives on the basis of cost, benefit, time, possibility of success and risk. So, we must prefer to implement the pre-audit system for strengthening the internal audit system in local bodies of Nepal.

2.6 Plan of Action

S.N.	Recommendations	Implementation agency	Time Limit	Monitoring agency
1	To amend the Local Bodies Financial Administration Regulation 2064 for managing pre-audit system in local bodies	Ministry of local development	6 months	Government of Nepal
2	Prepare pre- audit guidelines for local bodies	Ministry of local development	3 months	stakeholders like ADDCN, MUAN ,OAG ,FCGO
3	Training for the Auditors, account chief&secretaries of Local Bodies (phase wise)	Ministry of local development	Upto 1 year	Secretary/minister
4	Refresh training frequently (phase wise)	Ministry of local development	1 st quarter of every year	Secretary/minister

3. Recommendation and Conclusion

3.1 Recommendations

It is found that the pre-audit system under internal audit system is highly ranked in the alternative analysis. so we can say that the most preferable recommendation of this study is to manage Pre-audit system in internal audit of the local bodies of Nepal. Except this, these are more recommendations stated below for strengthening the internal audit system of local bodies in Nepal:

- To build capacity of the personnel who involved in internal audit system,
- To make active to the account committee of the local bodies,
- To manage the needed manpower in internal audit section,
- To end the vacuum of elected political leadership in the local bodies,
- To prepare and implement the Pre-audit guideline as fast as possible,
- To manage frequently training and special incentives for the internal auditors.

3.2 Conclusion

First issued Financial Administration (local body) rules, 2056 was stated about the Pre- audit system but before implementing it effectively it was kicked out by changing latest local bodies Financial Administration rules, 2064. Again, in local bodies, the result of growing irregularities as well as mal-functions, it is shown essential that the need of the Pre-audit system under internal audit system of the local bodies. So we must follow recommendations and plan of action for implementing the Pre audit system under internal audit system in the local bodies for strengthening the internal audit system in the local bodies of Nepal. Only by this, we shall get the achievement to make the environment of transparent, accountable, capable and good governed local bodies.

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Operation Management in Service Sector

*Anupama Karkee**

Background

Basically, Operation Management is the set of activities that generate goods and services through the transformation of inputs (People, Material, Money, resources etc) into outputs (Goods and Services). Services operations management is concerned with delivering service to the users of the service. Services operations management is the term which is used to cover the activities, decisions and responsibilities of operations managers in service organizations. It requires understanding the service needs of the target users, managing the processes that deliver the services, ensuring objectives are met. As such operations management is a central organizational function and one that is critical to organizational success.

In general, there are no differences between service and manufacturing operations. Manufacturing and Service operations management both are concerned with following factors:

Effectiveness

- Right prescription
- Right advice
- Service availability

Efficiency

- No. of servers
- Use of resources

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Quality

- Training
- Error prevention
- Continuous Improvement

Cost

- Inventory management
- Tradeoffs
- Purchasing

Likewise, public will judge the quality of the service on the basis of both the experience as well as the outcome. The service concept is a critical element in knowing and defining what the organization is selling and the customer buying. The critical objective is to ensure that what the organization thinks it is providing correlates closely with what users think they are receiving.

The primary function of both manufacturers and service providers is to satisfy customer needs, however there are several vital differences between the two types of operations described as follows:

- **Intangibility:** Manufacturers produce tangible products, things that can be touched or handled, such as automobiles and appliances. Service companies provide intangible products, such as banking, entertainment, or education.
- **Customization:** Manufactured goods are generally standardized; one packet of nebico biscuit is the same as any other twelve packets of nebico biscuit. When we go to the hairdresser, we ask for a haircut that looks good on us because of the shape of face and the texture of hair. When we go to the dentist, we ask to fill or pull the tooth that's bothering us.
- **Customer contact:** Customer contact is high in service sector than manufacturer for instance if a waiter interact with customers every day, their satisfaction would be determined by the service that provided.

The New Service Development (NSD) Process

Design : Formulating the objectives and strategy of the new service.
Analysis : Considering the financial implications of the new service.
Examining supply chain issues for delivery of service.

Development : Testing the service design, training personnel, conducting pilot runs.

Full Launch : Releasing the service to the market place.

Service value

To understand value, the costs to the users have to be weighed against the benefits they perceive in the service. The task for operations is to find the right balance between maximizing the value for customers and minimizing the cost to the organization. It is important to emphasize that the ultimate judge of value is the user/public. The real test is perceived value whether the users feel that they are receiving value, based on their own often intuitive and intangible criteria. The service concept is central to understanding users' requirements and focusing operations on those areas that have most impact on the users' perceptions.

Many companies have a reputation for excellent service spend time and money in listening to customers. The purpose of trying to understand customers' expectations is to try to ensure that service can be designed and delivered in order to meet those expectations. If operations meet those expectations then customers are satisfied with the service. Satisfied customers are more likely to become valuable customers who not only use the service again but may even recommend it to others.

Satisfaction is the result of users' assessment of a service based on a comparison of their perceptions of service delivery with their prior expectations. If users' perception of the service matches their expectations then they should be satisfied. Thus expectations and indeed perceptions are key components in delivering quality service.

Service Quality Factors

Service quality factors are those attributes of service about which users may have expectations and which need to be delivered at some specified level. Many potential factors have been identified including, for example, **access, availability, courtesy, flexibility, functionality, responsiveness** etc. Managers must know

which factors will delight and which will dissatisfy in order to manage the creation of satisfaction during the service process. Service quality factors provide a base for understanding and defining users' expectations (whether internal or external), defining appropriate levels (i.e. create the quality specification) and also measuring customer satisfaction.

Service processes

Processes are the lifeblood of the service operation. A good process ensures that service is delivered consistently, time after time. Excellent service which satisfies the customer and meets the strategic intentions of the organization is usually the result of careful design and delivery of a whole set of interrelated processes. Service providers that consistently meet both cost and quality targets manage the chain of processes from start to finish rather than simply the final stage of delivery to customers. A service process comprises many interrelated processes, some of which predominantly process customers, others information and others materials.

Many tasks will be located in the 'back office' remote from customers, while other 'front office' tasks and activities take place in the presence of the customer at a variety of locations. Together these processes in an appropriate sequence create the service experience and deliver the service outcomes. Service operations managers need to be able to manage the total chain of processes, which link together to deliver the service to customers or end users.

A key operational performance objective is to achieve consistency of outcome for customers, most service organizations report that reliability is one of the most significant factors in influencing customer satisfaction – in other words 'saying what you do and doing what you say'. Many service operations utilize the statistical process control (SPC) methodology to assess the extent to which a process is capable, or in control. Quality systems such as ISO 9000 are also useful in focusing on the development of quality management systems that have the objective of creating processes that reflect customer requirements and are sensitive to changing market conditions.

Service people

From a customer or user perspective, the difference between an ordinary and an excellent service experience lies more often than not with the person who serves them – their immediate point of contact. The person embodies the service and the customer's perception is influenced to a large extent by the way they view this interaction. It is possible for a service organization to invest in meticulous process design and expensive technology but, having failed to invest in its people; it will not achieve the expected levels of customer satisfaction. Moreover, employees will not be motivated to own and improve service processes to deliver required levels of quality and productivity. Managing service providers is an important task because these people, individually and collectively, have a crucial role. Service managers must seek to motivate and support employees by providing inspirational leadership, harnessing the power of teams and teamwork across the organization, and clarifying the roles of service providers. The organization's overall 'culture', the way of doing things will also have an impact on the quality and effectiveness of the organization's service offering.

Resource Utilization

Making the most effective use of operational resources; materials, staff, equipment and process technology is at the heart of service operations management and has a major impact on both operational costs and customer satisfaction. Managers are concerned with ensuring that the service process has sufficient resources to deal with the anticipated levels of customer demand in such a way that quality of service meets pre-set targets in the most cost-effective manner. This is a delicate balancing act because both underutilized and overstretched resources can be disadvantageous. The task of capacity management is to try to achieve a balance between too much and too little resource utilization. Capacity management is concerned with putting a plan in place that makes the best use of resources given the forecasted or expected demand for services.

Developing a Culture of Service Quality

- Hire the right people.
- Educate and train them well.
- Allow them to fix anything.
- Recognize and reward them regularly.

Dimensions of Service Quality

- Reliability
- Responsiveness
- Assurance
- Empathy
- Tangibles

Service blueprinting was initially introduced as a process control technique for services.

Performance measurement

Organizations need to evaluate their performance on a range of measures, not purely financial or indeed operational. Financial performance measures would include share price, costs and profits. Operational performance measures would include speed, productivity, equipment utilization and staff absenteeism. External data would include market share figures, customers lost, customer satisfaction.

Target-setting is a key element of driving performance improvement, there is evidence to suggest that performance improves when clearly defined targets are provided. Operations managers need to decide how targets will be set to support process improvement, control communication and stimulate motivation. Organisations need to decide what rewards/penalties will be associated with the achievement of their chosen targets. If rewards linked to targets are to work as intended, they must be clearly perceived as sufficient to justify the additional effort to obtain them, directly related to the required performance, perceived as equitable, and must take into account the complexities of individual versus team-based effort.

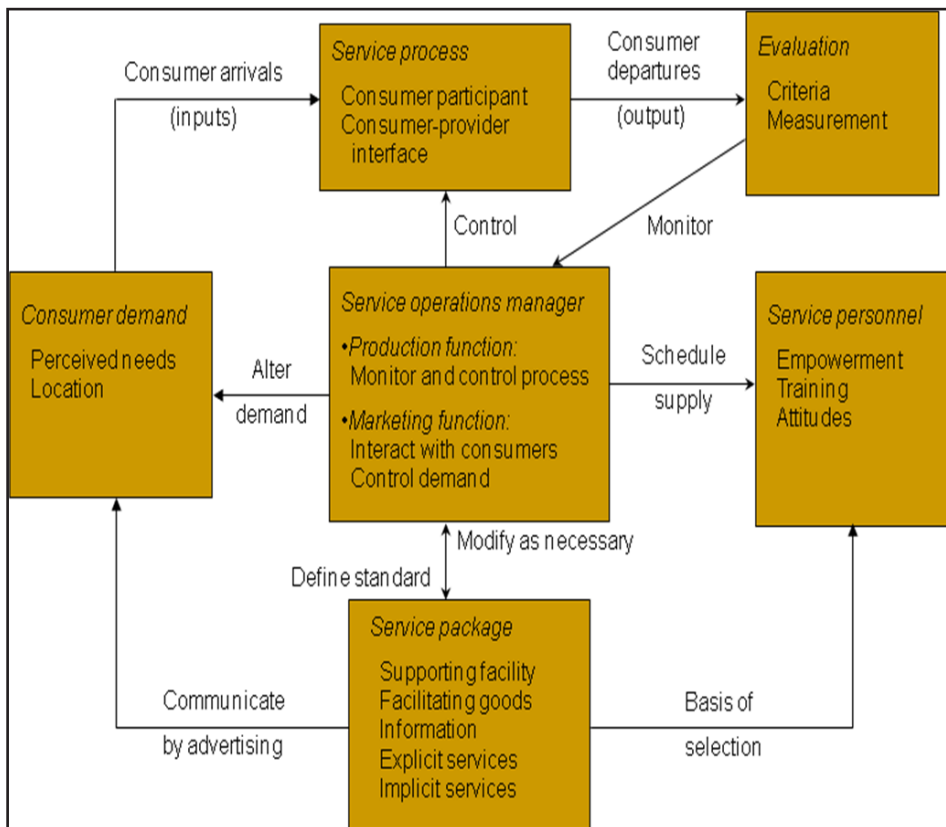
Components of Service Blueprints

There are five components of a typical service blueprint

- Customer Actions,
- Onstage/Visible Contact Employee Actions,
- Backstage/Invisible Contact Employee Actions,
- Support Processes, and
- Physical Evidence.

There should be a service blueprint in every organization, it shows the overall service process which can be used in performance evaluation of institution.

Open System View of Services



Source: Service Operations by Professor Joy Field

Public Service Delivery

Public services are those, society as a whole or individual in society pays either directly or through taxes or by other means for service consumed. Since citizens in the society pay for the service rendered by the government, they have every cost. For this, service provider needs appropriate level of resources, skill, and experience to provide specific benefits for service consumer.

In private-sector business environment, a customer will continue to purchase and consume a given product or service depending on the level of satisfaction derived from such a product and affordability in terms of price. Thus, maintaining high quality in products or services is an essential factor for the survival and growth of both public and private sector organizations. Organizations all over the world are faced with the challenges of customer satisfaction and retention, which necessitate the application of series of management principles in order to remain in business. The need for quality service delivery appears to have been appreciated by businesses in the private sector. However, their counterparts in the public sector are not perturbed by the quality of services delivered and have for ages, remained unchanged probably due to the fact that, public-sector organizations do not normally face the threat of competition by rivals providing similar services. This attitude gives bureaucracy a bad name, as evidenced by poor services offered by many of these public institutions. In order to win public confidence and make expected socio-economic gains, governments have introduced administrative reforms in the public/ civil services.

Bureaucracy is a type of formal administration with the characteristics of division of labour, rules and regulation, hierarchy of authority, impersonality of social relationships and technical competence, etc. The essence of bureaucracy is to enable large organizations to be managed, to achieve efficiency and be more accountable to the people. In other words, bureaucracy is the coordination of organizational activities for effective, efficient and economical provision of services by public and private organizations. Max Weber refers to bureaucracy as the ideal and rational type of administration useful for achievement of positive results. In order to survive the challenges created in a highly competitive environment,

many businesses, especially private organizations have shifted focus and are de-bureaucratizing their administrative processes for better service delivery.

Conclusion:

Operations management in service sector is concerned with the efficiency and effectiveness of the operation in the support and development of strategic goals. It is concerned with the design and operation of systems to provide services to the users. Traditionally, government institutions have tended to use traditional public administration system in service delivery. A new model has become necessary because of the changing world economic environment, global pressure for nations to enhance their competitiveness in order to attract foreign investments, increasing expectations of consumers that there will be improvements in service quality. Life of service organization is depends up on the satisfaction of consumer needs so service should be provided more efficiently, effectively, economically and timely. In addition, quality of services delivered to consumers/users should be improved and should be focused on consumer relationship management.

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Beyond the Box

HUMAN TRAFFICKING

*Suresh Ghimire**

Human trafficking is the selling of human for various purposes it may be for prostitution or other purposes. According to the United Nations, approximately 4 million women, children, and men are victims of international trafficking each year. Trafficking occurs under the guise of false employment, marriage "brokers," as well as through the direct selling of children into prostitution by their families.

Human trafficking, especially child trafficking in South Asia, is a serious regional problem which includes many ways and types of exploitation, including violation of human rights and fundamental freedoms, forced labour, debt bondage, exploitation of migrants and migrant workers, labour exploitation, sexual exploitation, violence and discrimination against women and other exploitation of children. In itself it is also a form of exploitation.

The trafficking of young girls and women is linked to their low cultural status. Since they have limited economic opportunities, girls are especially vulnerable to being trafficked unknowingly and unwillingly. The two types of trafficking, "soft" and "hard," commonly occur in rural villages in the southern Tarai region of Nepal. "Soft" trafficking is when a young girl goes to India under the pretense of finding employment or arranging a marriage. "Hard" trafficking is when a girl's parents knowingly sell their daughter to a trafficker, garnering a price anywhere from US\$200 to \$600.

The most common areas used by traffickers are in the districts of Sindhupalchowk, Makwanpur, Dhading and Khavre. Girl trafficking is especially prevalent in the

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border villages of Ramnechap and Nawalparasi. Both villages are located in the central hill district of Sindhupalchowk, where the villagers are dependent upon subsistence agriculture. Yet agriculture is rarely profitable. Village markets are far from the urban markets, the tillable land is owned by high caste families, and there are few crops at the beginning and end of the growing seasons. Due to the illegality of prostitution in Nepal, traffickers bring Nepali girls across the border into India, where prostitution is legal. Border officials either ignore the traffickers or are bribed to help them avoid punishment. Once the girls are placed in a brothel, the traffickers charge the girls for their room, board, and all other living expenses. As a result, the girls live in a cycle of perpetual debt, unable to free themselves from servitude. Escape is virtually impossible without repaying the 'debt,' since leaving the brothel puts the woman at risk of punishment by the brothel owner, his employees or the police, retribution against her parents and other relatives for defaulting on her debt, and/or arrest as an illegal immigrant.

Human trafficking for commercial sexual exploitation and other illegal purposes has reached alarming proportions in Nepal. Unfortunately, the anti trafficking legal frameworks and criminal justice system of Nepal are not friendly to victims. They are often arrested and prosecuted instead of the traffickers. The number of services in place for victim support and social rehabilitation is generally low or next to non-existent. The other lacuna is the failure of states to tackle the emerging problem of organised crime, which is challenging the credibility and effectiveness of the criminal justice mechanisms. In this context, it is very imperative to see the problem from the sociologic and human rights perspective. Human trafficking cases range from abductions for forced marriages, forced labour, for debt release, abductions for domestic and sexual servitude, illicit organ transplants and forced labour to Commercial sex work to mention a few. Human trafficking problem from this perspective demands well thought and designed interventions with a rights based-approach, which South Asian countries are largely lacking. There is no doubt that human trafficking violates human rights of the victims. It cannot be adequately and effectively addressed without a comprehensive understanding of the multiple factors and causes that create the problem, and without the knowledge

of the complete range of instruments that can be used in response to dealing with it. Lack of awareness among people at the grassroots level, local stakeholders, civil society and people from different walks of lives about factors of trafficking and human rights issues related to trafficked persons has proliferated the issue to a larger extent. Counter trafficking interventions have been made from different sectors in the region with different approaches. However, the rights based approach to combat trafficking is not properly in place, and has not been used to ‘effectively respond to the problem’.

“Trafficking arises in a variety of situations such as commercial sexual exploitation, forced labour, begging, arranged marriages, adoption and crime”. Although the trafficking of women and children can occur within national borders, international trafficking routes are well established. Border officials either ignore or assist the traffickers while governments remain ineffectual. As a result, the sexual trafficking industry is not only lucrative but also is unlikely to be punished.

In Nepal, young humans are sold across the border to brothels in India, where prostitution is legal. The prevalence of human trafficking in Nepal is astounding. It is estimated that between 7,000 and 10,000 humans, between the ages of 9-16, are trafficked each year from Nepal to India. More than 200,000 Nepalese humans are involved in the Indian sex trade. Efforts to stop human trafficking have been seriously constrained by both cultural taboos and the government's reluctance to address human trafficking.

The Nepali government has ignored human trafficking, while local villagers often pretend that it doesn't exist. Due to the clandestine nature of the human trafficking industry, even international organizations (such as the United Nations, Human Rights Watch and Amnesty International) have had difficulty in knowing the full scope of the trafficking of humans and women.

Types of human trafficking

There are many types of Human Trafficking; basically we can divide human

trafficking as below:

- i) Man trafficking
- ii) Woman trafficking
- iii) Child trafficking

Among these trafficking women trafficking is a serious problem which can be divided into two parts.

- iv) Soft trafficking
- v) Hard trafficking

Girls in the Indian brothels are continually abused (psychologically, sexually, and Physically) and live in constant fear of arrests and imprisonment. Yet, Nepali girls and women are more likely to be arrested than rescued by the police. Women are brought into a country illegally so their employment, as well as the particular nature of their employment, is illegal. The ambiguous legal status of victims is one of the traffickers' most powerful protections against prosecution

In addition to arrests, girls are likely to become infected with HIV while working in the brothels. In a 1996 police raid on a Bombay brothel, 70% of the 218 Nepali girls were HIV positive. According to Jill Hannum, author of *AIDS in Nepal: Communities Confronting an Emerging Epidemic*, fifty percent of sex workers in the Katmandu valley (Nepal) are under age 21 and 72 percent already had some type of sexually transmitted disease (STD). Ironically, the fear of AIDS has led to the ongoing search for younger girls, who are thought to be more pure and thus more safe. "Awareness of AIDS among potential customers has driven the sex industry to supply more and more young girls, who can be sold as virgins and therefore AIDS-free" As a result, younger girls (ages 8-12) are being forced into trafficking in India. Another reason for the demand for younger girls is prevalent cultural myths. For example, many Indian and Nepali men believe that sleeping with a virgin will cure them of STDs. Young girls are particularly at risk for HIV/ AIDS transmission for two main reasons. First, they are often intimidated by the clients and will not insist on using Condom protection. Second, young girls are more physically susceptible to contracting When HIV infected girls return to

Nepal, they are often shunned by their villages. According to Shanti Chaudary, author of "Every Young Girl's Nightmare," Nepali girls who have AIDS often end up prostituting themselves in Nepal. Girls who test positive for AIDS are immediately dismissed and, visibly sick and without money, are either ostracized by their families or unwilling to go home. Some of them stay in India to die, while many of them come home to work in the streets and brothels of Katmandu and other Nepalese cities. Some Nepali girls do manage to escape the brothels and may return to Nepal when there are police raids on Indian brothels. Sometimes, the girls will be taken in by a women's organization in Katmandu or their family will take them back. Although there are a few organizations that address girl trafficking and provide "safe houses" for returning girls in Katmandu, none exist in the rural villages.

LEGAL PROVISIONS OF HUMAN TRAFFICKING IN NEPAL

A) The constitution:

The Constitution is the fundamental law of Nepal. Part one of the documents Outlines that Nepal's governmental status (as a constitutional monarchy with a parliamentary system of government) while part three of the Constitution relates to the fundamental rights of all citizens of Nepal. These rights include right to equality, right to freedom, right to property, and right to religion. The Right against Exploitation (article 20) specifically prohibits any trafficking in persons: "Traffic in human beings, slavery, serfdom or forced labor in any form is prohibited. Any contravention of this provision shall be punishable by law."

Interim Constitution of Nepal 2007: The interim Constitution literally prohibits the act of trafficking of persons being inspired by the need of 'promoting public morale'; it does not hinder interpretation of the said provisions in the light of human rights instruments. The Interim Constitution thus does not create an obstacle in defining the act of trafficking of person's as an offence against the humanity or dignity. Sexual violence to women is a special crime to be addressed by the Constitution with special measures, definition of trafficking in the legal framework Trafficking

of Persons defines trafficking of persons, with the inclusion of the following acts: Selling of human being for any purposes, Taking any person to foreign territory with an intention of selling, Involving any woman in prostitution by enticement or allurements or fraud, or threat or coercion, or by any other way or means.

A) **Constitutional Guarantees:**

In the line of Article 20(1) of the 1990 Constitution, Article 20 and 29 in the fundamental rights of the Interim Constitution, 2007, has guaranteed the rights of women, including physical or mental violence against women, 35 right against exploitation by explicitly mentioning that “the traffic in human beings, slavery and serfdom or forced labor in any form” shall be regarded as the exploitation” and thus punishable. Any act contravening thereto is, therefore, punishable as a criminal offence respectively. Pursuant to the said constitutional provision, the act of trafficking of persons is a criminal offence against the state. However, the

Interim Constitution like 1990 Constitution has failed to define the offence of trafficking of persons from the perspective of human rights— offence of trafficking of persons is simply taken as a crime under the public law, i.e. violation of the public order in the society. The interest of survivor is thus apparently ignored. The physical and mental harm and violation of the human dignity of the survivor are overshadowed by the overwhelming concern of the issue of public moral and law and order. While the Interim Constitution has without doubt deplored the act of trafficking as a serious crime against the State, it has failed to view the crime from the perspective of human rights against slavery of persons. Nonetheless, the Interim Constitution has stepped forward towards gender equality legal frameworks in Nepal. In the preamble it makes

promise to address all problems related to gender discrimination and violence. Interim Constitution’s article 20 provides protection to women against discrimination on the ground of sex³⁶. This article ensures right to reproductive health including right to reproduction. In addition, the Article guarantees right against any form of physical, mental and any other types of TRAFFICKING

B) Judiciary:

The judiciary in Nepal is based upon the Mulaki Ain code, which is a Combination of Hindu traditions and English common law. The court system is composed of the Supreme Court, appellate courts, and district courts. With the exception of military courts, the Supreme Court has the highest jurisdiction.

A new judicial system was established with the 1990 constitution. Since 1990, the courts have had more autonomy due to the gradual expansion of basic judicial principles (i.e. independence of the Judiciary). Yet, the inefficiency of Nepal's judicial system has been an ongoing problem. "The independence and integrity of the judiciary were repeatedly questioned in the press; intervention of political figures and government officials in the judicial process was a frequent occurrence; and caste and economic status were important determinants of the availability of justice.

C) Domestic laws:

There are three domestic laws in place that address human trafficking and forced child labor. These include the Labor Act of 1992, the Human Trafficking Control Act of Nepal (1986), and the National Human Rights Commission Act. The 1992 Labor Act prohibits the employment of minors, who are considered to be less than 14 years old. Children's groups, such as Child Workers in Nepal (CWIN), estimate that approximately 50% of Nepal's children (under age 12) work, mostly with forced/bonded labor. Although there are laws against forced labor in the formal sector, it is difficult for the Department of Labor and domestic courts to enforce these laws. The Human Trafficking Control Act of Nepal was passed in 1986, which prohibits the trafficking of humans and women. Trafficking is defined as "an act of threat, incitement, and sale of women for the purpose of prostitution." Those found guilty of trafficking face 5-20 years imprisonment. In 1996, the Parliament created the National Human Rights Commission Act. This commission was established to investigate human rights violations within Nepal. So far, the Commission has not come together to address human trafficking.

A major problem with Nepal's domestic laws is lack of enforcement. Corruption in the legal system is prevalent. Despite the formal recognition of human trafficking as a major problem and the existence of laws to curtail it, trafficking continues. Even fundamental rights guaranteed by the constitution like that of equality of all citizens have not even legally been realized after ten years. Corruption and selfishness of the politicians and traditional ways of thinking must be regarded as the main reasons for such shortcomings. The poor state of affairs is reflected by the instability of governments.



Margins & the Stereotyping

*Shiksha Karki**

When a center is determined, margins are drawn on its own; Problem begins as this center always generalizes margins as the other. In the long run, certain stereotypical images are developed within this discourse. Stuart hall, a cultural theorist and sociologist who lived and worked in the orated kingdom as the president of the British sociological Association, agrees that stereotyping comes from the human tendency of making types. Certain parameters are developed on the basic of the individual traits. Behaviors of characteristics and the rests are generalized and watched wearing the same spectacle. However, not all the stereotypes that have been consulted so far turn effective. Hall claims that only those stereotypes that have power as a backup becomes effective. Stereotypes functions as if true when they are constructed from the position of power i.e. from center, finally creating certain invisible yet always lying rights in between.

Since ancient period to this technological era, females have always been stereotyped and taken as the other. The definition of Feminity is given to the females which describe females as weak Submissive, docile, vulnerable, god fearing, coward and so on. And exactly opposite characteristics defines the masculinity. However, this unitary definition is questioned in the modern context. Sean Nixon, another theorist, argues that it is nothing but a patriarchal construction. Then the people in the position of power were men, likewise the male favored world was created, that world claimed the superiority lies in male. Their sole purpose was to create such a word where males are bold, courageous, strong, capable and competent. So, most of the economic and social responsibilities were entrusted to the male. Even today,

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strength is related to the standard of masculinity. If a female shows her strength, she's stereotyped for being a man like and a male in tears is stereotyped is called a women like and weaker.

Besides socio-political and economic strength, religion was also left in the charge of the males, they were claimed to be pure and morally perfect. Therefore, he was entrusted with the responsibility to look after God. However, whatever qualities were conventionally given to the females are also found in males That means whatever things that happens to the human can happen to the males too.

The terms masculinity and femininity, both are the social invention and this is where the real problem lies. Despite the fact that the identification is necessary of one another in the world, modification of the 'bias' lying in the stereotyped is required.

Like gender, certain religions other than the one in the center are also watched with biased stereotyped as they are other victims of marginalization. In the contest of Nepal for instant Muslim student sits on the examination ahead, the question reads, "write an essay on Dashain /Tihar. Hardly an optional question appears on their religion. You're marginalized but is expected to answer all the central question correctly. However, it's barely the other way around. And until few years back Nepal was called a Hindu nation where the marginalized voices were almost nil.

In some cases there appears double marginalization; for instance, in Muslim community a female Muslim is victimized. First she is marginalized because of her biological difference from male, second, due to religious indenting i.e. Muslim. Similar case applied to other marginalized female of society. And in international cases, black female are.

One such discrimination of marginalized can be found in terms of the language. Based on the essay 'Refusing to choose' by Mollica Dastider, those who speak language other than Devanagari Nepali are discriminated. In the context of Madhes, when even the Maithili speaker or other that are at margins, Dastider questions

"What is the story of Madhesi Muslims? " After 1990 revolution, although they had the national appeal in the name of Islam, they couldn't be local madhesi in their own madhes. Therefore, after 2007 they obviously go face region over the religion. However, they wanted both Muslim & madhesi identity 'co-exist'. Dastider claims that unfortunately still the madhesi Muslim were not recognized as local by other local because they were calling themselves 'Muslim' instead of Madhesi.

In international term, west is in center. Therefore certain perspective is obviously there to look towards the east Edward said who analyzed and developed 'orientalism' explains that orientalism is the mind set of western people to divide the east and west in terms of the stereotypes that are given to the west. While east is orient is taken to be irrational barbaric, primitive and uncivilized. West is superior and east is inferior in their mind. Said claims that all these things happens due to the position of power. Whatever stereotypes power position constructs that become the authentic knowledge as well as the truth, through the mass media, newspaper, painting, art, literature within the society.

Once the stereotypes are constructed form the power, even the one not in power or marginalized ones consider such stereotypes as the truth. Process of internalization occurs within them given by the ruling class and contents their functioning. In the long run, **stereotypes functions in hegemony.**



Observation Visit in Malaysia and Indonesia Led by PEFA Secretariat and FCGO

*Anupama Karkee**

On 14th to 22nd November the delegation team led by PEFA Secretariat and Financial Comptroller General Office had visited the Malaysia and Indonesia to learn as well as observe their Public Financial Management System which will be very useful . The total numbers of participants were 14 from the Ministry of Finance, Office of the Auditor General, National Planning Commission, Ministry of Physical Infrastructure and Transport, Ministry of Women, Children and Social welfare, Financial Comptroller General Office and PEFA Secretariat.

On first day, the delegation team visited in Accountant General's Department on 16th November 2015. Detail presentation on three areas were made by the senior officials of the Department on accounting system, IPSAS based financial reporting, IT and Internal Control system. The team learnt entire accounting system of Malaysia through the presentation. The presentations were based on Overview of Accountant General Office, Financial Reporting System and IT system in Malaysia. After the completion of presentation session effective discussions and interactions were held.

On second day, the delegation team visited in Ministry of Finance of Malaysia on 17th November 2015. The officials of MOF made presentation on budget formulation process, reform initiatives on budget and Internal Audit System in Malaysia. After the presentation session discussions and interactions up on the presentations were held. So the delegation team got the knowledge about Internal Audit System and Budget reform of Malaysia.

On third day of observation tour, the delegation team visited Department of Auditor General of Malaysia. The officials of Auditor General Office were presented the

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overall system of Final audit and Financial Management Accountability Index (FMAI). FMAI is new experience for the delegation team so after the presentation session effective discussions and interactions were held.

In Indonesia, The delegation team visited Ministry of Finance on First day. The MoF team presented the presentation on overall budget system, Reporting System, IT System, Assets & Liabilities Management System and other PFM reform initiatives. After the presentation session massive discussions and interactions were held. From those presentations the team learnt the PFM reform system in Indonesia. The Budget formulation process of Indonesia is based on Macro Economic Assumption, Parameter, Previous year's realization and fiscal policy.

On second day in Indonesia, The delegation team visited Institute of Indonesia Chartered Accountants (IKATAN AKUNTAN INDONESIA - IAI). IAI was established in Jakarta on December 23, 1957. It is the main professional accountancy body and responsible for setting up code of ethics, accounting standards, conducting exams and running programs for professional education. The IAI members originate from all accounting backgrounds, including auditor, management accountants, academics', tax accountants and public sector accountants. The IAI team presented the presentation on Adopting Accrual Accounting Process and IFRS which became very fruitful for delegation team.

On the final day, the delegation team visited internal auditor institution of Indonesia. It conducts internal audit on the national financial accountability, reviews central government consolidated financial statements prior to submission by Ministry of Finance to the President and assists the implementation of government internal control systems (GICS).

Overview of System of Malaysia

The Government of Malaysia has adopted cash basis IPSAS since 2003 followed modified cash basis. From 2017 government has decided to implement accrual IPSAS. Under the structure of Federal Government Expenditure there are two

types of expenditure such as Operating Expenditure and Development Expenditure. The operating expenditure is handled by MOF and Development expenditure is handled by the National Development Committee of Malaysia. Internal Audit Units were established through MoF directive in 1991. Heads of Internal Audit report functionally to the Audit committee and administratively to the Chief Controlling Officer of the Ministry or Department.

Overview of System of Malaysia

In Indonesia, before 2003 they prepared only Budget Realization Report. In 2003, they have developed package of law in financial management reform program and introduced cash toward accrual based accounting in financial report and decentralized. In 2008, those laws in financial management reform had made mandatory provision of moved toward accrual based. In 2009, process of accounting implementation had evaluated and had prepared accounting standard setting in accrual. In 2010, accrual information had gathered. Likewise, in 2011 and 2012, regulation policies, business process, and accounting system had prepared and Accounting System, guidelines, Capacity Building and IT System had developed respectively.

Moreover, in 2013 and 2014, system application for accrual reporting and capacity building setting need regulation had developed and developed system application in accrual financial reporting developed and implemented respectively. In 2015, Full implementation of accrual accounting is carried out and audit opinion is given to accrual financial reports. More than 24,000 spending units and 177 regional treasury office are involved in this system.

A country needs an effective internal control system in operation for managing risks to ensure value for money spent. Likewise, in Indonesia there has been developed strong internal control system as Government Internal Control Systems (GICS).



