PUBLIC EXPENDITURE TRACKING SURVEY (PETS)

(MARCH 2015-JUNE 2016)

A STUDY ON BLOCK GRANTS TO VDCS AND DDCS AND CA FUNDS

Sajhedari Bikaas Project

Partnership for Local Development

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A study on Block Grants to VDCs and DDCs and CA funds in Sajhedari Bikaas project districts in Nepal's Far West and Mid-West regions (June 2016)

Study conducted by Centre for International Studies and Cooperation (CECI) and Policy Research and Development (PRAD) for the Sajhedari Bikaas Project (Under Contract no. AID-367-C-13-00003)

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List of Acronyms

BASE	Backward Society Education, Dang
BNA	Beauty Nepal Association, Surkhet
BUC	Banke UNESCO Club, Banke
CA	Constituent Assembly
CA members	Constituent Assembly Members / Member of Parliament
CAC	Community Awareness Centre
CADP	Constituent Area Development Fund 2058
CAISP	Constituent Area Infrastructure Specific Program 2071
CBOs	Community Based Organization
CDO	Community Development Organization, Bardiya
CECI	Centre for International Studies and Cooperation
CSOs	Civil Society Organizations
DAG	Disadvantaged Group
DDC	District Development Committee
DDC BG	District Development Committee Block Grant
DDF	District Development Fund
DNGOs	District Non-Governmental Organizations
DPMAS	District Planning, Monitoring and Analysis System
DTCO	District Treasury Comptroller Office
ENRUDEC	Environment and Rural Development Centre, Banke
FCGO	Financial Comptroller General Office
FGD	Focus Group Discussion
FWDR	Far Western Development Region
FY	Fiscal Year
GESI	Gender Equality and Social Inclusion
GLNGO	Governance Local Non-Government Organization
GoN	Government of Nepal
HH	Household
HURADC	Human Rights Awareness and Social Development Centre, Kailali
ICT	Information and Communication Technology
IMF	International Monetary Fund
KII	Key Informant Interview
LBFC	Local Bodies Fiscal Commission
LBRMMP	Local Body Resource Mobilization and Management Procedure, 2069
LBs	Local Bodies
LDO	Local Development Officer
LGCDP	Local Government Community Development Program
LSGA	Local Self-Governance Act, 2055
LSGR	Local Self-Governance Regulation, 2056
MCPM	Minimum Conditions and Performance Measure
MDAC	Ministerial Development Action Committee
MoF	Ministry of Finance

MoFALD	Ministry of Federal Affairs and Local Development
MP	Member of Parliament
MTEF	Mid Term Public Expenditure Framework
NGOs	Non-Governmental Organizations
NNSWA	Nepal National Social Welfare Association, Kanchanpur
NPC	National Planning Commission
NRB	Nepal Rastra Bank
OAG	Office of Auditor General
PETS	Public Expenditure Tracking Survey/Study
PFM	Public Finance Management
PRAD	Policy Research and Development
PRAN	Program for Accountability in Nepal
QSDS	Qualitative Service Delivery Survey
SAC	Social Awareness Centre
SB	Sajhedari Bikaas
SM	Social Mobilizer
TAPs	Transparency and Accountability Projects
ToR	Terms of Reference
ToT	Training of Trainers
TSA	Treasury Single Account
TWUC	Tharu Women Upliftment Center, Bardiya
TYP	Three Year Plan
UC	User Committee
USAID	United States Agency for International Development
VDC	Village Development Committee
VDF	Village Development Fund
VDP	Village Development Plan
WCF	Ward Citizen Forum
YAC	Youth Acting for Change Nepal, Kailali

PETS: A study on Block Grants to VDCs and DDCs and CA funds

Executive Summary

The Government of Nepal (GoN) adopted the Local Self-Governance Act (LSGA) in 2055 (1999) and Regulation (LSGR) in 2056 (2000), authorizing local authorities to mobilize resources and to make decisions about service delivery and development activities. Accordingly, the GoN began to provide block grants to local bodies, such as the District Development Committees (DDCs) and Village Development Committees (VDCs), for development activities.

The GoN introduced the Constituent Area Development Program (CADP) and the Constituent Area Infrastructure Specific Program (CAISP) to support infrastructure development programs at parliamentary constituency level. DDCs allocate these funds to projects in consultation with Constituent Assembly (CA) members. These funds augment spending on development priorities at the local level.

There are several governmental mechanisms to facilitate, regulate and oversight the budget spending. One of such mechanism is the Treasury Single Account (TSA) system, which was introduced in 2009. Since then it has significantly improved financial management of overall government expenditures. However, the expenditures of DDCs and VDCs are still outside the TSA coverage unlike other line agencies. District Treasury Comptroller Offices (DTCOs) release budgeted funds to DDCs quarterly upon the request from DDCs. DDCs then release quarterly budgets to VDCs.

Sajhedari Bikaas (SB) has worked in six districts[1] of the mid and far-western regions since 2013. It commissioned this Public Expenditure Tracking Survey (PETS) in March 2015 to learn how the funds flow from the point-of-origin to the point-of-expenditure and whether or not local governments utilize these resources for their intended purposes. The study prioritized the block grants to DDCs and VDCs, and the CA funds, both CADP and CAISP. The study also aimed to build the capacity of SB's district NGO partners (DNGOs) to conduct local-level PETS independently.

Main observations and findings

Delays at DDC to release budget: The study team's observations of the processes to release the budget in the project districts found that DDCs take a longer time than necessary to release the VDC budgets. The study noted delays in all tranches across the six districts. The most common reason that DDCs cited for the delays was that VDCs are often late in submitting their expenditure reports. The long delays have severely affected the VDCs'

[1] SB expanded the program into six additional districts to implement earthquake recovery activities in 2015. However, this study was conducted in the SB's six original districts.

programs and projects. The extension of the TSA to DDCs and VDCs could resolve the issue permanently.

Lump-sum budgets to 'target groups': Most VDCs found allocating lump- sum budgets without identifying specific programs to target groups making a space to divert the targeted budgets to other projects, such as road construction and culverts. This approach defeats the purpose of targeted budgets.

Insufficient human resource: VDCs with limited human resources cannot properly document annual programs and projects, maintain accounting systems, orient User Committees (UC), and monitor and supervise projects. This causes long delays in project implementation and weakens the supervision, monitoring and technical verification.

Lack of orientations to UCs: VDCs have been implementing infrastructure projects through UCs. According to the Local Body Resource Mobilization and Management Procedure (LBRMMP), the UC members must have an orientation on their roles and responsibilities, financial management, and the associated rules and regulations. In many cases, VDCs are not following due process, and often only brief orientations are given.

Absence of local elected officials: VDCs do not properly follow the guideline for allocation of resources, project implementation, monitoring, and supervision. Unlike the provision of guideline, political parties often identify projects, allocate resources, and form the UCs, mostly from party cadres. This often leads to the division of the available resources among the political parties, which spend more in locations where they have strong bases. These political influences have made VDC resources more vulnerable to corruption.

Political alliances of UC members: At the local level, most infrastructural projects are implemented through UCs that are often constituted based on political alliances. Once the budget is allocated, the UCs remain passive in signing the contracts and implementing the project until the last quarter of the fiscal year. In most VDCs examined by the study team, this was a common occurrence and the reason behind sudden "last quarter jumps" in expenditures. The study of UCs showed that the presence of women in UCs has led to improved project execution, both in terms of meeting specified completion dates and in achieving results according to the allocated budget. Further, the practice of zero advance system to UCs discouraged the poor and marginalized group to lead and involve in project implementation, which promotes elite capture in UCs.

Local planning priorities vs. political commitment in CA Funds: The study observed a conflict between DDC and CA members in project selection, where the guideline suggests selecting projects as per local planning priorities. CA members opt to select projects as per their political commitment to their constituency.

SB districts better at planning: The comparative analysis between SB and non-SB VDCs considered key indicators for planning, budget allocation, implementation, monitoring, and supervision. It shows that SB VDCs are significantly better at engaging the community in the project planning process. However, there is hardly any significant difference in other activities.

Better capacity of DNGOs: Through this study, DNGOs learned the techniques to carry out PETS in both training and practical field activities such as data collection, processing, analysis, and reporting. Sajhedari Bikaas will have provisions for each of the nine DNGOs to perform at least one PETS, to ensure that the newly learned skills are tested and refined.

Summary of recommendations

a. Policy related

1. Release VDC budget directly from the DTCO to the VDC with copies to DDC. The DTCO can ask for the expenditure statement for the second tranche release and instruct VDCs to be audited by the Office of Auditor General (OAG). DTCO can deposit quarterly budgets into VDC bank accounts and notify VDC secretaries by text message. The direct release from DTCO to VDC may enhance efficiency by ensuring timely release of funds.
2. Make a transitional provision for at least three staff besides the secretary at a VDC office, by having an administrative /account assistant, a sub-overseer, and support person. Provide regular capacity building programs and an additional budget of about Rs 300,000 to 400,000 to resource-poor VDCs to recruit the required personnel.
3. Increase the mandatory number of women on a UC from 33 to 50% and make sure the Ward Citizen Forum (WCF) has the right to validate formation of each UC.
4. Revise the project selection provisions for CA funds in order to strike a balance between CA members' commitments to their constituencies and local planning priorities.

b. Process related

1. Build the awareness of target groups about the budget and build their capacity so they can influence and implement local budgets. Social mobilizers can help develop the capacity of target groups. The Civil Society Organizations (CSOs) working at the local level should help target groups understand the budget and track their expenditures.
2. Ensure that provision related to monitoring and supervision followed by activating and strengthening existing monitoring committees. Define clearly the monitoring and evaluation reporting calendar so that issues related to deviation, ineffective implementation, and lack of transparency addressed on time.
3. Provide proper orientation to UC members before signing the contract and the actual work begin.
4. Review the practice of denying fund advances to the UC particularly for projects meant for disadvantaged groups to avoid elite-capture. Support fund advances to ensure the ability of UC to implement projects effectively.
5. Activate Ward Citizen Forums (WCFs) to facilitate the planning and implementation process through capacity building, social mobilization and technical backstopping.

c. Capacity related

1. In SB VDCs, emphasize the budget allocation, implementation, monitoring, and proper documentation of project profiles. Give additional support to build the capacity of DNGOs in budget literacy, participatory budget analysis, and procurement monitoring. DNGOs must practice PETS for at least two cycles before the end of Sajhedari Bikaas.
2. Implement training, exposure, and capacity building initiatives regularly to update the knowledge and skills of VDC/DDC staff.

Chapter I: Introduction

1.1 Background

The Government of Nepal (GoN) adopted the Local Self-Governance Act 1999 (LSGA) and the Local Self-Governance Regulation 2000 (LSGR) to decentralize responsibility for district and village decision making to local governments. The GoN provides block grants from the national budget to DDCs and VDCs. These grants are the core capital of resources for local bodies. GoN has increased the budget amount every year. In 2072/73, the total allocation was Rs 3.6 billion to the DDCs and Rs 8.05 billion to the VDCs.

In 2058/59 (2003), the GoN introduced the Constituent Area Development Fund (CADP) and, in 2070/71 (2014), the Constituent Area Infrastructure Specific Program (CAISP) to make funds available for infrastructure development at the constituency level. The CADP is for both directly elected and proportionally nominated CA/Parliament members; the CAISP is for directly elected CA members/parliamentarians. The amount of both funds increased in 2072/73 (2015) when a total of Rs 5.4 billion was allocated. The CADP went from Rs 1.5 million to 2 million per constituency and the CAISP from Rs 10 million to 15 million. MoF provides these funds directly to the DDCs according to the CA fund guidelines[2]. The DDCs distribute the funds to programs and projects in the constituencies identified by the respective CA members.

In addition, the GoN provides direct program support to DDCs and VDCs for carrying out a variety of national programs, such as development based on community contributions. These funds may be augmented for development priorities at the local level. However, many concerns and issues surround the effective utilization of these funds.

As a development partner working in six districts of the mid and far western region, SB seeks to learn how funds flow from the point-of origin to the point-of-expenditure at the various levels and how these resources are utilized to improve service delivery to the rural population.

1.2 Objectives

The overall objective of this study is to track the central government's DDC/VDC grants and CA Funds, and their expenditures at various levels to:

- Develop a robust and accurate understanding of how the selected funds flow from their point-of-origin to final expenditure
- Build the capacity of SB DNGO partners to conduct PETS activities independently at the VDC and district level
- Suggest measures to improve accountability and provide information on decentralized public expenditure and resource allocation.

1.3 Research questions

- Given the above, the study focused on answering the following questions:
- What are the major issues, obstacles, and problems related to the flow of funds and the fiscal transfer mechanisms?
- How do the selected funds flow from their point-of-origin to point-of expenditure?

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[2] MoFALD, Guidelines for Constituent Area Development Program, 2058 and Guideline for Constituent Area Infrastructure Specific Program, 2071

- What are the factors that are causing delays, leakages, or bottlenecks in the delivery of expenditures and of services to the public?
- What measures are needed to mitigate anomalies and improve governance and accountability?

1.4 Scope of work

The study covers the activities in two fiscal years (2070/071 and 2071/072 BS, 2014 and 2015 AD) in Kanchanpur, Kailali, Bardiya, Banke, Dang, and Surkhet districts, regarding the following funds:

- CA Funds (CADP and CAISP)
- DDC block grants (target group development programs)
- VDC block grants (infrastructure and target group development programs)

1.5 Approach and methodology

The study team carried out in-depth consultations with officials from the National Planning Commission (NPC), Ministry of Finance (MoF), Financial Comptroller General's Office (FCGO), and Ministry of Federal Affairs and Local Development (MoFALD) to understand the flow mechanisms from the center to the districts for the DDC/VDC block grants and CA funds. The team reviewed documents relating to the relevant acts, regulations, guidelines, and procedures followed in the allocation and disbursement at the program and project level. The team began mapping the resource flows from the central to local level and documenting the actual flows of resources based on the consultation with the central level agencies and the collection of budgetary release and expenditures for the years 2070/71 and 2071/72. Throughout the study period, the team kept close contact with SB officials and DNGO field agents. It deputized a field supervisor in each district to manage and support the DNGOs and social mobilizers to carry out the following:

- **Field studies:** Studied and observed six SB project districts to understand existing practices when handling local grants and expenditures.

- **Training and capacity building:** DNGOs and district supervisors had the following opportunities.
  a) Training of Trainers (ToT) – the project team conducted a ToT on PETS for the district supervisors and representatives of the DNGOs. The ToT incorporated various topics related to PETS such as questionnaires, and data collection, sampling, and analysis.
  b) ToT participants organized and delivered PETS trainings to the SB program's social mobilizers and the relevant VDC actors. The social mobilizers, field workers, and DNGO partners of the SB project gathered the data in the VDCs.
  c) Learning workshops on data analysis and report preparation – the project team organized and provided skill-based training to district supervisors and DNGOs.
  d) The study team conducted an orientation to guide and reinforce the learning from the ToT and provide feedback on existing work and the materials produced.
  e) The study team did on the job mentoring for the DNGOs, social mobilizers, and district supervisors to ensure effective and timely delivery of PETS.

- **PETS activities:** The team visited the field to consult with SB staff, DNGOs, local government agencies, CA members, and the DTO in all six SB districts. The study includes primary field data and secondary published and unpublished figures. The reviewed guidelines and mechanisms for resource allocation and execution thoroughly. Information from household surveys and focus group discussions (FGDs) with stakeholders and User Committees (UCs) complements the data and figures.

- **Review of literature:** Literature on public expenditure in Nepal and other countries was reviewed to better understand the problems and lessons learned.
- **Review of guidelines:** Thorough examination of previous guidelines for both the DDC/VDC block grants and CA fund programs and projects, focused on the implementation mechanisms, means of resource allocation, and the provisions for accountability and transparency of expenditures.
- **Primary data collection:** The team obtained primary data from government budget / project factsheets, user perceptions, and qualitative information from the KII, FGD, and HH surveys. *(Please refer to Annex – 1 for the detail research methodology and instruments.)*
- **Secondary data collection:** The team compiled information from previously published and unpublished reports of MOFALD, NPC, MOF, FCGO, DTCOs, DDCs, and VDCs.
- **Data tabulation and processing:** The main quantitative tools used for data collection were program lists, questionnaires, user group lists, and baseline survey forms. The study team used Microsoft Excel to record results.
- **Sampling framework:** The sample includes the first phases of PACT SB's 58 VDCs, which are the primary sampling unit. The study used the sampling framework in Table 1.1.

Table 1.1: Sample framework

	Description	Number	Remarks
Selection of VDC	Total number of SB intervention VDCs	58	Experiment VDCs
	Experiment VDCs covered by the study	29	50 % of the population
	Additional comparison VDCs (non-project VDCs)	6	One VDC from each district
	Total number of VDCs selected for the study	35	29 experiment and 6 control
Selection of Projects in VDCs (Primary unit of sampling)	Average number of projects in VDC	25	As observed in the planning book of Narayanpur, Kailali and Mehelkuna, Surkhet (FY 2070-71/2071-72)
	Total number of projects implemented in 35 VDCs	875	35 * 25
	Required number of sample projects	267	Statistically significant at 95 % confidence and 5 % confidence interval
	Number of projects selected from each VDC	8	267/35
	Total number of projects selected from survey VDCs	280	Eight projects from each VDC
Selec tion of	Number of projects selected from DDC block grant (target group development budget only)	36	Six projects from each district

	Constituent Area Development Program	12	Two project from each district
	Constituent Area Infrastructure Specific Development Program	12	Two project from each district
	Total number of projects	340	(Projects funded by VDCs, DDCs and CA Funds)
Matrix of primary data	Household Survey (Beneficiaries)	1,700	Five beneficiaries from each projects randomly selected (340 x 5)
	Key informant interview	94	District level 24 (four from each district) and VDC level 70 (two from each VDC)
	Focused group discussion	35	One from each district

1.6 Key research principles

Engagement: The study used active participation by providing a common platform for citizens and state representatives to interact. The findings and recommendations are based on the facts, feedback, and suggestions collected through these interactions.

Expenditure tracking: The Engagement of civil society organizations (CSOs) in tracking public fund complements and adds value to government-led reform processes and promotes transparency and accountability.

Capacity building: The transfer of knowledge and skill for tracking expenditures enables DNGOs to carry out PETS independently.

Learning for change: This study imparts knowledge and skills on seeking, analyzing, documenting, and generating feedback to bring about change for effective and efficient utilization of public funds to improve service delivery.

Gender equality and social inclusion: The study encouraged participation by women and disadvantaged groups in all phases of the research. One of the main areas of the study was target group development (inclusive) budget from the DDC and VDC block grant.

1.7 Study schedule and location

The study was conducted from June 2015 to March 2016. (Please refer to Annex 2 for details.) The team carried out the study in 29 VDCs in six districts, where SB works. These districts were Kanchanpur, Kailali, Bardiya, Banke, Surkhet, and Dang. In addition, six new VDCs, one VDC in each district, were studied as control VDCs. (Please refer to Annex 3 for details.)

1.8 Limitation of study

The study samples were limited to the selected working VDCs in SB districts. Therefore, it is important to avoid generalizing the findings of this study to all districts.

Chapter II: Review of Literature, Acts, and Guidelines

2.1 Background of PETS

PETS has proven to be an effective tool for strengthening Public Finance Management (PFM) by tracking the flow of public resources (financial, in-kind, or human) from the highest levels of government to frontline service providers and users. PETS can identify the effectiveness of allocation, differences between official and actual allocations, and assess if funds are used as intended. It can help policy makers and civil societies to understand the funding flows to make better-informed policy decisions. PETS is useful for detecting malfunctions in service delivery systems such as delays, leakages, and fund misuses by bureaucratic and political actors.

These surveys examine the manner, quantity, and timing of the release of resources to the different levels of government, particularly the units responsible for the delivery of social services. This is done by collecting information at the central level and by sampling within the public and frontline administration. The surveys provide evidence for policy dialogue and a better understanding of prevailing institutional arrangements. They point out gaps between formal and informal practices, supplement or substitute for audit functions, highlight supply-demand side dealings, and enable rule-based allocation of budgetary entitlements.

USAID's Public Expenditure Tracking Survey as a Tool for Engaging with Civil Society states that with increases in budget literacy and CSO capacity to monitor spending, competent CSOs may be able to utilize, translate, and disseminate PETS data and advocate for the use of the data by service providers.

Since the first PETS was run in Uganda in 1996, it has been proven as a valid technique for monitoring expenditures in education, health, agriculture, water and sanitation, poverty reduction, and service delivery sectors to ensure accountability in many countries. However, it is a relatively new concept in Nepal and has been practiced in very few areas.

2.2 PETS in Nepal

In 2067/68 (2011/12), the Asian Development Bank (ADB) supported the Ministry of Education to conduct a PETS study on fund flows in their School Sector Reform Program. As well, CECI gave Action Learning Grants from the Program for Accountability in Nepal (PRAN)/World Bank to local CSOs in Bajhang, Dhading, Arghakhanchi, Kathmandu, Saptari, Udayapur, and Dhankuta to conduct PETS in their VDCs, municipalities, DDCs, and community schools.

In 2068 (2012), NPC conducted PETS to track government expenditure in primary education. In 2069/70 (2013/14), PRAN funded PRAD and New Era to provide technical support to CSOs to conduct PETS for their education, health, and social security allowances in the districts Achham, Kailali, Dang, Rolpa, Kalikot, Jajarkot, Kapilbastu, Palpa, and Gorkha. Freedom Forum conducted PETS on scholarships in 2069/70 (2013/14).

However, no PETS have been conducted on public expenditures particularly block grants and CA funds at the local level. Thus, this study is the first initiative focusing on the monies given to local bodies and tracing public spending for targeted local areas and citizens.

2.3 Review of Acts and Regulation

This section reviews the relevant Acts, regulations, and guidelines about resource transfer and use at the local level in Nepal.

Grants allocation criteria: Each year, the Local Bodies Fiscal Commission (LBFC) estimates the resource transfer from the central government to local bodies based on a formula that includes area, population, and cost of development.

Usages of grant: The DDC and VDC grants are administered according to the LSGA and Local Body Resource Mobilization and Management Procedure, 2069 (LBRMMP), which describes the modalities of programs by local bodies, projects operation and management, and the provisions for UCs.

Local planning and budget preparation: The LSGA mandates a participatory planning process that is operationalized by the participatory inclusive plan formulation process (14-steps planning process) mandated by the Local Body Resource Mobilization and Management Procedure, 2069. This requires each unit to produce annual plans covering programs and budget for the next year, with input from user groups, community-based organizations, and the private sector. Meetings at the levels of VDCs, settlements, and wards are consultative processes to identify needs and priorities for village development. The recommendations expressed in these meetings go into the district-level planning process.

Treasury single account: Nepal began implementation of the TSA in 2065/66 (2009/10) with the assistance of the IMF in order to ensure transparency and accountability in spending of revenue and foreign aid. Since its introduction, the TSA has improved budget execution by facilitating real-time management and monitoring of public expenditures. Unified bank accounts ensure effective control over aggregate government cash balances, allowing the MoF and the FCGO to have a consolidated view of cash resources at any given time.

In the TSA system, government transactions are processed through a single or limited set of (linked) bank accounts operated by the DTCOs. The FCGO controls the closure of spending unit accounts and the consolidation of all financial resources in a TSA, which has led to significant reduction in idle balances and borrowing costs. The MoF has rolled out the new system in all 75 districts and incorporated local body accounting systems handled by 4,500 FCGO cost centers.

CA funds: The MoF, with parliamentary approval, disburses the CA funds directly to the DDCs. The Local Development Officers (LDOs) are authorized to handle the funds according to the directives of MoFALD. Two separate guidelines direct the two types of CA funds - Constituency Area Development Program Operation Guideline and Constituency Area Infrastructure Specific Program Operation Guideline. The guidelines include provisions for program selection, type of programs, program implementation, authorization, administrative expenditures, monitoring and evaluation, and clearance, accounting, auditing, and reporting. *Please refer to Annex 4 for details of the relevant act, regulations, and guidelines.*

Chapter III: Fund Flow Mapping from Central to Local Level

3.1 Mapping of fund flow

DDC/ VDC block grants: The process of the fund flow from the central to the local levels has two distinct streams – the authorizations and the actual transfer of funds. The authorizations start when Parliament approves the national budget that it sends to MoF, which then authorizes MoFALD to send funds to the DDC and then DDC to VDC, and authorizes the FCGO to issue instructions to the respective DTCO.

The actual flow of funds is from the DTCO to the DDC and then DDC to VDC based on their requests. In turn, DDC and VDC report to the DTCO, which reports to FCGO. The DDC also reports to MoFALD. DDC keeps the funds in the District Development Fund (DDF) that disperses the project-budgets to users groups and the private sector. DDC authorizes VDC to spend the allocated amounts on programs identified by the VDC council. The VDC and then release funds to users groups (see the visual presentation given below).

The flow of the DDC and VDC block grant is governed by LBRRMG. It requires that, recurrent and capital expenditure amounts be released separately at the beginning of each four-month period (trimester) once the previous accounts, advances, and other requirements have been settled and met.

LBRMMP further clarifies budget authorization and release processes for VDCs as follows:

a) Upon recommendation from MoF, authorization for VDC grants is given to the LDO, who should forward the grant authorizations to the VDC secretaries within seven days.
b) VDCs categorize recurrent / capital expenditures and request the DDC to release the funds on a trimester basis.
c) The DTCO directly sends funds for grants to the VDC fund as per LDO's recommendation.
d) After proper documentation, DDCs request the DTCO to release the grant requested by the VDCs within 3 days. DTCO shall release recurrent grants to VDCs upon request from LDO (each trimester).

CA fund: After approval of the annual budget by the Parliament, CA Funds (1.5 and 10 million) flow directly from the MoF to the DDCs with CA members getting information about the release of the fund in their respective districts. MoF passes authorization to the MoFALD and the FCGO, which passes it on to the DTCO. The DTCO issues the checks to the district level CA development fund for disbursement to the identified programs, which maintain all records.

DDC and VDC Block Grant and CA Fund Flow Chart:

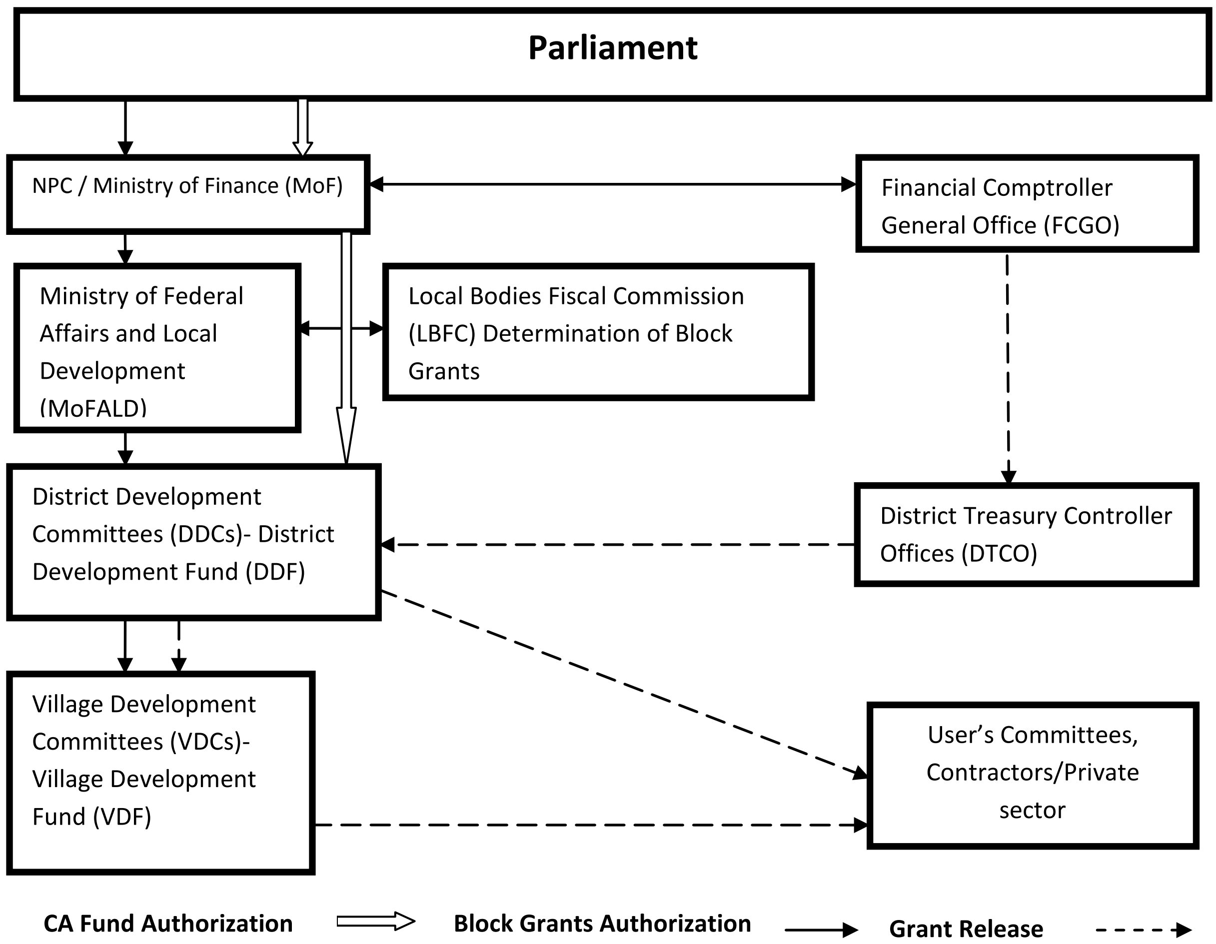


Table 3.1 Summary of role and responsibilities of government agencies

SN	Agencies	Roles	Timeframes
1	The National Planning Commission (NPC)	Determines resource envelope for national budget and fixes ceiling for development projects, also prepares estimate for Mid-Term 3 year Public Expenditure Framework (MTEF) budget.	Budget speech is presented in the second week of July (As per the New Constitution, the mandatory date is now the 15^{th} Jestha, about May 28th.)
	The Ministry of Finance (MoF)	Prepares the national budget in consultation with line ministries and proposes it to the Parliament for approval. After approval, it authorizes and releases funds to line ministries.	Mid-July (start of new FY): Finance Secretary issues authorization letter to MoFALD. 1/6th of previous year's approved budget is released immediately after speech as an advance to cover recurrent expenditures. This amount is adjusted while releasing the first tranche. The subsequent tranches are released after obtaining the expenditure progress reports and statements. August: MoF instructs FCGO to release funds to the spending units

3	The Ministry of Federal Affairs and Local Development (MoFALD)	Administers budget to local bodies -- DDCs, VDCs, and Municipalities. Determines the amount of the Block grants, and distributes to different levels of local bodies across the country. The Local Bodies Fiscal Commission (LBFC), under MoFALD determines the block grant amounts for the DDCs and VDCs based on a formula that includes area of the district/VDC, population size, cost of development, and the Human Index. It also determines the Minimum Condition and Performance Measurement (MCPM) Grants.	Mid-July: Forwards MoF authorization to relevant DDCs.
4	The Financial Comptroller General Office (FCGO)	Facilitates fund flows through District Treasury Comptroller Offices (DTCOs) at the district and VDC levels. Administers the TSA that releases funds to government agencies and also records entire release/expenditure statement of government spending in real time on a daily basis	August: Disburses budget to DTCO and associated divisions, departments, and ministries.
5	District Development Committees (DDCs)	Administer DDC and VDC block grants and support CA development programs launched in their jurisdictions.	Mid to end of July: Provide spending authorization to VDCs, which as per law must be provided no later than July 31st (15 days from the start of fiscal year).
6	Village Development Committees (VDCs)	Administer VDC block grants.	
7	User Committees	Implement programs and projects at local level.	

3.2 Planning and budget formulation

The Local Self-Governance Regulation and LBRMMP describes the planning process to be used by DDCs and VDCs. Budget planning begins when the central level distributes the budget ceiling and ends after submission of the DDC's plan and budget to the central level. The NPC and the MoFALD review the plans and determine the budget according to the ceiling. The responsibility of preparing micro projects at the district level was shifted to MoFALD in 2071/72. At present, the NPC does not produce a Budget Allocation Book Part II. The Parliament decides the CA funds for each Parliamentarian (CA member), developing programs and infrastructure related activities for their respective constituency.

3.3 Budget approval, allocation, and release

The interim Constitution directs that the MoF prepare the national budget. Then, the Finance Minister presents it to Parliament, also functioning as the CA, which discusses the proposed budget and approves it with any necessary adjustments or reforms.

1. The process to release funds starts with the approval of the budget by the Parliament. The Parliament also approves the CA fund.
2. MoF releases the block grants for the DDCs and VDCs to MoFALD, but it releases CA funds directly to the DDCs.
3. In advance, the DTCOs release one-sixth of the previous year's expenditures to each spending unit without waiting for Presidential assent. Subsequent releases are possible only after the Appropriation Bill gets the President's assent.
4. The FCGO and DTCO's play key roles in the budget execution process. The DTCOs release the funds upon receipt of the following documents:
   a) Authority letter from the concerned Ministry
   b) Release order from the FCGO to the DTCO
   c) Project/Program approval by the NPC documented in the budget
   d) Statement of expenditures for the previous month
   e) Progress report (80% completion of project)
   f) Any budget cuts or stop payment orders by the Ministry/MOF

Every year, two forms are prepared during the formulation and approval of project/programs. They link activities and expected outputs directly to the project log frame.

Annual Program (Form no.1): is a two-page form for planning the proposed trimester and annual budgets for development program/projects. Page 1 is general information with the details of activities and budgets, Page 2 is expected outputs and implementation requirements.

Trimester/Annual Progress Reports (Form no. 2) are a three-page form to measure financial and physical progress of a project/program throughout the year. Page 1 updates the achievement of activities and Page 2 updates the progress of the outputs in Form 1. Page 3 lists the problems and causes encountered during the implementation of the project/program, and actions taken to mitigate. All issues are presented during Ministerial Development Action Committee meetings when recommendations for mitigation are made.

The DTCO releases the budget based on the performance of each project/program, which receives a 2nd or 3rd trimester budget if they have achieved more than 80 % progress in the 1st or 2nd trimester. If their physical progress is between 50 to 79 %, the project/program gets the budget only after giving a letter of commitment to the concerned ministry. If the progress is less than 50 %, the UC will not receive the next budget release.

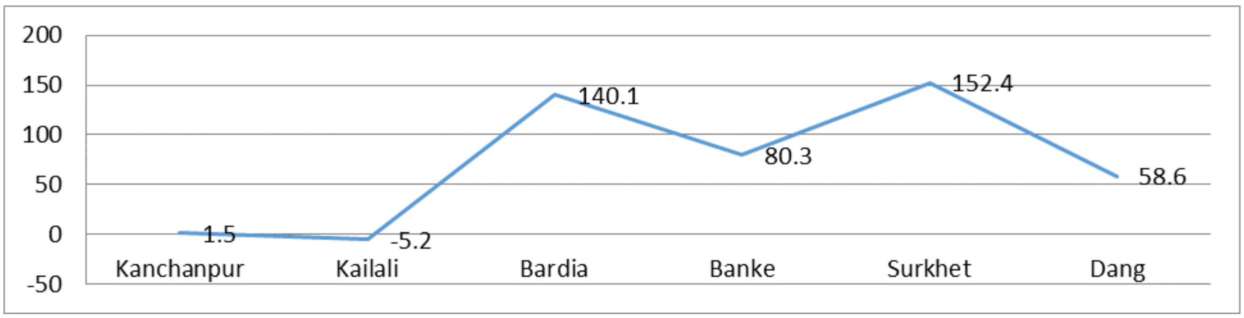
Chapter IV: Tracking of DDC, VDC Block Grants and CA Funds

4.1 DDC block grants

GoN distributes lump sum block grants to DDCs for spending on infrastructure and social development. In the six sample districts in fiscal years 2070 to 2072 (2013 to 2015), the total amount granted was Rs 1,038,963,000. The growth of DDC block grants in sampled DDCs generally increased with some fluctuations. Compared to FY 2070/71 (2013/14), there was growth in Surkhet, Dang, Banke, Bardiya, and Kanchanpur DDC grants.

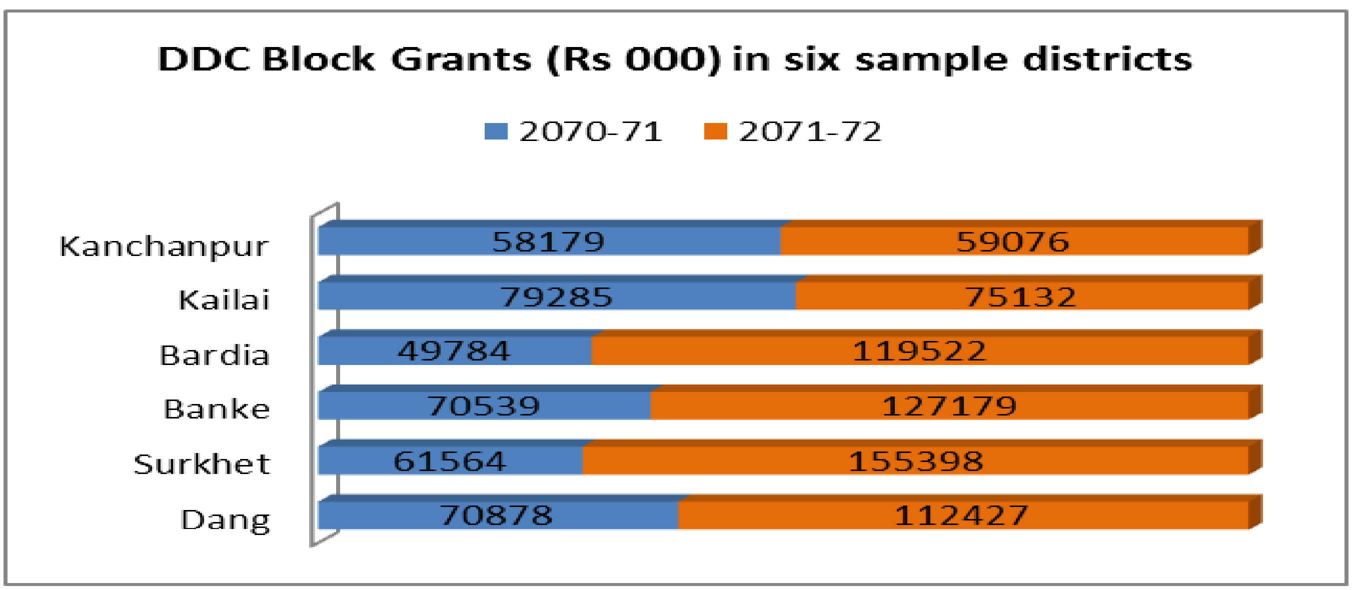
As seen in Figure 4.1, among the sample districts, Surkhet had the highest growth in DDC grants due to the heavy flooding in 2070/71 (2013/14). Banke, Bardiya, and Dang had moderate growth in grants. Kanchanpur had the lowest growth and Kailali had negative growth in grants because several VDCs in these districts merged into municipalities.

Figure 4.1: Percentage increased in DDC Block Grant in sample district for the FY 2070 to 2072 (2013 to 2015)



Source: FCGO

Figure 4.2: DDC Block Grants (Rs 000) in six sample districts FY 2070/71 (2013/14) and 2071/72 (2014/15)



Source: FCGO

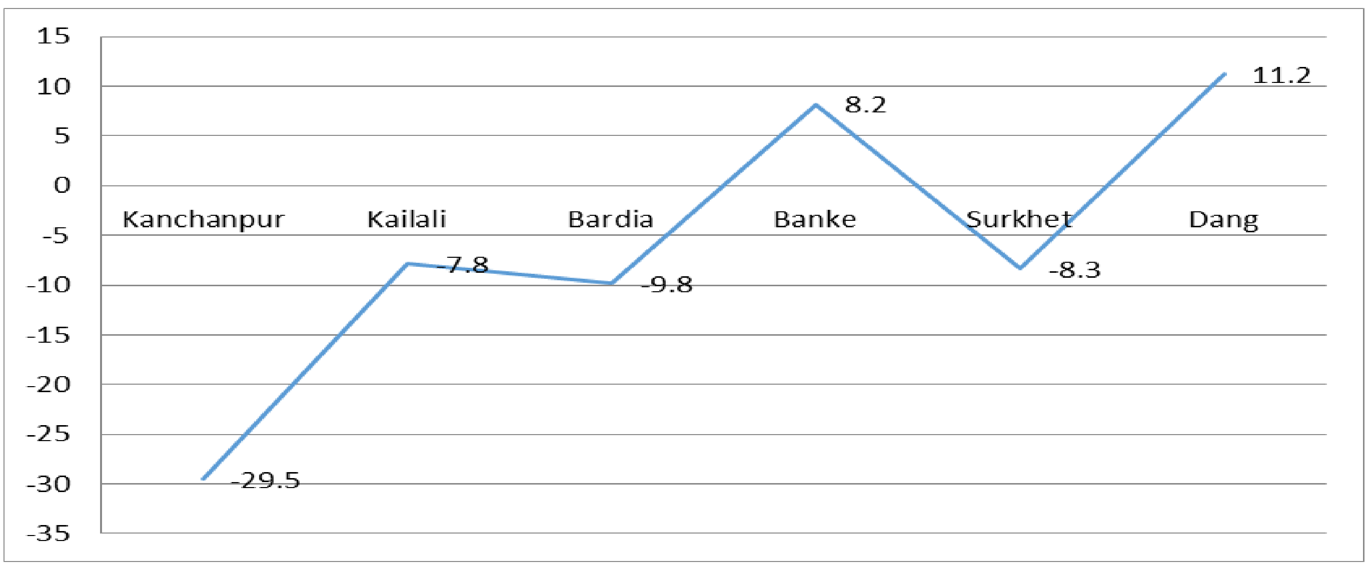
Timing of DDC block grants: The DDC block grants (target group development budget) are authorized in Shrawan (mid-July). The districts receive the first tranche from Shrawan to Mangsir (July to December), second tranche from Kartik to Chaitra (November to April), and third tranche from Chaitra to Asadh (April to July). *Please refer Table 4.2 for details.*

Although the release of funds to DDCs for regular expenditures is on time, DDCs often delay the release of development expenditures due to late submission of progress reports, delays in program/projects, and conflict among political parties. Also, LDOs have little time since, as the sole development agent, they must attend to all development programs in the districts. The perceptual survey found that there is a problem in getting technical approval and that this unit needs to be quicker in equipping dynamic technical personnel.

4.2 VDC block grant

The LSGA entitles local bodies to receive grants from GON. The six sample DDCs received Rs 1,225,809,000 in 2070/71 (2013/14) and 2071/72 (2015/15). As seen in the sample VDCs and DDCs, the grant amount fluctuates each year depending on the performance of the VDCs. There was moderate growth in VDC grants in Dang and Banke, but Surkhet, Bardiya, Kailali, and Kanchanpur had negative growth. Kanchanpur had the most negative growth, possibly due to the merging of VDCs into municipalities and the inability of VDCs to fulfill the Minimum Conditions (MC).

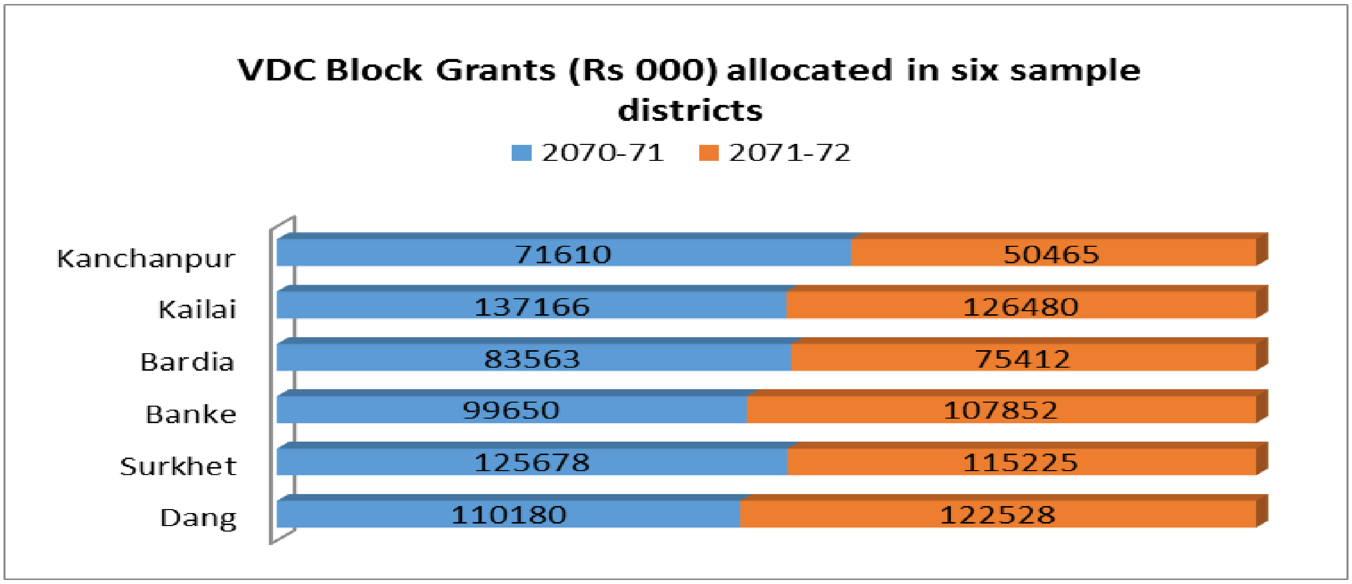
Figure 4.3: Percentage increase in VDC Block Grants in sample districts FY 2070/71 (2013/14) to 2071/72 (2014/15)



Source: FCGO

The VDC block grants are determined based on the VDCs' population, area, and cost. The study found the highest fund pay out in Surkhet, which has a large number of VDCs; the lowest was in Kanchanpur. Dang, Banke, Bardiya and Kailali showed moderate fund receipt. The figure below shows the block grants for the sample VDCs of the respective districts.

Figure 4.4: VDC Block Grants (Rs 000) allocated in six sample districts FY 2070/71 (2013/14) to 2071/72 (2014/15)



Source: Survey

The LBFC and MoFALD determine VDC grant allocations and distribute the funds. The study analyzed the funds allocated and received in 35 sample VDCs -- six VDCs from each district except Kanchanpur, which had five. Dang and Bardiya received the full allocation, Surkhet and Kanchanpur received a little more, while Kailali and Banke received less than originally allocated. Among VDCs, there was Rs 1,529,069 less than allocated for Pathariya VDC in Kailali and Rs 396,149 more than allocated for Mehelkuna VDC in Surkhet district. *Please refer to Annex 4 for list of VDC Block Grant allocation and receipt VDC.*

Usually DDCs flow the grants to VDCs in three tranches upon submission of the required documents. DDCs release funds for regular expenditures on time but delay most funds for development expenditures because the process requires having plans/programs in advance, progress reports, and clearances.

There are delays in all activities. VDC secretaries identify the causes of the delays as a lack of sufficient personnel, especially technical, and an overload of responsibilities such as managing social security allowances and vital registrations. As well, without local elected bodies, they have to manage local conflicts. There is a need to equip VDCs with adequate personnel.

Timing of VDC block grant: The study found that DTCOs usually release the budget within a day of receiving requests from DDCs. However, the release of funds from the DDCs to VDCs often takes much longer, causing delays from 0 to 9 months for the first tranche, 5 to 8 months for the second, and 1 to 3 months for the third. These delays in transferring funds to the VDCs show unnecessarily long holding times by the DDCs, which affects the implementation of programs and projects. Table 4.1 shows the timing of tranche fund transfers to VDCs.

Table 4.1: Timing of funds transfer: VDC Block Grants FY 2070/71 (2013/14) to 2071/72 (2014/15)

Flow	First Tranche	Second Tranche	Third Tranche
DTCO to DDC	Shrawan 15 to Mangsir 8	Kartik 21 to Chaitra 29	Chaitra 26 to Asadh 21
DDC to VDC	Shrawan 15 to Baisakh 16	Chaitra 6 to Asadh 12	Baisakh 8 to Asadh 25
Delay in months (DDC to VDC)	0 to 9 months	5 to 8 months	1 to 3 months

Source: Survey

The delay in transferring funds seems to be a common phenomenon in the districts. However, in Banke district the average months of delay are much more than in other districts. According to the DDCs, the delays are due to the VDCs submitting progress reports late.

Table 4.2: Delays in VDC Fund Transfers by the DDCs (district-wise) FY 2070/71 (2013/14) to 2071/72 (2014/15)

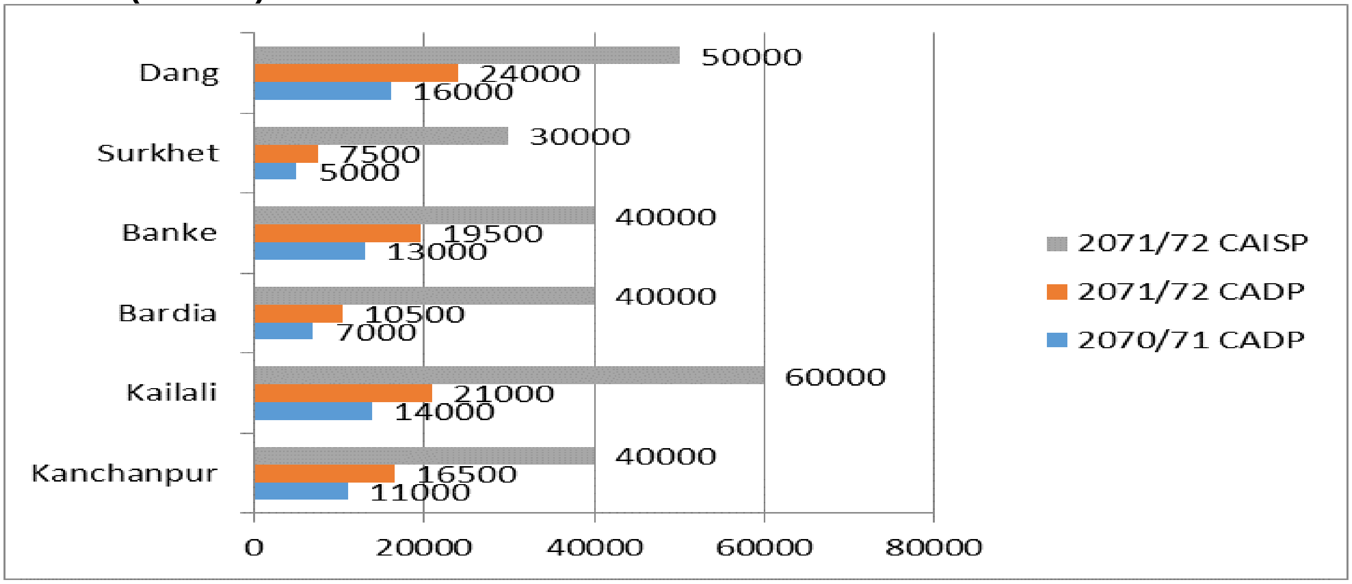
District	First Tranche	Second Tranche	Third Tranche
Kanchanpur	Kartik 26 to Magh 14	Chaitra 20 to Baisakh 8	Baisakh 8 to Jestha 26
Delay in months	3 to 6	5 to 6	1 to 2
Kailali	Shrawan 15 to Magh 6	Chaitra 6 to Jestha 20	Jestha 28 to Asadh 14
Delay in months	0 to 6	5 to 7	2 to 3
Bardiya	Kartik 3 to Magh 4	Chaitra 6 to Jestha 18	Jestha 1 to Jestha 28
Delay in months	3 to 6	5 to 7	2 to 3
Banke	Chaitra 8 to Baisakh 16	Baisakh 12 to Jestha 26	Jestha 12 to Asadh 25
Delay in months	8 to 9	6 to 7	2 to 3
Dang	Mangsir 25 to Chaitra 23	Mangsir 1 to Asadh 12	Asadh 5 to Asadh 20
Delay in months	4 to 8	1 to 8	3
Surkhet	Ashwin 13 to Chaitra 15	Poush24 to Asadh 4	Baisakh 14 to Asadh 17
Delay in months	2 to 8	2 to 8	1 to 3

Source: Survey

4.3 CA funds

Under the CADP, GoN allocated each CA member with Rs 1 million in 2070/71(2013/14) and Rs 1.5 million in 2071/72 (2014/15). Under CAISP, GoN began allocating Rs 10 million to each directly elected CA member. CA funds in the districts depended on the number of CA members (parliamentarians) including those nominated for proportional seats.

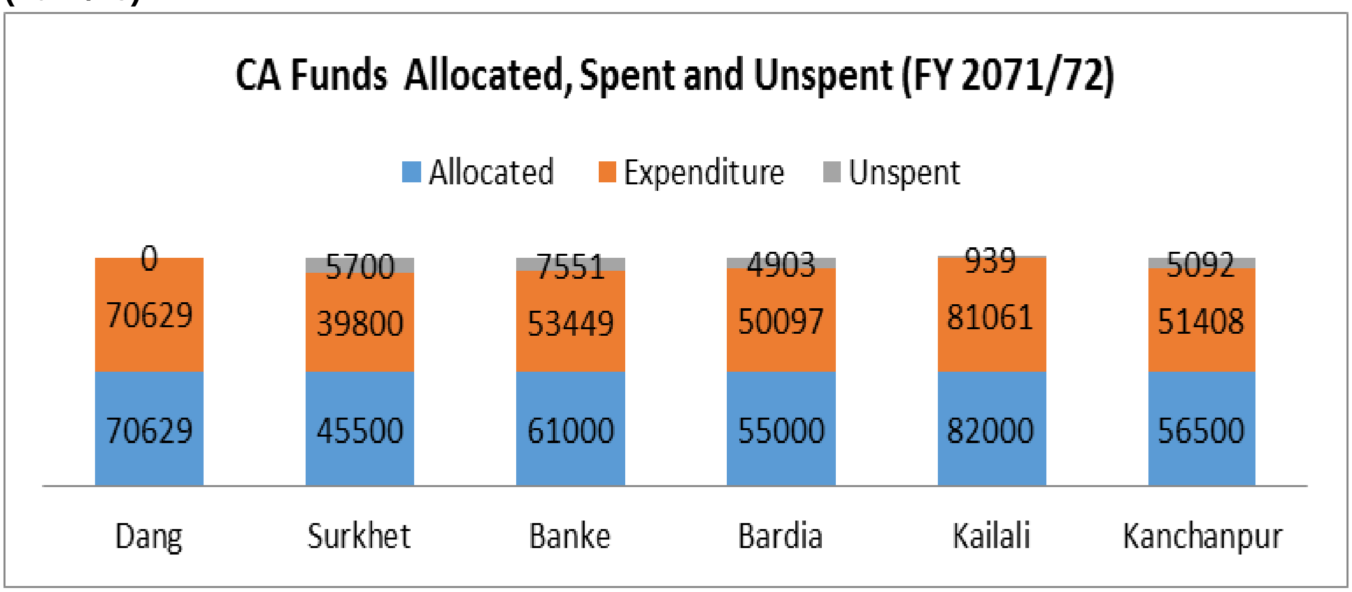
Figure 4.6: CA Funds (Rs 000) allocated to sample districts FY 2070/71 (2013/14) to 2071/72 (2014/15)



Source: FCGO/Survey

The study analyzed the amounts allocated, expensed, and not spent. Five of six districts did not spend the full allocated amounts. The highest unspent amount was in the Banke district. In Dang, all CA funds were utilized leaving none unspent. Procedural delays and the inability to reach consensus appear to be the main reasons for the lack of spending.

Figure 4.7: CA Funds (Rs 000) released and spent in sample districts FY 2071/72 (2014/15)



Source: FCGO/ Survey

Timing of CA funds: Officially, the authorization of the CA funds happens in Shrawan (mid-July), the first tranche is released in the Nepali month of Falgun to Chaitra (February to March), the second in Baisakh to Jestha (May to June), and the final in Asadh (mid-July, the end of FY). Often, GoN released the amount in two tranches. Implementation of the projects suffered when submission of proposed plans was late, delaying the release of funds. There were delays during the process of project selection, due to an inability to reach consensus.

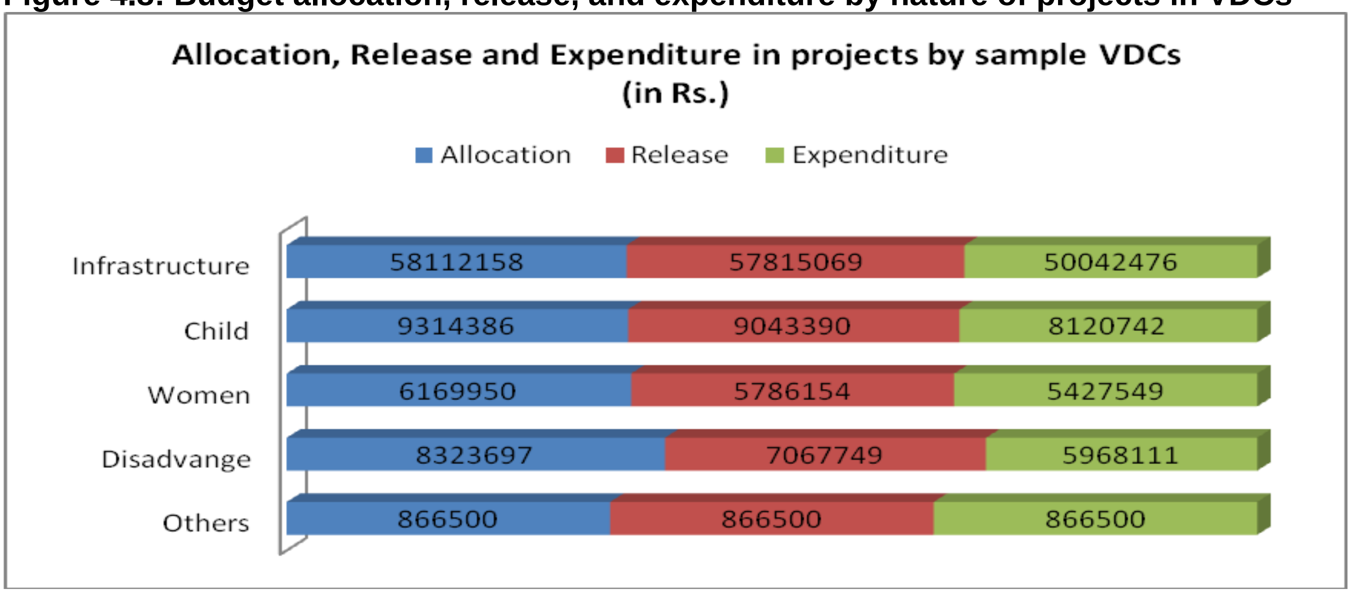
4.4 Tracking expenditures (based on sample projects)

The study tracked the expenditures of 340 sampled projects -- 58 projects in each sample district. Of the total sample projects, the study selected 36 projects from DDCs, 280 from VDCs, and 24 from CA funds. Among these, 58 % were for infrastructure, 14 % for children, 14 % for women, and 14 % for target groups.

The study compared expenditure patterns of the sampled projects. The highest allocations were for infrastructure projects, which had only a 0.5 % reduction in release of allocated funds and 13.4 % less expenditures. Releases for child related projects were 2 % less than the allocations and expenditures 10.2 % less. Women projects had releases of funds reduced by 6.2 % and spending by 6 %. Projects for disadvantaged people had allocations reduced by 15 % and expenditures by 15 %. In the 'other' category, allocated funds were released fully, but expenditures were less by 2.3 %. Overall expenditures were 12 % less than the allocations, apparently due to not submitting documents on time.

The expenditure compared to the allocation of funds was 100 % for other, 72 % for disadvantaged, 88 % women, 87 % child, and 86 % for infrastructure projects in VDCs. Similarly, the expenditure compared to the amount released was 100, 84, 94, 90, and 87 % for these types of projects respectively. Usually, allocated funds were not fully released because VDCs did not present programs in due time, whereas released funds were not fully utilized because receipts were received late so unspent amounts were frozen.

Figure 4.8: Budget allocation, release, and expenditure by nature of projects in VDCs

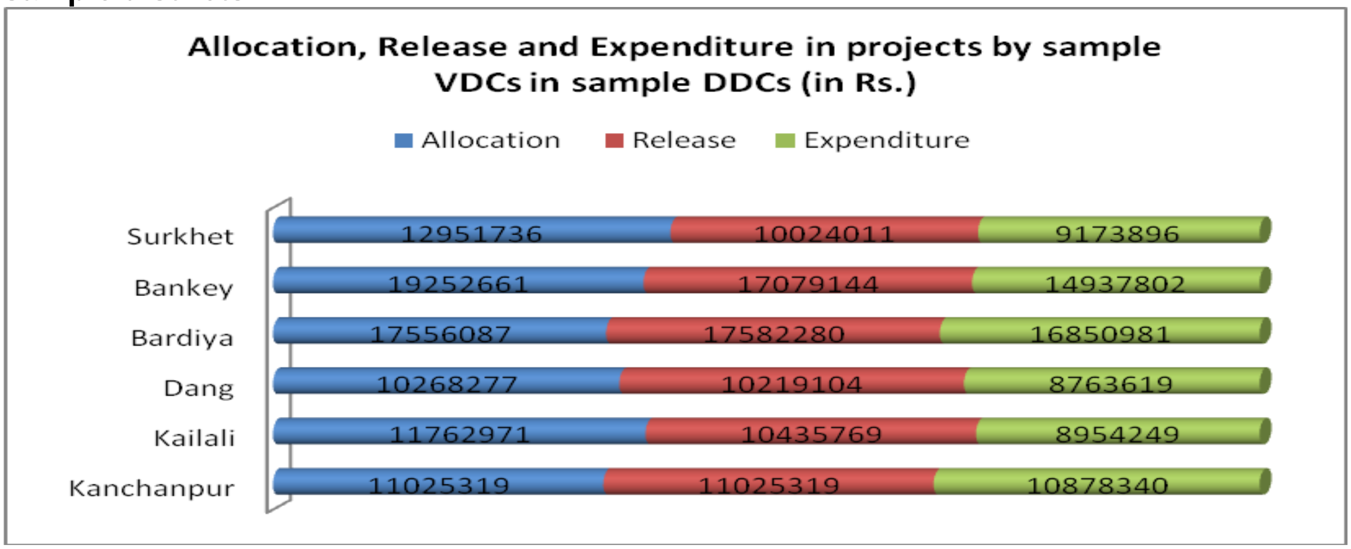


Source: Survey

The study analyzed the allocation, release, and expenditures of funds by the sample districts on projects for infrastructure, child, women, and disadvantaged groups. The highest amount allocated was to Banke and the lowest to Dang, apparently due to a lack of proposals presented by the target groups. Deviation between allocations and expenditures are highest in Surkhet (29 %) and lowest in Kanchanpur (1.33 %).

Overall, the expenditure of funds is higher relative to released funds than allocated funds. Low expenditure of funds when compared to the allocation was usually due to delays in the release of funds. Comparisons of the expenditure rate and allocation were in 99 % in Kanchanpur, 76 % Kailali, 85 % Bardiya, 96 % Banke, 87 % Surkhet, and 92 % in Dang. However, the rate of expenditures against release is 99, 86, 86, 96, 87, and 92 % in Kanchanpur, Kailali, Bardiya, Banke, Surkhet and Dang respectively.

Figure 4.9: Budget allocation, release, and expenditure through projects by VDCs in sample districts

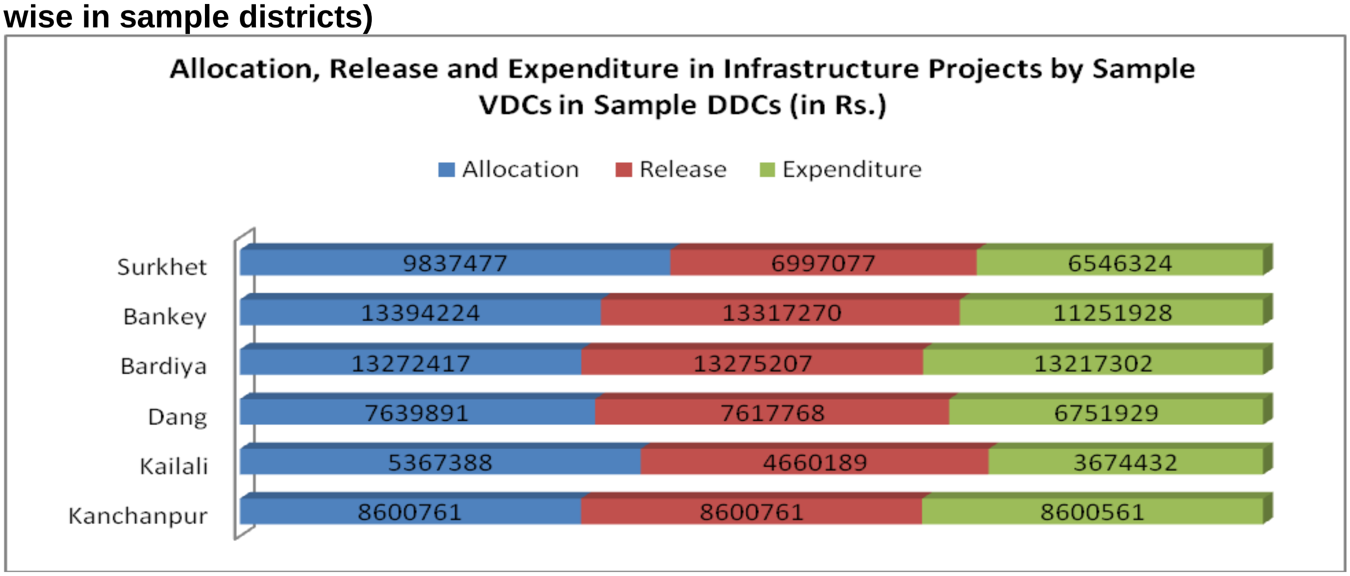


Source: Survey

Infrastructure projects

The study analyzed the allocation and release of funds for types of projects. For infrastructure projects, the highest allocation and release was in Banke and the lowest in Kailali, due mainly to a lack of technical support in Kailali. The highest expenditures were in Bardiya and the lowest in Kailali. The most difference between allocation and expenditures was more than 33 % in Surkhet. The expenditure of released funds for infrastructure was 100% in Kanchanpur, 79 % Kailali, 89 % Bardiya, 100 % Banke, 84 % Surkhet, and 94 % in Dang.

Figure 4.10: Budget allocation, release, and expenditure for infrastructure projects (VDC wise in sample districts)

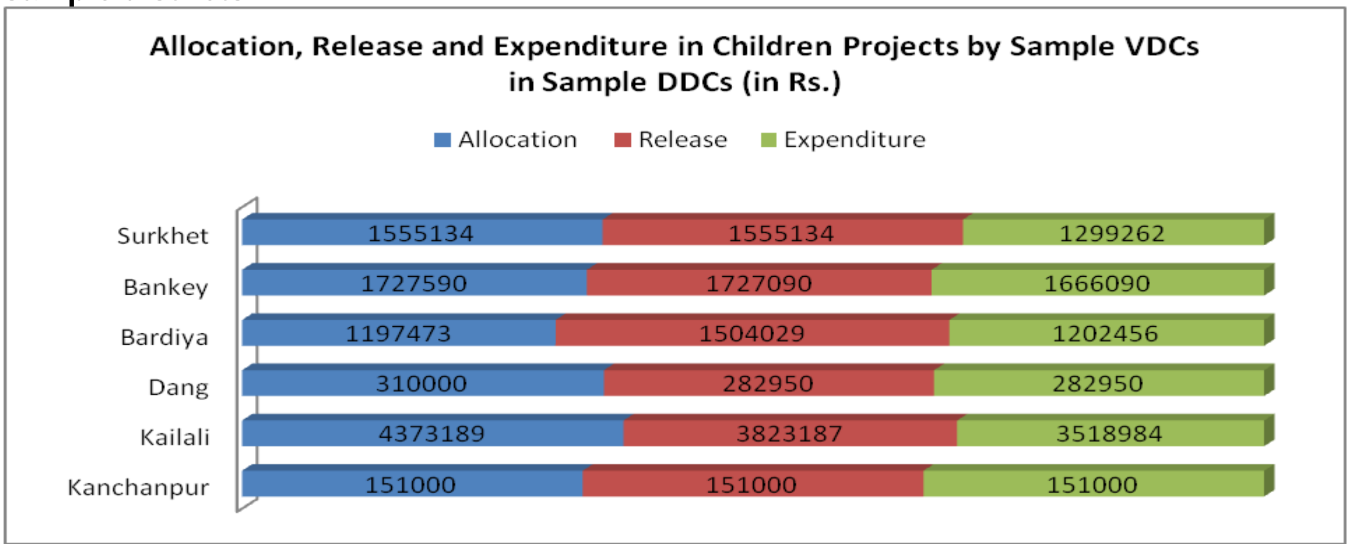


Source: Survey

Children projects

The study conducted an expenditure analysis for child projects. The highest allocation was in Kailali and the lowest in Kanchanpur. The gap between release and expenditures was about a 20 % in Bardiya, which is the highest in the six districts. For child projects, expenditures compared to the released funds were 100 % in Kanchanpur, 92 % in Kailali, 100 % in Bardiya, 80 % in Banke, 96 % in Surkhet, and 84 % in Dang.

Figure 4.11: Budget allocation, release, and expenditure for child projects by VDCs in sample districts

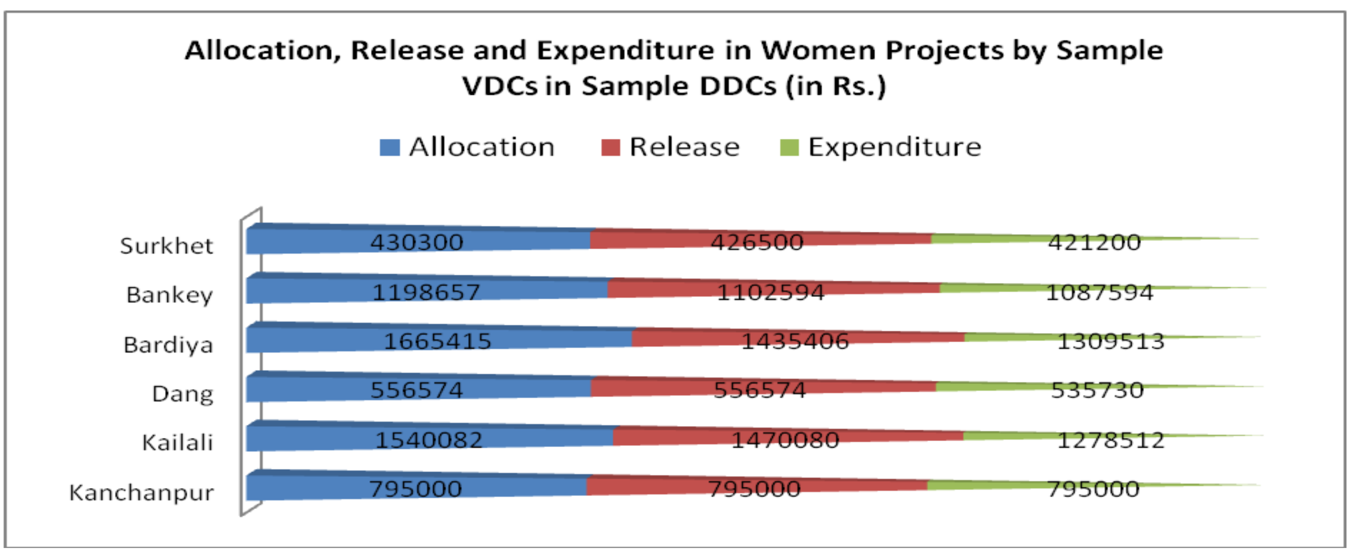


Source: Survey

Women projects

The team found the highest amount allocated to women projects was in Bardiya and the lowest in Surkhet. There was full release and expenditure in Kanchanpur. The difference between allocation and expenditures was highest in Bardiya, at over 22 %. Expenditures of women projects compared to the funds released was 100 % in Kanchanpur, 87 % in Kailali, 96 % in Bardiya, 91 % in Banke, 99 % in Surkhet and 99 % in Dang.

Figure 4.12: Budget allocation, release, and allocation for women projects by VDCs in sample districts

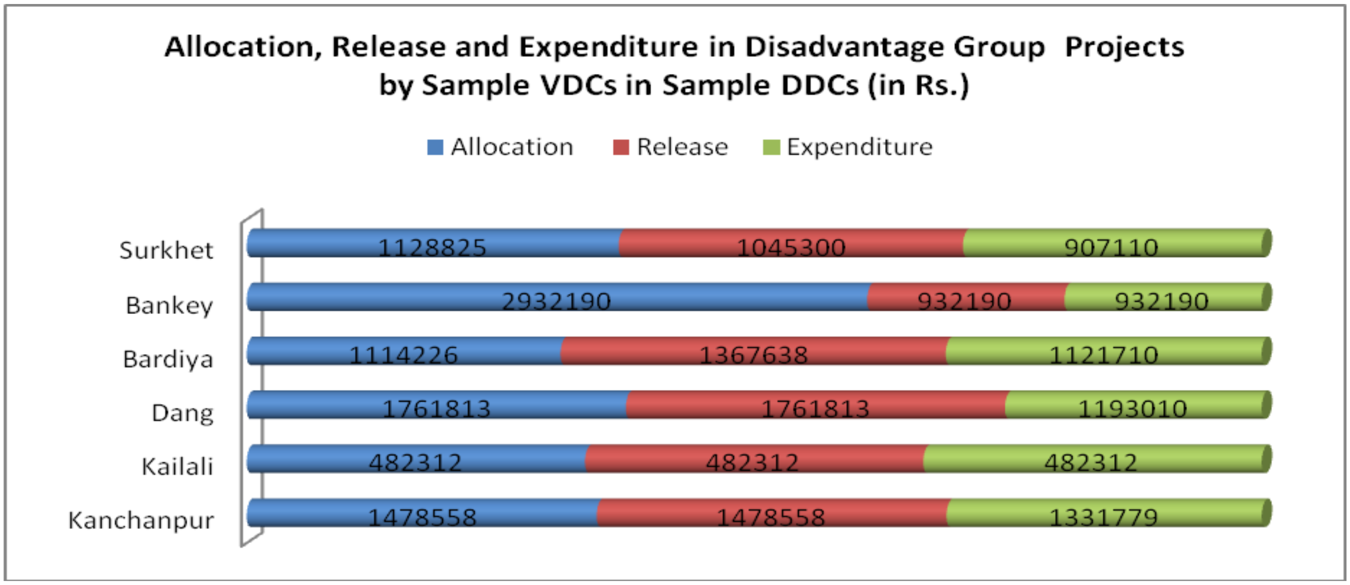


Source: Survey, 2015

Disadvantaged group project

The team studied sample projects for disadvantaged groups across the six districts. The highest allocation was in Banke and the lowest in Kailali. However, there was full release and expenditure of the allocated funds in Kailali and a huge difference in Banke, with only 67 % of the allocated funds being released. Respondents mentioned that there were fewer demands for projects from the groups in Banke. The expenditure of grants for disadvantaged groups as compared to the release of funds was 90 % in Kanchanpur, 100 % in Kailali, 68 % in Bardiya, 82 % in Banke, 100 % in Surkhet, and 87 % in Dang. The reason given for low expenditures was that disadvantaged groups did not know about the projects.

Figure 4.13: Budget allocation, release, and expenditure for disadvantage group projects by VDCs in sample districts.

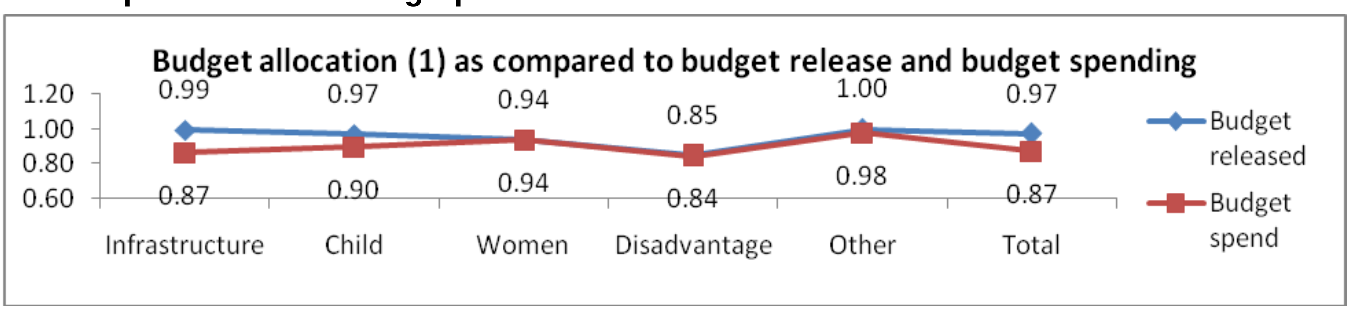


Source: Survey

4.5 Tracking expenditure (Projects selected in sample VDCs only)

As seen in Figure 4.14, the gap between budget allocation and budget release is highest (about 15 %) in projects for disadvantaged groups. However, the gap between budget release and expenditures is highest (about 12 %) for infrastructure projects. In total, the gap between budget allocation and release was about 3 % and about 10 % of the total budget released to projects was not spent.

Figure 4.14: Proportion of Budget allocation, release, and expenditure at project level in the sample VDCs in linear graph



Source: Survey

The study examined the release of funds in tranches: 62 % in the first, 27 % in the second, and 11 % in the third. Often, all three tranches are released in the last quarter of the fiscal year. The difference between budget allocation and release and between budget release and expenditure for DDC block grants (target group budget only) and CA Funds is in Table 4.3.

Table 4.3.: Budget allocation, release, and expenditure at project level (DDC block grant and CA Funds)

Basis of comparison	DDC BG	CADP	CAISP
Difference between budget allocation and release	3 %	8 %	10 %
Difference between budget release and expenditure	5 %	0 %	0 %

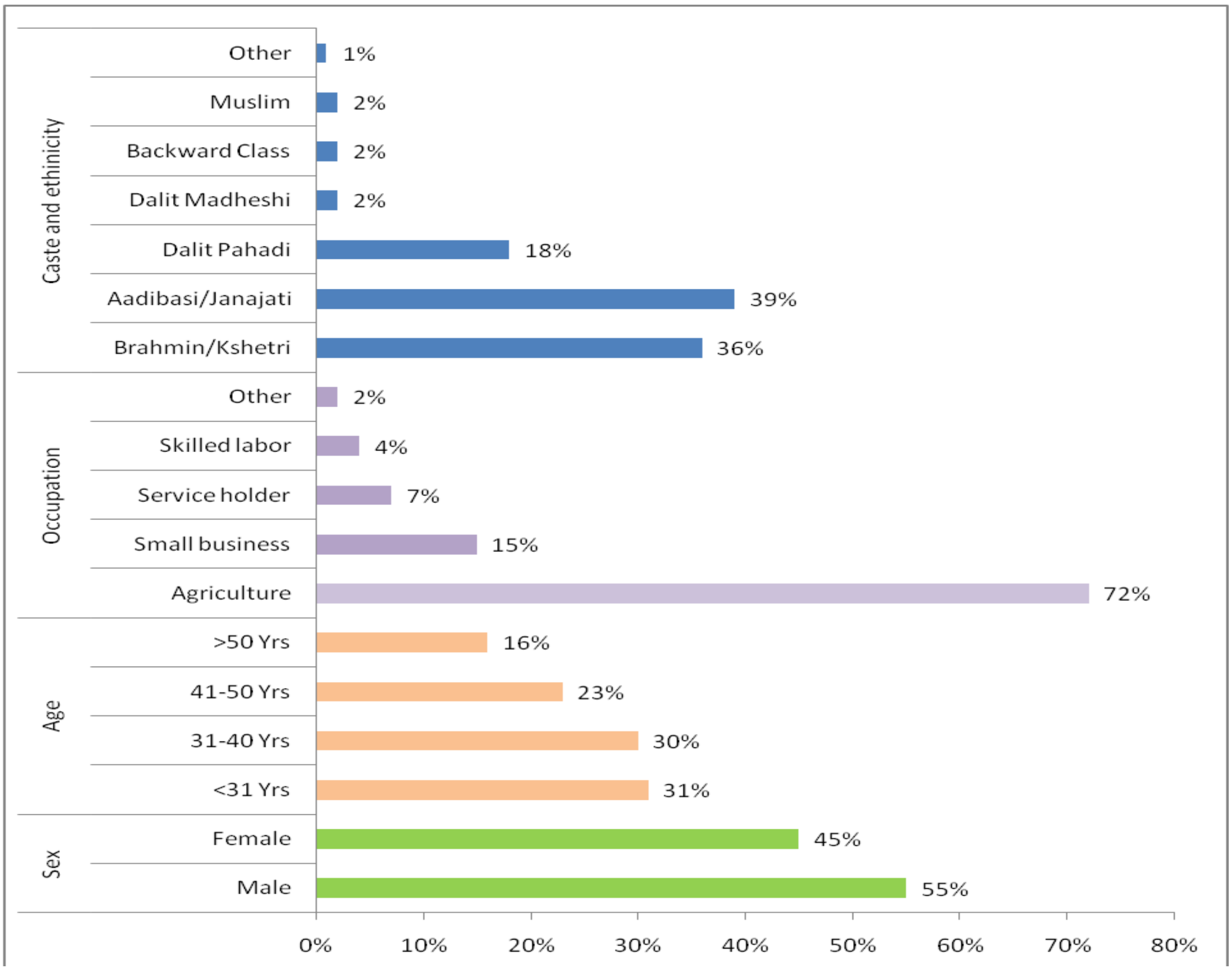
Source: Survey

Chapter V: Data Analysis and Findings: Triangulation of Information

5.1 Respondents' profile

This study recognizes all participants of the HH Survey, FGDs, and KIIs as the primary 2,320 PETS respondents. As seen in the graph, 84 % of respondents were under 50 years of age, 72 % work in agriculture occupation, 39 % are Adivasi Janajati (indigenous, ethnic groups) and 36 % are Brahmin/Chhetri caste and ethnicity.

Figure 5.1: Profile of respondents



5.2 Project profile

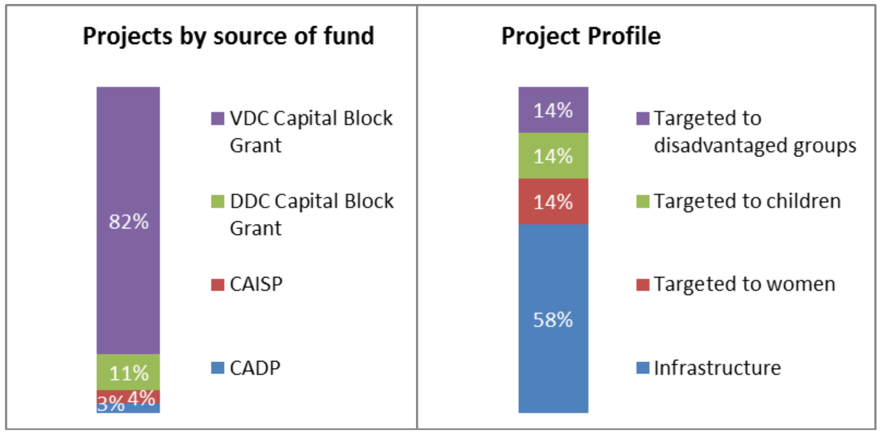
The study covered four types of grants - CADP, CAISP, DDC Block Grants (Target group), and VDC Block Grants (Infrastructure and Target group).

Target groups include women, children, and disadvantaged people. All 340 sample projects were implemented at the VDC level.

Figure 5.2 shows that 82 % of sampled projects were funded by VDC block grants and that 58 % were infrastructure related.

The study looked at the number of projects that identified the targeted beneficiaries. According to project factsheets (prepared from evidence collected through project accounts maintained by the VDCs and DDCs), only 78 % of projects documented the number of beneficiary households. Of the total beneficiaries, only 18.69 % were from marginalized households.

Figure 5.2: Project profile



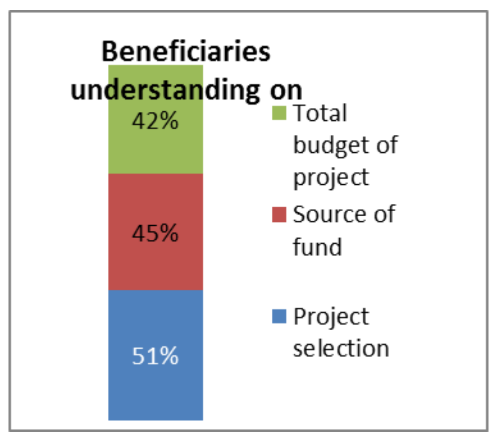
Source Survey

5.3 Project selection

During the KII with members of DDCs, VDCs, and the CA or their representatives, respondents said that all projects funded by the CADP, CAISP, DDCs, and VDCs were selected from a priority list prepared through a participatory planning process. However, the difference between how DDCs understand the selection process and how CA member/CA representatives understand it can create difficulties to finalize the project list.

DDCs coordinated well with the respective VDCs while implementing DDC funded projects at the VDC level. However, coordination with VDCs while implementing projects funded by CADP and CAISP tends to be weak. Findings from the HH survey (interviews with direct beneficiaries of the projects) showed that only 51 % of beneficiaries know how the projects are selected, 45 % know the source of funding, and 42 % are aware of the total budgets.

Figure 5.3: Beneficiaries' understanding of the project



Source: Survey

Participants in the FGDs at the VDC level said that neither VDCs nor UCs proactively publicize the details of projects and that the beneficiaries do not express any willingness to learn about the project selection process, source of funding, or project budget. They said that a major factor in the selection of projects is political influence, particularly for projects funded by CADP and CAISP. As well, they said that people affiliated with one political group are not interested in projects suggested by those in other parties. This situation has a negative impact on the transparency of the implementation of projects.

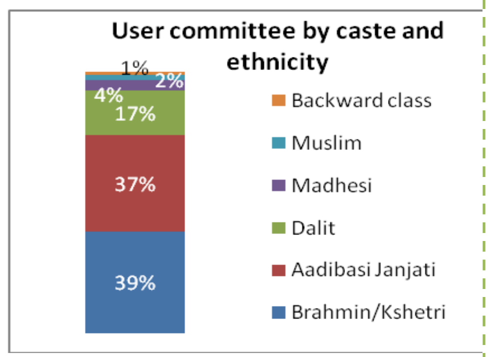
According to the fact sheets of projects in the VDCs, UCs (including CBOs and NGOs) implemented all the projects. However, 9 % of beneficiaries interviewed claimed that VDCs are implementing the projects. Participants of the FGDs said that when UCs cannot agree, the VDC usually executes the projects directly. VDC authorities denied this; however, the study team did observe some VDCs implementing projects. For instance, VDCs were observed directly purchasing Hume pipe and spending the project budget to fill mud in the VDC grounds. *Please refer to Annex 6 for the list sample projects.*

5.4 Project implementation

The findings below are based on the primary unit of sampling for the study -- projects funded by VDC block grants.

a. Implementation status: The project factsheets show that all projects have been completed successfully. However, in the field, the study team found that 3 % of projects could not be verified and 6 % were documented as completed but were still incomplete on the ground. Similarly, funds for 5 % of the projects had been diverted to sources outside the projects, such as such as paying for teachers' salaries from the children development budget or spending the target group development budget on public infrastructure. The team observed that only 86% of projects were completed as documented.

Figure 5.4: UC by caste and ethnicity

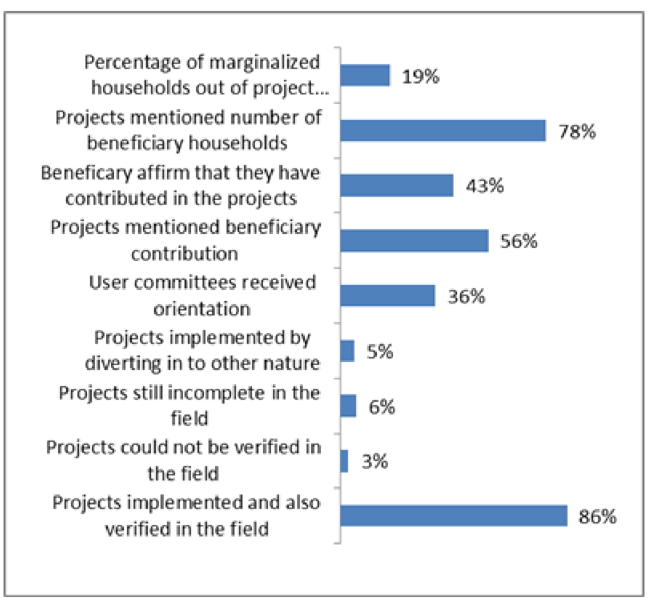


Source Survey

b. User Committees: As documented in project factsheets, men hold the majority of chairperson (82%) and secretary (65%) positions in UCs, while women hold 76 % of the treasurer positions. The total percentage of women holding key positions on the UCs was about 43%.

When asked about the meaningful participation and decision-making ability of women in key UC positions, most women FGD and KII participants responded that the representation was nominal, as the chairperson and secretary made most decisions. Most women treasurers signed the documents without asking any questions even though the literacy rate among the key positions was about 100%.

Figure 5.5: Project implementation status



Source Survey

The study attempted to gauge the beneficiaries' understanding of the UC. The HH survey showed that 56% of the respondents knew at least one person who held a key position on the UC, 59% could recall when the UC was formed, 34% said they knew how UC members were selected, and 16 % knew that many UC members were politically nominated. The FGD and KII explored the possible reasons for the lack of knowledge of processes for project selection and UC formation. They found:

- Beneficiaries were mostly indifferent about the planning and implementation of projects;
- Discussions for planning were generally avoided at the settlement level;
- Ward level discussions on planning were infrequent;

- At the VDC level, the planning process was usually limited to a one day event;
- People with political backgrounds dominated discussions for the planning process, rather than common citizens; and
- Formation of the UC was less transparent and dominated by political interests.

Only 36 % of UCs received an orientation before the project implementation. Most FGD and KII participants said that they did not know that such a provision existed. Some FGD and KII participants said that local government authorities are often selective in providing orientations due to their limited resources (budget, time, and human).

c. Beneficiary's contribution to the projects: The project factsheets showed that 56 % of projects received contributions from the UC, and that the total contribution to the project budget was about 13 % from various sources. About 10 % of the UCs contributed to the project budget and 43 % of beneficiaries confirmed that they contributed to the project budget.

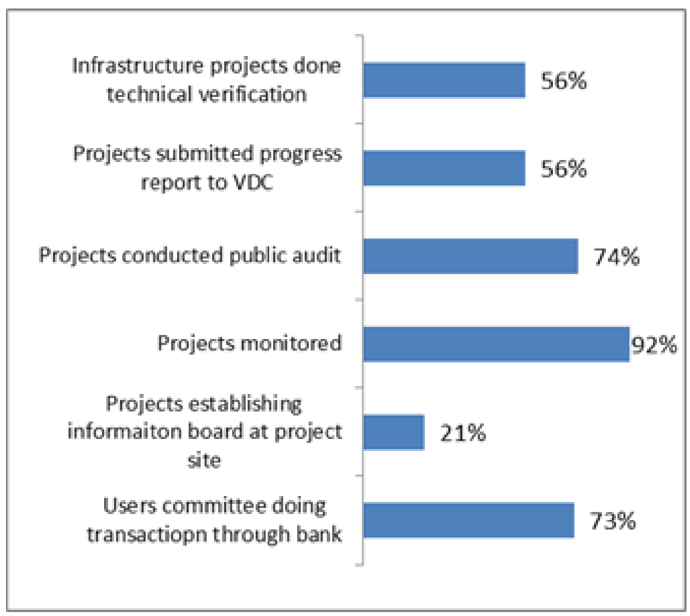
5.5 Governance and accountability

a. Sub-contracting the projects: According to the project factsheets, the UCs implemented all the projects. However, 9 % of beneficiaries said that the VDCs implemented the projects and 4 % said that the UCs sub-contracted the projects.

b. Bank transactions: The project factsheets revealed that only 73 % of the projects did transactions through banks. Some FGD and KII participants said that they had to do transactions in cash due to a lack of financial institutions in some VDCs.

c. Notice/information board at project site: According to the factsheets, only 21 % of projects displayed information on a board at their project site. Only 11% of respondents said that they saw an information board on site. Most FGD and KII participants said that they did not know of this legal provision to have information board at project site for the projects with budget more than 2 lakh.

Figure 5.6: Parameters of governance and accountability as per project factsheet



Source Survey

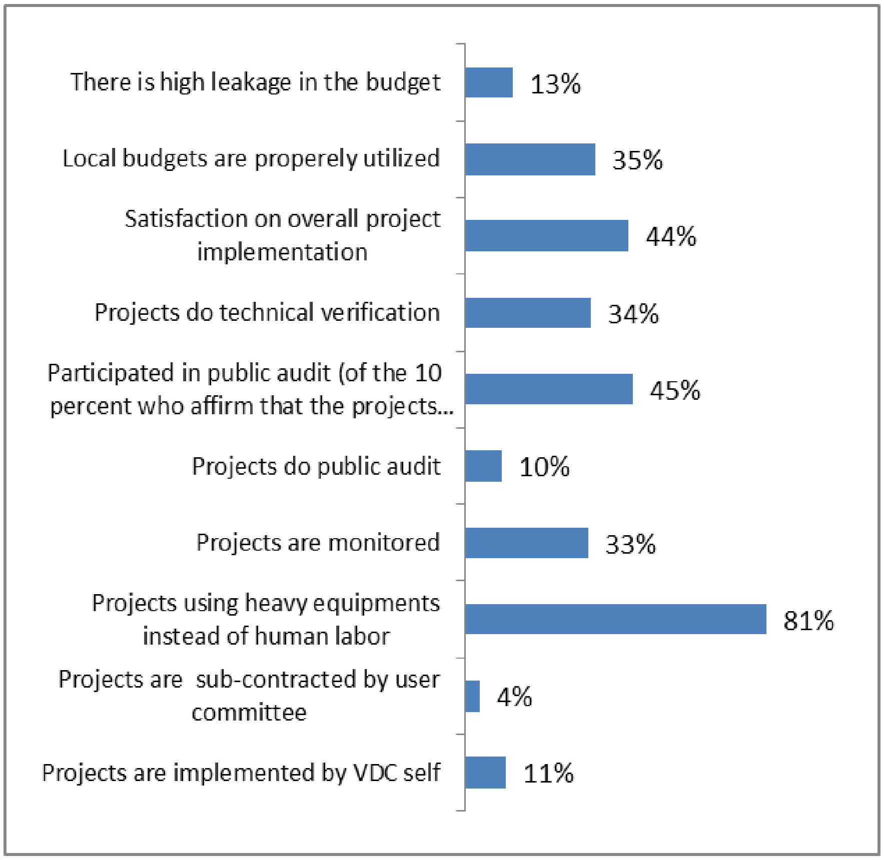
d. Use of machinery and heavy equipment: About 81 % of beneficiaries said that infrastructure projects used mostly heavy equipment, including tractors, excavators, and concrete mixers. FGD and KII participants said that employing human labor to create local employment is now a challenge in many VDCs due to the migration of youths. As well, most projects are implemented in a short period in the last quarter of the fiscal year, due to the delays in the release of the budget. Most FGD participants were not aware of the objectives of the local budget to create local employment.

e. Monitoring and supervision: The project factsheets revealed that 92 % of projects were monitored by local authorities, including monitoring by members of the Ward Citizen Forums (WCF). Similarly, 33 % of beneficiaries confirmed that local government authorities monitored the projects. FGD and KII participants said that monitoring and facilitation committees formed for the project with the UC are mostly not functional. During KII, local government authorities said that they are selective when monitoring due to limited resources and time.

f. Public audit: According to project factsheets, 74 % of projects conducted a public audit. However, only 10 % of the beneficiaries confirmed that there was a public audit. Of this 10 %, 45 % said that they had participated in the public audit.

The KIIs in the VDCs said that low participation in the public audits was due mainly to the indifference of the project's beneficiaries. FGD participants said they were rarely invited to participate in public audits, which are only done as paper formalities.

Figure 5.7: Beneficiaries perception on governance and accountability



Source Survey

g. Projects submitting progress report: The project factsheets revealed that only 56 % of projects have submitted progress reports to the VDCs. FGD and KII participants mentioned that they need proper training to prepare progress reports. The study team observed that the finished reports are usually incomplete and unclear.

h. Technical verification of the projects: According to factsheets, local government authorities have technically verified 72 % of infrastructure projects. However, only 34 % of beneficiaries confirmed that the local government authority completed technical verification of the infrastructure projects.

i. Beneficiary satisfaction with project implementation and proper use of budget: Only 44 % of beneficiaries expressed satisfaction with overall project implementation. About 35 % of respondents believed that the local budget was properly utilized, 44 % felt it was moderately utilized, and 21 % felt it was not properly utilized.

j. Perception on high leakage in the local budget: When asked about leakages, 58 % of respondents refused to answer this question, 13 % said there are high leakages in the local budgets, and 29 % said there are no leakages.

5.6 Sustainability of the project

The study found that according to the project factsheets, only 15 % of projects have taken measures for sustainability. Similarly, 9 % of beneficiary respondents confirm that such measures are in place. Local government authorities said that once they handover projects to communities', it is their responsibility to look after and maintain the projects. The communities said that they have neither the time and budget nor the technical knowledge to maintain the projects.

5.7 Benefits from the local budget

Of beneficiary respondents, 40 % feel that having the local budget helped to enhance local participation, and of these, 31 % believe it helped to increase market accessibility (basic access by the road). However, only 17 % felt that it gave any direct economic benefits, i.e. created local employment. Only 12 % of beneficiary respondents think the local budget helped to address the specific needs of poor and marginalized communities.

5.8 Fund-wise comparison

The following tables present a comparison of different parameters among the three types of funds according to project factsheets and the beneficiaries' perceptions.

Table 5.1 Fund wise comparison

a. As per project factsheets

Parameters	DDC block grant (Target group budget)	CA funds	VDC block grant
1. Orientation to UC	19%	33%	36%
2. UC doing transaction through Bank	68%	96%	73%
3. Project established noticeboard at project site (Project budgets = >200 thousand)	NA	38%	21%
4. Project monitored	60%	86%	92%
5. Project conducted public audit	57%	71%	74%
6. Project submitted progress report	43%	54%	56%
7. Project did technical verification (infrastructure projects)	NA	86%	56%

b. As per beneficiaries' perception

Parameters	DDC Block Grant (Target group budget)	CA funds	VDC Block Grant
1. Project sub-contracted by UC	16%	8%	4%
2. Projects use heavy equipment instead of labor	NA	78%	81%
3. Project monitored	84%	68%	33%
4. Project did public audit	39%	40%	10%
5. Project did technical verification	NA	30%	34%
6. Satisfaction on overall project implementation	49%	50%	44%
7. Local budget was properly utilized	30%	45%	35%
8. There is high leakage in the budget	21%	20%	13%

5.9 Comparison of SB and non-SB VDCs in the districts

The Sajhedari Bikaas project asked the study team to select six VDCs, one from each SB district, to assess the initial impacts of SB programs in the VDCs. Therefore, in addition to the 29 sample VDCs where SB works, the study team also collected information from six control VDCs (Non-SB) for comparison. The study team collected information through 48 project factsheets, 12 KII, 6 FGDs, and 240 household surveys in the control VDCs. Tables 5.2 below compare indicators for SB and Non-SB VDCs.

Table 5.2 Comparison of indicators in SB and non-SB VDCs

a. Project selection

Basic of comparison	SB	Non-SB
Beneficiaries who know how the projects were selected	51 %	35 %
Beneficiaries who know about the source of fund in the projects	45 %	43 %
Beneficiaries who know the total budget of the project	42 %	36 %

The t-value is 2.19089. The p-value is .093599. The result is significant at p < .10.[3]

b. Beneficiaries understanding on who is implementing the projects?

Basic of comparison	SB	Non-SB
User committees	81 %	87 %
Community based organizations	3 %	2 %
Non-governmental organizations	6 %	9 %
Village development committees	9 %	2 %

The *t*-value is -0.00894. The *p*-value is .993161. The result is *not* significant at *p* < .10.

c. Projects actually implemented or not

Basic of comparison	SB	Non-SB
Implemented	97 %	94 %
Not implemented	1 %	5 %
Do not know	2 %	1 %

The *t*-value is 0. The *p*-value is 1. The result is *not* significant at *p* < .10.

d. Beneficiaries understanding about the UC

Basic of comparison	SB	Non-SB
Beneficiaries who know how the members of UC selected	34 %	35 %
Beneficiaries who know when UC formed	59 %	80 %
Beneficiary who know key member of UC	56 %	84 %

The *t*-value is -0.9483. The *p*-value is .396673. The result is *not* significant at *p* < .10

e. Project implementation

Basic of comparison	SB	Non-SB
Orientation to UC	36 %	33 %
Project factsheet shows beneficiary contribution	56 %	52 %
Beneficiary who contributed to the projects	43 %	67 %
Beneficiaries who saw projects using heavy machines instead of human labor	81 %	64 %

3 Online T-test http://www.socscistatistics.com/tests/studentttest/Default2.aspx

Monitoring of the projects by VDCs	92 %	91 %
Beneficiary affirm that the projects are monitored by VDCs	33 %	17 %
Difference between budget allocation and release	3 %	4.5 %
Difference between budget release and expenditure	13 %	19 %
Projects identified number of beneficiary households	78 %	83 %
percentage of marginalized households benefitted from the projects	18.69%	16.63%

The *t*-value is 0.04784. The *p*-value is .962373. The result is *not* significant at *p* < .10.

f. Governance and accountability

Basic of comparison	SB	Non-SB
Beneficiary believes that the projects are implemented by VDC self	11 %	13 %
Beneficiary believes that the projects are sub-contracted by the UC	4 %	12 %
UC doing transaction through bank	73 %	57 %
Projects establishing notice board at project site	21 %	27 %
Projects conducted public audit	74 %	78 %
Beneficiary saw projects having public audit	10 %	8 %
Beneficiary who participated in public audit (out of the beneficiaries who saw projects having public audit)	45 %	32 %
Projects submitted progress report to VDCs	56 %	43 %
Infrastructure projects where VDC did technical verification	72 %	60 %
Beneficiary who affirm that there was such verification	34 %	9 %
Beneficiaries satisfaction on overall project implementation	44 %	40 %
Beneficiaries who believe that the local budgets are properly utilized	35 %	32 %
Beneficiaries who believe that there is high leakage in local budget	13 %	16 %

The *t*-value is -0.98619. The *p*-value is .334304. The result is *not* significant at *p* < .10.

g. Sustainability of the projects

Basic of comparison	SB	Non-SB
Projects having proper measures for sustainability	15 %	21 %
Beneficiaries who believe that there are such provisions at project level	9 %	16 %

The *t*-value is -1.66448. The *p*-value is .237927. The result is *not* significant at *p* < .10.

h. Benefits from the local budget

Basic of comparison	SB	Non-SB
Enhanced local participation	40 %	18 %
Increased market access	31 %	56 %
Direct economic benefit	17 %	12 %
Addressed the specific need of poor and marginalized groups	12 %	14 %

The *t*-value is 0. The *p*-value is 1. The result is *not* significant at *p* < .10

The results indicate that SB VDCs are significantly better at engaging communities in the project selection process. However, there are hardly any significant differences between SB and non-SB VDCs in other activities, such as UC formation and sustainability.

Chapter VI: Capacity Building of DNGOs for Conducting PETS

One objective of this study was to build the capacity of DNGOs to conduct PETS independently at the local level. In order to achieve this objective, this study provided several trainings, regular mentoring, and technical backstopping to the DNGOs.

6.1 Training of Trainers

The study team organized Training of Trainers in two phases, first, a general overview of PETS and then, learning workshops on data analysis and report preparation. The ToT aimed to provide the necessary skills and knowledge to the DNGOs to be able to conduct PETS as a tool for social accountability. The training covered various topics in the Public Financial Management Cycle; constructive citizen-state engagement in the budget and budgetary process of Nepal; and skills for implementation (different steps) of PETS at the local level.

Several resource documents were developed and provided to the participants including a hand book on PETS; set of PETS instruments with guidelines; software template for data entry and tabulation; budget and expenditure factsheet; details of sample projects; case studies and exercises; sets of concerned Acts, regulations, and guidelines; and action planning templates.

In total, 26 participants from ten Governance NGOs in six districts attended the training. The participants completed pre and post-training evaluation questionnaires that observed overall changes, knowledge, and skills for 14 parameters on a scale of 1 to 5 (i.e. poor to excellent). Table 6.1 shows the parameters and average score prior to and after the training.

Table 6.1 Pre and Post Evaluation Score

Parameters	**Average Score**	
	Pre	Post
1.Public financial management process and cycle	1.7	3.2
2. Constructive citizen-state engagement	1.8	3.5
3. Budget and budgetary process at central and local levels	1.3	3.5
4. Inclusive budget	1.6	4.1
5. Evidence based accountability	1.5	4.2
6. Public expenditure tracking survey/study	2.2	4.3
7. Defining scope and objective setting of survey/study	1.3	3.6
8. Sampling techniques	1.4	4.1
9. Survey/research instruments	1.9	4.4
10. Data collection	2.0	4.6
11. Data entry and cleaning	1.7	4.3
12. Data processing and analysis	1.5	3.0
13. Preparing reports	1.7	3.0
14. Dissemination of finding of study/research/survey	1.7	3.1

6.2 Data collection training

The study team then supervised the ToT participants to deliver training on data collection for PETS to field staff in the districts. The objective of these sessions was to enable participants to use the PETS instruments properly so that they could collect factual, authentic, and accurate data from the VDCs in their respective districts. The content of the training included Budget processing, guidelines, PETS instruments, and data collection. The PETS instruments include Key

Informant Interviews, Focus Group Discussions, Project Factsheets, and Household Surveys. Altogether 92 participants attended the trainings, including social mobilizers, project staff, and interns from the ten GNGOs working in the 58 VDCs of the six districts. It is worth noting that the NGOs and district supervisors were able to collect the field level data required for the study.

6.3 Learning workshop on data analysis and report preparation

As an extension of the ToT, the study team organized a learning workshop on data analysis and report preparation to enable participants to clean, analyze, triangulate, and interpret the data sets and properly prepare on the PETS report. The learning workshop had 14 sessions. The participants were program coordinators, monitoring and evaluation officers, field officers, and district supervisors from the ten NGOs in the six project districts.

6.4 Mid-term review

The study organized a mid-term review with the GNGOs and relevant staff to assess the achievements made, to provide feedback and input on the PETS work done by the GNGOs and district supervisors, and to develop a work plan for the remaining activities.

6.5 Technical backstopping, mentoring and monitoring

The study contributed to building the capacity of the GNGOs to conduct PETS independently in the future. The team provided regular supervision, backstopping, and mentoring to the GNGOs carrying out PETS related activities. The study appointed six District supervisors, one in each district, based in the GNGOs. In addition, the PETS team visited the field every month to provide the necessary guidance and support. The study team frequently communicated with the teams in the districts by telephone and email. To ensure a favorable working environment for PETS, there was regular communication and coordination with Pact/SB, and the respective DDCs and VDCS. The study provided the following regular support:

Regular support from district supervisors: District Supervisors based in the GNGOs of the project districts provided regular support to the project staff and social mobilizers. The PETS team backed up the district supervisors.

Data entry orientation and observation of data collection: The study team did regular field visits, to the districts to observe the data collection and provide orientations in data entry. During the visits, the study team provided hands on orientations to the project team and district supervisors and visited the VDCs to observe the data collection.

Support to develop report: The PETS team provided training on report preparation and technical support to refine the district reporting before the validation and final dissemination.

Monitoring and follow-up: The PETS team monitored the progress and quality of the data collection through online means and monthly field visits.

6.6 Data entry and processing software

The PETS team developed a master sheet in excel to enter the data collected from the project factsheets and household surveys. The master sheet was designed to check inconsistency in the data, which helps to clean the dataset. Once the data was cleaned, it automatically generated the relevant tables used for further analysis. The PETS team provided the master sheets to the GNGOs and oriented them on the use of the sheets.

6.7 Sharing of draft report at the district level for validation

The study team supported the DNGOs to finalize and present the reports at the district level for validation. The DDC officials chaired the validation workshops organized in each district and attended by government and non-government stakeholders at the local level including DDC officials, VDC secretaries and officials, UC members, beneficiaries, and local NGOs. The DNGOs briefly presented the findings of their reports and sought comments from the participants to incorporate in the final district report.

Chapter VII: Social Inclusion in the Local Budget Allocation and Expenditures

7.1 Inclusive policies and budget

Social inclusion has become a national priority for attaining sustainable peace and for restructuring the state of Nepal.[4] The Constitution of Nepal expresses a commitment to ensure an equitable economy, prosperity, and social justice based on the principles of proportional inclusion and participation.[5] The policies and programs of the government of Nepal promote GESI and increasing access for marginalized groups to available resources, means, and opportunities.[6]

The current development plan of Nepal (Three Year Plan-TYP, 2013-16) aims to generate direct positive changes in the living standards of citizens by reducing widespread poverty and achieving inclusive, broad-based, and sustainable economic growth by ensuring (*among others*) good governance in the country.[7] The TYP expects a greater role for local government bodies in speeding up development efforts by mainstreaming marginalized groups and ensuring their meaningful participation in development initiatives.[8]

Nepali society has traditionally discriminated against and excluded people based on gender, caste, ethnicity, and disability. Thus, recent government policies and programs have increasingly considered inclusion issues to address discrimination and exclusion. The GoN continuously increases public budget and expenditures to promote inclusion by empowering marginalized and excluded groups.

The LBRMMP has provisions for local governments to fund programs directly benefiting the target groups[9]. These provisions are that at least 10 % of the DDC/VDC block grants should go to development programs for women, 10 % for children, and 15 % for disadvantaged groups, including senior citizens, Dalits, indigenous nationalities, people with disabilities, Madhesi, Muslim, and backward classes[10]. The Guideline aims to ensure that local service delivery, development work, and governance processes are inclusive and increase the access of marginalized groups to local resources.

7.2 PETS and social inclusion

This study aimed to explore whether the local budget was allocated and utilized efficiently and effectively to contribute to social inclusion as envisioned by the legal and policy guidelines. The survey instruments considered inclusion aspects, including (1) budget allocated to target groups from DDC and VDCs, (2) lists of projects for development of target groups (3) whether disadvantaged groups benefited from the budget, and (4) composition of users groups. Based on the data and analysis presented in the above sections, the study team had the following observations and findings.

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[4] Central Department of Sociology/Anthropology -TU, *Social inclusion Survey, 2012*
[5] Constituent Assembly of Nepal, *The Constitution of Nepal 2015 (Preamble)*
[6] Government of Nepal, Policies and Programs of the Government of Nepal for Fiscal Year 2071-72 (2014-15)
[7] Government of Nepal, The interim three year plan (TYP) for 2013-2016.
[8] USAID Nepal, *Call on PFM*, 2015.
[9] Government of Nepal, *Local Body Resource Mobilization and Management Operation Guidelines -2069, Section 2; Article 10*
[10] Ibid.

a. Budget allocation for target groups: The LBRMMP clearly urges the allocation of 10 % to development programs for women, 10 % for children, and 15 % for marginalized and disadvantaged groups. However, contrary to the provisions of the guideline, the study revealed differences in the VDC budget allocations.

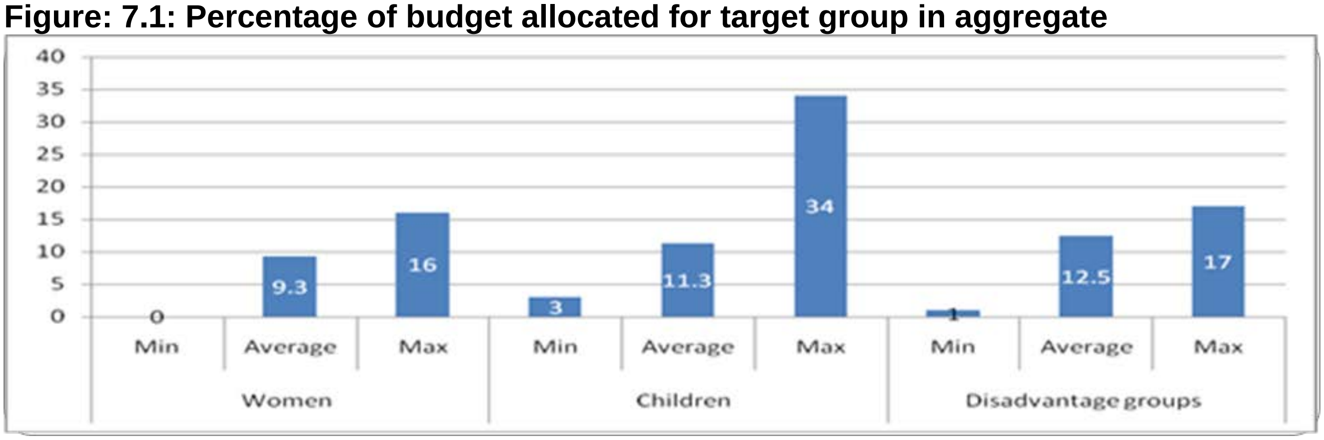
Table 7.1 VDC level budget allocations for development programs for target groups in sample districts (in percentage)

District	Women			Children			Disadvantaged group		
	Min	Average	Max	Min	Average	Max	Min	Average	Max
Kanchanpur	8	9.8	10	9	9.9	10	13	14.8	15
Kailali	10	10	10	10	10	10	15	15	15
Bardiya	7.7	9.2	10	7.7	9.1	11	11.5	14	15.5
Banke	9	9.9	11	8	10	11	2	12.8	17
Dang	10	10	10	10	13.8	15	15	15	15
Surkhet	0	7.6	16	3	14.5	34	1	3.6	10

Source: Survey/VDC Budget sheet

Table 7.1 shows that the allocations to women development programs, are on average, close to the stipulated targets set in the regulations, except in Surkhet, where the average is much lower. The minimum and maximum allocations were 3 % and 34 % for children programs, and 1 % to 10 % for disadvantaged groups. The low allocations observed in some VDCs are below the provision, which hinders the achievement of policy objectives related to empowerment and inclusion of target groups.

Figure: 7.1: Percentage of budget allocated for target group in aggregate



Source: Survey, 2015

Moreover, about 15 % less budget than allocated was released for disadvantaged groups. This is the highest gap in budget allocation and release in VDC budgets and shows a lack of compliance with the guidelines and provisions. According to the project factsheets, only 19 % of the total beneficiaries identified and documented are from marginalized groups. The FGD participants said that the local communities have less information about the target-group development budget, and thus often do not claim or demand the total fund or effective implementation of programs. The respondents (HHs, FGD, and KII) said that the local planning, monitoring, and public auditing process should be more effective and inclusive, so that the target groups are aware of the policy provisions and objectives of the target group development budget.

b. Participation of target groups in project implementation: One policy objective of the local budget is to empower traditionally excluded groups, to promote their participation and inclusion. However, the data shows that only 24 % of UC members are from excluded groups -- Dalit (17 %), Madhesi (4 %), Muslim (2 %), and other backward classes (1 %). Likewise, men hold the main positions in UCs of Chairperson (82 %) and Secretary (65 %), while women (76 %) hold that of treasurer (Refer to Figure 5.4). As presented in Chapter 5, most women treasurers sign without asking questions.

c. Benefits to the target groups from local budget: In recent years, the local budgets seem to be benefiting the target groups. However, only 12 % of respondents believe that the local budget has been utilized to address the specific needs of poor and marginalized people. The majority of respondents believe that the budgets for target groups are diverted elsewhere or not allocated according to their needs. Additionally, the respondents mentioned the practice of lump sum budget allocations without identifying specific projects, which has caused misuse of the budget and ineffective programming. They described local budgets as being less effective in providing economic benefits to the poor and excluded groups because there are few opportunities for local employment. Only 17 % of respondents believe that the local budget has provided direct economic benefits (Refer to Figure 5.8).

d. Awareness and capacity among the target groups: LBRMMP recognized women, children, and different disadvantaged groups as target groups for development programs. The guidelines urge local bodies to work for social safety and protection of these sections of society. The fulfillment of this objective mainly depends on social mobilization processes at the local level to mainstream the target groups. However, based on the above findings, the social mobilization processes at the VDC level are still struggling to raise awareness of target groups on their rights and entitlements and to build their capacity to influence the decisions in project selection and implementation.

Chapter VIII: Key Observations, Issues and Recommendations

8.1 Discussion of observations and issues

a. Political economy of local budgets:

Interference: Over many years, budgeting process is highly political and subject to interference that starts from the center and flows down to the VDC level. The unstable political situation has resulted in overstretching the size of the budget by adding politically motivated projects without properly assessing the volume of liability over the years, the consequences on macroeconomic fundamentals, and the impact on priority development programs.

The NPC and MoF play crucial roles in budget planning and controlling allocations in the budget, both at the line agency and local levels. There are many levels of approvals, as DDCs must submit their district budgets, which include VDC programs already approved by the VDC and DDC council, to the NPC for its approval and authorization. At the NPC, many sitting parliamentarians, ex-parliamentarians, and senior officials of political parties endeavor to add their own projects into the annual programs submitted by the DDCs before the NPC approval. While adding these political projects into the district budgets, there is little consideration of the viability of the project, or its time and cost implications. Therefore, the budget making process results in large and unmanageable project portfolios and creates a long-term liability to the government in the allocation of resources.

At the ministry level, the incumbent ministers and supporters endeavor to put constituency projects in the ministerial budget taking away from the resources for nationally important projects. Such arrangements require more resources in the ministry than provided by the budgetary ceiling such that, ministries may have a lack of an adequate budget and lose their important projects to the political projects.

Timeliness: For several years, the government has not submitted their annual budget until the deadline at the end of the fiscal year in mid-July, so there has been little time to discuss the basic principles of the budget and the rationale for allocating resources. In some years, the parliament had to endorse partial budgets twice in a fiscal year. Other times, parliament had to endorse two budgets presented by two different governments in the same fiscal year.

Parliament often takes almost 3-4 months to approve the budget, and the actual implementation of the budget usually starts in late November or early December. This limits the time to implement the budget, resulting in fewer expenses in the allocated amounts and long delays in completing projects.

The lack of an Act enforcing budget management and fiscal responsibility means that there are no precise dates for budget submissions in the parliament, or for approval of budgets and implementation of a full budget, nor is there any precise cycle for budget preparation. Normally budget cycles are supposed to begin in October/November after the NPC and MoF circulate the annual general budgetary guidelines, which usually are circulated very late. The DDCs and VDCs have to start their planning process early in October/November.

The government's weak and most often neglected monitoring system at every level has made it difficult to take timely action on the constraints or ensure the quality of the work done to speed up the completion of projects.

Representation: With the absence of elected local bodies for almost two decades, the government employees working in the DDCs and VDCs rarely follow the planning and budgeting guidelines. They do the planning by consulting with political party members and some elites at the VDC. While the LSGA and LSGR envisioned that the elected bodies would be accountable to people at the local level, this sadly is not yet the case.

The VDCs are run and maintained by government employees, social mobilizers, and non-political structures at the ward and settlement level, for instance, ward citizen forums and civic awareness centers. The existing human resources at the VDC level are generally insufficient and lack the capacity.

The government attempted to be representative by practicing an all-party political mechanism (APM) at the local level. Although the APMs were dismissed after a CIAA report showed that some APMs were engaging in corruption, they still exist and influence the planning process without being legally responsible or accountable. The citizens and local authorities realize that unless a fresh election takes place and elected representatives take charge, better results are not forthcoming.

b. Effect of political situation on PETS study:

The months when this study was conducted in 2015-2016 had several disruptions and upheavals in Nepal. Disagreement with a new Constitution, especially by Terai/Madhes-based political parties, caused disturbances and bandhs (strikes) in many parts of the Terai. The blockade on the flow of goods, including petroleum products, from India to Nepal aggravated the situation and disrupted the lives of people throughout the country.

The situation had a strong negative influence on both revenue collection and expenditures, particularly at the DDC and VDC level. Most Terai districts faced severe problems with their budgetary releases and expenditures since government offices were closed. Service delivery to the citizens was severely affected by the closure of government offices including DDCs and VDCs, and difficulties with transportation.

The Terai situation affected the study at the local level because the DNGOs were unable to travel to collect data from the VDCs and other government agencies. Beneficiary surveys and FGDs had to be postponed until the situation in the districts improved. This caused delays in conducting district level validation seminars and completing the draft report.

c. Budget allocation, release, and expenditures:

The study focused on three types of funds: DDC block grants (target group development funds); VDC block grants; and CA funds (CADP & CAISP). The study endeavored to analyze the process of release and expenditures, the institutions involved, and the use of resources, including expenditures at the project and beneficiary level for each of these types of fund.

- Greater influence in project selection and implementation
- Ineffective monitoring
- Overburdened human resources
- Less transparent UC
- Orientation confined to few projects only
- General indifference of the beneficiaries towards project implementation
- Poor and scanty documentation
- Target group budget deviation due to lump sum allocation
- Data of fund flow from one level to another is not easily available.
- An attitude regarding free flow of fund flow information is lacking.
- Fund flow process deemed to be internal affair of government agencies.

The study found that the introduction of TSA systems brought an improvement in the release of budgets for district level activities. DTCOs implement the TSA system in the district and respond within 24 hours to release the budget, if there is a provision in the budget and if the program is approved by the respective line agency. For government agencies, the DTCOs act as an accountant to make all approved and allocated payments with a budget. CA funds are released directly to the DDCs.

However, the TSA system does not cover the DDCs and VDCs, so the release of budgets is still a problem albeit smaller than before. DDCs and VDCs still get budgetary releases in a lump sum on a quarterly basis. DDCs and VDCs cannot request the DTCOs for payment even if there is a provision for activities. Rather, they have to make payments themselves from the budget received on a quarterly basis. Similarly, they need to submit the statement of expenditures of the first tranche to the DTCOs before they can get the second tranche (next quarter) budget release.

This problem is critical with VDC budgets, which go through the DDCs rather than coming from the DTCOs. The field data collected in the sample VDCs in the six SB districts shows DDCs holding the VDC budgets for up to nine months on the pretext that the VDC did not submit the expenditure statements on time. This has serious ramifications for resource use and ultimately bunches expenditures in the last months of the fiscal year.

d. CA funds:

The DDCs receive CA funds directly and must keep records of all expenditures for CA funds and be accountable for auditing. The CA fund is allocated for developing infrastructure and other activities in the constituency of CA members. With political motives in the allocation of funds, these projects usually fail to cover the needs of the entire constituency and concentrate in the areas where the CA member's supporters reside. The DDC committee often tries to allocate the CA fund for priority DDC and VDC projects, but they usually must agree on political projects of the CA members or their representatives.

Often CADP funds are spent initially on minor activities, such contributions to schools, making a culvert in the constituency area, or helping some people for medical treatments. However, with CAISP, a committee is established in the DDCs to allocate funds for projects and programs selected from among the priority programs of the DDCs and VDCs. At the implementation level, the formation of a UC is still highly political and caters to the cadres of the concerned parliamentarian in the constituency.

- Political commitment of CA members vs. local planning priorities
- Form UC from party cadres
- Indifference of people towards project implemented by cadres of another party
- Delay in submitting list of projects by CA members or representatives to DDC
- DDCs to verify projects without field verification and proper documents
- Single budget head in CA funds makes funds flow analysis cumbersome

The DDCs are responsible for financial management of CA Funds and accountable for submitting records for expenditures over which they have little control as the parliamentarians can decide independently. However, DDCs are liable for answering the queries of the audit team from the OAG.

e. DDC block grant (Target group development budget):

Based on the annual recommendation by the LBFC, the GoN provides in the annual budget for the intergovernmental transfer of resources to DDCs to carry out development activities at the local level. The resources may be either conditional or unconditional grants. Conditional grants are linked to mandatory programs such as target group development programs;

- Disadvantaged groups discouraged by zero advance practice
- Lack of proper analysis and reviews on fund flows
- Last moment additional budget release from central level
- Obligation of project implementation, accounting, and audit of CA Funds

unconditional grants are flexible to accommodate local needs.

Most targeted funds are allocated on a lump sum basis due to a lack of specific programs. The lack of awareness and capacity among the target communities is the main reason for a lack of specific programs to benefit them directly.

As well, the study found that social mobilizers are not performing their expected role of empowering and mobilizing target groups to generate demands through the planning process. Social mobilizers mostly assist VDC secretaries in day-to-day affairs, which results in the funds being diverted to non-targeted programs in the last quarter of the fiscal year. These practices disregard the objective of targeted programs and push most expenditures into the last quarter.

f. VDC block grant:

Lack of representation and accountability: With the long absence of elected officials at the VDC and ward levels, VDCs often select projects without going through the steps recommended by the planning and budgeting guidelines. The VDC personnel either avoid ward level meetings and discussions or conduct them as rituals.

With this gap, the political parties at the district and local levels actively identify projects, allocate resources, and form the UCs of party cadres. UCs should implement all infrastructure projects in the VDCs, but the committee members lack knowledge regarding project management and financial reporting requirements. In most cases, these committees are found to be avoiding the orientation programs, subcontracting the jobs, and delaying works.

In some cases, political parties divide the VDC budget equally for allocation to projects they have identified at the ward level. In other cases, small amounts are distributed in each ward and settlement for allocation to grass root level activities. The mechanism for allocating resources does not reflect the needs of the ward/community and caters to the needs of the party cadres. Hence, the system encourages mismanagement and corruption of resources.

Allocation for target groups: Allocation of VDC budget to the targeted programs seems to be in line with the guidelines, because otherwise they may be subject to penalties from the MCPM. However, the targeted groups often fail to develop programs to claim their budgets, which cause VDCs to allocate the targeted budget as a lump sum. In many cases, budgets for targeted programs are spent on non-targeted projects, such as road construction and culverts, on the pretext that a targeted person also benefits from these activities. This defeats the purpose of targeted budgets.

- Delay in budget release from DDC to VDC
- VDC secretaries unable to give sufficient time to VDC
- Settlement level discussions for planning generally avoided
- Infrequent ward level discussions on planning
- VDC seldom consulted by DDC on large projects while projects funded by CA Funds never consulted
- Practice of seeking undue incentive for project approval, fund release and technical verification

Insufficient VDC personnel: VDCs have insufficient human resources to document their activities properly including their annual programs and projects, maintain their accounting system, and monitor and supervise projects. Moreover, VDC secretaries are frequently transferred and often responsible for more than one VDC (for example, one VDC secretary in Saptari has to administer seven VDCs) without any assistants. The absence of technical personnel in the VDCs forces them to depend on the limited staff available at the District Technical Office for approval and verification of projects. This causes long delays in the initiation and completion of projects. Provisions for project monitoring were often limited to paper work with little or no onsite supervision and monitoring.

g. Funds flow:

In the past, budgetary release and reporting of expenditures have been the most problematic issue in program implementation. This is no longer so. The introduction of the TSA system has overcome many issues regarding timely budgetary releases and reduced the issues about long delays in expenditures reporting. However, some problems remain regarding the consolidation of cash balance with banking systems and the projection of cash flows. With the expansion of the TSA system to cover revenues, it is hoped that the FCGO will be able to make better projections of the cash balance positions so that the timing and amount of domestic borrowing requirements will meet the expenditure needs of the government.

In the absence of a TSA system at the DDC level, the DTCO releases the budgets on a quarterly basis on the request the DDCs, which are required to submit expenditure statements to receive second and subsequent tranche releases. DDCs are responsible to demand VDC budgets from the DTCO and submit VDC expenditure statements to get the second and subsequent tranches. The submission of expenditure statements is hindered by political pressure in allocating and spending of VDC level budgets, problems of getting timely and proper expenditure statements from UCs, and the heavy workload of the VDC secretaries and lack of assistants in the VDCs. This results in delays in getting second and subsequent tranches of the VDC budgets.

The basic constraints in the smooth flow of funds to the VDCs are routing of the VDC budgets through DDCs and the responsibility of DDCs to coordinate and furnish VDC expenditure statements. The system requires the VDC secretaries to visit the DDCs constantly when they could use this time more productively for other activities in the VDCs.

The system penalizes the efficient VDC secretaries because the DDCs wait for the expenditure statements from all VDCs before requesting the next tranche release from the DTCO. VDC secretaries would have pressure to furnish statements on time if the VDC budget is released directly from the DTCO and each VDC has to submit its expenditure statement to DTCO for the second and subsequent tranches of the budget. The secretaries will have this responsibility when TSA expands to cover VDCs and OAG starts auditing the VDC expenditures.

h. Social inclusion:

As per LBRMMP, each VDC should allocate at least 35 % of their capital grants from the central government to programs relating to social inclusion -- 10 % for women empowerment and income generation, 10 % for the wellbeing of children, and 15 % for programs for Dalits and marginalized people. One of the key points in the MCPM is to observe whether the VDC has allocated a budget with social inclusion.

In most cases, VDCs allocated a budget as per the regulation. However, the release and expenditure of target group budgets was visibly lower than other types of expenditures in the VDCs. The target groups are not aware of the availability of this budget from the VDCs and are less capable of developing programs to submit to VDCs. Due to the lack of specific programs for target groups, these allocations are made as a lump sum at a later stage once the VDC has received the budget for the program. Consequently, VDCs often spend the target group budgets on other programs such as infrastructure on the pretext that the members of the group also use the infrastructure.

Meaningful participation by women and marginalized groups in UCs was seen to be nominal. Men hold the majority of committee positions and are 82 % of Chairpersons and 65% of Secretaries in UCs. Women hold 76% of the treasurer positions but the chairperson and secretary make most decisions. The study found that the absence of women on UCs and the domination of male members in the key positions encourages the politicization of the committee and corruption and raises questions about the sustainability of the projects.

Local planning, monitoring, and public auditing processes have yet to involve marginalized groups effectively and meaningfully.

i. Capacity building of DNGOs and VDC secretaries:

All DNGOs working in the districts covered by SB participated in the capacity enhancing trainings and workshops organized by the study team of CECI and PRAD. This helped them understand the concept, methodologies, and analysis of PETS and build their skills for designing questionnaires, conducting FGDs, and tabulating and processing relevant data. However, with the pressing need to report on another SB requirement, they were always under pressure and distracted from the training program.

As a result, the district level supervisors (appointed by CECI/PRAD to assist the DNGOs and supervise their work on PETS) had to provide more time collecting and processing data and even completing the draft reports. In some districts, the supervisors even have to prepare and present the PETS findings at the district level interaction program. The first lesson learned is to select DNGOs with experience and the proper qualifications for PETS. Second is to schedule workshops and training programs outside the times for other important activities.

The study team observed that most VDC secretaries have not been oriented properly on the rules and regulations regarding the different aspects of their work. The VDC secretaries have also not had training on key tasks in their work such as using computers or proper documentation and accounting of expenditures. In some cases, they were even not aware of the circulars that the ministry told them to carry out.

j. Comparison of SB and non-SB VDCs in the districts:

Pact/SB asked the study team to compare VDCs where the program had worked with adjoining VDCs where it had not worked. The study team selected six VDCs to assess the initial impacts of SB programs. The results revealed that SB VDCs are significantly better at engaging communities in the project selection process but there are hardly any significant differences between SB and non-SB VDCs in other activities, such as UC formation, where the focus is too shallow to make any difference between SB and non-SB VDCs.

8.2 Recommendations

a. Policy related:

1. Release VDC budget directly from the DTCO to the VDC with copies to DDC. The DTCO can ask for the expenditure statement for the second tranche release and instruct VDCs to be audited by the Office of Auditor General (OAG). DTCO can deposit quarterly budgets into VDC bank accounts and notify VDC secretaries by text message. The direct release from DTCO to VDC may enhance efficiency by ensuring timely release of funds.
2. Make a transitional provision for at least three staff besides the secretary at a VDC office, by having an administrative /account assistant, a sub-overseer, and support person. Provide regular capacity building programs and an additional budget of about Rs 300,000 to 400,000 to resource-poor VDCs to recruit the required personnel.
3. Increase the mandatory number of women on a UC from 33 to 50% and make sure the Ward Citizen Forum (WCF) has the right to validate formation of each UC.

4. Revise the project selection provisions for CA funds in order to strike a balance between CA members' commitments to their constituencies and local planning priorities.

b. Process related:

1. Build the awareness of target groups about the budget and build their capacity so they can influence and implement local budgets. Social mobilizers can help develop the capacity of target groups. The Civil Society Organizations (CSOs) working at the local level should help target groups understand the budget and track their expenditures.
2. Ensure that provision related to monitoring and supervision followed by activating and strengthening existing monitoring committees, including Village Supervision and Monitoring Committee and Project Monitoring Committee. Define clearly the monitoring and evaluation reporting calendar so that issues related to deviation, ineffective implementation, and lack of transparency addressed on time.
3. Provide proper orientation to UC members before signing the contract and the actual work begin.
4. Review the practice of denying fund advances to the UC particularly for projects meant for disadvantaged groups to avoid elite-capture. Support fund advances to ensure the ability of UC to implement projects effectively.
5. Activate Ward Citizen Forums (WCFs) to facilitate the planning and implementation process through capacity building, social mobilization and technical backstopping.

c. Capacity related:

1. In SB VDCs, emphasize the budget allocation, implementation, monitoring, and proper documentation of project profiles. Give additional support to build the capacity of DNGOs in budget literacy, participatory budget analysis, and procurement monitoring. DNGOs must practice PETS for at least two cycles before the end of Sajhedari Bikaas.
2. Implement training, exposure, and capacity building initiatives regularly to update the knowledge and skills of VDC/DDC staff.

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Annexes: (attached separately)

Annex 1	*Research methodology and instruments*
Annex 2	*Study schedule*
Annex 3	*List of sample and control VDCs*
Annex 4	*Review of relevant acts, laws and guidelines*
Annex 5	*VDC Block Grant allocation and receipt by VDC*
Annex 6	*List of sample projects*
Annex 7	*Comparison of finding from the data analysis (project factsheet and HH survey) among four types of funds*

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Research team and local partners

Centre for International Studies and Cooperation (CECI) in association with Policy Research and Development Nepal (PRAD) conducted the study. The research team composed of:

1) *Prithvi Raj Ligal – Team Leader*
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4) *Kishor Maharjan - Research / PETs Advisor*
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Sajhedari Bikaas / USAID remained the principal guiding source behind the successful completion of the study.

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