A Report and Recommendations
on Disbursal and Accounting Procedures
for the USAID/N Rapti Zone Rural Area
Development Project

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TABLE OF CONTENTS

LIST OF EXHIBITS

LIST OF ABBREVIATIONS

ABD/N	Agricultural Development Bank/Nepal
AIC	Agricultural Inputs Corporation
CDO	Chief District Office
CG	Comptroller General
CSOE	Certified Statement of Expenditures
DCVI	Department of Cottage and Village Industries
FADPC	Federal Automated Data Processing Center
FM	Financial Management Section, USAID
HMG	His Majesty's Government, Kingdom of Nepal
IBRD	International Bank for Reconstruction and Development (World Bank)
IRD	Integrated Rural Development
LDD	Local Development Department, MOHP
MCI	Ministry of Commerce and Industry
MF	Ministry of Forests
MOF	Ministry of Finance
MOHP	Ministry of Home and Panchayat

NFC	Nepal Food Corporation
PIL	Project Implementation Letter
PP	Project Paper
USAID	United States Agency for international Development

Units of Measure

lakh	=	10,000
crore	=	100,000
NC Rs	=	Nepalese Rupees
1 NC Rs	=	0.094 $U.S.
1.$U.S.	=	11.9 NC Rs.

I. INTRODUCTION

Background

His Majesty's Government (HMG) of Nepal and the United States Agency for International Development (USAID) have agreed to undertake an Integrated Rural Development (IRD) project in a group of western departments known as the Rapti Zone.

Nepal, located between India and Tibet, is an agricultural country of 14 million inhabitants. Although closed to foreigners until 1952, Nepal has recently made tremendous strides toward modernization but still remains one of the 10 poorest countries of the world.

Over 90 percent of Nepal's inhabitants are farmers, but their yields are low and may even be decreasing. Most observers agree that the annual increases in food production, which appeared adequate in the mid-1960s, are beginning to lag behind population growth.

In its most recent development plan, HMG has shifted its emphasis on investments from transportation to rural development, and at least five integrated rural development projects are scheduled for implementation in the early 1980s.

The Rapti Zone is made up of five departments in Western Nepal. Most of the land is hilly and very dry for 8 months of the year. Without irrigation, most land can support one crop only. Over 150,000 families farm the land in parcels that average less than 2 hectares per family.

The Rapti Zone Integrated Rural Development Project (IRD) covers a spectrum of programs, from agriculture and forestry to health and education, designed to increase agricultural production and raise the standard of living. USAID has budgeted a total of $26.7 million in grants for expenditures over a 5-year period; His Majesty's Government expenditures over the same period will amount to NC Rs 82.9 million, the equivalent of $7 0 million dollars.

Purpose

Most of the money that USAID will provide for IRD will be funnelled through the Government of Nepal's fiscal machinery according to HMG's rules. The Rapti Zone Project is large and complex, with more than 100 field offices of 20 government ministries involved in implementation. Unfortunately, HMG's record for timely disbursal of and accounting for funds is poor. Three month delays in disbursements are commonplace. USAID's Rapti Zone project planners are concerned about HMG's and USAID's capacity to properly plan, budget, disburse, and account for the project payments on schedule.

In November 1979, USAID commissioned Robert R. Nathan Associates, Inc. (RRNA) to undertake a study that would produce a set of recommendations on workable disbursements and accounting procedures for the IRD project. Recommendations were to be limited to those that could be implemented within the existing framework of HMG and USAID rules and regulations and had to be consistent with a project commitment to rely on the Nepali Government institutions for implementation and evaluation.

Approach

The established rules for disbursing and accounting for funds in Nepal have been researched and documented in earlier studies as have the most typical departures from and breakdowns in the established system. In addition to reviewing the established system, this report undertakes "case studies" of three separate commitments of funds that USAID has already made to some early Rapti Zone programs. The objective is to trace the actual history of these disbursements from the HMG request for funds through the USAID deposit to the receipt of funds by the officer in charge at the operating field office, using the case study to document dates and delays. Then, in interviews with USAID and HMG officials, the case histories are used to identify problems, bottlenecks, and procedural errors and to elaborate on recommendations that would improve performance for the bulk of program funds to come.

For the research work in this report, RRNA interviewed officials in USAID and HMG at the ministerial, departmental, and field office level, including the HMG Comptroller General and the Ministry of Finance (MOF). In total, 25 interviews were completed over a 4-week period. Earlier studies played an important role in the research, as did a considerable number of informal conversations with expatriate and Nepali staff at USAID and other development agencies.

USAID/FM laid the groundwork for each of the three case studies, and HMG officials in the Ministry of Finance (Foreign Aid Division) and the Comptroller General's office generously cooperated in the time-consuming "case study" approach.

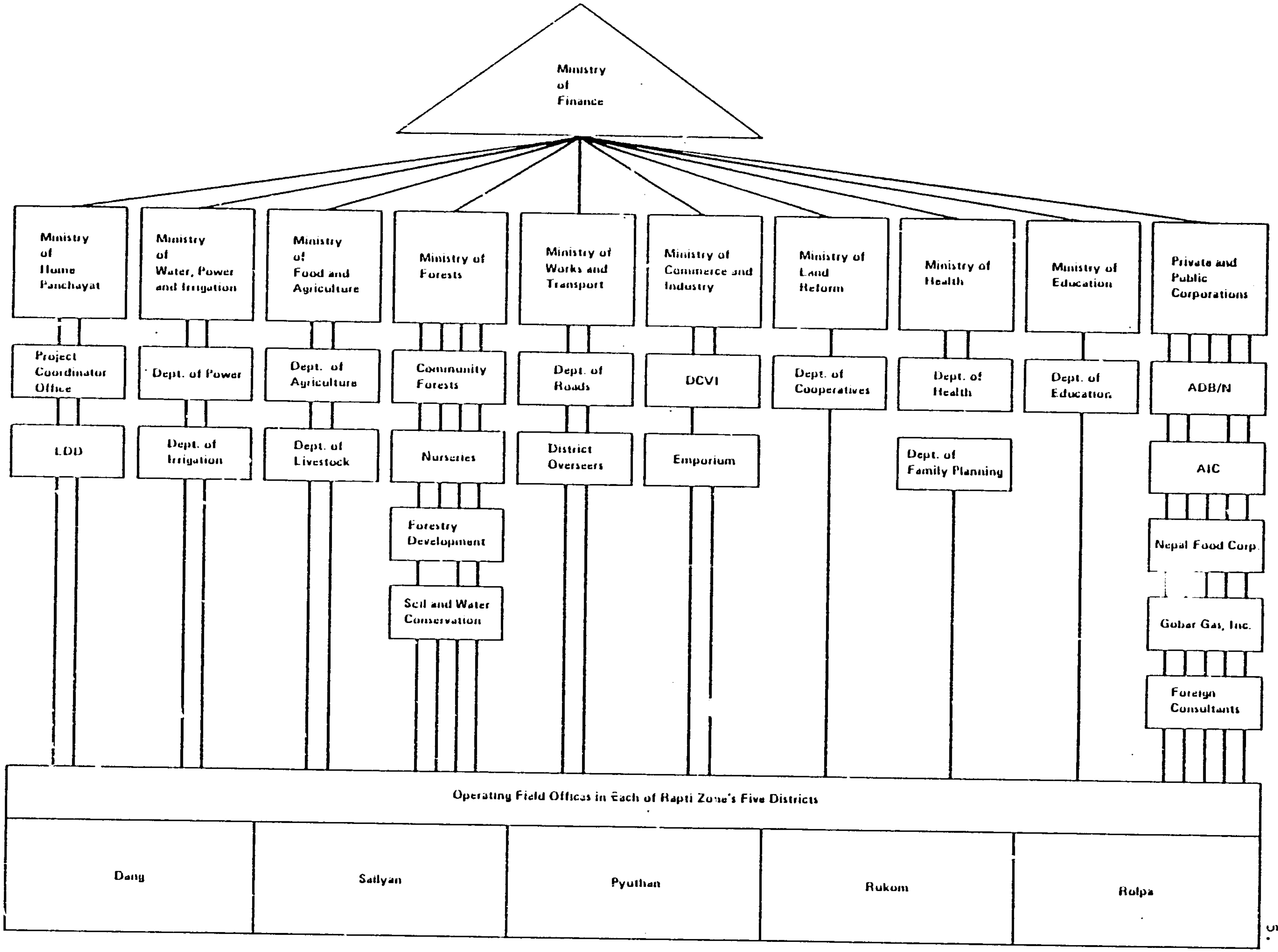
Dimensions of the Rapti Zone IRD Project

The $33.7 million, or approximately NC Rs 400 million in grant funds, for the IRD project will be processed through the Ministry of Finance to 9 line ministries of HMG. The 9 line ministries will then disburse funds by program to about 20 different operating departments that altogether control about 100 district level offices in the five districts that make up the Rapti Zone (See Exhibit 1).

At peak operation, continuous project funding will depend on the timely receipt and internal auditing of over 100 district level statements of expenditures at the HMG department level -- on a quarterly basis. Also on a quarterly basis, USAID/FM will review a consolidated statement of expenditures from some 20 departments and prepare 20 vouchers against 20 project implementation letters and 20 requests channelled through MOF.

In addition to supporting HMG Line Ministry programs, the project will also undertake to provide USAID funds to the Agricultural Development Bank of Nepal, The Agricultural Input Corporation, The GOBAR Gas Corporation, Nepal Food Corporation, and to expatriate consultants stationed in the Dang Valley project coordinator's office.

Exhibit 1. Illustration of Ministries, Departments, and Other Entities Involved in the Disbursement and Accounting Chain for Programs in the Rapti Zone IRD Project



Profits of Disbursement Problem

The procedure for a single field office to request and receive funds involves 12 to 17 separate steps. From an operations research point of view, the probabilities are against an undelayed smooth flow. In fact, 3-month delays in receiving funds are commonplace, and longer delays are frequent.

Many field offices have program funds available to them for only 8 months out of the year. "Underspending" is chronic, mainly because the fourth quarter's funds usually reach the field offices with only 4 weeks left in the fiscal year. At year's end, all unspent funds are frozen until the new budget is passed and a new cycle of requests has been approved.

Because delays are so serious, a marginal improvement in reducing delay funds is likely to have a significant impact on the effective work year at the field level, increasing annual program benefits and overall program productivity.

II. RECOMMENDATIONS

This section presents the findings and recommendations from an analysis of the three case studies that follow, as well as from other considerations of USAID's and HMG's experiences and practices. As emphasized in the scope of work, the recommendations are limited to those that could be implemented within the existing framework of HMG and USAID institutions.

The distinction is made between those actions or measures that USAID would be able to take on its own initiative and those that USAID can encourage HMG to take. It goes without saying that the measures in both groups are equally important and are unlikely to succeed in isolation from each other. With each recommendation, a brief review of the findings is included, which is usually drawn from and may be more easily understood by referring to the case studies presented in the following section.

Some recommendations obviously duplicate others, and it is left to USAID to decide which measures or combination of measures appears more promising. In general, however, the most promising strategy for improving USAID's own performance and influence consists of:

1. increasing each project officer's familiarity with the HMG budget.

2. establishing a special expediter to follow up on disbursements.

USAID Measures

1. Learn the HMG budget process and budget cycle. Several copies of the HMG budget were available within the USAID mission but only in Nepali. The annual budget is one document that should be translated and reproduced for every project officer in the mission.

2. Learn the HMG budget codes and established categories of expenditures. Project officers should know how both USAID programs appear in the HMG budget, both by expenditure categories and by quarterly disbursements. USAID regularly develops ample documentation of expected expenditures in most of its Project Implementation Letters (PIL), but it appears that no one currently translates the PIL format into the HMG budget codes and assists HMG departments on their budget submissions. If USAID programs continue to appear in the budget as lump sum items, MOF officials will be obligated to ask for more information before authorizing disbursements.

Although MOF's power to review quarterly requests for funds is excessive and has been misused in the past, none of the three USAID case studies cited in this report is a good example of MOF's overbearing demands. Budgeting is one of the very important (but still fragile) administrative improvements in Nepal for which USAID can take partial credit. And as long as USAID's programs appear in the budget as

"Contingency" items with no specific information on the salaries, allowances, or operating expenses, USAID's frustration with MOF's questions is not defensible. The more specifically program expenditures are coded, the fewer opportunities and inclinations the MOF budget section will have to question programs.

3. Eliminate or shorten USAID/Nepal's turnaround time on vouchers to Bangkok. This suggestion will not completely harmonize with the new cash management policies from USAID/Washington, but if the 2 to 4-week turnaround between USAID/Kathmandu and FADPC/Bangkok can be shortened, project benefits in the field could be substantial.

If the month gained in turnaround time could be passed to the project level, an 11 percent increase in the effective work year (October to June) at the district level would result. If each quarter's disbursements were speeded by 2 weeks, 1 to 2 months could be saved each year on each program. Assuming these time savings can be passed to the field, the potential impact on accomplishment in the district is considerable.

Furthermore, a faster USAID turnaround will capitalize on whatever momentum exists in the HMG system. The typical 1-month delay after MOF requests a deposit means that 4 weeks of other problems collect on the Section Officer's desk at MOF, effectively burying the USAID program.

In one of the case studies examined, USAID/FM and the RAD office tried an "advance voucher," but without much success. The potential program benefits involved are substantial, however, and further trials are warranted.

4. Send two notices of deposit to Ministry of Finance. MOF is a large ministry, and communication between functional divisions is not always good. Notices of deposit for the first three Rapti Zone deposits were mailed to the Foreign Aid Division in MOF. Elsewhere in the same Ministry, Section Officers from the Budget Sanction and Control Office (Bokani) maintained for several months that no USAID funds had been deposited. In theory, the two sections of MOF confer with each other on all programs involving donor funds. In practice, it would be beneficial to send each section of MOF a notice to "facilitate" communication. Two notices, of course, is only a first step. There is no substitute for follow-up telephone calls and visits to verify that money is being efficiently processed.

5. Use the standard HMG system of advances and certified statements of expenditures for disbursement of the RAD project funds. Many people involved in various USAID/Nepal programs over the past years feel that the "advance" method of disbursement is itself a major problem. There is less incentive to keep accurate and up-to-date accounts and submit timely reports when the money is advanced. When the money is paid under a system of "direct reimbursement," the recipient uses his own funds to initiate the project and presents his vouchers and receipts to USAID for reimbursement. Inadequate records under a direct reimbursement system could result in the recipient's paying for expenditures that he cannot get reimbursed; consequently, a much stronger incentive to maintain records and submit them promptly is encouraged.

Whenever USAID can arrange for direct reimbursement, it will probably prove advantageous. These procedures will work better with private and public corporations. In the

Rapti IRD Project, irrigation pumps, test wells, fertilizer and seed production, and transportation are worth considering for "direct reimbursement" procedures.

For money that flows to the HMG line ministries, the system of "advances" is recommended. No matter what disbursal arrangement USAID makes with HMG, HMG will still use "advances" internally. The ministry will continue to advance quarterly funds to departments, which in turn will advance them to the districts.

The IBRD and the Asian Development Bank have direct reimbursement agreements with HMG, but HMG still advances the money to the districts. There is no evidence that accounting for district level expenditures is handled any better or more promptly. (There is some evidence that MOF is not happy with the situation since HMG is the interim financier of the project.) Financially, the arrangement puts the burden of accounting on the right party. So far, however, the burden has not been handled any more effectively.

Under HMG's "advance" system, the built-in incentive for prompt and correct accounting is that it controls subsequent releases. However, this incentive does not always extend to the district level. MOF reviews only those departmental requests that represent a consolidation of field office budgets. The consolidated departmental statement of expenditures must wait for the last district statements to arrive, so the entire process moves at the pace of the slowest reporting district. This, plus the many steps involved in the process, is the cause of accounting lags. Direct reimbursement would add some incentive at the top levels but none at the bottom levels where the real improvements are needed.

In light of this assessment, direct reimbursement may be more valuable to USAID as a bargaining chip than as an agency-preferred method of financing. To the extent that USAID is more accommodating to the HMG system of disbursal than is ABD or IBRD, USAID may be able to work closer with HMG for other improvements.

6. Use an expediter. Considering the financial stakes and the processing problems, the management argument for a disbursement expediter is strong. In the IRD program alone, USAID/N expects to channel $5 to $6 million a year through the HMG system, knowing that delays are frequent. These delays represent a financial and economic loss. The opportunity cost resulting from a 1-month delay in handling $6 million dollars, for example, amounts to $50,000, assuming a 10 percent rate of interest. This cost is not always revealed in the books (which is part of the problem), but it is real nonetheless. Not getting money to the field in time means that seedlings do not get planted, water does not reach crops, and other such program inputs are lost -- whose cost in lost benefits may greatly exceed the simple interest analogy of a 1-month delay.

For the problems with USAID disbursements, an expediter seems an obvious management response. Major changes in the HMG system are not possible, so delays have to be expected. Outside HMG, USAID has no effective management tools to cope with disbursement delays, and currently suspicions are growing that MOF is deliberately diverting funds or subverting certain programs. Suspicions such as these will eventually destroy any working relationship between USAID and HMG. An expediter may be able to prevent this.

An expediter has no legal powers, but if he knows the HMG system and the people involved, and if he can talk to these people, he will at least be able to keep the mission informed. A single expediter with "walk-in" status at MOF is more credible and effective for USAID than five or six program coordinators vying for an appointment. With the expediter's assistance, the mission will be able over time to judge the pattern and credibility of delay excuses and consider potential for effective improvements. The expediter will have the power of a well-informed lobbyist who can contribute in solving problems and handling delays.

To be effective, an expediter should be:

- Nepali;
- familiar with the HMG and USAID systems;
- versed in the specifics of USAID's on-going programs;
- personally familiar with office holders in the MOF and CG staff (The Comptroller General controls all accountants in all ministries from the highest level to the districts);
- skillful at telephoning, knocking on doors, visiting, obtaining information, and cooperating.

7. <u>Use request and disbursement flow charts</u>. Program Officers in USAID should keep chronological track of project funds flows, using request and disbursement flow charts. The request and disbursement flow charts should be similar to the ones shown in Exhibits 4 through 8 in Section IV. (The Rapti Zone RAD office already maintains a progress

calendar on disbursement.) The flow chart for each subproject is not only a handy reference guide for program staff who are always tracking more than one disbursement, but it is also a valuable teaching aid for new staff, well worth the investment when turnover is faster than the life of a program.

9. More case studies. To design request and disbursement flow charts for other programs, a case study will be helpful in identifying bottlenecks and possible solutions. At least one future case study should undertake to study the typical case of a release that is contingent on a certified statement of expenditure. All three of the checks traced in this report were first-time program releases requiring no previous expenditure statement.

HMG Measures

1. Training program for government accountants. When the Rapti Zone IRD disbursements increase in volume, a large part of the accounting burden will fall on the district office accountants assigned to the five Rapti Zone districts. Trained and assigned by the Accountant General's office, these district level accountants are responsible to the District Officer who is assigned by the line ministry and department charged with implementing the rural development program.

The district level accountants will maintain the financial records and advise the district officers on how funds, including USAID monies, will actually be spent. By USAID/FM's assessments, these district level accountants are underpaid, undertrained, overworked, and not content to be stationed in the Rapti Zone.

Fortunately, Nepal's current Comptroller General is determined to improve this situation. During 1979, the first year of his recent term, Comptroller General Bahadur Bista inaugurated a nationwide in-service training program to upgrade accounting skills. Bista was Accountant General during the early 1960s when USAID's John Cooper[1] was designing the HMG Accounting Manual. With Cooper, Bista designed the first training programs. However, in the decade after Bista left the Accountant General's office, the training "department," with a staff of 14, dwindled to a "section" of three officials. Bista is currently busy rebuilding the program.

USAID is already supportive of the Accountant General's program for mobile training courses that would upgrade skills in the Rapti Zone. USAID's efforts, as well as other efforts, to increase the skills, standards, and professional status of district level accountants will have direct dividends for the RAD program because general technical assistance is necessary to make programs successful at the village level.

2. <u>Identification of Rapti Zone IRD program as a separate line item in the budget using the phrase "Rapti Zone IRD."</u> This is already practiced in most cases, and USAID should encourage HMG departments to continue the practice. In the long run this identification makes the auditing easier; in the short run it makes reference to a specific HMG program possible. Most importantly, the consolidated statement of expenditures on the program required for release of quarterly funds needs only consolidate expenditure statements from the five Rapti Zone districts, not the 75 districts throughout Nepal that might also be spending for similar programs.

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1. For more on the "Cooper System," see Chapter III.

3. Encourage MOF to regard the budget as sufficient justification of program expenditures. MOF should question programs during the budget cycle and not during the quarterly disbursement cycle. Anything already in the budget should be given the benefit of the doubt. This will result in stronger budgeting and faster disbursing. HMG cannot afford to have each program justify itself several times each year.

4. Direct disbursements to the departments. Funding is revised and approved within MOF on a departmental and program basis. Checks are written to the Ministry and routinely passed to the Department by each of the line ministries. In the Local Development Department (LDD), the Accounting General issues checks directly, eliminating the Ministry of Home and Panchayat. An expansion of this practice is worth considering.

In one sense, the improvement in routing would be marginal. The Comptroller General would have to write many more checks than the Ministry accountants now write, and copies of all transactions would still have to be sent to the Ministry to maintain centralized accounting. Line ministry staff, however, should not be handicapped by quarterly disbursement accounting worries. Even without control over the current quarter's checks, the ministries would still retain full control over the department through their control of the budget, and the ministrial level personnel could concentrate on more important management functions, such as program evaluation and budgeting, for the next year.

5. Allow USAID to fund specific budget items in programs that mix USAID and HMG Funds. Nearly every field office involved in the Rapti Zone IRD project will be receiving funds from both HMG and USAID, with some offices

receiving funds from third sources. Currently a field office accountant may correctly account for all expenditures according to the HMG format and never provide information on items he purchased with the USAID portion of funds. Since all donors require this kind of specific information, an accurate and more complete accounting procedure is necessary.

Suggestions for handling the donor funds include establishing separate accounts for donor and HMG funds, which HMG opposes, or expanding the existing HMG ledger reporting forms to accommodate reporting expenditures by source of funds. Some HMG departments in the Ministry of Health and Family Planning have shown a willingness to experiment with the latter. (see Curtis Swezy's report, footnote 1, p. 19.)

With expanded ledgers, in addition to the page totals for each budget code expenditure that field office accountants currently provide, there would also need to be subtotals in each category for expenditure amounts from HMG funds and from USAID funds.

At present, district offices do not keep separate accounts on donors, except for separate line item programs in the budget that the field office accounts for separately. The RAD program will already have a separate audit trial available for any program identified in the budget by the "Rapti Zone RAD" tag. If a separate accounts expanded ledger can be designed for jointly funded programs, and if training can be arranged for district office accountants and Panchayat accountants (who are outside the AG's control), the system can meet AID's requirements for an audit trial.

Another alternative, and the simplest to implement, is earmarking USAID funds for specific budget items such as travel allowance and daily allowance (TA/DA) so that only USAID funds would be used for specific items. The regular ledger sheets would then be sufficient for reporting purposes, since expenditures would have to be reported by budget code. The accounting and auditing work will become easier with this earmarking practice, but operations at the field office levels will be impossible until various earmarked funds have arrived.

Without a system such as earmarked funding, separate accounts, or expanded ledger sheets, and without the necessary training, there is little reason to expect that the statements of expenditures will meet USAID's requirements.

6. Spending authority for carryover funds. Currently, all program funds that have not been spent by July 16 are frozen and cannot be spent until (1) the next fiscal year's budget is passed by the Rastriya Panchayat, and (2) the first quarterly request for disbursements has been accepted and funds released. Since field offices may receive their fourth quarter funds very late in the fourth quarter, they frequently have a sizable amount of available funds to carry over to the next quarter.

A few programs in Nepal, associated with "remote areas" or with village level public works, have continuing authorization to expend funds until the amount authorized is fully spent. Most programs do not. For a large number departments and field offices, the first quarter of the fiscal year is a time during which only salaries and wages are paid. At some field offices even these items are not funded or paid.

Within 2 weeks of the first quarter the new year, the Rastriya Panchayat passes the Advance Authorization Bill, which permits the Ministry of Finance to advance each agency 25 percent of its proposed budget before the budget is formally passed. This bill, however, is only marginally effective in keeping the government running in the first quarter. At the time of the Advance Authorization Bill, MOF is not aware of the sum of available funds and cannot release any funds it does not have.[1]

Rather than institute additional financial reporting, MOF should authorize every department to spend the program funds on hand for purposes listed in the budget in the amount of up to 25 percent of the budget amount. Amounts not spent at the end of the fiscal year would still be reported to MOF and then subtracted from quarterly disbursements for the first quarter. (Programs not included in the upcoming year's budget would continue to have their funds frozen; spending for items not in the budget is prohibited in any case.)

It has also been suggested that USAID consider making program deposits in the early weeks of the fiscal year so that when the Advance Authorization Bill is passed, MOF will be able to release available funds immediately -- in amounts of up to 25 percent of the budgeted amount for each program. If only a small amount of HMG funds is available, it could be released, but at the field office level it would probably be used only for salaries since more funds may not come for 3 to 5 months. If USAID or other donors made program

1. The advance Authorization Bill is described in His Royal Majesty's Government of Nepal Family Planning Maternal and Child Health Project: Financial Management, Curtis Swezy, Ph.D. of American Public Health Association, a USAID processed report dated December 1979.

funds available for release under the Advance Authorization Bill, some field offices might actually receive enough funds to operate during the first quarter.

HMG has already decided that innovative exceptions to the annual freeze on funds are required for the Panchayat -- based on the Small Rural Works program, which has been granted the authority to spend available funds until completion of the project.

7. <u>Experiments with the district treasury system</u>. The Comptroller General's office is also interested in reviving consideration of a district treasury system for Nepal. For over 200 years, Nepal was served by a system of <u>Mal Adas</u>, district treasuries that coped with the problems of terrain, climate, and distance better than a centralized treasury could in the years before modern transportation and communication. To some extent this district treasury system might work better today, shortening disbursement and reporting times, and exercising closer, more effective control in a decentralized framework. Floyd Gould, in a 1969 paper prepared for USAID, recommended that the agency support HMG's proposal to adopt a district treasury system, and, although the HMG proposal has been dormant for 11 years, the need to experiment with more efficient alternatives to the present system has increased. The district treasury system should not be introduced without some well-managed and evaluated trials, but the experimentation should be encouraged.

The Rapti Zone RAD program, however, needs to begin before the experimental design of a district treasury can be arranged for the Rapti Zone. The district treasury system faces some opposition from the line ministries in Kathmandu, and the rural poor in the Rapti Zone would not be well served by a decision to delay the RAD program so that it could be implemented as part of a district treasury experiment.

III. OVERVIEW

HMG Accounting

The disbursal, accounting, and reporting system currently used by HMG was developed with the assistance of USAID during 1960-62 and phased into use from 1960-68. The system took 8 years to implement and exists today virtually unchanged in concept. John A. Cooper, Public Administration Advisor, USAID/N, was so instrumental in the accounting process developed for the system that today's HMG manual on accounting is frequently referred to as the "Cooper" manual.

Under the "Cooper" system, each Line Ministry of the HMG government submits quarterly requests for money to the Ministry of Finance for review and approval. After approval, the MOF authorizes the Comptroller General to make out a check to the respective ministry. Each ministry then deposits its check and allots smaller checks for distribution to its various departments. The departments, in turn, distribute checks to their field offices, which usually cash them at local branches of the Rashra Bank.

The amounts distributed to the field offices are recorded as advances and are cleared only after the central accounting office of each department audits the field offices' documents and reports that detail the expenditure of the amounts advanced. Field offices are typically required to submit documentation of expenditures within 3 months after the end of the quarter for which money is advanced. Failure to complete the prescribed departmental audit of a certain quarter's expenditures establishes the quarter's advances as "uncleared." To the accountant, there is no record of how the advanced money has been spent nor even that the money has been spent. In such a situation, HMG rules state that MOF should withhold further money until the old quarter's advances are cleared. Given the 3-month reporting time allowed after each quarter, this practice makes the third quarter's releases contingent on a certified statement of expenditures for the first quarter. The fourth quarter releases are in turn contingent on a certified statement of second quarter expenditures, etc.

Quarterly Reviews

Every 90 days all programs throughout HMG must pass a review to receive funds for the next 90 days. MOF conducts the review, focusing on two documents: (1) a consolidated statement of expenditures for funds spent in the quarter prior to the one terminating must be submitted; and (2) a request for funds for the upcoming quarter is required. MOF has the authority to question the statement of expenditures, the quarterly request of funds, or both. The quarterly request for funds can be questioned, even though it has already been debated and included in the budget submitted to the Rastriya Panchayat by MOF.

Two aspects of the quarterly review process deserve further explanation. First, any questions that MOF asks, whether about past expenditures or about the current request, usually require an answer from the department and frequently from one or more field offices. The MOF request for more information and subsequent replies proceed hierarchically through channels, first to the line ministry, then to the department that forwards it to the field offices, who send their replies back to the department, etc. When a review hits a "snag," the period of information exchange can drag on from 3 to 8 weeks.

Secondly, a consolidated statement of expenditures pertaining to all field offices involved in a given program is required for each program listed in the budget. A nationwide program must consolidate submissions from all 75 districts. Slow and incorrect reporting from only a few districts causes a delay that affects all districts. USAID and HMG have wisely decided that most Rapti Zone Rural Development Programs are to be listed separately in the budget and distinguished by the phrase, "Rapti Zone," meaning that only the expenditures from the five Rapti Zone departments are required to produce a complete consolidated statement for the program.

HMG Budget

In determining the appropriateness of a quarterly request for funds, officials in the Budget Control and Sanction (Bokani) section of MOF compare the requests to the program as they are listed in the annual budget passed by the Rastriya Panchayat. The published budget is called "The Red Book."

Two Budgets

His Majesty's Government divides all program expenditures into two categories: Regular and Development Budget. The division is intended to ensure that foreign donor-funded programs are kept separate from the permanent financial responsibilities of HMG. In practice, however, donors have funded, and continue to fund, projects with no obvious completion dates and programs that are indistinguishable from functions that are normally considered ongoing responsibilities of HMG.

HMG has insisted on a high degree of control over donor-funded projects. Although India and China are allowed to undertake "turnkey" projects financed outside the HMG structure, the program funds of all other donors must be deposited in a single account in the Nepal Rastra Bank for disbursal through HMG's regular procedures and accounting practices.

Budget Cycle

Exhibit 2 is a comparison between the HMG and U.S. fiscal calendars. The HMG fiscal year begins in the second quarter of the Nepalese calendar year -- July 17 by the U.S. calendar. At that time, the Ministry of Finance submits the proposed annual budget, "The Red Book," to the Rastriya Panchayat, which then reviews, debates, and approves the budget, page by page, usually without revision in a process that takes from mid-July to mid-September. As soon as the page containing a specific program is passed, spending for that program is authorized.

Exhibit 2. Comparison of HMG and US Fiscal Year Calendars and Key Dates in the HMG Budget Cycle

US Calendar Year 1980											
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
US Fiscal Year 1980									US FY 1981		
2nd Quarter			3rd Quarter			4th Quarter			1st Quarter		

HMG CY 2036				HMG Calendar Year 2037								
-ush	(*) Magh	(**) Falgun	Chaitra	Baishakh	Jestha	Ashad (***)	Shravan	Bhadra (****)	Ashwin	Kartik	Marg	Po-
HMG Fiscal Year 2036/37							HMG Fiscal Year 2037/38					
2nd	3rd Quarter			4th Quarter			1st Quarter			2nd Quarter		

Steps in HMG Budget Cycle

(*) End of Magh (February 12) Departments submit budget estimates to Ministries
(**) Mid-Falgun (February 28) Ministries submit budget estimates to Ministry of Finance
(***) End of Ashad (July 16) Ministry of Finance submits budget to the Rastriya Panchayat
(****) End of Bhadia (September 16) Rastriya Panchayat finishes approval of budget.

Comparison of US and HMG Months for HMG CY 2036	
Baishakh	Apr 14 - May 14
Jestha	May 15 - Jun 14
Ashad	Jun 15 - Jul 16
Shravan	Jul 17 - Aug 16
Bhadra	Aug 17 - Sep 16
Ashwin	Sep 17 - Oct 17
Kartik	Oct 18 - Nov 16
Marg	Nov 17 - Dec 15
Poush	Dec 16 - Jan 14
Magh	Jan 15 - Feb 12
Falgun	Feb 13 - Mar 13
Chaitra	Mar 14 - Apr 13

Getting one's program listed in "The Red Book" is a process that starts in early February when the MOF submits a notice requesting submission of proposed budgets from each ministry. Usually, the departments in each line ministry are expected to submit their estimated budgets for the coming year to the Ministry by mid-February. The line ministries then submit consolidated budget estimates to the MOF 1 or 2 weeks later. Copies of development budget information are also sent to the National Planning Commission.

The serious budget work takes place between mid-February and mid-July before MOF submits the government-wide budget to the Rastriya Panchayat.

Budget Categories

Programs in the budget are listed as line items. The total expenditure budgeted for the year is shown with estimated quarterly expenditures. Also shown is the breakdown of total expenditures by budget code expenditure categories.

There are 12 major categories of expenditures and 17 subcategories frequently used in HMG program budgets. The budget code number and a brief description of each category are shown in Exhibit 3. A more lengthy explanation of the categories is included in Appendix A.

The description of the spending planned for the program that appears in "The Red Book" governs that program for the coming fiscal year. No expenditures can be made for any category other than those the department has shown as receiving funds. And if an item such as "rent" is not budgeted, a field office that needs to pay rent has difficulty getting authorization for the expenditure.

EXHIBIT 3. HMG BUDGET CODES AND EXPENDITURE CATEGORIES

HMG Budget Code	Expenditure Category
1.	Salary and Wages
2.	Special Allowance
3.	Travel Allowance and Allowance (TA/DA)
4.	Service Charges and Utilities
5.	Rent
6.	Repair and Maintenance
6.1	· Wages
6.2	· Tools and Parts
7.	Expendable Goods
7.1	· Office Equipment
7.2	· Books, Newspapers, Magazines
7.3	· Fuel
7.3.1	. Heat, Light, Power
7.3.2	. Transport
7.4	· Clothes and Food Grains
7.5	· Other Goods
8.	Grant-in-Aid, Contributions, and Rewards
9	Unforeseen (Contingency)
10.	Durable Goods
10.1	· Furniture
10.2	· Transport Devices
10.3	· Tools and Machinery
11.	Purchase of Land and Buildings
11.1	· Purchase of Land
11.2	· Purchase of Buildings
12.	Construction and Improvement
12.1	· Building Construction and Improvement
12.1.1	. Materials
12.1.2	. Wages
12.2	· Other Construction and Improvement
12.2.1	. Materials
12.2.2	. Wages

Carryovers

At the end of the year, any unspent funds are frozen until the next year's annual budget is passed. Field offices that expect not to complete any of last year's spending must be careful to include all spending for that program in the upcoming budget. If by chance a program is omitted from the upcoming budget, no expenditures can be made, even if carryover funds from the last year are available.

Repetitive Budgeting

Like many developing countries that must economize on scarce resources, HMG budget officials practice a type of "repetitive budgeting" during the year. In Nepal this practice follows almost naturally from a tradition of scrupulous accountability for handling money that traditionally has discouraged initiative and individual responsibility in favor of a long hierarchical approval system.

Despite approval and inclusion in the annual budget, and despite passage by the Rastriya Panchayat, a program is still subject to review and questions by MOF at each quarterly review that preceeds the next quarter's disbursement. Enough questions, of course, effectively amount to a postponement of the program, for a few months or even a year.

The carryover provision freezing unspent funds and the ability to postpone expenditures through repetitive review permit MOF enough control over expenditures and obligations to assure that the government treasury is never caught empty.

The General Case

Exhibit 4 is a schematic diagram of the steps required for a typical HMG field office to receive money for a USAID-funded program. The steps outline the request and disbursement cycle that most government agencies complete quarterly. Typically, one quarter's disbursement is equal to one-fourth the program funds indicated in the annual budget. The Budget, voted into law by the Rastriya Panchayat during the July-September period, is the main document ("The Red Book") used by the MOF in its review of disbursement requests.

Steps in Acquiring USAID Funds

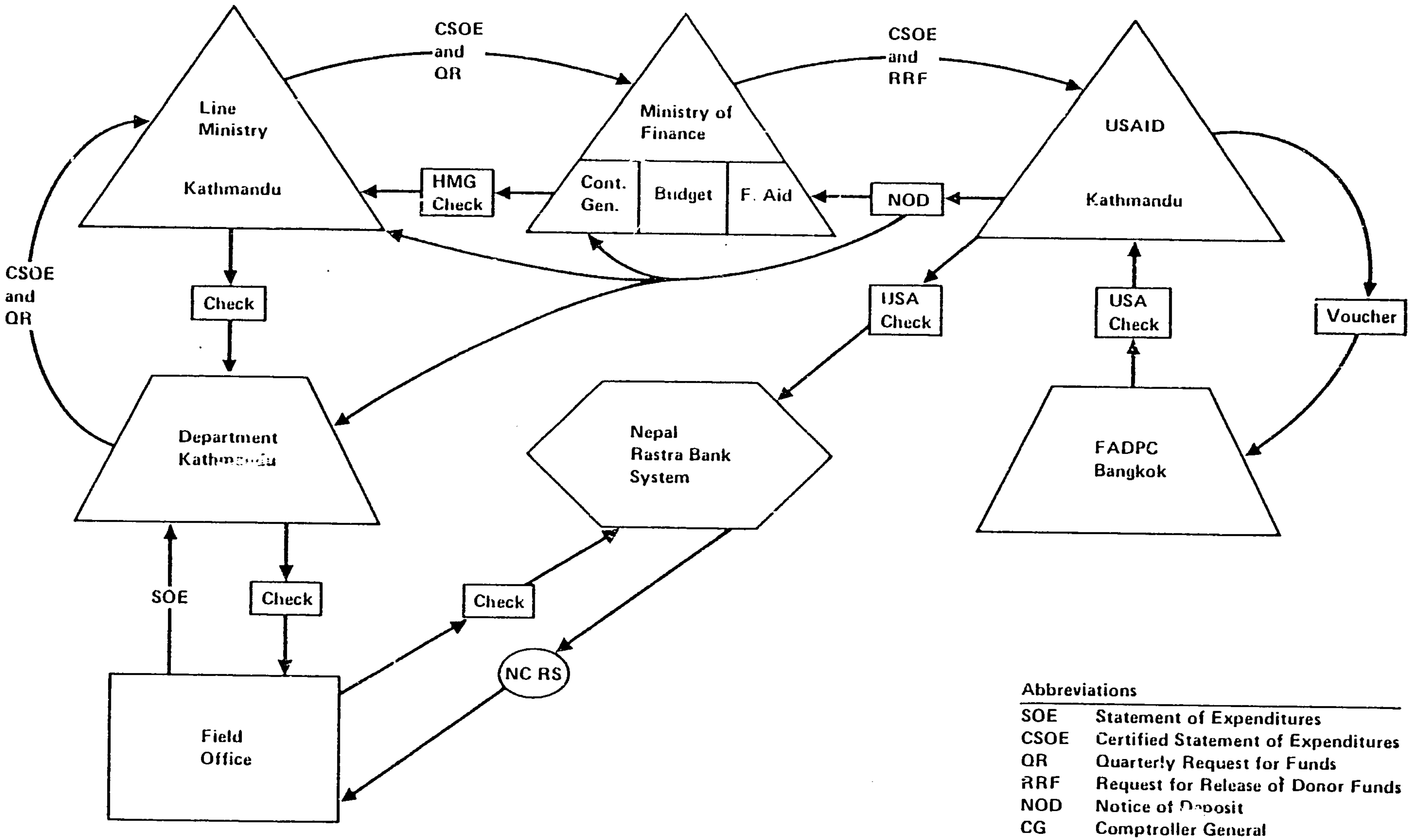
The Budget

At the beginning of the Nepalese fiscal year on July 17th (the first day of Shravan by the Nepalese calendar), the MOF releases a draft budget that is sent to Nepal's National Assembly, the Rastriya Panchayat. Discussion proceeds so slowly that the last items might not become law for up to 6 weeks. During the period, field departments operate under continuing resolutions that provide salaries but no program funds.

Departmental Requests

When the budget is passed, the departments in each ministry submit their requests for first quarter funds. With these requests, the departments include a certified statement of expenditures through the third quarter of the

Exhibit 4. The General Case Request and Disbursement Cycle



previous fiscal year. All departmental requests and statements of expenditures are consolidated by the line ministries and sent to the Budget Sanction and Control Division (Bokani) of the Ministry of Finance. If a program involves foreign aid, Bonkani will call upon the Foreign Aid Division of Ministry of Finance, which in turn prepares breakdowns of all HMG Development Budget programs that use foreign donor funds. The Foreign Aid Division then informs Bonkani that it will request and secure deposit of donor funds and that in the meantime any HMG funds for the program can be released.

Request to USAID

The Foreign Aid Division (in some cases the section officers in Budget Sanction and Control) then writes a letter, usually to the USAID director's office, requesting release of donor funds for the program.

The letter is submitted to the Financial Management (FM) section in USAID that checks the request against the project agreement and project implementation letters (PIL). If any conditions are placed on the release of funds (e.g., designs, plans, specification of location), a copy of these papers and letters from the project officer certifying that the PIL conditions have been satisfied must be in the FM file.

Once FM has (1) a PIL, (2) an official HMG request for funds, and (3) all PIL release conditions satisfied, a check voucher is prepared and mailed to the Federal Automated Data Processing Center (FADPC) in Bangkok. (USAID/N does not write program checks on its own bank account in Kathmandu). After FADPC/Bangkok writes a check following the "payee" and "amount" instructions given in USAID/N's voucher, the check is mailed back to USAID/N. FM then deposits it in Nepal's Central Bank, the Rastra Bank, in an account established for all foreign aid money from all donors. FM also prepares a deposit letter to accompany the check. Several copies of the deposit letter are mailed to the:

- Ministry of Finance;
- Concerned Line Ministry;
- Concerned Department;
- Coordinator's Office (Office of Home & Panchayat for USAID RAD project);
- Comptroller General.

The letter informs the major links in the disbursement chain that AID has deposited the money to be disbursed.

<u>Authorization to Comptroller General</u>

Since the departmental request for funds is already on file, the actual disbursal can proceed when the Ministry of Finance, Budget Sanction and Control Division (Bokani) Section Officer authorizes the Comptroller General to write a check to the concerned line ministry department specifying the amount and the program. The Comptroller General's Office is usually quite prompt in sending these checks, with any budget instructions, to the Ministry.

<u>Ministry to Department</u>

The line ministry deposits the check and writes a check to its operating department in Kathmandu. The Department then sends a series of smaller checks to its field offices, mailing them out with budget instructions. The field offices deposit their checks, usually in a district branch of the Nepal Rastra Bank, and write their payroll, TA/DA, and procurement from their one operating bank account. If no branch of the Nepal Rastra Bank is located in the vicinity of the field office, other banking facilities may be used, such as branch of the Agricultural Development Bank (ADB) or a commercial bank, all of which will honor checks drawn on the Rastra Bank.

The District Level Officer usually has an accountant on his staff who deposits the checks and records the money received as a cash advance, a DEBIT in his single ledger, CASH. Against this advance, he charges expenditures as CREDITS. All expenditures must be documented. A copy of the ledger postings and receipts for expenditures is given monthly to the Department, along with a copy of the bank statement. Any part of the advance not spent should therefore equal the District Office's bank balance.

At the departmental level, monthly expenditures are consolidated in quarterly statements, which must be completed and certified at the departmental level within the 3 months immediately following the end of the quarter. The completed, certified quarterly statement of expenditures must accompany the upcoming request for the next quarter's budget funds.

In essence, the current quarter's funds cannot be released until the funds from the two previous quarters are fully accounted for. To obtain release of the third quarter's funds, the first quarter's funds must be accounted for; to release the fourth quarter's funds, the second quarter's funds must be accounted for; etc. To obtain the first quarter's funds in any given year, the third quarter's funds from the previous fiscal year must be accounted for. In some instances, MOF has asked that the quarterly statements of expenditures be accompanied by monthly statements of expenditures for the first 2 months of the quarter immediately preceeding the current quarter. But in general, a department has 3 full months after the end of a quarter to receive, certify, and consolidate expenditure statements from its field offices for submission with the next quarter's request for release of funds.

Comments from Field Offices

District Field Officers of the various line ministries operating in the Rapti Zone have explained that the programmed expenditure cycle is never actually followed. The normal course of events is for the District Officers to receive their first quarter (July 15-September 15) budget allotment in the second quarter; their second allotment quarter in the third quarter; and their third quarter allotment early in the fourth quarter. The fourth quarter's funds usually arrive with 15 to 30 days remaining in the fiscal year.

As mentioned, any fourth quarter money not spent by July 16, the end of the Fiscal Year, is "frozen." It cannot be processed until budget authority for the new fiscal year is received (until the budget for the new fiscal year is passed by the Rastriya Panchayat, a process that can take from mid-July to September).

Consequently, almost no program work is managed by the field offices during the first quarter. HMG rules state that salaries of HMG employees for budgeted programs must be paid, permitting field offices to draw salary from any unexpended funds they have on hand. No program expenditures, however, can be made until the new budget is passed and the funds have been requested through the quarterly disbursement cycle.

Not every field office has enough remaining funds to pay salaries from July 17 until October, or whenever the next allotment of funds arrives. These field offices resort to a variety of ad hoc financial devices for surviving until checks arrive. Government officials borrow from friends, live with friends, borrow from the Chief District Office (CDO), or, as a last resort, borrow from banks. The CDO is therefore under considerable pressure to provide interest-free loans to any salaried government employees awaiting quarterly funds. The CDO, to acquire necessary funds, has some discretionary authority to "re-budget" any operating surplus his own office might have, but this practice is resorted to only in emergencies.

Some Preliminary Conclusions

In the normal course of events, the field offices of the HMG line ministries only have money to spend for about 9 months out of the year. For the first quarter of the fiscal year, from mid-July to mid-September, field offices are either idle, drawing salaries only, or busily engaged in resolving their personal cash problems. (Some officials point out that since this period coincides with the rainy season, the field offices are unable to do much anyway.)

Ordinary lags in HMG's quarterly disbursement schedule reduce the effective operating year to 9 months for all practical purposes. The 2 to 4-week average turnaround time required for USAID/N vouchers to be processed and returned as checks from FADPC/Bangkok reduces the operating year to 8 months. Additional delays, some of which are discussed in the next section, occasionally leave field offices with 6 months in which to accomplish a year's work.

IV. THREE CASE STUDIES

Introduction

As of December 1, 1979, USAID/Nepal has deposited three checks for three separate programs to be implemented by district offices in the Rapti Zone. As an exploration of how disbursement flows actually operate, these three cases were traced from their origin as requests through the preparation of vouchers at USAID to the location of funds during the first 2 weeks of December 1979.

Case One: Cottage and Village Industries

Project Description

The Department of Cottage and Village Industries (DCVI) operates out of the Ministry of Commerce and Industry (MCI). DCVI provides the technical staff for handicraft training programs; it is closely associated with the Cottage Industries and Handicraft Emporium, Ltd., which usually organizes the training program arrangements for students, and makes arrangements for training facilities, raw materials, and equipment. The Emporium also acts as a purchasing agent for handicraft products that are distributed and sold through its chain of branches. Emporium employees are government salaried and their expenses for travel, rent, and transportation are covered by government appropriations. Other business expenses, such as purchase of products for resale, are to be paid from the Emporium's working capital that is replenished by proceeds from sales.

On April 30, 1979, USAID/N prepared a voucher to send to Bangkok for the equivalent of 791,000 NC Rs to start a DCVI program and open an Emporium branch in the Rapti Zone. On May 11, 1979, USAID/Nepal deposited the check received from Bangkok. On September 12, 1979, Emporium Headquarters in Kathmandu received a check to inaugurate a Rapti Zone program; the check was in the amount of 466,666 NC Rs.

Exhibit 5 is a diagram of how requests and disbursements should flow in the case of AID funding for the Emporium. Actual dates are indicated where they are known. What happened to cause a 4-month delay following the time of deposit? Part of the answer is that the old fiscal year ended July 16; so no money could be moved or spent until the new FY budget for the program was passed, sometime in late July. A partial chronology of events is given below.

<u>Partial Chronology of Request and Disbursement Procedures for the Rapti Zone Cottage and Village Industry Program</u>

1.	Ministry of Commerce and Industry (MCI) includes a "Rapti Zone Program" in its FY 77-78 budget. A total of NC Rs 1.4 lakhs is shown under budget code 9, "Contingency."	July 16, 1978
2.	Rapti Zone Grant Agreement signed by HMG and USAID.	August 31, 1978
3.	DCVI sends request for Rapti Zone funds to MCI.	October 23, 1978

4.	DCVI sends reminder to Ministry of Foreign Aid Division.	October 30, 1978
5.	Emporium Manager sends letter to DCVI requesting funds.	November 20, 1978
6.	Emporium sends second letter to DCVI.	December 4, 1978
7.	Ministry of Home Panchayat, Coordinator's Office sends letter to DCVI authorizing them to request Rapti Zone money fom MOF.	December 13, 1978
8.	DCVI writes MOF again.	December 31, 1978
9.	Section Officer, MOF, requests USAID/N to release NC Rs 1.4 lakhs for DCVI program.	January 1, 1979
10.	Accountant General, MOF, writes MCI asking why the 1.4 lakhs in the budget is shown only as budget code 9, "Contingencies," and requesting that the total amount be allocated among the usual budget codes showing salary, TA/DA, construction, etc.	January 7, 1979
11.	MCI writes to DCVI telling them to contact MOF Accountant General about rebudgeting, by category.	January 26, 1979
12.	Lapse during which DCVI, Emporium, and USAID work up detailed estimates of program expenditures.	
13.	A project implementation letter #7 is signed by USAID Director and Ministry of Home Panchayat detailing the Cottage and Village Industry Program and Expenditures. First release is to be NC Rs 791,000.	April 26, 1979
14.	AID/Nepal prepares a voucher for 791,000 NC Rs to be sent to FADPC/Bangkok.	April 30, 1979

15.	AID/Nepal deposits a check for 791,000 NC Rs for the DCVI project in the Rastra Bank. Notices are sent to MOF, DCVI, MOHP.	May 11, 1979
16.	DCVI sends third letter to MOF requesting funds.	May 15, 1979
17.	An MOF budget section officer asks for more detail about the "loan and investment" portion of DCVI's newly detailed budget. There is no HMG budget code for "loan and investment."	May 23, 1979
18.	The Accountant General, MOF, asks "Why is such a large amount needed to start the program?"	June 15, 1979
19.	Fiscal year ends, new FY year budget lists Rapti Rural Development Project (Cottage Industries). Total funding 1.65 lakhs is shown in budget code 9, "Contingency."	July 16, 1979
20.	MCI requests new fiscal year funds.	August 5, 1979
21.	MOF approves funding and authorizes Comptroller General to issue a check.	August 5, 1979
22.	Comptroller General dates check for MCI.	August 6, 1979
23.	MCI forwards money to DCVI.	August 17, 1979
24.	The Cottage and Village Industry Department Committee receives a check from DCVI, for NC Rs 466,666.	September 3, 1979
25.	Emporium received a check for NC Rs 321,500.	September 12, 1979

Points Worth Noting

(1) Although it appears hopelessly premature, DCVI was actually clever to "budget ahead" to include NC Rs 1.4 lakhs

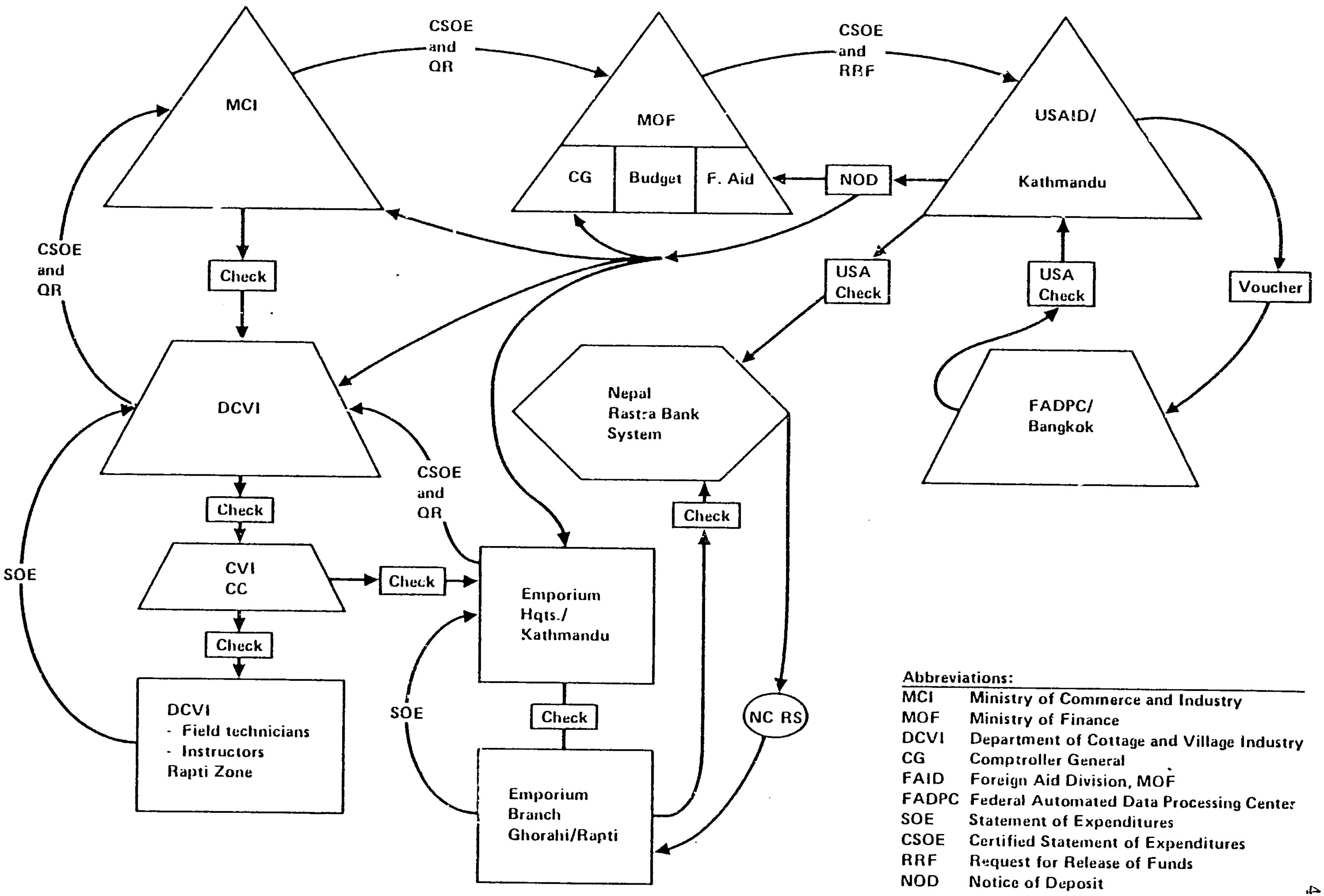
in its upcoming budget even before the grant agreement had been signed. Without a line item in the budget, no agency is authorized to spend HMG or donor funds any time during that budget year even if the donor is willing to make the funds available.

(2) DCVI should not, however, have shown its entire program in the budget as a "Contingency" item. The annual budget contains 25 categories under which funds may be requested. The categories, established with USAID technical assistance, are simple and rational. Straightfoward items such as TA/DA are separated from more complicated cost items such as construction. (A list of budget categories is shown as Exhibit 5.) Inability to even estimate the salary, TA/DA, and other program components virtually ensures a long questioning process before MOF approves the program.

(3) Several people and departments were not sure of their roles in this process. Ministry of Home Panchayat writes DCVI "authorizing" it to request funds; nothing happens until a Program Implementation Letter (PIL) with USAID is signed, but few parties to the early correspondence realize this is an essential step. Another similar problem is that MOF requests the USAID deposit before it has finished examining the program budget. Finally, all budgeting action stops when the fiscal year runs out.

(4) Processing moved exceptionally well in the new fiscal year. With the AID funds already deposited, it took about 1 month for the HMG check to reach the departmental level. Exactly why the DCVI check received was less than the initial USAID deposit is not known. DCVI had requested NC Rs 7.9 lakhs, which corresponds to funding for two quarters. Somewhere (probably MOF), funding was cut to roughly one quarter.

Exhibit 5. The Request and Disbursement Cycle for a Cottage and Village Industry Program



Abbreviations:

MCI	Ministry of Commerce and Industry
MOF	Ministry of Finance
DCVI	Department of Cottage and Village Industry
CG	Comptroller General
FAID	Foreign Aid Division, MOF
FADPC	Federal Automated Data Processing Center
SOE	Statement of Expenditures
CSOE	Certified Statement of Expenditures
RRF	Request for Release of Funds
NOD	Notice of Deposit

Case Two: Forestry Nurseries

Project Description

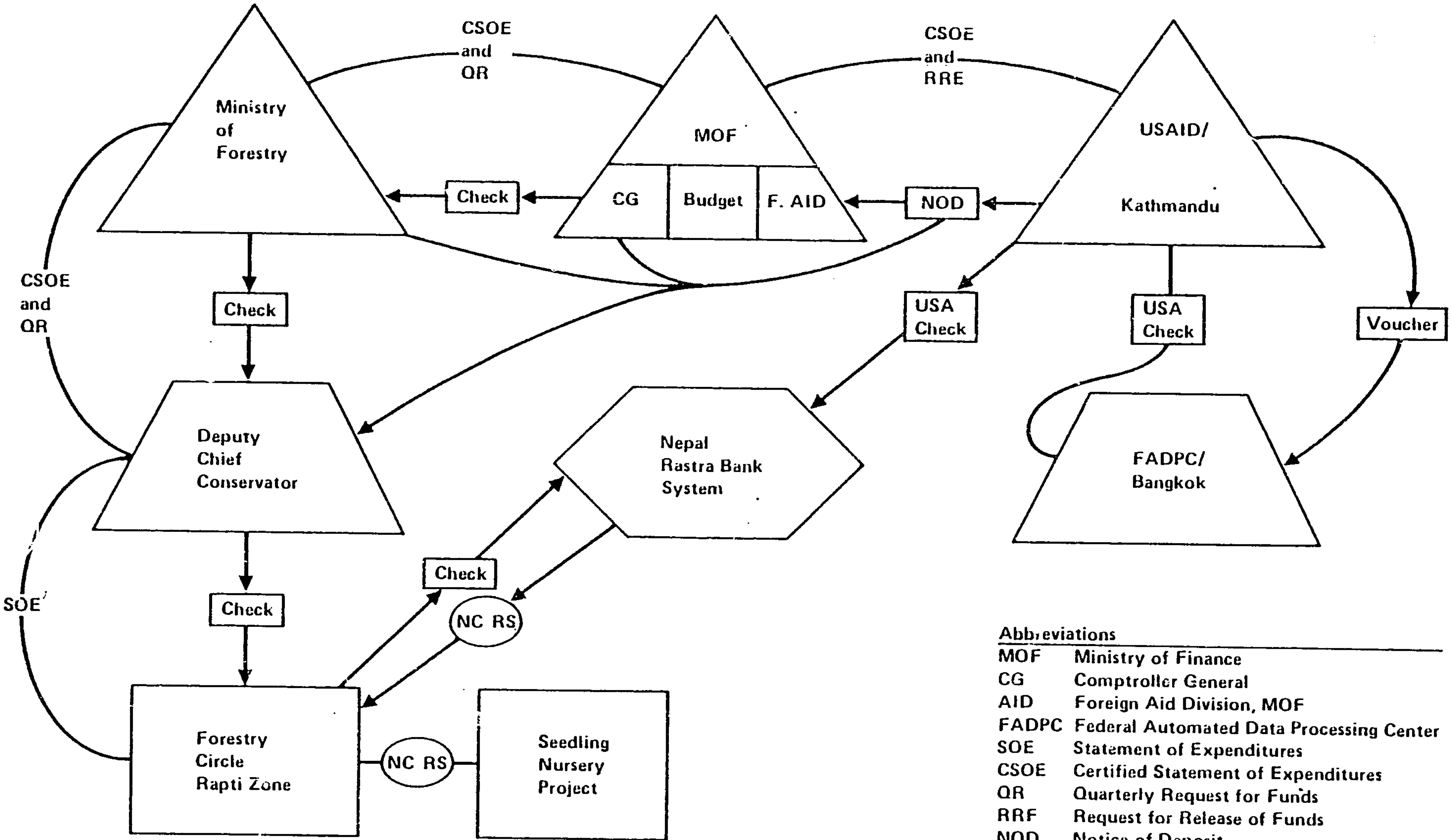
USAID/N and the Department of Forests were anxious to begin a seedling nursery program during HMG's current fiscal year, which corresponds roughly to U.S. FY 1979-80. A USAID/N deposit made on July 31, 1979 reached the implementing field office in mid-December of that same year. Because of the late start, the nursery seedlings may be too small to be successfully transplanted before the next rainy season. For at least a few hillside hectares, a full year of forestation opportunity may have been lost.

A diagram of how requests and disbursements should flow for a USAID funded program in the Department of Forests is shown in Exhibit 6. Some actual dates are shown, and a more complete history is given in the following chronology.

Partial Chronology of Funding Requests and Disbursement Steps for the Rapti Zone Forestry Nursery Program

1.	Budget section officer, MOF, asks USAID Director to deposit NC Rs 199,800 for Rapti Forest Programs. A draft budget accompanies the letter.	March 20, 1979
2.	PIL #12 is signed to support Plant Nurseries in Rapti Zone for $42,000, about NC Rs 500,000. First release is to be NC Rs 249,900, approximately 2 quarters of funding.	June 18, 1979
3.	USAID/N FM section prepares a voucher for NC Rs 249,900 to send to USAID/Bangkok.	July 10, 1979
4.	The new FY HMG budget is released. It includes a line item under Ministry of Forests' Budget for	July 17, 1979

Exhibit 6. The Request and Disbursement Cycle for a Forestry Nursery Program



Abbreviations

MOF	Ministry of Finance
CG	Comptroller General
AID	Foreign Aid Division, MOF
FADPC	Federal Automated Data Processing Center
SOE	Statement of Expenditures
CSOE	Certified Statement of Expenditures
QR	Quarterly Request for Funds
RRF	Request for Release of Funds
NOD	Notice of Deposit

a Rapti IRDP Forestation Program. The total amount budgeted is NC Rs 340,000, shown under a single budget code, 12.2, which covers "Other Construction and Reforms."

5.	Department of Forests sends its first quarter request to Ministry of Forests for NC Rs $170,000 for Rapti Zone, 2 quarters or one half the annual amount shown in the annual budget.	July 18, 1979
6.	USAID/N receives check from Bangkok Bangkok and deposits it. Notices are sent to MOF, Ministry of Forests, Dept. of Forests, MOHP, and the Comptroller General.	July 31, 1979
7.	Ministry of Forests reduces Department of Forests' first quarter request to NC Rs 85,000, one quarter's funds. No warning, hearing, or explanation given to the Department. Ministry of Forests forwards request to Ministry of Finance.	August 13, 1979
8.	Ministry of Finance rejects Rapti Zone program in a letter to Ministry of Forests saying that donor funds have not been deposited.	August 18, 1979
9.	Department of Forests mentions problem to USAID in conversation.	September 1979
10.	Department of Forests writes Ministry of Finance and MOHP coordinator.	October 2, 1979
11.	MOHP writes MOF saying USAID funds have been deposited and that they do have copy of the USAID deposit notice.	October 1979
12.	Department of Forests writes MOF again.	November 19, 1979
13.	USAID telephones Foreign Aid Division of MOF to insist the deposit has been made.	December 7, 1979
14.	MOF reports that it has instructed the Comptroller General to issue a check to Ministry of Forests for NC Rs 249,900.	December 10, 1979

15. Department of Forests receives a check for NC Rs. — January, 1980

Points Worth Noting

First, although no one involved agrees on the amount, a line item for program appears in the HMG budget. The figure of NC Rs 340,000 is less than AID was willing to pledge, but it has the effect of a ceiling. (By HMG rules, the Department cannot spend more than the NC Rs 340,000 budgeted even though AID funds up to NC Rs 500,000 are available.)

(2) Although a line item appears in the budget, the amount requested is so poorly explained (coded) that even Ministry of Forests' own accountant decided to slash it in half before forwarding the request to Finance.

(3) Ministry of Finance explains that they did not receive a notice of deposit. The letter was not just late; they say it never arrived. MOF did check its bank statements after USAID telephoned, and the bank statements confirmed that the deposit had indeed been made. When MOF did not respond to a letter from the Finance Department, another was spent. Three months went by before MOF was given proof of deposit.

(4) USAID waited to see if regular HMG procedures could straighten out the problems. In USAID, a meeting was called to determine who should follow up this kind of problem.

Case Three: Drinking Water and Small Rural Works

In Nepal, small village level projects are handled through the Ministry of Home Panchayat. These projects are identified at the village and district level and are voted on in the district assemblies. A list of projects constituting a request for funds is sent from each district to the Ministry of Home Panchayat.

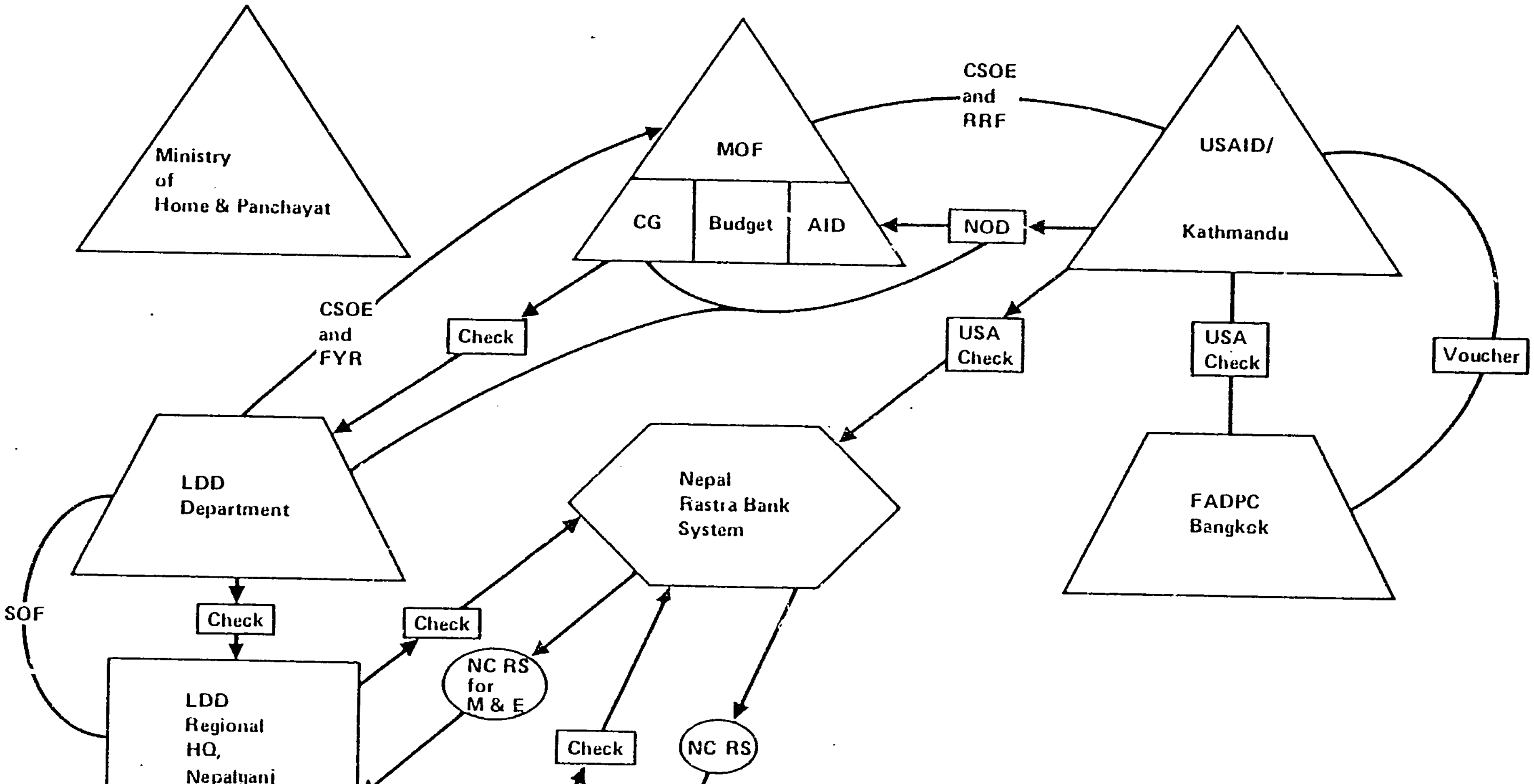
USAID was willing fund village drinking water projects and some other local projects such as small irrigation schemes, suspension bridges, and trail improvements. The projects existed, however, only as political requests from local village representatives. The estimated cost and the technical feasibility was open to question.

USAID/N structured the PIL so that the first release would be used to produce technical plans and cost estimates for each project, and further releases were made contingent upon USAID approval of each plan. A deposit of NC Rs 500,000 was made on November 15, 1979. As of December 16, 1979, no funds had reached the Local District Development (LDD) department in the Ministry of Home Panchayat.

Two diagrams of how requests and disbursals are made for a USAID program directed at the village level are shown as Exhibits 7 and 8. Exhibit 7 traces funding for a village drinking water project that is implemented in HMG through the Local District Development (LDD) Department of the Ministry of Home Panchayat. Exhibit 8 shows the flows for "Small Rural Works," which includes projects such as trial improvements, suspension bridges, and small irrigation schemes. These projects rely on the organization of the village head man (Pradhan Pancha) to place village labor under the direction of the local district engineer from the Ministry of Public Works.

The political nature of these projects provides some interesting exceptions to the usual flow of HMG funds. Requests and disbursements are made directly between LDD and

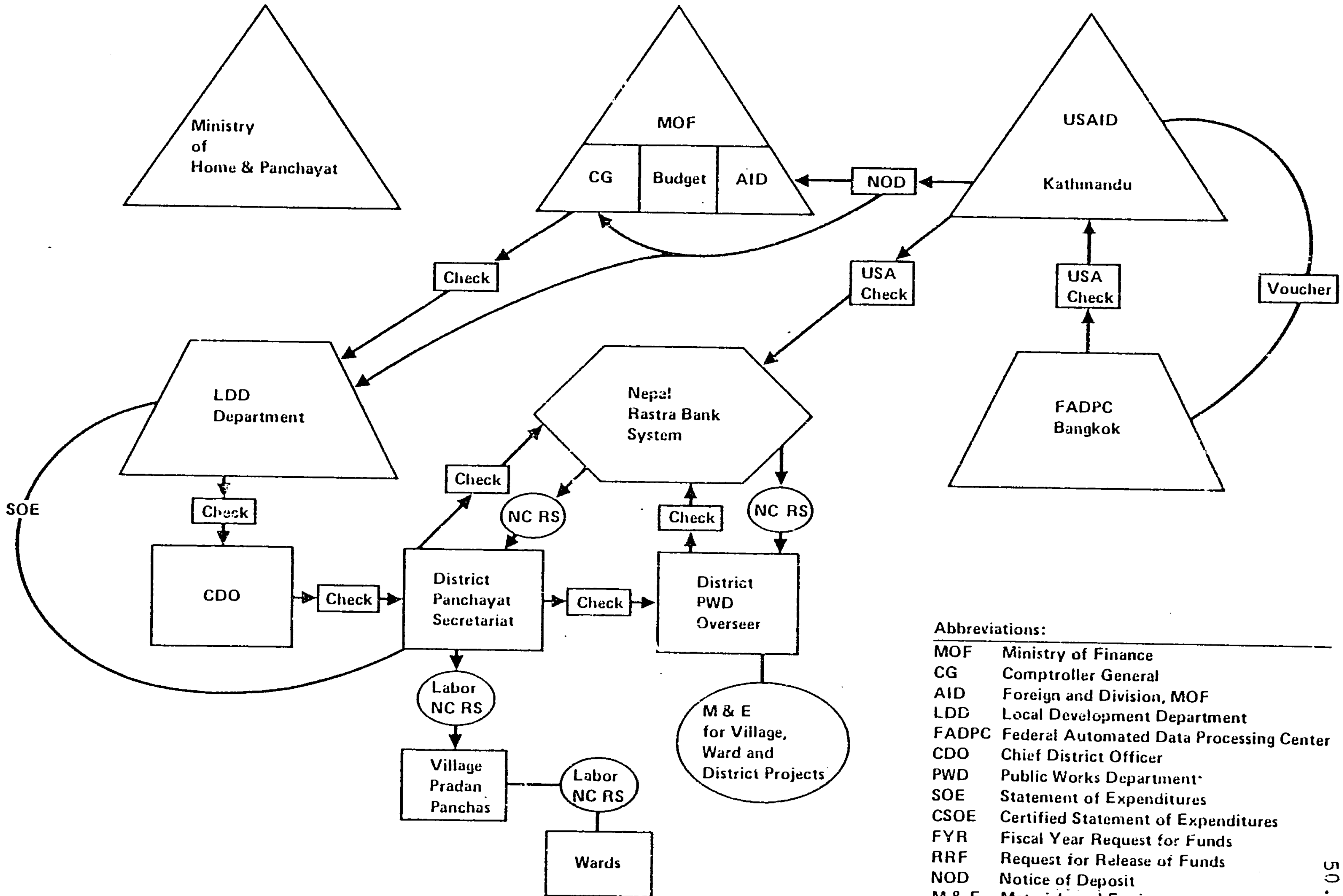
Exhibit 7. The Request and Disbursement Cycle for a Village Drinking Water Project



Abbreviations:

MOF	Ministry of Finance
CG	Comptroller General
AID	Foreign Aid Division, MOF
FADPC	Federal Automated Data Processing Center
LDD	Local Development Department
CDO	Chief District Officer
SOE	Statement of Expenditures
CSOE	Certified Statement of Expenditures
FYR	Fiscal Year Request for Funds
RRF	Request for Release of Funds
M & E	Materials and Equipment

Exhibit 8. The Request and Disbursement Cycle for a Small Rival Works Projects



Abbreviations:

MOF	Ministry of Finance
CG	Comptroller General
AID	Foreign and Division, MOF
LDD	Local Development Department
FADPC	Federal Automated Data Processing Center
CDO	Chief District Officer
PWD	Public Works Department
SOE	Statement of Expenditures
CSOE	Certified Statement of Expenditures
FYR	Fiscal Year Request for Funds
RRF	Request for Release of Funds
NOD	Notice of Deposit
M & E	Materials and Equipment

the Ministry of Finance; the Ministry of Home Panchayat is merely sent a copy. In addition, a full year's release is allowed for drinking water and local development project funds. (Department operating funds such as salaries are released quarterly.)

A partial chronology of events involved in the USAID funding of village drinking water schemes and small rural works is outlined below.

Partial Chronology of Request and Disbursement Steps for the Rapti Zone Small Rural Works and Village Drinking Water Program

1.	Ministry of Home Panchayat outlines a program of drinking water and small rural works for Rapti Zone in a letter to USAID/RAD.	April 25, 1979
2.	The new HMG FY 79-80 budget is released; NC Rs 1,000,000 from USAID is included as part of the national drinking water line item. Rapti Zone IRDP (Local Development) appears as a separate line item for NC Rs 1,650,000. The full amount is shown under budget code 9, "Contingency."	July 17, 1979
3.	PIL #14 is signed, spelling out a 5 district program of NC Rs 1,000,000 for Drinking Water and NC Rs 1,650,000 for Small Rural Works. The first release is fixed at NC Rs 500,000 to be used to produce technical plans and estimates for further releases.	July 20, 1979
4.	USAID/N FM prepares a voucher for NC Rs 500,000.	July 30, 1979
5.	USAID receives check from Bangkok. The check is not deposited since no formal request has been received from HMG as yet.	August 7, 1979

6.	LDD writes MOF requesting its full year's funds.	August 10, 1979
7.	LDD telephones MOF, which in turn asks for more details on how much money will be spent.	September 1979
8.	LDD sends second request to MOF detailing program.	October 1, 1979
9.	MOHP sends letter requesting funds budgeted for its LDD department.	
10.	MOF requests USAID to deposit NC Rs 2,650,000 as mentioned in PIL #14.	
11.	USAID deposits NC Rs 500,000. Notices are sent to MOF, IDD, MCHP, Comptroller General.	November 15, 1979
12.	LDD requests funds from MOF by telephone. MOF replies that no deposit has been made by USAID. When told LDD has a notice, MOF says its copy must be lost.	Late November Early December
13.	LDD sends photocopy of its notice of deposit to MOF requesting immediate release of funds.	December 10, 1979
14.	MOF Finance directs Comptroller General to issue a check to LDD.	December 1979
15.	LDD receives NC Rs.	January 1980

<u>Points Worth Noting</u>

(1) The poorly defined budget item proved to be a snag.

(2) MOF did <u>not</u> request funds from USAID before satisfying itself with the LDC program.

(3) Sometimes MOF issues blanket requests for the full amount of USAID funds mentioned in the PIL. This may seem odd, but does serve some purpose since an official HMG request must be in FM's file before a release can be made. A single official request for program funds can cover all releases, but no real time is saved since all future releases are contingent on USAID's receipt of a certified statement of previous expenditures from MOF.

(4) USAID/FM can prepare a voucher in advance of an expected request for funds. This permits an impressively quick deposit when HMG complies with PIL release requirements. FADFC/Bangkok begins to ask questions, however, when the checks issued are not cashed.

(5) LDD, by communicating directly with MOF, moves quickly through the same problems that cost the Department of Forests a 4-month delay.

Some General Conclusions

In each of the program experiences, some processes worked properly; but in no instances did the entire "system" work. It can be argued that these three experiences are atypical since they represent the first-time introduction of new program disbursements. But it is also true that future disbursements will require a statement of expenditures that increases the difficulty of these first-time expenditures.

In the near future, all Rapti Zone disbursements will be contingent on a certified statement of expenditures from the field office level. From the point of view of organizations and people, the time it takes for a single disbursement to reach a district office will be a function of six different organizations or steps leading up to the USAID deposit, and five organizations or steps including and following the deposit. This sequence is shown as follows.

An Eleven Step Sequence for Request and Disbursal of Money to a District Office in a USAID Funded Program

1. The District Office completes a statement of expenditure and sends it to its Department.

2. The Department does an internal audit and sends the certified statement of expenditures (CSOE) along with a quarterly request for funds to the line ministry.

3. The line ministry reviews CSOE and the request and forwards to the Ministry of Finance. (Cuts are possible as happened in Case Study Two.)

4. Ministry of Finance, Budget Sanction and Control Section (BSC) notifies the Foreign AID division and together they review the CSOE and the request, and then forward the CSOE plus a request for deposit of USAID funds to USAID/N.

5. USAID/N reviews the CSOE, checks on PIL conditions for next release, and then prepares a voucher for USAID/Bangkok.

6. USAID/Bangkok processes the voucher and sends a check back to USAID/N.

7. USAID/N deposits the check and sends notices of deposit to all concerned.

8. Ministry of Finance authorizes its Comptroller General to issue an HMG check for the program to the line ministry.

9. The line ministry receives and deposits check and re-issues smaller checks to its District Offices.

10. The Department receives and deposits its check and re-issues smaller checks to its District Offices.

11. District Office receives the check, deposits, and begins program expenditures.

Although the workloads and the efficiency at each step and within each organization vary widely, the system as a whole is clearly too cumbersome.

If we assume that at each step, each organization is 90 percent effective in doing its job, we assume that nothing is technically wrong with the request or disbursement check. The odds that any single process will proceed without delay from the beginning to end of the eleventh step sequence are 0.90 to the eleventh power, which works out to about 30 percent of the time. At least 70 percent of the time, there will be at least one clerical or administrative error or delay in the process. The HMG/USAID system cannot be expected to handle requests and disbursements smoothly as a matter of course. The expectation should be that there will be snags, problems, and potential delays in the majority of cases.

National budgeting is less than 20 years old in Nepal. The government that ended 104 years of Rana rule in 1951 discovered that no Rana administration had ever produced a budget. The Ranas had instead run the district treasuries as family branch banks, and the district governments as tax farms (a practice common in France until the revolution of 1789). Administrative and financial efficiency was simply to acquire more money than was spent. As long as more revenues reached the center each year and expenditures were held in check, the center grew richer. The Ranas were content as long their wealth grew in absolute terms. Apparently they were never really interested in accurately measuring or projecting total national revenues and expenditures, so they never designed a system to do so.

Every civil servant was strictly accountable for any money collected or spent during his life and his childrens' lives. An audit clearing a civil servant might not take place during his own lifetime, but his heirs were obliged to make up any discrepancy that surfaced later on. As described in Planning for People by Ludwig Stiller and Ram Prakash Yadav:

> Given the circumstances, it is not surprising that the Rana administration never produced a budget. Even had they wanted to produce one, it would have been an impossible task. It is even less surprising that the post-1951 administration would require over eighteen months before the Finance Ministry would hazard any guess about national revenues and expenditures and that for years to come the budget would be announced at the end of the fiscal year rather than at the beginning. There was simply no way to gather the sorts of information necessary to produce a budget .... The system was designed to reduce revenues, not budgets.[1]

The first serious attempt to change this situation was sponsored by USAID. John Cooper, working in the HMG Accountant General's office, helped draw up the new HMG Manual of Accounting, which was approved on March 12, 1962. Cooper had worked for over 2 years on the manual and it would take 5 more years to introduce and officially adopt the new system. Whereas in some countries the accounting and budget systems span several generations, the Nepali system is not yet as old as a teenager, and anyone interested in fundamental changes must be prepared to see all AID programs handicapped by another decade-long transition period. Anyone wishing to avoid such a predicament must look to whatever marginal changes can be arranged within the present system.

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1. Ludwig Stiller and Ram Prakash Yadav, Planning for People, pp. 20-21.

Whatever funding arrangements are established, it is worth producing a model diagram such as those in Exhibits 1 through 5. AID's own turnover is fast enough that more time can be justifiably invested in materials that reduce the learning time required for new personnel. And even for experienced personnel, such charts will provide a visual guide that eliminates attempts to remember each step in the 20 odd programs that RAD will be funding. Based on the diagrams, funding progress charts such as the one already in the use in the RAD office can be developed for all programs.

58

APPENDIX A: CLASSIFICATION AND EXPLANATION OF EXPENDITURE ITEMS ACCORDING TO HMG BUDGET CODES

Authorized by the Ministry of Finance, His Majesty's Government, Kingdom of Nepal.

HMG Budget Code

1. Salary:

Includes the following expenditures:

(a) Salary for services rendered by all personnel employed according to the prescribed rules and regulations of His Majesty's Government.

(b) Wages and labor charges for authorized and approved services rendered.

2. Special Allowances:

Includes all authorized and approved allowances as may be prescribed under special circumstances and within the rules and regulations of His Majesty's Government; such as inaccessible location allowance, departmental head allowance, officiating allowance, clothing allowance, etc.

3. Travel Allowance and Daily Allowance:

Includes the following expenditures:

(a) Reimbursement to employees at approved rates, for the cost of transportation and for travel on foot to accomplish official duty. This would include fares and all types of expenditures on vehicle, bus, railway, airplane, cart, rikshaw, horse, etc. that are related with travel. This item does not include the cost of petrol consumed in the use of Government vehicles or the salary of drivers on Government payroll. These costs are chargeable to items No. 7.3, "Fuel," and 1., "Salary," respectively.

4. <u>Service</u>:

Includes the following expenditures:

(a) Cost of printing and binding, and small office supplies necessary to carry out day-to-day administrative work. But the cost of printing, binding, and other materials used for textbooks and educational and demonstration supplies should not be included in this item. Such expenditures are chargeable to No. 7.5., "Other Goods."

(b) Cost of telephone and telegram services for the offices. But the cost of purchase, installation, repair, and maintenance of telephone and telegraph equipment is chargeable to expenditure items No. 6., "Repair and Maintenance," 7.5, "Other Goods," and 12., "Construction and Improvement," as appropriate.

(c) Bank service charges and expenditures on other such services.

(d) Cost of postage on mail and parcels, and the charges for registration; insurance charges for imported commodities should be added to the commodity cost.

(e) Cost of advertisement and publication of Government notices and bids.

(f) Expenditure on water and electricity.

(g) Cost of transportation and freight charges for shifting Government property from one location to another. This would also include the cost of parcels and packages sent through the postal system. But when the commodities are imported or purchased locally, the freight charges thereto should be included in the purchase price of the commodities.

(h) Taxi hire charges.

5. Rent:

Includes all the expenditures on rent of the office building, land, warehouses, machinery, etc., rented for Governmental purposes and on such other rented capital goods.

6. Repair and Maintenance:

Includes the yearly recurring unforeseen expenditures on repair and upkeep of building, road, bridge, vehicle, machinery, and such other capital goods or equipment. But the cost of major repairs and improvement work by which the useful life of such capital goods or equipment is increased is chargeable to expenditure item No. 12., "Construction and Improvement."

6.1 Wages:

Expenditure incurred on wages for the repairs and upkeep.

6.2 Tools and Spare Parts:

Cost of tools and spare parts used for repairs and upkeep.

Includes the following expenditures:

(a) Cost of spare parts for motor cars, trucks, and heavy equipment such as gears, ignition wires, ignition parts, carburetors, carburetor parts, tire, tubes (excluding engines), etc.

(b) Cost of spare parts for office equipment.

(c) Cost of spare parts (excluding the engine) of Government-owned aircraft.

(d) Cost of spare parts for plows, digging machines, tractors, and such agricultural equipment. This includes spare parts for equipment used not only for farming, but also those for equipment used in dairy farming, reforestation, etc.

(e) Cost of spare parts for generators, concrete mixers, road graders, stone crushers, and such other construction equipment.

(f) Cost of spare parts for telephone equipment, hospital equipment, scientific equipment, measuring and weighing equipment, and such other equipment.

(g) Cost of bricks, stone, wood, nails, etc., required for repairing works.

7. <u>Expendable Goods</u> (useful life usually not beyond 1 year):

Includes the recurring unforeseen expenditures and the cost of expendable goods.

7.1 <u>Office Equipment</u>:

Cost of letter heads, envelopes, forms, records, filing folders, typing paper, mimeograph paper, adding machine paper, ribbon, stapling machine supplies, pens, ink, pencils, and other related office supplies necessary for day-to-day use and the materials for decorating office rooms -- such as curtains, carpets, etc.

7.2 <u>Books, Newspapers, and Magazines</u>:

Cost of textbooks, reference books, law books, manuals of instruction, technical publications, subscription to magazines, and newspapers for use in school, libraries, and offices, when determined as a requirement for carrying out a planned program, activity, or functions of the Government.

7.3 **Fuel**:

Includes all expenditure on fuel used for light and power.

7.3.1 **For Transport**:

The expenditure on fuel for transport devices used by the Government Staff.

7.3.2 **For Other Purposes**:

Expenditures on petrol, diesel, grease, mobil, etc., to operate generators for hospital, hostel, barracks, mint, and such other offices and for airplanes, tools, and machinery related to boat construction and transportation. Expenditure on electricty, kerosene oil, firewood, coal, gas, etc., required for lighting and fuel are also chargeable to this item. But electricty charge should be included in expenditure item No. 4, "Service."

7.4 **Clothes and Food Grains**:

Includes the cost of clothes (including liveries) and food grains (including ration) for Government staff, such as police, military personnel, hospital staff, and other Government staff. The cash amount paid in lieu of ration should also be included in this item. But the cost of grain and feed for animals and livestock, grain used for agricultural activities, clothes and rations for prisoners are chargeable to expenditure item No. 7.5, "Other Goods." Cost of clothes and food distributed to the hospital patient, poor, and victims to cultivators should be included under expenditure item No. 8, "Grant-in-Aid, Contributions and Reward."

7.5 **Other Goods**:

Includes the following goods:

(a) Cost of cleaning supplies, kitchen supplies, hostel supplies, and other such supplies.

(b) Cost of technical supplies for agriculture such as agriculture materials, chemicals, fertilizers, manures, veterinary supplies, seed and saplings, fishery supplies, etc.

(c) Cost of technical supplies for educational institutions such as University, College, and School training or demonstration supplies; papers and binding materials for textbooks; printing and binding. But the cost of books purchased from dealers should be charged to expenditure item No. 7.2, "Books, Newspapers, and Magazines."

(d) Cost of technical supplies for hospitals, clinics, malaria eradication, nurse training centers, etc., such as parmaceutical materials, surgical materials, beddings, and such other materials.

(e) Cost of technical supplies for photographic and similar scientific and professional works such as films and other essential chemicals, photo papers, X-ray plates, etc.

(f) Cost of technical supplies for aviation use.

(g) Cost of technical supplies for telephone, telecommunication, and radio broadcasting purposes.

(h) Cost of electrical, plumbing, and other public utility supplies.

(i) Cost of food supplies for prisoners.

(j) Cost of gains and feed for animals and livestocks.

(k) Cost of grains required for agricultural activities.

(l) Smaller tools of low cost.

8. <u>Grant-in-Aid, Contributions, and Reward</u>:

Such expenditures, which are not refunded or not goods or service in lieu are received back or no other income is received, are included in this item. Both the cash and material grants should also be included in this item. The following expenditures are included in this item:

(a) Grants to Industrial, Financial, or Commercial Organizations for their administrative expenditure or to meet their commercial losses or for any other natural calamities.

(b) Grants or other contributions to Panchayat, School, College, and such other political, religious, social, and educational organizations.

(c) Cash or material aid (such as the cost of food, clothes, medicines, etc.) to the victims of flood, fire, earthquake, and other such natural calamities.

(d) Cost of food supplies medicine, clothes, or such other supplies distributed free for cost to the hospital patients.

(e) Cost of food stuffs distributed free to the students.

(f) Cost of seeds and fertilizers distributed free to the cultivators.

(g) Stipend.

(h) Contributions to international organizations for their administrative expenditures.

(i) Prize and reward.

(Note: Amount of loan and investment should not be included in this item. Details of Grant-in-Aid, Contribution and Reward, as to whom and for what prupose they are given, should be submitted in Form No. 4.)

9. Unforeseen: (Contingency)

Includes the following expenditures:

(a) Expenditures for entertainment, exhibition, and refreshments when authorized.

(b) The refund of fines, penalties, taxes, duties, and other refunds on account adjustments or errors in computations.

(c) All expenditures deemed necessary to maintain local and regional peace and security.

(d) Expenditures to cover payments not defined under any of the other items, however essential to the conduct of a prescribed Government activity, function, or program.

10. Durable Goods (Useful life, usually beyond 1 year):

Cost of goods having useful life beyond 1 year should be included in this item.

10.1 Furniture:

Cost of furniture used for office, school, hospital, barracks, and other Government use.

10.2 Transport devices:

Includes the cost of jeep, motor car, bus, truck, motor cycle, scooter, bicycle, airplane, tractors used for transportation, engine and compartment of ropeway and railway, coach, cart, and animals such as bullocks and horses to draw cart and coach. Cost of engines for motor carry, truck, airplane, etc., if replaced, is also chargeable to this item. Unforeseen recurring expenditures for the upkeep of such transport devices is chargeable to item No. 6., "Repair and Maintenance."

10.3 Tools and Machinery:

Includes the cost of tools and machinery, the useful life of which is beyond 1 year, such as heavy machinery, farm implements, tractors (except those used for transportation), generators, transformers, workshop equipment, production and construction machinery and equipments, surgical instruments, X-Ray apparatus, telephone equipment, scientific instruments and appliances, measuring and weighing instruments, photograhic equipment and accessories, mechanical drafting equipment, office equipment and tools such as typewriters, adding machines, mimeographing, and ditto machines, etc. Cost of equipment that becomes an integral part of building, bridge, canal, park, etc. and that cannot be removed without alteration or damage to the building or structure should not be included in this item. Such expenditures (as lighting fixtures, etc.) should be charged to the subitems as appropriate for expenditure item No. 12, "Construction and Improvement." Unforeseen recurring expenditures for the upkeep of such tools and machinery is chargeable to expenditure item No. 6, "Repair and Maintenance."

11. Purchase of Land and Building:

Includes all expenditures incurred on purchase, acquisition, and compensation of land and building.

11.1 Purchase of Land:

Includes all expenditures incurred to purchase land.

11.2 Purchase of Building:

All expenditures incurred to purchase a building. Expenditures on construction of a new building should not be included in this item, but should be charged to expenditure item No. 12, "Construction and Improvement."

12. Construction and Improvement:

All expenditures incurred in construction and improvement of a building and other capital goods.

12.1 Building Construction and Improvement:

All expenditures incurred on building constructions for office, school, hospital, warehouse, etc. Also includes the expenditures required to make improvements or heavy alterations on the buildings. But unforeseen recurring expenditure on repair and maintenance for protection of the building are chargeable to item No. 6, "Repair and Maintenance." Cost of equipment that has become an integral part of the building; such as lighting fixtures, etc., is also included in this item. Cost of land purchased for building construction is chargeable to item No. 11.1, "Purchase of Land."

12.2.1 Wages:

Expenditure incurred on wages for the construction and improvement of buildings.

12.2.2 Materials:

Cost of materials used for the construction and improvement of buildings.

NOTE:

1. Purchase price, transportation cost, insurance charge, and expenditure on such other services and indirect taxes such as custom,

sales tax, etc., while purchasing or importing commodity, should be included in the commodity cost.

2. Expenditure has been divided into two parts -- "National Expenditure" and "Foreign Expenditure." Quantity of a commodity to be purchased, made in the nation and in a foreign country, should be shown separately in the appropriate column while filling in the expenditure heads. Accordingly, pay/allowances of the staff and technicians of the country, expenditure on the national, and foreign services, etc. should be shown separately in the appropriate column.

Appendix B: Excerpt from "Why Planning Fails in Nepal" by Aaron Wildansky, Appearing in Administrative Science Quarterly.

Vol. 17. December 1972, pp. 519-20

STEPS TO OBTAIN QUARTERLY RELEASES OF FUNDS

(1) The accountant of the concerned department prepares an expenditure report based on submission by pertinent sections and units. These submissions must include: (a) a progress report; (b) expenditure report; (c) uncleared advance statement, if there are any large uncleared advances; and (d) a calendar of operations for the full fiscal year. Bottleneck: Any or all of the reports not submitted with the request.

(2) The project director of the concerned department submits the request as follows: (a) at the departmental level the request is split according to the source of funds; (b) to secure His Majesty's Government (HMG's) share of the request, the department sends a separate request through the concerned ministry to the Budget Implementation and Control Division, Ministry of Finance; (c) to secure the donor's share, a separate request is sent to the Foreign Aid Division (channeled through the concerned ministry). Bottleneck: The request is split into two parts that the Ministry of Finance is unable to coordinate in processing later.

(3) HMG releases its contribution, and the bank deposit slip is attached to the Ministry of Finance's letter of request for the donor's contribution. The letter from the Ministry of Finance must (a) have attached the above mentioned reports (item 1); and (b) report the total amount of carry over from last year on the basis of which the donor's

share is worked out. Bottlenecks: (1) without the bank deposit slip no action can be taken; (2) sometimes the above two requests -- to the Budget Implementation and Control Division and to the Foreign Aid Division -- are sent simultaneously. In this case, the bank deposit slip is often not attached to the formal request from the Ministry of Finance, Foreign Aid Division, or to the donor because the Foreign Aid Division forwards the request before the deposit slip is available and it takes time for the HMG release to be processed. It is important to get the HMG's contribution well in advance so that a bank deposit slip is available for the department request to the donor; (3) HMG releases a lump sum that does not designate specific amounts corresponding to the project requirements of the donor.

(4) The release request received by the donor is reproduced (this takes several days), and copies are sent to its accounting and operating units.

(5) These units review the reports and the request for release. Bottlenecks: (1) reports are arithmetically inaccurate; (2) reports, as submitted, are not reconcilable and must be sent back for clarification.

(6) The Local Currency Release Request Form is completed.

(7) The entire file is sent to the accounting office, which then prepares the vouchers and routes them to the operating units for signature.

(8) The check is issued to the Rastra (Central) Bank for deposit in the donor's account operated by the Finance Ministry. (This takes 3 to 4 days.)

(9) The checks are handcarried to the Rastra Bank, and copies of the transmittal letter are sent to: (a) the Ministry of Finance, Foreign Aid Division; (b) the Ministry of Finance, Accountant General's office; (c) the Secretary of the concerned HMG Ministry; and (d) others. Once the documents and accounts are in order, steps 6 through 10 take 10 to 12 days.

(10) The Office of the Accountant General, after the receipt of a copy of the transmittal letter from the donor and Daily Statement of Accounts is submitted by the Rastra Bank, writes a check to transfer the money to the concerned department's development account. Bottlenecks: (1) the money is not automatically forwarded by the Accountant General's office. There is no coordination or follow up by the Foreign Aid Division. Usually the concerned department belatedly is forced to do most of the follow-up work; (2) the amount released is not identified; (3) in case the departments are located outside of the main governmental office at Singha Durbar, the money is transferred to the ministry's account and, in turn, the ministry transfers the money to the concerned department's development account. This process takes at least a week.

(11) For the donor's share of last year's carryover deducted from the donor's new release, the letter is sent from the controller office to the office of the Accountant General, asking HMG to deposit the amount of the donor's carryover in the donor's account and transmit the bank deposit slip for the same to the account. Bottleneck: The Accountant General's office does not have the required information and must depend on the concerned department to submit carryover amounts.

(12) The Money is released in a lump sum and the host government's and donor's shares must all be calculated account by account, because the donor does not support all the activities of the departments. Bottleneck: Exhaustion.

APPENDIX C: LIST OF PERSONS INTERVIEWED

Mr. Bal Gopal, K.C.	Ministry of Finance, Foreign Aid Division
Mr. Lok Bahadur Bista	Comptroller General, MOF
Mr. S. C. Shresta	Accountant General, MOF
Mr. Karki	MOF, Foreign Aid Division
Mr. Wagli	Chief Accountant, DCVI
Mr. Shresta	Chief Accountant, LDD
Mr. S. K. Upadhaya	Deputy General Manager, ADB/N
Mr. Pramad Regmi	Vice President, Loan Division, ADB/N
Mr. Narayan Dass Manandhar	Chief Accounts, Divisions, ADB/N
Dr. Curtis Swezy	Consultant, APHA
Mr. A. P. Bhattarai	Emporium Branch Manager, Ghorahi, Dang Valley
Mr. A. N. Thapa	Director of Loan and Investment Division, DCVI
Mr. Ganapalilal Rajbhandari	Managing Director, Cottage Industry and Handicraft Emporium, Ltd.
Mr. N. B. Basnet	Deputy Chief Conservator, Department of Forests
Mr. S. N. Pradhan	Chief Accountant, Department of Forests
Mr. Rai	Director of Local Development Department, MOHP
Mr. K. D. Silwal	Deputy Director, LDD
Mr. K. R. Nepal	Section Officer, LDD

Mr. Richard Abbott	Resident Representative; IBRD, Nepal
Dr. E. F. Tacke	Rural Development Director, ADB, Manila
Mr. David Mitchnik	Director, Socioeconomic Unit, Rasuwa/Nuwakot Development Project, IBRD
Mr. Peter Naddich	Division Chief, ASPAE, IBRD, Washington
Mr. Mishra	Project Engineer, Department of Roads, Dang Valley
Mr. Khupiran Sharma	Assistant PDO, Pyuthan District
Mr. Keshab Kumar Shresta	Pradhan Panch, Pyuthan, Khalenga Village Panchayat
Mr. Vishnu Khant Mishra	Acting Forestry Officer, Pyuthan
Mr. Jagannath Mahaseth	District Agricultural Development Officer, Pyuthan
Mr. Pawa Ghimire	Acting Manager, ADB/N, Pynthan, Khalenga
Mr. Baburan Bhattarai	Branch Manager of AIC, Khalenga
Mr. Giri Raj Upadhaya	Ex Rastra Panchayat Member, Pyuthan District
Mr. Don Long Mr. George Smith	Comptroller, USAID/N
Mr. Mohan Raj Sharma	Chief, Financial Analysis Branch, USAID/N
Mr. Chandra Man Pradhan	Chief, Employees' Service Branch
Mr. Jakob Grosen	Program Officer, UNDP/Kath.

15

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