Public Expenditure Tracking Survey (PETS) In Dhanusha District

September 2012

Janaki Women Awareness Society (JWAS)

Janakpurdham, (Dhanusha)

CENTRE FOR INTERNATIONAL STUDIES AND COOPERATION

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- Janaki Women Awareness Society (JWAS), Janakpur

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Project Team

Mentor: Dr. Bhogendra Jha

Principal Social Accountability Practitioner: Mr. Binod Karki

Consultants:

Mr. Satyendra Timilsina

Mr. Nub Raj Bhandari

Mrs. Ranjita Jha

Filed Surveyors:

Mr. Arbinda yadav

Mr. Khagendra Dahal

Mrs. Kiran Chaudhari

Mrs. Rita Rajak

Mr. Satendra Nidhi

Mrs. Aishwarya Kumari Jha

Supporting Institutions:

Canadian Center for International Studies and Cooperation (CECI), Baluwatar

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&

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Mrs. Tulsa Acharya
President
JWAS

Abbreviation

CECI	Canadian Center for International Studies and Cooperation
DADO	District Agriculture Development Office
DEO	District Education Office
DDC	District Development Committee
DPHO	District Public Health Office
FGD	Focus Group Discussion
JWAS	Janaki Women Awareness Society
KII	Key Informants Interview
PETS	Public Expenditure Tracking Survey
PRAN	Program for Accountability in Nepal
VDC	Village Development Committee

Executive Summary

The Public Expenditure Tracking Survey (PETS) are quantitative exercises that trace the flow of resources from origin to destination and determine the location and scale of anomaly. This helps analyze gap between allocated budget and actual spending and shades light on governance, accountability and leakages in public expenditure.

Public expenditure tracking has two components. The first looks into the state fund that reaches to the household directly, and the second looks into the expenditure carried by Frontline Service Providers (FSPs) such as schools, health posts, and Users' Committees/Groups.

This report traces the flow of public expenditure at the VDC level and analyzes the gap between budget allocation and expenditure. The report also focuses on the study of peoples' perception on public expenditure management and development activities.

The VDCs spend their allocated fund under four budget heads – social security, other recurrent expenses, capital expenses and project based expenses. The DDC releases the fund to the VDCs as operational grant, capital grant, and social security grants. The major chunk of the expenditure of VDCs goes for social security expenses.

When comparing the capital grants and capital expenditure of the VDCs, most of the VDCs are found to underutilize the funds. The five VDCs under study were able to spent 73.6 percent of the capital grant only. While capital expenditure of Tulashi VDC was just 27.9 percent of total capital grants, such expenditure of Kurtha VDC was 106.7 percent.

There are issues on timely release of funds to the VDC. VDCs were found to have received the first installment of the grants after the first half of the fiscal year. Remaining funds were sometimes released even after the completion of the fiscal year. Once the fund comes to the VDC, the programs are run either by forming a Users' Committee or by direct contract.

Government of Nepal currently provides social security allowances to three groups of people viz. elderly citizen, single woman and differently able people. There are other forms of transfer payments made in education. While transfer payments mostly reached the targeted groups, the subsidy and direct benefits for education and agriculture did not reach to the people.

During a survey, two third of the respondent said they were paying some form of fees to the school even when the government had announced for free education at the school level.

During discussion at the field level, members of the Users' Committee themselves admitted that less than half of the disbursed fund is utilized on the stipulated projects. They informed that leakage starts from the DDC itself. There is a practice of bribing personnel in DDC by 10 to 20 percent of total budget during the time of fund release. The Users' Committee separates some fund to the VDC secretary, Technical staff of the government who looks after the project, and the accountant who is responsible to settle the accounts.

People's perception on public expenditure management and development activities was analyzed through the field survey in each of the VDCs. The information gathered was grouped under four heads viz. accountability, transparency, participation and responsiveness.

During the survey, 75 percent of the people were found to be consulted at the time of budget disbursement. Even when all key persons are supposed to participate in VDC council meet & there has to be a consensus on budget disbursement, 25 percent of them said they were never consulted.

Only 20 percent of the people know about the money separated for sector wise budget allocation as provisioned in the *VDC fund utilization procedure 2067*.

People speak about their development priority to VDC secretary, local political leaders and talk among themselves, and they are mistakenly taking it as the consultation done to them.

People do not participate in any activities, which could provide them information about the process of budgeting, allocation, disbursement and expenditure. They are even uninformed about such activities.

60 percent of the people who proposed development work in the VDC program said their proposal is accepted and budget is allocated but are unknown on the total amount allocated as well as spent. 40 percent people among the proposal submitters for development work, said, they are not heard.

1. Introduction

The Public Expenditure Tracking Survey (PETS) are quantitative exercises that trace the flow of resources from origin to destination and determine the location and scale of anomaly PETS methodology, The world Bank[1]. This does not only helps analyze the gap between allocated budget and actual spending, but also shades light on governance, accountability and leakages in public expenditure.

The ultimate beneficiary of public expenditure is the general public. They either benefit directly from the state as the recipients of state fund (in the form of social security allowance, subsidy and other direct support) or benefit indirectly by increased access to public goods (roads, schools, irrigation among others). Public expenditure tracking thus has two components. While the first looks into the state fund that reaches to the household directly, the second looks into the expenditure carried by Frontline Service Providers (FSPs) such as schools, health posts, and Users' Committees/Groups.

Janaki Women Awareness Society, with external financial assistance, conducted Public Expenditure Tracking Survey in Five Village Development Committees(VDCs) of Dhanusha district - Tulasi, Tarapatti Sirsiya, Kurtha, Nagrain and Lagma Gathaguthi – under a project Promoting Social Accountability on Financial management.

The study aims at exploring the use of public resources, gap between allocated budget and expenditure, documented development and actual development especially of VDC fund, schools and budget allocated by DDC to these VDCs. This report traces the flow of public expenditure at the VDC level and analyzes the gap between budget allocation and expenditure. The report also focuses on the study of peoples' perception on public expenditure management and development activities. While due attention has been given on expenditure tracking, the study has given equal weight for the qualitative aspects of expenditure and peoples' participation on budget cycle. Information on existing practice on budgeting process from planning, allocations, disbursement, and implementation to the final stage of assessment (audit report) has been compared to existing provisions. This report has also traced the gap between allocated budget (based on secondary sources) and actual expenditure (based on field survey). The variance between documented development and actual development has been explored.

The report is divided into five sections. The first section deals with introductory part, objectives, methodology and limitations. Second section shed lights on budget release mechanism – theory as well as practice. In this section discussion would be made on how VDCs receive budget from the DDC. The third section looks into expenditure tracking in the VDCs and presents one case studies each from the selected VDCs. The fourth section covers people's perception on public expenditure management. This section looks at how people responded on accountability, transparency, participatory and responsiveness of the spending units. The last section presents the summary and recommendations.

1.1 Rationale of the Study

The government spends substantial amount of money for social security and development works in all VDCs and these funds are disbursed to VDCs through DDCs. While there is a set mechanism for the disbursement of funds to the VDCs, the allocated budget does not reach the intended place on time. There are questions over the amount that the spending unit receives. There are no studies to see if there is any deviation between the amount that a spending unit receives and the allocated budget.

Due to the absence of elected local bodies at DDCs and VDCs, the government has transferred its authority to the LDO and VDC secretaries (and a committee formed under their coordination). In the current fluid political situation in the country, there are numerous administrative hurdles to the execution of budgeted programs. In the name of unstable security situation, VDC secretaries, who has supposed to take all financial responsibilities in VDC, has centered in district headquarters. This evolves chances of misallocation of budget, affecting the disbursement and need of the people. Funds are allocated without sufficient understanding of development needs and priorities at the local level. So, there remains the chance of budget gap in terms of allocation and expenditure, which is not reflected in the document.

The PETS survey is unique of its kind in Nepal. There has been only one governmental effort in carrying out Public Expenditure Tracking in Education sector in 2009 by National Planning commission, but lacks real expenditure tracking. The report has focused more on budget analysis rather than in expenditure tracking.

So, there was a need to see if the public fund reaches to intended beneficiaries, and see how people react to the development works and budgetary process. There is a need to create awareness amongst people in budget related issues and make them feel that public fund is their money.

1.2 Objectives

The objectives of the Survey are as:

- To observe if the allocated funds reach the intended beneficiaries or not
- To trace the flow of public expenditure from allocation to spending at VDC level
- To study peoples' perception on budget literacy and developmental activities

1.3 Methodology

Public expenditure tracking is divided into two parts - expenditure that reaches the household directly and the expenditure that is carried out by frontline service providers. To trace the expenditure that reaches to the household directly, a set of questionnaire was developed and Household (HH) survey was carried out on a sampling basis. And to trace the expenditure that is carried out by FSPs information was collected from Key Informants and Focus Group Discussion was also conducted. In addition to these two forms of information, case study has also been carried out in each of the village development committees.

1.3.1 Sample Design

The sample size for HH survey was taken as 9 in each ward of the selected VDCs. The total number of HH surveyed thus was 450. In addition, a total of 135 interviews were conducted with Key Informants (KIIs). For detail of samples please *see table 1*.

Table 1: Sample size

VDCs/DDC	**HH**	**KII**	**FGD**	**Schools**	**Other**	**Case Studies**
District Dhanusha		35	-	-	4 agencies[2]	-
Tulsi	90	20	8	2	User Committee	1
Tarapati sirsiya	90	20	8			1
Kurtha	90	20	8	1	User Committee	1
Nagarain	90	20	8	1		1
Lagma	90	20	8			1
Total	450	135	40	4	6	5

1.3.2 Surveyor/expert

Team of three members (with one woman) was assigned for the study. The team was involved in tools preparation, tools/filed-testing, orienting facilitators, information collection and data generation, data editing, tabulation, and in report writing. For HH survey and to take interviews with KIIs local facilitators were hired. A Principal Social Accountability Practitioner coordinated the overall research process. He also monitored the fieldwork through field visiting, supporting facilitators in field, and remained a bridge between PETS and Project. The overall process was done under the mentorship of high level expert provided by the organization.

1.3.3 Study procedure

The survey design was a mixed method with equal weight to QUAL-QUAN. Both the secondary and primary information was used in the study. For the secondary information the survey team reviewed policy documents, available reports from DDCs, District Education Office, District Agriculture Development Office, District Public Health Office and VDCs. In addition, the following documents were reviewed:

Audit reports of VDCs

Annual Reports of DDC

Budget Formulation Guidelines of Ministry of Finance

Operational Guidelines of the Ministry of Finance

VDC/DDC Fund Utilization Procedure 2067

DDC Profile of Nepal (2010)

1.3.4 Developed Tools

A set of structured questionnaires was developed for HH survey and unstructured questions for KII. The same unstructured questioned accompanied by checklist was prepared for FGD. A Checklist was also prepared for observation (see annex).

Extensive consultation and discussion done with PSAP and JWAS for finalization of developed tools, received their feedback, revised them, conducted field-test and finalized incorporating the suggestion and experiences. Prior to be deployed in the field, facilitators received orientations.

Each day the surveyors and facilitators maintained their diary. They wrote their findings, gist of the discussions and their own reflection as researchers. They also listed the verbatim of the informants related to the accountability and budget expenditure.

Upon the completion of the fieldwork surveyors organized debriefing sessions at JWAS office. The purpose of these sessions was to share the preliminary findings and observations. The field data was then compiled using excel sheet.

1.4 Limitation

The study was limited to the VDCs as mentioned above and DDC of Dhanusha district. The VDC fund, its utilization, process of allocation, disbursement and allocation, peoples' perception, infrastructure works conducted at VDC are covered in VDC level. Peoples' perception covered by the study was limited to four areas i.e. accountability, transparency, participation and budget responsiveness. Similarly, study was limited to one infrastructure work in each VDC.

In district level, this study was limited to analyze budgeting trend of DDC. Similarly, for the financial analysis, it was limited to budgets allocated for the said VDCs from these DDC.

2. Expenditure and Resource Transfer Mechanism

As per the Operational Guidelines (Karya Sanchalan Nirdesika 2068, 4th edition) of the Ministry of Finance, the government sends ‘authority to spend’ to concerned local bodies by 25th of Shrawan, which is the 25th day of the fiscal year. Such authority includes the amount to be distributed under several heads of social security, development budgets and operational grants. The DDC receives such authority on the first month of the fiscal year.

DDC then selects the projects to be carried out in the village level. The programs are selected in the DDC council meeting. The meeting decides the amount that should go to each of the villages for different programs. The funds under the social security expenses are also transferred to the VDCs through DDC. From the total budget that VDCs receives, they are required to allocate 10% of the total VDC grants for women, 10% for children and 15% for disadvantaged groups.

As per the provision, each of the village development committees receives the fund for development activities on the first month of the fiscal year. They then distribute the budget to individuals and or Users’ Committee to carry out several activities inside the VDC.

During the survey, it was found that none of the VDCs received the fund on the first month. For example, Tulasi VDC asked for the release of first installment (of four months budget) of the VDC grants for fiscal year 2068/69 on Poush 29 – almost after six months of the fiscal year. Likewise, Tarapatti Sirsiya asked for the release of first installment in Falgun 11 (eight month of the fiscal year) and Lagma VDC on Falgun 5. The release of the second installment was even worse. Tulasi VDC asked for the second installment in Jestha 25 – one month before the completion of the fiscal year, and Kurtha VDc in Jestha 2.

Just to note, in 2068/69, Dhanusa DDC released the 2nd and 3rd installment (for eight months of the fiscal year) of the budget to all the VDCs only in 2069 Shrawan – after the completion of the fiscal year. This shows the gap between existing provisions and practice on the budget release in local levels. This is also an example of poor budget release practice in the local bodies. Delay in the fund release affects the development activities and the distribution of social security allowances. This has given some space to the DDC personnel and VDC secretaries for misappropriation of funds. There are several instances where VDC secretaries did not distribute social security allowance on time and used the money for their personal benefit.

The recent inspection in Dhanusa DDC led by Minister for Local Development found that in fiscal year 2068/69 there was a misuse of Rs 300 million by the DDC personnel and VDC secretaries. In 2068/69 "More than Rs 300 million allocated for social security funds and development activities were misused in Dhanusha district alone, according to the government report prepared after the visit" reported the Himalayan Time in its August 30, 2012 issue.

The Ministry of Federal Affairs and Local Development then suspended 18 officials working at the District Development Committee (DDC) and various VDCs in Dhanusha on the charges of misusing local budget. There are reports for misuse of Capital grants as well. For example, In its VDC council meet held on 2068 Baisakh 30 Lagma VDC decided to allocate some of the capital grants for FY 2067/68 to non-capital expenses as following.

Support for School Operation	Rs 100,000/-
Allowances to Women Volunteers	Rs 91100/-
Support to the School Fund	Rs 25000/-

2.1 Program selection and Budget allocation

Before budget allocation for any projects at the VDC level, the projects are supposed to get selected in a priority basis in the VDC council meet. There is also a provision for field visit for need identification and review of technicalities of the program. This however, does not happen. Our study found that VDC secretary and party representatives decide on the plans for the fiscal year and allocate the budget in a confined room.

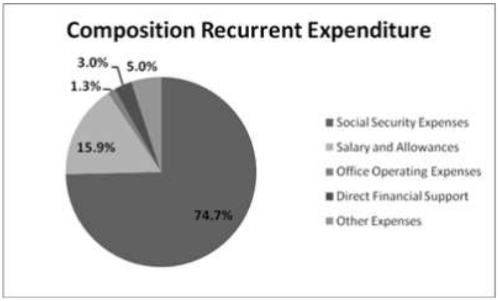
Once VDC finalizes the plans and programs for the next fiscal year, it is submitted to the DDC for fund release. DDC disburses the regular budget of the VDCs as per these programs. In the first installment only 30 to 40 percent of the fund is released. Those VDCs that have passed MCMP gets an additional funding under grant and this allocation depends on the approved programs in the VDC and DDC council.

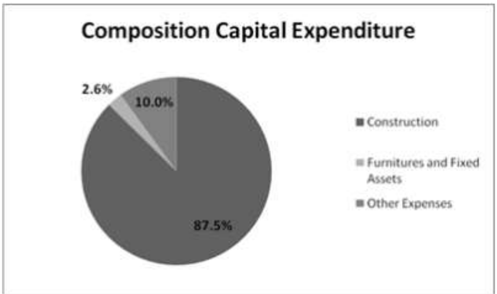
Once the fund comes to the VDC, the programs are run either by constructing a Users' Committee by direct contract. Most of the User Committees include hand-picked members and are formed for formality only. There are relatives of the political leaders in the committees who are most powerful. These people influence the entire VDC budget. Measurement briefs (MB) are not presented after the completion of the program. MBs are an essential component for the evaluation of the project. This is done by bribing the technician, even without completing the project.

3.1Expenditure and resources of the selected VDCs

The VDCs spend their allocated fund under four budget heads – social security, other recurrent expenses, capital expenses and project based expenses. The DDC releases the fund to the VDCs as operational grant, capital grant, and social security grants. The major chunk of the expenditure of VDCs goes for social security expenses. In 2066/67, total public expenditure of the selected VDCs was Rs 15.37 million. Of this amount, the share of expenses on social security stood at 50 percent (Rs 7.68 million). The share of capital expenses on total expenditure is 33 percent and the remaining goes for operational expenses, direct financial support and others.

n terms of recurrent and capital budget segregation, the recurrent expenditure consists of 67 percent and the capital budget 33 percent. The following chart shows the composition of recurrent and capital expenses of the selected VDC





VDC

When comparing the capital grants and capital expenditure of the VDCs, most of the VDCs are found to underutilize the funds. The five VDCs were able to spent 73.6 percent of the capital grant only. While capital expenditure of Tulashi VDC was just 27.9 percent of total capital grants, such expenditure of Kurtha VDC was 106.7 percent. The share of actual capital expenditure on When comparing the capital grants and capital expenditure of the VDCs, most of the VDCs are found to underutilize the funds. The five VDCs were able to spent 73.6 percent of the capital grant only. While capital expenditure of Tulashi VDC was just 27.9 percent of total capital grants, such expenditure of Kurtha VDC was 106.7 percent. The share of actual capital expenditure on

total capital grants stood at 84.1 percent for Trapatti Sirsiya VDC, 78.2 percent for Nagrain VDC, and 63.1 percent for Lagma VDC. Major share of capital expenditure is found to be spent on construction of road and building.

On the resources side, almost all of the funds come to the VDC in the form of DDC grant. The VDCs mobilize a very small fraction of 1.7 percent from their own resources. Their internal resource is mostly comprised of malpot - revenue collection for land ownership.

3.2 Funds flowing to the Household

Generally no household receives any form of government expenses directly. The funds flow to the household as transfer payments – mostly in the form of social security allowances. Government of Nepal currently provides social security allowances to three groups of people viz. elderly citizen, single woman and differently able people. There are other forms of transfer payments made in education. Government provides free education for all children up to class 10 and class 12 for dalit students and girls in the community schools. It is also providing textbooks free of charge for all students till class 10. In addition, the girl studying up to grade 8 in the community schools and all dalits, disables and target group children are provided with scholarships. In agricultural sector, the government provides 50 percent cash subsidy on the premium of crops and livestock insurance.

The survey questionnaire was designed to trace if the abovementioned direct transfers reach the household or not. The following was the response.

Most of the elder citizen received the elderly citizen allowances of Rs 500 per month. There was uncertainty over the timing of such funds – the elder citizen said sometime they received the fund for 8 months and sometimes for one year. There were some cases, where respondent received lesser amount than the stipulated. On survey it was found that VDC secretaries withdrew the funds after it was released from the DDC but did not distribute on time. They normally hold funds for some period before distributing it.

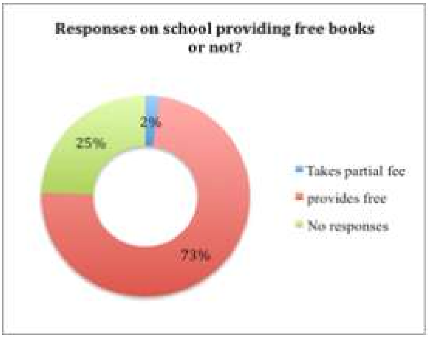
There were good number of people who did not registered for the elder citizen and/or single women allowances. They either were unaware of the provisions or were unwilling to bear the hassles in the VDC before registering.

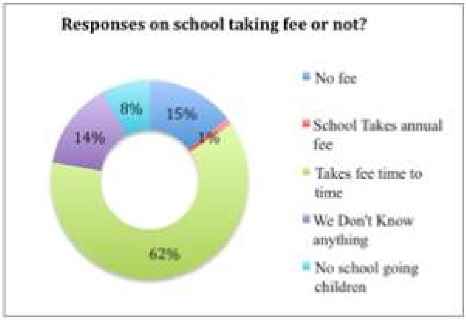
People were unaware of the crops and livestock insurance program.

It was a different scenario for the educational scholarships. Many, who responded, said no children received any forms of scholarships for educational benefits. The education is free, but they were found to be paying during admission and examinations. Books are said to be free, but most schools do not distribute free textbooks. Some of the schools informed that they utilized the funds for free textbooks to repair the school buildings as well.

The following section presents peoples' response on the utilization of public funds in the educational sector.

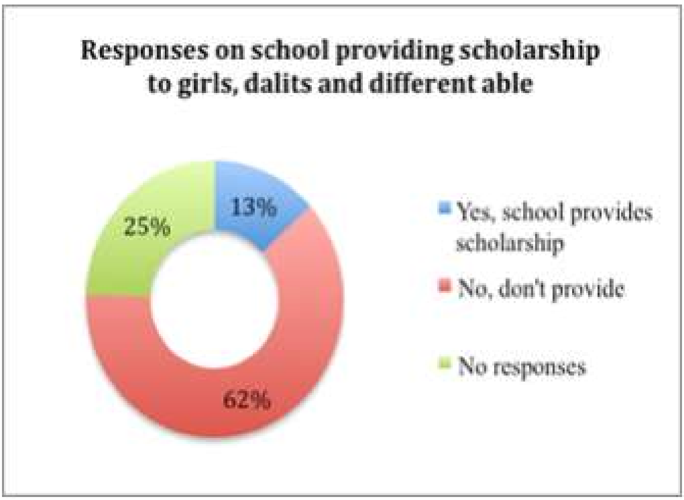
Although the government has introduced free education, 1 percent of the people are paying annual fee. Just 15 percent of the respondents said they did not pay anything to the school. Majority of the people (62 percent) say, school takes fee from time to time. 14 percent respondents did not said anything on this issue. Those who paid to the school paid up to Rs 800 per year.





When asked if students received free-of-charge textbooks or not, 2 percent of the respondents said they were paying for the textbooks. 73 percent of the household said they were provided with free textbooks. There was no response from 25 percent of the respondents.

On scholarship issue, 13 percent of the HH informed that their children were receiving scholarships from school. The amount of scholarship received is, however, different in different HH ranging from 100 to 400. 62 percent said that school doesn't provide any scholarship to their children and 25 percent household didn't respond on this issue.



3.3 Funds flowing through Frontline Service Providers

People mostly benefit from the government budget through the Frontline Service Providers (FSPs). These are the bodies that spent public money for the benefit of general public. An attempt was made to trace the budget that went to FSPs such as Schools, Health Posts and Users' Committee. During field visit, the information collected by the survey team from FSPs said that funds were utilized as per the budgeted one. The FSPs were reluctant to disclose actual spending and speak on how funds flew to them from the disbursement authority. As an alternate approach, information was obtained from key informants such as parents, members of the School management team and local people. The following is the response that we gathered though KIIs and FGDs conducted in each of the VDCs.

There is a leakage in the utilization of funds at the VDC level. Development activities are carried out in two ways in the VDCs – through the formation of Users' Committee and directly by assigning someone. There is less number of activities conducted through the formation of Users' Committee in the Villages, as VDC secretaries prefer doing works through someone close to them. While in the first case there are some people who watch the development projects, in the second case the VDC secretary takes the overall responsibility.

During discussion at the field level, members of the Users' Committee themselves admitted that less than half of the disbursed fund is utilized on the stipulated projects. They informed that leakage starts from the DDC itself. There is a practice of bribing personnel in DDC by 10 to 20 percent of total budget during the time of fund release. The Users' Committee separates some fund to the VDC secretary, Technical staff of the government who looks after the project, and the accountant who is responsible to settle the accounts. In the process almost half of the fund is already siphoned off. From the remaining, the Committee conducts the development works, and there are equal chances that the Committee after mutual understanding amongst themselves uses the fund for personal benefit.

In the second case, where someone close to the VDC secretary conducts the stipulated development activities, no one knows about the size of the fund and what is being done. The people during discussion said, this is one major area where the VDC secretary makes money.

In case of public expenditure being carried out by schools, since schools are found to be suffering from resource crunch the students are unable to receive all of the budgeted incentives. Students pay to the school during admission and examination, and some funds for scholarships are utilized by the school for repairing and maintenance. Some of the schools do have inadequate teaching staff and thus hired teacher from outside. These teachers were paid from the extra money they collected from students. Since there was a tendency to allocate lesser fund than required for scholarships, the schools had tendencies to increase the number of students while requesting for such fund in the District Education Offices.

3.4 Case Studies

Under the case studies section, five different cases have been identified to track the budget from the initial phase to the ending process. In this study a comparison has been made on the non-financial outcomes also.

3.4.1 Kurtha Village Development Committee

Name of the project: Dohare Paine Canal Renovation

Length of the canal: 6 km

Total Budget: Rs 250,000.00

Budget Provider: District Irrigation Office, Mahottari

Project Year: 2069

Spending Unit: Users Committee formed in the VDC

Formation of Users' Committee:

The project was run by Users' Committee that was formed by the stakeholders' meeting.

Budget Allocation process:

District Irrigation Office Mahottari released the fund to the spending unit.

What Users' Committee says?

The work was completed and the entire budget was spent.

This has helped expand irrigation facility in the nearby area.

Survey Findings:

Of the fund released, the Users' Committee received 10 percent less amount.

People interviewed said, the renovation was done in less than one kilometer only.

The actual cost incurred during the renovation is between Rs 80,000 to Rs 125,000.

Local people believe, remaining fund was embezzled by the spending units including the members of the Users' Committee.

3.4.2 Tulashi Village Development Committee

Name of the project: Ward Improvement Road Construction

Project Site: Tulashi VDC ward no. 1 and 2

Total Budget: Rs 200,000.00

Budget Provider: Village Development Committee Tulashi

Project Year: 2068

Spending Unit: Users Committee formed in the VDC

Formation of Users' Committee:

The project was run by Users' Committee that was formed by the stakeholders' meeting.

Budget Allocation process:

VDC released the fund to the Users' Committee.

What Users' Committee says?

The Committee received 15 percent less amount from the VDC.

The Committee was informed that this amount was deducted at source in the DDC during the budget release process.

The VDC secretary asked the Committee to manipulate the accounts to show that the entire amount was spent.

Survey Findings:

The Users' Committee manipulated the accounts by increasing the expenses incurred for road leveling. They booked actual spending at Rs 2500 per hour of Bulldozer use against an understanding of paying Rs 2300 per hour. They paid for the Bulldozer rent for the use of 68 hours.

The road constructed was less than 3 kilometer. People – within the Users' Committee and outside – interviewed said, the VDC secretary did not show the document showing annual plan and budget allocation. It was difficult to verify whether the allocated budget for the program was just Rs 200,000 or higher. There was no social audit.

3.4.3 *Nagrain* Village Development Committee

Name of the project:	Deep Boring Scheme, Nagarin 3 (For Irrigation)
Project Site:	Ward No. 3, Nagarain VDC
Coverage of canal:	Ward No. 1, 2, 3 of Nagarain
Budget:	Rs 4,50,000.00 from VDC Nagrain and Kinds from Agricultural Farm Naktajhij.
Budget Provider:	VDC Nagarain (around 85% by Farm and 15% by VDC which was deposited to farm) and Agricultural Farm, Naktajhij
Project Year:	2067/68
Spending Unit:	User's Committee

Formation of Users' Committee:

A 5 member User's Committee was formed during the installation of boring. The secretary of committee was changed without informing anyone – even the members of the Users committee - for building construction.

VDC Budget Allocation process:

Budget released to User's Committee.

What people say?

People were asked to contribute to the project by providing manual labor service and Rs 45,000 was allocated to provide tea and snacks during the labor service. They believe the fund was not spent properly and was misused.

Similarly, the building which was being constructed for the protection of Boring is incomplete. There was massive irregularity in the project. There is no whereabouts on the expense of Rs 80,000 which was released for building construction. While VDC says it was disbursed to the Users' Committee, the later says they never received the fund. VDC secretary claimed that the amount was released to UC and they had evidence that UC president had countersigned in the cheque.

Survey Findings:

The UC was reformed at the time of building construction. Even people within the Committee had no idea on this, which erupts doubt over the functioning of the UC itself. This helped make misuse of fund (here Rs 80,000) easy to the VDC secretary and the president of UC. The two even prepared the false document to show that Rs 45,000 was spent on lunch and breakfast against the labor service provided by the villagers.

3.4.4 Lagma Village Development Committee

Name of the project: Jamuni Dam (for temporary irrigation)

Project Site: Jamuni river, boarder area, Lagma - 8

Coverage of canal: Lagma Gathaguthi, Nagarain and Phulgama VDC

Total Budget: Rs. 612,000.00

Budget Provider: Village Development Committee, Lagma Gathaguthi

Project Year: 2067/68

Spending Unit: User's Committee

Formation of Users' Committee:

A 13 member User's Committee was formed to run this project without any consultation with the stakeholders. There was a wrong-doings during the formation of Users' Committee as members of User's Committee are representatives of selected political parties.

Budget Allocation process:

VDC allocated the fund to the Users' Committee. The fund was managed from Social Security Expenses to be provided to Dalit and Janajatis. The VDC did not provided social security expenses to these people for three years and diverted the fund to this project. VDC said that they would manage the fund for social security to Dalits and Janajatis from other suitable sources in the future.

VDC released the fund to the Users' Committee (as per document).

What the people say?

People believe less than Rs 400,000 was spent on dam construction. Previously the dam was used to be constructed by contribution from landowners. In 67/68, VDC came in to support the dam construction. But after the Dam Construction, limited number of people (who are in the UC) made more benefits.

The VDC secretary says it is difficult to pay back the social security expenses to dalits and janajatis from this year's budget.

Survey Findings:

The Users' Committee manipulated the accounts by increasing the expenses incurred for dam construction. VDC secretary also joined hand with the UC. They booked actual spending as Rs 612,000.00 but as per the local people, that amount wasn't spent. VDC secretary did not show the document showing annual plan and budget allocation. There is no information on a sum of Rs 212,000.

3.4.5 Tarapatti Sirsiya Village Development Committee

Name of the project:	VDC Sanitation and Toilet Construction Project
Project Site:	Tarapatti VDC
Coverage:	Tarapatti VDCs
Total Budget:	Rs. 10,00,000.00
Budget Provider:	Local Development Ministry, Additional funding under Constitutional Assembly Member Quota (CA Durga Devi Paswan)
Project Year:	2067/68
Spending Unit:	User's Committee

<u>Formation of Users' Committee</u>:

7 members UC formed through the VDC level meeting.

<u>Budget Allocation process</u>:

The DDC released the funds to the Users Committee.

<u>What people say?</u>:

Local people said that they don't have much knowledge about the program. The members of the Users' committee are the relatives of the political leaders. Toilets under construction at the schools of ward no 7, 8 and 9 are being constructed from VDC fund. They are unaware of the toilet under constructions at Tarapatti Bazzar.

What UC Say:

A joint account was opened on the name of President, Treasurer and Secretary. First 10 toilets were constructed and evaluated. After the evaluation, the first installment of Rs 2,28,000.00 was released. Although cheque has been issued for other installments, the amount hasn't been withdrawn as the bank accounts were seized recently. All works would

Survey Findings:

A total of 10 toilets were constructed. Among these 10 completed toilets, 3 were constructed in the house of the president, treasurer and secretary of UC. There are 4 incomplete constructions at Tarapatti Bazaar, and schools of ward no 7, 8 and 9. Remaining 3 are yet to be initiated. The estimated cost of constructed toilets at the houses of president, treasurer and secretary, and toilets under construction is no more than Rs 100,000.00. It is seen that, due to the conflicts in the UC and DDC staffs, rest of the budget hasn't been released.

4.Peoples' perception on public expenditure management

People's perception on public expenditure management and development activities was analyzed through the field survey in each of the VDCs. The information gathered has been grouped under four heads viz. accountability, transparency, participation and responsiveness. Peoples' response on each of these heads is presented below.

4.1 Accountability

When people are consulted and asked to participate during the budget formulation process at the village level, people are likely to own the programs. This makes the VDC and the User's Committee more accountable towards general public. We can thus assume that higher the participation and consultation on the budget preparation phases, more accountable would be the spending units. We would thus look at people's response on their participation in VDC council meeting and other activities.

During the survey, 75 percent of the people were found to be consulted at the time of budget disbursement. Even when all key persons are supposed to participate in VDC council meet & there has to be a consensus on budget disbursement, 25 percent of them said they were never consulted. 60 percent of the people said that the information on approved annual plans of the VDC as agreed in the VDC council meet is informed by the participants of the meeting. Only 25 percent are informed directly through the meeting. This means only 25 percent of the key person participates in the VDC council meeting. Other person are informed from other sources such as personal contact and other meetings. Regarding the consent of people on budget allocated through the VDC council, people have mixed response. 45 percent said, they are somehow satisfied, 25 percent totally unsatisfied and rest didn't speak clearly.

20 percent of the people's response on sector wise budget allocation as provided by the *VDC fund utilization procedure 2067* is somehow positive. They said that, they are away from the actual percentage but minimal amount are being allocated for women, children, janajatis and differently able people. As an example the following is the verbatim of responses (*see table 2)*:

Table 2: Actual Verbatim of people on sector wise disbursement		
Name Of VDC	Verbatim	% of Respondents
Tulsi	Women Rs. 14000, Janajati Rs.19000, and Dalit Rs.35000	30
	We know about it, but can't say exactly	60
	We don't know at all	10
Tarapati Sirsiya	I don't know	20
	Women: 40 thousands, School 50,000, Sports 20000, livestock 70,000.	20
	Total Budget: 2400000, Women 15% Dalit 15 %, Children 10 % and Differently able 10%	40
	The entire budget is not spent. Just 25% is spent. Remain budget goes to the pocket showing in documents.	20
Kurtha	We don't know at all about the sectorial provision but budget is allocated for women.	100
Nagarain	We don't know actual but we are told, allocation is as per provision	40
	It is not effective.	30
	Paper prepared and shown as expent	30
Lagma	Budget is not allocated to janajatis, dalit and women	70
	We don't know about Such provisions	30

4.2 Transparency

Transparency has been considered as how the VDC budget is approved and how do the VDC allocates their budget into several projects.

Only 20 percent of the people responded on the process that is followed for budget disbursement. As per these people, it is the leading figures in the VDC that decide on budget allocation. “We are called just to approve their plan in the VDC council”, they said. They say, VDC council takes place but irregularly and without any certainty. There are contradictory responses on the information on the amount allocated and expenditure. The local political leaders say, they know everything and others say, they know nothing.

No activities, which could aware people on development works, transparency of expenditure and budget allocation has been conducted in the VDCs. Only 20 percent of the people know about the money separated for sector wise budget allocation as provisioned in the *VDC fund utilization procedure 2067*. Peoples' view on early or half yearly meeting and its process is interesting as *(see table 3)*:

Table 3: Actual Verbatim of people on sector wise disbursement

Name Of VDC	Verbatim	% of Respondents
Tulsi	The VDC secretary and other party leaders completes the paper works	50
	We don't know at all	40
	We didn't participate (not informed)	10
Tarapati Sirsiya	No, we don't know about it	80
	The VDC secretary informs about the last year's development in the VDC council	20
Kurtha	Yes we participate in such meeting	15
	No one informs us. So, the process not in practice	85
Nagarain	We have never heard about the half yearly budget review meeting and other meetings	40
	Yes, the social audit is done but not in VDC but in closed room somewhere out	60
Lagma	13 members of political party mechanism do all meeting and other formalities. We are not informed	100

The interesting fact is that, 85 percent (25 percent directly participating in the VDC council and 60 percent through the sharing by the council participants) of the people are informed about the approved budget. But besides the political leaders, all are unknown about the expenditure and its information. People are satisfied on whatever presented by the VDC secretary in VDC council.

4.3 Participation

People didn't like to respond about their participation in the budget allocation process. But 75 percent of the people said, they are consulted for the budget allocation. The responses on participation and consultation seem quite contradictory but the responses are as *(see table 4)*:

Table 4: Responses of people on their participation and consultation for budget allocation

Name of VDC	Responses on Participation	% of Respondents	Responses on Cunsultation	% of Respondents
Tulsi	The Party representative have a meeting somewhere	15	Yes, we are consulted	75
	The available budget is equally divided in all wards	30	No, we are not cared	25
	By ward meeting, the plan is developed and in accordance the plan is formulated	20		
	Other (miscellaneous) responses	35		
Tarapatti sirsiya	Yes, the VDC issues the letter to the party and the leading persons of the VDC at the time of council. The detail budget is presented	60	Yes, the program is formulated by the consent of all of the participants.	80
	We don't know about it completely. May be the secretary better knows about it.	20	While program is implemented but Our consent and suggestions are not taken.	20
	We just participate the VDC council. No	20		

	discussion take place			
Kurtha	The budget is approved under the leadership of political leaders	75	No any consultation is done	60
	Majority of the participants will approve budget	25	Consultation is done with political leaders	40
Nagarain	Yes we participate in the council. Budget is already divided and we are invited just to fulfill formality	100	Yes the consent is taken but for worthless	85
			At the time of implementation all consent is totally ignored	15
Lagma	The budget is approved under the leadership of 13 members of political leaders	100	Consent ignored Although consulted	100

So, there is contradiction between people's response on consultation and participation. If people are consulted (not participated), then what is the process of that consultation? They themselves are unknown about the process. So, survey assumption for this particular contradiction is that, people speak about their development priority to VDC secretary, local political leaders and talk among themselves, they are mistakenly taking it as the consultation done to them.

People do not participate in any activities, which could provide them information about the process of budgeting, allocation, disbursement and expenditure. They are even uninformed about such activities. People's suggestion on the measures to be taken for the improvement of process in budget allocation, disbursement and expenditure are (in priority order)

a. *Commission* (which is supposed to be paid in percentage to the allocator for allocating that amount for the particular purpose) should not be deducted

b. Women should be informed and their participation should be guaranteed in all process

c. The all-party mechanism should again be activated and there should be a solid plan formulation mechanism in place and

d. The information delivery system has to be more systematic.

4.4 Responsiveness

How the development priorities of the VDC are addressed? How the VDCs or other public fund response the local need? Whether the appropriate amount is allocated for the priority work? Whether the development work is done for development not just for paper purpose? On these questions, this survey sought responses from general public. 35 percent of the people said budget is divided equally in all wards. 30 percent of the people believed, ward level meeting is conducted and development work is put in the program. 20 percent said, everything is done by political leaders. 15 percent people viewed that VDC allocates the budget in the necessary heading first and the remaining budget is divided equally to all wards.

60 percent of the people who proposed development work in the VDC program said their proposal is accepted and budget is allocated but are unknown on the total amount allocated as well as spent. 40 percent people among the proposal submitters for development work, said, they are not heard.

5. Recommendations

In view of anomalies in the public expenditure management in the VDC and DDC level that was traced during the current survey, the following recommendations could be made to enhance accountability and transparency at the local level, promote Users' ownership on VDC plans and programs, strengthen public service delivery system and reduce gaps between actual and budgeted spending.

Create Awareness: People have to be made aware of the development activities that are being carried out in their area. The public money is taxpayers' money and thus all citizens have a right to know how the fund is being utilized. Public awareness can be created by educating people on budget literacy and make them understand their roles at each of the stages of budget cycle. When citizens are aware, the gap between budget disbursed and the amount that reaches to the Users' Committee would reduce. There would be serious improvements on the reduction of kickbacks that people take at different level of fund release. The role to promote awareness should be taken by DDC, VDC, local NGOs and other institutions working for good governance in the area.

Enhance Public Participation in Budget formulation: Since the final beneficiary of the development activities is the people residing in the area, projects have to be selected on a need basis after the consultation with users' group. This not only increases ownership at the local level, but helps maximize the use of the resources. Project run with peoples' participation has produced better results than others.

Ensure wider representation in VDC council meet: It is the VDC council meeting where people talk on development activities and priorities. These days VDC council meeting has developed more as formality than necessity. Instances where VDC secretary sits with some of his aides and members of political parties to determine annual program, has devalued the use of VDC council meetings. Such meetings has to take place in the local level and should include wider representation – from political parties to representatives of the civil society, key persons such as former secretaries, members of school management committee, and Users' group among others.

Select programs on priority basis: VDC's annual program has to be selected on a priority basis. Education, health and local development have to be given higher priority. As there can be loads of programs from every ward, suitable mechanism has to be developed while selecting development projects. When the programs are selected, due attention has to be given on non-financial outcomes such as intended number of beneficiaries, physical details of the intended project, expected duration to complete the project, financial sources, responsible authority among others.

Disseminate ex ante and ex post information: Information related to plans and programs has to be disseminated to all concerned. People should know what are the programs being undertaken in the year. They should have an idea on who is conducting the program, what is the total budget to complete the activity, what are the non-financial outcomes of the program, what is the expected time of completion among others.

Similarly, after the completion of the program, the spending unit and the authority has to disseminate the information related to the budget and non-financial outcomes and explain if there are any gaps between expected outcomes and actual outcomes. Mid-year reports and annual reports has to be prepared and disclosed to the general public.

Discourage direct contract awarding: The VDC has to mobilize Users' Committee for the conduction of budgeted programs. The practice to award project contract to an individual close to the VDC secretary or political party has to be discouraged. This helps implement the projects with better accountability and peoples' participation. The performances of the programs run by individual contracts are found to be quite low compared to those undertaken by Users' group. Furthermore, there are more irregularities in the projects run under direct contract awarding.

Conduct public hearing: There has to be a public hearing on plans and priorities, budget allocation and state of implementation of the budgeted programs on a regular interval in the VDC and DDC level. VDC secretary, DDC personal, and authority has to be asked to attend such hearing. This ensures accountability and transparency during the activities.

Promote Social Audit: Social audits are one of the better ways to assess effectiveness of development budget. People sit together to assess the financial and non-financial outcomes of the budgeted programs during social audit. This helps identify the leakage during the public spending and the qualitative aspects of the activities. Social audit ensures resource efficiency and promotes accountability.

Develop monitoring mechanism: There has to be a suitable monitoring mechanism to see if budgeted programs are properly carried out or not. Since a number of technicians, who are assigned to monitor several development activities, are involved in wrongdoings, proper monitoring at the local level is essential to see if there are any anomalies in the program implementation.

The local monitors would assess the development activity on a regular basis and stay as a watchdog.

Guarantee timely Release of funds: The DDC has to release the funds to the VDCs on a timely manner. The unscheduled release of funds increases chances of irregularities. People are unaware of the timing of fund release, and therefore VDC secretaries and authorities have enough time to play with the funds. When initial funds are released in the dyeing months of the fiscal year, the programs suffer from inadequate funding.

Activate Citizen Juries at the local level: Formation of Citizen Juries at the local level helps monitor public spending, prioritize development activities, bridges VDC and civil society, promotes peoples' participation and transparency at the program level, creates awareness and helps regularize number of activities in the local level.

Structure of sources and uses of fund in selected VDCs

	Tarapatti	Nagrain	Lagma	Tulasi	Kurtha	Total in Rs.
Recurrent Expenses	2,076,636.50	1,855,202.00	1,586,394.60	1,900,440.00	2,875,350.33	10,294,023.43
Social Security Expenses	1,559,500.00	1,332,000.00	1,080,500.00	1,446,000.00	2,267,500.00	7,685,500.00
Salary and Allowances	304,354.00	363,799.00	400,224.00	371,095.00	201,845.00	1,641,317.00
Office Operating Expense	21,931.00	34,218.00	16,486.00	31,140.00	31,389.00	135,164.00
Direct Financial Support	42,802.00	76,500.00	16,500.00	12,000.00	165,600.00	313,402.00
Other Expenses	148,049.50	48,685.00	72,684.60	40,205.00	209,016.33	518,640.43
Capital Expenses	**1,228,147.00**	**1,140,658.00**	**682,956.00**	**377,142.00**	**1,653,250.00**	**5,082,153.00**
Construction	1,228,147.00	1,009,008.00	682,956.00	321,282.00	1,203,250.00	4,444,643.00
Road Construction	243,500.00	996,608.00	170,200.00	138,804.00	803,250.00	2,352,362.00
Building Construction	884,647.00	-	-	182,478.00	400,000.00	1,467,125.00
Other Construction	100,000.00	12,400.00	512,756.00	-	-	625,156.00
Furnitures and Fixed Asset	-	49,650.00	-	55,860.00	25,000.00	130,510.00
Other Expense	-	82,000.00	-	-	425,000.00	507,000.00
Total Expenses	**3,304,783.50**	**2,995,860.00**	**2,269,350.60**	**2,277,582.00**	**4,528,600.33**	**15,376,176.43**

Resource Structure

	Tarapatti VDC	Nagrain	Lagma	Tulasi	Kurtha	Total
VDC resources	120,988.08	62,598.10	89,650.00	4,524.50	1,126.06	278,886.74
DDC Grants	3,489,367.71	3,288,367.71	2,560,734.33	3,192,329.00	3,933,500.00	16,464,298.75
Social security	1,630,000.00	1,429,000.00	1,128,000.00	1,446,000.00	1,983,500.00	7,616,500.00
Capital Expense	1,459,367.71	1,459,367.71	1,082,534.00	1,353,329.00	1,550,000.00	6,904,598.42
Operational	400,000.00	400,000.00	350,200.33	393,000.00	400,000.00	1,943,200.33
Surplus Deficit	305,572.29	355,105.81	381,033.73	919,271.50	(593,974.27)	1,367,009.06
Total	**3,304,783.50**	**2,995,860.00**	**2,269,350.60**	**2,277,582.00**	**4,528,600.33**	**15,376,176.43**

Janaki Women Awareness Society (JWAS)

Bishwakarma Chowk-4, Janakpurdham (Dhanusha)

Tel: 00977-41-523576

Fax:: 00977-41-520736

E-mail: jwas@ntc.net.np