Capital Expenditure and Lower Disbursement in Development Projects

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Allocation for Capital Spending

Some Issues

- Lower allocation
  - Average allocation in total budget of 3 years is 17.2%
- Few reasons
  - Recurrent expenditure getting height
  - Social security costs including Pensions increasing remarkably
  - Remuneration alone covers nearly one fifth of total budget
  - Classification under GFS 2001

Allocation under GFS 2001

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Classification under GFS 2001

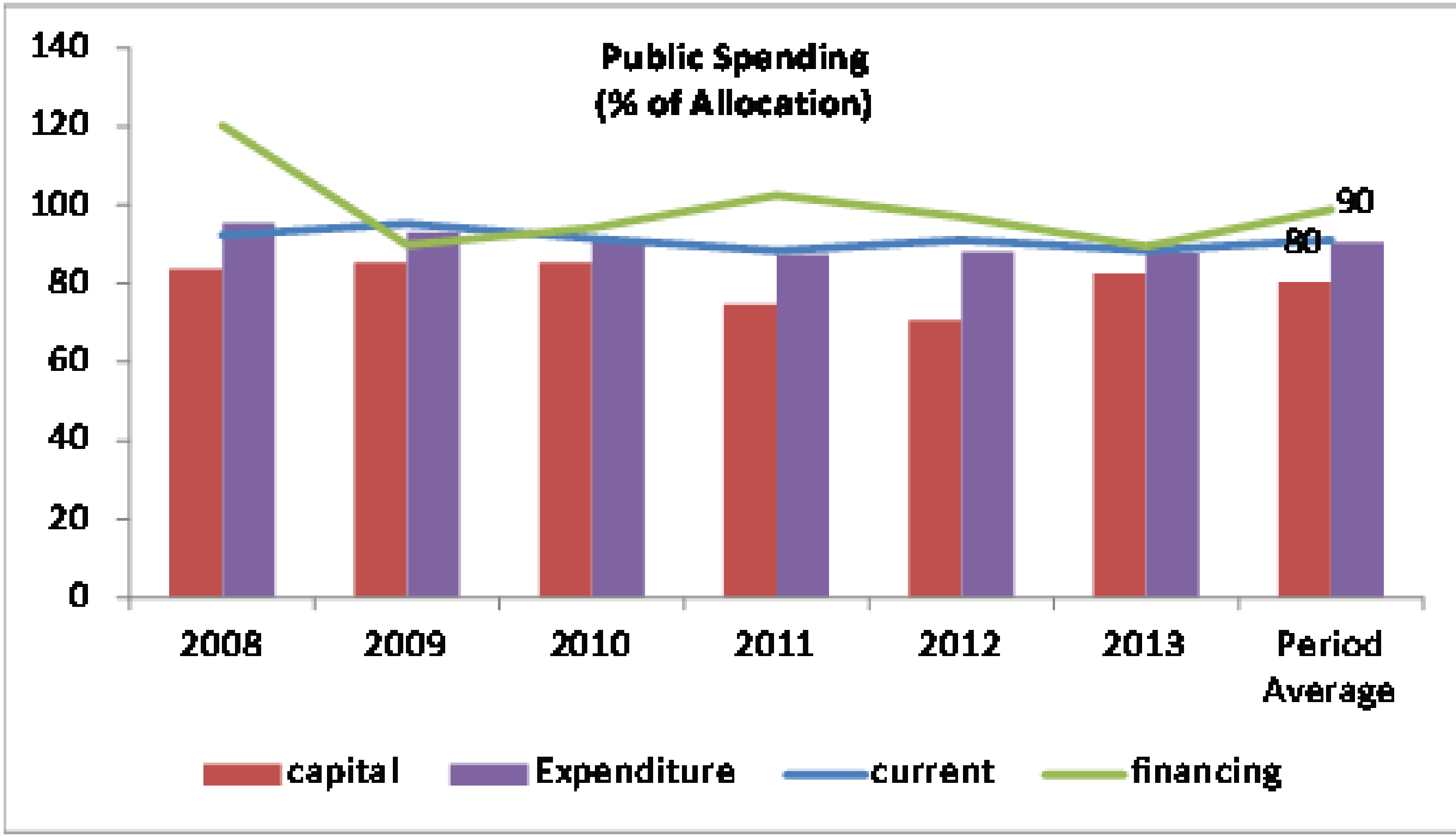
- Allocation in Capital spending seems lower, given all kinds of Grants come under Recurrent heading
- Some Capital Formation spending are classified as recurrent expenditure, typical example being grants to Melamchi Drinking Water Project
- Investment through Financing not recorded as capital expenditure
  - All investment in NEA is for capital formation, for example

Lower Capital Expenditure

Some Issues

- **Lower expenditure: Average spending in 3 years does not reach 80% of allocation**
  - **70.7% in FY 2011/12**
  - **82.6% in FY 2012/13**
  - **86.1% in FY 2013/14** *(projection based on 9 months' expenditure)*
- **Capital expenditure skewed towards end of FY**
  - **Out of total capital expenditure, 73% in FY 2011/12 and 75% in FY 2012/13 made in last trimester of the Fiscal Year**

Capital Expenditure Against Allocation



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Capital Expenditure Spending Pattern

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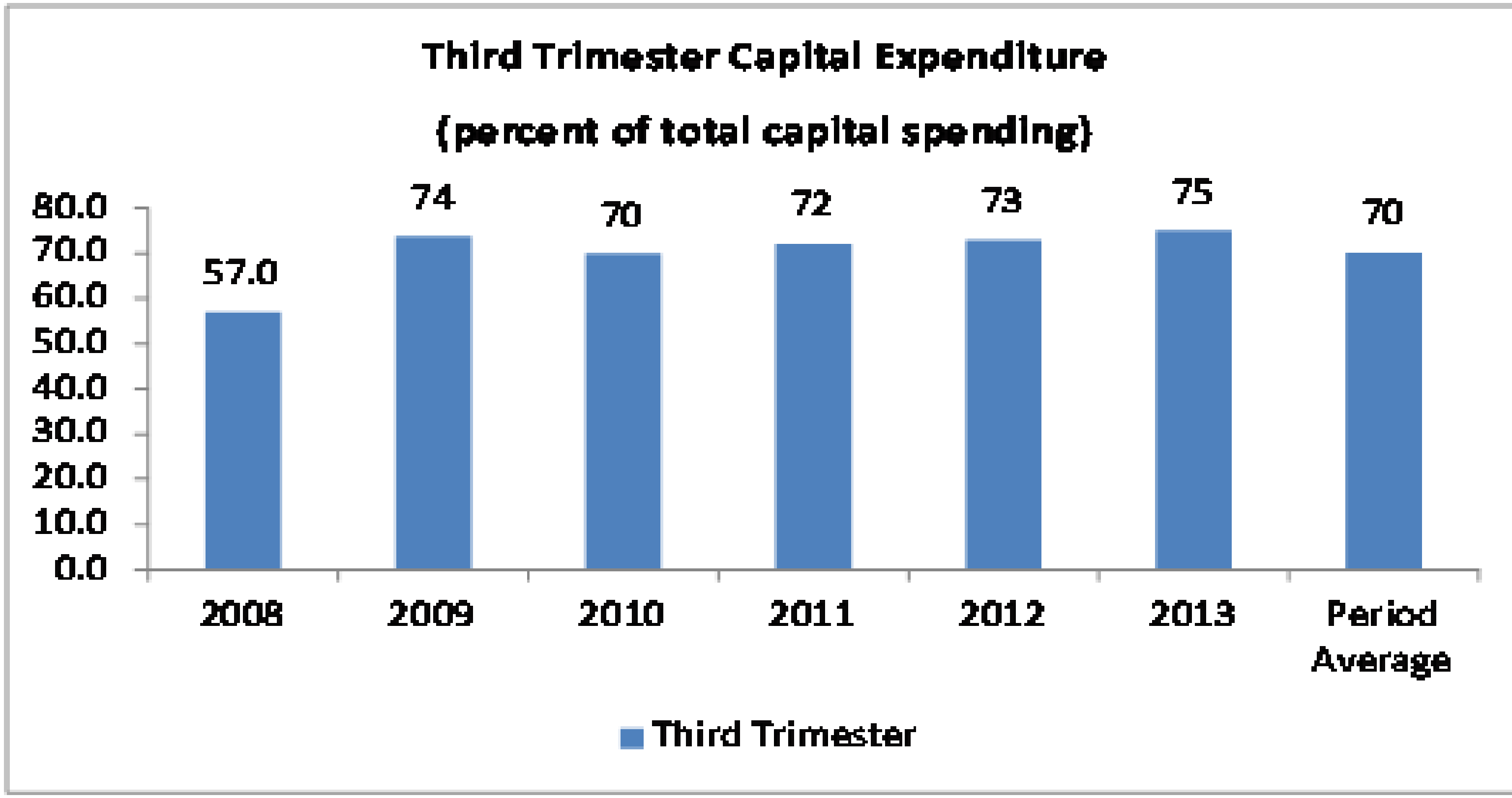
Capital expenditure skewed towards the end of Fiscal Year



Capital Expenditure under Foreign Aid

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Some Issues

- Low disbursement of foreign aid
  - Only 74% of grants and 36% of loans disbursed against allocation in FY 2012/13
- Data from DPs and MoF do not reconcile (refer NPPR, 2014 and DCR, 2014).
- For example, annual disbursement in FY 2012/13
  - US$ 970 m (DP's)
  - US$ 928 m (MOF)

Low Capital Expenditure ....Reasons

Allocation inefficiency

- **Scattered allocation**
  - **More than 500 projects**
  - **Resource dispersed on small projects** *(refer the Part II of Program Book of NPC)*
  - **Result orientation lacks**
- **DPs are not concentrated**
  - **508 projects had some amount of foreign aid in FY 2012/13**
  - **UN Team is engaged in 138 projects, EU in 76 projects, ADB in 68 projects**
  - **Each donor is engaged in 9 counterpart agencies**

Low Capital Expenditure ....Reasons

Allocation inefficiency

- **In many cases the pre-requisites** *(e.g. land acquisition, detailed designing)* **are not fulfilled prior to budgeting for construction works**
- **Supply driven projects**
- **Lack of linkages among Periodic Plan, MTEF and the annual budget**

Low Capital Expenditure ….Reasons

Implementation problems

- **Delayed activities level program approval** *(Remarkable progress this FY)*
- **Some issues on Public Procurement Process** *(PPA and DPs' Procurement Guidelines, sometimes contradicting)*
- **Performance of contractors and quality of works**
- **Some socio-political issues**
- **Ineffective monitoring** *(too many agencies involved, but role mismatched)*

Low Capital Expenditure ....Reasons

Recording and Reporting

- In many instances, the expenditure are reported lately
- Reimbursement process is lengthy and often the spending agencies are not efficient in reimbursement
- Direct Payments reporting is very poor, DPs not reporting timely and line agencies lack the zeal to do so *(only 9% expenditure was reported after two months of FY completion last year)*
- The same issues for commodity grants and TAs

Reporting of Capital Expenditure

Recording and Reporting

- **Delayed reporting leads to delayed financial statement**
- **Confusion in actual expenditure** *(the capital expenditure till 21 April is 32.3%, but excludes direct payments and commodity grants)*
- **Audit is still delayed in many projects**

Initiatives Taken

- TSA has been rolled out in all 75 districts, enabling to get real time expenditure data
- PFM strengthened although a lot more need to do
- MTEF revived
  - Realistic projections for next two years possible
  - Linkage between the Periodic Plan and budget established
  - Prioritization of expenditure still an issue though
- Monitoring Guidelines prepared by NPC

Initiatives Taken

- **Second PEFA assessment**
  - **Finds the ground level problem of PFM**
  - **Assess the areas to improve**
- **Program approval process eased** *(95% programs were approved within 3 months of the FY 2013/14)*
- **Early budget concept, the preparation underway for next FY** *(believed to expedite the program approval process and budget gets a whole year for implementation)*

Initiatives Taken

- **Digitized budget system initiated**
  - **Line Ministry Budgetary Information System (LMBIS) designed**
  - **Online Budget proposal from the line agencies**
  - **Activities level defined**
  - **Budget allocation more realistic** *(demands the activities for budget allocation, asks for necessary pre-requisites before allocation)*
  - **Program approval process eases**
  - **Off budget control**
  - **Clearer Result Orientation**

Reforms on Pipeline

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Government of Nepal

- **Policy and Legal reforms**
  - **Fiscal Responsibility Law**
  - **Project Enforcement Policy/Law**
  - **Sectoral policies/laws**
- **Prioritized expenditure**
- **Performance Management:** *Result focused expenditure*
- **Effective monitoring**

Reforms on Pipeline

Development Partners

- **Aligning with national priorities**
- **Following the Government system** *(still a quarter of total foreign aid is outside the system)*
- **Cooperating in procurement issues, reduce the volume of direct payments and commodity grants**
- **Timely reporting of all expenditures, especially direct payments, commodity grants and TAs**

Thank You

Thank you for your kind attention !