Capital Expenditure and Lower Disbursement in Development Projects

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Nepal Portfolio Performance Review Meeting
Kathmandu
23 April 2014
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
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
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

Public Spending (% of Allocation)

- 2008
- 2009
- 2010
- 2011
- 2012
- 2013
- Period Average

- capital
- Expenditure
- current
- financing

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Capital expenditure skewed towards the end of Fiscal Year

![Bar chart showing third trimester capital expenditure as a percentage of total capital spending from 2008 to 2013. The period average is 70%.]
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
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)
- 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

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
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 for your kind attention!