



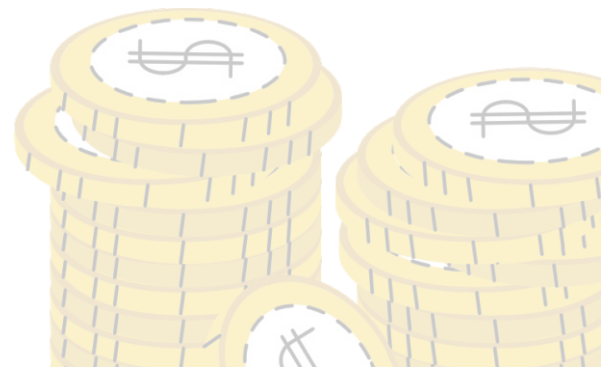
POKHARA
RESEARCH CENTRE



गण्डकी प्रदेश सरकार
आर्थिक मामिला मन्त्रालय
पोखरा, नेपाल

Mid-Term Budget Review

Fiscal Year 2080/81



**Mid-Term Budget Review of the
Fiscal Year 2080/81**

March, 2024

Pokhara Research Centre

Supported by:



Center for International
Private Enterprise

Published by

Pokhara Research Centre

Pokhara-11, Fulbari, Gandaki Province, Nepal

Tel.: 061-587111

Email: centre.pokhara@gmail.com

Website: www.pokharacentre.org

© Pokhara Research Centre

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, without prior permission. Enquiries concerning reproduction should be sent to Pokhara Research Centre at the address above.

You must not circulate this book in any other binding cover and you must impose this same condition to any acquirer.

Views expressed by the author are personal and need not reflect or represent the views of Pokhara Research Centre (PRC).

Published in March, 2024

Table of Content

List of Figures	1
List of Tables	2
List of Abbreviations	3
Background	4
Rationale of the study	5
Methodology and scope	5
Comparative analysis of the budget expenditure in the first six months of budget formulation	6
Ministry-wise Budget Spending	8
Ministry-wise Budget Spending	9
Budget and Program Planning and Implementation	9
Estimating the size of the Budget and MTEF format	10
Program Planning	11
Program Implementation	12
Monitoring and Evaluation	15
Monitoring and evaluation Follow-up Mechanisms	16
Issues and Challenges	19
Recommendations	23
Annex: List of KIIs conducted for the study	26

List of Figures

- Figure 1 Comparison of the total expenditure incurred within the first six months of five consecutive fiscal years
- Figure 2 Comparison of capital and current expenditures incurred within the first six months of the five consecutive fiscal years
- Figure 3 Process involved in formulating MTEF in Gandaki Province
- Figure 4 Process involved in program planning in Gandaki Province
- Figure 5 Process involved in the estimation of expenditure during program planning in Gandaki Province
- Figure 6 Process involved in implementation of programs as per Gandaki Province Budget

List of Tables

Table 1	Expenditure details of the first six months of FY 2080/81
Table 2	Share of allocation under fiscal provisions of the five consecutive fiscal years
Table 3	Ministry-wise expenditure details in the first six months of the FY 2080/81
Table 4	Monitoring and evaluation Matrix of the programs in Gandaki Province
Table 6	List of proposed programs under fiscal provisions of the four consecutive fiscal years
Table 7	Budget allocation under the undivided heading of the consecutive three Fiscal Years

List of Abbreviation

OCMCM	Office of the Chief Minister and Council of Ministers
MoFA	Ministry of Financial Affairs
PPC	Province Planning Commission
NRB	Nepal Rastra Bank
PFCO	Province Financial Comptroller Office
FCGO	Financial Comptroller General Office
IGFA Act	Intergovernmental Fiscal Arrangement Act
FPFR Regulations	Finance Procedure and Fiscal Responsibility
RTI	Right to Information
MTEF	Medium-Term Expenditure Framework
PLMBIS	Provincial Budget Information System
e-GP	Electronic Government Procurement
FY	Fiscal Year
KII	Key Informant Interview
NPR	Nepali Rupees
VAT	Value Added Tax

Background

After the introduction of the federal system 2015, following the promulgation of the new constitution, the country witnesses the formation of seven provinces and 753 local levels. Article 59 of the constitution of Nepal grants the provinces and local levels with rights to formulate their own annual budgets. Following the same, each province releases the budget in May every year followed by the budget announcement of the federal government.

1. Ministry of Financial Affairs (MoFA), Gandaki Province unveils the budget on 1st of Asar (mid-June) and
2. fiscal year (FY) starts from 1st of Shrawan (mid-july) every year.

The budget cycle of the provinces can be categorized into three distinct phases: budget formulation, discussion and approval, and implementation and oversight.

1. The budget formulation process starts at end of Poush (mid-March) after the provincial government's receipt of the budget ceiling and guidelines on equalization grants along with revenue distribution from the Federal Government.
2. This phase concludes after the provincial council of ministers endorses annual programs from the cabinet at the end of Jestha (the first week of May).

3. Subsequently, the budget undergoes detailed discussion in the provincial assembly before it is presented on 1st of Ashar (mid-June).
4. Following a month of deliberations in the assembly, the budget is ratified by the end of Asar (mid-July).

5. The implementation phase of the budget commences on 1st of Shrawan (mid-July) and persists until the approval of the budget for the next fiscal year.

The monitoring of budget implementation occurs year-round, overseen by respective ministries, the MoFA, Office of Chief Minister and Council of Ministers (OCMCM), Financial Comptroller General Office (FCGO), and through respective committees of the provincial assembly.

In accordance with sub-section 4 of section 22 of the Financial Procedure Act, 2078, the MoFA is responsible for formulating the mid-year and annual assessments of the budget and program implementation. Sub-section 5 of the same act mandates that the mid-year review must be disseminated within the month of Magh (timeframe spanning from mid-January to mid-February)

The review is expected to encompass the following components:

- Accurate details of revenue collection, budget execution, and expenditure
- Comprehensive analysis of the overall macroeconomic and financial landscape, offering a holistic view of the economic health.
- Assessment of the progress in implementing programs outlined in the policy and budget of the provincial government, highlighting achievements and challenges.
- Inclusion of any other pertinent details deemed necessary

Moreover, in the preparation of the mid-year review, due consideration is given to the monthly and quarterly reports generated by the respective ministries. This practice ensures that the review is well-informed by the latest data and insights, thereby enhancing its comprehensiveness and reliability within the realm of fiscal research and analysis.

Rationale of the study

The budget planning and implementation in the provinces are a crucial part of the fiscal federalism that has been under scrutiny ever since the formation of the provinces. Of particular concern is the suboptimal effectiveness in budget implementation hindering the attainment of fiscal objectives within the provinces. Notably, a substantial challenge lies in the inadequate expenditure of allocated budgets, evident in the Gandaki Province's consistent failure to utilize even one-fifth of the total allocation within the initial six months of budget implementation over the past six years. This study endeavors to investigate the underlying challenges impeding budget spending in the Gandaki province, with a specific focus on expenditure patterns within the first half-year of budget allocation. The study aims to uncover the root causes behind this recurring issue and offers evidence-based recommendations to pertinent provincial government entities including policymakers. These recommendations are intended to inform necessary amendments and revisions to policy documents, plans, and programs, aligning them more effectively with the findings of the study.

Methodology and scope

The research methodology employed in this study primarily relied on a comprehensive desk review supplemented by Key Informant Interviews (KIIs). KIIs served as a vital means of gathering insights from key stakeholders involved in the budget implementation process within the Gandaki Province. Participants in the KIIs included members of the provincial assembly and pertinent government officials from critical entities such as the Ministry of Financial Affairs, Gandaki Province; Province Planning Commission, Gandaki Province; Office of the Chief Minister and the Council of Ministers (OCMCM), Gandaki Province; and Gandaki Provincial Assembly.

While the majority of KIIs were conducted face-to-face, some were facilitated via telephonic conversations, as deemed necessary. These interviews were strategically conducted to address specific areas of interest, particularly focusing on understanding the implementation gaps at the provincial level. Key thematic areas explored during the KIIs encompassed monitoring and oversight, budget formulation and incorporation of suggestions, procurement processes, and human resource constraints

While a significant portion of the requisite information was accessible through desk research, KIIs played a crucial role in delving deeper into nuanced issues, especially where clear provisions existed but implementation lagged. By engaging with a diverse array of government-level officials, the research sought to gain comprehensive insights into the identified areas of implementation concern. This methodological approach ensured the depth of analysis required for generating evidence-based findings and recommendations to inform policy and practice within the Gandaki Province.

In addition to primary research methods, this study meticulously reviewed a wide array of relevant published government documents. These included Budget speeches, Annual development programs, Periodic plans, and mid-term expenditure frameworks. Furthermore, the study extensively examined reports from authoritative sources such as the MoFA and PPC, Budget monitoring committees under OCMCM, and parliamentary committees.

The review process extended beyond published materials, encompassing the scrutiny of unpublished reports and meeting minutes sourced directly from the relevant government authorities.

Moreover, a thorough examination was conducted on all significant legislations pertinent to budget planning and implementation within the Gandaki Province, encompassing both federal and provincial

statutes. This comprehensive review aimed to elucidate the legal framework underpinning fiscal governance and decision-making processes. Among the key legislative documents scrutinized were the Constitution of Nepal, which provides the foundational framework for fiscal federalism and governance across the country. Additionally, federal legislation such as the Intergovernmental Fiscal Arrangement Act (IGFA Act), 2017; Public Procurement Act, 2063; and Public Procurement Rules, 2064 were meticulously analyzed to understand the interplay between federal and provincial authorities as well as provisions related to the procurement process. At the provincial level, the Finance Procedure and Fiscal Responsibility Regulations (FPFR Regulations), 2079; the Uniform Procedure on Budget and Program Implementation, 2077; the Budget Formulation and Implementation Procedure, 2080; and annual Appropriation Acts were reviewed. These provincial statutes delineate the procedural mechanisms and institutional frameworks governing budget formulation, execution, and oversight within the Gandaki Province.

This rigorous legal analysis provided critical context for interpreting the findings of the study and crafting targeted recommendations aimed at enhancing the coherence and effectiveness of budget planning and implementation processes within the province. Through this analysis and targeted recommendations, the research seeks to contribute to the enhancement of budgetary efficiency and efficacy within the Gandaki Province, thereby facilitating more optimal fiscal outcomes and advancing the objectives of fiscal federalism at the provincial level.

Comparative analysis of the budget expenditure in the first six months of budget formulation

The estimated total budget of Gandaki Province in the fiscal year 2023/24 was NPR 33 arba, 42 crore, and 72 lakh. Out of which NPR 10 arba, 63 crore, 12 lakhs, and 38 thousand were allocated for concurrent expenditure, whereas NPR 20 arba, 19 crore, 4 lakhs and 62 thousand was allocated for current expenditure. Overall, 16.65% of the allocated budget has been spent, with current expenditures accounting for 21.48% of their designated amount, which is more in terms of expenditure percentage than the previous year but still less in terms of the amount spent.

Table 1: Expenditure details of the first six months of FY 2080/81.

S. N.	Title of Expenditure	Allocated Budget		Expenditure	
		Amount (in 000s)	(%)	Amount (in 000s)	(%)
1.	Current	12736738.00	38.10	2736440.53	21.48
2.	Capital	20190462.00	60.40	2828460.59	14.01
3.	Fiscal Management	500000.00	1.50	0.00	0.00
Total		33427200.00		5565001.13	16.65

(Source: MoFA, Gandaki Province)

Further, capital expenditures represent only 14.01% of their allocated budget. Despite budgetary allocations for "Fiscal Provisions" (NPR 0.5 billion), no expenditure has been recorded in the first six months.

Last five years budget allocation and expenditure in first six months comparison (in NRs. billions)

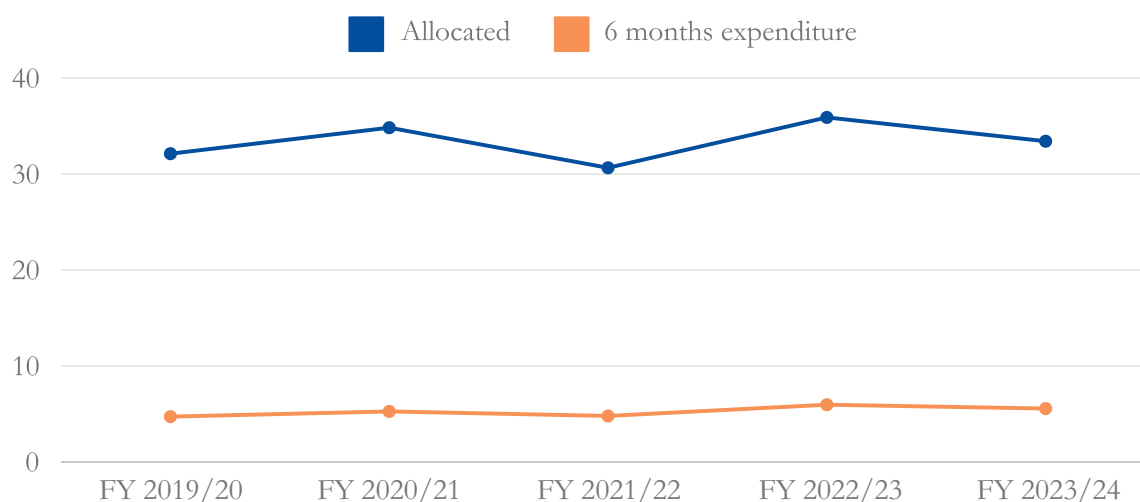


Figure 1: Comparison of the expenditure incurred within the first six months of five consecutive fiscal years

Gandaki province allocated a total of 33 arba, 42 crore, and 72 lakh budget for the fiscal year 2080/81. Of this, only 16.65% amounting to 5 arba, 56 crore 50 lakh and 1 thousand has been spent as per the mid-year review published by the MoFA. The trend of total expenditure over the last five years demonstrates an average annual increase of 5.4%.

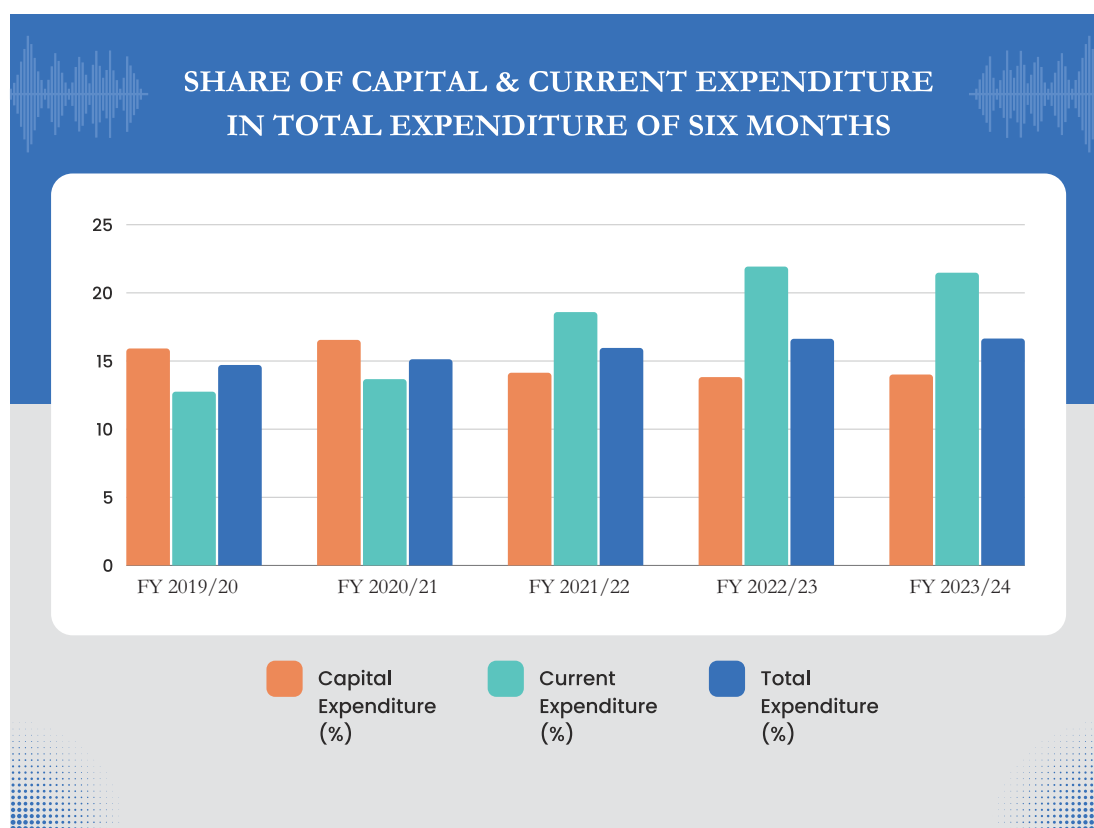


Figure 2: Comparison of capital and current expenditures incurred within the first six months of the give consecutive fiscal years

The capital expenditure for the first six months of the current fiscal year stands at NRs 2 billion 828 million 560 thousand and five hundred ninety, which is 14.01% of the total allocated capital expenditure budget for the year.

Capital expenditure, however, demonstrates variability, ranging from 13.82% to 16.55% of the allocated budget during the last five-year period, with the highest expenditure in FY 2077/78. In contrast, current expenditure exhibits a consistent upward trend, with an average yearly increase of 9.1% and a peak of 21.93% in FY 2079/80.

Further, the five-year analysis also shows that there was only a slight increase of 0.02% in the total expenditure. Despite the increase in overall expenditure, the share of the Capital expenditure remained second to lowest of all five years.

Table 2: Share of allocation under fiscal provisions of the five consecutive fiscal years

<i>Fiscal Year</i>	<i>Total Budget</i>	<i>Fiscal Management</i>	<i>In (%)</i>
2019/20	32134792	0	
2020/21	34842160	500000	1.43
2021/22	30056700	240000	0.80
2022/23	35909000	500000	1.39
2023/24	33427200	500000	1.50

(Source: MoEA)

The budget allocated for fiscal management in FY 77/78 was 1.43% of the total budget. In the following fiscal year, the proportion was reduced to 0.80%. While there has been no expenditure under the heading, the allocation increased to 1.39% in FY 79/80 and 1.50% in the fiscal year 80/81.

Notably, despite significant budgetary allocations for "Financial Provisions" in all years except FY 2076/77, no expenditure was recorded in the first six months of any fiscal year, and these provisions remained unutilized even at year-end. A critical observation is the complete lack of expenditure under the "Financial Provisions" category despite annual budgetary allocations.

Ministry-wise Budget Spending

Table 3: Ministry-wise expenditure details in the first six months of F.Y. 2080/81

<i>Ministries/Line Agencies</i>	<i>Budget after Transfer of Funds</i>	<i>Expenditure</i>
Province Legislative	162403	37.86
Province Public Service Commission	123154	36.81
Office of Chief Attorney	16140	39.76
Office of Chief Minister and Council of Ministers	1160936	9.63
Ministry of Financial Affairs	151575	17.25
Ministry of Industry, Tourism, Forest and Environment	1606242	18.01
Ministry of Agriculture and Land Management	2233454	13.27
Ministry of Physical Infrastructure and Transportation	12511067	13.44
Ministry of Energy, Water Resource and Drinking Water	5012005	23.99
Ministry of Social Development and Health	5057156	19.05
Province Policy and Planning Commission	65600	25.41
Finance-Internal Debt. Payment	6000	0
Public Service Facilities and Retired Facilities	7000	0
Finance-Miscellaneous	2708965	0
Local Government	2105500	41.02
Finance-Fiscal Provisions	500000	0
	33427200	16.65

(Source: MoFA, Gandaki Province)

The Gandaki Province's budget spending for the first half of the fiscal year 2080/81 reveals that only about 16.65% of the allocated funds have been spent. This suggests that most ministries have utilized less than a fifth of their budgets during this period. However, the provincial government bodies Province Legislature, Public Service Commission, Office of Chief Attorney, and Policy and Planning Commission have spent more than one-fourth of their annual budget. There are notable differences in spending levels among ministries. For instance, the Ministry of Energy, Water Resource, and Drinking Water has utilized a significant portion of its budget, with an expenditure percentage of 23.99%.

In contrast, the Office of Chief Minister and Council of Ministers has shown considerably lower expenditure, with only 9.63% of its budget utilized. The Ministry of Physical Infrastructure and Transportation also exhibits lower spending, with an expenditure percentage of 13.44%. It is also important to note that the expenditure percentage of the province's budget is significantly contributed by the transfer of grants to local government which is 41% of the yearly estimate of NRs. 2.1 Arba.

Budget and program planning and implementation

The successful execution of the budget and allocation of resources is contingent upon a well-structured

process encompassing planning, implementation, and evaluation. This multifaceted approach begins with a meticulous analysis and estimation of revenue sources by the Province Planning Commission (PPC) and MoFA, Gandaki Province. After which the limit of expenditure for the upcoming three years is set. This is then followed by program planning and implementation, predominantly spearheaded by the line ministries and line agencies of the Province. This phase is characterized by the translation of budget allocations into tangible programs and initiatives designed to address key development priorities and service delivery needs. The study has structured this process into three distinct sections: resource estimation and Medium Term Expenditure Framework (MTEF) format; program planning; and program implementation.

Estimating the size of the Budget and MTEF format

Gandaki province formulated the Fiscal Procedures and Financial Accountability Regulations, 2079 based on the Fiscal Procedures and Financial Accountability Act, 2076. As per the regulations, the PPC in coordination with MoFA, estimates the province's resources as well as expenditures for the next three years within the month of Magh (Mid Jan- Mid Feb) for the preparation of MTEF and next year's budget.

The resource estimation is conducted by the Resource Estimation Committee composed of members from PPC, Nepal Rastra Bank (NRB), Provincial Financial Comptroller Office (PFCO), and MoFA. The resource estimation committee takes into account the previous budget progress, grants received from the federal government, the periodic plans, policies, and programs of the provincial government, and the comprehensive economic status of the province. The provincial government, while estimating tax and non-tax revenue, should estimate based on trend analysis. The revenue projection is based on the revenue collected in the last three years by the revenue-collecting body. Similarly, for grants to be received by the federal government, the estimation is done with the help of a grant ceiling provided by the government.

Budget formulation and implementation directive, 2080 further guides the process of budget size estimation and budget formulation. The major part of this is the formulation of MTEF.

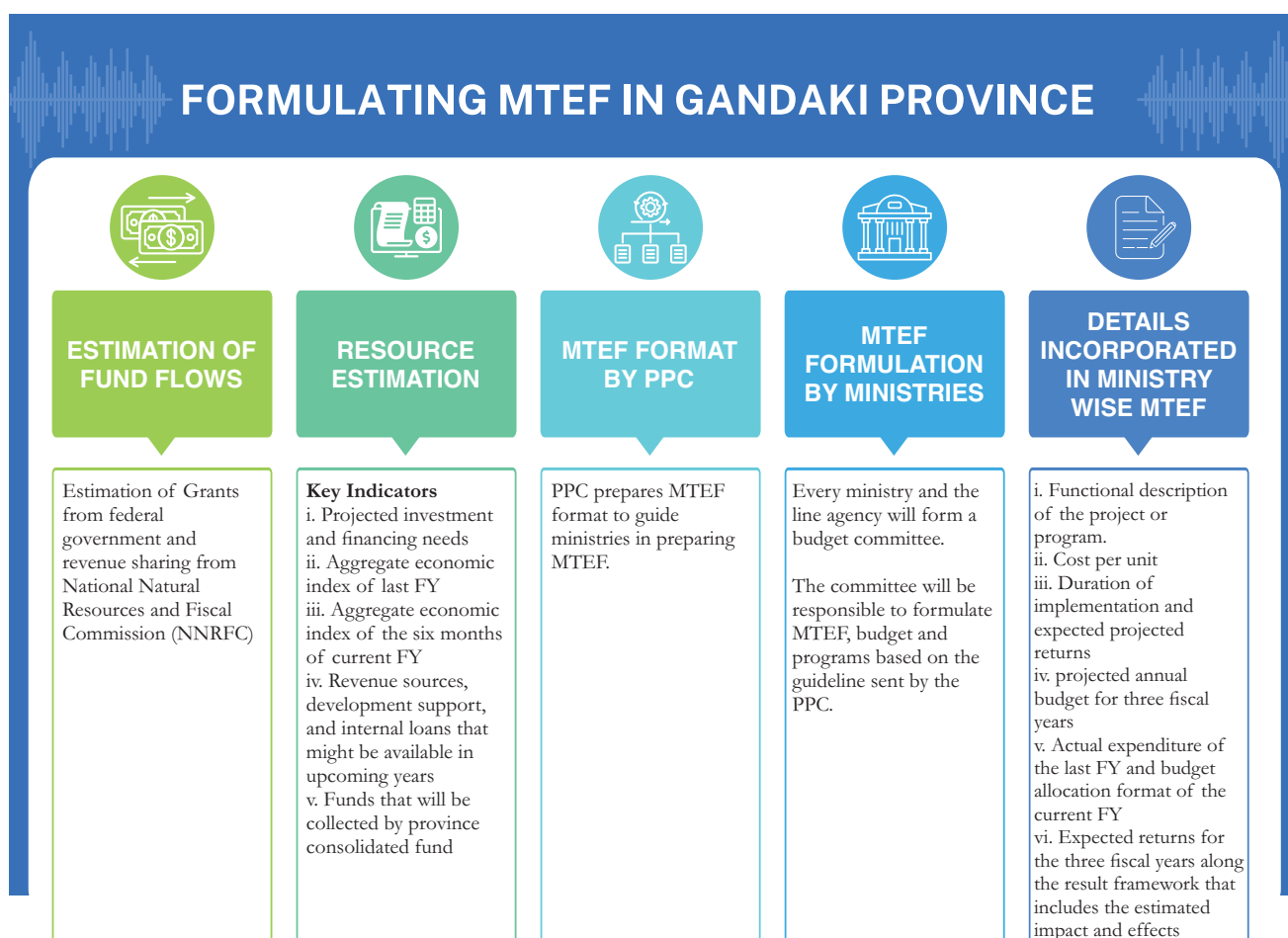


Figure 3: Process involved in formulating MTEF in Gandaki Province

The details are then required to be updated via PLMBIS.

Then the PPC prepares the budget ceiling, MTEF framework, guidelines for budget formulation, and framework, and sends it to respective ministries, commissions, and secretariat within Falgun 15. The respective ministries send letters to the offices under their jurisdiction with budget ceilings within seven days. Based on the budget ceiling and the programs received from the offices, the ministry formulates its budget.

Program planning

The PPC is responsible for estimating the budget, deciding the budget ceiling, and preparing MTEF every year. It does so in coordination with the MoFA. The line ministries, and especially the line agencies under the line ministries on the other hand are responsible for the planning and designing of the annual programs based on the guidelines set by PPC.

The line ministries form committees to prepare the MTEF along with the budget and programs based on the guidelines for budget and program prioritization set by PPC.

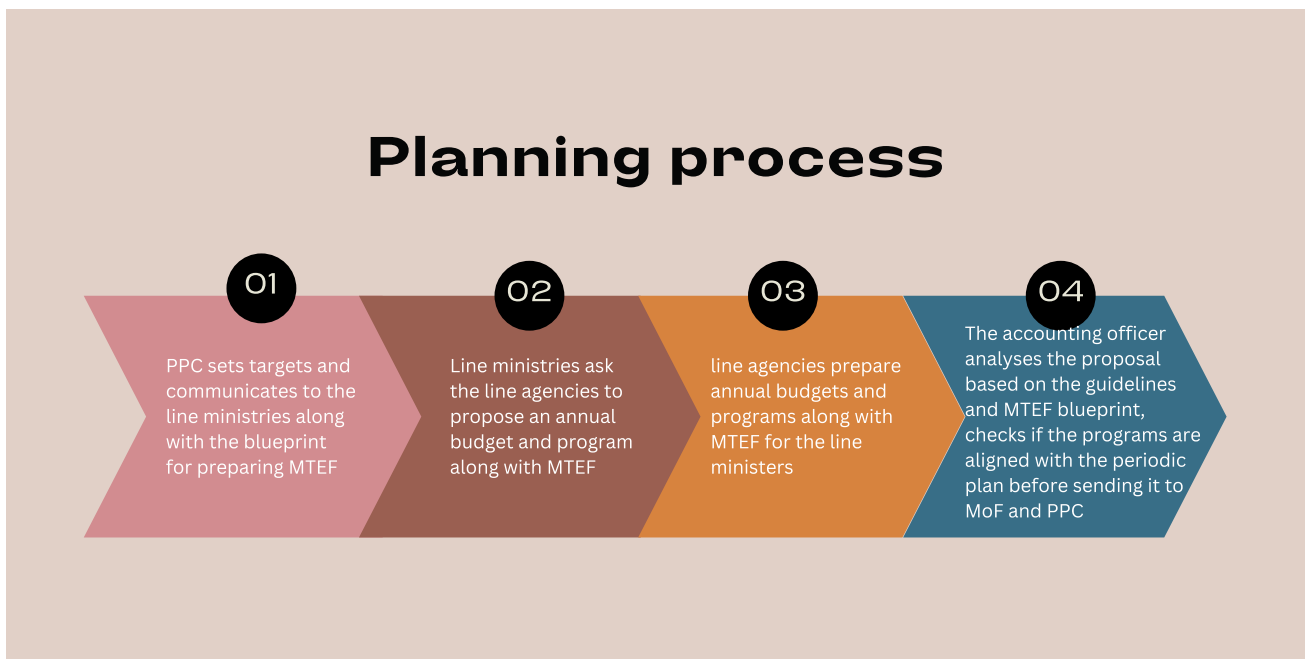


Figure 4: Process involved in program planning in Gandaki Province

The approved budget and programs are then uploaded via PLMBIS

The line ministries are required to keep in mind the following topics before estimating the expenditure

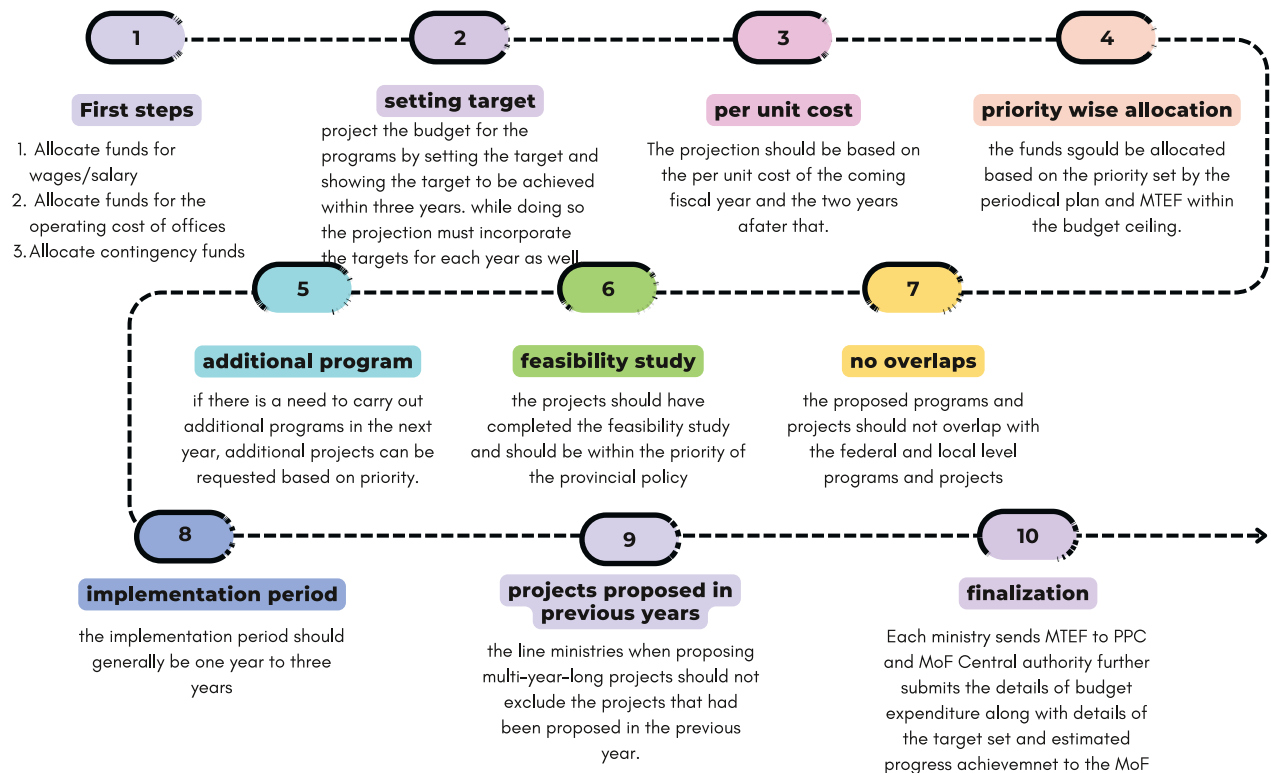


Figure 5: Process involved in the estimation of expenditure during program planning in Gandaki Province

Policy and programs are then presented by the Chief Minister in the Province Assembly after which the MoFA gives final shape to the budget and program for the upcoming fiscal year.

Program Implementation

Implementation of the programs is the shared responsibility of every ministry, including their respective line agencies. Section 29 of the Budget Formulation and Implementation Directives, 2080 prepared by the MoFA, Gandaki Province, stipulates that each ministry/institution must formulate a comprehensive program implementation plan by the end of Shrawan (mid-August) in accordance with the budget implementation guidelines issued by MoFA.

The detailed program implementation plan serves as a crucial roadmap, incorporating the essential elements such as an annual procurement plan, monthly cash flow details, and output indicators. It provides the necessary framework for the execution of annual programs across ministries and their line agencies. Moreover, in adherence to the directives, line ministries are mandated to develop a detailed budget execution table, alongside establishing performance indicators for evaluation purposes.

PROCESS OF PROGRAM IMPLEMENTATION

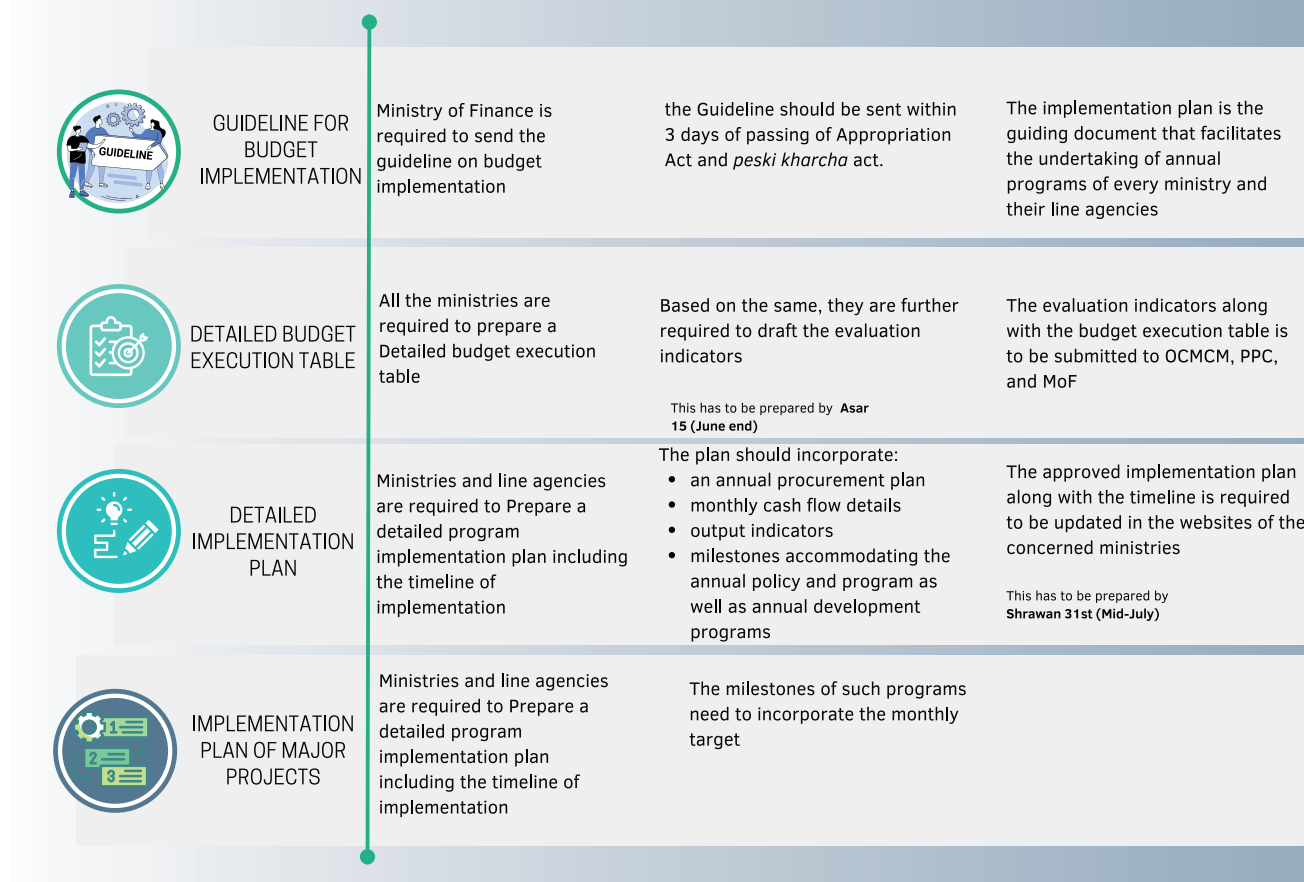


Figure 6: Process involved in implementation of programs as per Gandaki Province Budget

According to the Budget Formulation and Implementation Directives, 2080, ministries and line agencies are required to adhere to specific deadlines for the key planning and implementation activities. By 15th of Asar (end of June/beginning of July) they must have prepared the execution table and established evaluation indicators. Additionally, the detailed implementation plan is expected to be finalized by Shrawan 31st (mid-August).

During the initial three months of the budget implementation phase, ministries and line agencies are tasked with completing several critical activities outlined in the planned programs. These activities include assessing the status of preparation for program implementation, selecting appropriate procurement methods, managing human resources effectively, and estimating costs while initiating the bidding process.

Procurement process in project implementation

Procurement of Goods:



Projects above 10 lakh are required to be carried out following the procurement process. As per the Public Procurement Act, 2063, which guides the procurement process, procurement plans for the projects requiring to follow procurement process must be formulated during the budget and annual program preparation phase for the upcoming fiscal year, incorporating the detailed implementation or master plans if available. Along with the Public Procurement Act, 2063, the procurement process in Gandaki Province is guided by the Public Procurement Rules 2064 formulated by the federal government along with the Province Public Procurement Rules 2076 formulated by Gandaki Province.

Under these regulations, procurement for goods, services, or any construction-related works exceeding NPR 10 lakh is conducted through the tender process. National bidding procedures entail a 30-day bidding period, while international level bidding extends to 45 days. Prior to inviting bids, pre-qualification proposals are solicited, with the prequalification criteria established and approved beforehand.

Upon conclusion of the bidding period, an evaluation committee assesses received applications to ensure compliance with stipulated requirements. The committee is required to check if the applicant meets all the requirements set when the application is called. The committee is required to submit its evaluation report within 15 days of commencement, meticulously scrutinizing relevant documents in line with bid prerequisites. Technical evaluation precedes commercial and financial evaluation, as per regulatory guidelines.

Furthermore, bid validity periods are set at 90 days for projects with estimated costs equal to or less than 10 crores, and 120 days for projects exceeding this threshold. These regulations aim to uphold transparency, fairness, and efficiency in the procurement process, fostering accountability and ensuring optimal utilization of public resources within the Province.

Monitoring and Evaluation

Gandaki Province has established a comprehensive legal framework for monitoring, evaluation, and oversight across its financial operations. Under the Fiscal Procedure and Financial Accountability Regulations, 2079, provisions are made for monitoring and evaluation through regular assessments conducted by relevant ministers and secretaries, with reports submitted to the Ministry of Financial Affairs. Also, the Regulation provides provisions to the Ministry of Financial Affairs to establish expenditure criteria to ensure consistency in public spending practices. This includes the submission of monthly and three monthly reports to the Ministry of Financial Affairs, alongside comprehensive mid-year and yearly budget reviews. Additionally, internal control mechanisms are mandated for all government offices to ensure the effective implementation of financial procedures, overseen by audit and internal control committees. Auditing is conducted both internally and externally, with the Office of Auditor General conducting final audits. The Public Accounts Committee reviews audit reports provides recommendations for improvements to the government and prepares a report. Other committees also play a role in oversight functions for ministries under their jurisdiction.

Online monitoring system

The Office of the Chief Minister (OCMCM) oversees budget and program monitoring through an online monitoring system. The online monitoring system has been developed as per subsection 2 of section 3 of the Gandaki Province's Monitoring and Evaluation Policy and Program Implementation Directive, 2078. The directive envisions the online monitoring system to monitor all programs carried out within a fiscal year.

The directive requires all ministries as well as their line agencies to prepare monthly, quarterly, half-yearly, and yearly progress reports and make them publicly available through their websites. They print the information per the Right to Information (RTI) Act, 2064 but that does not cover the details as required by the directives. As far as the progress reports are concerned, they do not track the physical progress of the projects but only the financial ones.

One of the primary functions of OCMCM's online monitoring system is the establishment of milestones for government programs. Ministries are directed to create detailed action plans outlining tasks to be completed every month. While not every program from the annual development plans is included, selected initiatives deemed significant are incorporated into the system to facilitate effective tracking and management. As per the directives, 2078 the ministries and line agencies are responsible for selecting the programs for their tracking.

Physical progress is recorded, and updates are provided every month. These updates undergo verification and approval at the ministry level by secretaries. However, at present there is no basis for verification of the actual progress of the program. When in doubt, the secretaries communicate to the respective offices. The online monitoring system plans to go through an update in which the verification process can be strengthened by uploading files and photos before contributing to the overall dashboard maintained by OCMCM.

Monitoring and evaluation Follow-up Mechanisms

As per the Province and Local Level Monitoring and Evaluation Guidelines, 2077 formulated by PPC, there are 8 institutional mechanisms involved in the monitoring and evaluation of the programs under the provincial government. These institutional mechanisms are meant to ensure effective implementation of the budget and programs and track progress accordingly while upholding the accountability of government institutions.

Monitoring and Evaluation Matrix

Table 4: Monitoring and evaluation Matrix of the programs in Gandaki Province

<i>Monitoring Institute</i>	<i>Modality of M&E Process</i>	<i>Suggestion Modality</i>	<i>Implementation Framework</i>
Provincial Development Problem Action Committee (PDPAC)	<ul style="list-style-type: none"> - Quarterly review meetings with progress reports and presentations from PPC and ministries - Field visits (optional) 	<ul style="list-style-type: none"> - Can suggest solutions to identified problems - Submit recommendations for solutions in official meeting minutes - Can request additional reports from ministries 	<ul style="list-style-type: none"> - Reviews progress reports prepared by PPC based on ministry data (financial, physical). - PPC incorporates PDPSC recommendations into subsequent reports and communicates them to relevant ministries for action.

<i>Monitoring Institute</i>	<i>Modality of M&E Process</i>	<i>Suggestion Modality</i>	<i>Implementation Framework</i>
Ministerial Level Development Problem Action Committee (MDPAC)	<ul style="list-style-type: none"> - Reviews ministry programs and projects (at least 3 times/year) - Analyzes project data and reports 	<ul style="list-style-type: none"> - Direct/Suggest relevant bodies on recommendations from the meetings for solutions. - Proposes solutions to PDPAC through official reports or presentations 	<ul style="list-style-type: none"> - MDPAC-identified solutions are pushed to PDPSC for consideration. If approved, PDPSC recommendations are communicated to the ministry for implementation.
Provincial Sustainable Development Goals Steering Committee	<ul style="list-style-type: none"> - Annual meetings to guide resource allocation and policy 	<ul style="list-style-type: none"> - Sets strategic direction for provincial SDG implementation 	<ul style="list-style-type: none"> - Develop the provincial SDG strategy - Strategic direction is translated into provincial SDG implementation plans by PPC in collaboration with relevant ministries.
Provincial Sustainable Development Goals Coordination Committee	<ul style="list-style-type: none"> - Coordinates M&E of SDG programs (twice/year) - Reviews M&E reports from thematic committees 	<ul style="list-style-type: none"> - Suggests improvements to M&E processes and collaboration 	<ul style="list-style-type: none"> - Develops M&E plan for SDG programs - Recommendations for M&E improvement are forwarded to PPC for review and potential integration into provincial xM&E guidelines.
Provincial Sustainable Development Goals Monitoring and Evaluation Committee	<ul style="list-style-type: none"> - Monitors & evaluates specific SDG themes (e.g., poverty, education, health) 	<ul style="list-style-type: none"> - Can suggest program adjustments based on findings in thematic reports 	<ul style="list-style-type: none"> - Develops M&E tools and collects data for thematic SDG areas - Thematic committee recommendations are submitted to PSDGCC for review and dissemination to relevant ministries for action.
Provincial Secretary Level Monitoring and Evaluation Committee (PSMEC)	<ul style="list-style-type: none"> - Monthly oversight meetings of M&E with progress reports from ministries 	<ul style="list-style-type: none"> - Can request corrective actions for lagging programs 	<ul style="list-style-type: none"> - Ensures timely reporting and data analysis from ministries - PSMEC can direct ministries to take corrective actions for lagging programs. The nature of corrective actions is documented and communicated to relevant stakeholders.

<i>Monitoring Institute</i>	<i>Modality of M&E Process</i>	<i>Suggestion Modality</i>	<i>Implementation Framework</i>
Provincial Policy and Planning Commission (PPC)	- Advises on policy, plans, and M&E systems.	- Can suggest improvements to M&E systems and guidelines	- Develops M&E guidelines for ministries, and supports project M&E by providing technical assistance. PPC incorporates suggestions from stakeholders into M&E guidelines and advises ministries on implementing corrective actions related to M&E systems.
Ministry-level Monitoring and Evaluation Units	- Monitors and evaluates ministry programs (ongoing basis)	- Can suggest program improvements to ministry leadership	- Ministry M&E units track the implementation of program improvements suggested by the unit and report on progress to ministry leadership.

(Source: PPC, Gandaki Province)

The evaluation framework of the province is guided by the matrix above as outlined in the Province and Local Level Monitoring and Evaluation Guidelines, 2077. It incorporates 8 institutional arrangements for overall monitoring and evaluation.

However, specific to budget implementation, the Budget Formulation and Implementation Regulations, 2080 of the Province has provided for two specific monitoring mechanisms to track the implementation of the program and budget.

As per the Regulations, every ministry and its line agencies are required to submit evaluation indicators within 15 days of the budget announcement based on which MoFA is required to conduct a monthly and OCMCM is required to conduct a quarterly review.

Four-monthly Reviews of OCMCM	- OCMCM implements formal and informal follow-up mechanisms. Regular review meetings chaired by the Chief Minister assess achievements every four months, providing a comprehensive overview of progress made. Additionally, ministry-wise reviews are conducted regularly to monitor progress and address emerging challenges. Delays or issues are thoroughly investigated by OCMCM leadership and the Good Governance Division.
Monthly- Secretariat-Level Meetings	Monthly secretariat-level meetings serve as a pivotal platform for addressing various agendas sourced from the online monitoring dashboard, field monitoring findings, and issues raised by stakeholders. Agendas are compiled from inputs provided by subjective ministries, district offices, online monitoring systems, and informal communication channels.

Issues and challenges

1. Detailed program implementation plan, budget execution timeline, and evaluation indicators

According to the Budget Formulation and Implementation Regulations, 2080, ministries are mandated to formulate a comprehensive implementation plan and timeline for budget execution, alongside delineating evaluation indicators. Although the submission of the budget execution timeline and evaluation indicators to the MoFA, OCMCM, and PPC is mandatory, they are not mandated to submit the detailed implementation plan.

However, findings from the KIIs conducted with MoFA officials indicate non-compliance by the line ministries with the obligation to furnish evaluation indicators. This non-adherence poses a significant challenge to the effective evaluation and monitoring of approved programs. Further, it cannot be ascertained if the detailed implementation plans are being prepared which might be the reasons for the line ministries not preparing the evaluation indicators. Moreover, the absence of clear project/program development frameworks exacerbates the issue, as noted in a study by the Asia Foundation¹ on the planning and budgeting processes in the Provinces.

This absence manifests in the lack of clear guidelines or rulebook for the selection and prioritization.

Case Study:

Table 6: List of proposed programs under fiscal provisions of the four consecutive fiscal years

<i>Program/Plan under Fiscal Provisions</i>	<i>F/Y 2023/24</i>	<i>F/Y 2022/23</i>	<i>F/Y 2021/22</i>	<i>F/Y 2020/21</i>
Share investment in order institution/companies	200000	200000	90000	150000
Investment in mining operations	150000	150000	150000	200000
Investment in hydropower	150000	150000	0	150000
Total (<i>Amount in 000s</i>)	<i>500000</i>	<i>500000</i>	<i>240000</i>	<i>500000</i>
Total percent of budget allocated for fiscal provisions	1.5	1.39	0.8	1.43

(Source: Annual Development Programs, Gandaki Province)

Under fiscal provisions, Gandaki Province annually allocates budget categories such as share investment in other institutions/companies, investment in mining operations, and Investment in hydropower. Despite budget allocations, none of the earmarked funds are expended.

A study conducted by MoFA in 2079, recommended a thorough scrutiny of investment plans and a more detailed study be done to identify the sectors for investment to make investments more productively to ensure optimal expenditure. However, subsequent efforts to streamline investments have been lacking, evident in the unchanged investment plan perpetuated in the budget allocation for 2080/81.

Furthermore, despite an overall budget reduction of 6.91 percent in the province this FY, allocations for fiscal provisions remained the same. This discrepancy underscores the need for comprehensive evaluation and strategic adjustments to optimize budget execution and ensure efficient resource allocation within the Gandaki Province.

¹ The Asia Foundation. (2021). Planning and budgeting in the provinces of federal Nepal <https://asiafoundation.org/wp-content/uploads/2021/06/Planning-and-Budgeting-in-the-Provinces-of-Federal-Nepal.pdf>

2. Corrections in the programs after the finalization of the annual development programs
The final approval of the budget and development programs takes place at the end of Ashadh (mid-July) after which the budget implementation period commences. However, any inaccuracies detected in program details necessitate correction of the error, often leading to halts in implementation until the error is rectified. In such cases, prior to 2079, consultation with the MoFA was mandated for error correction. Subsequently, the Allocation Act of 2079 made the process time bound and fixed the end of Kartik (mid-November) as deadline for correction. However, the Allocation Act, 2080 has curtailed this deadline to the end of Chaitra (mid-April) affording a mere four-and-a-half-month window for implementation.

The errors that usually affect the implementation of the programs have to do with the names of the places where the program is to be implemented. The seven-and-a-half-month period allotted for rectifying minor errors in project details is excessively protracted, posing significant challenges to timely project execution. This prolonged timeframe has historically hindered effective project implementation, persisting as a recurrent impediment even in the current fiscal year.

3. Allocation of a comparatively big portion of the budget under 'undivided (*abanda*)' and 'contingencies' subheadings

A significant portion of the budget is earmarked under the 'undivided' (*abanda*) headings mostly 'contingencies' heading, representing lump-sum allocations for unforeseen circumstances. Despite a declining trend in budget allocations under these headings, a substantial amount continues to be allocated under such designations.

Table 7: Budget allocation under the undivided heading of the consecutive three Fiscal Years

	<i>Total Budget (in 000s)</i>	<i>Allocated Budget (in 000s)</i>	<i>In percentage (%)</i>
FY 2078/79	30056700	3934726	13.09
FY 2079/80	35909000	4003405	11.14
FY 2080/81	33427200	2749721	8.22

(Source: Budget Speech)

The execution of the budget allocated under the 'undivided' category follows a unique mechanism wherein subjective ministries allocate funds for unspecified activities. While meticulous planning processes govern the selection of specific programs during the planning and formulation phase, the practice of allocating undivided budgets deviates from the established norms. Programs listed in annual development programs often reflect priorities outlined in pre-budget policy documents, leaving room for financial mishaps as allocations under the 'undivided' heading lack specified implementation plans. Even though it is widely acknowledged in budgetary practices, such huge allocations without any implementation plan is against the fiscal discipline.

Excessive budgetary allocations under the heading, as per our key informant interviews, increase the likelihood of financial misuse. Therefore, a thorough study and risk assessment are imperative when allocating funds under the 'contingencies' heading to ensure scientific allocation and prevent haphazard expenditure.

For instance, let's assume the Ministry of Social Development has prioritized funding for the renovation/reconstruction of school infrastructures. The Ministry, however, lacks adequate records, and there has been no proper planning for implementation done during budget preparation. In such cases, while this priority program makes it to the policy and programs of the fiscal year of the government, when it is reflected in the annual development programs, due to lack of specified activities, the budget is allocated in an undivided way.

This flexible budgetary approach grants ministries/Line agencies autonomy in designing activities under programs without detailed prior planning, which may or may not meet the actual objectives of the allocation.

Several factors contribute to the allocation of large amounts under undivided headings, including:

1. Inadequate program planning before budget formulation.
2. Lack of available research and information on the developmental needs of the province.
3. Failure to identify specific priorities beforehand.
4. Adherence to political interests over periodic plans, MTEF, and provincial interests.

The half-yearly review 2080/81 conducted by MoFA, Gandaki Province, noted the reallocation of the contingency budget to other line ministries. In doing so, the responsible authority bypasses standard planning procedures and program selection regulations. Most studies analyzing public finance management in Nepal and its provinces emphasize the need to reduce allocation of such large amounts under such headings³ citing the mismanagement of funds and execution without following the standard procedure for planning before the finalization of the entire budget.

4. Time-consuming procurement procedures

Lack of detailed program planning: Many programs that go through the bidding process have not completed the pre-feasibility study. As per the KII conducted for this study, due to the lack of preparation before the selection of the program, the implementation takes longer than it should as the pre-feasibility studies are required to be conducted only after the fiscal year starts. In the lack of pre-feasibility studies for the projects, hurdles faced in the initial stages of the project implementation like the acquisition of land and building permissions are not identified beforehand. This not only delays implementation but sometimes leads to the absolute shutting off of the project.

Extending the timeline for completing bidding: There is no specified timeframe for the procurement process to be completed before evaluation. Further, even though the evaluation process is required to be completed within 15 days of the commencement of the process, it usually takes much longer. This is because there are certain documents that the applicants are required to submit for verification, which they can submit during the evaluation process if the committee demands it. The acquisition of such documents at one time often takes almost an additional two weeks. Further, there is no uniform guidelines for the evaluation process.

E-Government Procurement (e-GP): The system of electronic bidding started in Nepal to enhance transparency and expedite the procurement process. However, even after more than a decade of implementation of the e-GP system, the evaluation process of bidders and contractors is required to be carried out manually as the system has not been upgraded to incorporate all the aspects of the procurement process. Further, as per the national daily, the Kathmandu Post, only around 40% of the government's

3 World Bank (WB). (2023). Nepal Fiscal Federalism Update. DOI: <https://doi.org/10.1596/39949>

The Asia Foundation. (2021). Planning and budgeting in the provinces of federal Nepal <https://asiafoundation.org/wp-content/uploads/2021/06/Planning-and-Budgeting-in-the-Provinces-of-Federal-Nepal.pdf>

procurement budget goes through the electronic process⁴.

Challenges of compliance from contractor: In cases where the contractors do not comply with the timeline they submit before project finalization, there is the provision of blacklisting the contractor. However, the public agency is not keen on breaking the contract as that would mean restarting the whole process all over again. On top of that, there would be a minimal possibility that any contractor would complete the job within the same capital as the previous contractor as the contracting process follows the lowest-cost bidding method. This leads to a prolonged approach to get the same contractor to get back to work increasing the overall timeframe of the project completion.

5. Human resource constraint

As per the annual report on Gandaki Province published by the office of the Auditor General in 2023⁵, of the total 3,178 positions available in 173 government agencies, only 2,285 positions have been filled while 883 positions remain empty. This has hugely impacted the implementation of plans and programs in the province as per the informant interviews conducted for the course of the study. The lack of human resources has limited the province to performing only the most important activities which has put the planning and proper study done before the budget finalization into the backseat. Most of the line ministries cite the lack of human resources in complying with all the requirements outlined in the acts/procedures and regulations guiding budget formulation and implementation in the province.

On top of that the federal-level human resources currently employed within the province, as per the key informants are more liable to the federal government, which is why their performance in most of the cases is not in line with the provincial priorities. As such in the present context, the challenge is not just the lack of enough human resources but also the lack of competent human resources who are more liable towards the Province and thus prioritize provincial development rather than act as a mouthpiece of the federal institutions.

6. Gaps in evaluation monitoring and oversight processes

The monitoring and evaluation mechanism as devised by the law and policies are only effective at the bureaucratic level. None of the monitoring agencies involved in the monitoring of the progress or implementation of the programs can ensure compliance from the leaders. There aren't many mechanisms to make the responsible authority accountable.

Decisions and directives arising from the institutional mechanisms involved in monitoring and evaluation are communicated to the respective offices, accompanied by clear deadlines for implementation. Follow-up on previous decisions takes precedence at subsequent meetings to ensure timely execution and address any lingering concerns as per the procedures outlined in Province and Local Level Monitoring and Evaluation Guidelines, 2077.

- Gaps in the online monitoring system

Does not include all programs: The online monitoring system has been envisioned to address the issue relating to timely information accessibility and online monitoring of the progress. However, it does not provide the whole picture as not all programs are required to be updated through the database. On top of that, as per the directives 2078, Ministries and line agencies are under the discretion to select the programs that will be uploaded into the system for tracking. This opens ways for them to not include programs whose progress tracking might put them in a bad light.

Limited accessibility: Another significant challenge is the restricted accessibility of the online monitoring system. The data are not only unavailable to the public, they are not even accessible to other

4 Shrestha, P.M. (2020). E-bidding taking place only in around 40 percent of the government's procurement budget <https://kathmandupost.com/national/2020/10/10/e-bidding-taking-place-only-in-around-40-percent-of-the-government-s-procurement-budget>

5 annual report of the Auditor General: Gandaki Province. <https://shorturl.at/cpyCW>

government entities. This has led to underutilization of the available resources. The shared data mechanism could save time and effort for all the authorities involved in monitoring and evaluation along with OCMCM. For example, while the MoFA is also involved in monitoring the budget and program implementation, it has no access to the data maintained by OCMCMs' online monitoring system. MoFA for that matter has to resort to asking for the report via letter, which is time-consuming and exhaustive.

Lack of proper verification mechanism: The updates of the projects are uploaded in the system by the implementing body and only if/when there is a doubtful situation does the line ministry verify. The system as such lacks a standardized process for verifying the accuracy and reliability of the data entered. Thus despite its utility, OCMCM's online monitoring system faces challenges due to the absence of a robust verification mechanism.

- Citizen involvement in ensuring government accountability

The Right to Information Act 2007 guarantees every citizen's right to have access to the information held in public bodies. The respective authority needs to be transparent with information and people need to be let in on it to ensure accountability.

There are very limited reports available to the public and the available reports do not even paint the whole picture, there is no data on weekly or even monthly updates both financial as well as physical regarding the progress of the projects listed under the budget headings and no way for the people to find out the authority responsible to implement the suggestions provided in the few publicly available reports. As such based on the data available in the online monitoring system, monthly progress reports should be made publicly available.

- Lack of accountability measures in place to keep the bureaucracy and leadership in check

Key informant interviews revealed that there is a lack of coordination between the bureaucracy and ministers posing a challenge to efforts within the system that ensures accountability from both. One of the negative impacts of the coordination challenge was seen to be affecting the incorporation of suggestions and recommendations during the finalization of the budget. The political interests of the respective minister and the bureaucratic interests were seen as affecting the important budget execution decisions.

Recommendations

1. Streamlining error correction process

The current time frame allotted for error correction in program details, as stipulated in the Appropriation Act, 80/81, poses a significant challenge to effective budget execution. With 7.5 months designated for minor error rectification, a mere 4.5 months remain for program implementation. To address this issue, it is imperative for the authorities to undergo careful review of the rectification process and recommend the shortest duration for such rectification. For this, they need to keep the bureaucratic process to minimum. The error correction process should be streamlined to ensure more time is available for program implementation.

Moreover, proactive measures should be taken to prevent errors and enhance budget execution efficiency. Authorities should prioritize the development and implementation of automated verification systems. These systems would enable the identification and flagging of potential errors during the budget approval period itself, significantly reducing the likelihood of inaccuracies slipping through the cracks. By leveraging technology-driven solutions, the province can enhance accuracy, transparency, and accountability in the budgetary process, fostering optimal resource utilization and effective program implementation.

2. Dedicated monitoring, evaluation, and oversight of budget implementation.

While article 29 of the Integrated Budget and Program Implementation Procedure, 2077 provides for the monthly and quarterly monitoring from MoFA and OCMCM respectively, the monitoring of budget implementation is limited to the monthly secretariat level meetings and quarterly meetings of the OCMCM, which is a standard monitoring protocol of the province as provided in the Gandaki Province's Monitoring

and Evaluation Policy and Program Implementation Directives, 2078.

While the concerns regarding budget execution are addressed by these meetings and suggestions are drawn, the overwhelming number of issues discussed in these meetings mean that the budget execution and implementation of annual plans are not the major priorities for the discussion.

As per our findings, both MoFA and OCMCM have been conducting monitoring and oversight at a fragmented level and have not been able to conduct monitoring solely focused on budget implementation as outlined in the working procedures. This as per the KII was because of the lack of procedural clarity regarding the monitoring process envisioned by the Integrated Procedures, 2077, and the lack of compliance from ministries and line agencies in sending timely reports to MoFA.

Procedural clarity along with information sharing through the online monitoring mechanism could be a key in resolving the issue.

- Online monitoring of OCMCM: To make the online monitoring mechanism truly an instrument of monitoring the progress of every government unit's performance regarding budget implementation, there should be a mechanism to verify the progress updated by the implementing units into the monitoring system.
3. Progress tracking of the suggestions and recommendations provided by various reports of monitoring and oversight bodies

The findings suggest that the most challenging aspect of monitoring and evaluation of the budget execution is tracking the implementation of suggestions and recommendations provided by the agencies involved in monitoring and evaluation along with oversight.

Tracking the implementation of the findings of monitoring and evaluation along with the oversight process is key in ensuring the effectiveness of all the monitoring, evaluation as well as oversight processes devised by the province.

The following steps are recommended to track the suggestions and recommendations:

- Every monitoring/evaluation/oversight report should have a section on analysis of the progress of previous reports and the progress should be meticulously mapped.
- Expanding the Information sharing mechanism through the online monitoring system of OCMCM to all agencies involved in monitoring/evaluation/oversight. It would support all the evaluating agencies including MoFA to access the required information for the progress report via an online portal rather than having to follow up with every implementing agency, which takes longer time and is exhausting at the same time.
- Reviews and evaluations should be made public to increase accountability and citizen engagement

4. Rigorous planning of projects before budget allocation

Program planning is a major step in budget execution. If effectively planned before execution, programs run smoothly without much delay and achieve the estimated output. In the absence of proper planning and selection of priority programs, the projects once started have been facing difficulties with smooth operation. The planning process should therefore not just be limited to a few protocols that may or may not be implemented.

The steps recommended for ensuring rigorous planning are as follows:

- The process provisioned by the multiple legislatures on program planning and budget formulation should be followed to the letter.
- Reduction of the allocation under contingency headings and streamlining undivided allocations
- Realistic budget estimation and program planning
- Immediate implementation of the project bank.

5. Human resources

A major step that needs to be taken to resolve the issue of the lack of human resources is active hiring via the province Public Service Commission to fill the gap.

6. Procurement process

To remedy the procurement process-related challenges following steps are recommended:

- Streamline the steps involved in the procurement process and make them time-bound.
- Selection of programs based on completion of pre-feasibility study.
- Upgrade e-GP system to incorporate the overall process including pre-qualification proposal submission as well as evaluation.

Annex: List of KIIs conducted for the study

S.N.	Stakeholder Details	Date
1	Hon. Dr. Krishna Changra Devkota Vice Chairperson, Province Planning Commission	18th February
2	Hon. Govinda Nepali Member, Gandaki Provincial Assembly Chief Whip of the opposition	18th February
3	Hon. Sudhir Paudel Member, Gandaki Provincial Assembly Chairperson, Public Accounts Committee (Gandaki Provincial Assembly)	18th February
4	Ms. Kalpana Devi Sapkota Information Officer, Ministry of Financial Affairs (MoFA), Gandaki Province	20th February
5	Mr. Prem Subedi Under Secretary, Gandaki Province Assembly	21st February
6	Mr. Sajjan Bhurtel Section Officer, Office of the Chief Minister and Council of Ministers (OCMCM)	22nd February
7	Ms. Kalpana Devi Sapkota (second time) Information Officer, Ministry of Financial Affairs (MoFA), Gandaki Province	28th February
8	Mr. Narendra Basyal Engineer, Pokhara Metropolitan City Office	29th February
9	Ms. Gita Ghimire Doranga Section Officer, Ministry of Financial Affairs (MoFA), Gandaki Province	29th February
10	Mr. Rajan Bhattarai Information Officer, Office of the Chief Minister and Council of Ministers (OCMCM), Gandaki Province	29th March
11	Mr. Sajjan Bhurtel Information Officer, Office of the Chief Minister and Council of Ministers (OCMCM), Gandaki Provinc	29th March
12	Mr. Santosh Devkota Section Officer, Province Planning Commission (PPC)	6th March
13	Mr. Tejendra Prasad Dhakal Law Officer, Ministry of Financial Affairs (MoFA)	12th March
14	Mr. Dhakaram Acharya Section Officer, Ministry of Energy, Water Resources and Water Supply (MoEWRWS)	12th March

About Pokhara Research Centre (PRC)

Pokhara Research Centre (PRC) is a research-based non-partisan organization based in Pokhara. Established in 2019, PRC focuses on socioeconomic dimensions of domestic public policy research.

Guided by the motto of "*Economic Freedom with Good Governance*", PRC is following the international principle of individual choice and liberty translated into the equal opportunity of enterprise, rule of law, and the democratic principle of free expression as a tool to design its programs and initiatives; creating positive impact at the province level, through policy reform; PRC works under three broad functional domains; Research, Training, and Advocacy.

PRC's one of flagship program Youth in Policy and Governance Fellowship Programme (YPG Fellowship) aims to train the youth of Gandaki Province in law-making and public policy. The primary role of a PPSP Fellow is to deliver extensive research support to their assigned MP for their parliamentary work. The organization is also focusing on other youth training programs on the free market, entrepreneurship, and economic freedom in the region supported by Atlas.

The organization's core values are; Creating public values, Evidence-based policy-making, and the investment approach to public service delivery. PRC intervenes in areas viz. Enterprise Development, Economic Policy Reform, Governance & Advocacy, and Public Policy Delivery.

The organization has launched programs such as Gandaki Discourse, Political Economic Discussion Series (PEDS), and Formation of Gandaki Leader Circle (GLC) dedicating it to establishing itself as a state-level policy think tank.

Further, PRC is the partner of Atlas Network, Centre for International Private Enterprise, National Endowment for Democracy, United States Embassy in Kathmandu, Samridhhi Foundation, Hriti Foundation, and Bikalpa an Alternative.



Pokhara, Kaski, Gandaki Province, Nepal

Tel.: 061-587111

Email: centre.pokhara@gmail.com

Website: www.pokharacentre.org