

# Report on the review of the CDG Performance Audit Report

## Good Governance Committee

### 1. Background

The Constituency Development Grant (CDG) was initiated by the DPT government during its tenure (2008-2013) with an allocation of Nu. 2 million per constituency per year. The primary purpose of the grant as it is stated in the CDG Rules 2009 is "to deepen and strengthen democracy by establishing a basis for direct and regular interaction between the MNAs and their constituencies".

The debate on the CDG sparked off during its first two sessions of the first Parliament subsequent to the proposal that originated from the National Assembly. While the idea was noble from the perspective of channeling funds to constituencies that will directly benefit people at the grassroots, the National Council, as the house of review, objected to the proposal for reasons that did merit the government's attention prior to launching of such a scheme. To recapitulate, the National Council raised its concerns on the following:

- that the CDG modality is in direct contravention to Articles 1.13, 10.2 and 22 of the Constitution of the Kingdom of Bhutan, which pertain to: separation of powers of Executive, Legislature, and Judiciary; mandate of the MPs; and decentralization policy respectively;
- that experiences in other countries where a similar scheme is in place have not proven positive;
- that activities under CDG scheme will further stretch already limited human resources in the local governments thus compromising on quality of capital works executed;
- that the incumbent MPs will hold undue advantage over new comers in the next election through the influence of money power thus defeating the spirit of free and fair elections.

Despite strong reservation from the National Council, the government went ahead with the scheme. As far as the constitutionality aspect of the argument was concerned, no heed was paid to it. However, issues pertaining to other ground realities appear to have been taken into account while formulating CDG Rules 2009. For example, introductory paragraph of the Rules acknowledges the failure of a similar scheme in other countries and highlights on the need for an adequate measures to be put in place to safeguard the CDG scheme in Bhutan from such malpractices. Furthermore, the CDG Rules 2009 clearly lay down the intended purpose of the scheme, criteria for selection of projects, flow of funds from MNA to the gewog administration, planning and monitoring of the projects, negative list of activities under the CDG funding, etc. During 2008-2011, a total of 520 activities amounting to Nu. 152 million had been implemented under the scheme.

In 2012, the Royal Audit Authority had conducted a performance auditing on the implementation of the CDG activities in keeping with its constitutional mandate of auditing and reporting on the economy, efficiency, and effectiveness in the use of public resources. The final report was shared by the RAA with

the National Council. The ACC had also conducted an investigation on the purchase and distribution of jersey cows to 14 households through CDG fund in Chukha Dzongkha. The National Council, in turn assigned the task of reviewing the report to the Good Governance Committee.

There is no denial that we are heavily dependent on donor agencies and that almost 100% of our capital expenditures are currently met through loans and grants. Nonetheless, the donor agencies have already indicated the withdrawal of their support from the Country within next few years. While on one hand, external source of funding is likely going to decline, on the other hand, our demand for development activities in the coming years will only grow. This calls for an affirmative measures from the government to appropriately deal with this new challenge. One of the ways would be to rationalize wastage of the available public resources. Against this backdrop, the GG Committee's primary objective of the review exercise is to find out if the CDG fund had been managed in a responsible and accountable manner. Ancillary objective of the exercise is also to identify shortfalls of the implementation of CDG funded activities and propose corrective measures to prevent the same mistakes occurring again should similar initiative be undertaken by the government in future. The following paragraphs first presents findings of the RAA and the ACC's investigation followed by observations of the Committee and finally recommendations.

## 2. Findings of the RAA and ACC

The major findings of the RAA include three points on achievements and 25 points (17 general and 8 specific to constituency) on shortfalls and lapses. Under the achievements, the Performance report suggests that the promulgation of CDG Rule 2009 had greatly facilitated proper utilization of CDG fund; 92.57% of the total activities had been implemented with fund utilization achievement of 92.19%; and people across the country had generally found the CDG scheme benefiting them.

However, on the shortfalls and lapses the report highlights the following:

- Allocation of CDG fund of Nu.2million equally to all constituency irrespective of poverty index, population size, level of economic development and size of constituency did not seem to be fair and equitable in distribution of the fund;
- Many rural people lacked awareness about the CDG scheme, which may impede effective implementation of the CDG funded activities and promoting community vitality;
- In some constituencies people were not involved and consulted while proposing grant activity. Instead the gewogs had directly obtained approval from the GT and implemented the activities without discussing with the community members;
- Against a total earmarked budget of Nu.282million, actual utilization was Nu.152.50million indicating that Nu.129.5million was not utilized representing 45.92% of the total budget. This indicated lack of absorption capacity in the Dzongkhags and **Gewogs leading to blockage of funds of the government which could have been utilized for other emergent needs;**
- Four of the 523 activities implemented as of June 2011 had benefitted less than ten households which in contravention to Section 3.5 of the CDG Rules 2009;
- 26 of the total activities amounting to Nu. 13.142million were implemented benefiting individual households and students directly distributing various types of materials and as stipends;

- CDG funds were used for construction of new farm roads despite budget allocated being unreasonably lower compared to the budget required as per the MoAF's guidelines for new farm road constructions. Field visits to various farm roads constructed through the grant was revealed to have been in dilapidated conditions rendering unusable thus, **failing to bring in any real value or benefit to the local community;**
- Many gewogs had not submitted the work plans to the MNAs and the Dzongkhags which is mandatory as per the CDG Rules 2009. Out of the 523 activities implemented, 140 activities had not submitted the work plans and even those ones submitted were partially complied to the prescribed format. More than 50% of the activities implemented failed to comply with reporting norms;
- 16 activities with a total expenditure of Nu.9.91million were utilized for activities which fall under negative list of the CDG Rules 2009;
- Lack of commitment from the community to maintain assets created through the grant, thus rendering unserviceable and unusable;
- Proper inventory of assets were not maintained in many gewogs. In addition some assets were directly distributed to individuals and community;
- CDG activities had over burdened Dzongkhag engineers with additional construction sites to supervise;
- There are inconsistencies between the accounting records and financial statements maintained at the DPA and DNB and at various Dzongkhag administrations;
- In many cases payments were made for works not executed and goods and services not delivered or rendered or items of works not executed;
- Excess payments were made to the contractors on six cases amounting to Nu. 1,09,657.40.

In addition it was observed that:

- Five grant activities implemented in Chukha Dzongkhag have remained un-utilized;
- Progress of renovation work on Tashi Lhakhang under Laya Gewog in Gasa was poor;
- River training works carried out through CDG fund in Lhuntse has not benefited the community;
- In Paro Dzongkhag, CDG funds were distributed equally amongst gewogs irrespective of the needs;
- Agricultural machinery purchased for Dewathang and Orong gewogs were found to be unutilized;
- A backhoe loader purchased for the use by four gewogs under Bomdeling-Jamkhar constituency was found to be registered in the name of Ex-gup. The backhoe has remained idle most the time thus, bringing minimum benefit to the community. In addition, the ex-gup had hired the machine for the period of five years without making any payment of hiring charge;
- In Radhi-Sakten constituency, an advance of Nu. 0.22million was made to two individuals for the purchase of "Phasuen" of mithun and yaks but the money remained un-utilized;
- Under Athang gewog, an amount of 0.3million was found paid in cash to 68 households to purchase materials for internal house wiring.

The ACC's investigation establishes that:

- there was total non-transparency in project conceptualization process and nexus between the member of National Assembly (MNA), party coordinator and local officials;
- Funds like the CDG could be misused in different ways to favour party supporters and also to cultivate new supporters, which may create undue advantage for the government in power; and
- while the intentions of instruments may be noble, such funds can potentially be subject to abuse especially in a pervasive culture of impunity, weak accountability, weak monitoring and complacent communities. Therefore, instead of deepening democracy and promoting community vitality, it may deepen community disharmony and distrust besides losing huge public resources.

### **3. Committee's observation**

Upon thorough review of the report, the Committee observed the following:

#### **3.1. Non compliance to CDG Rules 2009**

While adoption of CDG Rules 2009 had facilitated smooth implementation of CDG activities, many provisions of the Rules were not adhered to by both MNAs and project executing agencies. For example:

- MNAs had approved funding of activities which were not permissible under Section 7 of the Rules such as purchase of school bus, payment of salary for the boatman, construction and renovation of government staff quarters, and supplemented activities funded by the government and regular program;
- MNAs had approved funding of 30 activities spread across 15 constituencies that benefited either individuals or less than ten households, contravening Section 3.5 of the Rules.
- The gewogs of all 20 Dzongkhags had either totally not fulfilled or only partially fulfilled the requirement of submission of workplans as prescribed in Section 7.2 of the Rules. Likewise, periodic progress and completion reports were not submitted for the projects executed despite being stipulated in Section 7.4 of the Rules.
- Many Gewog administrations had not maintained proper inventory of assets created through the grant, neither were the assets being adequately maintained by the community despite being required as per Sections 10.2 and 10.1 of the Rules respectively.

#### **3.2. Lapse on the RAA's part in issuing the audit clearance**

As stated in the Report, the objective of conducting the performance auditing on the CDG was to cross check if activities implemented under the CDG were in line with the CDG Rules 2009. Despite having observed that numerous activities had failed to comply with the Rules, the concerned MNAs were still issued with audit clearances at the end of their term in the Parliament. The question was raised to the RAA during the Committee's consultative meeting with the RAA. The RAA justified that firstly, all the lapses pertaining to financial accounting have been resolved, secondly, accountability is being fixed on concerned individuals under the Dzongkhag level auditing, and thirdly, practice of fixing accountability on individuals is not there in performance auditing system unlike the regular operational auditing system. The RAA further explained that although the names of individual members were reflected in their system, the audit clearance was issued based on the undertaking letter from the Minister of Finance signed by the then Minister.

The Committee found that the letter however, only mentions about revisiting the CDG Rules 2009 but there is not mention about whether MNAs concerned will be made accountable through other means.

### 3.3. Wastage of public fund

The wastage of public resources can be defined as spending public fund on an activity either of the following nature:

- that is not on the priority list of the emergent needs;
- that does not bring any reasonable benefit to the community; or
- for which funds can be mobilized through other sources.

Guided by this definition, the Committee identified the following major areas where CDG fund could not have been utilized judiciously:

- **Construction of farm roads:** The Performance Audit report points out that farm roads constructed under the CDG funding had rendered unserviceable to the community due to poor quality of works. This explains that whatever CDG fund has been utilized for farm road construction, the funds have gone to waste. The break-up study on the expenditure and activities implemented shows that out of 523 activities implemented, 33 were for farm road construction and expenditure incurred was Nu.21.719million.
- **Procurement of agricultural machinery and supports:** There are two issues pertaining to this topic:
  - firstly, procurement of power chainsaw, power tillers, value adding agricultural machinery, seeds, seedlings and livestock breeds could have been financed through other modes such as the rural business loans provided by Bhutan Development Bank Ltd., and/or private individuals' savings. However, out of 523 CDG activities implemented, 159 were on activities related to procurement of agricultural machinery and supports. The total fund utilized is Nu. 27.033million. When such assets are created through public funding, sense of ownership and duty to take care of the assets is generally minimal. Incidentally, this assumption is validated by one of the findings of the performance audit report that highlights on assets created through CDG being not adequately being maintained partly due to lack of community ownership.
  - Secondly, machineries procured in some constituencies are either not utilized at all or its ownership is being privatized. As pointed out in the Performance Audit Report, agricultural machineries worth of Nu. 0.839million procured in Dewathang and Orong gewogs are left unutilized. Similarly a Backhoe Loader procured at the cost of Nu. 2.070million is registered under the ex-gup's name and he is currently using the machine without paying rental fees.
- **Distribution of cash to households and gewogs:** This is yet another blatant waste of public resources. Without assessing the emergent needs of the gewogs, MNAs of Paro Dzongkhag has distributed the fund equally among the gewogs. Under Athang gewog, CDG fund of Nu. 0.300million was distributed in cash to 68 households for the purchase of materials for electrical house wiring. This shows the level of financial prudence MNAs exercised while utilizing the limited public fund.

#### **4. Committee's recommendation**

Many would think that the issue of CDG is a thing of a past and would not even find it worthy of reviewing the case. However, the bottom line is, while we may choose to forget the past event but we definitely cannot afford to ignore the lessons learnt. The Committee observed that the lessons learnt from the implementation of CDG activities can be used to ensure the same mistakes are not repeated in the future particularly in the context of the current government's initiative to allocate Nu.2 million to each gewog in the country. It is with that spirit the committee would like to draw attention of the concerned authorities on the following:

##### **4.1. CDG must never be implemented hereafter**

The implementation of CDG may have breached the Constitutional provision on separation of power among the three branches of the State as the legislator encroached into the function of an executive. Besides, the ACC report ascertains that the CDG has high potential of getting misused by the member of Parliament to claim an unfair political mileage and create disharmony in the society at the expense of the scarce public resources. Taking into account of these, the Committee proposes that any government of the day hereafter, must never reconsider implementing the CDG.

##### **4.2. RAA to consider inclusion of fixing accountability in performance auditing**

The Committee's observation confirms that RAA had been lenient with issuance of audit clearances to those MNAs who did not comply with CDG Rules 2009. While financial lapses could have been recovered and accountability may have been fixed at the local government level, there was a need to have fixed accountability on MNAs since they were the ultimate authority to endorse the project proposals and approve the fund.

Therefore, Committee proposes that the RAA looks into fixing of accountability on individuals while conducting performance auditing on activities similar to CDG in the future.

##### **4.3. Effective mechanism to ensure greater compliance to the rules**

It is a prevailing problem that we have the finest of the policies and rules on paper but when it comes to implementation, there is a gross failure. CDG is of no exception. Therefore, it is highly recommended that an effective mechanism is put in place to ensure greater compliance to the rules at all levels. Clear delineation of responsibility and fixing of accountability on individuals right at the outset may be necessary. It is also recommended that where funds are allocated as grants to be used at the discretion of the local authorities be operationalized only after comprehensive guidelines are put in place.

##### **4.4. The allocation of fund may need to be determined based on needs**

A blanket amount of Nu.2million across all gewogs may not be fair as development needs, and size of population may differ from gewog to gewog. Therefore, it would be important to allocate the fund in proportionate to the development needs, and population size of the gewogs.

#### **4.5. Scarce public resources should be optimally utilized**

Scarce public resources can be optimally utilized. Fund should be utilized on:

- activities, which will bring maximum socio-economic benefit to the community,
- activities, which are of absolute necessity to the local community; and
- activities for which there are no alternative sources of funding available.

#### **4.6. Human capacity in the local government may need to be strengthened**

With an increase in fund allocation, the volume of development activities is expected to grow. An experience from CDG indicates that adhoc projects can take a toll on the already limited technical manpower in the Dzongkhag offices. For example, quality of farm roads constructed under the CDG scheme had suffered partly because of too many work sites Dzongkhag engineers had to supervise. Therefore, it is imperative that allocation of additional fund to the local government should be backed up with strengthening of its human capacity.