

Factors Influencing the Local Government Underutilization of Capital Budgets in Bhutan

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Abstract

Bhutan has been facing with underutilization of capital budget over the past many years. Therefore, this research aims to examine the factors influencing Local Government (LG) underutilization of capital budget in Bhutan. Such influencing factors are also investigated according to LG unit characteristics; including size, age, type of services, location, source of fund, and size of capital budget. The research was undertaken at two stages; an initial exploratory research was conducted to capture pertinent issues related to the underutilization of capital budget. The population of the research were 229 finance personnel in LG units across the country consisting of 20 districts, 4 municipalities and 205 sub-districts. A questionnaire using Likert scale to measure influential level was designed and pre-tested. The data were collected through online survey on the total population. Descriptive statistics including frequencies, arithmetic means and standard deviation were used in the analysis. Survey results showed the most influential factors on underutilization as budget allotted for additional work by central ministries at the end of fiscal year in the preparatory stage, late approval of additional budgets by the budget office in the approval stage, delay of work progress due to road blocks in the execution stage, and lack of monitoring and evaluation of budget performance in the LG units in evaluation stage. The results revealed. The research attempted to determine the influence of factors on the local government unit's characteristics. The mean difference among influential factors by LG units' characteristics was found for all types of characteristics and also for all stages. These implied the influence of factors on the LG unit characteristics. Considering each characteristic, the highest mean may imply the most influence and on the other hand, the lowest mean may imply the least influence that factors influencing capital budget underutilization were different among LG units with different size, age, type of services, location, sources of fund, and size of capital budget. This research is first of its kind in Bhutan and it will lead to further study, contributing to more academic knowledge and practical contributions.

Keywords: Capital Budget, Underutilization, Local Government, Influencing Factors

Introduction

Bhutanese economy has experienced an average growth rate of 7.9% with tertiary sector becoming the main contributor to the GDP and added huge investment to harness hydropower energy has largely driven the growth and today it accounts for 34.15% of the total exports. In the last six years the total expenditure has grown at the rate of 11% on average while the domestic revenue grew at 9.1%. Although, the domestic revenue comfortably covers the current expenditure, financing capital expenditure still remains a challenge. Bhutan's external debt stood at Nu. 171.84 billion as of March 2018. With US\$ 696.5 million (equivalent to Ngultrum/Nu. 45.08 billion) as convertible currency debt and Nu. 126.84 billion as Indian Rupee debt out of which hydro-power debt account for Nu. 113.54 billion. On the balance of payment, current account deficit continues to be a challenge for the economy with 24.4% of GDP as trade deficit and that it is expected to persist until the economy undergoes a structural change that favors balance of trade (Prime Minister's Office, 2018)

Capital budget underutilization problem has been a topic of discussion at every level of bureaucracy. As pointed out by Messer (2017), in most of the financial management world, usually, the favorable variance of the budget typically receives relatively little scrutiny but unfavorable results are viewed as a cause of concern for the executives. The trend of the under-utilized budget is becoming more serious as the size of capital budget keeps increasing annually. The annual revised budget has been increasing since the start of the plan period and by the end of FY 2017–2018, the amount stood at Nu. 34,057.46 million. The total expenditure for the fiscal year 2015–16 increased by Nu. 8,582.17 million or 21.8% from the previous fiscal year and Nu. 6,364.05 million or 41.21% belongs to capital expenditure (Ministry of Finance, 2016a). The situation of underutilization of capital budgets in Bhutan in the last five financial years are shown in Table 1 below;

Table 1 Percentage of under-utilized Capital Budget in Bhutan in the recent five years (Million Nu)*.

Fiscal Year	Approved Budget		Actual Expenditure		Difference		Percent of underutilization	
	Overall	LG	Overall	LG	Overall	LG	Overall	LG
2013–2014	19,490.67	3,920.33	16,652.35	3,568.13	2,838.32	352.20	14.50	8.98
2014–2015	19,565.55	3,751.11	15,443.80	3,452.02	4,121.76	299.09	21.00	7.97
2015–2016	26,563.63	6,224.01	21,807.86	5,537.93	4,755.77	686.08	17.90	11.02
2016–2017	32,659.99	8,491.52	26,366.52	7,416.55	6,295.48	1,074.98	19.20	12.66
2017–2018	34,057.46	7,352.67	28,661.45	6,973.59	5,396.01	379.28	15.80	5.16
Average	26,467.46	5,947.93	21,786.40	5,389.60	4,681.07	558.32	17.68	9.16

Source: (Ministry of Finance, 2014, 2015, 2016a, 2017)

Remarks: Ngultrum (Nu.) 1* = US\$ 70

Further, the Annual Audit Report 2015 revealed that against the revised capital budget of Nu. 19,637.17 million, the government has utilized Nu. 15,443.81 million resulting in underutilization of capital budget amounting to Nu. 4,193.37 million, which was 21.35% of the revised capital budget. The auditors pointed out that the underutilization of fund would have implication on effective and optimal use of the borrowed fund and also on the debt-service burden on the government (Royal Audit Authority of Bhutan, 2015). The total resources estimated for the FY 2016–17 was Nu. 41,605.86 million of which the domestic revenue was Nu. 27,247.17 million and external grants were Nu. 14,338.69 million (Ministry of Finance, 2016a). The total debt services for the FY 2016–17 is Nu. 8,236.420 million of which Nu. 4,815.416 million is through the budget.

Similarly, the Annual Audit Report 2016 reviewed the utilization of budget approved by the parliament for the fiscal year ended 30th June 2016. It was reported that underutilization of capital budget amounted to Nu. 4,770.37 million construed about 17.95% of the total release. The Ministry of Finance was recommended to ascertain the reasons for underutilization of capital budget and initiate remedial measures (Royal Audit Authority of Bhutan, 2016). The underutilization of capital budget implied ineffective and sub-optimal use of the borrowed fund resulting in debt service burden to the government and less public spending leading to inefficient delivery of public welfare services.

Research Objectives

This research aims to determine the factors influencing the local government underutilization of capital budgets in Bhutan and to investigate the influential factors according to different characteristics of LG unit including size, age, type of services, location, source of fund, and size of capital budget.

Literature Review

Budget and budgeting process

A budget is defined as a summary of the estimated expenditure for activities for a given period of time along with proposals for financing it (Mitchell, 2005). Budgets are distinguished by the nature of its investment items. Capital investments are characterized by a longer lifespan, high costs, with expected high returns and require careful consideration (Simson, Sharma, & Aziz, 2011). Goode and Birnbaum (1956) opined that capital budget in the government broadly covers both physical and financial assets which are expected to yield a return in future years in the form of services, returns on public buildings, or receipts from sales, dividends, interest etc. Premchand (2007) has stated that although corporate practices were the basis, planners recognized from the start that the nature and foundation of capital budgets would be different in public bodies. Traditionally, there has never been a universally accepted model of a capital budget followed by all users. In fact, the use of capital budgets in different countries and the financial practices associated with them have varied considerably (Goode & Birnbaum, 1956). Scholars have used the term capital budgeting more broadly. It means identifying, prioritizing, and planning for capital needs over a period of many years (Shah, 2007). Literature on capital

budgeting in the public sector has been flooded by descriptive and prescriptive accounts or case studies (Bozeman, 1984) and much of the literature is related to institutional guides for the preparation of capital programs (White, 1992). The emphasis in case studies were less often on the process of capital budgeting that the technical or political problems encountered in a specific project or on the organizational arrangements and relationships that exist in capital budgeting (Goode & Birnbaum, 1956). Chung (2013) in his study of factors that facilitate the adoption of the separate capital budget by using time series data revealed that local governments are more likely to adopt it for meeting public demands such as growth rate in capital spending. In the budget cycle, the budget execution is carried out soon after the budget gets approved by the legislative wing. Public financial management performance study in developing countries reported that countries do significantly better in budget preparation than on budget execution (Mekasha, 2015). The success of budget utilization depends on many factors, the ability to cope up with a change in macroeconomic scenario and the agency's capacity to implement the plans. Further, it is a prerequisite to have a budget system that assures effective expenditure control and a complete budgetary accounting system (Allen & Tommasi, 2001). On the other side of the coin, the underutilization of budget is also common in many countries. It does not depict the effectiveness of the fiscal discipline either. Poor governance may lead to underspending of the budget that coexists with a large amount of off-budget expenditures (Allen & Tommasi, 2001).

Characteristics of Budget Units

Harvie, Narjoko, & Oum (2010) narrated that traditionally, the importance of size is related to economies scale of production. In such case, the large firms may outperform small ones in low demand situations. In government organization, the importance of size is related to the efficiency and effectiveness in service delivery through budget utilization.

Table 2 Source of relevant factors used in this study.

Budget Cycle	Factors	Authors
Budget Preparation Stage	Inappropriate Budget Formulation.	Oguzziuba and Ehigiamusoe (2014)
	Inadequate planning of programs before budget allocation.	Jonga (2012)
	Inadequate knowledge of people towards program budget.	Tafa and Bessie (2016)
Budget Approval Stage	Changes in the plan and priorities of the government during execution.	Fiscal Transfer & Monitoring Division (FTMD), MoF, Bhutan
	Budget Enactment Impediments.	Oguzziuba and Ehigiamusoe (2014)
Budget Execution Stage	Government Policy.	Rotich and Ngahu (2015)
	Absence of skilled, knowledgeable and experienced employees.	Jonga (2012)
	Late Release or Non-Release of budgeted Funds.	Oguzziuba and Ehigiamusoe (2014)
	Problem of Technical Capacity.	Oguzziuba and Ehigiamusoe (2014)
	Procurement and contracting services are delayed because of bureaucracy.	Jonga (2012)
	Lack of coordinated effort in purchasing, lack of consistency and delay in purchase processes.	Mekasha (2015)
	Performance of the Contractors.	FTMD, MoF, Bhutan
	Ad-hoc activities such as deposit works.	FTMD, MoF, Bhutan
Budget Monitoring & Reporting Stage	Delay in bureaucratic procedures.	FTMD, MoF, Bhutan
	Lack of coordination among agencies.	FTMD, MoF, Bhutan
	Unforeseen Natural Calamities.	FTMD, MoF, Bhutan
	Lack of adequate Budget Performance Monitoring.	Oguzziuba and Ehigiamusoe (2014)
	Lack of accountability in Budget utilization.	Mekasha (2015)
	Lack of effective communication to all staff on the progress.	Kirimi (2012)

sector services agriculture, trade and industry, roads, urban, housing and public amenities, communications and energy. The other sectors are law and order and general public service sectors (Ministry of Finance, 2016b). Harvie et al. (2010)

found that there exists a positive relationship between age of a SME and its performance. Over the time, SMEs gather experience and knowledge, which equip them to create the necessary conditions to increase performance. Numerous studies have been conducted that revealed a significant linkage between the number of years since organizations are in activity and its business success (Kristiansen, Furuholt, & Wahid, 2003). Generally, the sources of government revenue include taxes, charges, fees and earnings, fines, and debt. In the government, the capital budgets evaluate long-term projects and programs such as roads, building, bridges, machineries and any infrastructures that are beneficial for the general public at large without any equivalent return from its usage. In reality, when agencies are allotted with large size of capital budget in a fiscal year, the probabilities are more that the budget is underutilized. Considering the previous studies mentioned above, there existed no previous study related to underutilization of capital budget in Bhutan. This research is the first of its kind encompassing underutilization of capital budget. Table 2 shows the sources of relevant factors used for this research. Few items are also incorporated from the informal interview with the budget experts in Bhutan.

Scope of Research

This research offers an insight on the factors influencing the underutilization of capital budgets in LG unit. Additionally, this paper provides the influence of factors on different characteristics of LG units in Bhutan.

Independent Variables		Factors influencing LG underutilization of capital budgets
		Preparatory Stage Inappropriate Budget Formulation.
Characteristics of Units		Inadequate planning of programs before budget allocation. Inadequate knowledge of people towards program budget. Changes in the plan and priorities during execution.
Size of Unit		Approval Stage Budget Enactment impediments
Age of Unit		Government Policy Execution Stage
Type of Service of Unit		Absence of skilled, knowledgeable and experienced employees. Late Release or Non-Release of budgeted Funds.
Location of Unit		Problem of Technical Capacity. Delay in procurement and contracting services of bureaucracy.
Source of Fund		Lack of coordinated effort in procurement. Performance of the Contractors.
Capital Size of Unit		Ad-hoc activities such as deposit works. Delay in bureaucratic procedures. Lack of coordination among agencies. Unforeseen Natural Calamities.
		Evaluation Stage Lack of adequate Budget Performance Monitoring Lack of accountability in Budget utilization. Lack of effective communication to all staff on the progress.

Figure 1 Conceptual Framework.

Conceptual Framework

The research adopted the conceptual framework to analyze the factors influencing capital budget underutilization and influence of factors on characteristics of LG units. The characteristics of unit were defined as unit's size by the number of employees in the unit and unit's age by the number of years of operation. The type of services rendered by unit defined as the main service delivered by the unit, including the social, economic and public, culture, law and order, and general public services. In Bhutan, four different sources of fund were used in the government budgeting, vis-à-vis domestic revenue, internal borrowings, external loans, and international grants. The capital size was determined by the size of capital budget approved for the unit. On the other hand, the dependent variables are derived from the past studies as narrated in Table 2. Additional variables are also gathered from experts in Bhutan. The details of independent and dependent variables are presented in the conceptual framework, Figure 1;

Method

1. Data Collection

The preliminary questionnaire was critiqued by two supervisors and was edited for ambiguity, clarity, grammar, styles, reliability, and objectivity before pre-testing. A sample of 37 government autonomous units were selected based on the convenience sampling from outside the target population but with similar characteristics as target population. Pre-testing a research questionnaire prior to conducting the main survey of the final research instrument is critical in survey research (Babbie, 1973; Converse & Presser, 1986; Fowler Jr, 2013). Overall the pilot study involved 13.97 % of the target population. The internal consistency reliability was tested using the Cronbach alpha, whereby the questionnaire to be deemed reliable, the constructs must attain alpha equal to or greater than 0.6 ($\alpha \geq 0.6$) (Hair, Anderson, Tatham, & Black, 1998). This research collected data from population of 229 LG units of Bhutan consisting of 20 districts, 205 sub-districts and 4 municipal offices. The data collection was administered online by distributing the questionnaires to the finance personnel, who are in-charge of the LG unit's budget. The survey was completed within 15 days.

2. Data Analysis

The data were analyzed using descriptive statistics as frequencies, arithmetic means, and standard deviations. The influential factors were measured through the means of factors in four stages of budget cycle. The influence of factors on LG unit characteristics were implied through mean comparison. The difference means of each influential factor on each characteristics imply that the factor influences the LG unit characteristics. The comparison of means between factors and LG unit characteristics were analyzed through comparative means. The arithmetic mean of grouped data has been calculated based on the following formula; average population mean is represented by:

$$\mu = A + \frac{\sum_{i=1}^n f_i d_i}{\sum_{i=1}^n f_i}$$

Where, μ = Mean of the given data.

A = The middle value that is assumed as the mean for calculation

$\sum_{i=1}^n f_i d_i$ = Sum of the frequencies given, can be denoted by N.

$$\sum_{i=1}^n f_i = f_1 + f_2 + \dots + f_n \quad = \text{Sum of the product of frequencies and corresponding deviations.}$$

$$d_i = x_i - A$$

This deviation makes the calculation quite easier even if the data is too big.

The measure of the spread of the scores on a given variable is represented by:

$$SD = \sqrt{ \sum (X_i - \mu)^2 / N }$$

Where SD. represents the population standard deviation. The term 'sqrt' used in this statistical formula denotes square root, and $\sum (X_i - \mu)^2$ represents the sum of the squared deviations of the scores from their population mean. Since this research uses population, the hypothesis testing was not deemed necessary.

3. Data Interpretation

The results were mostly expressed in number and percentage. The means are transformed to replace by their ranks to simplify the interpretation and assigned to values in ascending order (Wikipedia contributors, 2018). The mean values were interpreted in ranges from 1.00 – 1.80, 1.81 – 2.61, 2.62 – 3.42, 3.43–4.23, 4.24– 5.00 with their ranks as Very Weak, Weak, Moderate, Strong, and Very Strong, respectively.

Results

1. Characteristics of Local Government Units

The demographic distribution of LG unit by size shows 194 units operate as small size with less than 50 employees and rest operates as medium and large units. About 95 units were in existence for over 31 years, while about 60 units were established within last 10 years. 80 units were located within less than 149 kilometers from central ministry, while 68 units were located more than 499 kilometers away from central ministry. At least 113 units were allotted with capital budget of less than Nu. 10 million in a year, while 116 units were allotted with capital budget of more than Nu. 10 million. Domestic revenue was the major source of fund for 124 units, while rest of the units are allocated through remaining source of funding. General public service forms major characteristic in 142 LG units. About 51 units were delivering economic services.

2. Factors influencing LG underutilization of capital budget

Opinions of respondents for thirty-one variables were analyzed and discussed in accordance with the four stages of budget cycle. The average mean of all factors in each stage of budget cycle showed the most influential stage was observed in the execution stage ($\bar{x} = 3.43$, SD. = 0.71) indicating strong influence on the

underutilization of capital budget. The later were observed in preparatory stage ($\bar{x} = 3.26$, SD. = 0.80), approval stage ($\bar{x} = 3.01$, SD. = 0.86), and evaluation stage ($\bar{x} = 2.89$, SD. = 0.83)

As for the top three influential factors, it was found that at preparatory stage, the most influential factor was additional budget allocated for additional work at the end of the financial year ($\bar{x} = 3.74$, SD = 1.00) indicating the strong influence on the underutilization of capital budget. The later were inadequate planning of capital activities under the programs and projects ($\bar{x} = 3.33$, SD.= 1.16), and overestimation of programs and projects budget by line managers ($\bar{x} = 3.26$, SD.= 1.05), indicating moderate influence on the underutilization of capital budget. At the approval stage, the most influential factors were the late approval of overall budget by the parliament ($\bar{x} = 3.17$, SD.= 1.05) and late approval of additional budgets by the budget office ($\bar{x} = 3.17$, SD. = 1.06), indicating the moderate influence on the underutilization. Similarly, in the execution stage, the most influencing factors was identified as the delay of work progress due to bad weather condition and road blocks during monsoon season ($\bar{x} = 3.88$, SD. = 1.05), indicating strong influence on underutilization. The later were the delay in budget implementation due to incompetent contractors ($\bar{x} = 3.76$, SD. = 1.18) and the delay in budget implementation due to unplanned additional activities ($\bar{x} = 3.73$, SD. = 1.14), indicating strong influence on underutilization. Several factors were also found to be strong in this stage. In the evaluation stage, the most influential factor was lack of monitoring and evaluation of budget performance at different levels of LG ($\bar{x} = 3.09$, SD. = 1.01), indicating the moderate influence on underutilization of capital budget in the local government units. The later were delay of projects and programs due to lack of effective communication of budget information from local government to central government ($\bar{x} = 2.84$, SD. = 1.02). The lack of commitment by staffs on achieving results ($\bar{x} = 2.82$, SD. = 1.01), and delay of projects due to lack of effective dissemination of budget information from the central government ($\bar{x} = 2.82$, SD. = 0.94), indicating moderate influence on underutilization.

3. Factors influencing the capital budget underutilization among LG units with different characteristics

The research attempted to determine the influence of factors on local government unit's characteristics. The mean difference among influential factors by LG units' characteristics were found for all types of characteristics and also for all stages. These implied the influence of factors on the LG unit characteristics. Considering each characteristic, the highest mean may imply the most influence and on the other hand, the lowest mean may imply the least influence.

The mean differences were found for all sizes in all factors and also in all stages. The most influential factor was additional budget due to additional work awarded by central government at the end of financial year ($\bar{x} = 4.57$, SD = 0.53), observed in the medium-sized units in preparatory stage and least influential factor was approval of excess budget beyond the implementing capacity of the units ($\bar{x} = 2.67$, SD = 1.06),

shows the mean differences for all age groups in all factors and also in all stages. The most influential factor was delay in fund transfer from donor to Ministry of Finance ($\bar{x} = 4.00$, SD = 0.82), found in units aged

between 21 to 30 years in execution stage and the least influential factor was inappropriate review of budget proposal by budget officers ($\bar{x} = 2.57$, SD = 1.03) in the units aged between 11 to 15 years, found in preparatory stage.

presents the mean differences for all types of services rendered by LG units in all factors and also in all stages. It was found that three most influential factors were delay in implementation due to unplanned additional activities ($\bar{x} = 4.38$, SD. = 0.52) in the social service at execution stage, late approval of budget for additional work by the budget office ($\bar{x} = 4.25$, SD.= 0.46), late budget endorsement by officers ($\bar{x} = 4.13$, SD. = 0.99) in the social service at preparatory stage. Additionally, the change in plans by government during budget execution ($\bar{x} = 4.13$, SD.= 0.64), and delay in fund transfer from donor to Ministry of Finance ($\bar{x} = 4.13$, SD.= 0.99) in the social services at execution stage also revealed same means. The lowest mean was observed in the evaluation stage in the social service. Lack of commitment by staffs on achieving results ($\bar{x} = 1.96$, SD.= 0.84) and lack of effective communication of budget information from local government to central government

Further, the mean differences were found for all location of LG units in all factors and also in all stages as presented in the most influential factor was delay of work progress due to road blocks during monsoon season ($\bar{x} = 4.22$, SD. = 0.81) in LG units located between 150 to 299 kilometers in execution stage. The least influential factor was approval of excess budget beyond the implementing capacity of the local government unit ($\bar{x} = 2.46$, SD. = 0.94), found in LG units located in less than 149 kilometers from central ministry in approval stage

the mean differences observed for all sources of fund in all factors in four stages. The strongly influential factor was delay of work progress due to bad weather condition and road blocks during monsoon season (\bar{x} of 4.44, SD.= 0.53), in internal short-term loan at execution stage. The least influencing factors was observed as delay of projects due to lack of effective communication of budget information from units (\bar{x} of 2.29, SD. = 0.95), found in mix of loans & grants source of fund in evaluation stage.

Table 3 Source of Budget cycle stage/factors

Budget Cycle Stage/Factors	Size of Capital Budget (Million/m Ngultrum)									
	Less than 10			10 - less than 25			More than 25			
	N	\bar{x}	SD.	N	\bar{x}	SD.	N	\bar{x}	SD.	
Preparatory Stage										
1.1 Inadequate planning of capital activities	113	3.12	1.16	85	3.49	1.08	30	3.70	1.24	
1.2 Inappropriate review of budget proposal	113	2.68	1.11	86	3.22	1.02	30	2.67	1.30	
1.3 Inappropriate budget amendments	108	2.97	1.05	78	3.28	0.95	30	3.10	1.24	
1.4 Additional work award at the end of year	111	3.58	1.00	85	3.86	0.98	30	4.00	0.95	
1.5 Budget Request not endorsed on time	112	3.05	1.10	84	3.31	0.99	30	3.70	1.32	
1.6 Overestimation of programs by managers	109	3.05	1.00	84	3.38	0.98	29	3.72	1.22	
Approval Stage										
2.1 Late approval of budget by the Parliament	112	2.89	0.98	83	3.49	0.95	30	3.33	1.27	
2.2 Late approval of additional budgets	113	3.02	1.06	86	3.33	0.99	30	3.33	1.21	
2.3 Approve budget beyond implementing capacity	111	2.55	1.02	85	2.91	1.12	30	2.77	1.30	
2.4 Delay in budget approval by budget officer	113	2.86	1.04	83	3.06	0.95	30	3.23	1.28	
Execution Stage										
3.1 Rigid financial rules & regulations	113	2.73	1.07	85	3.02	1.00	30	3.13	1.20	
3.2 Procurement policy restricts in selection of competent contractors	112	3.08	1.03	84	3.39	1.01	30	3.77	1.14	
3.3 Lengthy procurement services	112	3.09	1.03	85	3.53	0.97	29	3.86	1.19	
3.4 Processing additional budgets by LG delayed	113	3.18	1.10	85	3.26	1.07	29	3.31	1.17	
3.5 Change in plan by the government during execution	110	3.46	1.01	86	3.63	0.96	30	3.93	1.08	
3.6 Changes in scope of work during execution	112	3.38	1.00	85	3.66	1.08	30	4.00	1.08	
3.7 Delay in Fund transfer from Finance Ministry	113	2.86	1.01	83	3.05	1.13	30	3.07	1.14	
3.8 Delay in fund transfer from donor	104	3.67	0.99	81	3.59	1.06	30	4.10	1.06	
3.9 Shortage of technical experts in LG	113	3.30	1.03	84	3.62	0.99	30	3.73	1.20	
3.10 Absence of dealing officials in office	111	3.09	1.05	85	3.33	1.03	30	3.27	1.34	
3.11 Incompetent contractors	110	3.58	1.16	83	3.80	1.17	28	4.39	1.10	
3.12 Implementation due to remote work site	112	3.46	1.15	86	3.73	1.05	30	3.80	1.37	
3.13 Unplanned additional activities	112	3.48	1.19	86	3.85	1.05	30	4.33	0.96	
3.14 Slow/late approval by central government	111	3.18	1.06	86	3.50	0.94	30	3.83	0.99	
3.15 Work delayed due to lack of coordination	113	3.01	1.05	84	3.37	1.06	29	3.48	1.21	
3.16 Works delayed due to cold weather	111	3.52	1.14	84	3.35	1.24	30	3.50	1.31	
3.17 Work delayed due to road blocks	112	3.84	1.07	84	3.90	0.98	30	3.97	1.16	
Evaluation Stage										
4.1 Lack of M & E of budget's performance in LG	113	2.90	0.95	84	3.20	1.00	30	3.50	1.11	
4.2 Lack of commitment by staffs	112	2.69	0.98	86	2.90	0.98	29	3.10	1.14	
4.3 Lack of effective dissemination of budget information from Central Government	112	2.71	0.89	83	2.93	0.95	29	2.90	1.05	
4.4 Lack of effective communication of budget information from LG	112	2.75	0.98	84	2.98	1.03	30	2.80	1.10	

The mean differences were observed for all sizes of capital budget in all factors and also in all stages as shown in the most influential factor was delay in budget implementation due to incompetent contractors ($\bar{x} = 4.39$, SD.= 1.10), observed in units with capital size more than Nu. 25 million in the execution stage. The least influential factor was approval of excess budget beyond implementing capacity of LG unit ($\bar{x} = 2.55$, SD.= 1.02) in the LG units with capital size of less than Nu. 10 million in the approval stage.

Summary of Results and Recommendations

The analysis shows that overall, the capital budget underutilization in the LG units were strongly influenced by factors in the execution stage of budget cycle. The three most influencing factors were delay of work progress due to bad weather condition and road blocks during monsoon season, and the delay of budget implementation due to incompetent contractor in the execution stage. Budget approved and allocated for additional work at the end of the financial year contributes to underutilization in the preparatory stage. Considering each stage, it was found that in addition to the factors in aforementioned two stages, the late approval of overall budget by the parliament and late approval of additional budgets by the budget office in the approval stage were the most influencing factors. In the evaluation stage, lack of monitoring and evaluation of budget performance at different levels of LG was the most influencing factor.

The LG unit characteristics, including size, age, type of services, location, source of fund, and size of capital budget were influenced by factors at all stages. According to size of unit, the most influential factor was additional budget due to additional work awarded by central government at the end of financial year, in the medium-sized units in preparatory stage. Age wise, the most influential factor was delay in work due to road block, found in units aged between 21 to 30 years in the execution stage. The social service rendering LG units are strongly influenced by delay in implementation due to unplanned additional activities in the execution stage. LG units located between 150 to 299 kilometers were strongly influenced by delay of work progress due to road blocks during monsoon season. LG units funded through internal short-term loan were found to be influenced very strongly due to bad weather condition and road blocks during monsoon season leading to delay in implementation in the execution stage. The LG units with capital size more than Nu. 25 million were mostly influenced due to incompetent contractors resulting in delayed work in the execution stage.

Policy Recommendations

The research findings observed that incompetent contractor delays the implementation. This implied that the classification criteria of contractors need review as the existing one do not cater the changing scope of work that were doable by the same category of contractors in the past. This is evident from the fact that this particular factor has strong influence in the LG units with capital size more than Nu. 25 million. Therefore, a document review on the subject is recommend for the concern authorities.

The issue of late approval of overall budget by the parliament happened only once at the end of every five-year term of the government. A re-alignment of financial year with the election year of the new government would be recommended.

Practical Recommendations

Based on the evidence from this research, the Ministry of Finance is recommended to give more emphasize in the execution stage of the budget cycle. The delay of work progress due to bad weather condition and road blocks during monsoon season tops the overall factors. Since natural calamities cannot be foreseen easily,

certain preventive measures such as stakeholders' coordination meetings and restriction of budget approval/release for works that falls during the onset of monsoon may be suggested.

The issue of delegating works from central unit to LG unit at the end of the financial year has been considered ad-hoc when it is done without the prior involvement of parties. Therefore, concern ministries and departments are recommended to involve all the receiving parties at the onset of their annual work planning.

It was also observed that late approval of additional budgets by the budget office contributes to underutilization of capital budget. In view of this the Department of National Budget may be recommended to disseminate the budget procedures during the annual financial management workshop.

Since the Government Performance Management System in Bhutan is already in full swing, the issue of monitoring and evaluating the budget performance at LG can be done through it.

On the LG characteristics, the social service rendering LG units are more influenced due to unplanned additional activities. This suggests that the Ministry of Home & Cultural Affairs, Ministry of Health, Ministry of Education, Ministry of Labor & Human Resources may involve the LG units earlier in the planning phase of work. Involvement of all relevant officers in developing a realistic budget estimates can resolve many issues at the preparatory stage. At the execution stage, procurement policies on awarding work needs revision to cater different work site situation. The disbursement of donor fund including GOI grants, external loans, international grants etc. from the source need to synchronize with the agency work plan or vice versa. The multi-sectoral coordination meeting is organized among the international donors at the onset of every five-year planning period. Therefore, the Gross National Happiness Commission is recommended to table the issue for further discussion and resolve at once and for all.

The findings also revealed that the LG units located between 150 to 299 kilometers were strongly influenced by delay of work progress due to road blocks during monsoon season. Similar findings were also applicable to the LG units funded through internal short-term loan. This is may be because the materials for the works are procured from the border towns and needs smooth flow during execution. The earlier recommendation suffices this issue. In brief, the research recommends to address the factors identified in the execution stage of budget cycle, which have strong influence on the underutilization of capital budget in Bhutan.

Further Study Recommendations

Lastly, the study recommends for further study to be undertaken for all the budgetary units in the government in Bhutan. In view of the underutilization of national capital budget situation, a nationwide survey for all government budgetary bodies may be suggested. More over a longitudinal study over the period of five years would validate the permanent factors that influence the underutilization of capital budget.

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