



SOLOMON ISLANDS GOVERNMENT

OFFICE OF THE AUDITOR GENERAL

Audit Report
Rural Constituency Development Funds
(2009 to 2012)

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Reported by:

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Acronyms

| | |
|--------------|---|
| | |
| A-G | Auditor-General |
| CDC | Constituency Development Committee |
| CDO | Constituency Development Officer |
| CDP | Constituency Development Plan |
| CPO | Constituency Project Officer |
| MDF | Micro Development Fund |
| MiDF | Millennium Development Fund |
| MP | Member of Parliament |
| MRD | Ministry of Rural Development |
| OAG | Office of the Auditor-General |
| PC | Project Committee |
| PR | Progress Report |
| RCDF | Rural Constituency Development Fund |
| RCLF | Rural Constituency Livelihood Fund |
| RCMPF | RoC Constituency Micro-project Fund |
| RDLPF | Rural Development Livelihood Projects Fund |
| RoC | Republic of China |
| RSCDF | Rural Support Constituency Development Fund |
| SBD | Solomon Islands Dollar |
| SIG | Solomon Islands Government |

Executive Summary

Firstly, I would like to apologise for the delay in producing the report this was due in part to the sheer bulk of the work undertaken and in part to the staffing difficulties in my Office.

This report summarises the results of the audit of the Rural Constituency Development Funds (RCDF) for the years 2010 to 2012.

It is clear from the audit work undertaken that the transparency, accountability and governance of the RCDF falls well short of that expected with regards public finances.

I appreciate that this now seems more like “ancient history” than up to date audit reporting but I have decided to issue this report as I am convinced that the range of problems raised in this work still applies today.

To make the report more “digestible”, the main report only provides a summary by constituency of their financial performance (the extent to which I was able to account for the money being disbursed). It also identifies the problems which occurred. Not all of the problems occurred in every constituency but many were systemic errors. They are recorded together to ensure that they are not repeated in future.

I have made a number of recommendations to improve the system used or framework that will guide the use of those Public Funds so that all the Funds were fairly distributed and have a greater impact and sustainable development in our Constituencies for the betterment of our people around Solomon Islands. It is my recommendation that these are implemented to enhance the management of these funds.

I would like to acknowledge the then Permanent Secretary, current Permanent Secretary for Ministry of Rural Development and staff; Members of Parliament and their respective Constituency Development Officers and their Project Officers, for their great assistance during our field work, the support towards the audit teams and the people in the rural areas for the support provided to my performance audit team that assisted in the collective production of this performance audit and the report.

I would like to thank my performance audit team for their commitment, including their willingness to travel around the various constituencies that we conduct this audit on and for their time and effort for the conduct of this audit in interviewing the key ministry officials, public funds beneficiaries and the chairman for Constituency Associations in the villages as well to collect necessary information.



Peter Lokay

Auditor-General

April 2018

1. Introduction

The current Ministry of Rural Development (MRD) was established in September 2007 as the then Ministry of Rural Development and Indigenous Affairs. This newly created Ministry included a Constituency Development Division with a mandated function to establish 50 Constituency Development Offices, one in each constituency throughout the Solomon Islands.

The Vision of the newly created Ministry, as stated in its 2007 Annual Report, included:

“to be responsible in ensuring all development Assistances (financial, resources etc.) gets to the rural populace through these Constituency Development Offices.”

The Vision also stated that:

“in this manner and through this assistance the majority of people in the rural areas can be actively involved in the development process and benefit from the small scale economic activities and improve living standards.”

This performance audit of the Rural Constituency Development Funds (RCDF) was undertaken by the Office of the Auditor General (OAG) as part of its annual audit programme. An audit on the constituencies' funds has been a priority for the Office of the Auditor General (OAG) for a number of years from 2009.

Within that year an audit was planned but put on hold waiting advice from the Attorney-General to confirm the Auditor General had the power under the Constitution 1978 and *Public Finance and Audit Act (Cap 120)*. At the time the Attorney General provided legal advice confirming that the Auditor-General (A-G) had the power to conduct such an audit.

Given that legal power the first 18 selected constituencies were audited in a first phase covering the years 2009 - 2011, and the other 32 were done within a second phase covering the years 2010 - 2012. The constituencies' funds were managed by the Ministry of Rural Development and provided to constituencies of the National Parliament.

Under the constituencies funds there are number of different funds channelled to the constituencies through the core ministry – which is the Ministry of Rural Development and Indigenous Affairs, the administrator of the RCDF funds to constituencies, and other line ministries like Fisheries, Agriculture and Forestry. However, the audit focused on four funds- Republic of China (RoC) Micro Development Fund (MDF), Millennium Development Fund (MiDF), Rural Support Constituency Development Fund (RSCDF) and Rural Constituency

Livelihood Fund (RCLF) which make up the Rural Constituency Development Fund (RCDF).

After a preliminary assessment review into the RCDF funding arrangements - it was considered important that the RCDF be audited on the basis that;

- The funds totalled approximately SBD 100 Million for each year 2009-2012 (see Table #1 below) and it was considered to be in the public interest to determine what was actually achieved with the money;
- The nature of the distribution of these funds to 50 constituencies each year;
- There is a certain amount of negative opinion expressed in the public arena questioning whether these funds reached the people in the constituencies who needed it most; and
- It had been operating long enough for the OAG to make an assessment on its performance.

Table 1: Funding to Constituencies 2009-2012

| Funds | 2009 (SBD Millions) | | 2010 (SBD Millions) | | 2011 (SBD Millions) | | 2012 (SBD Millions) | |
|--------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|
| | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual |
| RSCDF | 20.0 | 24.0 | 20.0 | 29.1 | 20.0 | 31.7 | 27.5 | 22.7 |
| RoC MiDF | 20.0 | 20.4 | 20.0 | 19.8 | 20.0 | 28.7 | 27.5 | 19.6 |
| RCMPF | 10.0 | 10.2 | 10.0 | 10.2 | 10.0 | 10.4 | 15.0 | 9.1 |
| SIG RCLF | 50.0 | 52.4 | 50.0 | 54.9 | 53.0 | 55.6 | 75.0 | 74.5 |
| | | | | | | | | |
| Total | 100.0 | 107.0 | 100.0 | 114.0 | 103.0 | 126.4 | 145.0 | 125.9 |

Source: MOFT financial management information systems 2009 -2012

2. Audit Objective and Scope

The Audit Objective was to assess whether the RCDF moneys have been administered by the Ministry of Rural Development in accordance with the relevant guidelines issued by the Ministry and verify the existence and progress of projects in selected constituencies.

One important purpose of this performance audit has been to inform the public about the extent and use of funding provided to all the 50 constituencies each calendar year (Solomon Islands budgetary period). The audit covered the period 2009-2012.

3. Methodology

During the audit the OAG obtained and reviewed relevant documents held by the Ministry of Rural Development (MRD). We also interviewed key officials from the Ministry,

Constituency Development Officers (CDO), Constituency Project Officers (CPO), as well as other relevant people - including the beneficiaries involved, villagers including chiefs, and the Constituency Development Committee in the village where one existed. Project verification at the project site was undertaken and photographs taken as evidence.

Draft reports were sent to all key stakeholders and their comments were taken into account in the final version of the report.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objective.

4. Rural Constituency Development Funds

Republic of China (RoC)'s annual funding support to Solomon Islands amount to about SBD95 million. Of that SBD95 million, SBD50 million is currently allocated into three separate funds namely

1. RoC Rural Constituency Development Funds (RCDF) now RSCDF with a total annual amount of SBD20 million;
2. RoC Constituency Micro-Project Fund (RCMPF) with a total annual amount of SBD10 million; and
3. Millennium Development Fund (MiDF) with a total amount of SBD20 million.

The RoC provides additional funding to cater for specific projects such as renewable energy; Parliament Office Complex Project, and basic free education and tertiary education funding.

The fourth funding that was also included in this audit is the Rural Development Livelihood Projects Fund (RDLFP). This funding is a Solomon Islands Government (SIG) fully funded rural development programme with a substantial amount of money totalling one million dollars per constituency per year (i.e. SBD 50 million). These funds are established by SIG for rural economic and social development activities that promote rural development.

5. Legislation

There is, as yet, no specific law governing the establishment and spending of Constituency Development Funding. The Constituency Development Fund Bill was drafted in 2013 and passed by Parliament but was not gazetted.

If CDF is to continue (see below for my comments on its effectiveness, it is **recommended** that such a law be established at an early date.

There are Operational Guidelines and Procedures for the Constituency Development Fund but the audits indicate these are either unknown or ignored.

It is **recommended** that the Operational Guidelines are reviewed and strengthened, including the points raised in section 6 below, and that the revised guidelines are “launched” with maximum publicity.

6. Summary of Financial Performance

The individual performances by constituency were the subject of individual draft reports which were issued for comments. Whilst these are obviously of interest in the constituencies concerned, of more use to the overall review of the effectiveness of CDF is an overall summary of financial performance.

As indicated in the introduction, the first 18 constituencies were audited for 2009 to 2011; whilst the remaining 32 were audited for 2010 to 2012.

Table 2 examines the funding position, and acquittal of those funds, for the first 18 constituencies which were all entitled to a total of **SBD 6,060,000** over the three years 2009 to 2011.

Of the total possible claim of **SBD 109,080,000** only payment vouchers relating to **SBD 62,730,000** were sighted during the audit; **57.5%** of the possible total. Of the **SBD 62,730,000**; only acquittals valued at **SBD 53,474,417 (85%)** were sighted at the ministry. Thus, **SBD 9,265,583** was not accounted for.

Table 3 examines the funding position and acquittal of funds for the other 32 constituencies. These were entitled to **SBD 6,960,000** over the three years 2010 to 2012.

Of the total possible claim of **SBD 222,720,000** only **SBD 164,500,000** worth of payment vouchers were sighted by audit; **73%** of the possible total. Of the **SBD 164,500,000**; only **SBD 142,624,408 (86%)** of acquittals were found. Thus, **SBD 21,875,591** was not accounted for.

Thus, in total, some **SBD 31,141,174** of public funds was unaccounted for over the audit period. The lack of accountability of public funds on this scale is not an acceptable situation.

Table #2: RCDF Summary Financial Performance by Constituency 2009 to 2011

| # | Constituency | Sum of entitled funding (SBD) | Value of PVs sighted (SBD) | Value of acquittals sighted (SBD) | Percentage acquittals not sighted |
|----|---|-------------------------------|----------------------------|-----------------------------------|-----------------------------------|
| 1 | North East Guadalcanal | 6,060,000 | 3,860,000 | 3,449,866 | 11 |
| 2 | North West Guadalcanal | 6,060,000 | 3,720,000 | 3,126,181 | 16 |
| 3 | West Honiara | 6,060,000 | 4,060,000 | 3,960,320 | 2 |
| 4 | Central Honiara | 6,060,000 | 200,000 | 120,000 | 40 |
| 5 | East Honiara | 6,060,000 | 3,050,000 | 2,661,825 | 13 |
| 6 | East Malaita | 6,060,000 | 4,460,000 | 3,451,940 | 23 |
| 7 | Small Malaita | 6,060,000 | 2,000,000 | 1,415,336 | 29 |
| 8 | Aoke Langa Langa | 6,060,000 | 4,660,000 | 3,986,366 | 14 |
| 9 | Lau and Baelelea | 6,060,000 | 4,060,000 | 3,444,877 | 15 |
| 10 | East Are'are | 6,060,000 | 4,400,000 | 2,616,332 | 41 |
| 11 | Gizo Kolobangara | 6,060,000 | 4,060,000 | 3,612,517 | 11 |
| 12 | South Vella | 6,060,000 | 2,560,000 | 2,164,618 | 15 |
| 13 | Marovo | 6,060,000 | 3,460,000 | 3,260,688 | 6 |
| 14 | South New Georgia | 6,060,000 | 2,060,000 | 1,989,800 | 3 |
| 15 | Gao Bugotu | 6,060,000 | 5,000,000 | 4,293,492 | 14 |
| 16 | Hograno Kia Havulei | 6,060,000 | 4,060,000 | 2,850,260 | 30 |
| 17 | Ngella | 6,060,000 | 3,060,000 | 3,060,000 | 0 |
| 18 | Rennell Bellona | 6,060,000 | 4,000,000 | 4,000,000 | 0 |
| | Total | 109,080,000 | 62,730,000 | 53,464,418 | |
| | Total acquittals not sighted | | | 9,265,582 | |
| | Average % acquittals not sighted | | | | 15% |

Notes:

Sum of entitled funding: is the amount each constituency is entitled to for the three years 2009 to 2011. That is \$2 m for 2009, \$2 m for 2010 and \$2.06 m for 2011.

Value of PVs sighted: is the total amount received by each constituency for the three years that audit has located the payment vouchers at MRD.

Value of acquittals sighted: is the total amount of funding for the three years for each constituency that audit has located the acquittal documentations at MRD.

Percentage acquittals not sighted: is the difference between the "Value of PVs sighted" and "Value of acquittals sighted".

Table #3: RCDF Summary Financial Performance by Constituency 2010 to 2012

| # | Constituency | Sum of entitled funding (SBD) | Value of PVs sighted (SBD) | Value of acquittals sighted (SBD) | Percentage acquittals not sighted |
|----|---|-------------------------------|----------------------------|-----------------------------------|-----------------------------------|
| 19 | North Guadalcanal | 6,960,000 | 5,560,000 | 5,014,927 | 10 |
| 20 | South Guadalcanal | 6,960,000 | 3,760,000 | 3,760,000 | 0 |
| 21 | Central Guadalcanal | 6,960,000 | 3,960,000 | 3,754,917 | 5 |
| 22 | East Central Guadalcanal | 6,960,000 | 4,560,000 | 3,938,370 | 14 |
| 23 | East Guadalcanal | 6,960,000 | 5,360,000 | 2,209,842 | 59 |
| 24 | West Guadalcanal | 6,960,000 | 3,560,000 | 3,020,817 | 15 |
| 25 | South Choiseul | 6,960,000 | 4,960,000 | 3,704,888 | 25 |
| 26 | East Choiseul | 6,960,000 | 6,160,000 | 6,160,000 | 0 |
| 27 | North West Choiseul | 6,960,000 | 4,760,000 | 3,850,571 | 19 |
| 28 | Temotu Nende | 6,960,000 | 5,360,000 | 4,844,583 | 10 |
| 29 | Temotu Pele | 6,960,000 | 5,360,000 | 4,159,562 | 22 |
| 30 | Temotu Vatu | 6,960,000 | 6,160,000 | 5,773,705 | 6 |
| 31 | Central Makira | 6,960,000 | 5,560,000 | 5,238,595 | 6 |
| 32 | East Makira | 6,960,000 | 4,560,000 | 3,997,808 | 12 |
| 33 | West Makira | 6,960,000 | 6,160,000 | 5,565,727 | 10 |
| 34 | Ulawa and Ugi | 6,960,000 | 6,160,000 | 5,137,687 | 17 |
| 35 | North Malaita | 6,960,000 | 5,560,000 | 4,937,572 | 11 |
| 36 | Malaita Outer Islands | 6,960,000 | 4,620,000 | 3,972,220 | 14 |
| 37 | East Kwaio | 6,960,000 | 3,560,000 | 3,050,613 | 14 |
| 38 | West Kwaio | 6,960,000 | 5,760,000 | 4,921,679 | 15 |
| 39 | Central Kwara'are | 6,960,000 | 4,760,000 | 4,659,474 | 2 |
| 40 | West Kwara'are | 6,960,000 | 6,560,000 | 6,356,980 | 3 |
| 41 | Baegu Asifola | 6,960,000 | 6,560,000 | 4,893,960 | 25 |
| 42 | West Are'Are | 6,960,000 | 4,560,000 | 4,053,724 | 11 |
| 43 | Fataleka | 6,960,000 | 4,360,000 | 3,390,538 | 22 |
| 44 | North New Georgia | 6,960,000 | 4,560,000 | 4,560,000 | 0 |
| 45 | West New Georgia & Vonavona | 6,960,000 | 5,560,000 | 4,445,048 | 20 |
| 46 | Rannogga and Simbo | 6,960,000 | 5,020,000 | 2,703,535 | 46 |
| 47 | North Vella La Vella | 6,960,000 | 5,020,000 | 4,793,879 | 5 |
| 48 | Maringe Kokota | 6,960,000 | 6,560,000 | 6,233,188 | 5 |
| 49 | Shortland Islands and Mono | 6,960,000 | 4,760,000 | 4,760,000 | 0 |
| 50 | Savo and the Russells | 6,960,000 | 4,760,000 | 4,760,000 | 0 |
| | | | | | |
| | Total | 222,720,000 | 164,500,000 | 142,624,408 | |
| | Total acquittals not sighted | | | 21,876,592 | |
| | Average % acquittals not sighted | | | | 13% |

Notes

| | |
|--|--|
| <i>Sum of entitled funding:</i> | is the amount each constituency is entitled to for the three years 2010 to 2012. That is \$2.00 m for 2010, \$2.06 m for 2011 and \$2.90 m for 2012. |
| <i>Value of PVs sighted:</i> | is the total amount received by each constituency for the three years that audit has located the payment vouchers at MRD. |
| <i>Value of acquittals sighted:</i> | is the total amount of funding for the three years for each constituency that audit has located the acquittal documentations at MRD. |
| Percentage acquittals not sighted: | is the difference between the “Value of PVs sighted” and “Value of acquittals sighted”. |

7. Overview Problems Identified During Audit

The section records all the major problems identified during the audit process. Obviously, not every problem was recorded in every constituency but many were widespread across the country.

However, all need to be addressed to ensure equitable accountability and governance throughout the nation.

The solutions to these problems should be included in the Guidelines for the use of RCDF funding and, in due course, supported by primary legislation.

Table 4 records the problem areas and identifies potential solutions.

Table 4: RCDF Problems and Potential Solutions

| Problem | Potential Solution |
|--|---|
| Failure to account for funds. The required form listing proposed spending was missing or incomplete. | <i>Use an imprest system whereby a second tranche is only made once the original tranche has been fully retired (accounted for). Thus, the most which can be unaccounted for is a single tranche.</i> |
| Spending on “improper” items (e.g. spending outside of the constituency) (see section 7 below). | <i>MRD to audit vouchers for validity when receiving the imprest retirement.</i> |
| Lack of a Constituency Development Plan (CDP) | <i>MRD to receive CDP prior to releasing any funds. No CDP = No RCDF</i> |
| Lack of Project Committee (PC) | <i>MRD to receive details of the PC prior to releasing any funds. No PC = No RCDF</i> |
| Failure to Understand the Project Application Process | <i>MRD and PC must ensure that everyone knows, and follows, the correct procedures.</i> |
| Failure to produce Progress Reports (PR) | <i>A PR must be submitted with each retirement of the imprest.</i> |
| Failure to monitor RCDF | <i>It is the MRD’s responsibility to monitor every fund. It should supply the MP and PC with financial reports with each retirement of the imprest. Furthermore, it should provide quarterly summary reports of the current situation to the Accountant General, MDPAC and Auditor-General.</i> |
| Lack of Awareness of | <i>MRD to ensure a nationwide publicity campaign to overcome this</i> |

| | |
|---|--|
| the Funds at Community Level | <i>problem. Better knowledge of what the funds are for will improve accountability and governance.</i> |
| Problems with poor quality records in MRD | <i>Whilst there may be excuses for poor record keeping in remote, rural areas, this should not apply to a ministry in Honiara. Senior management must exercise effective supervision to ensure that all RCDF records are kept properly; the more so as we are recommending that they become the prime agency for monitoring funds.</i> |
| Lack of Control of Large Tangible Assets | <i>Where funds are spent on large tangible assets (e.g. tractors) it is essential that the MRD has a record of where that asset was allocated. The asset will be subject to audit spot check.</i> |
| Ownership of Constituency Assets | <i>Laws, regulations and policies are developed to prescribe how constituency assets are to be registered so that they remain in the hands of the constituency after succession of incumbent Member.</i> |
| Certification of Allocation | <i>To ensure that funds were spent where they were supposed to be, the MRD should develop a form of certification and check these when the imprest is retired. The cited expenditure will be subject to audit spot check (e.g. someone shown as receiving SBD30,000 only received SBD19,000).</i> |
| Duplication of Funding | <i>The MRD must identify any duplicate funding as part of its review when an imprest is retired.</i> |
| Lack of Resources to Implement Projects | <i>Before allocating funds it is the responsibility of the PC to establish that the (e.g. village) has the resources, manpower, land necessary to implement the project successfully.</i> |
| Appointment of a family member as CPO. | <i>This is not good from the aspects of transparency and accountability and should not be permitted.</i> |
| Failure to Implement Projects | <i>The audit revealed many cases where, for example, roofing iron and solar panels had been bought but not distributed. It is the</i> |

| | |
|--|---|
| | <i>responsibility of the PC to ensure that this does not happen.</i> |
| Bulk purchases with no listing of recipients | <i>PC must ensure that all bulk purchases are accompanied by a detailed listing of recipients. This must be supplied to the MRD when retiring the imprest.</i> |
| Funding Personal Business Entity | <i>Any funding of a private sector nature (e.g. the repair of a locally owned ship) should only be allowed if there is clear benefit to the general public in the long term.</i> |
| Using Funds Improperly | <i>For example, to help fund the defence of a law suit against the MP. This illegal spending should be picked up by the MRD as the imprest is retired and disallowed.</i> |
| Failure of Projects | <i>A large number of projects failed between the receipt of funds and the date of the audit. There was no single reason for this. However, overall, there must be a lack of rigour when deciding whether or not to fund each proposal. As each failure represents a waste of public funds, it is vital that a more risk assessment is made prior to allocating funds.</i> |

8. Spending Outside of the Constituency

Constituency Development Funds are designed to fund the development of each constituency so that people at the community level benefit from it in one way or the other. The Rural Development Livelihood Projects Fund (RDLPF) guidelines clearly states that these funds are established by Solomon Islands Government for rural economic benefit and to promote rural development.

Further due to the nature of the funds and the amounts involved, all applications must be part of the Constituency Development Plan (RDLPF Guide, pg.3 (5)). In addition to that, the RCDF (Procedures and Guidelines) requires criteria when selecting who may qualify for the fund (page 3). For example, the need has to focus on geographical remoteness or isolation of the community or the constituency itself and lack of basic physical infrastructure, or absence of reliable transport. These are some of the very essence of how one should benefit from the fund.

We, while interviewing and verification of projects within different constituencies, identified numerous cases where the beneficiary or recipient of project were not residing in the constituency. The people concerned may be voters; however, the communities have confirmed that most of the individuals were residing in Honiara.

Spending of CDF in Honiara leads to a corresponding lack of support and development within the constituency. Recipients in Honiara are developing the constituency in Honiara where they live and there is no direct or indirect benefit at the community level of project in the constituency.

9. Management by Constituency Development Committee (CDC)

According to the CDF's Policy and Guidelines the implementation process of the funded projects should be constantly monitored by the CDC and that the project recipient is required to provide constant reports regarding the progress of the implementation until the projects are completed.

However, we noted that in most instances when projects were disbursed to the constituents the CDC did not monitor or follow up on the implementation of the projects or request any project progression reports from the constituents.

As the CDC failed to monitor and follow up on the project implementations, some of the projects that were delivered were not implemented. This issue shows that the management of

the CDFs at the constituency level is not effective as the goals and objectives of the projects and the CDFs are not met and there is no value for money from the projects being funded. Therefore, we consider that the CDC and the Member of Parliament should follow up on all the projects distributed in the constituency to ensure that they are being fully implemented.

10. Summary of Recommendations

It is clear from the above tables that the transparency, accountability and governance of the RCDF falls well short of that expected with regards public finances and that significant changes are required.

It is **recommended** that the government should examine Annex #1 to this report and determine whether they wish to continue using RCDF as a vehicle for relieving rural poverty or whether they would like to study alternatives which may prove more effective.

If the government decides to continue using RCDF, it is **recommended** that legislation be passed governing the use of RCDF based on the 2013 Act.

It is further **recommended** that the RCDF Operational Guidelines and Procedures be revised to include the “potential solutions” to the problems identified in Table #4. These should be enacted as secondary legislation under the CDF Act.

Both the law and the new guidelines should be in place to regulate these funds.

Annex #1: A Review of the Deficiencies of Constituency Development Funds

Introduction

It is clear from this audit report that there are significant problems with the implementation of Constituency Development Funds as a method of rural poverty relief.

I have made recommendation as to how these problems can be rectified but I would be failing in my duty if I did not point out wider concerns over the use of CDF and identify possible alternatives.

The use of such funds has a number of serious deficiencies which are discussed in the following sections.

Breaching the Separation of Powers

The separation of powers is a system for the governance of democratic states that divides the state into a number of branches, each with separate and independent powers and areas of responsibility. A common division is one in which there is an executive, a legislature, and a judiciary.

The separation of powers is meant to reduce the risk of poor governance by limiting the authority of each branch of government. This division also allows citizens to seek redress if one of the branches should act against their interests. In most recent examples, the separation of powers has helped the judiciary and the legislature to limit the power of the executive, as is the case when legislatures use audit reports to hold the executive to account for the implementation of the budget.

In the budget system of democratic states, the most important manifestation of the separation of powers is that the legislature enacts the budget and evaluates, but is not directly involved in, its implementation. It determines the rules of the game and pronounces on whether these have been followed but does not “play the game” itself — it is the executive that manages and spends the budget.

CDF schemes appear to breach the separation of powers by conferring the executive powers of budget implementation on MPs. As a Kenyan court put it¹,

¹ See Ongonya et al 2005

“any outfit that is composed of Members of Parliament and is charged with expenditure of public funds is mingling of roles of the different organs of state in a manner that is unacceptable... it would be against the constitutional principle of the separation of powers for Members of Parliament to take part in actual spending, then submit their annual estimates to themselves in Parliament through the Public Accounts Committee”.

Reducing Government Capacity

The capacity of the executive to fund and manage service delivery is already weak in most CDF countries. In many cases this weakness is given as a rationale for the introduction of CDFs that are meant to bypass “red tape” and administrative costs and go straight to community-level investments. However, CDFs may have the opposite effect; that is they may weaken what little capacity does exist.

There are several factors here:

- **Division of Revenue between Constituencies:** where the CDF is divided equally between constituencies, it has a regressive effect.

Other funding mechanisms may do a better job of redistributing resources to the poor, such as the equalisation grants that, for example, Uganda provides to its poorer districts. Channelling funding through the CDF rather than these alternative funding mechanisms, therefore, has the net effect of regressively redistributing resources from poorer to richer constituencies.

- **Project Selection and Planning:** even where the allocation of CDF funding between constituencies is satisfactory, this does not ensure that the poorest and neediest will benefit. After funds have been divided up between constituencies, the appropriate projects must still be chosen within each of these constituencies. Critics have argued that CDF projects do not target the neediest beneficiaries and that projects do not reach all community members; rather, project selection may be driven by political factors.

Ideally, a democratic and efficient system of governance assumes a measure of impartiality in the way in which the executive manages and spends the budget. This impartiality stems in part from the relative autonomy of the state bureaucracy from direct involvement in party politics.

Efforts have been undertaken to address poor project selection, as in Jamaica where each MP is required to submit a five-year development plan for their constituency that is aligned with national priorities.

CDF processes do not adequately protect against the duplication of development projects. Legislators eager to garner political support may initiate “new” projects under their name that are essentially duplications of their predecessor’s work. Apart from duplication within the CDF scheme, there is also the danger of duplication of projects funded by other decentralization schemes because of a lack of coordinated planning.

- **Coordination with Local Government and Displacement of Funds:** local government management is often hampered by low capacity, insufficient transfer of funds, or bureaucratic disorganisation. CDFs run the risk of diverting even more funds from local government and placing an additional administrative burden on them.

Even where CDFs do not displace local government funding directly, they can displace funds indirectly by not providing for the operational and maintenance costs associated with CDF projects, most of which are infrastructure projects. These ancillary CDF costs may ultimately require contributions from local government coffers.

- **Monitoring Project Implementation:** as has been identified by this audit, the administration of CDFs at the constituency level can be problematic, duplicating structures and overtaxing the available capacity. The experience and skills base of such CDF monitoring structures are often compromised even further when nepotism and political allegiance influence who is appointed to project committees.

Weakening the Oversight Capacity of the Legislature

The ideal roles of a legislature can be summarized as making laws and overseeing the executive’s implementation of those laws. The ability of the legislature to perform these functions is based on two key relationships: the one it has with the executive, and the one between individual MPs and their electorate. CDFs risk compromising the integrity of both.

Impact on the Relationship between the Legislature and the Executive

It has been argued that CDFs strengthen the role of the legislature by making them less dependent on the executive for funding; they now have money to spend on the projects that they think are important. But this arrangement distracts MPs from their core business and could even make them more dependent on the executive, thus making it more difficult to oversee the work of the latter.

CDFs compromise the independence required by legislatures to oversee the executive effectively. With the executive controlling large amounts of money destined for individual MPs, it is easy for the executive to pressure them into complying with its wishes.

CDFs can distort the policy perspective of MPs, as well, distracting MPs from their broader democratic role, with MPs focusing their attention on local issues to the neglect of legislative and policy interventions from a national perspective.

It also has increased the workload of MPs, who spend a lot of their time finalizing CDF schemes rather than making good laws and holding the executive to account for implementing them.

In addition to potentially compromising the ability of the legislature to perform its oversight role, CDFs can undermine the public's ability to hold the executive to account for meeting its needs. The executive branch of governments has tended to support the introduction of CDFs because such schemes could help to shift the responsibility for capital investment away from them and onto MPs, even though CDFs normally only make up a small portion of total state expenditure.

Impact on MP-constituent Relations

CDFs compromise not only the relationship between the executive and the legislature but also that between MPs and their constituencies. CDFs could contribute to further shifting the relationship between MPs and their constituents from its proper democratic basis (MPs represent constituents interests in national policy decisions) to a financial basis (MPs bring home the bacon).

Ideally, MPs are supposed to represent the interests of their entire constituency in the making of laws and overseeing the work of the executive. However, the long-term effect of such actions is that the MP's performance in the use of their CDF allocation becomes a measure of their effectiveness.

Conclusion

There is evidence world-wide to suggest that CDF schemes put unwelcome pressure on service delivery and accountability systems in countries where these systems are already weak. The weaknesses of CDF should be mitigated through increasing citizen participation, progressively distributing funds, implementing rigorous reporting and third party oversight of CDF activities, and developing sufficient project management capacity. These ideas have been recommended in the main body of the audit report.

If this does not succeed in improving the performance of the CDFs, consideration should be given to replacing them with, for example, improved decentralisation programmes.

Annex #2 Ministry of Rural Development Responses

2009 -2012 CDF Audit – MRD Responses

| Comment No # | Report Point No # | OAG Report | MRD Response/comment | OAG Comments |
|--------------|-------------------|----------------------------------|--|--|
| 1 | 3 | Methodology | The extent of audit approach to sight documentation should be stretched from MRD to MOFT/Treasury to locate missing vouchers where all original payment vouchers are raised paid and stored. The Ministry of Rural Development archives all acquittal reports. | Officials in both ministries could not locate the requested documents. |
| 2 | 5 table #2 and #3 | Summary of Financial Performance | Appreciate and accept the report performance data but would be better reflected if missing payments vouchers are located in Treasury where all original copies are paid and archived. It is important to note that Treasury only fund documented payment vouchers meaning that all CDF transactions for the report period were documented but may be not properly stored by either MRD/MOFT for easy access by audit for different reasons. In this case it would be misrepresentation to bluntly say payments not sighted. On the other hand, acquittals are prerequisites for funding where no acquittal is equal to no funding. | The issue of missing documents needs to be addressed in the ministry as well as in the Ministry of Finance. Officials were unable to provide the documents when requested. |
| 3 | 6 | | Problems are mere challenges and issues that the Ministry of Rural Development is improving as building its capacity as the delivery vehicle of CDF | Noted |
| 4 | 9 | | Insert “CDF Act” to replace “RCSDF Act” in the print report | Corrected |

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|---|----------|---|--|--|
| 5 | Annex #1 | A review of the deficiencies of the Constituency Development Fund | A possible review of the CDF framework to better serve its purpose is generally accepted but a policy matter for the Government to reconsider not necessary as recommended by the Report | It is hoped that the government takes them into consideration. |
|---|----------|---|--|--|