Information Kit on
The National Budget of Nepal

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2011

Contents

Structure of the Nepal Budget

Nepal has under gone a political and constitutional change in the recent past. These changes have been substantial in nature and is well reflected in the formation of new interim Constitution (UNDP, 2007). With regards to matters of financial business of the country, the interim constitution clearly proclaims that (1) No tax shall be levied and collected except in accordance with law, and further (2) No loan shall be raised or guarantee be given by the Government of Nepal except in accordance with law. This shows that the elected government is solely responsible for the formulation and implementation of budget and hence the authority of collection of revenue, sanctioning and distribution of resources for the public welfare rests squarely with the civilian government.

The interim constitution provides some explicit provisions for the financial procedure of the country. The constitution has not mentioned the word *budget* explicitly. It is referred to as the "Annual Estimates". It is presented by the Finance Minister to the Parliament (*Sansad*) every fiscal year. The fiscal year in Nepal starts from 16th July and ends with 15th July of the following year. The "Annual Estimates" include an estimate of revenues; the money required to meet the charges on the Consolidated Fund (Charged Expenditure); and the money required to meet the expenditure to be provided for by an Appropriation Act (Voted Expenditure). While being presented to the Parliament, the 'annual estimates' comes with a statement of the expenses allocated to each Ministry in the previous financial year and particulars of whether the objectives of the expenses have been achieved or not (status report), etc. Besides this provision, the interim constitution also defines the Finance Bill. This Bill concerns, among others, the taxation proposals of the government. This includes the following subjects: such as (a) the imposition, collection, abolition, remission, alteration or regulation of the taxes; (b) the preservation of the Consolidated Fund or any other Government Fund, the deposit of moneys into and the appropriation or the withdrawal of moneys from such Funds, or the reduction, increment or cancellation of appropriations or of proposed expenditures from such Funds; (c) matters relating to the raising of loans or the giving of guarantees by the Government of Nepal or any matter pertaining to the financial liabilities undertaken or to be undertaken by the Government of Nepal; (d) the custody and investment of all revenues received by any Government Fund, moneys acquired through the repayment of loans, and the grant amount, or audit of the accounts of the Government of Nepal. In case a question arises whether a Bill is a Finance Bill or not, the decision of the Speaker of the Parliament is final.

The Constitution does provide provision for the *Votes on Account.* This provision helps the government to take prior approval of the Parliament to incur expenditure before the budget gets its final approval. The Votes on account does not exceed 1/3rd of the estimated expenditure for the fiscal year. It is presented by the Finance Minister to the Parliament along with the annual budget. The expenditure incurred in accordance with the Vote on Account Act is subsequently included in the Appropriation Bill.

Besides Finance bill, there is also a provision for *Supplementary Estimates.* A Supplementary Estimates is the sum authorized by the Parliament to be spent for a particular service if allocated amount is found to be insufficient, or a need has arisen for expenditure upon new services not provided by the Appropriation Act or that the expenditures made during that fiscal year are in excess of the amount authorized by the Appropriation Act. The Supplementary Estimates is presented every fiscal year to the Parliament to be authorised under the Appropriation Act.

The government seeks *Vote of Credit* if some situation arises due to a local or national emergency resulting either from natural causes, a threat of external aggression or internal disturbances or any other reasons. It can also be presented to the Parliament for its sanction if the government consider that it is impractical or inexpedient in view of the security or interest of the State to specify the details in the annual budget. Under this provision, the Finance Minister only provides a description of the proposed expenditures before the Legislature. Above all, the constitution also by Act has created a *Contingency Fund* to meet any unforeseen expenditures.

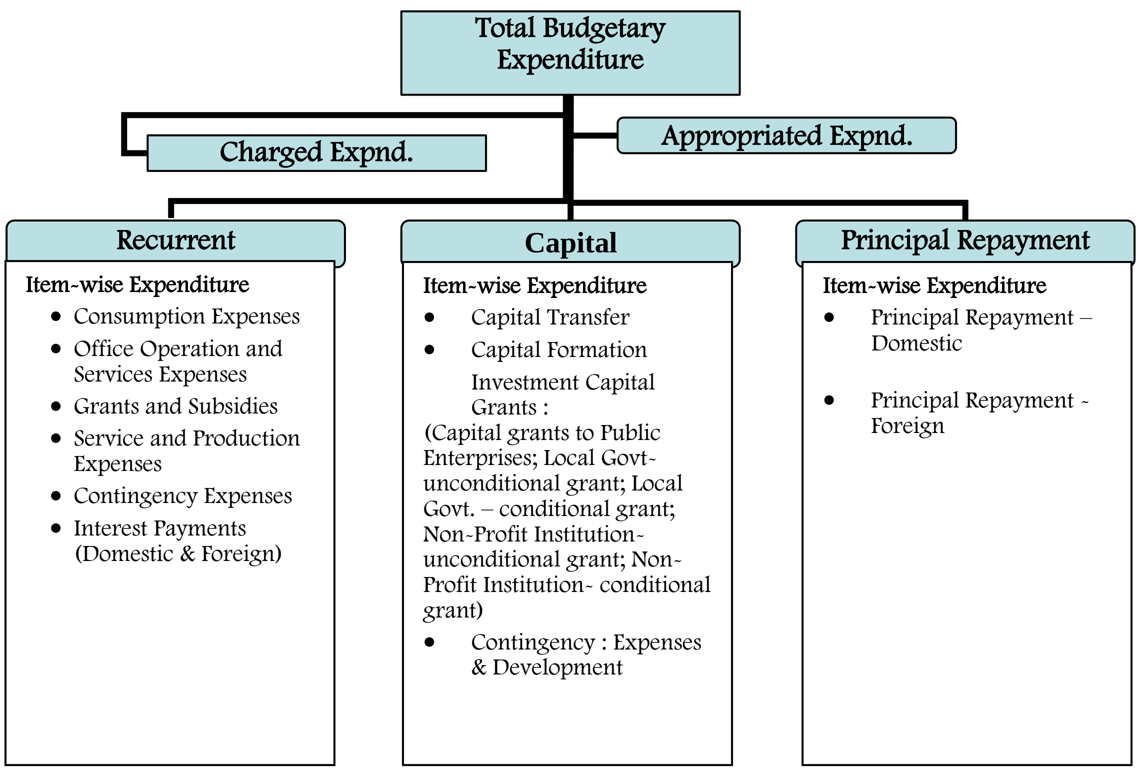
The constitution of Nepal clearly states for a *Consolidated Fund*, a core component from the perspective of studying Nepalese Budget. It reads that "except the revenues of religious endowments, *all revenues received* by the Government of Nepal, *all loans raised* on the security of revenues, and *all the moneys received in repayment of any loan* made under the authority of any Act and any amount received by the government of Nepal shall be credited to a Government Fund, known as the Consolidated Fund. Noticeably, it excludes revenues earned from the religious endowments, other than private religious endowments from the ambit of Consolidated Fund of Nepal; however it is duly regulated by laws. The expenditures incurred out of the Consolidated Fund are classified as Charged Expenditure and Appropriation Expenditure.

The *'Charged Expenditures'* are defined as those expenditure which are required to maintain the independence and autonomy of certain constitutional positions. As per the constitution, remuneration, privileges, pension and administrative expenses payable to the Chief Justice of Nepal and other Judges of the Supreme Court; the remuneration and other privileges payable to Speaker and Deputy Speaker of the Legislature, the Chairperson and Vice chairperson of the Constituent assembly; the Auditor General, Chief Election Commission and other EC, Chairman and members of the NHRC, Chairman and members of the Public Service Commission and etc, are included as charged expenditure. In addition to, all the debt servicing and any payment due to any Judgment against the Government of Nepal also covered under the Consolidated Fund of Nepal. *Appropriated Expenditures*, on the other hand, are basically not come under 'Charged Expenditure' and however these are intended to make strengthening of the institution and also covers Pro- poor budget and Neutral budgetary expenditure. As these expenditures are specified under the Appropriation Act, hence Appropriation Expenditures in the budget.

The structure of Nepal Budget compromises expenditures and revenues but also heavily depends upon on foreign grants and loans. The main components of budget can be classified into (1) Government Expenditure, (2) Government Revenue, (3) Foreign Grants, and (4) Loans (both internal and external).

Till 2003/04 Fiscal Year, Budgetary expenditures were classified as Regular Expenditure and Development Expenditure. But from the year 2004/05 FY, it has been further modified as Recurrent Expenditure, Capital Expenditure and Principal Repayment Expenditure. To put it more accurately, Total Budgetary Expenditure (TBE) = Recurrent Expenditure (RE) + Capital Expenditure (CE) + Principal Repayment Expenditure (PRE)

(1) Classification of Expenditure Budget

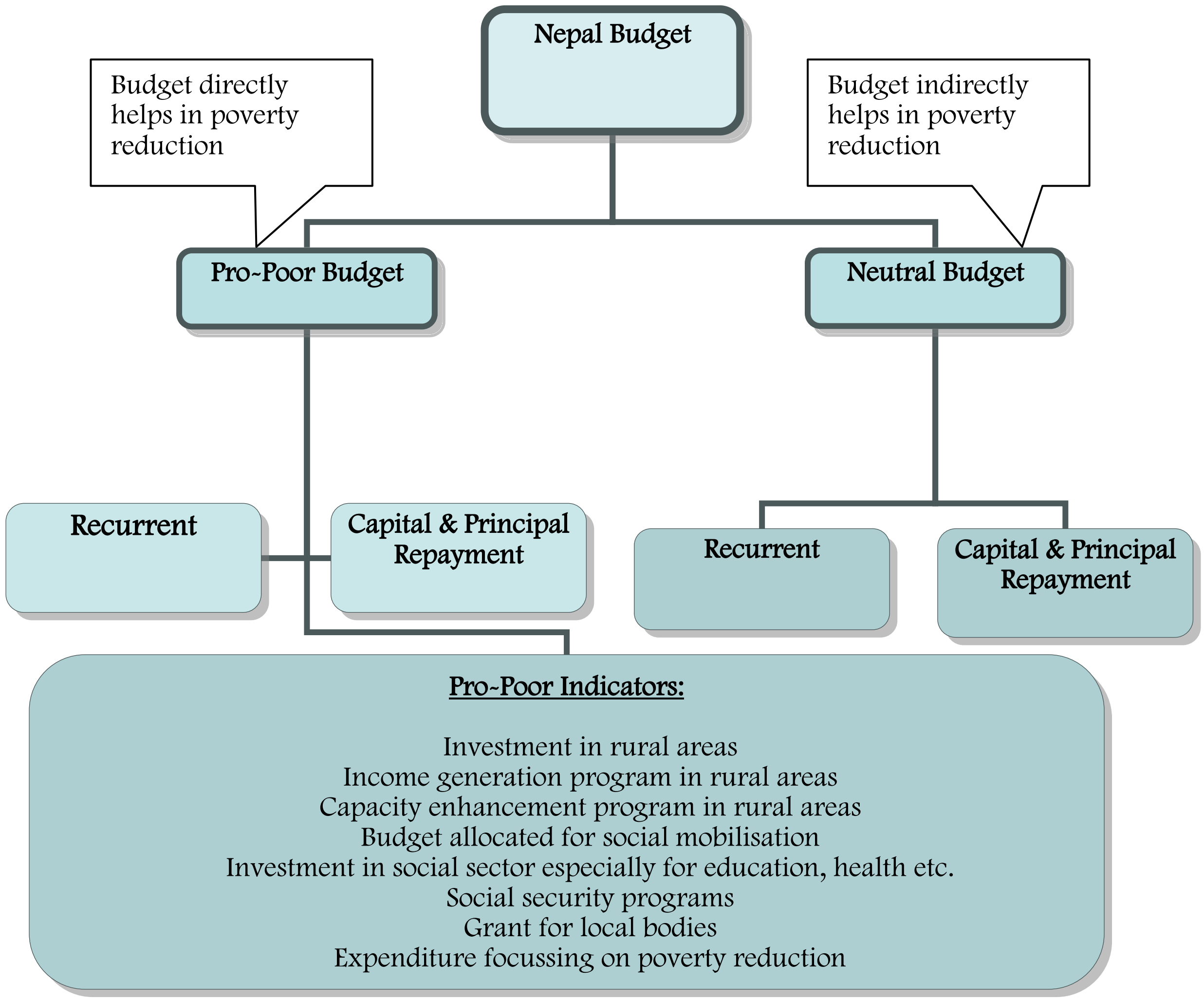


Recurrent Expenditure: Recurrent expenditures are those expenditures which are generally intended towards consumption expenses, office operation and service maintenance, service and production expenses of various Governmental functions. The Recurring expenditure takes into account salary and other allowances, office expenses, repair and maintenances. It is observed that the Recurrent Expenditure has been increased over the years.

Capital Expenditure: Capital expenditures are those expenditures which are usually intended towards for the Capital Formation, Capital Transfer, Investment, Capital Grants-both conditional as well as unconditional and Principal Repayment. Main components under capital expenditure are for creating and maintaining furniture and fixture; machinery and equipment; research and consultancy fees; building construction and other constructions, etc. In addition to these expenditures, unconditional grants to Local Government and Non-Profit Institution are covered under capital expenditure.

Principal Repayment Expenditure: This expenditure is basically for debt repayment which can be both domestic as well as foreign loans. Its share is nominal in comparison to the whole budget. But the repayment of principal is gradually increasing due to increasing budget deficit each year. Budget deficit are financed through internal and external loan which are to be paid back in later years. In last two fiscal years - FY 2004-05 and FY 2005-06 - Principal Repayment of Domestic Loan has been more than Principal Repayment of Foreign Loan.

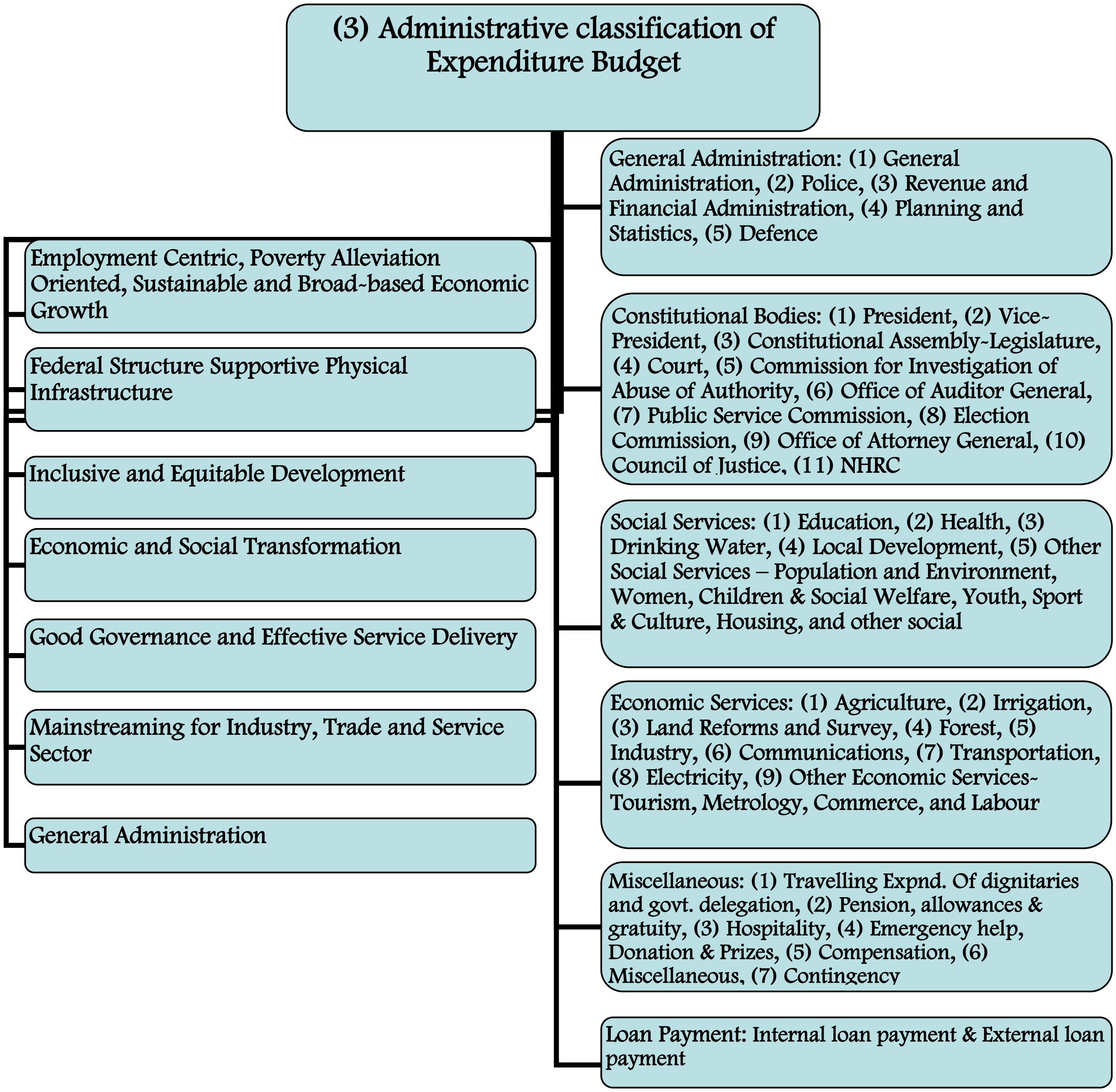
(2) Classification of Expenditure Budget



There is another significant classification of Budget from the lens of poverty reduction and budgeting for poor and downtrodden. The classification is reflected in the budget documents as Pro-Poor Budget and Neutral Budget.

Pro-poor Budget and Neutral Budget: According to budget documents, Pro-poor expenditures directly help in the country's mission for poverty reduction. There are various indicators outlined in the document define what constitutes pro-poor budget such as various investments in social sectors especially for education, health, water and sanitation in rural areas; income generation program in rural areas; capacity enhancement program as well as various budgetary allocations for social mobilization in rural area; social security programs; various conditional as well as unconditional grants to local bodies, etc. Neutral Budget, on the other hand, is indirectly helping in poverty reduction. It is observed from the budget that the neutral budgetary expenditures have edged over the allocation for the pro-poor budget. In Nepal, the Neutral Budget constitutes approximately 53% of the expenditure.

Besides such broad classification of the budget, the budget documents also underlie administrative classification of the budgetary allocation. Red Book on Estimate of Expenditure (Annex 4) gives in details about such classification. It can be divided into various heads such as Constitutional Bodies, General Administration, Social Services, Economic Services, Loan Payment and Miscellaneous. Noticeable aspect of such classification is that it is governed by some strategic policy consideration such as: employment, poverty alleviation, and broad-based economic growth; federal structure supportive physical infrastructure; inclusive and equitable development; economic and social transformation; good governance and effective service delivery; mainstreaming for industry, trade and service sector; and general administration.


(3) Administrative classification of Expenditure Budget
General Administration: (1) General Administration, (2) Police, (3) Revenue and Financial Administration, (4) Planning and Statistics, (5) Defence
Constitutional Bodies: (1) President, (2) Vice-President, (3) Constitutional Assembly-Legislature, (4) Court, (5) Commission for Investigation of Abuse of Authority, (6) Office of Auditor General, (7) Public Service Commission, (8) Election Commission, (9) Office of Attorney General, (10) Council of Justice, (11) NHRC
Social Services: (1) Education, (2) Health, (3) Drinking Water, (4) Local Development, (5) Other Social Services – Population and Environment, Women, Children & Social Welfare, Youth, Sport & Culture, Housing, and other social
Economic Services: (1) Agriculture, (2) Irrigation, (3) Land Reforms and Survey, (4) Forest, (5) Industry, (6) Communications, (7) Transportation, (8) Electricity, (9) Other Economic Services-Tourism, Metrology, Commerce, and Labour
Miscellaneous: (1) Travelling Expnd. Of dignitaries and govt. delegation, (2) Pension, allowances & gratuity, (3) Hospitality, (4) Emergency help, Donation & Prizes, (5) Compensation, (6) Miscellaneous, (7) Contingency
Loan Payment: Internal loan payment & External loan payment
Employment Centric, Poverty Alleviation Oriented, Sustainable and Broad-based Economic Growth
Federal Structure Supportive Physical Infrastructure
Inclusive and Equitable Development
Economic and Social Transformation
Good Governance and Effective Service Delivery
Mainstreaming for Industry, Trade and Service Sector
General Administration

Revenue Budget

Revenue mobilization, foreign grants and loan, domestic borrowings and change in cash reserves are used as fiscal instruments for financing budgetary expenditures. Domestic revenue is the major source of government finance. The principal instruments for domestic revenue mobilisations are government revenue collected through tax and non-tax sources. The tax revenue constitutes both Direct Taxes and Indirect Taxes. Main components of the Direct Taxes are Income Tax, Corporate Income Tax, Remuneration Tax, Income Tax on investment, Tax on House and Land registration, and other vehicle tax. Commodity tax based on Foreign Trade such as Import Duties, Export Duties and Internal Commodity Tax based on goods and services such as Value Added Tax and Excise Duties are main sources of Indirect Tax revenue. Besides, the Government of Nepal also collects Non-tax revenues from various duties and fees such as passport fees, tourism fees; penalty, fines and forfeitures; receipts from sales, rent of Government property, and finally service charges on providing drinking water, irrigation, electricity, postal services, education, forest and transport, etc. At present, shares of tax revenue and non-tax revenue (fiscal year 2008/09) stood at 81.6 percent and 18.4 percent respectively of the total revenue mobilised in the country.

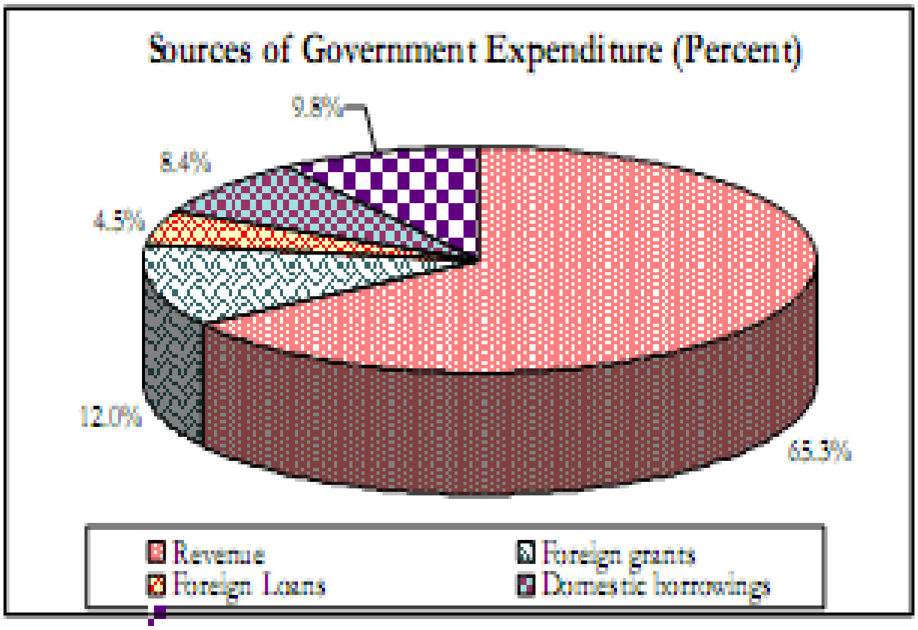
<table>
<tr><th>Tax Revenue</th><th>Non-Tax Revenue</th></tr>
<tr><td>Direct Tax:
Taxes on Property, Profit and Income
Land Revenue and Registration
Indirect Tax:
Customs (Imports and Exports)
Excise
Taxes on consumption and products of goods and services</td><td>Charges, fees, fines and forfeiture
Receipts from sales of commodities and services
Dividend
Royalty and sales of fixed assets
Principal and Interest payment</td></tr>
<tr><td colspan="2">Revenue Budget: Tax Revenue + Non-Tax Revenue
Tax- GDP ratio: Proportion of Tax Revenue to Gross Domestic Product (GDP)
(Tax-GDP Ratio gives a clear idea of very structure of government revenue and sustainability of the economy)</td></tr>
</table>

Deficit Financing:

Fiscal deficit is the result of imbalance between total expenditures and the total revenues generated. It is being financed through foreign loan, domestic borrowing and cash reserve in the country for a particular fiscal year. External sources of meeting deficit financing include external assistances, particular loans and grants; internal sources include internal loan along with borrowings and cash surplus. Nepal has been receiving substantial external supports for its developmental planning under bilateral and multilateral arrangements. Under bilateral Loan arrangement-- India is the biggest loan provider, followed by China; and ADB, IFAD, IDA, OPEC Fund and Saudi Development Fund give substantial multilateral loan assistance. The White Book of Nepal Budget provides a detailed description of the external financing and which ministries/administrative divisions have received how much amounts of foreign loan and grants under which projects heads. On the other hand domestic borrowings come from Treasury Bills, Developmental Bond, National Savings Certificate, Citizen Savings Certificate, and Special Bonds, etc.

For instance: The government expenditure in the fiscal year 2008/09 is totalled Rs.219, 661.9 million (Nepalese Rupees). Out of that total expenditure, the domestic revenue mobilization is 65.3 percent, foreign grants 12.0 percent, foreign loan 4.5 percent, domestic borrowing 8.4 percent while change in reserves shared 9.8 percent.

Situation of Resource Mobilisation in the FY 2009/10



Source: Economic Survey 2009/10, Government of Nepal

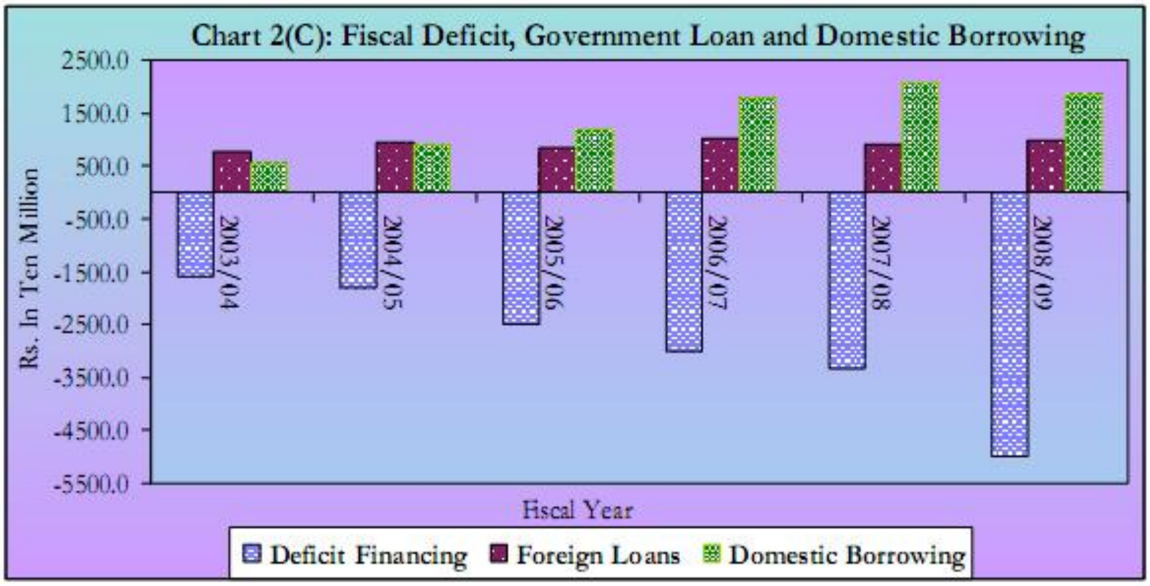
Situation of Fiscal Deficits in Nepal

(Rs. In Millions)

Fiscal Year	Fiscal Deficits	Fiscal Deficit/GDP Ratio (in Percent)
2000/01	24,188.1	5.5
2001/02	22,940.6	5.0
2002/03	16,437.2	3.3
2003/04	15,828.2	2.9
2004/05	18,046.5	3.1
2005/06	24,779.6	3.8
2006/07	30,091.7	4.1
2007/08	33,406.7	4.1
2008/09	49804.6	5.0

Source: FCGO, and Central Bureau of Statistics

Source: Economic Survey 2009/10, Government of Nepal



Source: Economic Survey 2009/10, Government of Nepal

2. Budget Cycle

The budget is a technical document that includes the government's expenditure and revenue proposals, reflecting its policy priorities and fiscal targets. The document is also culmination of an on-going budget decision-making process, and of a country's system for managing and assessing its spending and tax policies. It is an interactive and evolving process and many stakeholders and their roles and influences work for the effectiveness of the overall budget system. Hence, the Budget Cycle consists of the major events or stages in making decisions about the budget, and implementing and assessing those decisions.

The budget cycle usually has four stages:

- Budget formulation, when the budget plan is put together by the executive branch of government;
- Enactment, when the budget plan may be debated, altered, and approved by the legislative branch;
- Execution, when the policies of the budget are carried out by the government; and
- Auditing and assessment, when the actual expenditures of the budget are accounted for and assessed for effectiveness.

2.1 Preparation & formulation stage:

The initial formulation of the budget occurs almost exclusively within the executive branch of government, though it can include a number of actors within the branch. Typically, the Ministry of Finance or a division within it — coordinates and manages the formulation of the budget, requesting information from individual departments and proposing the trade-offs necessary to fit competing government priorities into the budget's expenditure totals. This process can take a few weeks to several months, largely depending on the extent to which departments are involved and their views are taken into account.

The quantum and size of the budget are largely determined by its projections of key parameters — such as economic growth, inflation, or demographic changes, priorities and gravity of welfare measures — that will influence overall revenues and expenditures. The contours of a budget also are influenced by consideration of goals, such as maintaining the deficit or debt at a certain level, raising or reducing taxes, or increasing expenditures for certain priority areas.

In Nepal the budget preparation starts with resource estimation. Budget division of finance ministry has the responsibility for preparing budget. While, the National Planning Commission plays major role for development budget, and for regular budget, budget division of finance ministry play major role. The Resource Committee (RC) comprising Vice Chairperson of National Planning Commission (NPC), Member of NPC – Macro Sector, Governor of Nepal Rastra Bank (NRB), Financial Comptroller General and Secretary of Ministry of Finance determines the size of the budget by analyzing overall economic situation of the country with the help of macro economic indicators. Resources estimate comprise estimates of revenue, foreign loan, foreign grant and domestic borrowing. Upon accomplishing resource estimation, the Resource Committee sets the ceiling for budget for the next fiscal year. Revenue Consultative Committee (RCC) set up at the national level under MOF provides recommendations for designing policies, determining tax base and tax rates, setting the level of exemptions, and personal and business deductions. The budget ceiling is fixed considering availability of both internal and external resources. The NPC sets out the priority and policy goals with respect to plans and programs for forthcoming fiscal year and provide necessary guidelines to the concerned ministry and the MOF, prior to sending of circular for preparation of budget. In course of preparing the budget documents, finance ministry issues some guidelines and priorities consistent with economic planning and fiscal policy and sends the circulars to all ministries and departments to prepare the budget with following information:

- Ceiling of funds including external assistance available for each Ministry for various budget funds.
- Formats to be used for various estimates and instruction to be followed in preparing the estimates.

- Policy guidelines to be followed in prioritizing activities
- Manual to be used for resource allocation for the various budget headings.

Budget preparation at the Ministry level begins after receiving the circular based on its programs and policies. The respective Ministry submits the prepared budget proposal and the annual program – one copy each to NPC and MOF in the beginning of the third trimester of the fiscal year.

In the case of capital budget, the first round of discussion takes place at NPC. The proposed program is critically examined in the prospective of policy guidelines and the circular. The MOF staffs assess the aid – involved projects in the context of the confirmed and unconfirmed commitments of the respective donors. The final round of discussion takes place at MOF, represented by the concerned ministries/ departments and NPC staff. MOF prepares a statement of expenditure containing description of all estimated expenditure for each sector Ministry, and submit the annual estimates to the Parliament for its approval.

2.2 Enactment Stage: The second stage of the budget cycle occurs when the executive's budget is discussed in the legislature and consequently enacted into law. This stage begins when the executive formally proposes the budget to the legislature. The legislature then discusses the budget, which can include public hearings and votes by legislative committees. The process ends when the budget is adopted by the legislature, either intact or with amendments. The budget also can be rejected by the legislature and, in some countries, replaced by the legislature's own proposal

In Nepal, the phase enactment begins with budget speech by the Finance Minister at the joint session of parliament in the second or third week of July. It is followed by a brief discussion of the underlying budgetary principles and policies. The minister also submits an Appropriation Bill and the Finance Bill to the Parliament. The Appropriation Bill is accompanied with a description of programs and their regional distribution. The discussion in parliament lasts for one and half to two months, when subjects are analyzed item wise, followed by a voting on the bill in parliament in September. After about one to two weeks from the date of parliamentary approval of the bill, the bill gets President's assent and becomes an Act.

2.3 Implementation Stage: The next stage of the process occurs once the budget has been enacted. Governments differ widely in how they regulate and monitor spending to ensure adherence to budgets. In some cases, the Treasury (or Finance Ministry) exercises strong central control over spending, reviewing allocations to departments and approving major expenditures. Where departments enjoy more independence, treasuries will monitor expenditures by requiring, for instance, regular reporting by each department of its spending.

In practice, budgets are not always implemented in the exact form in which they were approved; Funding levels in the budget are not always adhered to and authorized funds are not always spent for the intended purposes. Deviations can result from conscious policy decisions or in reaction to changing economic conditions, but concerns arise when there are dramatic differences between the allocated and actual budgets that cannot be justified as reflecting sound policy. While these cases can result from outright abuse by the executive, they may also reflect the effects of a poor budget system and technical problems that make it difficult for the executive to implement the budget in line with what was enacted into law. For instance, the budget may not be clear about the intended purposes of particular funds, while weak reporting systems can limit the availability of information that the executive needs to monitor the flow of expenditures.

In this stage, budget is executed by the executive body of the government. The fund release process begins with the approval of the budget by the parliament. The sequence of events thereafter is as follows:

- Concerned Ministries issue expenditure authorization to spending offices, either directly or through departments, giving a copy, among others, to **District Treasury Controller Offices** (DTCOs).
- The DTCOs release money to spending offices when they are in receipt of authorizations. In the case of a development budget the spending offices are also required to present the approved programs.

- Initially DTCOs release one-sixth of the total budget and reimbursement is made every month based on the statement of expenditures produced by the spending offices. No monitoring of activity is done at this stage.
- At the end of the year, however, if any spending office is requesting large reimbursements then DTCOs ask for the invoices/statements of the work done.
- If the monthly replenishment is not sufficient then spending offices can request an additional imprest (over and above one-sixth) and based on the merit of the request, the additional fund is given.
- Reallocation of budget from one heading to other or from one project to another are all recorded according to the FAR (if these are not recorded, these are reported as irregularities by the Auditor).

2.4 Auditing

The last stage in the budget cycle includes a number of activities that aim to measure whether there is an effective use of public resources. Ideally, the executive branch should report extensively on its fiscal activities to the legislature and the public. These fiscal activities also should be subject to regular review by an established independent and professional body, such as audit institutions or an Auditor General. The audit office should have the capacity to produce accurate reports in a timely manner.

Evaluation and auditing are not only necessary for the legislature to exercise its oversight function, they are an integral part of the overall public expenditure management system; reports on performance are necessary to secure the best possible use of public resources. A strong emphasis of modern budgeting reforms is to provide public entities and agencies with information on performance in order to improve their operations.

In Nepal, the overall responsibility of auditing goes to the Auditor General (AG). AG prepares the annual report after accomplishing auditing of all government transactions. The AG presents its annual report to the government, which is later forwarded to parliament for discussion and implementation.

Monitoring and Evaluation System: Nepal has instituted a system whereby projects are monitored during the year as follows:

- National Development Action Committee (NDAC) at the apex level is a body headed by the Prime Minister, which meets every four months;
- Ministerial Development Action Committee (MDAC) is headed by the Minister of the Ministry concerned, and meets every two months;
- Central Monitoring and Evaluation Division (CMED) of the NPC monitors the core projects selected for monitoring by the NPC (others are monitored by the respective divisions of the NPC Secretariat and the concerned ministries), and sends a report every four months to the NDAC; and a separate Poverty Monitoring Section has been established in the NPC Secretariat for monitoring poverty, and the policy and programs related to poverty reduction.

3. Institutions Influencing Budget Formulation and Implementation

3.1 National Planning Commission (NPC):

National Planning Commission (NPC) is the advisory body for formulating development plans and policies of the country. It explores and allocates resources for the economic development and works as a central agency for monitoring and evaluation of development plans, policies and programmes of the country. Besides, it facilitates the implementation of development policies and programmes. Moreover, it provides a platform for exchange of ideas, discussion and consultation pertaining to economic development of the country. It also serves as an institution for analyzing and finding solutions to the problems of civil society organisations and the private sector in the country. It also explores innovative approaches for sustainable development based on the economic situation of the country. Furthermore, it provides guidelines, advice and suggestions to sectoral ministries, departments, other agencies and local bodies and assists them in the plans and projects formulation. Prime Minister is the Chairman of the NPC.

3.2 National Development Council (NDC):

National Development Council in Nepal was constituted at par with NDC in India, to accelerate the pace of economic development in a manner consistent with the actual needs and aspirations of the people as reflected in the development plan formulated for the welfare of the entire Nepalese people. Its major function includes providing directives to the NPC on matters relating to objectives and policies for formulating periodic and annual plans. Further, it provides directives to carry out progress evaluation in every third year of the plan and based on it, along with the views of concerned Ministries, gives policy guidelines to the government. It also provides necessary directives to the Government on the formulation of periodic plan, annual programme and their budgets. Last but not the least, it provides directives to the NPC on factual conditions and actual needs of various regions in order to formulate plan consistent with people's aspirations and local needs.

3.3 Auditor General:

The Auditor General of Nepal which is very important constitutional organ is appointed by the Prime Minister on the recommendation of the Constitutional Council for a term of six years from the date of appointment. The accounts of the Supreme Court, Legislature-Parliament, Constituent Assembly, Commission for the Investigation of Abuse of Authority, Auditor General, Public Service Commission, Election Commission, National Human Rights Commission, Office of Attorney General and other offices of Constitutional Bodies, the Nepal Army and Armed Police or the Nepal Police as well as of all other government offices and courts are audited by the Auditor General in the manner determined by law, with due considerations given to the regularity, economy, efficiency, effectiveness and the propriety thereof. The Auditor General shall be consulted in the matter of the appointment of auditors for carrying out the audit of any corporate body of which the Government of Nepal owns more than fifty percent of the shares or the assets. The Auditor General may also issue necessary directives setting forth the principles for carrying out the audit of such corporate bodies. The Auditor General submits to the Prime Minister an annual report on the works it has performed, and the Prime Minister makes all the arrangements to submit such reports before Legislature-Parliament. The annual report to be submitted contains, *inter alia,* the offices wherein the Auditor General has carried out audits in that year, the situation of irregularities found out by the audit; the efforts made to settle irregularities and the achievements obtained therein; details of the cases seemed as corrupt in nature and required to be further investigated, forwarded to the Commission for investigation of Abuse of Authority in writing; and the reforms to be carried out in future regarding the audit.

3.4 Commission for the Investigation of Abuse of Authority (CIAA):

It is an apex constitutional body to curb corruption in the country. It was formed in 1977. The CIAA performs recommendatory services for the government. It may make suggestions or recommendations for amending a law or making certain improvements in the functions of the government or any policy or procedure with a view to enhancing and improving good governance in the country. Interim constitution of Nepal 2007 has empowered CIAA to investigate and probe cases against the persons holding any public office and their associates who are indulged in the abuse of authority by way of corruption and/or improper conduct.

3.5 Public Accounts Committee (PAC):

It is headed by a member of the main opposition party in the Parliament and plays a very proactive role. It meets all the year round, discussing, not only the public accounts and the Auditor General's (AG) annual report and recommendations thereof, but also practically every aspect of public sector financial management. It intervenes in the procurement process, even while it is still going on, if it suspects any impropriety. Its collaboration with the AG is very crucial. It sends the AG's recommendations to the government with a directive for implementation of such recommendations.

3.6 National Development Forum (NDF):

This is an external forum which brings together senior Government officials, representatives of the political parties, civil societies, local body officials, private sector leaders and the media as well as the developmental partners such as ADB, WB groups, etc. The main objectives of the NDF are to take stock of the Priority Reform Actions (PRAs); to review the implementation of the Plan/Poverty Reduction Strategy Paper (PRSP) and the Foreign Aid Policy as a means to increase aid effectiveness; to redefine development partnership such as experience from donor practices and donor harmonization; to enhance support for good governance and decentralization; and to decide development strategies based on past experiences and to discuss about donors participation and co-operation/assistance.

3.7 Nepal Rashtra Bank

Nepal Rastra Bank (NRB), the Central Bank of Nepal, is primarily responsible to formulate necessary monetary and foreign exchange policies to maintain the stability in price and consolidate the balance of payments for sustainable development of the economy of Nepal; to develop a secure, healthy and efficient system of payments; to make appropriate supervision of the banking and financial system in order to maintain its stability and foster its healthy development; and to further enhance the public confidence in Nepal's entire banking and financial system. Above all, its chief mission is to maintain macro-economic stability through sound and effective monetary, foreign exchange and financial sector policies.

4. Documents Related to Nepal Budget

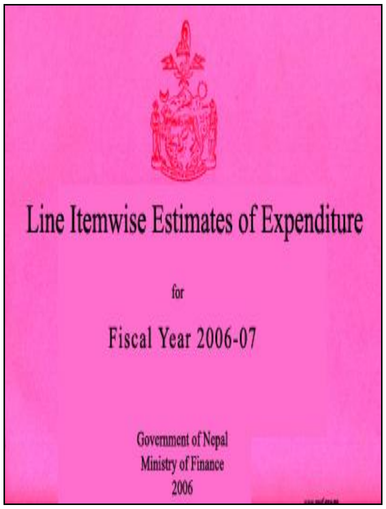
Budget Speech: The Finance Minister in the budget speech underlines the objectives of the Current Budget as well as Government policy priorities for the ensuing year. After the speech, the Finance Minister presents in details the proposed estimates of revenue and expenditure. Besides, the budget speech is also presented along with the progress reviews of the ministry-wise policies and programmes of the current Fiscal Year budget, progress report of the public enterprises, statements of technical and other assistance, expenditure details under various budget heads and sub-heads, and the source book. Economic Survey is also presented by the Finance Minister before submitting the Budget for Parliamentary approval.

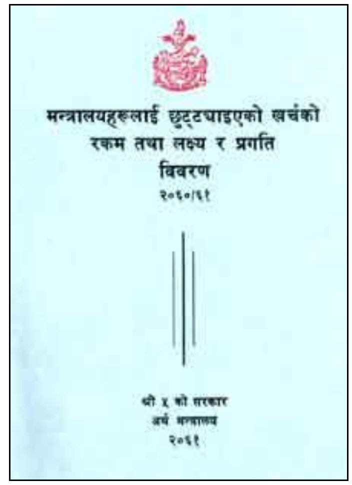
Red Book: The Redbook presents in details the Estimates of Expenditure - both *Charged* as well as *Appropriate* expenditure in various ministries. The document includes Summary of Budgetary Allocation for Fiscal Year, Budget Summary for Chargeable Items, Budget Head-wise Estimates of Chargeable Expenditure, Budget Summary for Appropriated Items, and Budget Head-wise Estimates of Expenditure Appropriated from Consolidated Fund. The Annexes of the Red Book also have gender responsive sectoral allocation as well as sector-wise strategic allocations.

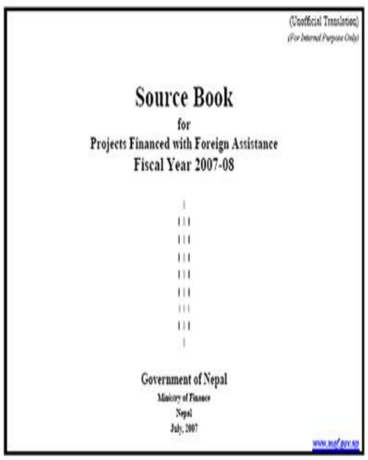
Yellow Book: The Yellow Book represents *Performance Review of Public Enterprises* with sectoral details of Public Enterprises in Industrial Sector, Trading Sector, Service Sector, Social Sector, Public Utility Sector, and Financial Sector.

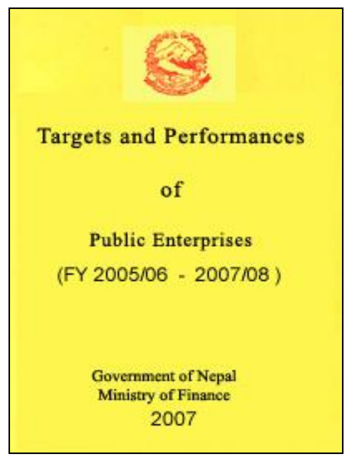
White Book: This is a *Source Book for Projects Financed with Foreign Assistance* in Nepal. It also provides Ministry-wise Summary of Donor Funded Projects, Details of Sources for Projects Financed with Foreign Assistance along with a Donor Summary. This book can be helpful to trace external funding in various developmental projects in Nepal. Besides, the Budget in Nepal also includes *Profile of Technical Assistance and INGO's of the Fiscal Year* which includes Statement of Technical Assistance (Bilateral and Multilateral Sources) and Statement of Other Assistance that have been channelled through various INGOs

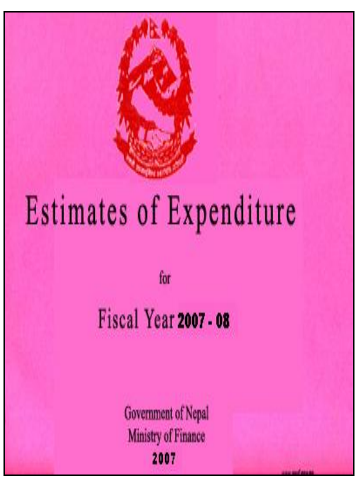
How Do Various Nepal's Budget Documents Look Like!

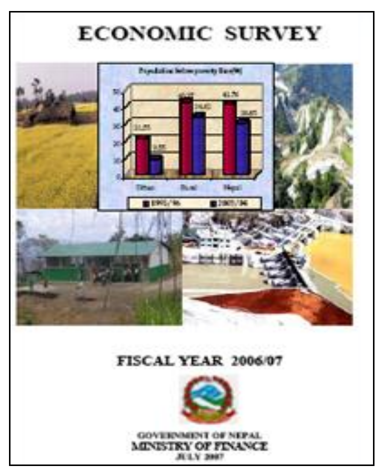












5. Budget Calendar

	Description of Activity	Months	Responsible Actors	Key Influencing actor
Proposed Plan and Budgeting	VDC Plan and budgeting	January 2nd week	VDC Council	VDC Council members
	DDC Plan and budgeting	March 2nd week	DDC council	DDC Council members LDO Line Agencies
Budget Allocations	DDC	July 2nd week	Line Ministry	
	VDC	July 3rd week	DDC	
Fund Release	DDC	July 3rd week then on trimester	Line Ministry	Based on Red Book allocations
	VDC	July 4th week then on trimester	DDC	Based on Red Book allocations
Monitoring Reports	DDC	Quarterly Report	DDC Council	Based on Red Book allocations
	VDC	Quarterly report	VDC Council	Based on Red Book allocations

Budget Preparation Process of DDC - Detail

Steps	Description of Activity	Months	Responsible Actors	Key Influencing Actors
Step- 1 Database Collection	District level database collection/Analysis	July	District Information Centre(DIC) of DDC	District Sectoral Agencies NGOs
Step-2 Resource Map Update	Updating the Resource Map	July	DIC	District Sectoral Agencies NGOs
Step -3 Central Directives and Budget Ceilings	Directives and information, budget ceiling for next Fiscal Year from sectoral ministries and NPC to DDC.	By the Mid of November	NPC	Sectoral ministries Finance Ministry MLD
Step-4 Revenue Projection	Revenue Consultation Committee Meeting Revenue projection for Next Fiscal year. Resource Estimation for Next Fiscal Year.		Revenue Consultation Committee	Internal Revenue Section of DDC DDC Chairperson LDO Account Chief Representative from DCCI, District Treasury Office , Internal revenue Office
Step- 4 Budget Formulation Workshop	Planning/budget Formulation Workshop: -Analysis and review of directives, policy guidelines estimated budget provided by Sectoral Ministries /NPC -Preparation of District Guidelines and Policies -Pre-estimation of resources and means -Development of project request form	By the third week of November	DDC	Chief of Sectoral Agencies, District Chamber of Commerce and Industries NGO/INGO Mayors of municipalities Federation of VDCs
Step- 5 Directives and ceilings to Development Partners	Directives , information, budget ceiling for next year from DDC to VDC , Sectoral agencies, NGOs and Municipalities: - (Dissemination of information on policies, objectives, programme resources, activities, available budget of sectoral ministries, DDC and allocation of estimated budget per VDC.)	By the third week of November	DDC	Sectoral Committee LDO DDC Chairperson Chief of Sectoral Agencies
Step 5 Orientation on Project Request Forms	Distribution of project request forms and orientation to fill the form to VDC chairperson, vice chairperson, secretary and others.	By the end of November	DDC Office	Local Development Officer DDC Planning Officer DDC Programme Officer
Step- 6	Analysis of programmes & projects to be carried out in ward/settlement level by VDC	By the end of November	VDC	VDC Chairperson/Vice-Chairperson Ward Chairpersons

Steps	Description of Activity	Months	Responsible Actors	Key Influencing Actors
Step 7	- Assessment & analysis of the prioritized projects & programmes in a participatory way which benefits the maximum no. of house holds (local residents/COs-User Groups) - Fill forms at settlement level by communities with signature of the participants	By the mid December	Ward Chairpersons and Members	Representatives of Service centres VDC Members DDC representatives
Step 8 **Ward Prioritization**	Prioritization of programmes/projects received from the settlement level.	By the third week of December	Ward Committee	Local residents I/NGOs, Ward Chairperson Ward members COs User Groups
Step 9	-Prepare list of programmes/projects received from the settlement level -Identify & finalize programmes/Projects -Prioritize programmes/projects which VDC can implement on its own & which needs outside support with estimated budget and separate those to be done from VDC and requiring support from outside	By the end of December	VDC	Ward Chairperson Ward members COs User Groups
Step 10	Among the programmes/projects submitted from settlement and Villages: • Approve those to be done through VDC resources or VDC Plan • Identify those that require support from outside, prioritize them and forward it to DDC for assistance.	By the Second week of January	VDC Council Members	VDC Members I/NGO Service Centres
Step 11 **Ilaka Level Workshop**	Ilaka Level Workshop	By the first week of February	DDC Ilaka Member	Concerned Ilaka member Concerned VDC Chairpersons and Vice-Chairpersons DDC Programme Officer DDC Chairperson /Vice-chairperson Sectoral Agencies in the Ilaka NGO/INGOs
Step 12 **Project Inventory Lists**	Preparation of Sector-wise project inventory lists	By the second week of February	DDC Programme Officer	DDC Ilaka Members DDC Planning Officer
Step 14	Account Committee Meeting:	By the	Account	Chairperson of Account

Steps	Description of Activity	Months	Responsible Actors	Key Influencing Actors
Expenditure Projection	Expenditure Projection	second week of February	Committee	Committee Members of Account Committee Internal Auditor Chief of Account section
Step 15 Sectoral Committee Meeting	Sectoral Committee Meeting: Prioritization of Sectoral Project Formulation of Sectoral policies	By the second week of February	DDC Chairman of Sectoral Committee	Head of Sectoral Agencies NGOs DDC Officials
Step 16 Integrated Planning Formulation Meeting	Integrated Planning Formulation Meeting: -Screening projects -Allocation of Budget -Prioritization of Projects	By the third week of February	DDC	DDC members Sectoral Agencies COs/INGOs Mayors and Deputy Mayors
Step 17 DDC meeting	DDC Meeting: Formulation DYP	By the last week of February	DDC	DDC Chairperson/Vice-Chairperson DDC Members Local Development Officer
Step 18 District Council Meeting	District Council Meeting: Formulation of District Yearly Plan	By the second week of March	DDC Council	DDC DDC Council members Head of Sectoral Agencies NGOs/INGOs District Chamber of Commerce
Step 19 Submission of DYP to the Centre	Submission DYP to : Line Ministries. Ministry of Local Development. National Planning Commission.	By the third week of march	Sectoral Agencies DDC	Sectoral Agencies DDC
Step 20	Sectoral National Planning workshop		Sectoral Ministries	Sectoral Agencies NPC Officials Finance Ministry Officials
Step 21	Budget Allocation for Next Fiscal Years		Ministry of Finance	Sectoral Agencies NPC Officials Finance Ministry Officials
Step 22 Budget Speech	Budget Speech	By the second week of July	Finance Minister	

6. Explanatory Note on Budget Terminology

Accounting Systems: Accounting systems record financial transactions. The two major accounting systems are cash accounting and accrual accounting. Cash accounting systems recognize transactions and events when cash is received or paid; they do not recognize non-cash events. Accrual accounting systems, on the other hand, record payments and receipts when parties enter into a commitment, not when cash changes hands. For instance, an accrual accounting system would record the purchase of naval helicopters when the government signs a contract to buy the helicopters, not when the helicopters are actually delivered and paid for (which would be the case in a cash accounting system). An accrual accounting system views the commitment, rather than the exchange of cash for goods or services, as the event that has economic significance. Most governments rely on cash accounting systems.

Appropriation: Appropriation refers to the legal authority granted to the executive by the legislature to spend public funds. Appropriation legislation varies in terms of its details - some provide funds for an entire department, while others provide funds for specific programs. Appropriations typically provide spending authority for a single fiscal year. However, permanent appropriations or standing appropriations provide spending authority over a series of years. Supplement appropriations are sometimes granted subsequent to the annual appropriation law if the amounts provided in that appropriation prove to be insufficient to meet the intended purpose.

Budget: A budget is a comprehensive statement of government finances, including spending, revenues, deficit or surplus, and debt. The budget is usually the government's main economic policy document, indicating how the government plans to use public resources to meet policy goals. As a statement of fiscal policy, the budget shows the nature and extent of the government's impact on the economy. The budget is prepared by the executive and then generally is submitted to the legislature to be reviewed, amended, and adopted as law. The budget preparation process begins many months before the start of the fiscal year covered by the budget, so that it can be enacted into law before the fiscal year begins.

Capital Expenditure: A government's assets could be financial (e.g. investments, loans/ advances given, equities) or physical (factories, bridges, school buildings, hospital buildings). Almost all financial assets provide future monetary benefits, while some of the physical assets may also provide monetary benefits in future. On the other hand, a government's liabilities are by nature financial and they are amounts owed to other parties (e.g. borrowings and advances received by the government). Capital Expenditure incurred by any government is usually meant for increasing the government's assets or reducing its liabilities.

Debt: Government debt is the outstanding amount that the government owes to private lenders at any given point in time. Governments borrow when they run deficits, but reduce outstanding debt when they run surpluses. Thus, debt essentially represents the total of all annual deficits, minus any annual surpluses, over the years. Governments can borrow by taking out a loan directly from a financial institution, such as a bank. Governments can also issue bonds that are purchased by domestic and foreign businesses and individuals. Purchasers of government bonds are essentially lending money to the government with an agreement that the amounts will be repaid on a certain date and that interest will be paid periodically. The interest payments, also known as debt service costs, are a line-item in government budgets. Particularly in developing countries, debt service costs can consume a large share of total spending, reflecting the significant debt accumulated by these countries as well as the high interest rates they must pay to borrow.

Earmark: When funds have been earmarked, it means that they have been dedicated to a specific program or purpose. In some cases, a particular stream of revenue is earmarked for a specific purpose. For instance, revenues resulting from taxes on fuel are frequently dedicated to transportation-related expenses, such as road construction or mass-transit subsidies.

Expenditure: This refers to government spending (or outlays). Expenditures are made to fulfil a government obligation, generally by issuing a check or disbursing cash. Expenditures may pay for obligations incurred in previous fiscal years or in the current year. Expenditures are sometimes distinguished between capital and current. Capital expenditures are investments in physical assets, such as a roads and buildings that can be used for a number of years. Current expenditures reflect spending on wages, benefit payments, and other goods or services that are consumed immediately. Actual expenditure may differ from the amounts established by the budget. Significant and persistent differences between actual expenditure and budgeted amounts are a sign of weakness in a country's budget and expenditure management systems.

Extra-budgetary: The term generally refers to government transactions that are not included in the annual budget presentation. A wide variety of extra-budgetary arrangements are used, including funds set up under separate legislation that are financed by revenue earmarked specifically for that purpose. In other cases, state-sponsored businesses such as utilities or airlines have independence in certain respects, but the government may ultimately be responsible for bailing out these businesses when they run into financial trouble. Extra-budgetary activities may not be subject to the same level of scrutiny or accounting standards as programs in the annual budget (though they should be).

Finance Accounts: Finance Accounts, sometimes called Annual Accounts of the government, is compiled by controller general of accounts (CGA). It incorporates comprehensive accounts of receipts and expenditures of the government. It classifies transactions under respective heads pertaining to all approved heads of government accounts and is kept in two parts. Part one comprises the accounts of total receipts and expenditures, the resultant revenue surpluses or deficits, the capital expenditures, including transactions related to temporary and permanent debts, deposit transactions, and money adjustments. Part two exhibits accounts of debts, deposit transactions, and money remittances. The accounts commence with a certificate of the C&AG that represents and authenticates CGA's reports and accounts.

Fiscal Deficit: Fiscal Deficit of a government is the gap between its "Total Expenditure (including Loans net of Repayments)" and its' "Total Receipts (excluding new Debt to be taken)". Thus, Fiscal Deficit indicates the borrowing to be made by the government in a particular year for which the Budget is meant. If Total Receipts (excluding new Debt) exceed Total Expenditure of the government, then there would be a Surplus for the government, and hence, no need for borrowing.

Fiscal Policy: Fiscal policy refers to government actions with respect to aggregate levels of revenue and spending, and the resulting surpluses or deficits. Fiscal policy is the primary means by which the government influences the economy. An "easy" fiscal policy is intended to stimulate short-term economic growth by increasing government spending or reducing revenues. A "tight" fiscal policy restrains short-term demand by reducing spending or increasing taxes and is often intended to restrain inflation. The government sets and implements fiscal policy through the budget.

Fiscal Year: The fiscal year is the government's 12-month accounting period; it frequently does not coincide with the calendar year. The fiscal year is named after the calendar year in which it ends. Function (as in functional classification) — International standards (such as the IMF's Government Finance Statistics) exist for classifying government expenditures and revenue according to the broad purposes for which transactions are undertaken. A functional classification organizes government expenditure according to its various activities and policy objectives — such as health, education, and transportation.

GDP (Gross Domestic Product): This is the total value of final goods and services produced in a country during a calendar year. Economic growth is measured by the change in GDP from year to year.

Grants: Grants are funds that the national government disburses directly to lower levels of government, corporations, non-profit organizations, and individuals. Some grants are given for specific purposes, requiring the recipients to meet certain conditions or requirements. In other cases, the grants may be used for whatever purpose the recipient deems important. For instance, a national government may make general-purpose grants to state and local governments to support their operations or may provide grants targeted at specific programs, such as the construction of a road or the purchase of school textbooks.

Incremental Budgeting: Incremental budgeting typically refers to a budget formulation process that focuses only on one year and how the budget for each program differs from the levels adopted in the previous year. Incremental budgeting is often criticized as having a narrow focus, concentrating on funding changes to existing programs rather than having the flexibility to address the implementation of new policy priorities, or eliminating low priority programs.

Multi-year Budgeting: This term generally refers to budgets that take into account more than one year. In some cases, this means governments enact into law budgets that specify spending and revenue amounts for more than a single year. For instance, many U.S. states enact budgets that specify spending and revenue amounts for two years, and are known as biennial budgets. In other multi-year budgets, only spending and revenue amounts for one year are adopted, but the budget includes estimates for subsequent years that reflect the multi-year impact of its policies and plans; these estimates are not binding on future budgets. In some countries that enact a one-year budget, however, the forward estimates associated with the enacted budget do serve as the starting point for preparing the budget in the next year. This approach is typical in countries that employ a Medium-term Expenditure Framework (MTEF).

Outputs/Outcomes: The performance of government programs is assessed by examining whether they have delivered the desired outputs and outcomes. Outputs are defined as the goods or services provided by government agencies. Some examples include: teaching hours delivered, immunizations provided, or welfare benefits paid. Outcomes are a broader concept and include the impact of the program on social, economic, or other indicators, such as whether an increase in hours taught improved student test scores, whether more immunizations reduced sickness, or whether higher welfare benefits increased social equity. Outputs tend to be easier to measure than outcomes. Further, factors beyond the control of a government program can affect outcomes, making it difficult to assess the impact of the program. For instance, even at a time when welfare benefits are increased, the number of people in poverty could increase as a result of a slowdown in the economy.

Performance Budgeting: As a general concept, performance budgeting refers to a budget process that integrates information about the impact of government spending. In its simplest form, performance budgeting places more emphasis on the outputs and outcomes associated with government expenditure and takes this information into account when setting future funding levels. Performance budgeting is often associated with giving managers of government programs more flexibility to achieve specific policy goals within a set budget. Efficiency of expenditure therefore is an important goal. Developing countries (as well as many developed countries), however, often lack the data and other information necessary to fully assess performance objectives; gathering such information is a difficult task.

Revenues: Revenues or taxes are funds that the government, as a result of its sovereign powers, collects from the public. Typical revenues include individual and corporate income taxes, payroll taxes, value-added taxes, sales taxes, levies, and excise taxes. In contrast, user fees are paid voluntarily by the public in return for a government-provided service or good. Because the purchaser receives a direct benefit (the good or service) in return for paying the fee, the payment is not considered a tax. A tax that increases as a percentage of income as one's income increases is known as a progressive tax; while a regressive tax is one where a taxpayer pays a smaller percentage of income in tax as income increases.

Revenue Deficit: The gap between "Total Revenue Expenditure" of the government and its "Total Revenue Receipts" is called the Revenue Deficit. If Revenue Receipts are higher than total Revenue Expenditure, then the government would have a Revenue Surplus.

Revenue Expenditure: Revenue Expenditure incurred by the government generally does not have anything to do with creation of assets or reduction of liabilities of the government. Most kinds of Revenue Expenditures are recurring or current expenditures, since the government incurs those expenditures periodically from every Budget.

- Some examples of Revenue Expenditure:
- Government pays the Interest charges due on a loan from International Monetary Fund (no effect on the size of the original liability of Government)
- Government expenditure on Food Subsidy (no effect on assets/ liabilities)
- Government spending on Salary of its employees
- Government spending on procurement of medicines for its hospitals
- Government spending on operation and maintenance of its assets

Tax Expenditures: These are concessions or exemptions from a "normal" tax structure that reduce government revenue collections. These tax breaks are typically granted in order to achieve some government policy objective, though they also can result from targeted political pressure. Because the policy objective could also have been achieved through a subsidy or other expenditures, the tax concession is essentially regarded as equivalent to budget expenditure — hence the term tax expenditure. Estimating tax expenditures, however, can be somewhat more complex than estimating budget expenditures, in part because it requires a precise definition and estimation of revenues under the "normal" tax structure and subsequently the revenues lost as a result of the tax break.

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