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A Description and Analysis of the Budget Formulation and Implementation Process in Nepal

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Shalinta Sigdel

List of Acronyms

DTCO:	District Treasury Controllers' Office
DDC:	District Development Committee
DEO:	District Education Office
DoE:	Department of Education
FCGO:	Financial Comptroller General's Office
GoN:	Government of Nepal
IMF:	International Monetary Fund
MDG:	Millennium Development Goal
MoE:	Ministry of Education
MoF:	Ministry of Finance
MoFALD:	Ministry of Federal Affairs and Local Development
MoPPW:	Ministry of Physical Planning and Works
MoHP:	Ministry of Health and Population
MTEF:	Medium Term Expenditure Framework
NPR:	Nepalese Rupees
OAG:	Office of Auditor General
OECD:	Organisation for Economic Co-operation and Development
PEFA:	Public Expenditure and Financial Accountability
PFM:	Public Finance Management
PPMO:	Public Procurement Monitoring Office
P1:	Priority One
P2:	Priority Two
P3:	Priority Three
NPC:	National Planning Commission
NRB:	Nepal Rastra Bank
TSA:	Treasury Single Account
VDC:	Village Development Committee

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A Description and Analysis of Budget Formulation and Implementation Process in Nepal

ABSTRACT

The principle objective of this paper is to comprehensively understand the budget formulation and implementation procedure in Nepal. By looking at the procedural aspects of budget formulation and implementation, the paper attempts to analyse the factors that have hindered the effective execution of national budgets.

The national budget is a good indication of the state's commitment towards different social and economic areas, and has a direct impact on the economy of the country. Though the preparation of a budget and its implementation is driven by set processes that have been accepted as a norm internationally, there are numerous problems affecting it. The persistent presence of such problems in the budget making and implementing process has forcibly delayed the execution of national level programmes and projects that are devised to attain certain development goals. This implies that problems related to the budget cycle have direct implications on desired economic growth. Some of the major problems that have been identified are ambiguities surrounding project prioritization, lack of inter-agency communication, and management of funds. By resolving these problems, issues such as procedural delays and the lack of accountability could be mitigated.

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Background

The formulation of a budget is a decision-making procedure that sets out to produce a plan that forecasts revenues and allocates expenditures. A national budget in itself is a policy that governs the income and expenditure of a country. Besides, a national budget is also an indication of prioritised economic areas through inclusion of new projects and programmes for development and economic growth on an annual basis. Budget is used as a tool that guides the efficient allocation of resources through expenditure accompanied by policies and planning decisions built into the budget. As a basis for determining the relationship between government programs, economic and financial policies and any shifts in government priorities, the budget of a country acts as a supporting framework for policies and laws.

Budget is also a financial resource that plays a pivotal role in the functioning of the state. Whether a budget is balanced, in surplus or in deficit, directly influences the state's operation. A budget does not only establish a linkage with the existing policies but also addresses the demands of the citizens. The local level organizations, local representatives and parliamentarians have a vital role in advocating for certain programs or projects that meet the needs of their constituencies. Therefore, a budget represents an allocation of resources based on the demands and needs of the citizens.

The budget process is generally segregated into three phases: formulation, execution and evaluation. All these processes are interconnected and the attainment of a properly planned and executed budget is possible only if each phase follows the existing sets of guidelines and policies. It is evident that a country's economy heavily relies on the effective formulation and implementation of a budget that is further dependent on adoption of the policies, timelines and laws developed for a systematic, transparent and appropriate execution of the budget.

Like most of the countries, Nepal is not new to the concept of budgeting, with detailed guidelines, policies, and laws in place. Though, the process of budget preparation to implementation is comprehensive, there have been numerous problems affecting it. Lawmakers and economists have argued that the existing framework of the national budget is not reflective of the true economic demands of the country. As budget implementation follows budget formulation, weaknesses and loopholes in the formulation process can transfer on to the latter phases. In the context of Nepal, the issue of significant proportion of the capital expenditure being unspent is indicative of the under-utilization of the resources in the country. Budget expenditure has always been a problem with majority of the spending taking place towards the end of a fiscal year. Such problems not only affect the economic functioning of the country but the functioning of the state too. Development is tied to the budget and problems in budget formulation and implementation have adverse effects on it. In Nepal, among the major problems surrounding budget formulation and implementation process, procedural delays, inter-agency coordination, local level participation, and management of funds are some of them. Each of these problems has contributed towards delaying the execution of the budget, leading to the under utilization of national budget every year.

The persistence of such problems in the budget making and implementing process forcibly delays the execution of national level programmes and projects that are devised to attain certain development goals. Since budget is the document that releases national expenditure, these problems severely affect the spending levels of the state. Within the context, the absence to ascertain a mechanism that establishes a relationship between the central level authority and the local level authorities is also a challenge to the budget process. The policies and plans that have looked good on paper have failed to deliver the expected results. Hence it has been debated that the change in the existing framework is necessary to solve the existing problems related to the government's budget.

Only a sound understanding of the existing problems in budget process facilitates better planning and execution of state-level programmes. Under this context, the paper reviews the existing budget formulation implementation procedures practiced in Nepal. While doing so, the paper focuses on capital budget, which a planning document usually targeting development. In course of the research, problems in capital budget formulation and implementation process related to transparency, management of funds, prioritization delay, procedural delays, and inter agency coordination have been the focus of the analysis.

Methodology

The research is qualitative in nature with some use of quantitative resources. The review was carried out largely on the basis of existing secondary resources available on the budgeting processes in Nepal. Such resources include annual and mid-term budget reviews, guidelines for budget formulation and other studies undertaken by financial institutions. Specifically, the past three fiscal years have been taken into account. Key Informant Interviews (KII) based on the information gathered from the literature review were conducted in order to compliment the key findings.

1. Key Informant Interviews (KII)

A total of ten KII were conducted with the associated officials of various government and civil society organizations. The tentative discussion issues were based on the areas of study and on the issues identified in the literature review. The KIIs were held with officials from the National Planning Commission (NPC), the Ministry of Finance (MoF), the Financial Comptroller General's Office (FCGO), the Office of the Auditor General (OAG), the Public Expenditure and Financial Accountability (PEFA), the District Treasury Controller’s Office (DTCO), line ministries, and other relevant government organizations.

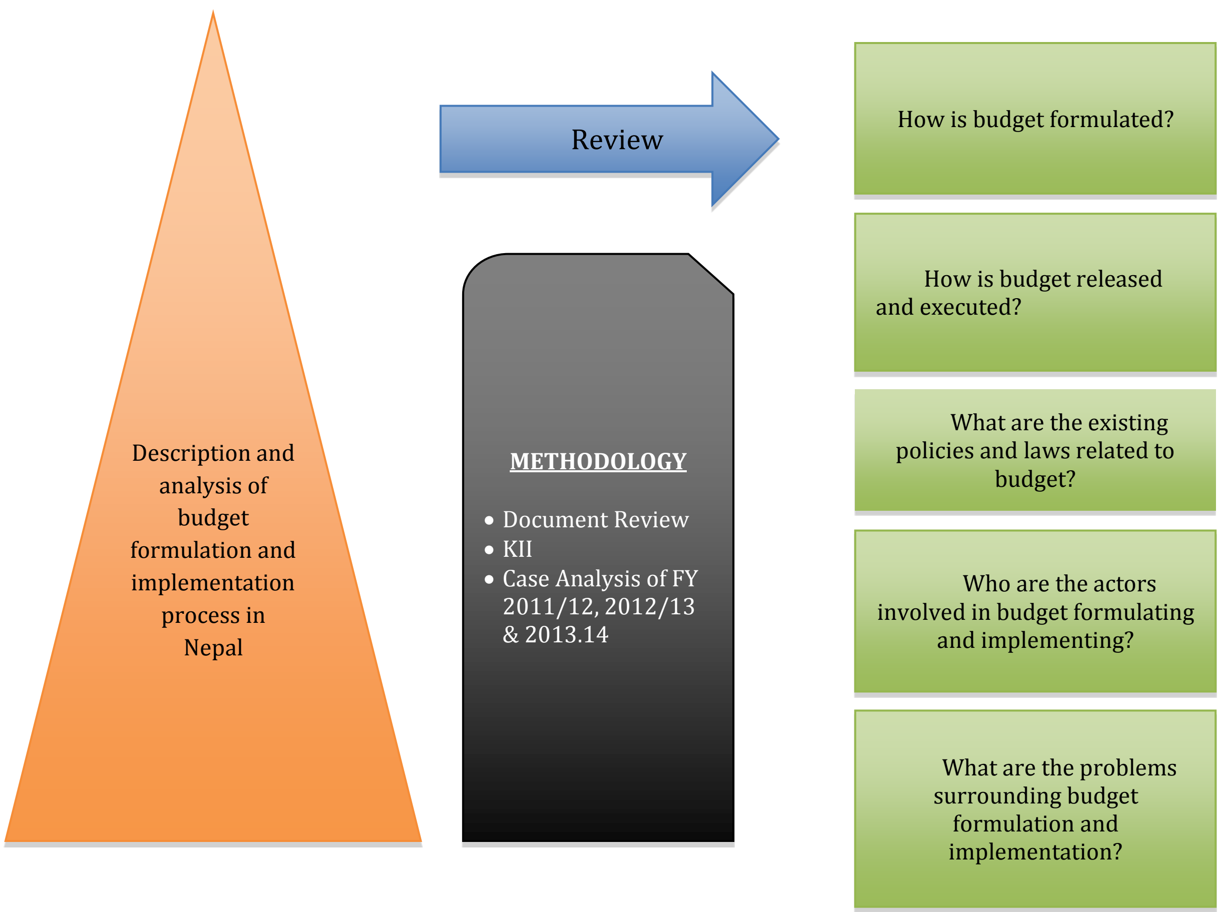
2. Literature Review

The main source of information was literatures published and available at different associated governmental and non-governmental bodies. While undertaking the literature review, documents from the following agencies were prioritized:

Type of documents	Source
• Laws, acts and policies related to budget formulation, implementation and evaluation.	• NPC
• Mid Term Budget Review	• Ministry of Finance
• 48, 49th and 50th Audit Report	• Office of Auditor General
	• NPC
• Budget preparation directives	• FCGO
• Consolidated financial statements	• NPC
• PFM reviews in Nepal	• World Bank, ADB

The areas of research taken into account are depicted in the figure below:

Figure 1: Areas of Research



Findings

The objective of this paper was to understand the procedural aspects of formulation and implementation of capital budget in Nepal. By looking at the procedures, the paper aims to look at any issues and gaps affecting the formulation and implementation process. The section below is a documentation of the budget formulation and implementation process. It is then followed by an analysis of the present challenges to the budget formulation and implementation process.

1. Capital Budget Formulation

The capital budget formulation has four essential steps: budget forecasting, budget ceiling setting, budget planning, and budget approval.

a. Forecasting

Forecasting is the first step in the budget making process where various macro-economic projections are made, sources of revenues and tentative areas of expenditure are identified and based on these economic targets are set**.** The Resource Committee of the NPC leads the forecasting process and produces fiscal aggregates. The committee is chaired by NPC's Vice Chairperson and includes other members of the NPC. The committee also includes members from the Nepal Rastra Bank (NRB), the MoF and the FCGO. The process commences when this committee reviews the revenue and expenditure for the ensuing fiscal year. The Economic Affairs and Policy Analysis Division of the MoF formulate the annual economic policy analysis and the macroeconomic forecast. The NRB also prepares forecasts based on growth estimates. Based on both projections, the Resource Committee decides on a macro-fiscal framework. Apart from this, the governmental plans of three years, five years and other macroeconomic goals set up by the NPC are also taken into consideration. The external and internal sources of revenue are also projected and referred to during this stage.

Although these forecasts may not seem to have a direct linkage with the budget, they do affect the budget to a huge extent. The forecasting is the basis of the annual budget. Economic growth is targeted based on these estimates. Forecasting is a crucial step in budget formulation as its accuracy determines whether the budget will be balanced, in surplus or in deficit. We see the budget figures changing every year, and it is based on these forecasts that its gets altered. Forecasting is the first step that paves the path for other budget formulation activities. It is essential for the forecast to be comprehensive as it determines the nature and shape of the budget, and the indicators that define the forecast also define the economic objectives of the nation. Therefore any procedural issues affecting the forecasting phase are directly passed on to the subsequent phases.

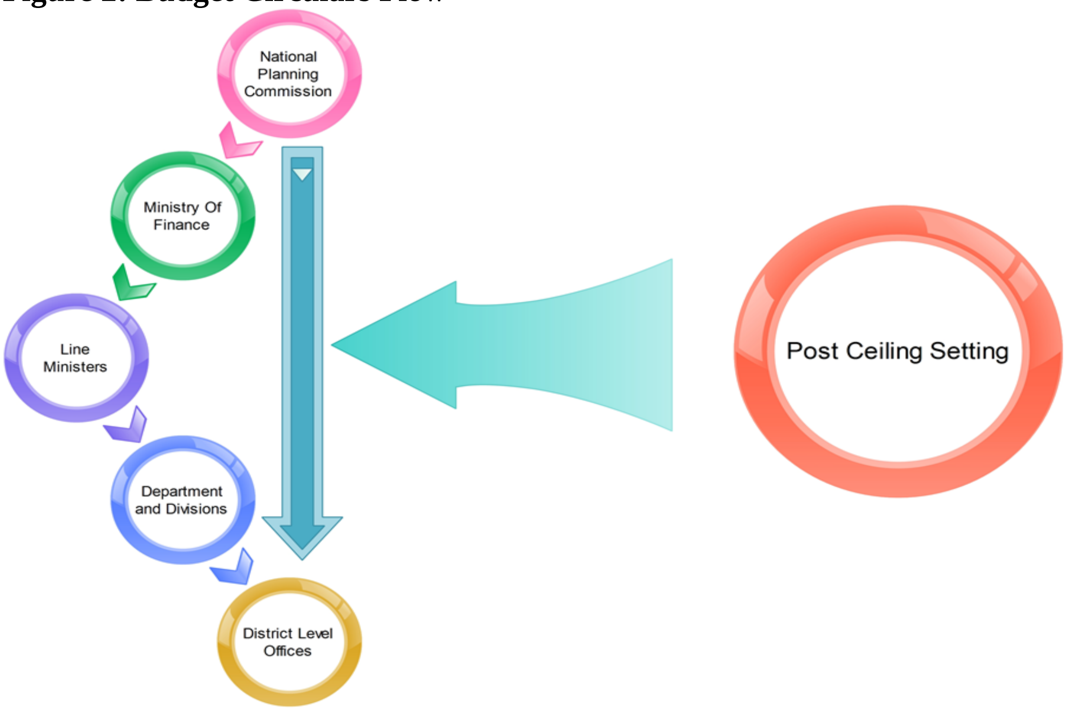
b. Ceiling Setting

Once a tentative forecast of the budget is prepared, it is presented to the budget committee comprising of members from the NPC and the MoF. The committee conducts extensive discussions regarding ceiling setting; an exercise that sets the limits on budget expenditure. A final shape to the budget is given at this stage. NPC also takes this opportunity to assess the budget utilisation and the progress of large-scale projects, which finally defines the scale of the capital budget. It is essential to set a ceiling on expenditures considering the limited resources. In the absence of such a ceiling, the request forwarded by the subordinate ministries may not be in line with the annual budget ceiling. This means that a considerable amount of time would have to be devoted to reconciling the ministry specific budget expenditures with the national level ceiling. Therefore, ceiling setting plays a vital role in limiting the size of the budget based on sectors and availability of resources.

c. Budget Planning

After the determination of annual budget ceilings, the NPC requests the line ministries to submit their capital budget estimates in accordance to the guidelines and sectoral budget ceilings. Along with the NPC, the MoF issues detailed guidelines to the line ministries that require the budgets to be submitted in the prescribed format and within the stipulated time. Once these circulars are obtained by the line ministries, the process follows a certain circular flow which is depicted in the figure below:

Figure 2: Budget Circulars Flow



NPC informs each of the districts of the budget ceilings that need to be adhered to and the MoF dispatches the budget circulars through the line ministries and the various departments and divisions at the district level. Once a DDC receives these requests and guidelines, it begins its budget planning based on different sectors while the relevant line ministry sends guidelines to each of the departments and divisions within the district-level offices. As departments are not given a sectorial budget ceiling, they generally do not take expenditure limitations into account; instead they look at project-specific targets as a guide for the budget. The respective departments then prepare an annual work plan and a budget based on the information they receive from district level and local level offices.

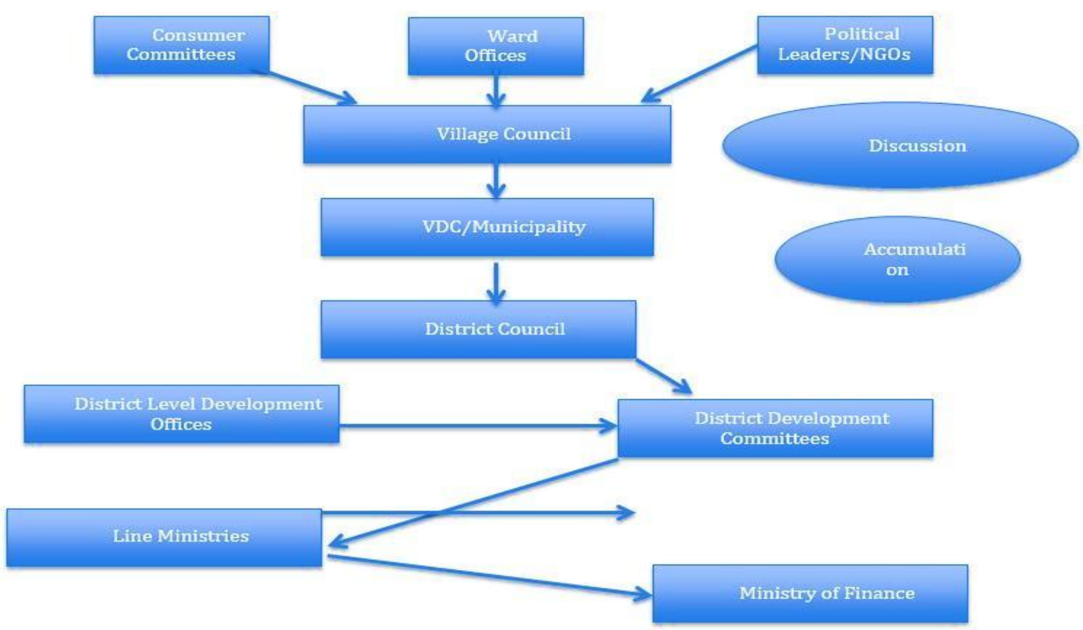
On the other hand, after the budget guidelines have been dispatched to the line ministries and the district level offices, the budget demand and formulation process starts at the grassroots level. A fourteen step planning process is used in accumulating the demands from the local level:

The Fourteen Step Planning Process

1. Receive budget ceiling and directives
2. Review of guidelines
3. Pre-planning preparation workshop
4. VDC/Municipality meeting
5. Community-level project planning
6. Ward Committee meeting
7. VDC/Municipality meeting
8. Village/Municipal Council meeting
9. Area (Ilaka)-level planning workshop
10. Sectoral planning meeting
11. Integrated plan formulation meeting
12. DDC meeting
13. District Council approval
14. Implementation of DDC plan

On receiving the budget circulars, the plans at the local level are made using the fourteen step planning process. Adhering to these steps, the budget demands move in the manner below. The planning process is handled by the local-level institutions such as the VDC and the DDC. The nature of the procedure itself signifies a comprehensive attempt to incorporate the feedback of the locals into the national plans.

Figure 3: Budget from Local to Central Level



At the local level, a meeting of the village council is called for discussing plans and programmes to be incorporated into the annual budget. Interest groups such as consumer committees, NGOs, political leaders and citizens are included in these discussions. Their plans are then forwarded to the VDC / municipality where it gets accumulated. Once the VDC scrutinizes and gives a green signal to the plan it moves up to the District Council which re-examines the budget and forwards it to the DDC. On the other hand, the district level development offices also forward their plans and budgets for the upcoming year to the DDC under the supervision of the relevant ministry. For instance, the health office in a district will make its plan according to the directives issued by the Ministry of Health and Population (MoHP) and forward it to the DDC and the concerned division or department of the ministry. The DDC then consolidates the budgetary demands of the health office with similar demands from different wards and sends it to the line ministry, which ultimately presents it to the NPC and the MoF for approval.

Once finalised, these plans are forwarded to the line ministry and then to the NPC. A tripartite discussion between the NPC, MoF and line ministry is held before finalizing the budget limits for the ensuing year. Upon receiving the budget requests, the NPC and the MoF compare various frameworks of the sectoral and national objectives. There is room for revision of the plans to achieve various programme targets for the upcoming fiscal year. The sectoral budgets are assessed in line with the budget ceilings. In the second round of the tripartite discussion, the MoF plays a crucial role where its main objective is to keep the budget within the approved budget ceilings. Meanwhile, the line ministries develop plans to achieve targets in diverse sectors which are reviewed by the NPC. Such projects are prioritised in the fiscal budget approved by MoF.

The budget formulation process displays both a bottom up and a top to bottom approach. This two way process is essential in creating a synergy between the national level plans and the local level needs. The actors in the central level authority are well versed with policies, plans, and guidelines while the local level actors are acquainted with the local needs, local capacity, and available resources in a particular area. It is when these two approaches coincide, that a fruitful expenditure plan of the budget can be obtained. This would ensure a budget that fulfils the demands of both the state and the locals.

d. Budget Approval

The final step in budget process is budget approval. Before the budget is presented in the parliament, the parliamentarians are presented with a draft budget document for their perusal. They discuss the overall budget whilst looking at sector-wise specifics. For instance, the MoHP has the opportunity to discuss and review the budget allotted for health programs. The comments and queries that arise during the ministry-specific discussions are discussed in detail until the relevant ministry and parliamentarians are satisfied with the clarifications provided to their queries. The budget is presented by the government only after the ministry level budget discussion ends. If the majority agrees with the budget then it is approved and is put into implementation. According to the Interim Constitution Article 96, if the budget is not passed at the beginning of the fiscal year, the parliament can use the “Advanced Law,” which allows the spending units an advance budget of up to one-third of the preceding year's expenditure incurred. The programme implementation commences only after receiving the parliament's approval.

Roles of Different Bodies in Budget Formulation

- *The National Planning Commission*

The National Planning Commission is responsible for formulating the five year long-term plans such as the MTEF, the annual development programme. NPC through the MoF disseminates these plans and programme priorities to all the government bodies. NPC in coordination with the MoF is required to present these plans to both the budget and the resource committee. NPC also plays a crucial role in determining the budget ceiling for each line ministry and refining and examining the budget of each sector and ministry. The NPC approves the annual programme and ensures the discussion and incorporation of ministry demands while preparing the MTEF. It is the role of the NPC to check the availability of resources and ensure the execution of the approved plans and programmes. NPC also sends the district-level budgets to all the 75 districts. The role of the NPC is crucial in establishing a linkage between the available resources, the existing policies and the line ministries.

- *The Ministry of Finance*

The Ministry of Finance oversees the entire budgetary process. It is responsible for allotting the budget for the upcoming fiscal year and preparing the budget formulation guidelines. It is also responsible for sending guidelines to ministries and other bodies, and receiving the completed budget forms from all the government bodies. MoF presents the budget to the cabinet through an ordinance. The MoF is responsible for undertaking all the budgetary transactions. In coordination with the NPC, the MoF projects the revenue and expenses of the country and helps in determining the budget ceilings. The MoF is also responsible for the annual budget presentation and its approval.

- *The Line Ministries*

The line ministries are responsible for formulating ministry-wise development budgets and recurring components of the budget. The line ministry sends the guidelines or directives to its subordinate offices within 7 days of receiving the circulars from the MoF. It also scrutinizes the budget received from the departments and divisions under it. The line ministries ensure that the budget presented by these bodies is in line with the budget ceilings and the annual programs and plans as directed by the NPC.

- *The Local Bodies*

Each District Development Committee (DDC) considers all the national and international sources of revenue, and forecasts the annual development programme for the district. Based on the budget guidelines, the DDC organizes a meeting to incorporate demands from the different interest groups such as financial institutions, VDC associations, and representatives from the municipality and heads of industries. The role of the local bodies is crucial in linking the local agenda to the national plan. These bodies have a major role in ensuring participation at the district level. Through this participation, DDC includes the demands of a district.

2. The Budget Implementation Process

The budget implementation phase begins once the budget is approved by the parliament. The MoF issues letters of authorisation to the line ministries after the budget is approved by the parliament. MoF's authority is in line with the budget allocations for each line ministry as specified in the Red Book.[1]

The line ministries pass on directives to their subsidiary spending units. The budget statement that includes the budget headings, sub headings and details of financing of the capital budget are submitted by the recipient bodies. Only upon receiving this can the release of the budget be authorised by the FCGO. The FCGO is also sent copies of the authorization letters and it acts as the accountant for the government. The FCGO releases the allocated budget to the spending offices and DTCO. But before the budget is released, it is mandatory for all spending units to present the following documents:

1. **Authority letter from the concerned ministry**: The FCGO requires an authority letter from the concerned line ministry or the MoF before releasing the budget. Usually the finance secretary from the MoF issues such letters.

2. **Release order to the DTCO by the FCGO:** DTCO cannot release the budget until it has received the release order from the FCGO. Without the concerned ministry's authorization and approval from the FCGO, it cannot release the budget to the spending units.

3. **Project approval by the NPC**: For any actors to spend the budget, a well-documented approval of the project and programs by the NPC is mandatory. Each spending unit, while seeking capital budget must present such approval papers after which the budget can be released.

4. **Statement of expenditure of the previous month from the requesting agency:** In case of recurrent and capital expenditure, before acquiring the budget in the current month a detailed statement of expenditure and income of the previous month has to be presented by the requesting agency. DTCO ensures that all the

[1] Red book is a book published by the MoF which details out the budgetary allocations under different sub headings for a given year. It is published annually.

procedures have been followed and the budget allotted is spent in the right manner.

The Finance Secretary from the MoF issues an authority letter to the secretary of each ministry based on the sectoral allocations by mid-July, the start of the new fiscal year. Once the authority is received, the ministry further sends it to the concerned departmental chiefs or directly to spending units if there are no departments. The department then gives the authority to the local level offices. The law states that the authorization to the spending unit must be provided by the 15th of Shravan or end of July - 15 days after the start of fiscal year. After the authority is received, the MoF instructs the FCGO to release the budgets to the spending units. Once the FCGO obtains the budget, it disburses it to the DTCO and associated divisions, departments and line ministries.

Details of the flow of funds: The cash flow in the government is handled by the FCGO. The FCGO receives a copy of the authorization given to each line ministry, departments or spending units. Based on it, it transfers the amount to the budget spending units by sending a copy to the concerned DTCO. When the departments issue the authorization letter, a carbon copy of the authorization goes to FCGO, which oversees the cash management of the government.

All the income and expenses channeled into the economy through donor or any government institutions fall within the purview of the FCGO.
Foreign aid is also required to be channeled through the FCGO. The foreign aid budget is either released as a reimbursement or as pre-project programme funding. FCGO ensures that the foreign aid deposits are enough to authorize spending. By ascertaining a clear picture of the scale of aid funds in the country, it informs the various spending units of the available budget and makes any required changes accordingly.

At the district level, the DTCO is responsible for releasing the budget. It receives a copy of the authorization letter sent by the line ministry, department or division and on receiving this letter and a request for budget release from the associated office or project; the DTCO releases the budget on a quarterly basis.

With the execution of the Treasury Single Account (TSA) in all 75 districts, the role of DTCO has been centralized with all the expenses going through it since the closure of 13,717 bank accounts.[2] Under the TSA model, the expenses of all the government offices go through a single bank account. According to the TSA, if the government offices need to release funds to any person or institution, the DTCO should be given the budget heading, the name of the recipient of the budget, and the amount of budget to be released.

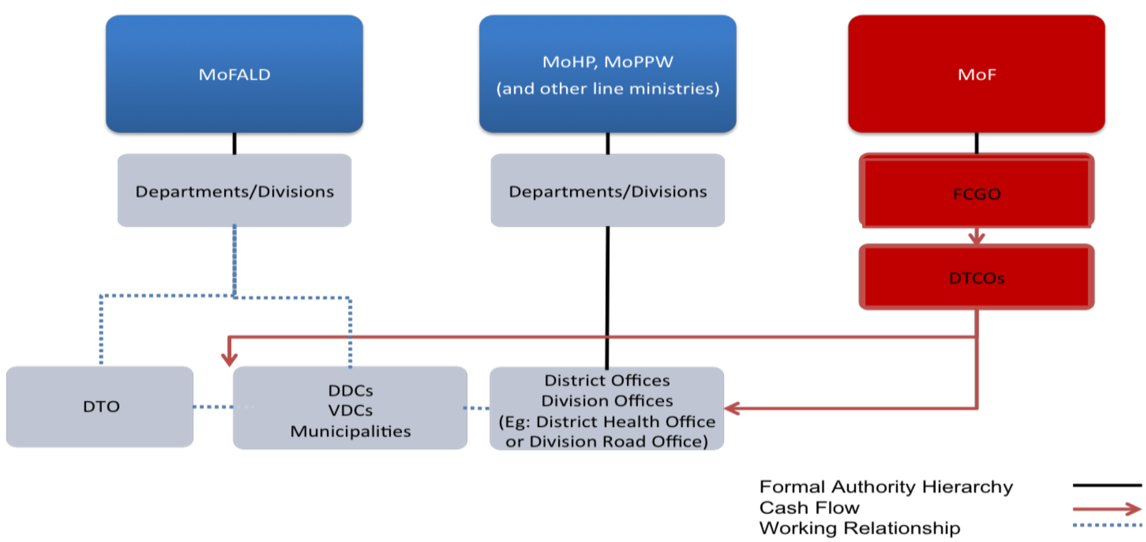
[2] PEFA 2014

The current model makes one agency responsible for budget execution at different levels and allows it to keep an account of all the district expenditure, and contributes towards tracking state-level and local-level budget execution.

Result-Based Budgeting

The DTCO also releases the budget based on the performance of the project/program. The P1 projects need to be approved by the NPC, and P2 and P3 by the concerned ministry secretary. Only after such an approval is presented to the DTCO does it release the budget to the spending units. In the 2nd or 3rd trimester of the fiscal year, the budget allotted for the projects and programmes can only be released if the project has completed 80% of its work. If the progress level of the project is between 50-79%, the budget is released only after a proper mechanism is put in place to ensure that the project satisfactorily moves towards completion. The practice of result-based budgeting allows the projects that are performing well to continue with their work without any hindrance or financial constraints. Result-based budgeting contributes to timely completion of programmes and projects. However, the result-based budgeting process does not take into account any other factors that might have contributed towards project delays in the earlier phases.

Figure 4: Budget flow from Local to Central level



Source: Centre for Aid and Public Expenditure

The figure above depicts the formal hierarchy between the MoFALD and the department divisions under it, which directly work with the DDCs, the VDCs, the municipalities and the DTO. Similarly, the line ministries regard the MoHP as possessing the formal authority within departments and divisions, which eventually govern district-based offices. However, when it comes to budget implementation, the MoF is in charge. Although there is no formal working relationship or hierarchy, the fund flow is facilitated and governed solely through the MoF. Thus it becomes clear that in the budget formulation and implementation phase, the chain of command is quite different. The budget release in the district level is solely governed by the MoF while the budget formulation process is controlled by the line ministries and the Ministry of Federal Affairs and Local Development. The different chain of command in different phases is meant to ensure checks and balances.

Role of different agencies in budget implementation

- *The Ministry of Finance*

The MoF is responsible for issuing authority letters to all the line ministries. While doing so, it ensures that the allotted amount in the budget is as specified in the Red Book. The MoF also evaluates the budget every two months and conducts a mid-term review. As the MoF is responsible for budgetary transactions, it is also liable to ensure that all the agencies spend the budget as directed. Through its review, it obtains a picture of how ministries are functioning in terms of budget execution.

- *The Finance Controller General's Office*

The Finance Controller General's Office is the budget wing of the MoF. It oversees all the cash transactions of the government. The FCGO is essentially the accountant of the government and manages all monetary transactions. FCGO is also responsible for collecting statements of expenditures from 75 districts along with the ministry-wise expenditure. It consolidates all the expenditure and reconciles it with the expenditure details obtained by the ministries, departments and divisions, and the DTCO.

- *DTCO*

The DTCO records and releases the cash flow on the district level. It is also responsible for handling the TSA. Each DTCO maintains four accounts: recurrent expenditure, capital expenditure, revenue and deposit. The DTCO enters the payment request forwarded by the spending units in the TSA system. It can also process cheques for the amounts within the released budget.

An analysis of the budget formulation and implementation process

The section below provides a critical analysis of the budget formulation and implementation process in Nepal. By doing so, it identifies the major problems in the procedural aspects of budget formulation and implementation in Nepal. . The problems in the formulation and implementation process are inter-connected and consequently hinder the procedural aspects of both the phases.

1. Project Prioritisation

Project prioritisation is an important step in both budget formulation and implementation. Prioritising projects is equivalent to prioritising budget allocation for the deemed projects. For understanding and analyzing project prioritization, it is essential to understand the Medium Term Expenditure Framework (MTEF). MTEF is a three year rolling budget system that aims to justify public expenses within a framework and drops poorly performing projects. MTEF is crucial in linking planning to budgeting. Trends in revenue collection, recurrent expenditure, and foreign aid commitments are taken into account. To ensure rightful spending, projects are prioritized as P1, P2 and P3 where P1 projects are guaranteed funding, but the funding for P2 and P3 projects depends on availability.

While assessing the priority of a project a point-based rating system is used based on different criterion. By using a scoring scale of 0 to 3, a total score is determined based on the weight assigned to different criterion, which has been listed below:

i. Contribution to inclusive economic growth for poverty alleviation
ii. Contribution to promotion of peace
iii. Contribution to MDGs
iv. Inclusion and engendering (regional, social and engendering)
v. Contribution to productive employment
vi. Participation in project design, implementation and cost sharing
vii. Contribution to capital formation
viii. Sustainable environment
ix. Project status in terms of previous performance and completion stage

The NPC coordinates with the MTEF, whose prime purpose is to align the annual budget with sectoral objectives. The purpose of project prioritisation is to ensure that the limited financial resources are devoted only to projects that ensure attainability of the national goals.

One of the most important aspects of budget formulation as mentioned above is tied to the prioritisation of projects. But given the current practice in Nepal, this has been a problem as a huge proportion of the project gets clubbed under the Priority 1 category, owing to numerous reasons. The following table presents the percentage of prioritised projects across 5 fiscal years:

Table 1: Budget Allocation for Priority I Projects

Fiscal Year	Budget Allocation to Priority 1 Projects
2008-2009	90%
2009-2010	87%
2010-2011	85%
2011-2012	89%
2012-2013	88%

The table above shows that over 80% of the projects are categorised as P1 which means that a large majority of the entire capital budget is allocated to these projects. Moreover, as the budget is allocated to a large number of P1 projects, it is spread thinly, which leads to inadequate funding and subsequent delays in completion of the projects. Had there been a provision to limit the percentage of projects under P1, those projects that fall under the P1 would be completed on time and would not be affected by the lack of funds.

Project prioritisation lies in the hands of the NPC while the MoF handles the budget for these projects, leading to a lack of synergy between the approved projects and the budget available to ensure the timely completion of the projects. The current practice of project prioritisation reflects that projects are not prioritised with a proper knowledge of existent resources. Moreover, as a large proportion of the budget is scattered over multiple projects, it becomes very difficult to monitor each and every project under the P1 category.

The process of prioritisation is also open to political influence to some extent. For example, after the first CA election the then Minister Poshta Bahadur Bogati pressurized the NPC and the MoF to allocate budget for the construction of three bridges in his home district and the budget was listed in the red book under P1. But after the budget was approved, it was discovered that there was no river in the district and therefore no need for the bridges.[3] As a result, the budget allotted had to be frozen and this restricted the budget being diverted to authentic projects. This is an example of how vested interests and political influence can be leveraged to secure budgets that could otherwise be used for legitimate projects.

Prioritisation of projects takes place once the budget has been approved but since the process is handled by the NPC and the budget is handled by the MoF, if the required budget is not approved and some revisions are made to the allocated amount, the line

[3] Freedom Forum 2014

ministries are only made aware of the changes after the approval of the budget. This means that, all of the project plans have to be amended in line with the approved budget amount. This can take an additional three to four months, pushing the project initiation to the last trimester resulting in severe implementation delays.

On another hand, the budget implementation process states that for the budget to be released in the second trimester, 80% of the project work has to be completed. However, there isn't a common understanding of how to assess the progress of a project. On one hand it is understood that these projects are of extreme importance but on the other hand 80% the project work is expected to be completed within a very short period of time in order to ensure the budget release for the next phase. Given the various procedures related to budget release, and the procedural delays, it is not viable to expect these projects to near completion just within a few months.

One of the other issues affecting the budget implementation process is Virement, which is the transfer of budget from one heading to another. The practice of moving allocated budgets to other areas is very common and the rules related to such a practice are very flexible. As a result, re-budgeting takes place throughout the year which means the priorities change on a constant basis. Although there are specific restrictions on re-allocation from the recurrent budget to the capital budget, resources can be transferred from one budget heading to another easily within the same category. These Virement transactions are only reported in terms of volume but not in terms of frequency, restricting the ability to monitor the number of Virement transactions taking place.

Besides, there is no provision in the TSA to track such transactions individually as they all fall under one budget heading. There isn't a proper mechanism to check them and ensure accountability. Hence, this allows for flexibility in re-budgeting and encourages the budget formulators to disregard the importance of accurate estimates and prioritisation during the first round of the budget formulation process. If the policies are not rigid then the formulators are given room for flexibility. A strict mechanism to check such Virement transactions has to be put in place to ensure that the budgets are serving long-term project goals.

In the current context, project prioritisation has also been prone to last minute changes before and after budget approval. One of the main reasons behind this is an absence of a deadline for including capital projects in the budget. If there is flexibility to alter projects any time then changes made during the prioritisation process are going to be rampant. But if there is a time limitation specified, then this would resolve last minute prioritisations of projects to a great extent.

2. Inter-Agency Coordination

Inter-agency coordination is crucial to both the budget formulation and budget implementation process. There are over 4500 spending units in Nepal making it important for inter-agency coordination to be strong and effective. All the procedures in the budget formulation and implementation process are inter-connected requiring a smooth working relationship between the various state institutions such as the NPC, the MoF, the various line ministries, and the numerous local level institutions.

In respect to the budget, the persistent problem is the lack of coordination between the central authorities and the local authorities. In many cases, the local-level organisations do not adhere to the given budget ceilings while the central level institutions ignore the local interests in the favour of the national interests. The table below shows the disconnect that exists between the local-level institutions and the central state:

Table 2: Difference between the amount proposed and actual allocation

Budget items	Amount proposed by DDC (% of total)	Actual allocation (% of total)	Amount proposed by DDC (% of total)	Actual allocation (% of total)
	Fiscal 2009–10		Fiscal 2010–11	
Dolkha				
Local development	38	33	38	38
Education	29	12	40	13
Health	5	8	6	7
Drinking water	2	3	3	2
Electricity	2	31	2	29
Roads	19	2	0	2
Kaski				
Local development	31	39	30	49
Education	21	28	30	16
Health	3	10	7	7
Drinking water	2	5	1	3
Electricity	1	2	2	1
Roads	28	5	18	4
Irrigation	3	4	3	1

Nawalparasi				
Local development	29	26	21	44
Education	41	23	31	22
Health	4	8	8	5
Drinking water	1	5	1	4
Irrigation	13	9	6	5

Source: Budget Transparency Initiative

The table above depicts the difference between the proposed budget by a local institution and the allocated budget by the centre. In most of the cases, the budget proposed by the DDC and the approved budget by the centre differs. The local-level institutions hold the central-level authorities responsible for not incorporating their demands while the central level authorities express that the authorities at the lower-level forward budget estimates that are 2 to 3 times higher than the set ceiling. But what needs to be considered is that if the budget planning process was done in consultation with the local authorities, then this problem could be minimized to a large extent.

In fact, before determining the budget itself, a rigorous study detailing the demands and progress of government offices at the local-level can be conducted. For instance, before setting the tentative budget, had there been an assessment review of the 75 districts and their needs, this would resolve the current problem. Participation of local-level institutions is a must during budget formulation but the discrepancies between the local-level budgetary demands and the allocation of the approved budget shows that central level institutions significantly govern the budget making process. For example, the former joint secretary of the MoF expressed that of the budget of 618 billion presented in the FY 2014-2015, only 95 billion which makes up 15.37 % of the total budget, was responsive to the suggestions made by local agencies.[4]

There is also the question of whether the proposed budgets prepared by the local institutions are truly representative of the local people's demands. Whether the proposed budgets have been informed by public hearings remains to be seen. In a study undertaken by NAREC, it was revealed that 37.5% of the DDCs did not conduct public hearings on budgets.[5] This implies that people have not been able to participate in the budget making procedure. As people are not part of such practices, this gives rise to the problem of lack of social accountability. The persistent problem of local level participation denotes that institutions operating at the district level have very less to say in budget making. Such a problem could threaten the credibility of budget formulators as well as implementers. The demands that are inculcated without local level feedback would do more harm than good.

[4] Yuabaraj Bhusal, interview by Shalinta Sigdel, Staff College, Lalitpur, September 20,2014.

[5] NAREC Nepal 2013

As local institutions are sidelined during the formulation process, accountability could be undermined resulting in mismanagement of funds. Thus, it is essential for inter-agency coordination to be intact for proper functioning of budget formulation and implementation. The existence of poor inter-agency coordination and communication has resulted in significant portions of time and resources be devoted to reconciling the discrepancies between the proposed and allocated budgets at the local and central level.
The lack of coordination is also evident in central-level agencies. The two prime government agencies involved in budget formulation are the NPC and the MoF. A proper coordination between these agencies is fundamental to budget formulation and implementation, however, this cannot be seen in practice. For example, there have been instances when the budget proposed by these two agencies differ greatly. This would be understandable if the differences came from the line ministries, as they are not rigorously part of the budgetary process. But the NPC and the MoF are meant to be working together throughout the budget formulation and implementation process, therefore, a difference in budget proposed by them can easily lead to confusion. Above all, these are the institutions that possess a broad knowledge of the modalities of an annual budget. The table below illustrates how there is a difference in budget proposed by these two agencies:

Table 3: Difference between the budgets proposed under education by NPC and MoF

	Gender Responsive Budget in Education		Pro Poor Budget in Education	
Fiscal Year	**MoF**	**NPC**	**MoF**	**NPC**
2065/66	3.84	65.34	82.68	68.29
2066/67	2.80	39.27	87.07	39.27
2067/68	23.94	32.44	67.01	34.79
2068/69	27.70	31.05	80.32	34.38
2069/70	62.33	25.22	91.38	26.93

According to the table above in the FY 2065/66 BS, 65.34% of the education budget was proposed to be gender responsive by the NPC, whereas the MoF only allocated 3.84% of the education budget to be gender responsive. Even though such differences have been reduced over the years, there is still a lack of concurrence over the reports presented by the MoF and the NPC.[6] As the two major agencies are involved right from the beginning to the end of the budget formulation and implementation process, such practices would undermine the credibility of these institutions.

Hence, the lack of inter-agency coordination has caused many problems in the budget formulation and implementation process. As the budget is central to the functioning of all the institutions at the national and local level, it is vital that such problems are addressed.

[6] Freedom Forum, PRAN and CECI 2014

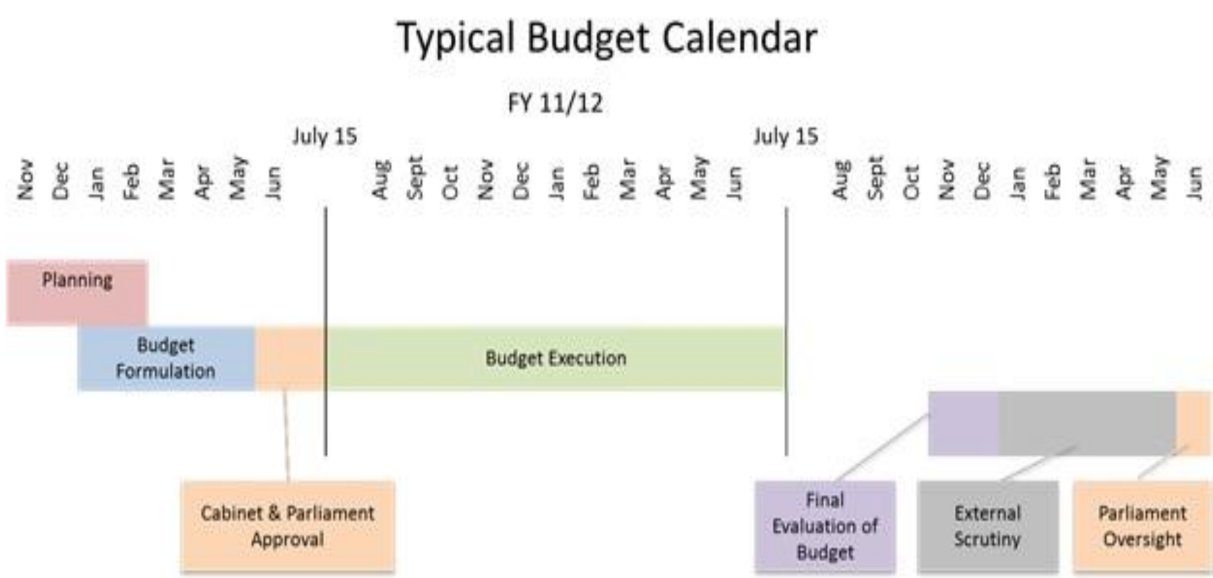
3. Procedural Delays

The entire budget cycle consists of budget formulation, budget approval, budget implementation and budget evaluation. As all of the processes are linked any delay in one phase affects the other. In Nepal, submitting the budget a few days before the start of fiscal year is the norm. However, a survey conducted by OECD in 97 countries revealed that in majority of the countries, the budget planning at the central-level begins 9 months prior to the fiscal year.[7] In addition, 81% of the countries present their budget at least two months before the start of fiscal year. In this respect, Nepal's performance ranks extremely low compared to countries elsewhere.

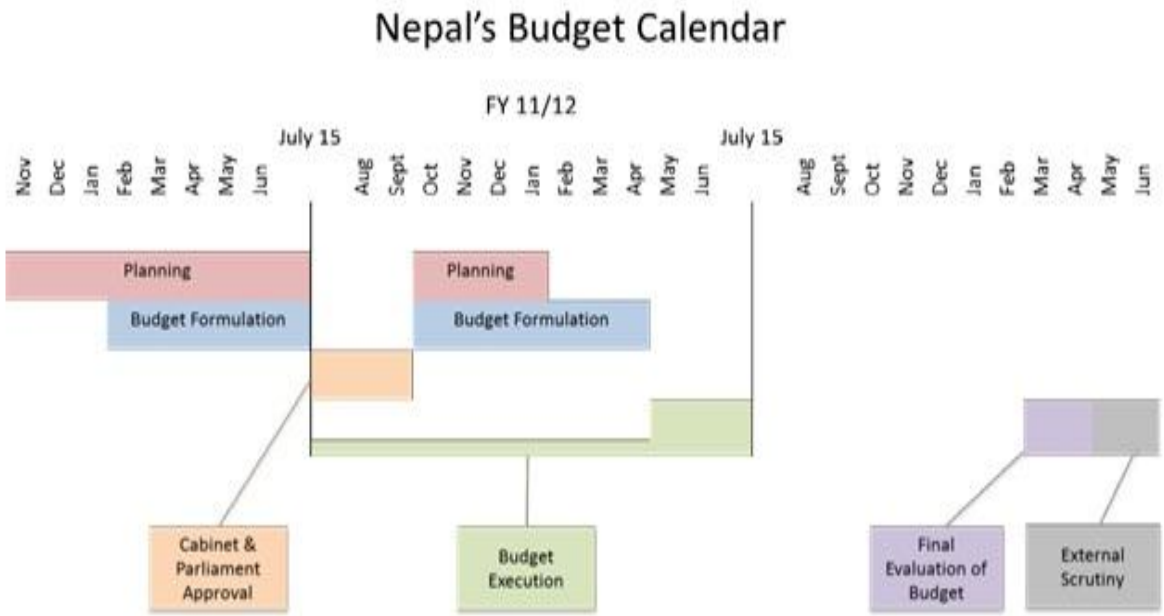
The fiscal calendar in Nepal is instrumental to budget implementation. The budget is presented in the parliament in the first week of July but it is only at the beginning of September that the parliament approves it. The implementation of the budget during September is very difficult as many public holidays fall during this month due to festivals. While delays in budget approval are common in other countries, the degree of delay in Nepal is quiet noticeable.

The figure below illustrates this:

Figure 5: Comparison of Nepal's budget calendar with a typical budget calendar



[7] Krause, Sweet, Chalise and Hedger 2013



Source: Centre for Aid and Public Expenditure

The OECD study also clearly distinguishes the timeline of the budget formulation and implementation process but in Nepal's case the two phases overlap and encroach on each other's timelines.[8] A typical budget calendar would allow budget formulation a time of 8 months. It is also evident from the chart that budget execution is independent of any other activities. This means that considerable time is devoted to the initial phase of the budget cycle which allows the execution phase to take place unhindered. In Nepal, the budget approval itself takes place in the execution phase as opposed to the formulation phase. The approval takes place only after 2 months into the fiscal year.

In the FY 2011/12, the budget planning used up a significant portion of time that was meant to be used for the execution phase. Ideally, the execution phase of the budget should be free from any remnants from the formulation phase. But, that is not the case in Nepal which also subsequently affects the evaluation phase.

[8] Krause, Sweet, Chalise and Hedger 2013

Furthermore, procedural delays affect other phases of the budget cycle too as illustrated in the table below:

Table 4: Budget Formulation Phase

Deadline (Months)	Activities	Practice	Responsible Institution
October	Resource Committee Meeting between the NPC, the MoF, the cabinet and line ministries. Projection of resources, preparation of macroeconomic framework	December	NPC
November	NPC sends **district budget** ceilings to each DDC	December	NPC
Mid December	MoF provides ministries with budget guidelines	February	MoF
End of December	Line Ministries send thresholds to subordinate departments, district offices and projects	February	Line Ministries
February- March	Line ministries consolidate and submit draft proposals to MoF	May	Line Ministries, MoF
March-April	Discussion of the submissions with the ministries	May-June	MoF, line ministries
Mid May	Preparation of final draft budget	End of June/July	MoF

As displayed in the table above, it is evident that the budget execution is delayed due to the delays in the budget formulation procedure. The NPC being the umbrella of all plans and policies has multiple areas to work in. This does not imply that it sidelines any budgetary tasks but as the basis for budget are the programme and plans, it devotes most of its time to it. This means that until and unless programmes and plans are approved, budget formulation cannot move ahead.

The comparison of Nepal's budget calendar to a typical calendar also reveals that the planning phase continues throughout the four major steps of the budget process. The planning that has to be completed before the budget formulation continues into the subsequent phases, resulting in last minute changes. Besides, since the NPC has dozens of programmes and plans to approve, the resource committee meeting is forcibly pushed back. Consequently, once the first activity is delayed, the timely implementation of other activities is also affected. The procedural delays of budget formulation is then passed on to the budget finalization step as depicted below:

Table 5 : Budget Finalization Phase

Deadline	Activity	Practice	Responsible Institution
Mid-June	MoF sends the budget for the cabinet's approval	End June-July first week	MoF, Cabinet
Mid-June	Budget approval by the cabinet	End June	MoF
3rd week of June	MoF submits the budget to Parliament	1st week to mid of July	Line Ministries
July 15	Approval of the Appropriation law to expend 1/3 of the budget	Late July	Parliament
September 14	Approval of the budget by the parliament	Depends on the agreement among the lawmakers	MoF

Once a draft of budget is formulated, it goes to the cabinet for approval. As depicted this should take place in mid June by the latest but usually occurs only in the first week of July, delaying the approval of budget.

Table 6: Difference between date of budget submitted and approved in the Parliament

Fiscal year	Date budget submitted to Parliament	Date budget approved by Parliament
2006/07	July 12, 2006	August 23, 2006
2007/08	July12, 2007	August 8, 2007
2008/09	July 14, 2008	November 1, 2008
2009/10	July 13, 2009	November 10, 2009
2010/11	July 12, 2010	February 8, 2011
2011/12	July 15, 2011	September 20, 2011
2012/13	July 15, 2012	April 9, 2013

Source: Centre for Aid and Public Expenditure

As depicted in the table above it can be seen that the budget is submitted to parliament just before the start of the fiscal year. Apart from the year 2006 and 2007, budget approval has been delayed primarily due to obstruction in the parliament due to difference in interests of the political parties, the lawmakers and line ministries.

The political parties have also played a role in delaying budget approval. The contestations regarding which constituency should receive what share of the budget leads to delays. Rather than focusing on approving the budget on time, the lawmakers often focus on furthering their party's interests and their own interests.

The budget that is presented in the parliament is a mirror image of the draft budget presented by the MoF. This indicates that the delay is politically motivated. In the FY 2010/11, the budget was submitted to the parliament on July 12th 2010 but got approved only on February 8th 2011. The delays have posed subsequent challenges to budget execution. In the annual mid-term review of budget, it was revealed that the late approval of budget had delayed programme approval. As a result, the bodies that had already expended 1/3 of the budget had to stop their projects due to untimely budget release.

However, the time given to the parliament for budget approval is just two months. This is extremely little time for critically analyzing and assessing the budget often resulting in the parliament passing an Appropriation Bill. Had budget formulation and planning been completed on time, more time would be allowed to the parliament to scrutinise and study the budget critically. By the time the budget reaches the parliament, it is already delayed and thus it has to approve the budget in a short span of time, often resulting in the passing of the Advance Bill. The table below illustrates how the delay in budget formulation and approval affects budget execution:

Table 7: Delay in Budget Implementation Activities

Standard	Activity	Practice	Responsibility
Mid-July	Authorization letters for expending 1/3 of the budget	Late July	MoF
Mid to late July	Budget release for the first trimester	By 30th July	Line Ministries, Departments, FCGO and DTCOs.
Start of the fiscal year (July 15th)	Red book approval	August-February	Parliament
Ideally should happen at the start of the fiscal year	Work plan approval	3-4 months into the fiscal year	NPC, Line Ministries
Throughout the fiscal year (commences in the 1st trimester)	Procurement	2nd and 3rd Trimester	Line Ministries, PPMO
1st trimester	Capital project implementation	2nd or 3rd trimester	Line Ministries and related district offices

As depicted in the table above, the release of authorisation letter itself is delayed. The red book which incorporates the plans and programmes of the government along with the budget is a book that guides the budget expenders. This book should be ready before entering the new fiscal year. However it gets approved as late as September and sometimes even in February which is six months after the start of the fiscal year. The work plan and the procurement plan should ideally be ready before a fiscal year begins. Procedural delays make such plans available only after three to four months into the fiscal year. This is a major problem yet there is no mechanism to exercise a fine or a sanction on any agencies that are late. Thus, the absence of a mechanism to monitor and control these time delays also adds to the problem.

Besides, the tradition of delaying the annual budget appropriation is not a new phenomenon which means that the parliament often passes the Advanced Law, allowing spending units to cover one third of the preceding year's expenses incurred. This means that authorisation for the budget is released under the same budget headings and not for any new programs. The ministry then needs to seek further approval once the full budget is passed. This means that project execution needs to wait until the full budget approval.

Budget release is closely tied to the approval of projects and programmes. The FCGO and the DTCO release the initial budget allotment for two months once the budget has been approved or the one-third-appropriation bill has been passed. The budget law states that the release of funds to ministries and districts need to take place within 15 days after the start of fiscal year but delays have been common**.** The major reason behind this is the authorisation seeking procedure from the NPC and the MoF. The presentation of procurement plan for the projects is also not timely which triggers further delays in the budget release

Budget is the lifeline to the economy. Each plan and programme of the government is tied to the annual budget. If budget execution and formulation are delayed, projects get stalled. The delayed completion of projects would mean that the state would not be able to achieve certain development goals. If we carefully look at the criteria of priority 1 project, they are devised considering the impact they might have on alleviating poverty. But if the procedural hassles fail to result in materialisation of the projects, then this means that the achievement and attainment of these goals are also delayed.

For ongoing projects, the procedural delays would inflate labour cost of the project and cause a decline in productivity. The delay in budget formulation and execution is also a major setback to the private sector or the investors. The share market and the investors are closely connected to the budget. The share market is also affected by kind of budget presented in parliament and the time when it is presented. If the budget is properly planned and brought about in time, this would ensure that the trust of the investors from the private sector is gained and maintained. Moreover, in a country like Nepal which relies heavily on international donors, timely formulation and implementation of budget is a must. It is extremely important to portray a sound financial system to win the confidence of these investors and donors.

Procedural delays can also be attributed to the lack of trust between the various agencies involved. The organisations operating at the district-level may question the credibility of the institutions at the central-level. As a gap between the local agencies and the central institutions already exists, procedural delays would only be detrimental to the existing trust between the agencies.

4. Procedural Problems

As mentioned earlier, the formulation and implementation of the budget is process driven however the processes are not without fault either. For instance, the NPC is central to most of the processes in the budget cycle whereby its approval controls the entire budget cycle. For instance, all spending units have to receive approval from the NPC for any proposed plans and projects. The NPC has to be provided with the detailed estimates of the project, the project work plan and details of procurement procedures. However, the approval process only takes place after the annual budget is approved by the parliament and incorporated into the red book. This creates certain uncertainty regarding the future of the projects. If they had been approved by the NPC before the formulation of the annual budget, the projects would have started right after the budget approval and would not have to make any last minute changes to the project plans.

Similarly, the line ministries also have to await for the NPC's approval of their estimates that are submitted to the MoF during the formulation phase. With so many agencies waiting on approval from the NPC at various stages of the budget cycle, unnecessary delays are created while curbing the autonomy of other agencies. If programmes that are implemented by district-level institutions only required the approval of the relevant line ministry or the district-level organisation, the entire process might be more efficient. Moreover, if these projects are approved through local agencies, then the responsibility to maintain accountability would also lie with these bodies. However, the NPC has argued that its current scale of involvement in the budgeting process is important in order to constrain ministries from making unjustified changes to work plans.

The policies that dictate the budget process are also contradictory. The local level bodies have been given the autonomy for expending various forms of grants. According to the clause 118 of the Local Self Governance Act, the district council can pass budgets, and approve plans and programmes submitted by the DDC. In addition, it also has a provision that allows the DDC to approve district-level programmes. But on the other hand, the NPC also has the authority to reject and approve district level programmes as well. These conflicting provisions create confusion regarding autonomy and ownership of the budget process. For instance, the Ministry of Federal Affairs and Local Development always insists on approving district level programmes on its own but the NPC officials have been critical of the ministry by claiming that the MoFaLD officials do not have the experience to approve such programmes.

5. Management of Funds

The management of funds during the budget formulation and implementation process is very important. In this context, the existing provisions of miscellaneous and contingency funds allow room for flexibility, which has been the cause behind problems related to fund management. For instance, the parliament itself gives the government the right to transfer 10 percent of the total budget under any heading to another heading under the Financial Act. The easy transfer of funds from one heading to another without undergoing any checks has made it easy for budget expenders to easily manipulate the funds. As such a provision allows the right to change the budget headings, the likeliness of not formulating a complete budget before the deadline becomes high.

6. Accountability

Accountability is core to budget implementation. Being answerable to external bodies prevents any financial discrepancies and makes the implementation process more transparent. However, in the context of Nepal, the rampant practice of off budget spending makes it impossible to track the expenses going through the government channel and reduces the level of accountability.

Off budget spending refers to the budget spend that is not processed through the government channels and one that is not reflected in the annual financial plan of the government. Off budget spending mostly includes expenses of INGOs that are not taken into account by the government. A report prepared by the Ministry of Finance indicated that out of the total disbursements in the year 2011/12, 77 percent went through the budgetary processes while the rest 23% was spent using off budgetary practices.[9]

If the foreign aid that is spent is not reflected in the budget, then the budget cannot be comprehensive and therefore it cannot be fully transparent. As a result, it becomes challenging to hold the spending units accountable. It also becomes difficult for the overseeing agencies or the concerned local agencies to monitor and evaluate the off-budget projects, as they are not incorporated in the national budget. In the presence of huge off budgetary spending, it becomes difficult to forecast the revenue and expenditure of the ensuing year as well. The forecasting could be inaccurate or a significant time would have to be devoted to identifying non-governmental channels of spending.

Lack of accountability can also be seen in the management of existing funds. Transparency International in 2012, ranked Nepal as the second most corrupt country in South Asia. In a survey conducted of 183 countries, Nepal was ranked 154th in 2011,146th in 2010, and 139th in 2012 in the corruption perception index.[10] One of the main reasons behind this is the lack of accountability. Although the Corruption Prevention Act has established sanctions for corrupt practices, it still has not been able to play an effective role in enhancing the accountability of the officials. Besides corruption, there are also limited mechanisms to check the assignments undertaken by officials in

[9] Ministry of Finance 2012

[10] Krause, Sweet, Chalise and Hedger 2013

government offices. As they are not answerable to anyone, they can get away with malpractice. This adds to the unaccounted expenditure in the budget. The following figure represents the unaccounted expenditure as reported in the audit report prepared by the Office of Auditor General (OAG). The unaccounted expenditure in the reports shows the irregularities in the budget execution phase.

Table 8: Unaccounted Expenditure as reported by OAG (In Lakhs)

Report	Audited Figure (NPR)	Unaccounted Expenditure (NPR)
49th Report	5,27,56,08	22,50,37
50th Report	7,42,59,43	27,96,96
51st Report	8,04,85,73	28,75,94

Source: http://www.oagnep.gov.np/uploads/Progress%20Report%202071.pdf

7. Institutional Capacity

The process of budget formulation and implementation is a comprehensive task. The personnel working in the finance section of each ministry, the subordinate offices and even at the central level have to have adequate knowledge of finance and budget related policies. The absence of trained staff highly affects the budget execution process in the spending units. There is no strict approach to checking necessary educational qualification before the recruitment of staff in the finance section which means that people from any background can apply for the job. Although knowledge of management or accountancy is a must for a Public Finance Management employee, there is a provision in the policy which allows people from other faculties such as Math, Economics and Law to apply without a basic competency level of accountancy. This combined with a very basic course in the Public Service Commission (PSC), makes it difficult for the newcomers to become familiar with accounting, budget recording and financial practices of the particular agency. The overall financial work output is therefore prone to many errors and subsequent delays due to the lack of relevant experience of the employees.

Frequent staff transfers can also be seen as one of the problem hindering the budget formulation and implementation process. In the absence of a systematic procedure for training new staff members after being transferred to new line agencies means that there is confusion between the FCGO and the line ministry on deciding whose responsibility it is to train the transferred staff. As of now, there has been no coordinated response to train new staff across the different line agencies which has been detrimental to the overall performance of the Public Financial Systems.

Conclusion

The budget is a tool essential for the proper functioning of a state. It is therefore extremely important for the budgetary process to be properly planned and executed. This paper has comprehensively reviewed and studied the budget formulation and implementation procedures in Nepal and has identified the weaknesses and strength in the existing process.

The analysis of the budget formulation and implementation process has revealed that there are certain weaknesses in the formulation and implementation process that limit the applicability of the budget. Forecasting, ceiling setting and budget approval are the major activities in budget formulation. But the lack of coordination among the agencies has resulted in unnecessary delays that have had a direct impact on national and local level projects. The fact that the central level authorities set the budget ceilings also poses great challenges as they are often not in line with the local-level needs. The heavy dominance of central level authorities in the budget cycle has also contributed to the lack of participatory budget making process. Thus the actors who have not been able to participate in budget forecasting and ceiling setting often doubt the credibility of the budget.

Moreover, contradictory and confusing laws related to autonomous decision-making in the budget process has further complicated the budget cycle. The role of the NPC in every aspect of the budget process creates delays and curbs the autonomy of line ministries and other local agencies. The lack of accountability in the management of existing funds and in tracking foreign aid also severely impacts the accuracy of forecasts and estimates of the ensuing budget year.

Based on the observations above, the following recommendations have been made to strengthen the existing budget formulation and implementation process:

Recommendations

- A consultative national-level discussion should be conducted to review the role of each of the involved agencies in the budget cycle with the aim to clearly define the roles of the NPC, the MoF, the FCGO and the line ministries and avoid any overlaps and duplication of responsibilities.

- In the present context, the budget process is guided by different laws yet there is no specific law to oversee the adherence to the fiscal calendar. The provisions for the annual budget are scattered over numerous laws. The government should consider introducing a unitary budget law which should guide all the agencies and their activities and the law should include sanctions for delays in procedures.

- The NPC, the MoF and the line ministries should involve the local level bodies in the ceiling setting process to ensure that the budget reflects the needs and demands of the local agencies while being mindful of the available resources.

- The existing scenario of procedural delay also signifies how budget has not been a priority of the major institutions. The delay has been rampant right from the first phase. This implies that the institutions involved have sidelined the budgetary process to a certain extent. In this context, budgets should be made a priority in each institution.

- The staff should be offered incentives for adhering to the deadlines of the fiscal calendar and should be sanctioned if they are unable to do so to avoid procedural delays.

- Off budget spending should be discouraged and proper records of such spending should be maintained. The main effort of the government should be to bring those expenses within the purview of budget. The government should devise a strategy to monitor or track off-budget spending.

- Proper training must be offered to new staff members who have been transferred or have just joined any of the agencies involved in the budget cycle. They should be trained on budget systems and should be computer literate and aware of any software used in the institutions to avoid errors and subsequent delays.

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