

**BUDGETARY PRACTICES IN NEPAL AFTER
2ND PEOPLE'S MOVEMENT 2062/063**

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RECOMMENDATION

This is to Certify that the thesis

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2062/063**

has been prepared as approved by this Department in the prescribe format of
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and found the thesis to be the original work of the students and written according to the prescribed format. We recommend the thesis to be accepted as partial

fulfillment of the requirement for

Master's Degree of Business Studies (MBS)

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DECLARATION

I hereby declare that the thesis entitled **BUDGETARY PRACTICES IN NEPAL AFTER 2ND PEOPLE'S MOVEMENT 2062/063** submitted to the Shanker Dev Campus, faculty of Management, Tribhuvan University is my work, which is prepared as the partial fulfillment of the requirement of the Degree of Master of Business studies (M.B.S.) under the supervision of Mr. Joginder Goet, lecturer of Shanker Dev Campus.

Loknath Subedi

Researcher

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ABBREVIATIONS

AD	=	Anno Domini
BS	=	Bikram Sambat
NPC	=	National Planning Commission
NRB	=	Nepal Rastra Bank
MoF	=	Ministry of Finance
GoN	=	Government of Nepal
MTEF	=	Mid Term Expenditure Framework
CBS	=	Central Bureau of statistics
TU	=	Tribhuvan University
WB	=	World Bank
MBS	=	Master's in Business studies
FY	=	Fiscal Year
NCP	=	Nepal Communist Party
CPA	=	Comprehensive Peace Accord
VAT	=	Value Added Tax
CBS	=	Central Bureau of Statistics
GDP	=	Gross Domestic Product
NLFS	=	Nepal Labour Force Survey
FMIS	=	Financial Management Information System
HDI	=	Human development index
NHDR	=	Nepal Human Development Report

Chapter-1

Introduction

1.1 Background of the study:

Budget denotes the document of income and expenditure of the government for the specific time period. It is important source of government information on past activities, current decisions and future prospects. Budget is both economic and political document because it reveals the basic character of the fiscal policy of the government. Thus budget is the instrument through which the government controls the entire economy. On the other hand budgeting refers to the process of preparing, negotiating and agreeing a qualified plan (budget) for an organization, normally for one year period. Government budget is major instrument of social and economic development. It is a nerve centre of public economy. Budgets have an economic, political and technical basis. Unlike a pure economic budget, they are not entirely designed to allocate scarce resources for the best economic use. They also have a political basis where different interests push and pull in an attempt to obtain benefits and avoid burdens. The technical element is the forecast of the likely levels of revenues and expenses.

The term budget has been derived from Latin word Bague and French word Baguette which means 'A leather bag'. The chancellor of exchequer in England used to carry the financial proposals for the year in a leather bag to the house of commons. In 1733, British finance minister Sir Robert Walpole presented the first budget in parliament.

In France, budgetary system was introduced by the year 1803 AD after the French revolution (1709). In America, the budget system was beginning from 1920. The national budgeting practices started only since 1921 AD in India, but the budgetary system was introduced in 1858 by the rule of East India company government and in 1948 by independent government. The budgetary practice in Nepal was commenced on the year 2008 BS. The first national budget was made and presented by finance

minister Subarna Samser Rana. Finance minister Rana has estimated a total revenue 30.5 million and total expenditure 52.5 million (Adhikari, 2065: 65).

After the dawn of democracy in 2007 BS, since then 61 annual budgets have already been implemented. Similarly the effort of planned development in Nepal started on the year 2013 BS. Since then, a three year plan, nine five year plans and a three year interim plan have already been completed. The second interim plan is running now. As the previous plan period's poverty alleviation n has been instituted as the main objective of every plan and poverty alleviation support programs are in the main focus on every annual budget also.

All most all the countries of the world have adopted the budgetary system. The developing countries like Nepal have used budgetary system as a tool to accelerate the pace of economic growth as well as social development. Budgetary system is considered essential to uplift the economic status of people in a planned way. It is widely accepted that development.

Budget has been defined in ways and many aspects. According to the interim constitution of Nepal, it is 'Estimation of revenue and expenditure'. In interim constitution 2063 of Nepal, there are many aspects relating budgetary system in Nepal.

Generally a budget contains a review of a government income collected, expenditure incurred changes in the composition of national debt and other matter during the current fiscal year. The whole budgetary process involves formulation, approval, execution, accounting; monitoring, auditing and evaluation phase in Nepalese budgetary system.

Government budget is a legal document that is often passed by the legislature, and approved by the chief executive or president. In Nepal, budget is prepared by council of ministers (especially finance ministry), sanction by parliament and approved by president of Nepal.

Various surveys and studies relating impact analysis of Nepalese budget shows that the gap between the rich and poor has widened. Poverty rate is higher in rural areas compared to the urban areas, there is inequality between lower and upper caste people, men and women and forward and backward societies peoples and areas respectively. Uplifting the living standard of rural poor people affected by poverty and creating an equitable society have been the challenging issues in the budgetary practices in Nepal. To reach in logical conclusion in peace process, settlement of post conflict situation, handling grievance of various society and to create a comfortable way for construction of new and modern Nepal are also the challenging issues for Nepalese budgetary practice.

It is already stated that Nepal has implemented 11 plans with three year interim plan and 61 annual budgets till now since 2013 BS and 2008 BS respectively but the goal of the overall development of the nation has not been achieved in a desired level. Nepal is still a least developed country. Since 2008, considerable public resource had been spent but nearly 31 percent of the population is living below poverty line. There is little evidence to show that decades of development efforts have not being to significant improvement in the development of rural areas of Nepal near about 86 percent population live. The gap between poor and rich is in increasing way. Almost plans and budget are announced their plan and programs for equal distribution, equal employment opportunity, equal development, rural employment, social security and optimum utilization of resources for self dependent national economy but that all slogans are not reach in reality. Thus, it is greater importance to study about budgetary practices in Nepal which help us to find out its problems, challenges and to suggest remedial measures for achieve positive impact of budget in future.

1.2 Statement of problem:

The future of nation based upon many factors like infrastructure development, to fulfill social needs, protection of human rights, maintain peace and security, enforcement of law and socio-economic change with increase individual's standards of life with inclusive democracy. Above mentioned factors are important for national

unity and nation building as well as construction of new, modern and prosperous Nepal.

The planned development in Nepal commenced on the year 2013 BS. Since then, a three plan, nine five year plans and a three year interim plan have already been completed. The second interim plan also has completed its half way. Similarly more than 61 annual budgets have been completed. Though all these annual and periodic plans started with various attractive policies, objectives and targets but could not be successful in delivering the expected result. These plans and budgets could not be able to change the living standard of the people of Nepal. The objectives of every annual budget were always targeted to the deprived people eliminating the poverty but always end with fail.

More than 90 percent of Nepalese population still comprises of farmers and landless peoples, workers and rural poor but the conditions of these people is not satisfactory after each of the plans and budgets is implemented. Nearly 30.8 percent of the populations live below poverty line. The urban population is only 13.9 percent. (Nepal in Figure: 2008/CBS)

The communication, improved domestic resource mobilization, improvement in balance of payment, price stability etc. but none of these indicators are found to be satisfactory despite the planned development effort through 11 periodic plans , one interim plan and 61 annual budgets. This is the matter of great concern and food for thought for all social scientist, policy makers, planners, politicians and other concerned peoples. So why our budgets could not attain the objectives, the reasons are needed to be found out. Thus this study is aimed to explore the recent trends, problems and remedial measures for improvement in budgetary system in Nepal.

1.2 Objectives of the study

The main objective of this study is to find out the recent practices in various aspects of budgetary system of Nepal and to explore problems, prospects, suggestions and remedial measures for the problems and challenges. This study also will help to find

out the current trends of budget after 2nd people's movement 2062/63. This research study is concentrated within the following specific objectives:

- To study about the major objectives and budgetary practices adopted in the annual budgets by government of Nepal.
- To find out the revenue, expenditure and deficit finance of government budget adopted in Nepal.
- To find out the economic and social impacts of budget.
- To provide appropriate suggestions and recommendations..

1.4 Significance of the study:

The prime task of the government of Nepal is uplifting the living standard of the Nepalese people in sustainable manner along with the implementation of inclusive economic development with priority but many challenging situation caused by external and internal factors are directly/indirectly affecting budget preparation and implementation phase in Nepal.

The budgetary system in Nepal commenced on the year 2008 BS. Similarly the history of planned development in Nepal commenced on the year 2013 BS. Since then more than 61 annual budgets and 10 periodic plans and a three year interim plan have been implemented with the objective of raising the standard of living of the common people economically and socially but these annual budgets and periodic plans are continuously unsuccessful to achieve the desired goals. Nepal is in an open moment after the popular movement and election of constitutional assembly. New prospects of opportunity for socio-economic transformation have emerged. In this context, if we are able to form a common vision of socio-economic development we can certainly create a new prosperous, developed and peaceful Nepal for the present generation and the posterity. Such an opportunity arises rarely in any country's history. Our actions today, and courage that we must have to break from the past, will determine how our history will read tomorrow. The national debate today has surely centered on

determining the future political system and process to achieve sustainable peace. This does not mean that the issue of economic development should be pushed to back burner. Democracy cannot flourish on the foundation of a weak economy. The economy is in crisis for over half a decade. It is looking for a new momentum. The economic activities, suspended during the period of conflict, insecurity and absence of peoples' representatives, are waiting to pick up. The rural area seeks new opportunities for employment and income generation. Crisis-ridden industrial, trading and tourism sector is yearning for industrial peace and investment climate. Damaged and destroyed physical infrastructures are in need of reconstruction. People displaced due to conflict want to return home and begin to consolidate their broken social life. They are impatient to repair the houses that were damaged and cultivate their land. They want to live a normal life. Socially excluded and oppressed group of people and those in the geographical region excluded from mainstream of development want a fair share in the services and facilities given by the state. So it has been a great necessity to find out the reasons that why our annual budgets have not been successful in a desired level? What are the recent trends of budgetary system? Whether our budgetary system is in right direction or not? What are the problems remedial measures for these problems and challenges? These have important questions but there has been very little study and research to answer these questions. Thus this study is significance to find out the about Nepalese budgetary practice after 2nd people's movement 2062/63.

1.5 Research methodology:

The research method adopted in this study is analytical, explanatory and descriptive methods. The study is primarily based on published secondary data. The main sources of information for this study are;

- Various issues of budget speeches, economic surveys and other relating publications, published by ministry of finance of Nepal.
- Various periodic plan document published by National planning

commission of Nepal.

- Budget preparation guidelines, human development reports and other various related published and unpublished materials relating this study.

Government policies relating budgetary system, total revenues and expenditures and sources of financing are the research variables of this study. Descriptive, analytical as well as quantitative approaches are used for study. Objectives and structures of last three years budgets are mentioned. Some economic and social indicators are also presented to see the impact of the budgets in the economic and social structure.

The data processing has been performed in computer using application programs (MS Word, Excel etc.). Some relevant statistical and mathematical tools have been applied in analysis and interpretation, presentation have been made in the form of tables, graphs, figures etc.

1.6 Limitation of the study:

The area of the study of budgetary system of Nepal is very wide and large so the study has following limitations;

- Whole process of budgeting is important for achieve good result so this study is trying to cover total budgetary process adopted by government of Nepal.
- This study cover only five years annual budgets specially the budget of economic years 2063/64,2064/65,2065/6 ,2066/67and 2067/68 for analysis the trends of current budgets after people's movement 2062/63.
- This study is trying to give information about the objectives and achievement of last five years budgets and current budget too.

Again, limited knowledge of researcher in this field has been limitation of this study. Time and resources are also limitations of the study.

The conclusion drawn from this study will be relevant for a certain period only because it can be changed with time and situation.

1.7 Organization of the study:

This study is organized in four chapters. The first chapter deals with the introduction of the thesis. It includes background of the study, statement of problem, objectives of the study, significance of study, limitation of study and organization of the study.

The chapter two covers the theoretical aspects of government budget and budgetary system adopted by government of Nepal based on the review of relevant literature.

The chapter three describes about research methodology.

The chapter fourth describes the presentation and analysis of various policies, practices, facts and data related to the budgetary system of Nepal.

The chapter five presents summary, conclusions and recommendations.

Then appendices and bibliography presents at the end of this thesis report.

Chapter-2

Review of Literature

2.1 Conceptual Framework:

The history of government budget, meaning of government budget, features of government budget, contents of government budget, Principles of government budget, classification of government budget, approaches of budget, objectives of government budget and important of budget are discussed here under:

2.1.1 History of Government Budget:

The concept of budget developed with the development of human civilization. The conflict between king John of England and the parliament gave birth to the historical document 'Magna carta' in 1215 AD. Which confined the monopoly of the king in the public property. It gave financial rights to the parliament. In 1688 AD, power vested to the king into the hands of general public and in 1689 AD Bill of Right was passed then authorized need for parliamentary approval on rising tax, donation and debt by the government. In 1733 AD, the prime minister and finance minister Sir Robert Walpole presented the annual statement of income and expenditure in parliament which is known as first budget. While presenting this budget Walpole had carried the budget documents in a small leather bag. Such small leather bag is called 'Bouge' in Italian and 'Baguette' in French. The English word budget was derived from these words.

After the French revolution (1789).In America it was started in 1790 AD. In India, the national budgetary practice started since 1858 AD by the rule of east India company government and 1948 by the independent government.

In Nepal, the first national budget was made and presented by finance minister Subarna Shamber Rana in 2008 BS after the over throwing of Rana regime. Finance minister Rana had estimated total revenue 30.5 million and total expenditure 52.5 million. This budget reflects actual status of the state of the time.

The office of the accountant general was established in 2008 for make the execution of budget system effective. In the fiscal year 2013/14, the budget was divided into regular and development heads. To make the budget system effective, the office of the auditor general was established in 2016 BS and financial regulation act was enacted in the same year. The new double entry system of accounting was introduced in 2019 BS for sound account system. The functional classification of the budget was introduced in 2019 BS. Programme budget and financial administration regulation act -2026 was also introduced in 2026. The office of the comptroller general had helped in making important reforms in budget preparation, execution and control. Furthermore, the establishment of the district treasury office in the district level in 2038 has been considered as one of the important steps to enforce the budget system through decentralization.

From the fiscal year 2059/60 BS the budget was categorized into capital and recurrent budget from the fiscal year 2068/69 BS the budget was categorized in to recurrent, capital and financial management . Now, the government of Nepal has issued format of budgeting and budget preparation directives-2064 also.

2.1.2 Meaning of Government Budget:

Simply, budget is the prior estimation of income and expenditure. It is a statement of annual financial plan. It is important source of government information on past activities, current decisions and future prospects. Since government budget is major instrument of social and economic development. It is a nerve centre of public economy.

Budget is also a tool for financial control as well as economic development. Budget is a plan of action as well as policy document. Budget is an instrument of scheduling and evaluating government activities. Budget is the policy of the government to be followed in collecting the revenue and utilizing this revenue in governmental activities. Budget is an annual plan of how money is collected and spent. It is also a one year slice of a periodic plan.

Budget is variously defined by various scholars, economists and social scientists. Some of the important definitions are presented below:

"The budget is the master financial plan for a government" (Paudel, 2065: 11).

"Budget is the key instrument of national policy making" (Bista & Shrestha, 2061:1).

"In the hands of administration a budget is a record of past performance, a method of current control and a projection of future plans." (paudel, 2065:12).

United Nation Organization has defined budget as:

"Budget is not only tabulation of estimates and numerical project but written description and justification of the activities of a various departments and functions of government." (paudel, 2065:13).

"The term budget has come to mean the financial arrangements of given period, with the usual implications that they have been submitted to legislature for approval"(paudel, 2065:13).

"Budget means the annual financial statement containing an estimate of all anticipated revenue and expenditure of the government for the coming financial year"(paudel, 2065:13).

"A budget is at once a report on estimates and proposals that is the instrument by which all the processes of financial administration are correlated and coordinated"(Bista, 2059:210).

"Budget is an annual statement of income and expenditure of the government. Budget is prepared by the executive and is presented to the legislature for its sanction" (Bista & Shrestha, 2061:1).

"Budget reflects in money terms what that government does for the people and what the people contribute for the government"(paudel, 2065:13).

"A budget may be defined as a financial plan that serves as the basis for expenditure decision making and subsequent control of expenditures"(Bista & Shrestha, 2061:2).

"The budget is a mechanism for influencing the allocation of resources through the economy-directly through expenditure decisions and indirectly through policy decisions built into the budget, sources of financing, size of the budget and so on"(paudel, 2065:12).

Thus budget is variously defined, however it can be said that it is an annual financial statement which contains the estimate of revenue and expenditure and also incorporates the plans and programs for the period.

2.1.3 Features of Government Budget:

The main features of government budgets are:

- It is a financial plan and program guided by the socio-economic policy of government for the coming year.
- It is a plan of action.
- Budget proposal passed by the legislature.
- Budget items are only the estimates.
- It is a comprehensive plan which covers the activities of the government.
- Budget may be guided by the medium plan.
- The budgetary process involves formulation, approval, execution, accounting, monitoring, auditing and evaluation.

2.1.4 Contents of government budget:

Generally a budget contains:

- **Revenue proposals:**

It is one of the main components of the budget. Budget contains the revenue proposals and the estimate for the next fiscal year from various sources.

Government needs revenue to meet the various expenditures. So government has to collect revenue from various sources. The main sources of revenue are tax revenue and non-tax revenue. Revenue is also collected from internal borrowings. Similarly foreign grants and loans which may be bilateral and multilateral also are taken to meet the expenditure. Such proposals are incorporated in the budget.

- **Expenditure proposals:**

Expenditure estimate is another component of budget. The various expenditure proposals according to the plans and programs for development and for maintaining the law and order, security, general administration, maintenance of capital assets of the government etc. are included in the budget. Thus the estimate of both regular and development expenditure is one of the major components of government budget.

- **Summary of economic progress:**

In the budget the expenditure of the last year's appropriation and the progress of the expenditure are incorporated. Economic survey is presented one day before the budget speech as a part and parcel of the budget which presents the current status of the economy of country. It is needed for efficiency, effectiveness, economy and justification of the government expenditures.

- **Objectives:**

What are the objectives of proposed budget are incorporated in every budget.

- **Sources of deficit financing:**

Mostly deficit budget is proposed in the developing countries to meet the developmental needs and because of the lack of economic resources. The budget includes the sources of deficit financing. Such sources may be foreign loan, grants and internal borrowing. How the deficit financing will be covered is mentioned in the budget.

- **Fiscal policy:**

Budget is tool or instrument for implementing fiscal policy. Economic stabilization is maintained through the mechanism of budget.

- **Programs and activities:**

Various programs and activities in line with the periodic plan are incorporated in the budget. In fact budget is an annual plan which carries various programs and activities.

2.1.5 Principles of Budgeting:

The main principles of budgeting preparations are:

- Principles of balance budget
- Principle of unbalance budget
- Principle of surplus budget
- Budget principle of underdeveloped of developing countries

2.1.6 Classification of Budget

Budget classifications are given below:

- Classification by objective
- Functional classification
- Organizational classification
- Economic classification
- Program and performance classification
- Classification by services
- Classification by region

2.1.7 Approaches of Budget:

In the context of approaches of budgeting, we should take it as one of the various models for process of preparing and executing a budget. Thus, approaches of budgeting may be according to the need, priority of the government and also the available expertise and preferences of the fiscal policy. We may comprise the most common approaches of budgeting in the following way:

- **Traditional Budgeting:**

- Line item budget
- Incremental budget
- Objective budget

- **Modern budgeting:**

- Programmed budget
- Planning, programming budgeting system(PPBS)
- Zero based budget

2.1.8 Objectives of Government Budget:

The basic objective of the government is the overall development. Being a policy document with plans and programs it is directed to attain certain objectives. Such objectives are as:

- **Collection of resources:**

One of the main objectives of the budget is to estimate and plan the revenue collection to meet the regular and development expenditure of the government.

- **Utilization of limited resources**

The objective of the budget is to priorities the scarce resources for the optimum utilization. Especially in the developing countries like ours where resources are very limited this objective carries a great importance. Budget plans to achieve this objective.

- **Systematic execution of the periodic plan:**

Budget is a slice of a periodic plan. The objective of budget is the continuous and system execution of periodic plan. Budget is itself a periodic plan. So budget plays important role for the implementation of national periodic plan.

- **Economic stabilization:**

Budget is an important tool of fiscal policy. In fact policy is implemented through budget. So, the objective of budget is to control inflation, deflation and maintain the economic balance.

- **Clear responsibility:**

Budget gives various directions to the government. In a democratic country the approval of the budget is given by the legislature though it is prepared by the executive. So budget provides the clear responsibility to the government regarding various aspects.

- **Controlling of the government:**

Without the approval of the legislature government cannot collect the revenue and also cannot spend. Budget works as a medium of giving responsibility to the government for the execution of works and programs. Thus budget is an instrument for controlling the government by the legislature.

- **Providing knowledge of economic status:**

One of the main objectives of budget is to provide the information to the common people about the economic status of the country. In a democratic country it is a fundamental right of the people. How government is collecting the revenue, How the government is spending, what is the status of the economy are maintained in the budget so it helps to understand the status of the economy of the country to the common people.

- **Financial control:**

There is need a strong financial control in the economic system. It helps for the optimum utilization of the scarce financial resources. Thus controlling of unnecessary expenses, spending economically and effectively according to the plans and programs is another main objective of the budget. Thus budget is a tool for financial control.

2.1.9 Elements of government Budget:

There are various elements included to make the budgetary system effective. The main elements that should be included in government budget are discussed below:

- **Future program:**

The future programs and activities for one fiscal year are included in the budget. So, budget is also a future course of action:

- **Yearly plan:**

Budget is also known as annual plan. It carries the quality of annual plan.

- **Revenue and expenditure:**

Budget is the estimate of revenue and expenditure for a fiscal period normally of one year.

- **Reality:**

Budget is based on the policies, plans, programs, and facts and figures. It is realistic based on the previous facts and figures and present need analysis.

- **Simplicity and clarity:**

Budget must be simple, clear and easily understandable.

- **Flexibility:**

One of the elements of budget is flexibility which can be changed according to time and situation.

- **Constitutional:**

There is constitutional provision for the preparation of government budget. The interim constitution of Nepal-2063 also has made such provision.

- **Comprehensive:**

It highlights various sources of revenue and headings of expenditure, programs and activities etc.

2.1.10 Importance of Government Budget:

The importance of budget can be expressed as follows:

- It helps for projection of income and expenditure.
- It helps implement plan and programs.
- It provides various economic information to the people.
- It supports planning process. It provides various information like revenue earning, expenditure etc. on the basis of which plans are formulated.
- It reduces economic and social imbalances. Provisions are made in the budget to eliminate the inequalities.
- All the expenditures are made on the basis of budget or annual plan. So there is proper utilization of the public fund.
- It provides true image of national economy.
- It optimum utilizes limited resources.
- It provides clear guidelines to the executive.
- It helps for effective co ordination between various offices.
- It works as a policy instrument.
- It creates clear responsibility.
- It is basis of performance evaluation.

2.2 Process of Government Budgeting in Nepal:

Budget is a part of economic plan. Therefore, while formulating budget, it is necessary to determine resources allocation in conformity with the objectives, policies, programs and strategies set in the plan document.

In a well-staffed administration, budget may be formulated over many years. But in Nepal, the process is likely to compress with a period of few months or weeks. The responsibility of preparing the budget document rests on the finance ministry. In case

of Nepal, fiscal year begins from shrawan. The process of budget formulation for the coming fiscal year starts from Poush.

Mainly, process of government budgeting may be divided into four stages; they are formulation, legislation, execution and monitoring and evaluation.

2.2.1 Budget Formulation:

Formulation of budget is the executive responsibility. The ministry of finance is most responsible to this. The process of budget formulation begins with the estimation of resources for the coming fiscal year. The possible resources available for the coming fiscal year have been estimated at the ministry of finance with the resource committee comprises vice-president of NPC, members of NPC, governor of NRB, financial comptroller, secretary of MoF. Resource committee comprises the estimation of revenue, foreign loan, grant, domestic borrowing. After estimating the budget for coming year, resource committee sets the ceiling for budget for next fiscal year.

National planning commission sets periodic plans and programs. It is also responsible for setting the policies and programs of development budgets of the government.

Ministry of finance sends the budget forms along with the guidelines and ceiling to each and every ministry, secretariats, commissions and central departments and offices. The central ministries, secretariat, commissions and departments also send these forms along with guidelines and ceilings to the offices under them. All these offices submit their budget based on their needs and ceilings through respective departments and ministries. The budget documents contain data of actual receipt and expenditure of previous year, revised estimate of current year and estimated income and expenditure of coming fiscal year.

The ministries and central offices scrutinize and compile all the budgets under them and send the regular budget proposal to the Ministry of Finance and development budget proposal in both the MoF and NPC. Then the discussion of regular budget is held in the Ministry of finance between concerned ministry and Finance ministry. The

discussion of development budget takes place in the NPC among NPC, MoF and concerned ministry.

After the discussion is completed, the Ministry of Finance compiles the budget of all the ministries, secretariats, commissions and constitutional bodies and prepares the national budget.

In this way, budget is prepared by the ministry of finance with the comprehensive information on the estimated income and expenditures, necessary fiscal, monetary and other economic policies designed by the

This national budget is submitted in the cabinet for approval. After the approval of the cabinet it is submitted in the parliament through budget speech by Finance Minister. (Financial procedure regulation 2064)

2.2.2 Legislation of Budget:

Generally the finance minister on behalf of the government of Nepal presents the budget proposal in the parliament to adopt its process as an approval. Along with the budget, the two bills, finance bills and appropriation bills are presented in the finance committee of the parliament. The finance bill relates the revenue aspect of the budget and appropriation bill relates the expenditure allocation among different programs, projects and activities under different ministries and government agencies. There will be discussion on these bills and they pass with some adjustments if necessary. After holding necessary discussion about that budget it is approved by the parliament adopting necessary process. Then the budget is submitted to the chairman of parliament for final approval and become Act.

2.2.3 Execution of Budget:

Budget execution is also the executive responsibility. After the approval of budget by president of Nepal, the process of budget implementation starts. In this process the secretary of Ministry of Finance gives the authority to spend the budget to the secretary of line ministries, secretariat, constitutional bodies and central offices. Then

concerned secretary provides authority to the department heads under them. Then the department head provides authority to the chief of the offices under them.

The ministry of finance through the office of the comptroller general performs the function of budget disbursement from the government treasury. Budget disbursement is done by the 'KOLENIKA' offices at the district level. Likewise, the revenue collecting offices collect the revenue and deposit it in the government treasury.

The implementing offices ask for the release of the budget submitting the authority and other necessary documents to the treasury and account controller's office. After the release of the budget these implementing offices spend according to the rules, regulations and programs and keep the accounts, prepare and submit the reports of expenditure. Similarly the revenue is also collected as per the approved budget, accounts are kept and reports are prepared and submitted.

2.2.4 Monitoring and Evaluation of Budget:

The government transactions need evaluation with the objectives to accomplish whether there are any malpractices and irregularities in its operations as well as to assess the efficiency of its operation to attain the set goals and targets.

Follow up monitoring and evaluation of budget is made by various agencies in various stages.

National Planning Commission is the central important agency that evaluates the development program and expenditure in various stages of execution and also post evaluation.

The finance committee of parliament and the concerning authorities including the concern ministries and departments also monitor and evaluate the budget in various stages. There are various review meetings for the review of progress of budget execution and progress achieved from it.

Internal audit and final audit also evaluate the budget execution. Internal audit is performed by District Treasury office. The final audit is performed by Auditor General Office. In this way, one budget cycle gets completed.

Besides, government of Nepal has been adopting Medium Term Expenditure Framework (MTEF).It refers to adverse bearing MTEF resulting in bigger size of fiscal budget deficit.

2.3 Legal Provisions Relating Budgetary Practices in Nepal:

The legal ground relating budgetary practices in Nepal are given below:

- Interim constitution of Nepal-2063
- Budget preparation guidelines-2064
- Financial procedure act-2055
- Financial procedure regulation-2063
- Public procurement act-2063
- Public procurement regulations-2064
- Audit act-2048

2.4 Review of previous research works:

This is relevant to review some past research and studies related to budgetary system of Nepal. Very few study and work have been made on budgetary system in Nepal. Whatever the researches have been made are not in depth and detail. Some national and international organizations are researched in this field and few dissertations have been submitted to TU related on this area. An attempt has been made to review some of these dissertations. In this context this is discussed below:

World Bank has reviewed public expenditure pattern of Nepal in 1999.WB has pointed out that fiscal management is weak reinforcing the widespread perceptions of

misuse and waste of scarce public resources. The review further found that budget preparation is bifurcated with the MoF preparing the regular budget and the NPC preparing the development budget without well integration. Scarce resources are found to be allocated in an incremental basis rather than on resources are found to be allocated in an incremental basis rather than on resource needs of projects and programs. Because of political pressure to accommodate new projects, the budget, particularly development is heavily over programmed so that too many projects cashing too little resources. There is even weak link between plans and the annual budget without having a rolling public expenditure programs.

Moreover, the study found that institutional mechanism for project screening and expenditure management are weak and fund release process favor quick spenders rather than priority projects/programs. The study has identified that the government budget preparation process is perceived as a top-down process, which is unresponsive to local needs and initiatives. Most of the projects are centrally administrated and managed through line ministries with little involvement of local beneficiary groups. As the study pointed out, institutional weakness was the result of over staffing, low salaries, political interference in appointment and transfer, inadequate recognition of efficiency and performance, inadequate supervision, poor financial management, lack of coordination among government entities are some other indicators, all of which lead to poor public expenditure management.

The study conducted by the World Bank has suggested some solutions to improve public resources management. Some of them are as follows:

- Redefine the role of public sector in the economy,
- Focus limited resources on key priority areas where such resources can be put to most effective use,
- Ensure good governance and transparency,
- Desire action to formulate an anti-corruption agenda,
- Formulate greater local ownership of the public expenditure programs, and

- Strengthen the institutional capacity for carrying development activities.

Aryal(2002) has made a research on the topic "*Government Budget Preparation and Implementation in Nepal*" for the partial fulfillment of the Master of Public Administration Degree.

His main objectives:

- Structural study and analysis of the government budget.
- To study the resources mobilization condition by comparative study of the regular and development budget.
- To give the conclusion after the study of the theoretical, legal and behavioral process of the preparation and implementation of government budget

His major findings:

- Weakness of economic administration sectors.
- Weakness of Implementation of budget.

His major recommendations:

- Administrative Reform
- Procedural Reform

Dulal(2002) has made a research on the topic "*The contribution of revenue in the National Budget of Nepal*," which study was conducted in 2002 for the partial fulfillment of the requirement of Master's Degree in Public Administration.

His main objectives:

- To know about the contribution of revenue in the national budget.
- To find out the sources of revenue.
- To analyze the importance of revenue in the Nepalese economic structure.

His major findings:

- Lack of economic development.
- Unemployment
- Increasing trend of government expenditures and deficit financing.

His major recommendations:

- To search the extra sources of revenue.
- To prevent the leakage of revenue.
- To end the policy instability.
- To focus the appropriate attention on public resources management.
- To widen the base of taxation in earning activities.
- To increase the involvement of private sector, etc..

Dhakal(2004) has made a research work on the topic "*Budgetary System in Nepal an Observation*". This research was done for the period of 1990/91 through 2001/2002 and was conducted in 2004 for partial fulfillment of the requirement for the degree of public administration.

His main objectives:

- Legal provision on the budget preparation.
- To provide the information about the structure of Nepalese budgetary system.
- To analyze the status of the revenue and expenditure in Nepal.
- To analyze the provision and problems of budgetary policy in Nepal.
- To recommend the reforms those are to make in the budget in the future.

His major findings:

- Weakness of budget Preparation and implementation.

- Revenue and expenditures increasing ratio is not equal proportion.

His major recommendations:

- Improve in budgetary process and to emphasize the monitoring and evolution.
- Increase in revenue base and cut off the unnecessary expenses.

Rayamajhi(2005) has done a study about the "*Budgetary Practices in Nepal*" in 2005 for partial fulfillment of the requirement for the Master's Degree of Public Administration.

His main objectives

- To study the major policies, objectives and budgetary practices adopted in the annual budgets.
- To find out the weakness of the budgetary system adopted in Nepal.
- To suggest policy recommendations regarding budgetary objectives, policy priorities and strategies to be undertaken for better economic and social development of Nepal.

His major findings:

- The budget preparation is not so much realistic.
- The budget is heavily depended on foreign aid.
- There is political influence while formulating and releasing the budget.
- The foreign aid absorptive capacity is very low.
- Most of projects and programs are donor driven.
- Budget is not based on cost estimate and cost benefit analysis.
- Regular and development expenditure is not clearly distinguished.

His major recommendations:

- The programs and policies of the government and budget should be realistic.
- The budget preparation should be based on the basis of facts and figures and need assessment.
- FMIS should be strengthened.
- Regular expenditure should be contained into limit so that development expenditure can be increased.
- There is a need to concentrate the public investment in productive and income generating sector.
- There should be effective and maximum utilization of foreign aid.
- Tax net and base should be increased to increase the revenue.
- The budget preparation should follow bottom up approach in real sense.
- Timely release of budget should be ensured for the better implementation of the budget.

Shrestha(2008) has performed a research work about "*structure and pattern of budget of Nepal*" in 2008 for partial fulfillment of the requirement for the Master's Degree of Economics.

His main objectives:

- To review the structure of Nepalese budgetary system.
- To analyze the trends and patterns of its important components of budget.
- To analyze the budgetary deficit and its sources of financing.

His major findings:

- GDP and its sectoral contribution were found to be increasing linearly.
- The percentage of recurrent expenditure and principal repayment in total expenditure is increasing.

- Sometimes growth rate of capital expenditure have found to be negative.
- Total revenue, tax revenue and non-tax revenue all are linearly increasing.

His major recommendations:

- Adequate mobilization of domestic resources should be increased.
- There is a urgent need to reform the domestic taxes.
- Unnecessary recurrent expenditure should be discouraged.
- Foreign aid must be utilized in more productive sector and infrastructure development.
- The budgetary decision should be carried out with social and economic objectives in view rather than to fulfill political objectives.

Above stated researches and study findings state only the features, structure and some legal provision of the budget and do not analyze the impact of the budget in Nepalese economy.

Chapter-3

Research methodology

Research is the process of systematic and in depth study or search for any particular topic. Research methodology is the process of arriving to the solution of the problem through planned and systematic dealing with collection, analysis and interpretation of fact and figures.

3.1 Research design:

Research design [strategy] means drawing an outline of planning or arranging details and in an economic, efficient and relevant manner before the data collection and data analysis. It is a process of making decisions before the situation arises in which the decision has to be carried the research design is to be made efficiently in advance. In short, the design of research is concerned with making controlled scientific inquiry. Research decision must include all the aspects for testing of hypothesis and drawing logical conclusion there from, so it is a frame of research.

3.2 Purpose of Research Design:

- To provide answers to the research questions. The researchers use the techniques/instruments or research design to get objective, clear, and real, well defined and numeric answers as possible. That is, research design helps, The investigator to obtain the answers to the questions of research to obtain the answers to the question of research.
- To control the variance: Research design helps the research to control the Experimental. Extraneous and error variance of the particular research problem under study. The variance of the variable or variable of his substantive research hypothesis;
- To control the variance of extraneous or unwanted variable that may have an effect on his experimental outcomes, but in which he is not interested

- To minimize the error or random variance, including so called error of measurement.

3.3 Research Methods or types of Research Design:

AFTER formulating the hypothesis or the research design, the next step is the research design which refers to the entire process of planning and carrying out a research study. There are a number of quite different methods of research design, some of these methods can be used to compliment each other in certain circumstances. The principle methods used in research activities are:

- Historical research
- Descriptive research
- Development research
- Case study research
- Field study research
- True experimental research
- Action research

Historical Research

Historical research aids in visualizing society and dynamic organization. It is concerned method to the description and analysis of the past events.

Description Research

Description research uses different kinds of surveys and fact finding approaches to search adequate information. Generally it is conducted to assess the opinions, behaviors or characteristics of a given population and to describe the situation and events occurring at present. In social science and business research the term exposit facto research is used for descriptive research. The main characteristics of this nettled

are that the researcher has no control over the variables; he/she can only report about what has happened or what is happening. Therefore it does not necessarily seek to a plain relationship, test hypothesis, make predictions or get at meanings and implications of the study.

Developmental Research

Development research is concerned with the change in the society, direction and other interrelated factors and consequences ,prediction of future pattern of goals. That is developmental research is the prediction of future trends. We observe past event and its pattern of changes to predict future trends. It studies the variable their rate of change, direction ,sequence and other interrelated factors over a period of time.

Case study Research

Case study research is an intensive investigation of a social unit that is a person. a family, a social group, an institution ,a community or even an entire culture.

According to P.V Young "Case study is a method of exploring and analyzing the life of a social unit, be that unit a person, a family institution, culture group or even entire community. Similarly, according to biasing and biasing [1954]"the case study is a form of qualitative analysis involving the very careful and complete observation of a person, a situation, or an institution".

Field Study Research

In the field study, the investigator first looks at a social or industrial situation and then studies the relations among the attitudes and propose in the situation. according the relations and interrelations among the attitudes and groups in the situation. according to F.N . kerlinger," Field studies are ex-post facto scientific inquiries aimed at discovering the relations and interrelations among sociological, psychotically and educational variables in real social structures.

True Experimentally Research

The true experimental research is the study of relationship between cause and effect. In the experiment the independent variables can be manipulated totally by the researcher.

The purpose of experimentally research is to investigate possible cause and effect relationships by exposing one or more experimentally groups not receiving the treatment," Isaac(1978).

Research design is a plan of action to be carried out in connection with a research project. Descriptive and analytical research design has been followed for the study.

In this research, I used to historical data analysis various report published by CBS, NRB, NPC, MOF and budget speech of various FY and to description about various sectors like GDP, expenditure, revenue, deficit finance etc.

3.4 Data Collection

Data collection activities are the main body of the research work. The data collection activity consists of taking ordered information from reality and transferring it into some recording system so that it can later be examined and analyzed for patterns. It means collection of necessary information of units under the investigation.

3.4.1 classification of Data source and types of Data

i] primary sources and primary data; primary data are those which are collected by investigator or, his agent from field. These data have never been used for any purpose earlier. For example, market survey done by company or, bank.

Sources: Inventory records, personal records, statistical process, control chart, observation, experiment, interview, etc.

ii] secondary sources and secondary Data The data, which had been collected by some individual or, agency and statistically treated to draw certain conclusion and now some data used and analyzed to extract some other information, are termed as secondary data. For example, if the researchers use the data collected by CBS, NRB, NPC, GON etc. then the data are called secondary data.

Sources of secondary data in Nepal

There is no dearth of secondary data in Nepal if the researcher has the will power to collect them. Considerable amount of secondary data is available, for instance, the government organizations like national planning commission, Central Bureau of Statistics, Nepal Rastra Bank; research agencies like agricultural project Services Center, National Productivity and Economic Development Center, Center for Economic Development and administration, Trade Promotion Center and some non-Governmental agencies like trade organizations, Federation of Nepalese Chambers of Commerce and Industry and other research agencies carry out numerous studies on a regular basis, These study reports are put in hidden different titles.

3.4.2 Methods of data Collection

Following are Data collection methods

3.4.2.1 Primary Data

Direct observation: Observation is always direct while other methods could be direct while other methods could be direct or indirect & it makes only the qualitative study which aims discovering subjects experience & how subjects make sense of them. Following are the types of Observation:

A. Participant observation

Participant observation is a method on which the investigation becomes a part of the situation he is studying. He involves himself in the setting & group life of the research subjects. He shares the activities on around him, supplementing this by conversations & interview. In general, sociologists use it for studying some groups of individuals like professional thieves, homosexuals, alcoholics, hippies, drug users, institutions like hospitals, industries schools asylums & so on.

B. Non-participant observation

In non-participant observation, the observer remains detached & does not participant or intervenes in the activities of those who are being observed.

- **Interview:**

Interview is verbal questioning. As a research tool or as a method of data collection, interview is different from general interviewing with regard to its preparation, construction & execution.

- **Focus group Discussion:-**

Originating in sociology, focus group discussion became widely used in marketing research during 1980s & is used for increasingly diverse research applications today. The most common application of focus group research continues to be in the consumer arena. The topical objective of a focus group is often a new product or product concept.

- **Survey Method:-**

The literature meaning of a survey is to take a look over something from a high place. However in scientific investigation, the word survey is used for a technique of investigation by direct observation of a phenomenon or collection of information through interview. At present, the meaning of survey has been made to include the observations of published documents also. The survey is used for two quite different purposes. The first is simply to describe current practices & events. The second use of the survey is to analyze the facts.

- **Mailed Questionnaire:**

In this method, a questionnaire i.e. a set of questions relating to the enquiry is prepared. These questionnaires are individual informants and sent by post. They are requested to answer the questions and post back to the investigator. To have quick and better response the return postage expenses are usually borne by the investigator by sending a self-addressed stamped envelope.

The study mainly uses the secondary data, The required data such as profit and loss Account balance sheet is derived from annual reports of GON.

In this research, I used secondary data, which data were available from various sector like MOF,NPC,NRB,CBS and budget speech of various FY. In this research, secondary data were sufficient for analysis for various purpose. I used following tools for the analysis of the data in this research.

I] Ratio analysis- In this analysis to compare in various factors to each other like expenditure with GDP, revenue with GDP, capital expenditure with total expenditure, recurrent expenditure with total expenditure etc.

II] Trend analysis- In this analysis, I analyzed the trend of revenue[tax and non tax],expenditure[recurrent, capital and principal repayment] and deficit finance[foreign loan, domestic loan and cash balance] etc.

III] Impact analysis- Many sectors of national economy are effected by the budget like economy sectors, social sectors[education, health, drinking water]etc .In this research, I analyzed the economic and social sectors impact in national economy of Ne.

3.4.2.2 Secondary data

The secondary data are this types of data which published by other relevant sector or researcher like GON,MOF,CBS,NPC,NRB and other researcher etc. In this research I used secondary data collection from various relevant sectors.

Chapter-4

Presentation and Analysis of Data

In this chapter the researcher is going to present and analysis following three components:

- Objectives of budget
- Data analysis
- Social and economical impact of budget

4.1 Objectives of the Budget:

The objectives of the budget as lay down by the budget speeches from FY 2063/64 to 2067/68 are presented and discussed here under:

The objectives of the budget for FY 2063/64 are:

- To institutionalize the democratic system,
- To develop economic infrastructures,
- To improve investment climate,
- To make economic programs pro-poor and inclusive,
- To increase investment in social sector,
- To implement programs for relief, rehabilitation and Reconstruction, and
- To increase capital investment and productivity by containing consumption expenditures.
- **For achieve above objectives priorities of this budget are:**
 - Institutionalization of Democratic system
 - Creation of Inclusive Society and Economy

- Pro-poor and Agriculture Programs
- Employment Promotion
- Basis of Rural Economy: Roads Expansion
- Karnali Area Development Program
- Infrastructure for Economic Growth
- Investment in Education, Health and Drinking Water for Human Development
- Private Sector Development and Industrial Rehabilitation
- Financial Sector Reform for Financial Development
- Reforms of Public Enterprises
- Communication, Technology and Culture
- Relief, Rehabilitation and Reconstruction
- Reforms in Public Service Delivery: Citizen's Right
- Control of unproductive expenses, capital expenditure and growth in productivity

The objectives of the budget for FY 2064/65 were:

The principal guideline of the budget the spirit of the Peoples' Movement expressed in the prime goal of building a "Prosperous, modern, federal, inclusive and just Nepal", the Interim Constitution and the common minimum programs agreed among eight parties. This budget have adopted a policy of according priority to the programs that would promote the peoples' rights to education, health and employment enshrined in the Constitution, distribute economic outcomes judiciously, enhance native, cooperative, private and public entrepreneurship to reduce economic inequality, and uplift the underprivileged regions, classes, gender, castes, and communities. Following are the objectives of the budget:

- Sustainable Peace, Stability and Strengthening of the Democratic System,

- Poverty Alleviation and Economic Prosperity,
- Investment Promotion,
- Human Development,
- Reconstruction, Rehabilitation and Relief.

For meet above objectives of the budget was committed to development of agriculture and rural infrastructure, land reform, irrigation facility and water induced disaster control programs, local infrastructure development, hydro powers, information and communication, targeted programs for poverty alleviations, women empowerment, financial sector reform, human development, peace fund and Improvement in Service Delivery and Effective Implementation arrangement.

The national coalition government formed by the nation's first ever elected constituent assembly and leaded by NCP (Maoist) presented the budget of FY 2065/66.

The objectives of this budget were:

- Making democracy more people centered with the institutionalization of the federal democratic republic.
- Sustaining peace in the country by bringing to logical conclusion the peace process on the basis of the comprehensive peace accord (CPA) agreed between the Nepal communist party (Maoist) and the seven political parties.
- Accelerating the process of economic and social transformation to accomplish the great mission of building just, advanced and prosperous new Nepal.
- Achieving higher economic growth that comes along with geographical and regional balance, social justice and employment opportunities.
- Providing immediate relief to the people to make them feel that the country has really become a republic.
- Erecting foundation of a self-reliant and independent economy through optimally mobilizing the national capital and indigenous resources.

This budget was presented following major issues and challenges existent in the economy:

- Underdevelopment and absolute poverty.
- Stagnation of agriculture culture.
- Widespread unemployment and semi-unemployment.
- Inequality and discrimination.
- Inadequacy of physical infrastructure.
- Economic dependency.
- Deteriorating quality of public education and educational discrimination.
- Corruption and very weak situation of service delivery.
- Challenge to bring peace process to logical conclusion.

Matching with the above objectives, the budget has set the following policy-wise and sector-wise priorities:

A. Policy Priorities

- Completion of the peace process and immediate relief.
- Accelerated economic growth.
- Social security and inclusion.

B. Sectoral Priorities

- Transformation of agriculture sector.
- Development of water resources.
- Wider expansion of tourism.
- Qualitative development and expansion of physical infrastructure.
- Human resources development.
- National industrialization.

For achieve above mentioned objectives and priorities the budget was stressed on various activities and programs like, protect and promote Nepal's sovereignty, national unity, independence, integrity, national pride and self dependence to make a self-sustained economy, tourism promotion, improved export of Nepali goods and services, cooperative public distribution system, social security, debt relief to small household entrepreneurs, reconstruction of damaged physical infrastructure, development of hydropower, national literacy campaign and other many programs and activities relating social and economic change of Nepalese poor people and rural areas are also mentioned in this budget.

The objectives of the budget for FY 2066/67 were:

In order to give pace to the prosperous, modern and just Nepal mentioned the budget of this fiscal year has adopted the following objectives:

- To facilitate promulgation of the new constitution as per the people's expectations and bring the peace process to an end.
- To create employment by encouraging roles and investments of the cooperative, private and public sectors pursuant to the concept of inclusive development.
- To emphasize the development of large physical and economic infrastructures for rapid economic growth.
- To intensify the relief, reconstruction and rehabilitation for the conflict affected, and
- To provide relief to the people by controlling price and facilitating supply system.

The following policy-wise priorities were set to achieve the proposed objectives:

- To help draft the constitution by implementing Comprehensive Peace Accord and bringing the peace process to an end.
- To maintain law and order by removing impunity.
- To increase investment for employment oriented inclusive development.

- To implement targeted programs for the uplift and development of the disadvantaged groups, communities and geographical areas
- To emphasize on physical and economic infrastructure development.
- To commercialize and modernize agriculture for the transformation of the economy.
- To accelerate social development by increasing investment in education, health and drinking water and sanitation sectors.
- To improve the power distribution system in order to mitigate the increasing energy crisis by hydroelectricity production and expansion of transmission line.
- To mobilize the international assistance for the promotion of national interest.
- To let the people feel the existence of a responsible government by improving public administration and service delivery.

Following problems were also focused on the budget of FY 2066/67:

- Lack of improvement in investment climate:
- High Inflation:
- Prioritization in resource utilization:
- Weak budget implementation and project management:
- Increasing Unemployment
- Weak Performance of Public Enterprises
- Energy Crisis
- Inadequate Physical and Financial Infrastructure
- Climatic Change and Natural Disaster
- Poverty, Inequality and Discriminatory Attitude and Practice.
- The objectives of the budget for FY 2067/68 were:

- Achieve high revenue growth.
- Focus on stabilization of external sectors.
- Achieving economic growth.
- Reducing inflation.
- maintaining the fiscal stability.
- proposed program for peace process, state restructuring and completion of writing of the constitution of the Federal Democratic Republics Nepal.
- Highlight economic and social sectoral outcomes.

The policies and program of the budget for FY 2067/68 were:

- Infrastructural of national pride.
- Social securities allowance.
- Child protection grant
- Grant for essential needs.
- Budget has been allocated for the Program directly benefiting the woman.
- To developed the sports sectors by allocation adequate budget .
- Target program for poverty alleviation.
- Priority for reconstruction, rehabilitation and combatants reconciliation program.
- Increase the budget for the karnali zone social agriculture development program.
- To provide irrigation facility in additional 81475 hectares area.
- Commercial land use for change in the land management system from the current FY.
- The development for the forestry sector.

- Allocation budget for the construction of railway and metro and development of water ways.
- Modern well organized residence and urban development.
- Continuity to the grants being provided to local bodies.
- Allocated budget for the completion of trishuli 3rd, kulekhani 3rd, chamelia and rehughat hydropower project and other medium hydro project.
- Allocation budget for the program for tourism year 2011.
- The catalytic of economic growth by private sector and skilled HRD.
- Budget allocation for improvement of the financial and capital market.
- To emphasize the quality education for dignified life.

Following problems were also focused on the budget of FY 2067/68

- All economic activities are effected by time to time strikes.
- Increase in recurrent expenditure and decreased in capital expenditure continuously.
- Lack of improvement in investment climate:
- Less Prioritization in resource utilization:
- Weak budget implementation and project management:
- Increasing Unemployment
- Weak Performance of Public Enterprises
- Energy Crisis
- Inadequate Physical and Financial Infrastructure
- Corruption and very weak situation of service delivery
- good governance and public administration are not effective
- High Inflation

4.2 Data analysis:

The main components of budget are: government receipts, government expenditure and surplus or deficit financing etc. So the researcher considers the above aspects of budgeting system most relevant to study.

4.2.1 Government receipts:

The receipts of the government come from revenue and foreign Grants. Revenue is divided into tax and non-tax revenue. Tax revenue come from customs, excise, VAT, land revenue, house and land registration fees, income tax, urban house and land tax, vehicle tax, tax on interest and other taxes. Similarly non-tax revenue come from charges, fees, fines and forfeitures, receipts from sales of commodities and services, dividend, royalty and sale of fixed assets, principal and interest payment and others. Though, revenue is the major component of the budget. Foreign grant is also playing vital role in government budget in Nepal.

The government receipts for the period FY 2063/64 to 2066/67 is given below

Table: 4.1
Trend of government total receipt

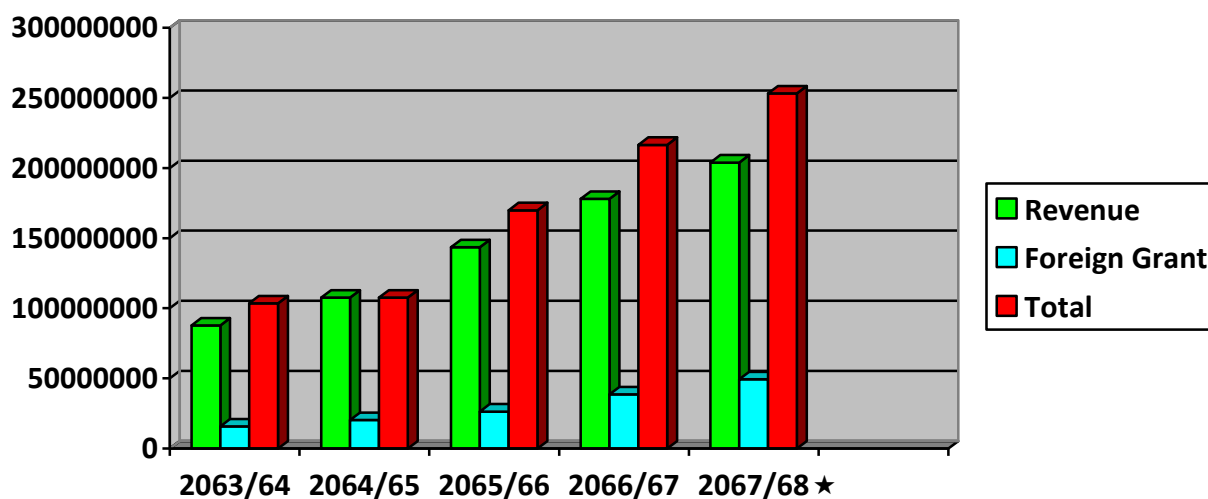
(Rs. In 000)

Fiscal Year	Heading		
	Revenue	Foreign Grant	Total
2063/64	87,712,084	15,800,848	103,512,932
2064/65	107,622,481	20,320,727	107,643,528
2065/66	143,474,489	26,382,867	169,857,356
2066/67	177,991,872	38,545,971	216,537,843
2067/68★	203,917,214	49,327,435	253,244,649

Sources-various budget speeches and economic survey, MoF/CBS

★ Revised estimated value only.

Figure: 4.1
Trend of government total receipt



★ Revised estimated value only.

This above table and figures shows that the government receipt is in increasing trend. The Foreign grants are also in increasing trend. Total government receipt in fiscal year 2063/64 is Rs.103, 512,932 thousands and in FY 2067/68, it is revised estimated

Rs.253, 444,649. It shows that total revenue is increased by more than double in 5 years period. Increasing in foreign grant is not a good sign for the national economy.

Table: 4.2

Trend of government revenue

Rs. In 000

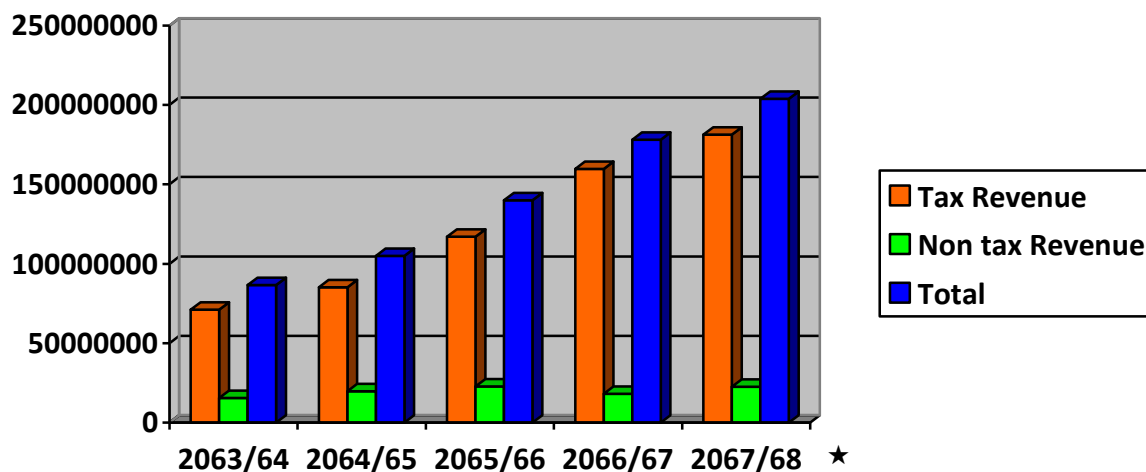
Fiscal Year	Heading		
	Tax Revenue	Non Tax Revenue	Total
2063/64	71,126,728	15,559,277	86,686,005
2064/65	85,155,458	19,783,843	104,939,301
2065/66	117051907	22,892,174	139,944,081
2066/67	159,785,382	18,206,490	177,991,872
2067/68★	181,254,599	22,662,615	203,917,214s

Sources-various budget speeches and economic survey, MoF

★ Revised estimated value only.

Figure: 4.2

Trend of government revenue



★ Revised estimated value only.

Both the above table and figure shows that the revenue (Tax and Non-tax) seems to be steadily increasing. The increasing trend of non tax revenue is nominal. But the potentialities that are available in the economy have not yet been fully exploited. There is a great leakage of revenue as well as the revenue is not utilized efficiently. Again there is lack of perspective vision and short term adjustment undertaking without due regard to long term growth prospect.

4.2.2 Government expenditure:

The expenditure heads were classified as regular and development till FY 2060/61. From the fiscal year 2061/62, such expenditure has been classified as recurrent, capital and principal repayment then the expenditure has been classified as recurrent, capital and financial management from FY 2068/69. The government expenditure for the period of FY 2063/64 to 2067/68 is shown in the following table:

Table: 4.3
Trend of government expenditures

Rs. In 000

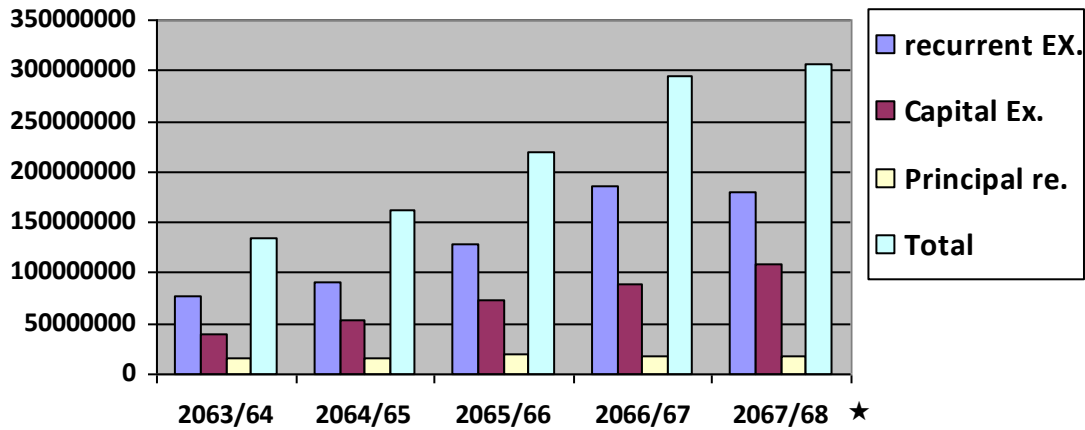
Fiscal Year	Heading			
	Recurrent Expenditure	Capital Expenditure	Principal Repayment	Total
2063/64	77,122,350	39,729,916	16,752,340	133,604,606
2064/65	91,446,861	53,516,101	16,386,932	161,349,894
2065/66	127,738,941	73,088,864	18,834,113	219,661,918
2066/67	186,597,553	89,469,035	18,432,323	294,498,911
2067/68★	180,140,000	108,080,000	18,040,000	306,260,000

Sources-various budget speeches and economic survey, MoF

★ Revised estimated value only.

Figure: 4.3

Trend of government expenditures



★ Revised estimated value only.

The above table and figure show that government expenditure is increasing every year. Total expenditure in FY 2063/64 is Rs.133, 604,606 thousands while recurrent expenditures were 77,122,350 thousands and capital expenditures was Rs. 39,729,916 only. It shows that recurrent expenditures is double than capital expenditures. In fiscal year 2066/67, total expenditure was Rs. 294,498,911 thousand Recurrent expenditures were Rs.186,597,553thousands and capital expenditures were Rs.89 ,469,035 thousands. In total expenditures the capital expenditure was30.38 percent only.

The estimated total expenditure for FY 2067/68 is Rs. 306,260,000 thousands. Estimated recurrent expenditure is Rs. 180,140,000thousands and capital expenditure is Rs. 108,080,000 thousands. In total expenditure the portion of capital expenditure is35 percent and the portion of recurrent expenditure is 58.81percent. It shows that the recurrent expenditure is still more than capital expenditure. Recurrent expenditure is increasing but capital expenditure is not increasing in equal proportionately. It may be a major cause of inflation and unproductive expenditure. This is not good sign for sustainable national economy.

4.2.3 Surplus or Deficit Financing:

Most of the developing countries of world is adopting deficit budget. Nepal is also adopting deficit budget. The sources of deficit financing are:

- **Foreign loan**
 - Bilateral
 - Multilateral
- **Domestic loan**
- **Cash balance**

The sources and amount of deficit financing during the period of FY 2063/64 to 2066/67 is given in the following table

Table: 4.4
Trend of Government deficit financing

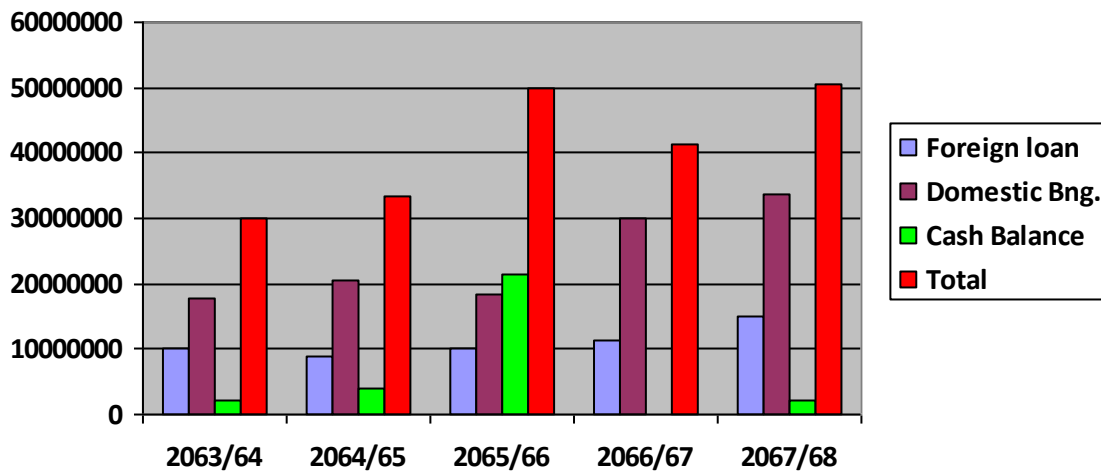
Rs. In 000

Fiscal Year	Heading			
	Foreign loan	Domestic borrowing	Cash balance	Total
2063/64	10,053,518	17,892,300	2,145,856	30,091,674
2064/65	8,979,876	20,496,400	18,417,100	33,406,686
2065/66	9,968,861	18,417,100	21,418,601	49,804,562
2066/67	11,223,382	29,914,000	59,929	41,197,311
2067/68★	14,859,086	33,680,000	205,4551	50,593,637

Sources-various budget speeches and economic survey, MoF

★Revised estimated value only.

Figure: 4.4



Trend of Government deficit financing

★ Revised estimated value only.

Above table and figure shows that Nepalese budgetary system adopted deficit financing. Total amount of deficit is covering by foreign loan, domestic borrowing and cash balance. The contribution of domestic borrowing is more than other sources. Foreign loan is Rs.10, 053,518 thousands in FY 2063/64 and estimated foreign loan for FY 2067/68 is Rs14,859,086 thousands. It shows that the volume of foreign loan is growing vastly. Increase in foreign loan may be bad for national economy. High volume of Domestic borrowing may be cause of reduce of investment capacity of private sector also.

4.3 Social and Economical impact of the budget:

The impact of budget can be measured with the help of economic and social indicators. If there is any positive change in economic and social indicators after implementation of budget, we can say that this budget is effective otherwise we can say that this budget is not able to achieve objectives.

The economic growth in fiscal year 2062/63 (After 2nd people's movement) at constant price factor cost was 2.3 percent and 1.9 percent at producers' constant prices. Inflation, in terms of consumer prices, is expected to be in the range of 8.0 percent.

In 2065/66, GDP growth rate is likely to register 3.8 % at basic price and 4.7% at producers' price. The GDP growth has declined owing to factors such as energy crisis, unfavorable weather, decline in capital expenditure, disturbed industrial sector, absence of elected local representatives and global crisis.

Annual average inflation is expected to surge by 13% due to the high food prices driven by world food crises, devaluation of Nepali currency, cartelling and malpractices in the domestic market, weak public delivery system, closure, strike, transport halt and obstruction created in supply system by different agitating groups.

The Balance of Payment situation and foreign currency reserve is in satisfactory situation because of remittances inflow and increase in the receipt of export and tourism earnings. Export and import are expected to go up by 28.6% and 12% respectively in the FY 2065/66 as compared to same period previous year. Trade deficit is expected to widen by 28.2 %.

In the perspective of the development of the social sector as a priority of the government, there have been steady improvements in the health and education sectors. Participation of the government and the private sector is on increase. In the health sector, the government is giving high priority to the public health, has carried out the distribution of 40 different types of medicines through hospitals and health centers. The number of primary, lower secondary and secondary schools that stood at 29220,9739 and 5894 respectively in the academic year 2064/65 has gone up to 30924,10636 and 6515 respectively in academic year of 2065/66.. The unemployment numbers is more in rural area than urban area. (Nepal labor force survey 2008.). Infant mortality rate is decreasing trends and now it is 48 in per 1000 live birth. No of doctors and other health workers and hospital beds are increasing gradually. Per capita GDP is in increasing trends. Import of goods and services in our country is in

increasing trends but export is decreasing. Incoming tourists and earning in convertible currencies is increasing.

After comprehensive peace accord, every budget focused on peace keeping programs, inclusion and rehabilitation. Social reintegration and rehabilitation of internally displaced persons, integration of the armies and social rehabilitation of discharged combatants is not completed. Good public service delivery is also a objectives of budget. For good public service delivery good governance (operation and management) act-2007 and its regulations of 2008 have been adopted.

Nepal's economic growth rate in the FY 2010/11 is limited to 3.5 percent in comparisiono to 4.5 percent GDP growth achieved in FY2009/10. Major reason for such decline in the growth rate is due to sluggishness in the economic activities of non agricultre sector. Cause like labor issue, reduce electricity supply, strikes, decrease in expansion of bank credit.

The ratio of gross domestic saving to GDP at current price is estimated decrease slightly from the previous year. Gross expenditure of the GON in FY2009/10 increase by 18.2 percent, revenue mobilization during the same period ratio of revenue mobilization to GDP during the same period stood at 15.4 percent. Outstanding debt to GDP decline in the review period. The total outstanding debt, which stood at 32.2 percent during the first eight month of FY 2009/10 has come down to 30.4 percent in the same period.

Rate of inflation continued to remain high in current FY. the annual point aggregate CPI by mid march 2011 rose by 10.7 percent as compared to 9.9 percent rise in the consumer inflation rate in the corresponding period of 2010.

BOP still remain notably deficit despite improvement in it's situation during eight month of the FY 2010/11 .Such deficit has come down to Rs.11.30 billion by the first eight month of the FY 2010/11.

Nepal living standard survey 2004/05 estimated 30.9 percent of the total population living below the poverty line. In FY 2008/09 it's comedown to 25.4 percent.

Declining proportion of employed people living bellow \$1/day from 24 percent in 2004/05 to 22 percent in 2008/09.

Education and health sectors are some improve in latest FY due to the supportive government policy for these sectors and other sectors condition are not so good.

4.4 Major findings:

Above analysis, I find major issues about the government budget of various FY, which are as follows:

- The major objectives of the budget FY 2063/064 to 2067/68 are to develop infrastructure, friendly investment climate, reducing poverty, increase in employment, improve education, health, drinking water for human development, reforms of public enterprises, achieve economic growth, reducing inflation etc, which are not achieved due to political instability, weak budget implementation, inadequate physical and financial infrastructure, lack of friendly investment climate, energy crisis, the budget do not present in parliament and don't pass the budget in timely by parliament.
- In government receipt shows that total revenue are increase by more than double in 5 years period and foreign grant is increasing trend which is not good sign for economy.
- The revenues[tax and non tax] are increase by approximately treble in 5 years period, which indicates better situation but there are great leakage of revenues and not utilization efficient.
- Government expenditure are increase every year, among them, recurrent expenditure is increasing in great ratio but, capital expenditure is not increase in equal ratio due to this reason unproductive expenses is increase and decrease economic development.
- surplus or deficit finance shows that, the foreign loan is growing vastly except FY2066/67, which indicates Debt trap. Domestic borrowing is increase in grate ratio which indicates reduce in investment capacity of private sector also.
- In social and economic sectors there are some improvement in few sectors like, drinking water, education and health, except these sectors are not satisfactory in social and economic aspect in national economy.

CHAPTER-5

Summary, Conclusions and Recommendations

5.1 Summary:

Budget is a tool for the implementation of government policy. It is a mechanism for financial control as well as socio-economic development. The projects, programs and activities of periodic plans are implemented through annual budget.

After 1990s the policy of economic liberalization has reduced the role of government but nowadays the role of the government increased with the emergence of concept of welfare government. In the developing country like Nepal, the role of the government is still important for upliftment the life standards of people and for address many developmental issues.

The volume of the public expenditure has been increasing in Nepal because of the expansion in the activities of state and other public bodies on several fronts. To meet such public expenditures Nepal government has to raise the revenue to a great extent.

The analysis of previous chapter shows that the government expenditure is increasing very vastly in Nepal but the revenue is not increasing in that proportion. Recurrent expenditure is increasing rapidly but capital expenditure is increasing gradually. Nepal is trying to adopt federal republic system with inclusive democracy. Many programs and projects of government are focusing to build socialism oriented, just, nondiscriminatory, competent and prosperous Nepal by formulating the new constitution. Peace and security situation of Tarai and eastern part of Nepal is still worst which increasing recurrent expenditure. Gender budgeting is also in practice. Poverty alleviation, investment promotion, programs for relief, rehabilitation and Reconstruction, sustainable peace and human development are the common objectives in the budget after 2nd people's movement 2062/63. The burden of foreign debt is growing because foreign exchange rate is not stable. The rapid increase of recurrent expenditure has led to reducing the capital expenditure. It has hampered the socio-

economic development of the country. In the budget estimate of FY 2066/67 recurrent expenditure is Rs.186,597,553 thousands but capital expenditure is only Rs. 89,469,035 thousands and FY 2067/068 in the budget revised estimated recurrent expenditure is 180,140,000 and capital expenditure is 108,080,000 thousands. It shows that to meet the objective of poverty alleviation and uplifting the living standard of the rural poor people, minimizing the gap between rich and poor and construct the modern and developed Nepal is a great challenge. The recurrent expenditure is more than capital expenditure in FY 2063/64-2067/68 also.

The revenue collection is not in line with the rising expenditure. The budget of every fiscal year depended in deficit financing. For example, the estimate of revenue collection for the FY 2067/68 is only Rs.203,917,214 thousands and deficit financing is Rs.50,593,637 thousands which may be carry the bad impact in economy like inflation and economic instability.

In Nepal, the utilization of foreign aid has not been according to the commitment amount. There is substantive gap between commitment and disbursement. In foreign aid grant is decreasing and loan is increasing. Again the absorptive capacity of the foreign aid is very low. The budget of our country is heavily dependent upon foreign aid which is not a happy situation.

From the analysis of the budget of last 5 years it is seen that the government has been spending the recurrent budget more than the estimated amount but the capital budget has not been spending according to commitment. Similarly, revenue collection also is far behind from budget target except FY 2065/66.

The budgetary policies and programs are directed towards poverty alleviation, agriculture modernization, employment promotion, women empowerment, good governance and infrastructural etc. But these objectives could not be achieved. There are various reasons for this. There are many challenges, problems and weaknesses in

the formulation, implementation and monitoring and evaluation of the budget which is discussed in below.

5.2 Conclusions:

From the analysis of various literatures relating budgetary practices of Nepal and above mentioned chapters it has been found out that there are many positive aspects in our budgetary system but there are various challenges, problems and weaknesses which are briefly discussed below:

5.2.1 Strengths of Budget:

- There is constitutional provision in the interim constitution of Nepal-2063 regarding the formulation of the budget.
- Involvement of various agencies in budgetary practices is supporting for co-ordination. It makes the budget more realistic.
- There is a system of monitoring and evaluation of the implementation of the budget by concerned agency.
- It has followed democratic procedure in passing the budget. It is prepared and submitted by executive, submitted to the legislature and approval by president of Nepal.
- Government agencies are capable of formulating a large size of budget.
- A set of criteria and various forms are used in preparing budget.
- The bottom up approach is followed for the preparation of budget. So, it is helping for make budget need based, priority based. There is mass participation and incorporates real life situation.
- Classification of budget under recurrent and capital is helped to accounting and recording and it separates the regular expenditure and development expenditure.

- The budgetary approach has followed the deficit financing to meet the resource lacking in the important programs and activities to be carried out. In the developing countries like ours it is suitable approach.
- The budget is oriented towards poverty alleviation and upliftment of the standard of living of the poor people.
- Mid Term Expenditure Framework (MTEF) is followed in the recent budgets for prioritization in the allocation of resources.
- Involvement of NPC in budget preparation increases relationship between plan and budget.
- Financial rules and regulations are formulated for budget preparation, execution and evaluation.
- One door budget release system is in practice.
- Each and every budgetary process is transparent.
- There is a compulsory system of evaluation of the budget through an independent constitutional institution i.e. Auditor General's Office through final audit.

5.2.2 Challenges of Budget:

- The poverty trends analysis shows that the gap between the rich and poor has widened. Poverty rate has been higher in the rural areas compared to the urban area. The rural mass is affected by poverty and has been a great challenge for creating an equitable society.
- The government expenditure is in increasing trend but it is not able to achieve the economic and development targets.
- Insecurity, conflict and strike are the great challenges for the present moment which have overall negative effect on productivity and production on the country.
- Recurrent expenditure is large than development expenditure.

- It is fact that the ratio of revenue collection has not increased as per expectation to meet the increasing trend of total government expenditure.
- The utilization of foreign aid has not been according to the commitment amount.
- There is a challenge to increase the production and supply of competitive and high demand goods and services and increase the sources of revenue.
- The word Economic Diplomacy is used in the budget but there is the absence of clear concept regarding how to mobilize economic diplomacy for economic development.
- Increasing in security expenditure has led in the decrease in the development and productive expenditure for the socio-economic development.
- There is a challenge to empower and bring Dalits, Janjatis and neglected groups to national mainstream.

5.2.3 Weaknesses and Problems of budget:

- In government budget domestic resource is weak and heavily depended on foreign aid and assistance.
- The foreign aid absorptive capacity of is very poor.
- The budget preparation is not so much realistic. The budget preparing agencies ask for more budget than actual need on the assumption that MoF cuts the budget.
- There is political influence while formulating and releasing the budget.
- The burden of debt is heavily increasing because of increase in foreign loan.
- The foreign loan is vastly increasing and foreign grant is vastly decreasing.
- Many projects and programs are mostly driven by donors.
- Increasing in regular expenditure and decreasing in development expenditure is affecting development works badly.

- Budget is not based on cost estimate and cost-benefit analysis.
- Development budget is heavily over programmed because of the political pressure. Programs are incorporated in the budget but there is problem of the budget release because of the lack of fund.
- All the foreign assistance is not included in the budget. A great part of foreign aid is directly funded to the implementing agencies without incorporating in the budget.
- There is dichotomy between regular and development budget. It is mixed and overlapped.
- There is no effective reward and punishment system due to commitment for the implementation of the budget.
- Co-ordination and co-operation between MoF,NPC and Line agencies in formulation, implementation and evaluation of the budget is not effective.
- Irregularity, misuse and corruption of budget are in increasing trends.
- Nepal's tax structure is still regressive in nature. The contribution of direct tax to total tax revenue is still marginal.
- Programme budgeting although started from FY 2026/27 has not been effectively implemented till these date.
- While preparing budget adequate exercise is not made but there is many formalism in budgeting system.
- Skilled manpower is not involved in budget formulation process.
- There are many attractive slogans in budget to attract the people towards ruling party but the budget allocation for meet these slogans is nominal in reality.

5.3 Recommendations:

- Solution of internal conflict is essential for formulation, implementation and monitoring of the budget. So, it should maintain law and order and restoration of peace is most necessary.
- The programs and policies of the government to be implemented through budget should be more realistic which helps uplifting the living standard of the poor and marginalized people.
- The budget preparation should be based on the basis of facts and figures with cost-benefit analysis, not on adhoc basis. Similarly programs and projects should be finalized on the basis of need assessment.
- Unnecessary political intervention in selection of programs and projects should be end.
- There should be strong coordination and cooperation between MoF, NPC and Line ministries and agencies in the formulation, implementation and evaluation of the budget in real not in formalism.
- There should be the strict legal provision that all the foreign assistance should be incorporated in the budget.
- Financial management information system (FMIS) should be strengthened.
- Human resource development related to the planning and budgeting should be given top priority.
- The foreign aid must be confirmed before the budget preparation.
- Rate of capital expenditure must be increased than recurrent expenditure.

- Focus on high and qualitative production for global competition and equitable distribution is necessary for social justice which support for socio-economic change of nation.
- There is a need of friendly flexible and transparent investment policy to concentrate the public and private sector investment in productive, income and employment generating sector.
- Tax rate and base should be increased to increase the revenue to meet the ever increasing expenditure; similarly leakage in the revenue should be controlled. Tax revenue can be increased by tapping the tax potential, broadening tax net, changing tax rates and through awareness rising.
- Foreign aid amount should be efficiently utilized in the useful and welfare programs. It can help to reduce poverty and mobilize revenue.
- The economic diplomacy should be reoriented towards the promotion of foreign employment, foreign trade, foreign investment and tourism.
- A permanent wing should be established in MoF for periodic review of economic and fiscal policies.
- The budget preparation should follow bottom up approach in real sense.
- The three year rolling budget preparation has just been a formality without any use so multiyear budgeting approach should be followed in real sense.
- The budget allocation on highly prioritized project is nominal which cannot give good result in reality so enough resources should be allocated to finish such projects on stipulated time.
- Institutional capacity should be strengthened for better implementation of the budget.

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