

Practice and politics of budget allocation in Nepal

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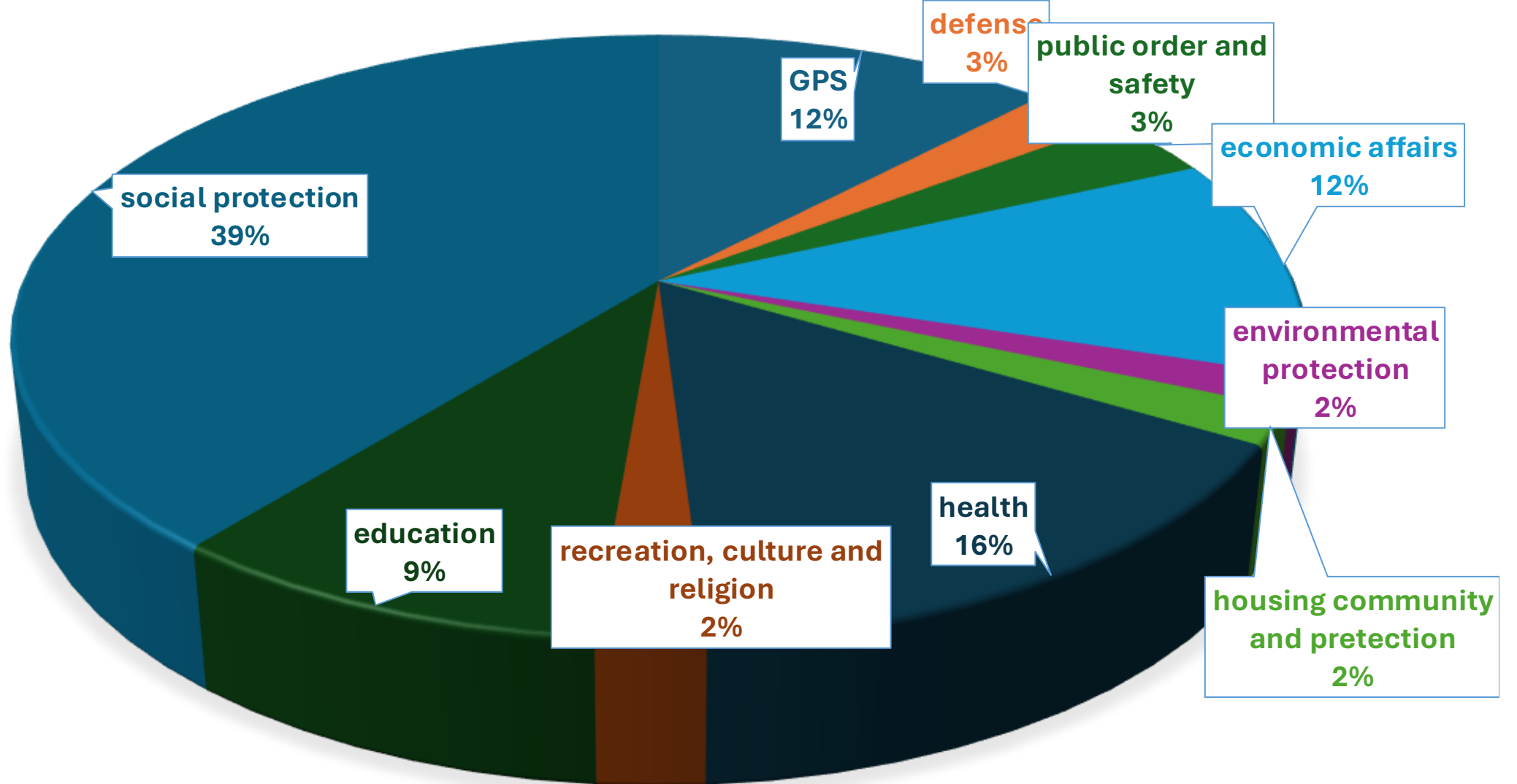
Background

- ***The market has a keen ear for private wants, but a deaf ear for public needs.***
 - **Robert Heilbroner**
- ***Countries do not get rich by accident. They make choices that determine the path their economies take. Alan Beattie***
- ***Public sector's contribution is significant in GDP- around 19 percent Gov't spending is the redistribution of the income.***
- ***Private Vs Public= Note Vs Vote***
- ***Agency/fiduciary relationship: ? on optimal mix of output-political.***
- ***69/70-81/82: 8 ministers announced budget – 1 for 3 yrs, 3 for 2 yrs and 4 for 1 yr***
- ***What, How and For whom ? Opportunity cost concept***

Introduction

- **Objective: Identify the link of budget with political commitment**
- **Used CoFoGs**
- **Data : Secondary, quantitative and qualitative**
- **Period : 2069/70 - 2081/82**
- **Studied budget only,**

SHARE OF FUNCTIONS IN 2021-22 (EU)



FY	GPS	security	Public security	economic affairs	env protection	Housing and community facilities	health	recreation and culture	education	social security	Finance Ministers
2069/70	0.31	0.6	0.1	0.25	0.1	0.4	0.6	0	0.16	0.3	BM Pun/S.P Koirala
2070/71	0.27	0.06	0.09	0.28	0.02	0.03	0.07	0.01	0.16	0.03	S.P Koirala
2071/72	0.33	0.05	0.06	0.28	0.02	0.04	0.06	0.01	0.14	0.03	R S Mahat
2072/73	0.30	0.05	0.05	0.35	0.02	0.03	0.05	0.01	0.12	0.01	R S Mahat
2073/74	0.26	0.03	0.04	0.41	0.01	0.05	0.05	0.01	0.11	0.04	B P Paudel
2074/75	0.39	0.04	0.04	0.36	0.01	0.05	0.03	0.00	0.05	0.03	K B Mahara
2075/76	0.30	0.03	0.04	0.37	0.02	0.05	0.05	0.01	0.10	0.04	Y R Khatiwoda
2076/77	0.30	0.03	0.04	0.35	0.02	0.05	0.05	0.00	0.11	0.05	Y R Khatiwoda
2077/78	0.34	0.03	0.04	0.26	0.01	0.06	0.08	0.00	0.12	0.07	Y R Khatiwoda
2078/79	0.29	0.03	0.04	0.26	0.01	0.05	0.09	0.00	0.11	0.12	J. Sharma
2079/80	0.32	0.03	0.04	0.26	0.01	0.05	0.07	0.01	0.11	0.11	J. Sharma
2080/81	0.36	0.03	0.04	0.22	0.00	0.04	0.06	0.00	0.11	0.13	P S Matat
2081/82	0.50	0.03	0.04	0.21	0.01	0.04	0.03	0.003	0.03	0.12	BM Pun

Nepal Findings

- **Changes of shares of allocation in general public service (11 times), economic affairs (7 times), education (5 times) and health (4 times)**
- **Reciprocal changes of general public service with economic affairs (7 times), with education (4 times) and with health (3 times)**
- **Reciprocal changes of economic affairs with education and health (1 time each)**

Nepal Findings

- Changes of share of allocation in economic affairs
- **Reduced : *KB Mahara (up to 5%), YR Khatiwoda (up to 8.6%) and PS Mahat (up to 3.7%), BM Pun around 2%***
- **Increased : *RS Mahat (up to 7% in economic rsch and dev but? For reconstruction activity) and BP Paudel (up to 6%)***

Findings

- **BM Pun and SP Koirala (FY 2069/70) 405 bn**
- **Recurrent 69%, capital 16% and financial 15%**
- **Relatively low in economic affairs (25%) and high in GPS (31%)**
 - **But, significant amount of budget to agriculture ministry (3%) and Irrigation ministry 2.7%**

Findings

- **SP Koirala FY 2070/71 (517 bn)**
- **Recurrent 68%, capital 16% and financial 15%**
- **Focused on economic growth, preferred on economic affairs with lower ICOR areas**
 - **Salary increment up to 18% and Rs. 1000 addition to allowance**
 - **Budget allocation for capital expenditure lowest in the history (16% of total budget)**
 - **Increased in general economy, trade and labour to 13 bn from 9 bn of 69/70 (but, for MoFald 11.6 bn from 7.7 bn)**
 - **Increased in agriculture and forestry to 46 bn from 31 bn of 69/70 (increased in agriculture ministry to 21 bn from 12 bn) but irrigation constant.**
 - **Reduced general service to 1.4 bn from 3.8 bn of 69/70 (reduction of election budget)**

Findings

- **RS Mahat 2071/72 – 2072/73**

- **2071/72 (618 bn)**

- **Rcurrent 65%, capital 19% and financial 17%**
- **Increased budget allocation to capital expenditure up to 30% of total budget**
- **Increased budget allocation to general public service functional group to 33 percent of total budget in comparison to 27 percent of previous year**
 - **Increase in employees retirement facilities by 5.7 percent point of total budget and 0.81 percent point in miscellaneous**
 - **Increase in general service by 2 percent point- increased to home ministry by 1.3 percent point of total budget**
 - **Decrease in public security (Home ministry- police service by 1.6 percent point)**
 - **Decrease in education sector by 2 percent point**
- **Compromised in service delivery and increased to general public service**
 - **Increased salary by 10%**
 - **Reduced economy, trade and labour by 11%, medicines and equipment by 20% and informal education by 7% than 2070/71**

Findings

- RS Mahat 2071/72 – 2072/73

2072/73 (Earthquake) – 819 bn

- **Recurrent 59%, capital 26% and financial 15%**
- **74 bn in Artha vivid under economic affairs (35 bn recurrent and 39 bn capital)**
- **Reduced secondary education and social security by 2 percent point each**

Findings

- **BP Paudel 2073/74 (Blockade) – 1049 bn**
- **Recurrent 59%, capital 30% and financial 11%**
- **Highest allocation (30%) in capital expenditure budget but lowest in *financial* (11%)**
- **Employees salary increased up to 25 percent**
- **Social security allowance doubled, increased allocation by 3 percent point of total budget**
- **84 bn (8% of total budget) in reconstruction under economic affairs group (50 bn recurrent and 34 bn capital)**
- **Increased allocation for physical infrastructure development by 1.6 percent point of total budget**
- **Reduced allocation for public debt service by 3.7 percent point of total budget**
- **Continued arth vivid in the name of economic research and dev. With 57 bn (9 bn recurrent and 48 bn capital)**

Findings

- **KB Mahara 2074/75 -1279 bn**
- **Recurrent 63%, capital 26% and financial 11%**
- **Focused heavily on fiscal transfer 332 bn(26% of total budget) and reconstruction 146 bn (11.4% of total budget)**
- **Massive cut in budget of service delivery (health and education) and economic development (agri, forest and fishery) – might be due to transferred to subnational level**
- **Significant amt in fuel and energy of economic affairs as financial provision under MoF 48 bn (3.8% of total budget)**

Findings

- YR Khatiwoda 2075/76-2077/78
- 2075/76 – 1315 bn
- **No third level information(elaborated CoFoG based data) in schedules of budget speech**
- **Recurrent 64%, capital 24% and financial 12%**
- **Doubled expensive(mahangi) allowances to employees**
- **Reduced fiscal transfer by 6 percent point of total budget (*presentation of the service sectors' budget in respective service sectors instead of fiscal transfer*)**
- **Allocated for reconstruction 11.8% of total budget**

Findings

- YR Khatiwoda 2075/76-2077/78
- 2076/77 – 1533 bn
- **Recurrent 62%, capital 27% and financial 11%**
- **Salary increment 18 and 20%**
- **Social security increased by 1k, reached 3k**
- **Reduced 2% point each in economic trade and labor, primary and secondary education**
- **Increased 2% point in transport and 3% point in auxiliary services of education**

Findings

- YR Khatiwoda 2075/76-2077/78
- 2077/78 (covid-19) – 1415 bn
- **Recurrent 64%, capital 24% and financial 12%**
- **Increased general service by 3 PP (*77bn from 36 bn of 76/77*)**
- **Decreased eco. trade and labour to 16 bn from 157 bn in 76/77**
- **Increased social security by 1.6 percent point, health 3 percent point and GPS by 3.5 percent point**
- **Reduced economic affairs by 8.6 percent point (transport by 1 PP, economic trade and labor by 9 PP) *i.e. cut 28% of economic affairs budget (90% of economy, trade and labour) than 2076/77***

Findings

- **J Sharma 2078/79-2079/80**
- **2078/79 – 1633 bn**
- **Recurrent 61%, capital 26% and financial 13%**
- **Indifferent in economic development**
- **Cut budget of one item of general public service (executive, legislative by 7 pp) and added in another item (general service by 4 pp)**
- **Increased on mining, mfg and construction by 11 PP of total budget (175 bn from 5 bn of 77/78) but reduced in transport by 152 bn - mis statement)**

Findings

- **J Sharma 2078/79-2079/80**
- **2079/80 – 1794 bn**
- **Increase in public debt service by 3 PP (*135 bn from 86 bn of 78/79*)**
- **Reduced health sector budget by 2 PP**

Findings

- PS Mahat 2080/81 -1751 bn
- **Recurrent 65%, capital 17% and financial 18%**
- **Increased GPS by 4PP and reduced in economic affairs by 4 PP**
- **Increased socoal securitie by 1 PP, public debt service by 8 PP (*to 276 bn from 135 bn of 79/80*)**
- **Reduced mining, mfg and construction by 2 PP (*to 139 bn from 188 bn of 79/80*)**
- **Cut health budget by 2 PP (*13% less than 2079/80*)**

Findings

- **BM Pun 2081/82 -1860 bn**
- **Recurrent 61%, capital 19% and financial 20%**
- **Tremendous increase in GPS by 14 PP (*933 bn*) *fiscal transfer by 12 PP, reduced in health by 3 PP and education by 8 PP– might be due to shift of conditional grants to fiscal transfer***

Link with periodic plan

- **13th plan**

- **One of the Priorities were improve the productivity of the agriculture sector and development of hydropower**
- ***But, average budget allocation for capital expenditure under agriculture ministry was only 0.51% of total budget***
- ***Budget allocation for capital expenditure under irrigation ministry was only 2.05% of total budget, and***
- ***Budget allocation for capital expenditure under energy ministry was 0.46%***
- ***i.e weak link of budget allocation to the priorities of long term plan.***

Link with periodic plan

- **14th plan**
 - **The main objective of the plan was poverty alleviation through economic growth based on productive employment creation**
 - **Which demands the sufficient budget allocation for agriculture sector as it is the largest contributors in GDP as well as employment**
 - *But, capital budget allocation for agriculture ministry was reduced from previous plan to 0.32% of the total budget, and*
 - *Budget allocation for Energy, water resource and irrigation ministry was 3.13% of the total budget.*
 - **Still weak link to the objective of the periodic plan.**

Link with periodic plan

- **15th plan**
- **The goal was to provide the sustainable irrigation to the arable land.**
- ***But, budget allocated for construction of irrigation infrastructure was only 0.76% of the total budget***
- ***Further, even program expenditure under agriculture ministry was only 0.17% and grants was 0.96%***
- ***Unexpected budget was allocated for monitoring and evaluation but, the distribution of grants has been questioned several times.***

Conclusion

- **Most of the finance ministers seems in the state of limbo with regards to economic development, no learning from own experiences as well as other finance ministers' activities**
- **None of them focused on agriculture, forestry and fishery sector, the highest contributing to GDP and employment with relatively low ICOR**
- **Disclosure of budget allocation in later years have been narrowed down**
- **Absence of robust link of budget allocation to the priority of long-term plan**
- **Budget allocation in the monitoring and evaluation should be scruitnized**

Reference

- ***Budget speech, 2069 to 2081, Ministry of Finance***
- ***Statement of expenditure allocation (Red Book), 2076 to 2081, Ministry of Finance***
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- ***The Macro Economy Today, B. R. Schiller and K. Gebhardt, 15th Edition (2019), The McGraw-Hill***
- ***The False Economy, 2009, Alan Beattie, Penguin Books Ltd***
- ***<https://www.imf.org/external/pubs/ft/gfs/manual>***