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Sector Wise Absorptive Capacity of Government Budget of Nepal

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Abstract

This article based on the sector wise absorptive capacity of government budget of Nepal. The main objective are to find out the pattern and implication of off-budget items in government budget. This article has been done using both quantitative and qualitative method. The research is quantitative research based upon macro data from Fiscal Year 2011/12 to 2015/16 government budget absorption capacity and 2011/12 to 2016/17. The basic objective of this article is to find out sector wise absorptive capacity of the government budget and to find out the size of off budget through off treasury but not being limited to it. For this purpose both descriptive as well as analytical and empirical research design is follow. The recent trends have been quite different. Off- budget items are mounting. The loan part of foreign assistance has been incorporated in budget whereas grant assistance is increasingly being routed through off-budget. This is concerned with the government finance, budgeting and Sector wise Absorptive Capacity of Government Budget of Nepal and modes of payment of Official Development Assistance (ODA) provided by Development partners in Nepal. In current scenario of government of Nepal almost 20% of national budget depends on the ODA. Government budget are not fully absorb, almost 85% budget are consumed. Public general service and economic affairs sector has high range of absorptive capacity. During the entire fiscal year budget expenditure could not expedite, government institution consumed less than 50% of total budget but at the end of the fiscal year more than 85% budget are spent to avoid budget freeze. ODA should be focus on the sartorial balance to ensure the equal development of nation.

Key Words: Absorptive Capacity, Development, Budget, National plan and Programme

Introduction

National budget is the prime concern of public finance in every nation's economy. Every government declares its national budget for conducting their plans and action through the line

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ministry. In the national budget every plans program or project gets planned and budget disburse through the government treasury by line ministry. Even though some programs and plans are conducted without being channelized thorough the national plan, budget and the national treasury such kind of plans and program or project are conducted by the development partners directly (Economic survey, 2015/16). When the plans and programs or projects are addressed on national planning and budget allocation are made in the national budget and then to conduct such plans and program or project budget are disburse through the government treasury then it's called On budget On treasury projects. When the projects are not address by the national planning and budget are not allocated for such project even though the project are conducted and funded from the direct payment or direct assistance without engaging the national treasury through the developing partners such kinds of project are called off budget off treasury. In some case project are addressed on national plan and the budget are allocated but lack of national budget projects are directly conducted and funded by the development partners such kind of project is called on budget off treasury projects (Development Cooperation Report, 2015/16).

Government income (government's revenue and grants) had increased by 17.98 percent to Rs.531.41 billion In FY 2015/16 compared to FY 2014/15. Of the real expenditure of Rs.601.01 billion in FY 2015/16, recurrent expenditure shared 61.8 percent, capital expenditure 20.5 percent while financing shared 17.7 percent. Such expenditures were 63.9 percent, 16.7 percent and 19.4 percent respectively in the previous fiscal year 2014/15. The level of deficit, however, has varied from year to year. The budget that remained in deficit by Rs.81.14 billion in FY 2014/15 decreased by 14.2 percent in FY 2015/16 and stood in deficit by 69.61 billion (Economic survey, 2015/16).

Donors are of different interests (World Bank 2076). Some are interested in infrastructure, others in cross cutting issues such as human rights, gender, regional balance, peace and security, law and justice. Some donors have their own country strategy papers. Some follow the IMF pattern, United Nation Development Programme model or their survey findings. Similarly, donors have particular procurement guidelines which differs donors to donors. For instance, two stage bidding process is applicable for one donor and another prohibits it. Nepal's procurement law clearly indicates that the particular donor's procurement guideline is fully applicable for their funding as well as project implementation. Currently there are around 35 donors who are on-budget (MOF 2077). Nepal's

project implementation as well as reporting system is immature and do not suffice the requirement of donors. Lack of professional accountants is always a problem in Nepal.

The main objective of the study is to find out the pattern and implication of off-budget items in government budget. The recent trends have been quite different. Off- budget items are mounting. The loan part of foreign assistance has been incorporated in budget whereas grant assistance is increasingly being routed through off-budget. The foreign assistance policy of Nepal remains clear that “as and when grant is available, loan assistance will be deferred.” For the last 10 years the grant assistance part is increasing. Hence, off-budget items are also increasing (Allen, 2007).

This study helps to find out the pattern of Off-budget items of foreign aid along with the percentage of off-budget items in terms of quantity. It also helps to suggest appropriate institutional arrangements, organizational and operational modalities and legal framework to reduce off-budget items of public finance.

Review of Literature

Khadka (1996) examined the relationships between aid and some key macroeconomic variables, such as savings, investment and economic growth in Nepal, for the period 1960-90. He found a positive correlation between Gross Domestic Product and per capita aid, which he believed counter-intuitive given the current state of the economy. Thus, Khadka, based on his descriptive analysis, concluded that foreign aid failed to improve levels of income, savings and investment. However, in another study, using a simple regression analysis for the period 1960-90, (Khadka ,1997) found that aid had a positive impact on the growth of GDP. In this study, he used only bilateral disbursements for aid data and excluded multilateral disbursements. Furthermore, he did not include any policy variables in the model except exports and imports.

Addison, and McGillivray (2005) examine trends in official aid to Africa over the period 1960 to 2002. The authors largely emphasize the tremendous decrease in aid over the last decade which will have an impact on Africans living in poverty and the African economy as a whole. As a result of the shortfall in aid, the MDGs will be much harder if not impossible to be achieved. This paper concludes that aid in fact does promote growth and reduces poverty. Furthermore, it also positively impacts public sector aggregates, contributing to higher public spending and to lower domestic borrowing. Nevertheless, it is apparent that the MGDs cannot be achieved with development aid alone, but other innovative sources of development finance need to be explored well.

(Karras, 2006) investigates the correlation between foreign aid and growth in per capita GDP using annual data from the 1960 to 1997 for a sample of 71 aid-receiving developing countries. This paper concludes that the effect of foreign aid on economic growth is positive, permanent, and statistically significant. More specifically, a permanent increase in foreign aid by \$20 per person results in a permanent increase in the growth rate of real GDP per capita by 0.16 percent. These results are obtained without considering the effects of policies.

An Economic and political Framework, This paper address about the how off budget expenditure weaken the government financial control. This paper focus on the many aspect of the budgeting, transformation of public sector, interface with the private sector, scope and size of the government, role and regulation of government, emergence of new form of organization and use of performance and long term planning. In this study empirical analysis are not made it is based on the descriptive methodology personal views are presented (Allen,2007).

Nemanja (2015) has examined the Government expenditure and government revenue – The Causality on the example of the Republic of Serbia. The main objective of this study is to investigate the links between government revenue and government expenditure in the Republic of Serbia, i.e. to indicate the measures that are necessary to reduce the budget deficit in Serbian economy. In the analysis, the monthly data from M1 2003 to M11 2014 are used. As an appropriate method for testing causality, He has used autoregressive distributed lag (ARDL), while the Granger causality has been tested within the vector error correction model (VECM). The empirical results obtained in this work can be represented as follows. Testing the stationary through the ADF and KPSS tests, it has been found that the government revenues and the government expenditure are not stationary after the second difference. Namely, they are not in the line with the integration I (2). The further analysis has revealed that there is co integration between the variables. Also, the analysis has shown that, in the long run, there is a unidirectional causality moving from government expenditure towards government revenues. This result is in accordance with spending revenue hypothesis. Based on the obtained empirical results, the political implications are that the government expenditures should be reduced in the long run. Specifically, in the case of an increase in government expenditure, government revenues should be also increased which implies an increase in tax rates. Such a situation would cause a further deterioration of the macroeconomic environment, bearing in mind all the difficulties of collecting tax revenues in Serbia.

Nepal Development Assistance Policy (2014) It contains provisions relating to lower limit of funding that can be accepted, registration of NGOs and INGOs with SWC. If the provisions of Development Assistance Policy are implemented in its spirit, off-budget can be managed (lower to its minimum).

The further depth of data's, analysis of Development cooperation report 2015/16 and preceding 5 years which contains key analytical information related to development cooperation has been conducted. It provides an overall scenario of aid mobilization in the country channeled through the Government's national budget along with off-budget mechanism by development partners including INGOs (Development Cooperation Report, 2015/16).

Methodology

Research has been done using both quantitative and qualitative method. The research is quantitative research based upon macro data from Fiscal Year 2011/12 to 2015/16 for study government budget absorption capacity and 2011/12 to 2016/17. The basic objective of the study is to find out sector wise absorptive capacity of the government budget and to find out the size of off budget through off treasury but not being limited to it. For this purpose both descriptive as well as analytical and empirical research design is follow. This study describes situation and events occurring at present by accumulating the past information and facts.

Data Collection

The article based upon secondary quantitative data. Economic survey, red book (line item as well as donor code "anudanshanket" wise for expenditure), blue book 1 (Annex Part of Budget Deliberation), blue book 2 (statement of foreign assistance), white book (source book) of Ministry of Finance, Central Accounts and Expenditure Reports of the Financial Comptroller General (FCGO) covering a period from Fiscal Year to 2016/17 and annual report of the office of Auditor General (OAG). Besides, internets, newspapers, magazines will be other sources of information. The primary data opinion of financial experts, ministries and department administrator, Development Partners and other related person are obtain through the questionnaire method.

Results and Discussion

Presentation and analysis of data is very important stage of research study. Its main purpose is to change the unprocessed data into understandable form. It is the process of organizing the data by

tabulating and then placing that data in presentable form by using various tables, figures and source. This study has focused on empirical study as well as secondary data regarding share of the on budget on treasury, on budget off treasury and off treasury off budget, sector wise absorptive capacity of grants along with the size of off budget through off treasury of Nepal are analyzed. Data and information were collected from different sources. Data relating to budget and grants are presented in this chapter to make research findings more meaningful. In this chapter, data gathered from different sources are presented, analyzed, compared and verified with the use of various financial and statistical tools. In fact, this chapter determines findings of the research and helps to fulfill research objectives.

Absorption Capacity of Government Budget

In this portion about the government consumption capacity as whole from the allocate budget. The data from the FY 2012/11 to 2015/16

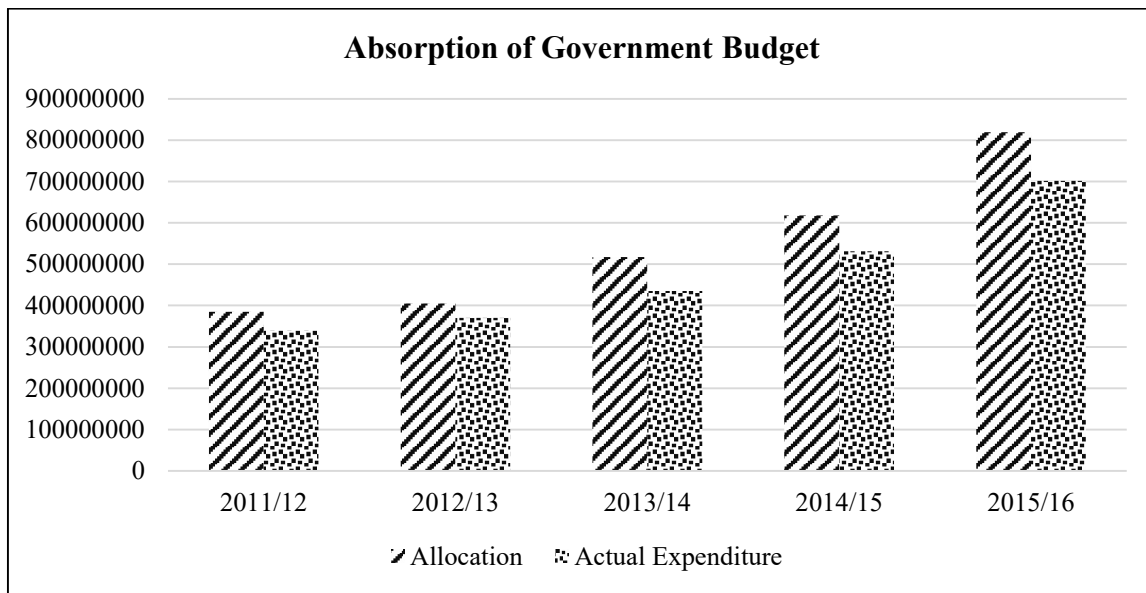
Table 1: Absorption of Government Budget (2011-2016) (Figures in NRs ('000'))

Fiscal year	Allocation	Actual Expenditure	Absorption Capacity
2011/12	384900000	339167485	88.11
2012/13	404824700	370126328	91.42
2013/14	517240000	435088643	84.11
2014/15	618100000	531339983	85.96
2015/16	819468884	701171698	85.56

Source: Red book of MOF

For the year 2015/16 expenditure data is used form revised budget.

Figure 1: Absorption of Government Budget (2011-2016)



In the above table and figure presents the overall consumption/expenditure on the capital expenditure and recurrent expenditure of the government budget. In the fiscal year 2011/12 government allocate Rs.384,900,000 hundred where expenditure were made Rs.339,167,485 hundred, absorption capacity for FY 2011/12 is 88.11% , 88.11% of allocated budget are utilized by the government entity. In the FY2012/13 government allocate Rs.404, 824,700 hundred where expenditure were made Rs.370, 126,328 hundred. Absorption capacity for the year 2012/13 is 91.42% which is 3.315% increase than previous year. In FY 2013/14 government allocated budget is Rs.517, 240,000 hundred where expenditure were made Rs.435, 088,643hundred, the absorption capacity for the year2013/14 is 84.11%. Absorption capacity is decrease for the year 2013/14 by 7.31% comparing to the FY 2012/13. In FY 2014/15 allocate budget is Rs.618, 100,000 hundred where expenditure were made Rs.531, 339,983 hundred only 85.96% budget were absorb. In FY 2014/15 absorption capacity is increased by 1.84% comparing the FY 2013/14.In FY 2015/16 allocated budget is Rs.819, 468,884hundred where expenses made Rs.701171698 hundred, absorption capacity is 85.56%. It seems that the consumption capacity of the government budget is below than 90%.

Sector Wise Absorptive Capacity of the Government Budget

Government of Nepal has been allocate and spend budget ten different sector with priority after implementation of Government finance statistics (FY 2067/68).Government of Nepal spend its

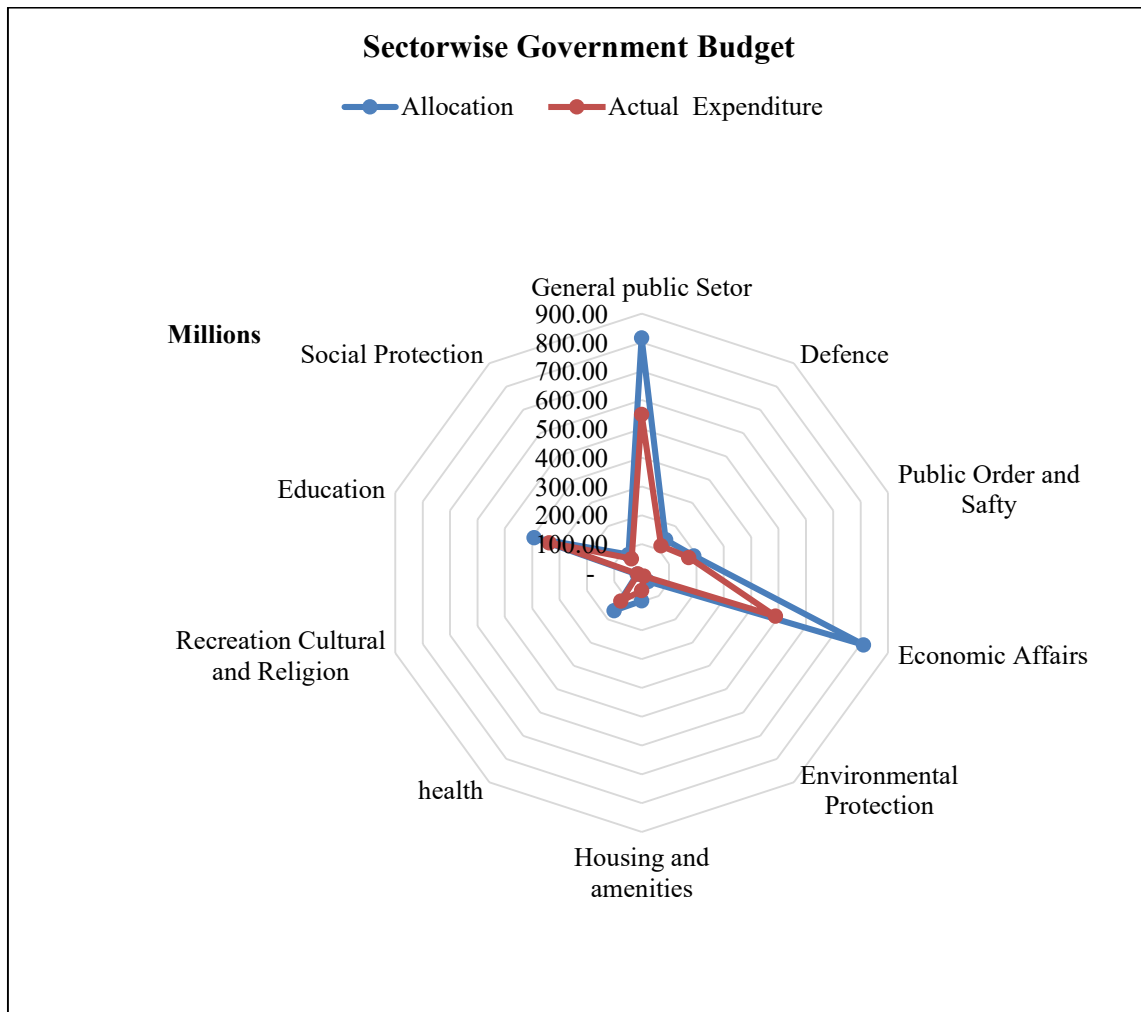
budget as per the service and functional sector. The following table shows the total allocation of budget and expenditure on these areas from the year 2011/12 to 2016/17.

Table 2: Sector wise absorptive capacity of government budget for last five years (2011-2016) (Figures in NRs (000))

S.N	Sectors	Allocation	Actual Expenditure	Absorption capacity (%)
1	General public Sector	816,250,419.00	550,395,660.00	67.43
2	Defense	141,787,005.00	115,909,967.00	81.75
3	Public Order and Safety	190,543,560.00	172,745,073.00	90.66
4	Economic Affairs	810894290	489369209	60.35
5	Environmental Protection	37,660,760.00	14,441,455.00	38.35
6	Housing and amenities	97523295	62223907	63.80
7	Health	162,400,670.00	121,604,029.00	74.88
8	Recreation Cultural and Religion	16,264,373.00	13,163,441.00	80.93
9	Education	392,985,197.00	337,172,575.00	85.80
10	Social Protection	78,218,711.00	59,873,512.00	76.55

Source: Red book of MOF

Figure 2: Sector wise absorptive capacity of government budget



From the above table and figure shows that the government investment is focus on the General public sector and the economic affairs. Nepal government mostly prefers to invest on the in these two sector but the budget consumption is comparatively low than the budget allocation only 60% and 67% budget are spend. In public order and safety, education, defence, recreation culture and religion has high absorption capacity they have 90.66%, 85%, 81.75and 80.93% respectively. In the environmental protection sector has very low absorptive capacity it has only 38.35% absorptive capacity.

Conclusion

There are numerous budgetary frameworks such as, Zero based budget, Performance based budget, Program budget. Planning-programming- budget system, Medium term expenditure framework

etc. Government of Nepal follows the medium term expenditure framework to furnish its every year budget. Government of Nepal's major source of financing is government revenue (Tax and non-tax Revenue), Foreign Grants assistance, Foreign loan. Internal source of government income cover the recurrent expenditure for the capital expenditure it is insufficient to cover the demands of expenditure so government takes foreign loan and grants for deficit financing. Government of Nepal presents its budget in every fiscal year Jestha 15. For the fulfillment of the Deficit budget government of Nepal has entered into agreement from Foreign Grants or Foreign loan with the development Partners (DPs).

DPs make commitment of Loan or grants as per the MOU agreement with the government of Nepal. DPs provide loan or grants in terms of Cash, Reimbursable, Direct payment and Commodity. While providing the Grants assistance DPs may not use the national system/ channel/procedures. The use of national procedures means that the banking, authorization, procurement, accounting, audit, disbursement and reporting arrangement for donor fund are the same as those used for the Government fund. All direct and un-earmarked budget support (general or sector based) by definition use national procedures in all respects. Other types of donor funding such as basket fund/ pool fund and discrete project funding may use some or no elements of national procedures. Donors providing Aid out of the budget did not use national procedures. Even within the category of on budget aid some donor used direct payment, only partially using national procedures. This shows preference of DP's for providing assistance to Nepal is through informal channel via off budget off treasury mode.

The development corporation policy 2014 outlines Official Direct Assistance (ODA) modalities, these modalities are Humanitarian assistance, Program Support, Budget Support, Sector wide Approach SWAP and others.

Government budget absorption capacity is not found to be 100%. Major chunk of the allocated budget is not spent by the government agencies. More than 50% of the allocated budget is freeze due to low spending capacity. If we observe the spending pattern, almost 90% budget is spending by the government entity on last month of the fiscal year.

For service and function wise budget allocation in the government more investment made in the economic affairs, it seems that government is on right track towards attaining the Millennium

development Goal by (MDG) 2022 and becoming middle income country as well as attaining the Sustainable development Goal (SDG) 2030.

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