Nepal's Budgetary Exercise During the Nineties: An Assessment

Deepak Adhikari*

Budgetary policies of His Majesty's Government of Nepal (HMG/N) during the Nineties were directed towards economic liberalization, privatization, poverty reduction and decentralization. Policies and programs of the budget during the Nineties were essentially concerned with agriculture modernization, employment promotion, women empowerment, financial sector reform, government expenditure management, tax reform, good governance, social service and the development of basic and physical infrastructure. The budgetary policy measures adopted by the first two budgets deserve appreciation at least in terms of the direction towards liberalization though they were still inadequate in terms of achieving the desired results.

Budgetary analysis reveals that HMG/N spent regular expenditure as budgeted but development expenditure and revenue lagged behind the targets. This is a gloomy fiscal scenario-- low development expenditure, high regular expenditure, low revenue collection and high fiscal deficit with high foreign loan inflows. So far, the donors have provided loans at concessional interest rates and with high gestation period. But, we can not expect the same situation to continue in the coming years in the changing world scenario where there is drying up of the flows of foreign aid and the donors are reluctant to provide concessional loans. Hence, managing national budget has become increasingly challenging for HMG/N despite its sole objective of poverty alleviation.

INTRODUCTION

Nepal's budgetary evolution spanned more than five decades since 1951when the budgetary process was initiated. It may be recalled that the budget, the main instrument of economic policy, incorporates policies, programs and activities

* Head Assistant, Nepal Rastra Bank, Research Department.

related to government expenditure, revenue and other sources of financing. In other words, the fiscal policy is translated into practice through the budget. Thus, the budgetary policy occupies an important place in the overall economic policy of HMG/N.

HMG/N, after the restoration of multi-party democracy, adopted the open and liberal economic policy and, in the process, has been repealing the prevailing restrictive rules, regulations, laws and directives governing the economic policies one after another with great zeal and vigor. Budgetary policy has also undergone changes to that direction since the very first budget (1991/92 budget) of the multi-party democratic government. In this context, it seems pertinent to study the budget objectives, government commitments and budget policies to know the trend and direction of fiscal policy during the Nineties. The present paper analyzes the budgetary policy framework, makes statistical analysis of the budget expenditure, resources and deficits, reviews the budgetary problems, and suggests measures to improve the budgetary process and impacts in Nepal.

ANALYSIS OF POLICY FRAMEWORK

The following discussion makes an attempt to highlight the policy framework underlying each of the budgets during the Nineties. The main goal of the budget presented by the interim government formed after the establishment of the multi-party for 1990/91 was to extend all possible support from economic front toward the task of formulating new constitution and establishing the popularly-elected democratic government in deference to the wishes and expectations of the people's movement. While formulating this budget, HMG/N adopted the basic principle of promoting a balance between personal interest and social responsibility in setting development priorities and economic policies. From the statement "..... we are not in favor of unnecessary extension of the public enterprises and their activities. In reality, it is very difficult to bear the economic burden of public utility-oriented corporations that grew extensively during the Panchayat regime" (Budget: 1990/91), it can be concluded that the budget did identify the vital significance of the role of the private sector and accordingly adopted the privatization concept. Realizing the dimension of poverty, it was proposed to establish the "Rural Self-Reliance Development Fund" to assist deprived people to self-organize for income and employment generation activities. This was an experimental approach taken to reduce the poverty. HMG/N was committed to improve the prevailing industrial policy and to make necessary changes in the Industrial Act and related regulations. The budget was so designed as to provide the ensuing government a solid foundation for eradicating the disparities and distortions inherent in the economy and that its major thrust was to lessen the hardships of the people.

The government of the Nepali Congress (NC), that secured absolute majority in the general election held after the restoration of multi-party democratic system, presented the budget for 1991/92 to the first session of the parliament. This was the first budget in the direction towards the liberalization of the Nepalese economy in true sense. It gave a new vision to encourage participation of the private sector in productive areas. In this budget, it was realized that the government's role in the industrial and other enterprises should gradually be decreased with corresponding increased participation of the private sector. As a step to reduce government's role in industry and corporations, the budget declared to privatize three public enterprises (namely, Harisiddhi Brick and Tile Factory, Bansbari Leather and Shoe Industry and Bhrikuti Paper and Pulp Industry) and five public agriculture farms under newly legislated Privatization Act, 1991. In another step, to bolster the private sector, the budget allowed the establishment of finance companies including commercial banks to be wholly owned and operated by the private sector.

HMG/N, with an objective of making secondary education free in a phased manner, made education free till grade six since 1991/92. This program, however, covered only those schools which were running under government grants. During 1991/92, several important and far-reaching steps were undertaken to further open and liberalize the economy. Of them, the introduction of the system of partial convertibility of the Nepalese Rupee vis-à-vis the convertible foreign currency on trade account, revisions in the Industrial Policy, Trade Policy and Foreign Investment Policy, etc were few of the cases. As a result, almost all items, except a few re-exportable items, were brought under the Open General Licenses (OGL) system. The required foreign exchange for the import of these goods was made easily available at market rate through the commercial banks. Likewise, HMG/N allowed almost all the industries, except a few, to be established without the license. HMG/N also concentrated its efforts on laying down the basic framework and providing services to the poor and the destitute.

Many critics, however, opined that the budget incorporated only limited changes. On the revenue side, it could introduce hardly any new measures except for some minor changes in the existing tax rates. On the expenditure side, some new thinking was incorporated as the proportion of the development expenditure allocated for rural areas was increased and low priority and low return foreign-aided projects were put under review. In addition to this, an avenue was open to put a restraint on the growth of the regular expenditure, but the budget itself could not bring out any significant reforms in this respect.

The NC-government also presented the budget for 1992/93, the first budget under the Eighth Plan (1992-97) which incorporated the liberalization concept. The Rs. 33.6 billion budget identified three major challenges of the Nepalese economy, namely; country's development, reconstruction and alleviation of poverty. Timely completion of development projects and enhancing their effectiveness, strengthening of the local organizations geared toward rural development through decentralization, and administrative reforms to make the government machinery efficient, clean and accountable to the people were the cardinal aspects of the budget. The major policy thrust of the budget was to develop complementary program in order to maximize benefits from the economic potentiality that existed in the rural areas. The objective of such a program was to improve the economic conditions of the poor and disadvantaged groups, large majority of whom live in rural areas. In order to achieve this, the commercial and development banks, the rural development banks, co-operatives and the rural self-help fund and the technical training capacity of the cottage and village industry department were mobilized in a coordinated manner so as to provide package services like capital, technology, marketing and management to the entrepreneurs engaged in the activities designated for rural development.

The Eighth Plan contained objectives of attaining a sustainable economic growth rate, alleviation of poverty and maintaining regional balance. And the basic foundations of the development philosophies of the Plan were rural development, liberal economic policy, decentralization and people's participation. In order to realize the overall objectives of the plan, this budget laid down development policies and programs by categorizing them into four policy based groups. The budget introduced several far-reaching fiscal measures. Tariff schedule and income taxation were two important areas wherein the path-breaking reforms were affected. However, sales tax and excise duties did not see many changes. Limited but important reforms took place on the expenditure side. There were not much changes and reforms in other taxes.

The budget identified two serious problems existing in the economy. Firstly, there occurred a heavy pressure on the reserve of the Indian currency on the one hand and the glut in the reserve of the convertible currencies on the other. This finally led to a situation of selling of convertible currency to finance the imports from India. Secondly, revenue receipts from the customs duties, the largest source of government revenue, could not increase as projected on account of the decline in the high tariff attracting imports from the third countries and increase in the low tariff bearing imports from India.

Accordingly, the tax proposals for 1992/93 incorporated measures to correct the above anomalies and reform the tax structure so as to make it consistent with the new macroeconomic policies adopted by HMG/N. The first target towards this direction was to slash down the high tariff wall. Accordingly, the prevailing basic import duties rates above 100 percent were reduced to 100 percent and the number of duty rates was also reduced from 13 to 8. The objective of this measure was to open up the economy further on the one hand and to simplify the system on the other. Another important measure taken in the area of import tariff was to drastically cut down the additional duty rates from 15, 30, 40 and 50 percent to 5, 10, 15 and 20 percent respectively. The objective underlying this measure was to help open the economy and make the imports from the third countries cheaper so that Nepal's import trade is diverted toward the third countries. Besides, taking into account the importance of physical infrastructures in the development of the rural economy, special emphasis was laid down on the rural road construction program.

The budget for 1993/94 reviewed the achievements, strategies and economic activities undertaken during the past two years. In view of the huge expenditure for Arun III and Khimti Hydel with the participation of the private sector, on which work was to be started that year, allocations for other projects were made on the basis of priority. The budget proposed drastic increase in land revenue. It declared to provide subsidy at Rs. 10,000 per family in the Hills and Rs. 7,000 in the Terai as grants for bio-gas plants.

Interestingly, two budgets were presented for 1994/95, the first on July 15, 1994 on behalf of the NC. But the NC government was dissolved and election took place. Later on, Communist Party of Nepal-Unified Marxist and Leninist CPN (UML) formed the minority government and the second budget for the same fiscal year was presented on December 26, 1994, by the order of His Majesty, under Article 77, Section (1) of the constitution of the Kingdom of Nepal, 1990. The characteristics of this latter budget were: (a) provisions for dearness allowance of Rs. 300 to the employees including teachers, army and police, (b) free education up to grade nine from 1994/95, (c) increase in regular expenditure and decrease in development expenditure in terms of percentage, (d) allocation of Rs. 300,000 to all the Village Development Committees (VDCs) to carry out development works at their discretion, and (e) feasibility study to be undertaken for implementing ration card system.

Due to political instability and changes in the government, two budgets were presented in 1995/96, too: the first, on behalf of the minority government of the CPN (UML) and the second, with legal validity, on behalf of the coalition government of the NC, Rastriya Prajatantra Party (RPP) and Nepal Sadbhavana Party (NSP). This was the first budget of the coalition government in Nepal.

In this budget, major thrust was given to the economic liberalization, stating that it would be a major strategy for economic development and fiscal stability. HMG/N decided to introduce VAT system from that fiscal year bearing in mind the need to make sales tax more scientific. A bill was said to be introduced during that session of the parliament to implement VAT. HMG/N also decided to establish a dry port in Birgunj to facilitate international trade.

This budget made an honest attempt to give a definite direction to the future courses of development, correct the existing imbalance in the economy and enforce a prudent fiscal management and discipline. It formulated dual policy packages, one designed to expand and strengthen the modern sector with liberal, open and market-oriented economic policy and the intervention by the State. The packages for the modern sector contained a number of commitments including establishment of Export-Import Bank, expansion of Export Development Fund, introduction of Build-Operate-Transfer (BOT) system, and establishment of Tourism Development Authority, Technology Information Bank and Off-shore Financial Center in addition to rationalization and simplification of the various tax measures. Obviously, these measures were intended to strengthen the modern sector so that it could gradually integrate with the world market through competitive capacity. Likewise, for improving the rural economy, similar commitments were made for the establishment of Village Development Fund and small and Cottage Industrial Development Bank, expansion of rural banking activities, Rural Women Production Loans, social safety nets and, above all, an effective implementation of Land Reform Program. All these fundamental changes in developmental policy approach experienced during the past few years were based on the vision that once the modern and the rural sectors would go on expanding, one overlapping the other, the dualistic nature of the economy will gradually get diluted and some kind of a unified and integrated economy would eventually emerge.

One of the major features of this budget was to allocate development grant of Rs. 400,000 to each member of the house of the representatives and Rs. 250,000 to each member of the national assembly so as to implement development projects of their choice in their constituencies. Similarly, another important proposal of the budget was to run the private schools and colleges under company law. It was expected that this policy would help decrease the burden on the universities and check the tendency of going abroad for better higher education. HMG/N was also committed to make arrangements to provide long-term loans to such educational institutions for the improvement of their infrastructure.

The revenue and expenditure estimate for 1996/97 was presented on behalf of the coalition government of the NC, RPP and RSP. Self-employment program, land reform program, women development program, dearness allowance to government servants, allocation of budget for infrastructure development of Visit Nepal Year (VNY) 1998 program and budget allocation to respect the national talents were some of the major programs of the budget. While announcing the budget for 1996/97, then Finance Minister vowed to pick up one VDC from each of the development regions and raise the living standard of the people in such VDCs above the poverty line within one year.

Similarly, the budget emphasized on self-employment generating activities, for which a high level Central Coordination Committee and the District Coordination Committee were said to be constituted. This program proposed to provide employment for around 66,000 unemployed people from employment generation activities which was said to be prompted through reactivating the governmental, non-governmental and financial institutions. This, however, was hardly translated into reality. Besides this, the budget also announced a program to provide loan assistance to the unemployed youth for their participation in foreign employment. This might have led to a good source of foreign exchange earning if it was practically converted in reality.

The budget gave major thrust to export promotion, agricultural development, employment generation and poverty alleviation. Various measures were taken to minimize the unnecessary government expenditure overheads. The major challenge, which the budget itself confessed, was on the revenue front. "In the last fiscal year, the expenditure shore up but tax mobilization could not be effective" (Budget, 1996/97). The revenue target was set at an increase of Rs. 6 billion.

According to some critics, the basic policy orientation of the budget was essentially the hesitant continuation of the previous year's budget, in the sense that the budget speech was misery in spelling out the dualistic nature of the economy and its underlying problems of poverty, underemployment and structural imbalances and address them clearly and specifically, probably due to some psychological inhibitions and bias in favor of liberal, open and market-friendly economic policy as a panacea even for the deep-rooted problems of the overwhelmingly larger part of the economy with very little to do with the market.

The first budget of the Ninth Plan, the budget for 1997/98, was presented on behalf of the coalition government of the RPP, CPN(UML) and RSP. The budget emphasized on the development of agriculture for providing impetus to rural development. For this, it further mentioned the already implemented Agriculture Perspective Plan (APP) as the tool to carry out a package program of fertilizer, irrigation, technology, road, electricity and market. In order to remove obstacles to higher economic growth, it envisaged broadening and strengthening the liberalization and market-oriented economic policy. The budget also envisaged to pursue the major objectives of the Ninth Plan, i.e., poverty alleviation. It vowed to implement sectoral and targeted program of poverty alleviation in a more coordinated and integrated manner since 1998/99. Education was accorded a priority as the budget vowed to implement a special literacy program as a campaign to wipe out illiteracy from the country. The budget was committed to formulate a 20-year transport policy for the long-term development of transport sector and to formulate and implement a five-year road transport program under the said policy. According to the budget statement, rural telecommunication services was said to be expanded by establishing telephone exchange in 11 districts of Far-Western, Mid-Western and Central Development Regions.

Among the most important aspects of the budget, it vowed to give more autonomy to the Central Bank. "Initiation will be taken in this direction (autonomy) for the formulation and implementation of effective monetary policy" (Budget, 1997/98). Further, the budget was committed in such a way that "National Planning Commission (NPC) will be made more active in project selection, monitoring and evaluation. The Ministry of Finance (MOF) will be required to prepare budget on the basis of three-year rolling expenditure plan. The mid-term evaluation of the budget would be conducted on time and the budget managed accordingly" (Budget, 1997/98). The budget announced to provide continuity to some of the past programs. It reaffirmed the pledge to continue with Build-Our Village-Ourselves (BOVO), poverty alleviation, social security to senior citizens and handicapped and support for various activities to be carried out through the banking and financial system. With regard to direct tax, the budget reduced the maximum rate of tax on profit of industries from 33 percent to 25 percent, individual and partnership firms from 30 percent to 25 percent, and banks and financial institutions from 33 percent to 30 percent. The revenue proposals of the budget for 1997/98 seemed to be capitalistic but some social and local development programs reflected socialistic orientation.

The new individual activities subjected to a priori income tax clearance certificates were deposits in banks and finance companies and purchase of share issued by companies in excess of Rs. 500 thousand, and purchase of any property including motor car in excess of Rs. 1 million. This clause discriminated not only against deposit-taking financial institutions but also against saving-investment-growth trajectory. This was contrary to the spirit of liberalization. The maximum rate of income tax was reduced by 13 percentage points for industry, by 8 percentage points for corporate and by 5 percentage points for partnership and individual income. Such reduction was only 3 percentage points for banks and financial institutions. This, in fact, was a discrimination against the financial sector (Shrestha, B.P.:1996).

A budget of Rs. 69.69 billion was proposed for 1998/99. The revenue projection was highly criticized, as it was in no way a realistic target. The budget projected high expectations on the side of foreign assistance. In the wake of contagious economic slowdown in South-East Asia including Japan, the principal donor of Nepal, it was likely that the flow of fund to developing countries like Nepal from the bilateral donors would contract. One of the basic reasons behind the over-estimation of revenue and foreign assistance seemed to be rooted in artificially inflated development expenditure. The finance minister vowed to raise development expenditure by a hopping 25.7 percent, which was not consistent with the historical trends of the absorptive capacity of the Nepalese economy. Since the 1990s, the average development expenditure has been observed to grow by barely 10 percent.

The budget attempted to pursue some programs in the social sector like the poverty alleviation, training for self-employment generation, decentralization, etc.. These programs, characterizing the permanent features of the post-liberalization budgets, were, however, rarely implemented in true sense. Sectorwise, the budget gave special attention to the agricultural sector. It expressed commitment to the effective implementation of the 20-year APP though the commitment was not materialized. As envisaged by the APP, the budget identified surface irrigation system as the key factor for the development of agriculture in the Terai region and allocated Rs. 3.34 billion for irrigation, 41.5 percent up from previous year's budget. In terms of resource allocation, the education, health, drinking water, agriculture, irrigation, transportation, and hydropower attained high priority, with these sectors respectively drawing 6.1, 7.2, 7.0, 6.2, 9.2, 16.9, and 21.7 percent of the total development expenditure. Social sector as a whole continued to draw a large chunk, 35.3 percent of the proposed total development expenditure.

As the third budget under the Ninth Plan, the budget for 1999/00 was presented on behalf of the majority government of the NC, which was elected through the third general election following the restoration of multi-party system. An in-depth analysis of the existing challenges of the Nepalese economy was presented in the budget in a sensitive manner. The major challenges identified by the budget were: traditional agriculture and low productivity, slackness in industrial and commercial investment, resurgence of poverty and unemployment, burdensome public corporations, sluggish financial sector, development project and foreign aid, inadequate utilization of foreign aid, inconsistency of NGOs with the programs and efforts of HMG/N, ad hoc selection of projects and ineffective implementation, diminishing institutional capability and administrative morale, corrupt behavior and financial irregularity, budget deficit and increasing imbalance between revenue and expenditure, increasing debt, etc. So far as the development policy and program of the budget was concerned, it focused on 12 major sectors, namely; poverty alleviation, employment promotion, empowerment of women, financial sector reform, industry-commerce-tourism and foreign exchange, computer policy and software development, government expenditure management and reform in the budget system, increase in the agriculture productivity, tax administration and revenue mobilization, development administration and good governance, social services and the development of basic and physical infrastructure.

On the poverty alleviation front, the budget was committed to launch a nation-wide poverty reduction campaign called *"Bishweshwar Among the Poor"* which was targeted to those absolutely poor people who were deprived of minimum basic necessities like cloth, shelter, food, basic health services and education and whose access to land capital, skill and employment opportunities were non existent. Under this scheme, about 100 absolute poor families from each parliamentary constituency would be identified and a loan up to Rs. 30,000 at 5 percent interest rate would be provided so as to enable them for their better living. Another remarkable feature of this budget for poverty alleviation was the proposal to set up *"Poverty Alleviation Fund"*. The Fund was proposed to be utilized for the growth of markets through co-operatives, conducting training programs, and extending micro financing.

The budget also introduced the rehabilitation program called *"Ganeshman Singh Peace Campaign"* to provide amnesty and financial assistance for livelihood of those who surrendered, with their weapons, to live the life of law-abiding citizens by giving up the path of crime and murder. This budget made available of textbooks free up to grade five in governmental schools. It was committed to initiate extensive financial sector reform measures including submitting a bill in the ongoing session of the parliament to amend Nepal Rastra Bank Act for making it propitious and strengthening its supervisory capacity.

GOVERNMENT EXPENDITURE

Nepal being a developing country, there is an urgent need of expanding development expenditure. However, there is also a growing compulsion to maintain law and order as well as debt servicing. Financing expenditure requires increment in revenue collection. Situation of revenue receipts determines the amount necessary for foreign assistance and internal borrowing. The growth of government expenditure in Nepal has been phenomenal as evident from the fact that every finance minister ever since the beginning of the budgeting system in 1951 has presented a public expenditure program larger than that of the previous year. The total government expenditure in Nepal increased significantly during the 1990s. It was Rs. 23,549.8 million in 1991, increased by 13.0 percent per annum and reached Rs. 66,272.5 million in 2000. As a percentage of GDP, total expenditure remained at 18.0 percent during this period and showed a declining trend: 19.6 percent in 1991 to 17.5 percent in 2000. However, in real terms, growth rate of total expenditure stood at an average annual of 4.2 percent during this period (Table 1).

During the first half of the 1990s, Nepal went through a period of fiscal consolidation as an integral part of an economic liberalization and reform program. Nevertheless, the expansionary fiscal policy adopted by a succession of short-lived governments during the latter half of the 1990s resulted in an increase in fiscal deficits, debt stock, and debt-servicing obligations.

Regular Expenditure

Government expenditure is classified in terms of regular and development expenditure. Virtually all regular expenditures are typically recurrent expenditure, while another 20 percent of the development budget is also recurrent type expenditure in terms of salaries, subsidies and transfer payments to public enterprises (WB, 2000). These expenditures are further classified into various functional headings. However, there is no published data according to the economic classification of expenditure so far.

The regular expenditure shows an interesting phenomenon. It has a tendency to double in every five year. The regular expenditure of HMG/N has gone up from Rs. 7570.3 million in 1991 to 34523.3 million in 2000. It has increased by 18.5 percent on an average during the last decade, which was higher than the growth rate of development expenditure and total expenditure. Regular expenditure in real terms has increased by 9.3 percent during the review period, which is also higher than both the total expenditure and development expenditure.

As percentage of GDP, regular expenditure surged up from 6.3 percent in 1991 to 9.1 percent in 2000. Expansion of government offices and employees, growing burden of debt payment, and increasing responsibility of maintaining law and order are attributed for such a rise in regular expenditure. Increasing trend of regular expenditure has pre-empted much of HMG/N revenue, leaving only a small surplus for financing development activities. Almost 85 to 90 percent of regular expenditures consist of wages and salaries as well as debt service payments. In effect, allocations for operations and maintenance activities in the regular budget have been highly inadequate. However, the average compensation payments per government employees do not seem to be high in comparison to other South Asian countries. Likewise, a ratio of 7.8 percent of Nepal's external debt service payments to the earnings from exports of goods and services suggests that Nepal is unlikely to get into debt servicing problems in the near future (WB, 2000). Regular expenditure has been increasing at a higher pace due mainly to the responsibility of maintaining law and order, salary-hike and debt servicing obligation. Therefore, it seems hard to control regular expenditure in the future.

Development Expenditure

Development expenditure went up from Rs. 15,979.5 million in 1991 to 31749.2 million in 2000, with an average annual growth rate of 9.8 percent. The increase in development expenditure is a reflection of the rising development activities of HMG/N in the development process. In order to meet the minimum needs of food, clothing, health, education, drinking water, transport, communication and other services, the rate of growth in development expenditure should increase both in absolute as well as relative terms. However, the growth of development expenditure remained lower than the regular expenditure because of weak implementation of development projects resulting from political instability and lack of commitment.

Development expenditure in real terms during the review period increased by only 1.3 percent (Table 3). In terms of GDP, development expenditure stood at 10.1 percent on an average during the Nineties, declining from 13.3 percent in 1991 to 8.4 percent in 2000, reflecting a gloomy picture of development works. This is also demonstrated by the low realization ratio of the development expenditure. During the Nineties, only 86.3 percent of development budget was actually spent compared to 96.8 percent accomplished for regular budget.

Several new projects were launched every year, which almost tripled the number of projects under the development budget during the Nineties. Similarly, budget allocations for such projects doubled from Rs. 4 to Rs. 6 billion in mid-Nineties to about Rs. 11 billion in FY 1999. If inflation is considered, in 1999/00, expenditures per project in real terms amounted to little more than half the level of such expenditures ten years ago. In many cases, especially with regard to road projects, allocations have been miniscule-- a few million rupees per project-- so 40-50 years were required to complete them (WB: 2000). In many cases, allocations have been barely sufficient to pay wages and overheads, leaving little for capital investment/construction work. The consequence of the fragmentation and frittering away of resources is that few projects were completed in time, leading to substantial cost over-runs, and benefits from development spending not being realized.

Inter-Sectoral Expenditure Pattern

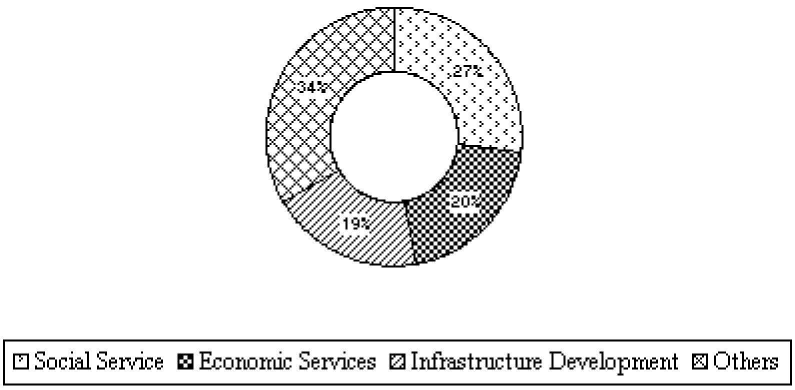
The sectoral pattern of development spending has important implications for the overall growth and poverty reduction in the economy and for the effectiveness of the public expenditure program. If we look at the sectoral expenditure pattern during the Nineties, it is found that priority has been accorded to the social sector, mainly education. Actual expenditure on social services, which had stood at 18.3 percent of total actual expenditure in 1990/91, increased to 30.58 percent in 1999/00; on an average, it stood at 27.0 percent during the Nineties. Within the social sector, education received the highest priority compared to other social services absorbing 12.7 percent of total expenditure and 47.1 percent of total expenditure on social service sector.

Despite HMG/N's high priority to the education sector in general and the basic and primary education along with adult literacy in particular, the actual achievements in terms of indicators like the literacy rate, participation and cycle completion rate have always fallen short of the targets (WB, 2000). While the policy of wider coverage has been achieved at the cost of quality, appalling rates of internal inefficiency combined with rapid growth in private schooling and huge disparity between examination pass rates in public and private schools are indications of erosion in the quality of public schools.

On expenditure, education sector is followed by local development and health sectors. However, there has been considerable wastage and leakages of resources. In recent years, the share of total government expenditure devoted to health services has increased. Health sector expenditures have risen on an average by about 12.2 percent per annum in real terms between 1991 and 2000 and their share in total government expenditure have risen from 2.8 percent to 4.9 percent over the same period (Table 4). Nevertheless, public expenditures on health in per capita terms is very low in Nepal, i.e. \$3.10 per head in FY 1998. It is about one-fourth the level of resources required to be needed to provide a package of essential health services in a developing country. Meanwhile, rapidly growing population has increased the demand for public health services, while the institutional capacity to plan and implement health sector strategies and program remain weak. Over the past decade, a significant proportion of health budget allocations have not been spent. Since 1990/91, actual expenditure as a proportion of allocation in the development budget averaged only 8.7 percent (WB, 2000). Weak institutional and management capacity are attributed to such a low absorption capacity in the health sector.

Decentralized expenditure programs became the main instrument of successive governments in promoting economic development. Originally started on a small scale in the early-nineties as an initiative to involve District Development Committees (DDCs) in development activities, these programs have been expanded rapidly since 1995, i.e. 1.4 percent of total expenditure in 1991 to 6.22 percent in 1995 and, after that, remained stable at 6 to 7 percent of total expenditure. However, the involvement and empowerment of beneficiary groups has been limited, contributing to the poor use of resources and weak management of those programs. In many instances, the benefits have been largely captured by local elite groups. Compared to other sectors, its implementation rate has been significantly higher through utilization of almost all budget allocation. The sector's recent performance in terms of the quality of its spending has a crucial bearing on how well or badly scarce resources have been used within the development budget. Technical capacity is limited virtually at all levels: for project preparation, design, implementation and monitoring, and ensuring effective use of funds and accountability. Various studies revealed that, in many cases, the relatively better-off population benefited most from the DDC/VDC programs.

Figure 1
Sectoral Allocation of Total Expenditure (Average 1991-00)



Examining the inter-sectoral expenditure pattern indicates that social service sector is followed by the expenditure on economic services. Expenditure on this sector stood at 20.3 percent of the total actual expenditure during the period, 1991 - 2000. Such expenditure is found to decline from 36.5 percent in 1991 to 16.7 percent in 2000 because of the weak implementation of the economic projects. Expenditure on every sector under economic services is declining (Table 5). Expenditure on agriculture as a proportion of total actual expenditure fell from 6.7 percent in 1991 to 3.8 percent in 2000. Likewise, expenditure on irrigation declined from 6.8 percent in 1995 to 5.4 percent in 2000. Similarly, forest and industry as well as mining also depicted the declining share of expenditure during the Nineties.

Agriculture is a key sector in the Nepalese economy from a development and poverty reduction perspective because nearly 90 percent of the population and the large majority of the poor live in rural areas and depend on agriculture for most of their incomes and employment. Past policies aimed at accelerating agricultural development mainly consisted of efforts to expand infrastructure and the provision of key inputs through public interventions. However, these efforts met with limited success for a variety of reasons, including poor project design and implementations, and inefficiencies of public sector agencies involved, among others. In order to reverse this trend, the Agricultural Perspective Plan (APP), a twenty-year growth framework, was developed and incorporated in the Ninth Plan with the objectives of accelerating growth in the agriculture sector by increasing productivity for reducing poverty especially in the rural areas. In the mean time, the declining share of agriculture sector's expenditure has been responsible for the ineffective implementation of APP. Such a declining expenditure in agriculture is due to HMG/N's decision to give priority to local development, health and power generation.

During the review period 1991-2000, the share of expenditure on infrastructure increased from 15.6 percent to 18.24 percent and stood at 19.4 percent on an average. Within the infrastructure sector, electricity received the biggest chunk followed by transport. This reveals HMG/N's priority to the infrastructure sector, especially electricity and transport. HMG/N has been earmarking a substantial part of its on resources for new construction, especially new roads linking district headquarters. Many of these projects lacked proper economic justification and generally received a few million rupees each. However, collectively they added up to a few hundred million rupees, representing a significant misallocation of the scarce resources.

Although the share of expenditure on transport sector has remained more or less at constant proportion of 8 to 9 percent during 1991-2000, the realization ratio has averaged only about 73.7 percent of the allocation during the Nineties. The wide gap between the budget allocation and actual expenditure reflects a number of constraints such as over-programming of the budget, delay in fund release, limited absorptive capacity and various implementation problems including procurement delays, frequent transfers of staff, delay in contract management, political interference and corruption. There is a considerable wastage and frittering away of resources associated with the new construction and the multiplicity of small and uneconomic projects. Although, substantial resources were provided for local road construction and maintenance activities, much of these were poorly utilized or misused.

Under the infrastructure sector, electricity consumed 7.04 percent of total expenditure on an average during 1991-2000. Its share in total actual expenditure increased from 5.8 percent in 1991 to 8.4 percent in 2000 mainly because of the implementation of some big projects like the Kali Gandaki-A. Despite the relatively high public investment in power, domestic power supply is still insufficient to meet domestic demand. Only 322 MW out of a potential estimated hydropower generating capacity of 43000 MW has been developed so far. Per capita electricity consumption is only about 42 KWH (WB, 2000), which is among the lowest in the world, and a large proportion of the population, about 85 percent, remains out of access to electricity. The quality of supply is poor with inadequate dry season generation capacity.

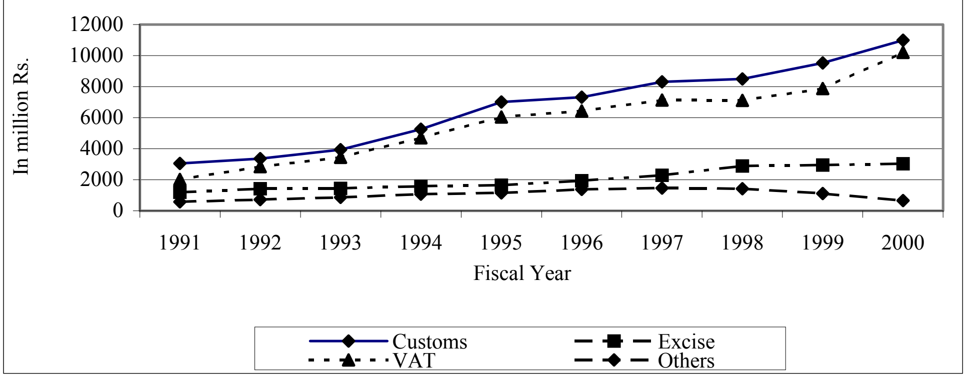
BUDGETARY RESOURCES

Government Revenue

In order to meet the requirements for day-to-day administration and development, government collects resources through various sources, the principal among them being the government revenue collected through tax and non-tax sources. But low rate of growth of economy, low level of income as well as the rate of saving, and inefficient tax administration make the collection of tax revenue a difficult task in Nepal. Besides, high taxation often adversely affects the private enterprise and initiative, and contributes to a decline in the net investment capacity, and thereby in the employment too, of the economy. As a result, the proportion of the government revenue in national income stands less than 11 percent in the developing countries whereas it remains as high as 40 percent in the developed countries.

Nepal's revenue/GDP ratio has stagnated at around 10.3 percent of GDP during the last decade (Table 6). In the early-nineties, as part of its economic reform program, HMG/N made strong efforts to raise its revenue ratio from about 8.9 percent of GDP in 1991 to 11.2 percent in 1995. However, the ratio remained almost stagnant after that. Still, the revenue during the period of 1991 through 2000 increased on an average by 16.7 percent and 7.5 percent in nominal and real terms respectively (Table 6). On an average, 96 percent of budgeted revenue target has actually been met.

Figure 2
Movement of Indirect Tax Components
(1990/91-1999/00)



The growth of public sector revenue, although increasing steadily, does not yet give a sense of satisfaction for the simple reason that the revenue potentialities available in the economy have not yet been fully exploited. Some of the factors responsible for this situation are lax efforts toward revenue mobilization, lack of perspective vision in this respect, and the practice of undertaking ad-hoc short-term adjustment without due regard to long-term growth prospect of the economy.

During the period 1991-2000, on an average, tax revenue contributed 77.7 percent while non-tax revenue provided 22.3 percent of the total revenue. Tax revenue is heavily dependent upon indirect tax, which contributed 78.5 percent of tax revenue and 62.0 percent of total revenue. However, the contribution of direct tax was also increasing, from 12.3 percent in 1991 to 19.8 percent in 2000, because of the expansion of income tax revenue (Table 7).

Indirect tax revenue was heavily derived from customs duty, providing an average 43 percent share in the indirect tax revenue. In this way, the tax system was steadily dependent upon the customs-based revenue. The Value Added Tax (VAT) followed the customs duty by contributing 36.3 percent of the indirect taxes. However, the excise duty stood at only 13.6 percent of indirect taxes during the period, 1991-2000. Among the direct taxes, income tax formed a major share of 72 percent during the review period.

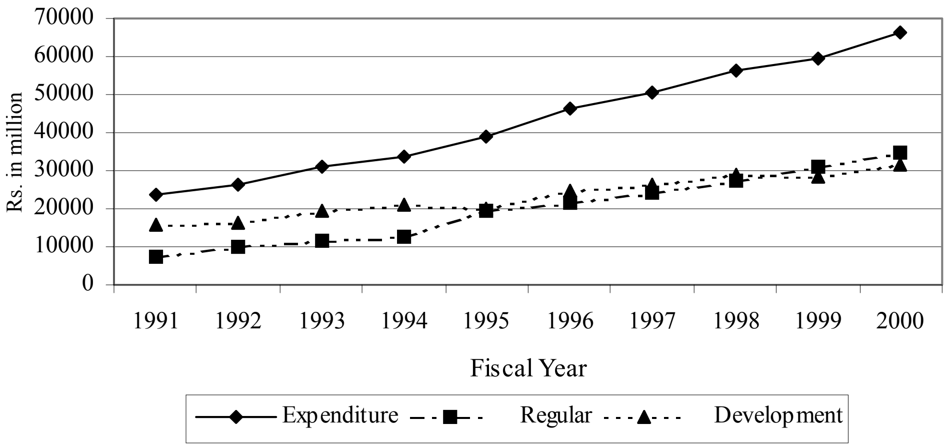
Fiscal Deficit

In the government budgetary operation, the expenditure always outstripped the revenue. The contribution of revenue for the total expenditure remained at an average 57.3 percent during the period 1991-2000 (Table 8).

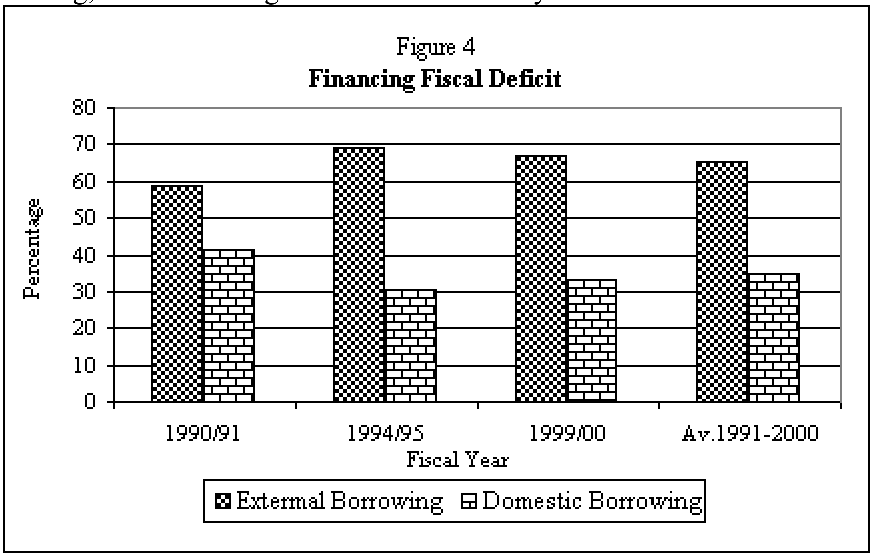
Figure 3

Government Expenditure & Sources of Finance

(1990/91 - 1999/00)



Such contribution, which remained almost stagnant, indicates the low performance of revenue collection and the growing trend of government expenditure. Because of the low internal revenue mobilization, the government expenditure was heavily dependent on foreign assistance (loan and grant) which, on an average, contributed 30.9 percent during the Nineties. The contribution of loan was comparatively higher than the grant, thereby increasing the debt burden to the future generation. About 11.8 percent of expenditure was derived from internal borrowing, thus increasing domestic debt liability also.



In fact, the development expenditure of Nepal is heavily dependent on foreign assistance. Of the total development expenditure, only 23.8 percent was derived from revenue surplus. The remaining major chunk of 55.3 percent was fulfilled through foreign assistance and 20.9 percent through internal borrowing during the review period (Table 9). Low revenue surplus led to high fiscal deficit, most of which, as explained above, was financed by foreign aid (Table 10).

As a result of higher expenditure compared to the revenue mobilization, large fiscal deficit was observed throughout the review years. Generally, fiscal deficit is measured by subtracting revenue plus grant from government expenditure. Such a deficit increased from Rs. 10,655.1 million in 1991 to Rs. 17,667.0 million in 2000, more than one-and-a-half fold compared to that in 1991. The average growth of such a deficit stood at 8.5 percent in nominal terms and at 0.08 percent in real terms during the Nineties. As a percentage of GDP, such a deficit remained at 6.1 percent still considered substantially higher despite lower than the 8.9 percent of GDP in 1991.

Grant is not revenue in actual sense. In fact, it is foreign assistance provided by the donors. If the grant is excluded from the resources side, the fiscal deficit would be comparatively higher, 7.7 percent of GDP during the Nineties, at an average growth of 9.1 percent.

Implications of Fiscal Deficit

As the government has to resort to both foreign and internal borrowing to finance fiscal deficit, higher fiscal deficit has many implications on the economy including creating a liability to the nation. More than half the fiscal deficit has been fulfilled through external borrowings (Table 10), 21.9 percent through foreign grants, 17.2 percent through internal borrowing, and the remaining as an overdraft from the NRB. Because of the growing fiscal deficit and its fulfillment through foreign loan as well as internal loan, the debt stock has been increasing steadily. Total debt stock was Rs. 80,361.2 million in 1991, which increased to Rs. 245,048.2 million in 2000 at an average annual growth of 17.6 percent. As a percentage of GDP, total debt stock was 69.2 percent in 1991 and 67.1 percent in 2000 (Table 12). Almost 77.8 percent of debt stock is constituted by foreign debt. Such a debt stock scenario is obviously a great liability to the coming generation.

MAJOR SOCIO-ECONOMIC INDICATORS DURING THE NINETIES

To what extent the policies followed during the Nineties were successful could be assessed by looking at some of the important socio-economic indicators. Although these indicators indicate some positive changes in socio-economic sector, their performance is still low compared to the international standards. Gross domestic saving increased from 9.6 percent of GDP in 1991 to 13.2 percent of GDP in 2000. Import financing capacity of export increased from 32 percent in 1991 to 48 percent in 2000. Similarly, per capita GDP went up from US$ 186 to US$ 242 during the review period. Current account balance also became positive in 1998/99. Inflation also came to a lower single digit level (Table 13). Likewise, on social side, crude birth rate declined from 41.2 per thousand to 33.6 per thousand. Crude death rate also declined to 10.0 per thousand from 13.3 per thousand during the review period. Infant mortality rate plummeted to 64.1 per thousand from 97.5 in 1991. Literacy rate was estimated to be above 60 percent in 2000 compared to 39.6 percent in 1991. Life expectancy at birth also reached 58 years from 54 years in 1991. Still, the overall socio-economic situation is far behind the international standard. A large proportion of the people is still living under poverty line, lacking basic necessities. Only 15 percent of the population is able to get electricity supply. Infrastructure is very insufficient vis-à-vis the national requirement.

PROBLEMS REGARDING BUDGETARY FRAMEWORK

Higher incidence of poverty, underdeveloped stage of the economy and the lagging private sector, etc. still demands the active role of the government apart from the traditional role of maintaining law and order. Therefore, government has to incur expenditure to perform several regular as well as development works. However, the slow pace of revenue collection compared to expenditure growth has been creating the fiscal imbalance for which the nation has to depend upon foreign assistance. Due to the tendency of declining foreign grants and increasing foreign loans, Nepal's debt burden has been increasing, with almost one-third of the regular expenditure required to be allocated for the debt service. If fiscal imbalances increase continuously over the coming years, or debt stock as well as debt service payments increase steadily emptying Nepal's narrow coffer, there would be problems for earmarking resources for productive projects while complying with the need for maintaining macroeconomic stability.

Nepal's budgeting process has been highly unrealistic. In almost all the years in the review period, the budget targets have been set at unduly high levels, particularly for the revenue and foreign aid. This over-estimation of resources has in turn enabled HMG/N to set similar unrealistic targets for the development budget and to accommodate too many new projects. However, the actual budget outcomes fell significantly short of the optimistic expectations every year. It has been found that the government expenditure is increasing fast compared to the revenue collection. Among the expenditures, regular expenditure, has been increasing rapidly due to growing burden of debt service payments, maintaining law and order and providing salary to civil servants. Growing regular expenditure has become a major concern to policymakers because it has been narrowing the revenue surplus necessary to finance development expenditure.

Since there is little scope for cutting back regular expenditures, the brunt of fiscal adjustment has been made through cutbacks in development spending. During the recent years, because of political instability, the development expenditure stood even below the regular expenditure. Obviously, such declining situation of development expenditure would erode the productive capacities of the economy constraining the basic socio-economic infrastructure and services. Many structural weaknesses are responsible for Nepal's unsatisfactory performance in the case of development expenditure. There have been persistent weaknesses in the planning and budgeting systems especially for development expenditure. Chief among these have been the lack of effective mechanisms to ensure realistic budgeting, prioritizing the public expenditure programs and screening new projects before they are included in the development budget. There is an unrealistic target for the development budget attempting to accommodate too many new projects. However, the actual budget outcome has fallen significantly short of these optimistic expectations.

The budget, particularly its development component, is heavily over-programmed as the average realization rate during the review period was 86.3 percent. Because of the political pressures to accommodate several new projects, there are unmanageable projects for development budget. There is a concrete lack of cost-benefit analysis and prioritization of development projects. Despite a series of fiscal reform, both in revenue and expenditure fronts, the fiscal deficits remained above five percent of GDP. This may be due partly to ascendant impact of development expenditure which was dominated by a few but popular and even costly entitlements like social services, rural infrastructure, and power generation, generally tied with demographic and economic factors. In order to finance these entitlements, revenue policy has been skewed, making it more difficult to meet resource gap through increased taxes.

The budget document presented to the parliament appears to be a unified one. But, in reality, the regular budget and the development budget are normally prepared following different procedures. The MOF prepares regular budget on the basis of past experience and historical accounting whereas NPC prepares the development budget with a view of achieving targets as laid down in the national plan. In such cases, difficulties are frequently encountered in meeting macro objectives where the two budgets are prepared without full co-ordination, or on different economic assumptions.

To boost the revenue collection by broadening tax base, HMG/N introduced the VAT by replacing sales tax, hotel tax, contract tax and entertainment tax during the Nineties. However, due to the lack of proper implementation, the VAT could not succeed to generate revenue as expected. HMG/N also tried to expand income tax base during the review period. Nevertheless, the revenue collection is still far below the level of expenditure. There is still excessive leakage in revenue collection. Due to inefficient government revenue system, the revenue collection has not become responsive to the need of the expenditure. As a result, only about one-fifth of the development expenditure has been fulfilled from revenue surplus. Revenue growth even lacks behind the growth of regular expenditure.

To fill the resource gap from domestic front, though HMG/N introduced various tax policies with multiple objectives, in substance, the revenue-related objectives of HMG/N stated in the annual budget speeches were hardly achieved to increase the share of direct tax for reducing economic inequality in the society, to reform the tax administration in order to increase the domestic resource mobilization, to reduce the tax rate which contributes for liberalization and provides relief to the people at large, to provide long term direction to revenue policy by making tax composition appropriate to consolidate tax revenue with economic activities, and to make it elastic.

There is a haphazard flow and use of foreign aid. Such a situation has been creating aid dependency syndrome in the Nepalese economy. Over reliance on foreign aid has been creating the situation of loss in self-dignity. There is a severe lack of monitoring mechanism during budget execution. Consequently, there is a widespread leakage of resources and tardy pace of project implementation. There is also lack of co-ordination between government organizations. There has been a conspicuous trend toward loans rather than grants in the composition of foreign aid in Nepal. This has imposed the growing burden of debt servicing charges in the form of commitment charges, interest payment and amortization. Debt servicing burden in Nepal, though not acute and alarming as yet, is increasing fast. Unless HMG/N takes measures to alleviate the situation, it will not only bring instability in the economy but will also slow down the pace of development and thus produce consequences that are undesired both economically and socially.

There was severe lack of multi-year planning in Nepal during the Nineties. As such, there was lack of coordination between necessary budget required and budget allocation for the important development projects. Because of the lack of such a planning, many development programs were not completed and their implementation condition became gloomier. There is also a lack of commitment from the concerned sections including the lack of effective reward and punishment system. Hence, there is an excessive leakage of the government resources and preponderance of weak performance. No one takes the responsibility of the project failure. In this way, there is sheer lax of public responsibility and accountability. In other words, there is an absence of good governance that is resulting in the weak fiscal management, among others.

SUGGESTIONS

Instead of the current practice of allocating resources on an incremental basis, it is necessary to look at the resource need for Organization and Management (O & M), other recurrent activities and the ongoing development projects/programs in an integrated manner. It is, therefore, necessary to integrate the regular and development budgets. It is vital to provide the required resources for meeting the priorities for growth, poverty reduction and service delivery objectives. Development projects should be screened based on cost-benefit analysis. Enough resources should be allocated to finish such projects on time. To streamline the development budget and minimize the waste of resources associated with over-programming; it is essential to ensure greater realism in resource forecasting. Projections of revenue, aid inflows and the size of the development budget would need to be in line with the recent performance and reasonable expectations.

The budget process needs to be made more responsive, less "top-down" and more "bottom-up", in terms of accommodating programs so long as they are consistent with sectoral strategies and priorities proposed by local level constituents and line ministries to improve the effectiveness of public spending. It is necessary to promote greater local ownership of the public expenditure program. This will require actions both from HMG/N and the donors. For example, HMG/N will need to take the lead in designing, financing and implementing the development program and, even more importantly, in aid co-ordination itself. It will need to decide what its own development priorities and programs are, and ask the donors to support such programs. Where donor aid does not fit its priorities and program objectives, HMG/N needs to reject such 'donor-driven' aid. This will, of course, require building up its institutional capacity and greater degree of self-financing/self-reliance through stronger efforts to mobilize revenues, which may take considerable time. Donors need to come forward to support this process. Clearly such a strategy will entail risks for both donors and HMG/N. But, if it works, it may help ensure greater sustainability and effectiveness of Nepal's development efforts. The effective implementation of the Foreign Aid Policy, 2002 will be instrumental in deriving such benefits from the foreign aid available to

Nepal. Another element, which is vital for improving public resource management, is strengthening the institutional capacity for carrying out development activities. Despite considerable technical assistance, institutional capacity remains weak virtually at all levels; but improvements in the two areas are particularly important: civil service reform and decentralization.

The multi-target aspects of the use of customs duties highlight their historical importance, which may decline along with the recent developments in the liberalized framework involving regional and international trade organizations like SAPTA, WTO and other trade liberalization initiatives. Thus, there is an urgent need to reform the domestic taxes even for maintaining the current tax-GDP ratio, while to raise it over time is another equally important issue. HMG/N should confine its activities to social services and infrastructure sector and encourage the development of private sector in all other economic activities through the development of appropriate environment. HMG/N should introduce the multi-year planning approach for the effective execution of the development projects. The Medium-Term Expenditure Framework (MTEF), which HMG/N has been currently implementing, points to the priority given to the issues of public expenditure reform. Such arrangements need to be implemented with earnestness and on more comprehensive basis. Rewards and punishment system should be made effective so that public accountability and responsibility will increase, which then will help in the effective implementation of HMG/N policies and development programs through, among others, the reduction in the rampant misuse of public resources.

CONCLUSION

During the decade after the restoration of the multi-party system in 1990, the democratic governments, despite their serious attempts, seem unable to mobilize adequate domestic resources as evident from the less than expected revenue/GDP ratio, higher fiscal deficit/GDP ratio, narrowing revenue surplus, and large outstanding government debt/GDP ratio. Recently, a major feature of the budgetary development has been the growing dependence on foreign loans for deficit financing. Around 66 percent of the development expenditure has been proposed to be financed through the foreign sources. This is not a happy situation for Nepal, which already accumulated the foreign debt liability of Rs. 190.7 billion till 2000. The past tradition of banking its development expenditure upon foreign assistance (grants plus loan) could not be broken even by the democratically-elected government. So, much remains to be done in the area of budgetary policy if it has to be made consistent with the sustainability of the overall macroeconomic policy framework.

HMG/N, during the Nineties, followed the policy of economic liberalization, giving primary focus on private sector activities. Although there was a series of changes of the governments on a frequent basis, there has been no major diversion during the Nineties at least in the major policy framework of HMG/N. However, despite HMG/N adopting the policy to boost the private sector, in actual sense, private sector has not been able to come up as expected since frequent changes of governments created policy confusion and uncertainties in the economy. Such political instability resulted in the lack of commitment to pursue, in a smooth and coordinated scheme, development activities due to excessive political interference for party politicizing. As a result, most of the development projects were halted without completion. Although the number of projects increased on account of the political pressure, there was a severe ineffectiveness in the implementation of these projects.

HMG/N failed to contain the growth of regular expenditure because of the increasing liability of maintaining law and order, debt service payments, salary increment and other overhead expenditures. As a result, regular expenditure began to outstrip development expenditure during the last years of the Nineties. The control of the expenditure mainly included the control of the wage and salary, which averaged 30 percent of the regular expenditure and 7 percent of the development expenditure, leaving untouched other headings where the possibility of leakage of resources has been equally high. On the revenue side, mainly the customs duty, sales tax and income tax have been reformed. But the reform in the customs duty has not been able in rectifying the anomalies contained in the foreign trade regime. These reforms could neither boost the import revenue from the third countries nor enhance the domestic revenue collection in a remarkable manner. Though reform in income taxation in line with what is prevailing around the world today is by far a welcome step, no serious steps have been taken to compensate the revenue loss caused by the tax reforms.

The major indicators of socio-economic development including the achievements with respect to poverty reduction pointed toward the ineffectiveness of the budgetary framework, primarily arising from the limited achievements in the real terms in relation to the lofty goals and ambitious policy pronouncements. To sum up, despite the sincerity of purpose and the urgency to address the rising popular demands, the popularly-elected governments could not transform their budget policies, priorities and programs into realistic outcomes mainly because of the inadequate political vision and limited capacity of HMG/N in transforming the plans and programs into outcomes. Therefore, the urgency for the future governments is to enhance the institutional and bureaucratic capacity to implement the promises and plans in an effective and efficient way in addition to chalking out a sound development strategy most beneficial to the economy of Nepal and the Nepalese people.

Table 1. Characteristics of Government Expenditure (1990/91 - 1999/00)
(In Percentages)

	Nominal Growth Rate	Real Growth Rate	As % of GDP	As Percentage of GDP		
				1991	1996	2000
Total Expenditure	13.0	4.2	18.0	19.6	17.8	17.5
Regular Expenditure	18.5	9.3	7.9	6.3	8.8	9.1
Development Expenditure	9.8	1.3	10.1	13.3	9.0	8.4

Source: Economic Survey 2003 and Author's Calculations.

Table 2. Realization Ratio of Government Expenditure (1990/91 - 1999/00)
(In Percentages)

Heads / FY	1990/91	1994/95	1999/00	Average 1991-2000
Total Expenditure	91.9	91.5	87.5	91.9
Regular Expenditure	94.0	97.4	96.9	96.8
Development Expenditure	90.8	86.4	79.6	86.3

Source: Budget Speeches of FY 1990/91 through 1999/00, Economic Survey 2003 and Author's Calculations

Table 3. Development Budget (1990/91 - 1999/00)
(Amount in Rs. Million)

Heads / Fiscal Year	1995	2000	Average 1991-2000
Development Budget	19794.9	31749.2	23363.7
No. of Projects	532	704	623
Expenditure per Project	37.21	45.10	37.5

Source: MOF and NPC.

Table 4. Sectoral Pattern of Allocation and Realization of Total Expenditure (In Percentages)

Heads	1990/91	1994/95	1999/00	Average 1991 - 2000
1 Social Service	*18.3*	*27.3*	*30.6*	*27.0*
Education	8.8	13.0	13.2	12.7
Health	2.8	3.8	4.9	4.1
Drinking Water	2.3	2.8	3.3	3.4
Local Development	1.4	6.2	6.3	4.8
Others	3.0	1.4	2.9	2.0
2 Economic Services	*36.5*	*18.9*	*16.7*	*20.3*
Agriculture	6.7	6.9	3.8	5.2
Irrigation	4.8	6.8	5.4	6.3
Land Reform and Survey	0.6	0.7	0.9	0.7
Forest	2.0	2.0	1.9	2.3
Industry & Mining	7.5	1.2	1.7	2.9
Others	15.0	1.3	2.9	2.8
3 Infrastructure	*15.6*	*17.5*	*18.2*	*19.4*
Communication	0.9	4.8	1.7	2.5
Transport	8.9	8.2	8.1	9.9
Electricity	5.8	4.5	8.4	7.0
4 Others	29.6	36.3	34.5	33.4
Total Expenditure	*100.0*	*100.0*	*100.0*	*100.0*
Realization Ratio of Major Sectors				
1 Social Service	*93.2*	*89.4*	*86.0*	*89.5*
Education	100.2	70.2	88.0	91.1
Health	74.7	94.6	75.6	78.7
Drinking Water	78.8	84.9	81.2	88.0
Local Development	87.3	253.4	83.0	107.0
Others	116.8	64.6	120.3	87.8
2 Economic Services	*193.5*	*92.8*	*88.8*	*100.3*
Agriculture	127.2	101.4	85.9	90.0
Irrigation	100.7	110.5	85.8	101.5
Land Reform and Survey	92.8	107.8	95.2	92.4
Forest	79.6	58.5	90.0	89.0
Industry & Mining	209.2	60.2	88.7	101.2
Others	701.8	96.6	96.6	130.6
3 Infrastructure	*105.3*	*91.6*	*77.5*	*86.6*
Communication	95.2	166.9	91.7	95.3
Transport	107.7	95.1	88.4	97.3
Electricity	103.5	59.3	67.3	73.7

Source: Budget Speeches and Detailed Expenditure Estimates for FY 1990/91 through 1999/00 and Author's Calculations.

Table 5. Inter-sectoral Allocation of Actual Development Expenditure (In Percentages)

Heads	1990/91	1994/95	1999/00	Average 1991-2000
Total Development Expenditure	*100.0*	*100.0*	*100.0*	*100.0*
1 Social Service	22.3	31.5	39.1	33.8
Education	10.7	7.4	8.1	10.0
Health	2.3	4.3	6.7	4.8
Drinking Water	3.4	5.6	7.6	6.1
Local Development	2.0	12.2	13.0	10.1
Others	3.9	1.9	3.6	2.8
2 Economic Services	53.2	33.1	25.6	30.3
Agriculture	9.6	13.3	6.6	8.6
Irrigation	7.0	12.9	9.6	10.8
Land Reform and Survey	0.7	1.0	0.8	0.9
Forest	2.9	2.1	1.6	2.5
Industry & Mining	11.0	1.4	2.6	3.6
Others	22.0	2.5	4.4	3.9
3 Infrastructure	21.3	31.9	33.1	33.8
Communication	0.4	7.7	0.9	2.9
Transport	12.4	15.2	14.8	17.2
Electricity	8.5	8.9	17.4	13.6
4 Others	3.2	3.6	2.2	2.1

Source: Economic Survey 2003, MOF, HMG/N and Author's Calculations.

Table 6. Characteristics of Revenue (1990/91 - 1999/00) (In Percentages)

	1991	1995	2000	Average 1991-2000
Growth Rate in Nominal terms	15.5	25.5	15.2	16.7
Growth Rate in Real terms	5.6	17.8	10.7	7.6
As Percentage of GDP	8.9	11.2	11.3	10.3
Realization Ratio	103.1	98.3	96.4	96.3

Source: Economic Survey 2003, MOF, HMG/N and Author's Calculations.

Table 7. Composition of Revenue (1990/91 - 1999/00)
(In Percentages)

	1991	1995	2000	Average 1991-2000
Indirect Tax	*63.9*	*64.6*	*58.5*	*62.0*
Direct Tax	*12.3*	*15.4*	*19.8*	*15.7*
Tax Revenue	76.2	80.0	78.3	77.7
Non- tax Revenue	23.8	20.0	21.7	22.3
Total	100.0	100.0	100.0	100.0

Source: Economic Survey 2003, MOF, HMG/N and Author's Calculations.

Table 8. Financing Government Expenditure (1990/91 - 1999/00)
(In Percentages)

	1991	1995	2000	Average 1991-2000
Revenue	45.6	62.9	64.7	57.3
Foreign Grants	9.2	10.1	8.6	9.3
Foreign Loans	26.6	18.7	17.8	21.6
Internal Borrowing*	18.7	8.3	8.8	11.8

** including cash balance.*
Source: Economic Survey 2003, MOF, HMG/N and Author's Calculations.

Table 9. Financing Development Expenditure (1990/91 - 1999/00)
(In Percentages)

	1991	1995	2000	Average 1991-2000
Revenue surplus	19.8	26.8	26.4	23.8
Foreign Assistance:	52.7	56.8	55.2	55.3
Grant	13.5	19.9	18.0	16.8
Loan	39.2	36.9	37.2	38.5
Internal Borrowing*	27.5	16.3	18.4	20.9

** including cash balance.*
Source: Economic Survey 2003, MOF, HMG/N and Author's Calculations.

Table 10. Financing Fiscal Deficit (1990/91 - 1999/00)
(In Percentages)

	1991	1995	2000	Average 1991-2000
External Borrowing	58.7	69.3	66.9	65.2
Internal Borrowing*	41.3	30.7	33.1	34.8

** Including cash balance.*

Table 11. Characteristics of Fiscal Deficit (1990/91 - 1999/00)
(Amount in Rs. Million)

	1991	1995	2000	Average 1991-2000
Fiscal Deficit with Grants	10655.1	10547.7	17667.0	13766.6
Fiscal Deficit without Grants	12819.9	14484.3	23378.7	17786.3
Annual Growth Rate				
Fiscal Deficit with Grants	26.7	-9.3	-1.8	8.5
Fiscal Deficit without Grants	23.5	3.3	4.7	9.1
As percentage of GDP				
Fiscal Deficit with Grants	8.9	4.8	4.7	6.1
Fiscal Deficit without Grants	10.7	6.6	6.2	7.7

Source: Economic Survey 2003, MOF, HMG/N and Author's Calculations.

Table 12. Government Debt Stock (1990/91 - 1999/00)
(Amount in Rs. Million)

	1991	1995	2000	Growth Rate 1991-2000
Internal	20855.9	32057.8	54357.0	14.55
External	59505.3	113000.9	190691.2	18.78
Total	80361.2	145058.7	245048.2	17.59
As Percentage of GDP				
Internal	18.0	15.3	14.9	15.1
External	51.2	53.8	52.2	52.2
Total	69.2	69.1	67.1	67.3

Source: Economic Survey 2003, MOF, HMG/N and Author's Calculations.

Table 13. Major Indicators

Items	1990/91	1994/95	1999/00
GDP Growth Rate (%)	6.4	3.3	6.1
Investment/GDP(%)	20.83	25.20	20.94
Gross Domestic Saving/GDP(%)	9.57	14.81	13.17
Per Capita GNP in NRs.	6695	11170	17284
Average Exchange Rate (NRs./US$)	36	49.94	68.98
Per Capita GDP in US$	183	219	242
Per Capita GNP in US$	186	224	251
Inflation (1995/96 = 100)	9.72	7.68	3.50
Balance of Payments (- increase)	-4132.2	313.9	-14433.0
Crude Birth Rate (in 000)	41.2	37.8	33.58
Crude Death Rate (in 000)	13.3	11.7	9.96
Total Fertility Rate	5.6	5.1	4.3
Infant Mortality Rate (in 000)	97.5		64.1
Life Expectancy at Birth	54.3	56.1	58.95

Source: Economic Survey 2003, MOF, HMG/N, CBS and NRB.

ACRONYMS USED

APP	Agricultural Prospective Plan
BOP	Balance of Payments
BOT	Build-Operate-Transfer
BOVO	Build-Our-Village-Ourselves
CBS	Central Bureau of Statistics
FY	Fiscal Year
GDP	Gross Domestic Product
HMG/N	His Majesty's Government, Nepal
IDS	Integrated Development Systems
IMF	International Monetary Fund
MOF	Ministry of Finance
MTEF	Medium-Term Expenditure Framework
CPN (UML)	Nepal Communist Party (Unified Marxist and Leninist)
NPC	National Planning Commission
NRB	Nepal Rastra Bank
OGL	Ordinary General License
RPP	Rastriya Prajatantra Party
RSP	Rastriya Sadbhavana Party
Rs.	Nepalese Rupees
UNDP/N	United Nations Development Program, Nepal
VAT	Value Added Tax
VDC	Village Development Committee
VNY	Visit Nepal Year 1998
WB	World Bank
WTO	World Trade Organization

REFERENCES

ADB .1999. *Asian Development Outlook*, New York: Oxford University Press.

Adhikari Deepak. 2003. "Budgetary Framework: Some Problems and Challenges." (The Rising Nepal, December 9, 2003).

Adhikari Deepak. 2003. "Budgetary Experience and Suggestion." (The Kathmandu Post, December 16, 2003).

Adhikari Deepak. 2003. "The Nineties' Budget: Assessment of Economic Policies". (The Rising Nepal, December 31, 2003).

Agrawal Govind Ram. 1978. "Revenue Mobilization for Development: The Reform of Income Tax in Nepal". Kathmandu: CEDA.

Barry H. Potter and Jack Diamond. 1999. "Guidelines for Public Expenditure Management". Washington D.C.: IMF.

Basyal Tula Raj. 1994. "Developments in Domestic Saving Mobilization in Nepal: An Overview". Kathmandu: *Economic Review*, Issue No.7, Nepal Rastra Bank.

Bayer John C. 1973. "Budget Innovation in Developing Countries: The Experience of Nepal". New York: Praeger Publishers.

CBS. *Statistical Year Book of Nepal 1999*, Kathmandu: CBS.

Due John F. And Friedlaender Ann F. 1997. "Government Finance: Economics of the Public Sector*,* Delhi: A.I.T.B.S. Publishers and Distributors.

Ghimire, Madhav. 1996. "The Role of Foreign Aid in Nepal" Rajaswa (The Nepalese Journal of Public Finance and Development), Year 15, Vol.2, Lalitpur: Revenue Administration Training Centre, HMG/N, MOF.

Goode Richard. 1986. "Government Finance in Developing countries". Tata Mc-Graw Hill Publishing Company Ltd.,

Integrated Development System (IDS) 1987. "Financing Public Sector Expenditure in Nepal". Kathmandu: IDS.

Ministry of Finance. *Economic Survey 1999/00*, Kathmandu: HMG/N, MOF.

Ministry of Finance (Various Issues), Budget Speeches of FY 1990/91through 2000/01, Kathmandu: HMG/N, MOF.

National Planning Commission .1991. *Eighth Plan*, Kathmandu: HMG/N, NPC.

National Planning Commission .1997. *Ninth Plan,* Kathmandu: HMG/N, NPC.

Nepal Rastra Bank (Various Issues), Quarterly Economic Bulletin, Kathmandu: NRB, Research Department.

Shrestha, B.P. 1996. "The Budget for 1996/97: A Brief Macro Policy Review" Revenue (Journal), year 16, Issue 2, published by Revenue Administration Training Center, MOF, Lalitpur.

The World Bank 2000. "Nepal Public Expenditure Review" (In five volumes). Kathmandu: The World Bank.

UNDP/N.1999. "Nepal Human Development Report 1998". Kathmandu: Nepal South Asia Region.

●