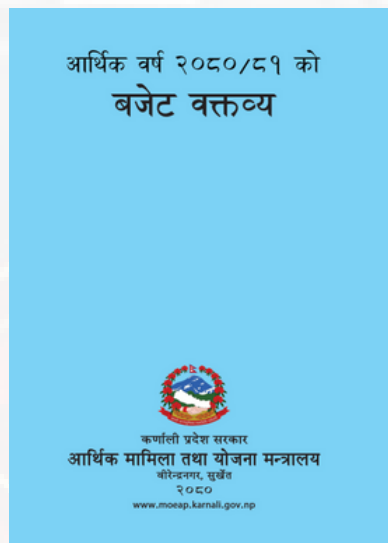


BUDGET OVERVIEW OF KARNALI PROVINCE GOVERNMENT FY 2023/24



HRITI FOUNDATION
TOWARDS PROSPEROUS KARNALI

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2023

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1: Fundamentals of Fiscal Federalism

Understanding key words of Budget

1.1: Budget

A budget is a tentative list of government income and expenditure (or any institution) for a stipulated period, particularly for a year called a financial year. Fiscal years may differ from country to country and may not match the calendar. For example, Nepal observes its new year on April second week (Baisakh 1) and its financial year on July third week (Shravan 1).

Capital Expenditure.

Capital expenditure is the money spent by the government on the development of physical infrastructure, machinery equipment, building, health facilities, education, etc. It also includes the expenditure incurred on acquiring fixed assets like land and investment by the government that gives profits or dividends. Development projects particularly fall in this category.

1.2: Recurrent Expenditure

Recurrent expenditure means spending on day-to-day operations, including administrative activities and public services. For example, remuneration of staff, allowances and benefits of peoples' representatives and other administrative costs are considered recurrent expenditures.

1.3: Fiscal Equalization Grant

The government of Nepal distributes financial equalization grants to provinces and local levels on the recommendation of the National Natural Resources and Fiscal Commission based on the revenue capacity and needs of respective governments. Likewise, provincial governments, according to the province laws and recommendations of the commission, distribute the grant to the local levels.

1.4: Conditional Grant

Conditional grants are provided to provinces and local levels by the Government of Nepal in accordance with the basis set by the National Natural Resources and Fiscal Commission to implement any plan at the provincial or local levels. While providing conditional grants, the Government of Nepal sets the necessary conditions for implementing the plan, and the respective provinces and local levels have to comply with such conditions. Likewise, provincial governments provide conditional grants to the local levels accordingly.

1.5: Matching Grant

The Government of Nepal provides matching grants to provincial and local levels to implement any plan related to infrastructure development. While providing matching grants, the feasibility of the plan, the cost of the plan, the return or benefit obtained from the plan, the financial and physical capacity to implement the plan or the manpower, and the need and priority of the plan are considered. Similarly, the province can provide matching grants to the local levels according to the provincial law. The matching subsidy is provided on the basis of a proportion of the total cost of a scheme.

1.6: Special Grant

The Government of Nepal provides special grants for a specific scheme to be conducted at the provincial or local level to fulfil the following objectives. Provincial governments can provide special grants to local levels in accordance with provincial laws.

- (a) To provide basic services like education, health, drinking water etc.
- (b) To have a balanced development of inter-province and inter-local levels
- (c) To uplift the economic and social status of marginalized communities

1.7: Deficit Budget

A budget deficit occurs when a government's spending on public services, infrastructure, and other projects surpasses the revenue it generates (from taxes, fees, etc.). Although this financial imbalance may require borrowing or reducing savings, it can help governments invest in initiatives that provide long-term benefits to their citizens.

1.8: Surplus Budget

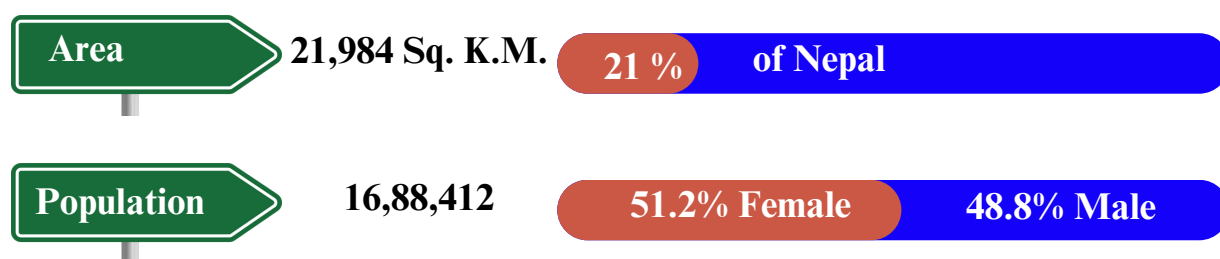
A budget surplus occurs when tax revenue is greater than government spending. With a budget surplus, the government can use the surplus revenue to pay off public sector debt. Budget surpluses are quite rare in modern economies because of the temptation for politicians to spend more money and cut taxes.

1.9: Internal Revenue of Province

Province government can generate internal resources from areas such as entertainment and advertising tax, fines, income from the sale of services and goods, tourism fees, sale of agricultural materials, etc.

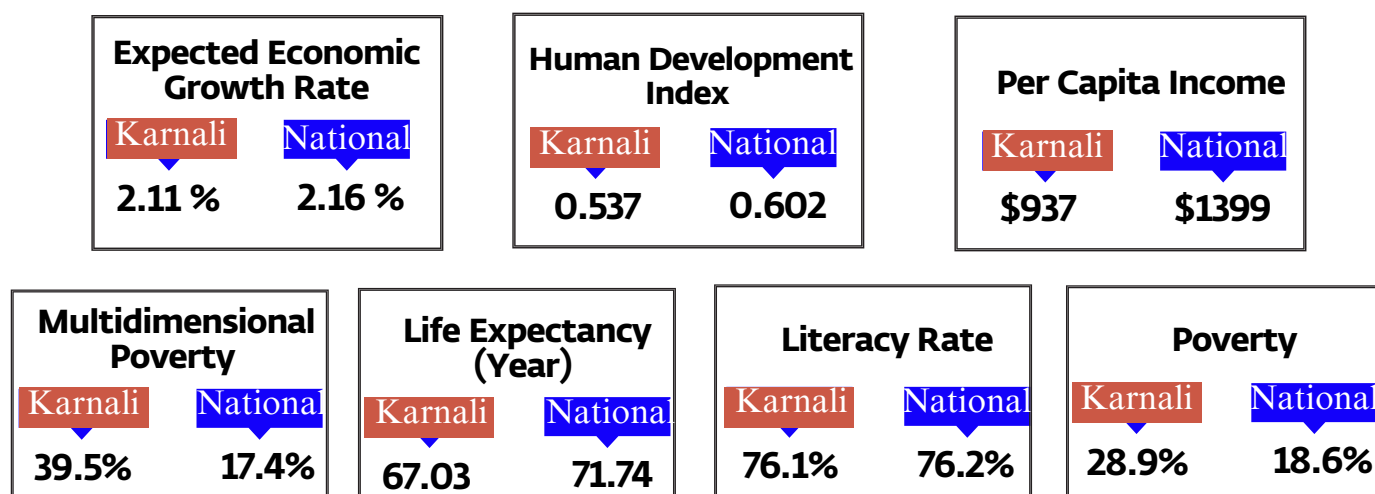
2: Budget Overview of Karnali Province Government Fiscal Year 2023/24

2.1: Karnali in a lens



Karnali Province, in terms of geography, is the largest among the seven provinces of Nepal and covers 21 percent (21984 square kilometres) of total land. However, the population of the Karnali region is only 5.79 percent. The total population of Karnali is 16,88,412, out of which 864, 651 are female and 823,761 are male. The expected growth rate of the population in Karnali province is 0.70 percent.

2.2: Index in comparison to National Average



Source: Budget of Karnali Province Government for FY 2023/24

Karnali Province is hardly competent in all the indicators compared to the national average. The expected economic growth rate of Karnali is 2.11 percent while the national average is 2.16 percent. Similarly, the human development index of the province is 0.537 while the national average is 0.602. Likewise, the per capita income of Karnali province is 937 US dollars while Nepal's national average per capita income is 1399 US dollars. According to statistics, the multidimensional poverty rate of Karnali is 28.9 percent however the national average is 18.6 percent. Moreover, the average life expectancy of citizens of Karnali province is 67.3 years while the national average is 71.74 years. Therefore, Karnali Province is behind the national average in all the indicators. Hence, the Karnali province government should focus on improving all the indicators through its policies and budgets.

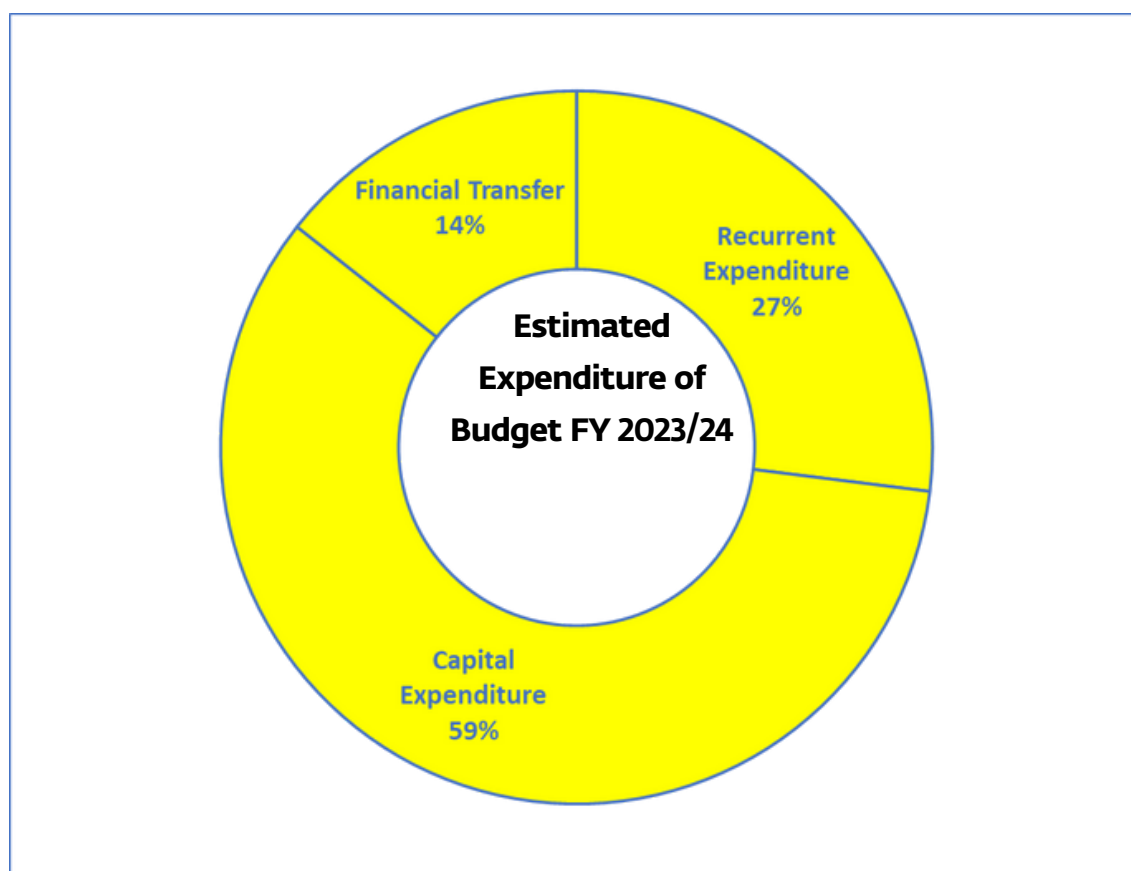
3. Budget Review

3.1: Estimated Expenditure of Budget FY 2023/24

Components	Amount (Rs.)	Percentage
Total Budget	33379707000	
Recurrent Expenditure	9002024000	26.97%
Capital Expenditure	19577243000	58.65%
Financial Transfer	4800440000	14.38%

Source: Budget of Karnali Province Government for FY 2023/24

The total budget for the financial year 2080/081 brought by the Karnali province government is about 33 billion rupees. The budget consists of current expenditure of about 9 billion (26.97 percent) and capital expenditure of about 20 billion (58.65 percent) rupees and almost 5 billion (14.38 percent) rupees have been allocated for financial transfer. Since numerous provincial institutions have yet to be set up the administrative expenses are quite low in Karnali. Similarly, the Karnali province government's capital budget expenditure is also very low and needs extensive improvement.

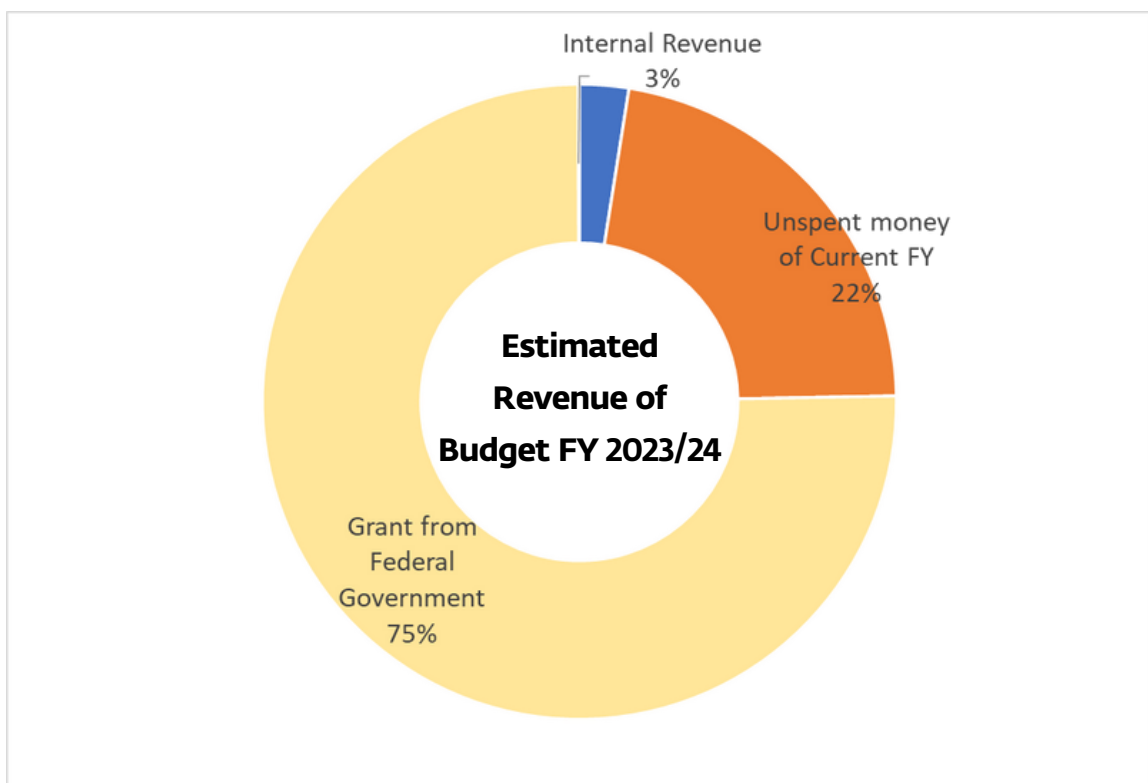


3.2: Estimated Revenue of Budget FY 2023/24

Components	Amount (Rs.)	Percentage
Total Budget	33379707000	
Internal Revenue	836212000	2.51%
Unspent money of Current FY	7410605000	22.20%
Grant from Federal Government	25114200000	75.24%
Foreign Aid	18690000	0.06%

Source: Budget of Karnali Province Government for FY 2023/24

The remarkable pie of the Karnali province government’s budget for the fiscal year 2023/024 is the remaining portion of the money that has not been spent in the current financial year. The total amount of its type is about 7 billion (22.20 percent) rupees. The estimated internal revenue for the budget is about 1 billion which equals 5.51 percent only of the total estimated expenditure. Moreover, a major part of the budget is the grant from the federal government which is about 25 billion (75.24 percent) rupees. Similarly, the portion of expected foreign aid in the budget is about 19 million rupees. In such a situation, it is necessary to find ways to increase the internal revenue of the provincial government.



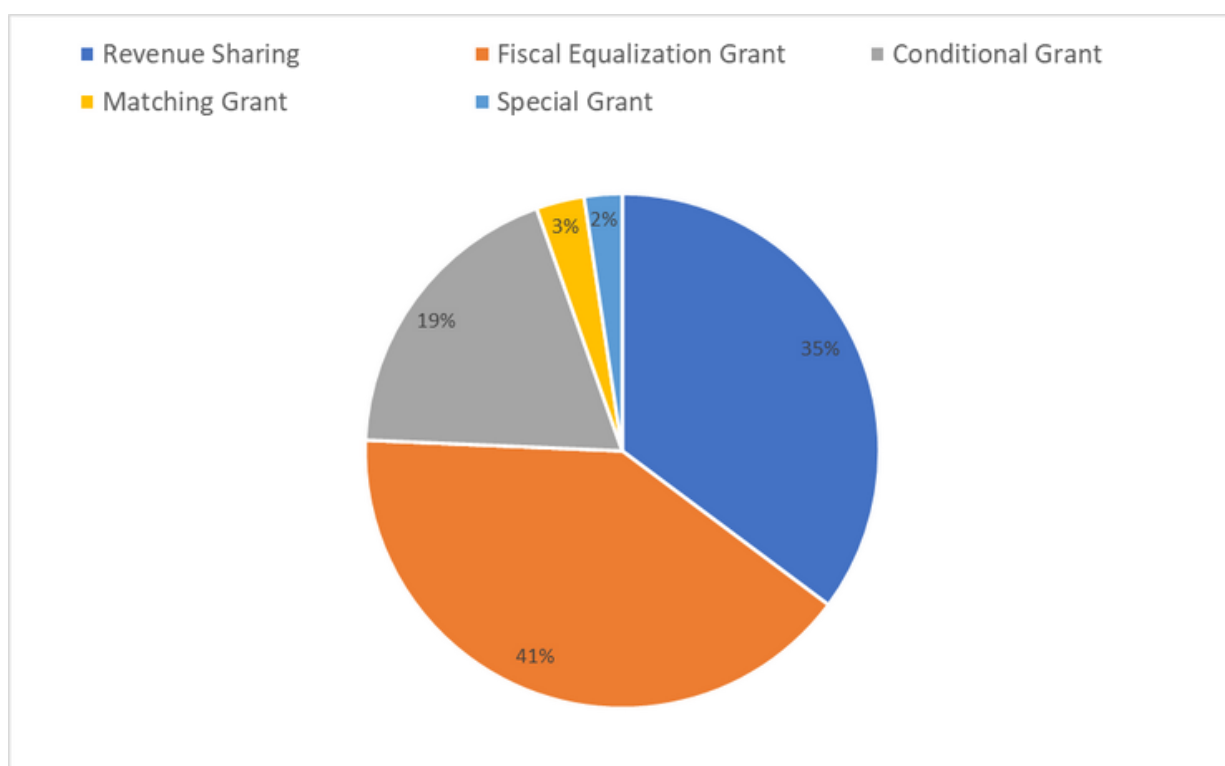
3.3: Grant Review

Components	Amount (Rs.)	Percentage
Total Grant from Federal Government	25114200000	
Revenue Sharing	8840300000	35.20%
Fiscal Equalization Grant	10164100000	40.47%
Conditional Grant	4750300000	19.91%
Matching Grant	761600000	3.03%
Special Grant	597900000	2.38%

Source: Budget of Karnali Province Government for FY 2023/24

The Karnali province government has received about 25 billion rupees as grants from the government of Nepal. Of which, the financial equalization grant is about 10 billion (40.47 percent) rupees and revenue sharing is about 9 billion (35.20 percent). Likewise, the portion of the conditional grant is 19.91 percent (about 5 billion) rupees, the matching grant is about 3.03 percent and the special grant is about 2.38 percent.

Grant Review



3.4: Last Five years Average

Total Budget (FY 2018/19 to FY 2022/23)	1,33,94,47,42,000
Average Expenditure	55.37%
Average Capital Expenditure	52.59%
Average Recurrent Expenditure	60.14%
Internal Revenue (From Province inception to FY 2021/22)	1,60,52,00,000
Total grant received from Federal government (FY 2018/19 to FY 2021/22)	23,75,53,00,000
Total unspent money received from Federal government (FY 2018/19 to FY 2021/22)	8,14,46,00,000 (34.28%)

Source: Budget of Karnali Province Government for FY 2023/24

The Karnali province government has announced so far a total sum of 133 billion rupees budget for the five fiscal years since its inception and the spending rate of it is quite pathetic. The average expenditure for the last five years is 55.37 percent of which the average capital expenditure is 52.59 percent and the average current expenditure is 60.14 percent. For the period the Karnali province government has generated internal revenue as of 2 billion rupees only. In the four financial years after its establishment, Karnali province received conditional grants (conditional, matching, and special) from the federal government of about 24 billion rupees. Out of the conditional grant about 8 billion (34.28 percent) rupees have not been spent. This shows that the average financial progress of the provincial government is quite poor.

4. Conclusion

- Karnali Province is behind the national average in all the indicators. Hence, the Karnali province government should focus on improving all the indicators through its policies and budgets.
- Since numerous provincial institutions have yet to be set up the administrative expenses are quite low in Karnali. Similarly, the Karnali province government's capital budget expenditure is also very low and needs extensive improvement.
- A major part of the budget is the grant from the federal government, which is about 25 billion (75.24 per cent) rupees. Similarly, the portion of expected foreign aid in the budget is about 19 million rupees. In such a situation, it is necessary to find ways to increase the internal revenue of the provincial government.
- The Karnali province government has announced so far a total sum of 133 billion rupees budget for the five fiscal years since its inception and the spending rate of it is quite pathetic. The average expenditure for the last five years is 55.37 percent of which the average capital expenditure is 52.59 percent and the average current expenditure is 60.14 percent.
- For the period the Karnali province government has generated internal revenue as of 2 billion rupees only. In the four financial years after its establishment, Karnali province received conditional grants (conditional, matching, and special) from the federal government of about 24 billion rupees. Out of the conditional grant about 8 billion (34.28 percent) rupees have not been spent. This shows that the average financial progress of the provincial government is quite poor.

5. Recommendations

Based on the conclusion of the budget review, we recommend that the Karnali Provincial Government should focus on the following areas to improve its financial situation and overall development:

- **Increase Administrative Capacity:** Since numerous provincial institutions have yet to be set up, it is essential for the government to invest in building administrative capacity. This will lead to better governance, improved service delivery, and more efficient utilization of resources.
- **Boost Capital Budget Expenditure:** The low capital budget expenditure indicates a need for more investment in infrastructure and development projects. The provincial government should prioritize capital spending on projects that promote economic growth, create job opportunities, and improve the overall quality of life for the people of Karnali.
- **Diversify Revenue Sources:** The heavy reliance on federal grants and foreign aid makes the provincial government vulnerable to fluctuations in funding. Finding ways to increase internal revenue is crucial by exploring potential sources such as taxation, fees, and revenue-generating projects.
- **Enhance Budget Implementation:** The low spending rate of the budget is a matter of concern. The provincial government should improve its budget implementation process, ensure efficient utilization of allocated funds, and focus on completing projects within the designated time frame.
- **Strengthen Financial Management:** The Karnali government should enhance financial management practices to effectively manage the budget and increase financial progress. This includes improved budget planning, monitoring, and evaluation to ensure transparency and accountability.
- **Encourage Private Sector Participation:** To stimulate economic growth and create job opportunities, the government should encourage private sector participation through supportive policies, incentives, and a conducive business environment.
- **Prioritize Underspent Grants:** The unspent conditional grants indicate inefficiency in utilizing available funds. The government should prioritize using the allocated grants effectively and efficiently for projects that align with the province's development priorities.
- **Collaboration and Coordination:** The provincial government should collaborate with the federal government, local governments, and various stakeholders to leverage resources and expertise for sustainable development initiatives.
- **Long-term Planning and Vision:** The Karnali government should develop a comprehensive and long-term development plan with a clear vision for the province's growth. This will provide a roadmap for effective resource allocation and policy implementation.



HRITI FOUNDATION

TOWARDS PROSPEROUS KARNALI

Hriti Foundation is a public policy think tank based in Karnali Province of Nepal. Hriti Foundation promotes market-based solutions to resolve the local problems for a prosperous Karnali. The vision of Hriti is to support policymakers for a prosperous Karnali where government ensures economic rights of citizens. Its mission is to inform the policy makers and citizens on individual and economic rights through research and advocacy and to set liberal values as the core values of provincial policies.

It believes in the power of ideas and therefore hosts its flagship program 'Karnali Utsav Kuda Karnalika' - a three-day festival that aims to spark a much-needed debate on the need to unleash Karnali's inherent potential and reorient the focus on homegrown solutions. Karnali Utsav Kuda Karnalika is the largest public-private dialogue platform in Karnali. These events see a presence of more than 70 speakers engaging in a constructive discourse across several sessions. These deliberations host federal ministers, provincial ministers, sectoral experts, policymakers, regulators, business community leaders, civil society actors, and journalists who delve into the prospects of Karnali and challenges it faces both at a political and economic front.

The foundation actively conducts 'Let's Speak' that is a regular fortnightly discussion series hosted parallelly at different parts of the province. This program engages young intellectuals who discuss on contemporary issues, prospects and challenges that exist in Karnali. Likewise, 'Karnali Kachahari' is another major program hosted by Hriti. This program is a monthly panel discussion based public event where the foundation brings together province and local policymakers and citizens to discuss sub-national economic and development issue.