

# Fiscal Governance of **Karnali Province Government**

A Study on Budget Implementation Gaps and Solutions



**HRI FOUNDATION**  
HERI KARNI POKHARIKARNALI



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# **Fiscal Governance of Karnali Province Government:**

**A Study on Budget Implementation Gaps and Solutions**

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Phone: 083521564, 9858034426

Email: [info@hriti.org](mailto:info@hriti.org)

Website: [www.hriti.org](http://www.hriti.org)

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This study has been conducted with the aim of enhancing the effectiveness of the budget implementation process in Karnali Province and contributing to policymaking. We firmly believe that this report will assist the provincial government in addressing the challenges associated with budget implementation.

## **Hriti Foundation**

# Terminology Guide for the Provincial Government's Budget.

Term	Definition
<b>Appropriation Act</b>	A law that grants the provincial government legal authority to spend funds within a specified timeframe.
<b>Ashare Bikas</b>	The practice of hastily spending the budget to carry out development activities at the end of the fiscal year, particularly in the month of Ashad.
<b>Audit</b>	The process for ensuring transparency and accountability in budget expenditures. This assesses whether the provincial government's expenditures have been utilized appropriately.
<b>Auditor General</b>	An autonomous body that audits state expenditures.
<b>Budget estimate</b>	The process by which the provincial government projects revenues and expenditures for the upcoming year. This helps the government in determining resources and priorities.
<b>Budget implementation</b>	The process by which the provincial government implements the proposed plans after the budget is passed. This ensures the proper and timely utilization of the budget.

**Budget sealing**

The maximum budget limit is allocated to various ministries, offices, and agencies of the provincial government.

**Bundle budget**

A budget allocated as a lump sum without any specific headings, which is typically spent by transferring funds to other categories.

**Capital expenditure**

Expenditures made by the provincial government on long-term projects such as infrastructure development, roads, bridges, and buildings. These expenses are prioritized for capital development.

**Complementary Grant**

A complementary grant is a type of funding provided for specific projects or development programs. In this case, local governments or provinces can request the central government for additional funds by stating, 'We have this amount available; now please provide us with this additional amount.' Grants provided in this manner as a complement or as counterpart funds are referred to as complementary grants.

**Current expenditure**

Expenditures incurred by the provincial government for the daily administrative operations, which include salaries, allowances for employees, office expenses, operating costs, and more.

**Equalization Grant**

A grant provided by the federal government to the province to reduce financial inequality. It is used to diminish financial disparities between provinces and to create equitable development opportunities.

<b>Funds transfer</b>	The process of transferring budget funds from one project or activity to another at the end of the fiscal year.
<b>Interim Government</b>	A government formed for a short term.
<b>Medium-Term Expenditure Framework</b>	Expenditure and planning of the next three fiscal years.
<b>Project Bank</b>	A framework for maintaining a list of prioritized projects (plans).
<b>Revenue transfer</b>	The federal government transfers a portion of the revenue collected from taxes to the provincial government.
<b>Special Grant</b>	A special grant is provided to carry out a specific project or program. Complementary grants are given for projects or programs identified by the province and local levels to address the needs of a class, sector, or community. This involves local governments or provinces requesting a certain amount of funds from the center, stating, 'We have this much available; please provide us with the remaining amount.' Grants provided in this manner as a complement or as counterpart funds are known as complementary grants. Special grants are provided for operational purposes.



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# Introduction

## 1.1 Background

The budget presented by the government reflects its commitment to serve the citizens and avoid harm. It acts as an economic guidance and is also the fiscal responsibility of the government. This detailed list of planned activities and financial allocation is a cornerstone of a democratic system. In such a system, the winning party in elections forms the government and takes responsibility for the country's needs. Based on these needs and campaign promises, the government builds policies, programs, and most importantly, the budget. Finally, a legal framework ensures accountability by requiring parliamentary approval for the government-prepared budget before implementation.

Questions can be raised in the parliament about the annual income and expenditure statement of the government passed by parliament, i.e. whether the budget is properly implemented or not. In addition, in order to properly and effectively implement the budget, the parliament can regulate and monitor the government by making necessary policies, laws and regulations. The effective implementation of the budget is the subject of everyone's major interest and concern. Without the implementation of the budget, neither the objectives of the policies and programs set by the government are fulfilled nor the needs and desires of the citizens can be fulfilled. Therefore, institutional and legal arrangements are made to make the budget cycle effective. In general, the budget or budget cycle refers to budget formulation, budget implementation, budget monitoring and evaluation, and control.

Different stages of the budget involve the involvement of different concerned individuals and bodies. The implementation of the budget can be effective only if the responsibilities and roles of all stakeholders are strengthened. In particular, this study offers solutions to tackle challenges related to budget implementation in Karnali Province. It is expected that the recommendations of this study will be helpful in making the budget of Karnali Province Government more effective.

The implementation of the budget has many dimensions. However, this study is more focused on the implementation of the budget. In particular, efforts have been made to ensure adequate information flow, participation of diverse stakeholders, access to capital, the relationship between medium and long-term plans and budgets, coordination between budgets and targets or undivided budgets, budget topics and gender perspectives in local and national media, etc.

If the public promises made in the budget are not fulfilled, the government will fail and the country will fall into a vicious cycle of underdevelopment. Nepal adopted a federal system of government by promulgating a new constitution in 2015. With the continuation of federalism, the country's transition from armed conflict has solidified, while the people's aspirations for peace, prosperity, and good governance have grown even stronger. Although the country's structural transformation, economic prosperity and sustainable development have not been able to meet the people's expectations, there is a danger of increasing frustration among the citizens and losing faith in the government. Therefore, this study presents suggestions on key dimensions that should be adopted to strengthen the federal system, particularly in the areas of fiscal governance, budget allocation, and budget implementation.

## 1.2 Situation analysis

The Constitution of Nepal 2072, has adopted the federal system, which has provided constitutional certainty that the use of state power will be at three levels, namely, the federal, the provincial and the local level. The work, duties and rights of the three levels of government have been clarified in the constitution. However, some legal and practical problems have emerged regarding the application of the constitution. Since the provincial structure is a completely new practice, many questions have been raised about the provincial government's actions from various angles. In order to increase the efficiency of the provinces, the provincial government needs to exercise caution and restraint in the use of its constitutional and legal rights while also increasing cooperation with the federal and local levels.

It is necessary for the provincial government to formulate appropriate policies, plans and budgets to meet the needs and wishes of the common citizens under the constitutional rights. It is important to effectively implement the formulated budget. Along with the scientific formulation of the budget, effective implementation, fair monitoring and evaluation as well as control can only communicate hope to the common citizens. The budget created and implemented by Karnali province since its inception (2017 AD) till now does not appear to be appropriate and effective. When there is a weakness in the effective formulation and implementation of plans and budgets, citizens do not have confidence and trust in the government. Due to the inability to create a budget based on local needs and its effective implementation, questions have been raised from various angles about the relevance and effectiveness of the provincial government. The criticism and complaints are due to the failure to effectively implement the plans and budgets of the provincial government. The main

reasons for this are political instability, frequent changes in government, and the political interference in planning and budgeting. Similarly, budget formulation is unrealistic with low stakeholder involvement, delay in budget implementation, lack of objective monitoring and control, etc. Focusing on this issue, the main need of the moment is to suggest ways to solve the problems seen in the budget formulation and implementation of the Karnali Province Government.

There is a lack of study on the various problems in terms of budget formation and its implementation in Karnali Province. The process of creating a budget seems to be a formality only. After the creation of the budget, effective implementation is also very weak. The lack of effective implementation of the allocated budget has also led to increasing instances of fiscal irregularities, corruption and abuse in the budget. There have been no studies focusing on this type of problems in the Karnali region as well as studies for solutions to these problems.

### **1.3 Objective of the study**

The main objective of this study is to suggest solutions to the problems seen in the preparation and implementation of the budget of the Karnali Province Government. The specific objectives are as follows:

- Identify problems in the process of preparing the budget of the Karnali Province.
- To inquire about the existing problems regarding the implementation of the budget of Karnali Province.
- To point out the problems and shortcomings in the formulation, implementation, monitoring and evaluation and control of the budget of Karnali Province.

- To present the suggestions to be adopted during the preparation and implementation of the budget of Karnali Province.

## **1.4 Rationale of the study**

The rationale for the establishment of the federal and provincial governments adopted by the country is the need to build rapid and quality development and to provide effective, efficient and accurate service delivery. This requires the correct and good practice of federalism. For this, the provincial assembly, the provincial government as well as the political parties, the bureaucracy and the civil society have to fulfil their responsibilities honestly. The effectiveness and success of the provincial government is the fundamental question of empowering the federal system in a real and true sense. Only the federal system can ensure the proper implementation of the Constitution. This will help in fulfilling the expectations, desires and major objectives of the citizens. For this, a capable and strong provincial government is an essential prerequisite. The empowerment of the province government is possible only through the implementation of effective policies, plans, budgets and programs. In this context, guiding the province government by conducting fact-based studies on the budget formulation, implementation, monitoring and evaluation makes an important contribution to the empowerment of federalism. The recommendations made in this study will be meaningful in the context of the empowerment of the province level as it will suggest the problems seen in the implementation of the budget of the Karnali Province Government and the ways to improve it.

## 1.5 Method of the study

The study is based on qualitative research method. Necessary facts, data, information, experience and understanding were collected for this study report using qualitative method. Thus, facts and figures were collected using both primary and secondary methods.

**Secondary Data:** During this study, various pre-published books, reports, research reports, news published in journals, annual reports published by various bodies, policies, rules, laws, treaties, conventions, and other relevant materials were studied and reviewed. Similarly, Nepal's constitution, state-level budget formulation, implementation-related policy rules, laws, procedures and directories have been studied. The data related to this study included in such pre-published materials have been collected and analyzed.

**Primary data:** Qualitative data were collected during the primary data collection phase of this study. The primary data collection systems are as follows:

**Interviews:** , the process of budget formulation, the implementation process and various people associated with it, officials, various researchers and experts who are conducting research in this field, were interviewed on the basis of need during the study.

**Data Entry and Analysis:** Qualitative data and information were first taken to the written medium for analysis. After that, various themes were drawn while coding the written data. They were analyzed by including the facts, information and suggestions collected within the theme. The data is presented using various graphs, tables and charts.

## 1.6 Limitations of the Study

The boundaries of this study are as follows.

- The study, conducted over 10 months (2080 Shrawan–2081 Baishakh), faced time constraints, limiting in-depth analysis.
- Only selected initiatives of the Karnali Province government have been chosen as a sample to analyze various indicators.
- The data used in this study is based on reports published by the Government of Nepal.



## Review of past Publications

### Budget

The budget is the sum total of political and economic policy and planning. It gives a glimpse of the policies and programmes of the government. It reflects the governments decisions for the development of the country, welfare of the citizens, and the programs and strategies that are set for implementing such decisions. The budget outlines the expenditures to be made to complete the plans and programs prepared by the government and the resources to finance such expenditures. The largest part of the resources needed to implement government plans, policies, and programs is usually raised through fees, charges and taxes. So, the taxes paid by the citizens build up the foundation for the implementation of the government's programs, making budgets a matter of concern for the citizens.

The government has to complete the work related to the day-to-day administration and development of the country, as well as pay the interest and principal on domestic or foreign loans borrowed in the past year. These are the country's expenditures. To fund such expenses, the government collects various taxes and other revenues from the citizens, and in some cases, it also earns profits by operating various business institutions. Development partners also provide loans and grants to support the government's plans. The annual estimate of government expenditure for a specified period of time (usually a year) and the resources needed to cover such expenditures is the budget.

## The Stages of Budgeting

The budget reflects a government's annual planned expenditures, projected revenues and policy priorities for the coming year. However, the budget is not just a document, it is a continuous process throughout the year. The following stages are the basic four stages of budget formulation:

1. Budgeting: The government forms the budget.
2. Budget approval: The parliament reviews and amends the budget and then passes it into law.
3. Budget Implementation: The government collects revenue and spends it as determined by the budget.
4. Budget Monitoring: The budget is audited and the parliament reviews the facts brought out by the audit report. The government takes necessary action on the facts revealed in the audit.

The government presents the budget prepared in this way to the parliament for approval which is also called the budget proposal of the executive. The parliament passes the budget proposals presented by the government with necessary discussion and amendments if necessary. In principle, the government gets the formal authority to spend only after the budget is passed. In order to ensure that the necessary policies, laws, and procedures are followed during the implementation of the budget and the utilization of state funds, various bodies like the Auditor General, an autonomous body for monitoring, evaluation and audit, and the Comptroller General, a semi-autonomous body, are formed. The office of the Auditor General and the parliamentary committee are important supervising, monitoring and evaluating bodies.

Various aspects are taken into consideration in Nepal's budget-making process. These include constitutional provisions, the National Planning Commission's role in setting development priorities, the Ministry of Finance's responsibility for resource estimation and allocation, and the involvement of thematic ministries in plan prioritization. Additionally, key budget-related documents such as the budget statement, red book, and resource book play a crucial role in the process. There are also planning procedures such as the three-year plan or medium-term expenditure structure, monitoring procedures, sectoral planning, foreign aid management, budgeting and accounting, auditing, the role of parliamentary committees and the collective economy, the monetary situation and the state of the public debt.

### **Arrangements regarding budget making process, implementation and audit in the state**

The provincial budget outlines the estimated income and expenditures for a fiscal year, detailing the financial resources allocated to the provincial government's economic, social, infrastructure, and human development plans. It ensures that development programs are implemented in a structured manner within the available means. The federal finance minister presents the national budget in a joint session of both houses of parliament on 15th Jestha each year, which provides provinces with a clearer picture of their allocated funds. Based on this, the provincial finance minister prepares and presents the provincial budget annually in the provincial parliament on 1st Asar.

While presenting the budget, the provincial finance minister has to submit the estimates of revenue, the necessary amounts to be spent on the provincial consolidated fund

and the amount to be spent according to the Province Appropriation Act. As per the provisions of the Constitution of Nepal and various laws, the provincial government has to formulate various plans for the economic, social, physical, and infrastructural development of the entire province, covering the subjects and areas within its jurisdiction. The Province Financial Procedure Act, 2074 and the Inter-Governmental Finance Management Act plays an important role in the preparation of the provincial budget.

According to the Inter-Governmental Finance Management Act 2074, the province has to submit a statement containing various data on the budget projection for the next fiscal year to the Federal Ministry of Finance within five months of each year. There is a provision for the Government of Nepal to provide the estimated details of revenue allocation and fiscal equalization grant to the provincial government within the month of Falgun.

There is a provision to prepare a medium-term expenditure structure with income and expenditure projections for the next three fiscal years before formulating the budget for each fiscal year. There is a provision in the Financial Procedure Act 2074 of each province to take the periodic development plan as a guide to create such an expenditure structure. The Medium-Term Expenditure Framework provides for prioritization of each scheme or programme by specifying the details of the proposed scheme or programme, the per unit cost of each activity, the estimated time of operation, the returns or achievements thereof, etc.

The Ministry of Economic Affairs and Planning of the province must forecast the necessary resources and expenditures for the next fiscal year by the mid-year each year. There is a provision for the ministry to form a resource

estimation committee to forecast resources and expenditure. All seven provinces have their own Policy and Planning Commission as well as Resource Estimates Committee. The Resource Estimates Committee has to decide on the necessary resources and expenditure estimates for the next fiscal year, including the medium-term expenditure structure, and submit its report to the Minister of Economic Affairs. However, so far, this provision in the law does not seem to be implemented properly.

There is also a legal provision about sending budget limits and guidance. The Ministry of Economic Affairs and Planning of the province has a provision in the Financial Procedure Act of the relevant province to send the guidelines and framework regarding the budget limit and budget formulation for the next fiscal year to the concerned ministries and bodies. It should be done within the second week of Falgun of the current fiscal year, within the limits determined by the Resource Estimates Committee. The Ministry of Economic Affairs has a provision to enter the Provincial Budget Limit and Guidance in the Provincial Budget Information System of the Ministry of Economic Affairs and send it to the concerned ministries and bodies. The Ministry, subject to the budget limit and guidance, should prepare the budget proposal, including the policy and program of the next year of itself and its subordinate offices or bodies, in the prescribed format and send it to the Ministry of Economic Affairs within the time specified in the budget limit and guidance. Since the Government of Nepal has not been able to provide the amount of fiscal transfer to the province on time, the Ministry of Economic Affairs has not been able to give the budget ceiling to its ministries and bodies.

Subject to the budget limits and guidance received from the Ministry of Economic Affairs of the province, each

ministry and body must submit the details of the budget and plans within the stipulated time. It has been stated in the economic procedure of the province that while proposing the budget, the ministries and bodies should clearly present the budget estimates for the next fiscal year as well as the projected statement of expenditure and resources for the subsequent two fiscal years, including the cost of the activities to be implemented based on the medium-term expenditure structure and the resources to be used. The ministry and different bodies have to present the physical and financial progress of the last fiscal year and six months of the current fiscal year while proposing the budget.

Similarly, the financial procedure has a provision that at least two months before presenting the budget in the provincial assembly, the finance minister of the provincial government should submit the pre-budget preparation to the provincial assembly with the principles, objectives, priorities and major policies of the budget and program. There is a system for classifying and prioritizing projects.

After this, there is a constitutional provision that the finance minister of the province government should submit an estimated statement of income and expenditure of the next fiscal year of the province government on the 1st of Asar every fiscal year. In addition to the necessary amounts to be spent on the budgeted Province Consolidated Fund and the necessary amounts to be spent according to the Province Appropriations Act, the Financial Act also contains provisions to submit the details of revenue collected as per the estimates made in the previous fiscal year and the details of exemption from tax and non-tax, the details of medium-term expenditure structure and grants, public debt and investment.

After the issuance of the Appropriation Act or the Votes

on Account Act, the spending authority can spend the amount mentioned in the schedule of the Appropriation Act on the basis of the annual program. But there is a provision in the Financial Procedure Act of the province that if the amount in the Appropriation Act has to be spent by more than one body, the amount should be disbursed within 7 days. Similarly, if the amount allocated under one ministry or body has to be spent through a body under another ministry or body, the secretary of the allocated body has to provide the authority to spend the amount to the secretary of the concerned ministry. The amount appropriated or disbursed in the name of the concerned office will be paid from the Province Consolidated Fund on the basis of the payment order of that office through the Unified funds management system as per the procedure determined by the Province Financial Comptroller Office. There is a provision for the head of the concerned office to be responsible for receiving and spending the amount allocated or disbursed in the name of the concerned office, keeping accounts, reporting, auditing and settling irregularities.

If any amount included in the Province Appropriation Act does not yield the desired result or does not appear to yield so, the Ministry of Economic Affairs of the province can surrender the amount and transfer it to other titles as per the rules. The Ministry of Economic Affairs has to publish the semi-yearly and annual evaluation report of the implementation of all aspects of the budget within two months of its expiry. According to the Inter-Governmental Fiscal Management Act, there is a provision to conduct an annual review of the budget implementation of the three-tier government and make its details public within the month of Kartik every year. There is a provision for the provincial government to use an accounting framework, economic indicators and classifications to match the accounting framework of the Government of Nepal.

There is a provision in the province financial procedure to get the accounting framework, economic indicators and classifications approved by the Auditor General. Similarly, an integrated accounting of the internal allocations of the Province Consolidated Fund, revenues, grants, loans, investments and other transactions received by the province government from the Government of Nepal should be kept. It is the duty of the Financial Comptroller Office to prepare and submit the consolidated financial statements of all government enterprises within the province to the Financial Comptroller General Office and Auditor General. Similarly, there is a provision for sending separate and integrated financial statements of all government offices, including local levels, within their economic zones by the concerned fund or the Financial Comptroller Office to the Provincial Financial Comptroller Office and the Office of the Comptroller General. The provisions are stated in the Provincial Financial Procedure and Fiscal Responsibility Act 2076.

All government offices and bodies in the province should prepare and implement the internal control system of their offices and their subordinates. Every office and body have an internal control committee. The committee shall strengthen and make the internal control system effective by ensuring that the functions performed by its body are carried out efficiently and cost-effectively, leading to results, minimizing financial risks, making the financial statements reliable, and recovering the unaccounted income from the audit.

Similarly, there is a provision to conduct an internal audit of the transactions of every office of the province government on the basis of regularity of transactions, efficiency and effectiveness from the office of the Province Financial Comptroller Office or the office designated by that office. It

is in the Province Financial Procedure Act that the integrated annual report of the internal audit should be prepared and submitted to the Province Ministry of Economic Affairs and such report should also be made public. This is to be done by the Comptroller General's Office or the fund designated by it. Province and local governments are required to conduct internal audits as well. There is a provision for every office to conduct a final audit by the Office of the Auditor General by submitting the accounts and financial statements of all types of budgets and transactions as prescribed. Every office and body of the province has to get a final audit from the office of the Auditor General for all types of transactions, including income and expenditure.

### **Challenges in the design and implementation process**

Karnali Province is one of the backward provinces of Nepal in terms of physical and economic development. Karnali is facing various problems in terms of budget formulation and implementation. Understanding these problems and challenges is essential for effective governance and sustainable solutions. A major problem facing the budget-making process in Karnali Province is the limitation of revenue. Due to the low development of industry, trade, and service sectors in Karnali Province, the revenue that the province can raise from its own resources is extremely low (Sharma, 2021). The budget formation of Karnali Province relies only on the fiscal grants provided by the federal government. Lack of planning and prioritization is a major problem in the budget process. The inability to set priorities for the development of Karnali Province and the lack of a planned development program appear to have led to difficulty in fiscal management (Adhikari, 2020).

Due to the lack of necessary efficiency and capacity in the government offices of Karnali Province, problems have arisen in the budget formulation, its implementation and monitoring process. A study conducted by Gurung (2022) found that the lack of necessary manpower and efficiency is impairing the necessary preparation and analysis in the budget formulation process. Karnali Province is also facing a lack of this kind of institutional capacity. The geography of Karnali Province and the lack of basic infrastructure have also become a major challenge in the budget-making process. The lack of transport, communication and other infrastructure in remote areas causes problems in the implementation of plans (Thapa, 2019). Similarly, the lack of coordination between the federal and provincial governments is also one of the major problems seen in the budget-making process. A study by K.C. (2020) found that the lack of coordination hinders the proper implementation of federal grants and projects.

# Major Problems related to the budget of Karnali Province Government

## 3.1 Budget structure

### 3.1.1 Total Budget

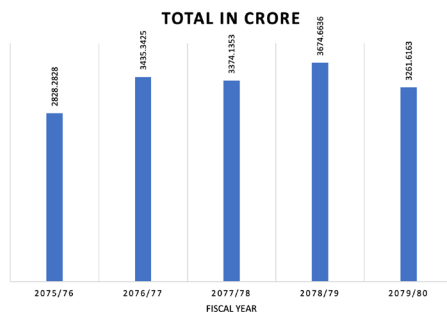
Table, 1  
Annual budget structure of fiscal year 2075/76 to 2079/80

	Total Amount (In Rs)
2075/76	28,282,828,000
2076/77	34,353,425,000
2077/78	33,741,353,000
2078/79	36,746,636,000
2079/80	32,616,163,000
<b>Total</b>	<b>165,540,405,000</b>

Source: Report of the Office of the Auditor General (2077 to 2081)

Karnali province government has allocated a total budget of 165 billion 540 million and 405 thousand rupees in five fiscal years from 2075/076 to 2079/080.

Figure, 1  
Total budget of five fiscal years from 2075/76 to 2079/80



Source: Report of the Office of the Auditor General, Karnali Province (2077 to 2081)

The budget of 36 billion allocated by the Karnali provincial government for the fiscal year 2078/79 is the highest amount among the five fiscal years. The smallest amount allocated in these five years was of 28 billion 282 million for the fiscal year 2075/076. The average budget size for these five fiscal years is around 33 billion.

## Budget Structure

The Karnali Province Government's budget every year is divided into two types, current and capital. Capital expenditure is the amount spent by the government on infrastructure development, machinery equipment, buildings, health facilities, education, etc. It also includes the purchase of fixed assets such as land and investments by the government that can yield profits or dividends in the future. Construction costs are covered by capital expenditures too. Current expenditure is the cost of day-to-day administrative activities for the flow of public services. The salary of the employee, service facilities of the people's representative and other administrative expenses incurred during the operation of the office are covered under the current expenses.

Table, 2

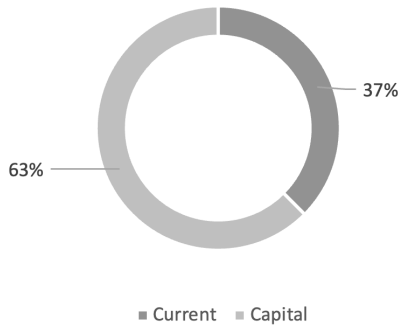
*Structure of current and capital budget of five fiscal years*

Current Budget (In thousands)	Capital Budget (In thousands)	Total Budget (In thousands)
62,026,864	103,513,541	165,540,405

*Source: Report of the Office of the Auditor General, Karnali Province (2077 to 2081)*

The total budget of the Karnali Province Government for the five fiscal years from 2075/076 to 2079/080 is 165 billion 540 million 405 thousand, out of which the current budget is 62 billion 26 million 864 thousand and the capital budget is 103 billion 513 million 541 thousand rupees.

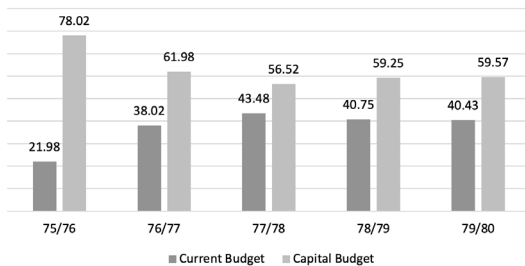
*Figure, 2*  
*Ratio of capital and current budget of the five fiscal years*  
**Allocated Budget**



*Source: Report of the Office of the Auditor General, Karnali Province (2077 to 2081)*

In the five fiscal years from 2075/076 to 2079/080, the current and capital budget structure of the Karnali Province Government shows that the current budget is 37% and the capital budget is 63%.

*Figure, 3*  
*Structure of capital and current budget of the five fiscal years*  
**Percentage of total budget Structure**



*Source: Report of the Office of the Auditor General, Karnali Province (2077 to 2081)*

A study of the budget allocation structure for five fiscal years shows that the current expenditure in FY 2075/076 is the

lowest at 21.98% and the capital expenditure is the highest at 78.02% compared to other fiscal years.

The current and capital budget structure according to the fiscal year is placed in Annex 1.

## The primary source of government funding

The most essential and important condition before budgeting is the assurance of resources. Sources are ensured before any budget is created. The size of the budget is determined based on the certainty of the source. Accordingly, the cost is also determined. The sources of the Karnali Province Government's budget for five fiscal years from the fiscal year 2075/076 to 2079/080 have been discussed here.

Table, 3  
Source of budget for fiscal year 2075/76 to 2079/80

Budget source	Total Budget
Internal Revenue	2364668000
Savings from current fiscal year	38114735000
Revenue Sharing	36853615000
Fiscal Equalization Grant	49481100000
Conditional Grant	26082350000
Complementary Grant	9093200000
Special grant	1741000000
Internal Loan	1750000000
Programs run with foreign aid	45970000
<b>Total</b>	<b>165526638000</b>

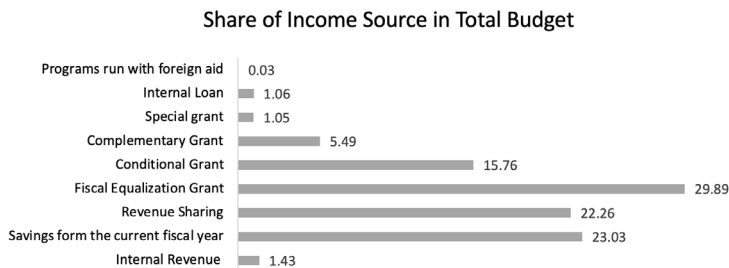
Source: Report of the Office of the Auditor General of the Karnali Province (2015-2017)

## **The main sources of funding: Fiscal Equalization Grant**

One of the main source of the budget for the Karnali Province Government is the fiscal equalization grant from the federal government for all five fiscal years from 2075/076 to 2079/080. 30% of such grant is received over five fiscal years on average. The Government of Nepal provides fiscal equalization grants to the provinces and local levels on the recommendation of the National Natural Resources and Fiscal Commission based on the spending needs and revenue potential of the provinces and local levels. The grants received from the Government of Nepal and the revenue raised from its own sources are provided by the province as per the provincial law and on the recommendation of the commission, based on the spending needs and revenue potential of the local levels within the province.

The source of income of the budget of the Karnali Province Government from the fiscal year 2075/076 to 2079/080 suggests that the budget constitutes of a large amount that was saved in the last fiscal. In the five fiscal years, 23.03% of the budget of the last fiscal year is not spent but saved in the current fiscal year. The share of internal revenue in the budget of the Karnali Province Government seems is very low. The internal revenue contributes 1.43% of the total budget. The government's inability to spend 23% of the budget has questioned the ability of the province government to spend.

Figure, 4  
Source of income of the Province government  
(Total of five fiscal years)



The internal revenue share of the Karnali Province Government is only 1.43% of the total budget. Keeping this in mind, it is necessary to formulate the necessary strategy to increase internal revenue in the upcoming budgets of the province government.

The detailed details of the budget of the Karnali Province Government for the fiscal year 2075/076 to 2079/080, including the amount of income sources, have been placed in Annex 2.

## Internal revenue

The Karnali Province Government has collected a total of Rs 2 billion 364.68 million in internal revenue from the fiscal year 2075/76 to 2079/80. This represents only 1.43% of the total budget over these five fiscal years. According to the budget statement for the fiscal year 2081/82, the province has collected 94.8% of its internal revenue target since its establishment up to the fiscal year 2079/80. While the internal revenue collection by the Karnali Province Government appears satisfactory according to the targets, its contribution to the total budget is quite low. The internal revenue of

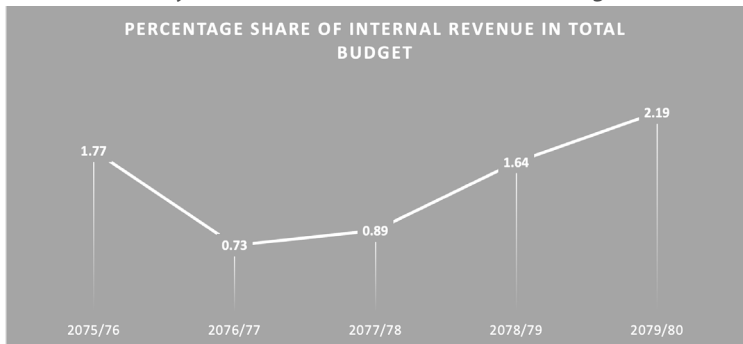
Karnali Province contributes less than 2% of the total budget, indicating a need to develop and implement strategies to significantly increase internal revenue.

Table, 4  
Status of Internal Revenue

Fiscal Year	Expected Internal Revenue (In thousand)	Share of internal revenue in total budget
2075/76	500000000	1.77
2076/77	251041000	0.73
2077/78	300653000	0.89
2078/79	600000000	1.64
2079/80	712974000	2.19
<b>Total</b>	<b>2364338000</b>	<b>1.43</b>

Source: Report of the Office of the Auditor General (2077 to 2081)

Figure, 5  
Yearly Share of Internal Revenue in total budget



### 3.2 Analysis of Budget Expenditure

Since the promulgation of Nepal's Constitution (2072), Nepal has transitioned from its traditional unitary state system to a federal democratic state. According to the Constitution of Nepal, the structure of the federal democratic republic

comprises three tiers: the federal level, the provincial level, and the local level. The financial interrelationships, planning, and budgetary connections among these three tiers require coordinated efforts to achieve good governance, development, and prosperity. Intergovernmental fiscal management encompasses economic aspects such as fiscal transfers, expenditures, loans, grants, budgets, revenue management, and fiscal governance between federal units. Each tier of government is constitutionally and legally mandated to be responsible for planning, budget preparation, approval, and implementation.

However, a recent analysis of the budget allocation and expenditure patterns in Karnali Province reveals a highly disappointing situation. There is a noticeable trend in Karnali Province of allocating large amounts of budget without ensuring resource availability and spending minimally. Table 5 illustrates the trends in budget allocation and expenditure from the fiscal year 2075/76 to the fiscal year 2078/79.

### A. Budgetary allocations and actual expenditures of the Karnali Province

Table, 5

Total budget allocation and expenditure  
(total from fiscal year 2075/076 to fiscal year 2079/080)

Type of Budget	Allocated Budget (Rs Thousand)	Budget Expenditure (Rs thousand)	Expenditure%
Current	62026864	29606731	47.73
Capital	103513541	57180538	55.23
<b>Total</b>	<b>165540405</b>	<b>86787269</b>	<b>52.42</b>

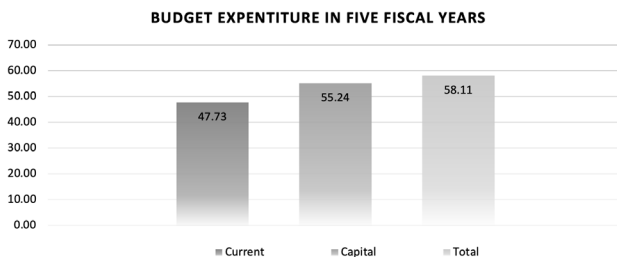
Source: Report of the Office of the Auditor General (2077 to 2081)

Examining the average budget allocation and

expenditure from the fiscal year 2075/76 to 2078/79, it is observed that for current expenditures, a total of NPR 62 billion 26.864 million was allocated, but only 47.73%, or Rs 29 billion 606.731 million, was actually spent. Similarly, for capital expenditures over the same five fiscal years, a total of NPR 103 billion 513.541 million was allocated, with only 55.24 percent, or NPR 57 billion 180.538 million, being spent. Thus, from the fiscal year 2075/76 to 2079/80, only 52.42 percent of the total allocated budget was utilized.

Looking at the state of the budget allocation and expenditure from fiscal year 2075/076 to fiscal year 2078/079, only 47.73% of the total allocation of 62.68 million 64,000 rupees has been spent so far. Similarly, in the same five fiscal years, only 55.24% of the total capital budget allocation of Rs.5718538,000 has been spent. Thus, in the five fiscal years from FY 2075/076 to FY 2079/080, only 52.42% of the total allocated budget has been spent.

Figure, 6  
Total Budget Expenditure of five fiscal years



Source: Report of the Office of the Auditor General (2077 to 2081)

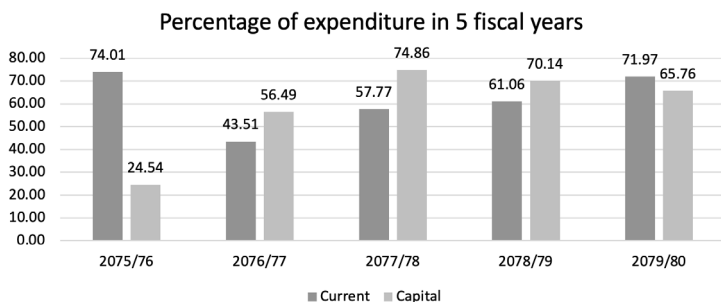
Table, 6  
Past Budget Expenditures  
Status of budget expenditure of fiscal years 2075/76 to 2079/80

Fiscal Year	Current	Capital
2075/76	74.01	24.54
2076/77	43.51	56.49

2077/78	57.77	74.86
2078/79	61.06	70.14
2079/80	71.97	65.76
<b>Total</b>	<b>47.73</b>	<b>55.24</b>

Source: Report of the Office of the Auditor General (2077 to 2081)

*Figure, 7*  
*Proportion of budget expenditure in five fiscal years*



Source: Report of the Office of the Auditor General (2077 to 2081)

The budget expenditure of the Karnali Province Government is very disappointing when looking at the budget expenditure from the fiscal year 2075/076 to 2080/081. The capital budget expenditure is 55.24%. The current expenditure is 47.73%. This type of development budget spending situation can affect the effective implementation of the provincial structure. At the same time, it can create resentment towards the provincial structure, including among the citizens.

The status of annual budget allocation and expenditure from FY 2075/076 to FY 2078/079 is placed in Annex 3A.

## **Line Ministry Wise Budget Expenditure**

The budget of Karnali Province Government for five

fiscal years i.e. from fiscal year 2075/076 to fiscal year 2079/080 has been used in this section. The percentage of expenditure is calculated on the basis of the budget allocation of these bodies.

*Table, 7*

*Status of total budget expenditure for five fiscal years according to the agency*

<b>Agency</b>	<b>Total allocated Budget (Rs Thousand)</b>	<b>Total Budget Expenditure (Rs Thousand)</b>	<b>Proportion of budget spent</b>
Provincial Legislature	759203	548023	72.18
Chief Minister and Council of Minister's Office	17200498	8895730	51.72
Financial affairs and planning ministry	10219035	1468434	14.26
Internal Affairs and Law Ministry	3324015	1540630	46.35
Industry, Tourism, Forest and Environment Ministry	12274266	7906266	64.41
Land Management, Agriculture and Cooperative Ministry	14040602	10791003	76.86
Physical Infrastructure Development Ministry	48819061	28202529	57.77
Social Development Ministry	21016175	14564834	69.30
Provincial Public Service Commission	4955162	3166626	63.91
Office of Chief Justice	82619	69064	83.59
Karnali Province Planning Commission	155378	55812	35.92

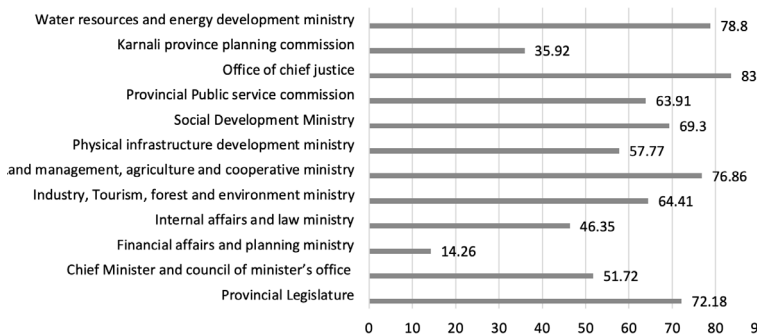
Water Resources and Energy Development Ministry	7610507	5996985	78.80
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Source: Report of the Office of the Auditor General (2077 to 2081)

The details of allocations and expenditures for the fiscal year 2075/076 to 2079/080 have been placed in Annex 4.

From an institutional point of view, the situation of both current and capital expenditure appears to be unequal in nature. Which is explained by the figure, 8 below.

*Figure, 8*  
*The total institutional budget for five fiscal years*



Source: Report of the Office of the Auditor General (2077 to 2081)

Out of the total budget expenditure of various entities over five fiscal years, the Office of the Attorney General stands out as having spent the highest proportion, with 83.59% of its allocated budget utilized. Among ministries, the Ministry of Water Resources and Energy Development has implemented 78.80% of its budget over the two fiscal years since its establishment.

The budget allocation and expenditure data from the Karnali Province Planning Commission for the fiscal years 2076/77 to 2079/80, and from the Ministry of Energy and

Water Resources for the fiscal years 2078/79 to 2079/80, are included.

Among the studied budgets over five fiscal years, the Ministry of Land Management, Agriculture, and Cooperatives has implemented 76.86% of its budget, making it the highest in budget execution. Conversely, the Ministry of Economic Affairs and Planning has only implemented 14.26% of its budget. This low expenditure is partly due to large sums allocated under headings such as Miscellaneous Economic Affairs, which are considered to have separate significance, according to experts. Nonetheless, other expenditure rates are also unsatisfactory. The Karnali Province Planning Commission implemented 35.92% of its budget over four fiscal years, and the Ministry of Internal Affairs and Law implemented 46.35% over five fiscal years.

The Ministry of Physical Infrastructure Development, which handles a significant portion of the province's budget, implemented only 57.77% of its allocated budget over five fiscal years, which is quite disappointing. Similarly, the Office of the Chief Minister and Council of Ministers implemented 51.72% of its budget, the Ministry of Industry, Tourism, Forest, and Environment 64.41%, the Ministry of Social Development 69.30%, and the Province Public Service Commission 63.91%.

The budget execution by the Karnali Province Planning Commission indicates that this body has not been effectively performing its duties, implementing only 35.92% of the allocated budget over four fiscal years.

## **Budget Effectiveness**

Karnali Province is one of the most underdeveloped regions in the country, where improving the effectiveness of the

budget is crucial for advancing economic, social, and physical infrastructure. The budget structure of Karnali Province shows a focus on health, education, agriculture, and infrastructure development. In health, the budget has somewhat improved access to health services in rural areas. In education, allocated funds have been used for constructing school buildings, scholarships for disadvantaged, Dalit, and female students, and training for teachers. Similarly, the agricultural budget has supported irrigation systems, distribution of high-quality seeds, and various training programs for farmers. However, in terms of physical infrastructure development, there remains a significant lack of roads, bridges, and transportation facilities. The budget does not sufficiently address these areas.

*Table, 8*

*Grant from federal to province government*

<b>Fiscal Year</b>	<b>Conditional grant</b>	<b>Complementary grant</b>	<b>Special grant</b>	<b>Total Amount</b>
2075/76	6634150	2000000	3000000	11634150
2076/77	5272700	900000	912200	7084900
2077/78	4508715	252500	460000	5221215
2078/79	3987700	813500	61300	4862500
2079/80	5931675	1215000	668000	7814675
<b>Total</b>	<b>26334940</b>	<b>5181000</b>	<b>5101500</b>	<b>36617440</b>

*Source: Report of the Office of the Auditor General (2077 to 2081)*

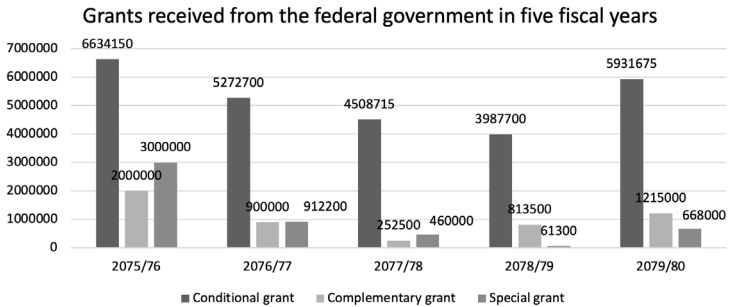
The Karnali Province government has received conditional grant mostly from the federal government. The amount of conditional grants is higher in most fiscal years. However, the amount of conditional grant is decreasing in the subsequent fiscal years compared to the fiscal year 2075/076.

The details of the grants received by the provincial government from the fiscal year 2075/076 to 2079/080 are

placed in Annex 5.

Figure,9

The total amount of grants received from the federal government in five fiscal years

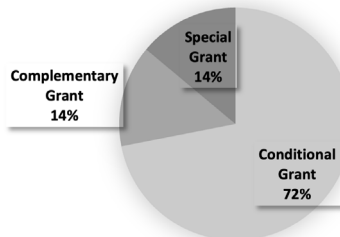


Source: Report of the Office of the Auditor General (2077 to 2081)

Looking at the details of the grants of the federal government, it appears that the Karnali Province Government has received 26.33 billion thousand conditional grants in the five fiscal years. Similarly, 5.18 billion supplementary grants and 5.10 billion special grants have been received. Looking at this figure, 9 it seems that the province government is getting the highest conditional grant.

Figure, 10

Grants from the federal government for five years



Source: Report of the Office of the Auditor General (2077 to 2081)

The conditional grant seems to be the highest when looking at the subsidy share in the total grant received by the

Karnali Province Government from the federal government. In five fiscal years, the conditional grant is 72% of the total grant amount, while the special and supplementary grant is 14/14%.

## Status of Grant Expenditure

Receiving any grant cannot be considered a big achievement for the province government. Effective implementation is very important. The details of the grants received and the percentage spent by the Karnali Province Government from the fiscal year 2075/076 to the fiscal year 2079/080 are explained here.

Table, 9  
Percentage of Grants and Expenditures Received from the Federal Government  
(FY 2075/076 to FY 2079/080)

Fiscal Year	Total amount received (Rs Thousand)	Total Expenditure (Rs Thousand)	Percentage of expenditure
2075/76	11634150	4990470	42.90
2076/77	7084900	2476136	34.95
2077/78	5221215	4034394	77.29
2078/79	4862500	4562153	93.82
2079/80	7814675	4131295	52.87
<b>Total</b>	<b>36617440</b>	<b>20194451</b>	<b>55.15</b>

Source: Report of the Office of the Auditor General (2077 to 2081)

From the fiscal year 2075/076 to 2079/080, the Karnali Province government has spent only 20.194 billion out of the total 36.61 billion conditional, complementary and special grants received from the federal government. This is only

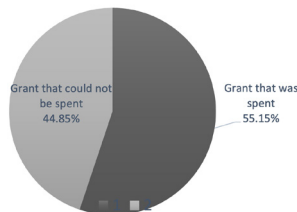
55.15% of the total grant received.

The details of grants and expenditure received from the Federal Government during the five fiscal years are placed in Annex 5.

Figure, 11

Total expenditure of the grant received from Federal Government for the five fiscal years

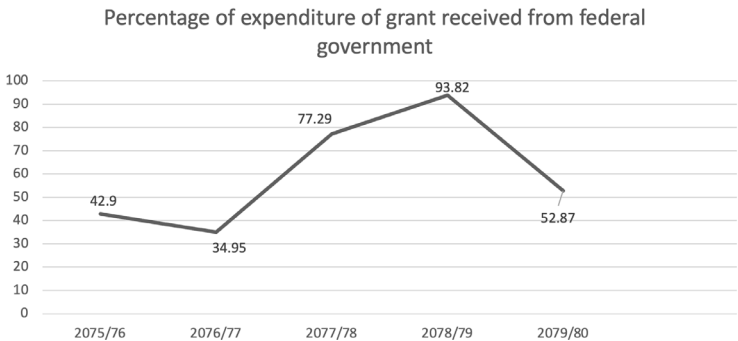
**Status of Grant Expenditure**



Source: Report of the Office of the Auditor General (2077 to 2081)

Figure, 12

Expenditure of grants received from federal government in five years



Source: Report of the Office of the Auditor General (2077 to 2081)

Looking at the status of implementation of conditional, complementary and special grants received from the federal government according to the fiscal year, the highest

expenditure of 93.82% is in the fiscal year 2078/079. Similarly, the fiscal year 2076/077 has seen the lowest spending i.e. 34.95% of the total. In the last five fiscal years, only 55.15% of the total grant received has been spent. These figures show that the province government has returned almost half of the conditional, special and complementary grants received from the federal government in these five fiscal years, i.e. 44.85%. In FY 2075/076, it was 42.9%, in FY 2077/078, it was 77.29% and in FY 2079/080, it was 52.87%.

### **State of expenditure in terms of the type of grant (on average)**

*Table, 10*

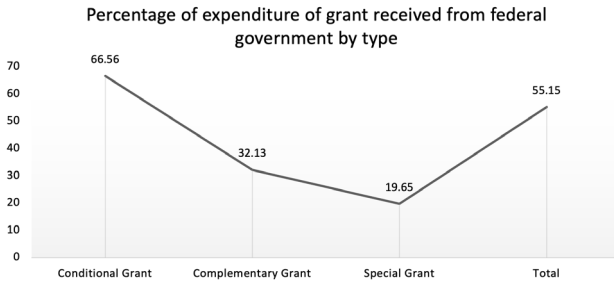
*Status of the percentage of grants and expenditures received by the provincial government from the federal government in the fiscal year (FY 2075/076 to FY 2079/080)*

<b>Type of Grant</b>	<b>Received amount (In thousand)</b>	<b>Expenditure Amount (Rs thousand)</b>	<b>Percentage of expenditure</b>
Conditional Grant	26334940	17527517	66.56
Complementary Grant	5181000	1664505	32.13
Special Grant	5101500	1002429	19.65
<b>Total</b>	<b>36617440</b>	<b>20194451</b>	<b>55.15</b>

*Source: Report of the Office of the Auditor General (2077 to 2081)*

In terms of grants, the highest 66.56% conditional grant and the lowest 19.65% special grant was spent. Similarly, the expenditure of complementary grant is 32.13%. As the amount of expenditure is less, the effect of budget is also seen to be less.

Figure, 13  
Expenditure of the grant received from federal government in five fiscal  
years (By type of grant)



Source: Report of the Office of the Auditor General (2077 to 2081)

## Budget of the province government (Internal)

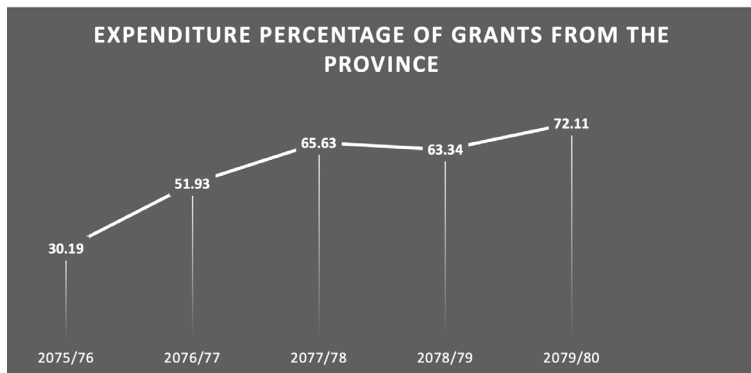
Table, 11  
Status of Province government grant expenditure

Fiscal Year	Total Budget (Internal) Rs thousand	Total Expenditure (Rs Thousand)	Expenditure Percentage
2075/76	16648678	5025872	30.19
2076/77	27268525	14161068	51.93
2077/78	28520138	18717586	65.63
2078/79	31132436	19719713	63.34
2079/80	25136264	18126578	72.11
<b>Total</b>	<b>128706041</b>	<b>75750817</b>	<b>85.86</b>

Source: Report of the Office of the Auditor General (2077 to 2081)

Analyzing the internal expenditure of the provincial government, it gives a somewhat satisfactory picture. In the fiscal year 2075/76, a total of 30.19% of the budget was spent, and by the fiscal year 2079/80, this figure had increased to 72.11%. The yearly increase in expenditure can be considered positive. The budget was implemented at rates of 51.93% in the fiscal year 2076/77 and 65.63% in the fiscal year 2077/78.

*Figure, 14*  
*Status of Province governments Grant expenditure*



Source: Report of the Office of the Auditor General (2077 to 2081)

*Table, 12*

*Province Government's Internal Budget Expenditure by Type of Grant*

Grant	Amount Received (Rs Thousand)	Expenditure (Rs Thousand)	Expenditure Percentage
Equalization Grant	49598899	21333737	43.01
Province government Grant	75107142	53991756	69.13
Complementary Grant	0	425324	
Internal Loan	10000	0	0
<b>Total</b>	<b>127796049</b>	<b>75750817</b>	<b>59.31</b>

Source: Report of the Office of the Auditor General (2077 to 2081), Karnali Province

The province government has spent only 69.13% of the grant and 43.01% of the equalisation grant.

The status of budget (internal) expenditure of the province government in terms of the type of grants is detailed

in Annex 6.

Karnali Province's budget implementation shows some weaknesses, including delays in project completion, inadequate utilization of the budget, and a decline in the quality of projects. The effectiveness of expenditure has also diminished due to delays in various development projects. Karnali Province faces several challenges in improving budget effectiveness, including lack of institutional capacity, insufficient coordination with local levels, and inability to ensure transparency and accountability.

### **3.3 Challenges in Effective Budget Implementation**

There are various problems in the context of budget preparation and implementation in the Karnali Province Government. These challenges and problems obstruct the province's development process. The main issue is the lack of institutional capacity. Karnali Province lacks the necessary institutional capacity for budget preparation and implementation, including trained personnel and staff with technical, financial, and managerial skills. This shortage causes problems in the planning and implementation of projects. Officials involved in budget preparation often fail to understand and incorporate local needs and priorities, leading to various challenges in budget preparation and implementation.

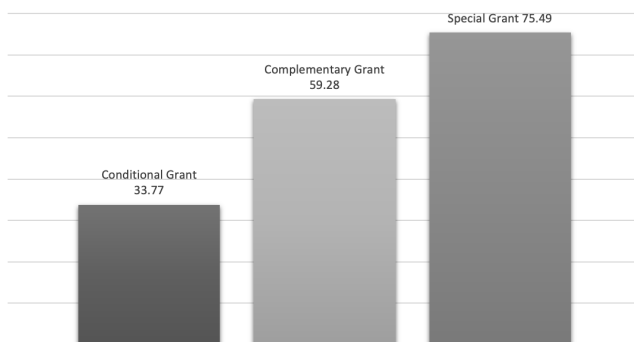
Financial resource scarcity is a significant challenge and problem in the budget preparation process for Karnali Province. The lack of development in internal revenue sources and weaknesses in revenue collection processes contribute to the challenges in budget preparation. Heavy reliance on grants and budgets from the central government makes

it difficult for the provincial government to set its own priorities. Additionally, the lack of coordination with local levels causes problems in budget preparation and effective implementation. Ineffective institutional coordination and cooperation between the province and local levels lead to issues such as resource duplication and waste. There are also problems like budget freezes, arrears, and corruption during the budget preparation and implementation process.

### 3.3.1 Budget Freezing

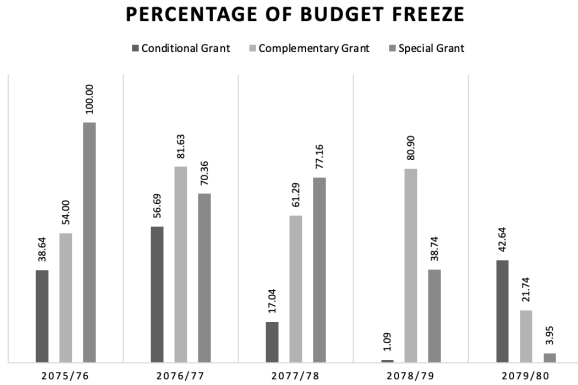
Budget freezing is a major challenge in Karnali Province. Due to the inability to spend the allocated budget within the designated time, a large amount of money remains frozen each year. The table below shows the percentage of frozen conditional grants. This is why a significant portion of the budget remains frozen annually. Over five fiscal years, 43.55% of the total grants were frozen, with 33.77% of conditional grants, 59.28% of complementary grants, and 75.49% of special grants remaining frozen.

Figure, 15  
Share of budget freeze in five fiscal years



Source: Report of the Office of the Auditor General (2077 to 2081), Karnali Province

Figure,16  
Share of budget freeze annually



Source: Report of the Office of the Auditor General (2077 to 2081), Karnali Province

Complementary and special grants received annually from the federal government appear to be frozen in large amounts. In FY 2075/076, 100% special grants, 54% supplementary grants and 38.64% conditional grants were frozen.

In the fiscal year 2076/077, the special grant has been frozen at 70.36%, complementary grant at 81.63% and conditional grant at 56.69%. This trend appears to have improved as the fiscal year 2079/080 approaches. In FY 2079/080, the special grant has been frozen at 3.95%, complementary grant at 21.74% and conditional grant at 42.64%.

The details of the frozen budget of the total conditional grant from the fiscal year 2075/076 to 2079/080 are mentioned in Annex 7.

The above figure clearly shows the percentage of the frozen budget in the total conditional grant amount of Karnali Province. There are various reasons behind it. The first

is administrative control. The budget allocation process, the withdrawal of funds, the purchase process are not all in time. The lack of efficiency of the local administration and staff also seems to have a direct impact on the budget implementation process. Similarly, budget expenditure seems to be hampered due to the difficulty in building infrastructure and service flow in remote and difficult areas.

### 3.3.2 Irregularities

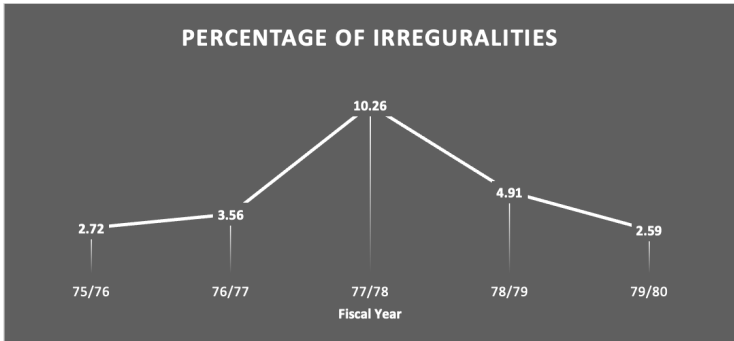
Another important aspect that is affecting the budget formulation and implementation process of Karnali Province is the expenditure of unregulated nature. The table below illustrates the details of the last four years of irregularities in Karnali Province.

*Table, 13*  
*Status of Irregularities in Karnali Province*

Fiscal Year	Audited amount	Irregularities Amount	Percentage
2075/76	19004944	516993	2.72
2076/77	23439560	834781	3.56
2077/78	16579035	1700805	10.26
2078/79	34380813	1688402	4.91
2079/80	37336897	967752	2.59
Total	130741249	5708733	4.37

*Source: Report of the Office of the Auditor General (2077 to 2081)*

Figure, 17  
Status of Irregularities in Karnali Province



Source: Report of the Office of the Auditor General (2077 to 2081), Karnali Province

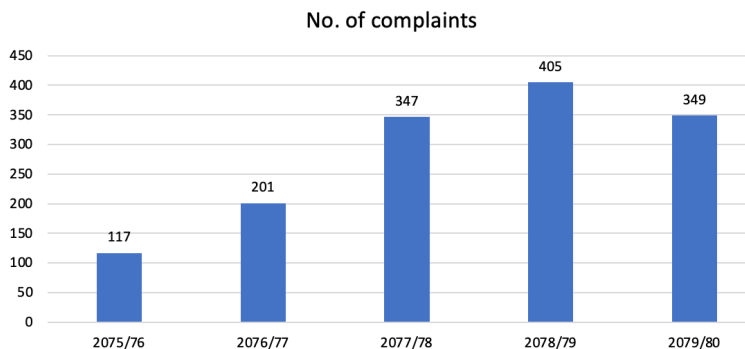
In FY 2075/076, 2.72% of the total audited amount is unaccounted for, while 3.56% in FY 2076/077 and 10.26% in FY 2077/078. Similarly, 4.91% in the fiscal year 2078/079 and 2.59% in the fiscal year 2079/080 appear to be unaccounted for. This rate has not fallen below 2% in the last five years.

Irregularities have a variety of causes. The main reason is the lack of financial discipline. It leads to unregulated spending. Similarly, the lack of transparency in the budget spending process increases irregularity and irregular spending. Because of the weak monitoring and evaluation process the quantity of irregularities is also increasing.

### 3.3.3 Increasing Corruption and Discrepancies

The biggest challenge in terms of budget effectiveness in Karnali Province is also increasing corruption and irregularities. The figure below illustrates the status of complaints from Karnali Province to the Commission for the Investigation of Abuse of Authority during the last four years.

*Figure, 18*  
*Number of complaints filed with the Commission for the Investigation of Abuse of Authority from Karnali Province*



*Source: Report of the Commission for the Investigation of Abuse of Authority*

The number of annual complaints to the commission highlights a problem with budget discipline in the province. According to the data of the Commission for the Investigation of Abuse of Authority, 117 complaints were received in the fiscal year 2075/076, 201 in the fiscal year 2076/077 and 347 in the fiscal year 2077/078. Similarly, 405 complaints in the fiscal year 2078/079 and 349 in the fiscal year 2079/080 are related to the province government. Filing a complaint with the commission shows that there has been financial irregularity and there has been an increase in the tendency to not work if the complaint is not filed. This has a direct impact on the cost. For this, it is necessary to develop effective mechanisms to prevent corruption.

Citizen engagement should be increased to reduce administrative and political interests in budget formulation and implementation, as well as to maintain transparency and accountability.

### 3.3.4 Mismatched Budget Cycle

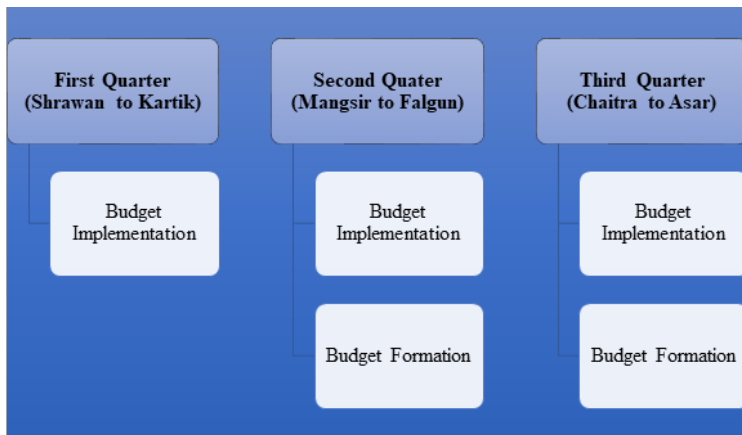
The budget cycle currently in practice does not reflect the geographical features and climate of Karnali Province. As the budget cycle does not match the social, geographical and cultural conditions of Karnali Province, it has created challenges in the implementation of the budget as a whole. Most of the districts and municipalities in Karnali Province are located in the hilly and mountainous districts. As a result, the budget cycle currently in practice is not suitable for development construction work.

There is a legal provision for the province government to prepare and pass the budget in the Asar. This is the time of rain. Despite the passage of the budget, the system of implementing the budget within the first quarter has not been developed. In the second quarter along with the draining of the budget snowfall starts in the Himalayan districts. In the third quarter, the process of creating a new year's budget begins and there is also a compulsion to spend the current budget. Therefore, to effectively implement the budget in Karnali Province, it is crucial to address the issues within the budget cycle through targeted solutions. Therefore, there is a need for effective coordination among all three levels of government—federal, provincial and local—to harmonize geographical features and budget cycles.

Looking at the ratio of budget expenditure in the three fiscal years from the fiscal year 2077/078 to 2079/080 of the Karnali Province Government, about 50% of the total budget allocated will be spent in the last quarter i.e. from Chaitra to Asar. It is also the time to prepare the budget for the next fiscal year of the provincial government. It is also important to focus on the preparation of the budget for the next fiscal year or the implementation of the budget for the current fiscal year. Spending a large portion of the total budget in the last

quarter is problematic because it often signals poor planning and rushed implementation. This can lead to inefficiencies, misallocation of funds, and incomplete projects. To improve budget execution, Karnali Province must allocate and spend resources more evenly throughout the fiscal year, ensuring better planning, timely execution, and achievement of development goals.

Figure, 19  
*Planning and Implementation cycle of the provincial budget*



### 3.3.5 Interruptions during the budget Preparation

There are political interferences in the budget preparation process of the provincial government. According to a survey conducted by the Hriti Foundation, 72.5% of respondents indicated that “party division” occurs in the allocation of the provincial government’s budget. Additionally, respondents noted that “influence of powerful leaders” and the bureaucracy also affect the budget.

Hriti Foundation also conducted a study on the

questions raised during special and zero hours of the first term of the Karnali Provincial Assembly. According to this study, 33% of the questions raised during these times were related to plans and budgets. Even when discussing policies, laws, and other important matters, the focus was on plans and budgets which indicates significant political interference in the budget.

The attention of individuals affiliated with political parties (such as MPs, ministers, and leaders) towards the misuse of the budget also highlights systemic issues in budget allocation. The lack of adherence to established methods and norms results in person-centred budget allocation. Consequently, there is a tendency to allocate a disproportionate amount of budget to influential leaders' geographical areas, while areas in need receive inadequate funding.

Political bias also affects the budget allocation in Karnali Province. The practice of opposing or defending budgets based on political affiliation rather than merit has impacted budget preparation and implementation. Political party leaders in the provincial assembly often prioritize division over need during budget preparation. These and similar reasons contribute to issues in budget preparation and implementation.

Additionally, the competition among MPs to take credit for development has become a significant challenge in budget preparation. This competition has led to citizens queuing up at MPs' and ministers' residences to request budgets and plans, shifting the emphasis toward individual engagements rather than systematic processes and increasing public expectations of leaders.

Another major challenge in the budget preparation process is the lack of research. Budget and plan preparation

often occurs without research, needs assessment, and long-term impact evaluations. Examples of negative long-term impacts due to emotion or opinion-driven budgeting include difficulties in implementing programs like “Savings accounts for daughters, Security for life” programs due to inadequate study. Thus, effective budget implementation is crucial in addition to budget preparation.

Furthermore, public perceptions of government budgets also affect the effectiveness of budget implementation. The lack of ownership by citizens and negligence in development and construction are examples of this.

Most importantly, adherence to policies and regulations is crucial. The study conducted by the Hriti Foundation indicates that problems in budget preparation and implementation arise from non-compliance with policies and regulations. Frequent changes in political leadership and rapid transfers of employees in provincial bodies also impact the budget preparation process. Additionally, the lack of clear criteria for plan and budget selection contributes to problems. The absence of harmonious relationships between elected representatives and staff also disrupts budget effectiveness. Given that staff play a key role in budget preparation and implementation, developing mutual understanding between representatives and staff is essential.

Moreover, there is a tendency for the provincial government to undertake small projects independently instead of coordinating with local levels. This has resulted in decreased government effectiveness and duplication of work. The increase in the number of projects also poses a challenge in the budget process, indicating a lack of clear coordination among all levels of government.

The provincial government's inability to integrate periodic plans developed by the Provincial Planning Commission has also impacted annual policies, programs, and budgets. Strengthening the role of the Provincial Planning Commission is necessary. It is also crucial to incorporate stakeholder suggestions into the overall plan and budget preparation, which will ensure public participation in budget preparation and maintain public ownership of the budget. Increasing involvement of non-governmental organizations and the private sector in development can also be beneficial. A suitable legal framework should be established for this purpose. Additionally, effective needs assessment before program and budget development and monitoring after implementation are necessary. Developing a fact-based policy-making method is essential.

### **3.3.6 Issues Related to Gender Equality, Disability, and Social Inclusion**

There are various issues related to gender equality, disability, and social inclusion in the budget. Problems include neglecting or undervaluing these aspects during plan preparation, budget construction, and implementation. Several specific issues are:

1. **Unequal Distribution of Budget:** There is difficulty in allocating sufficient budget for inclusive development in Karnali Province. Financial constraints due to economic weakness and unequal distribution of budget are significant problems. Programs related to inclusion often lack adequate budget allocation, and the distribution process lacks transparency.

2. **Lack of Policies and Plans:** There has been no solid progress in gender equality, disability, and social inclusion due to the lack of effective policies and plans. Participation of persons with disabilities, women, and other marginalized groups in policy-making is minimal.
3. **Lack of Capacity:** There is a capacity deficit among local staff and relevant bodies for the successful implementation of various programs and plans. This capacity shortfall affects the effectiveness of plans and budgets, necessitating attention to both resource development and skilled personnel.
4. **Public Awareness and Cultural Challenges:** The lack of public awareness about gender equality and disability and persistent cultural traditions perpetuating gender and social discrimination hinder inclusive efforts.
5. **Lack of Monitoring and Evaluation:** Weak monitoring and evaluation methods for budget utility and effectiveness have reduced budget effectiveness. Increasing transparency and accountability in the implementation of plans is necessary.

### **3.4 Incorrect Practices**

In Karnali Province, there are several incorrect practices in budget formulation and implementation that have hindered the development process and the fulfilment of the needs of the general public. These practices include unallocated budgets, virements at the end of the fiscal year, duplication in plans, and the creation of inappropriate and incomplete projects.

### 3.4.1 Unallocated Budget

Unallocated budget refers to the allocation of funds without specifying them for any particular plan or project. Once the funds are placed under contingency, officials can spend them on plans and projects at their discretion. The practice of placing funds under the heading unallocated has an extremely negative impact on plan formulation, budget allocation, and budget implementation. It does not maintain the integrity of the budget and is thus considered a poor practice.

Moreover, unallocated budgets disrupt the fiscal balance. Instead of specifying programs in advance and allocating budgets accordingly, there is a tendency to place excess budgets under miscellaneous categories, which are then reallocated at the end of the year. This practice weakens financial control and economic discipline, and raises concerns about the quality of work due to discretionary spending. The following table clarifies the status of unallocated budgets in Karnali Province.

Table 14  
*The status of Miscellaneous Budget*

Fiscal Year	Miscellaneous Budget (Rs Thousand)	Virements in Asar (Rs Thousand)	Total Virements (Rs Thousand)
2077/78	1500000	340380	1201400
2078/79	1000000	280458	836888
2079/80	1500000	895800	1317417
<b>Total</b>	<b>4000000</b>	<b>1516638</b>	<b>3355785</b>

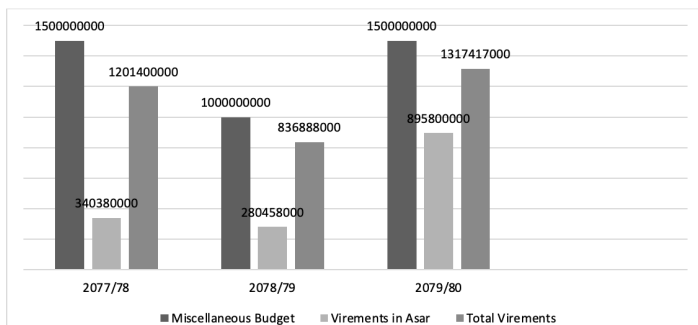
*Source: Report of the Office of the Auditor General (2077 to 2081)*

From the fiscal year 2077/078 to 2079/080, the

provincial government allocated a total of Rs 4 billion under the “Miscellaneous Expenses” category. During these three fiscal years, out of the total reallocated amount of NPR 3 billion 35 crore 57 lakh 85 thousand, 45.19% was reallocated in the month of Ashad (June-July), which is at the end of the fiscal year. The trend of allocating a large portion of the budget under miscellaneous expenses and reallocating funds in the month of Ashad has been noted in the reports of the Office of the Auditor General as contrary to financial discipline. This trend has been observed since the fiscal year 2077/078 and requires improvement.

Figure 20

Statistics of allocated miscellaneous budget and virements in Asar



Source: Report of the Office of the Auditor General (2077 to 2081)

## Agency wise unallocated budget

Table 15

Statistics of agency wise unallocated budget

Fiscal Year	Agency	Unallocated budget (Rs Thousand)
2077/78	Physical Infrastructure and Urban Development Ministry	1211400
2078/79	Chief minister and council of minister's office	272978

2079/80	Chief minister and council of minister's office	94150
<b>Total</b>		<b>1578528</b>

*Source: Report of the Office of the Auditor General (2077 to 2081)*

According to the report of the Office of the Auditor General, in the fiscal year 2077/078, unallocated budget of Rs 1 billion 211.4 million was allocated under the Ministry of Physical Infrastructure and Urban Development. Similarly, under the Office of the Chief Minister and Council of Ministers, unallocated budget of Rs 272.978 million was allocated in the fiscal year 2078/079, and Rs 94.150 million in the fiscal year 2079/080.

This trend of placing budgets under contingency results in a shortage of funds for projects that are actually needed and increases discretionary spending. It also indicates negligence in adhering to legal regulations. According to Section 16(2) of the Karnali Province Financial Procedures Act, 2074, the allocated funds specified in the appropriation act should be distributed to more than one entity, and the concerned offices must be informed. Once the distribution is made, it cannot be redistributed repeatedly.

According to the fifth report of the Office of the Auditor General for Karnali Province, in the fiscal year 2078/079, the Office of the Chief Minister and Council of Ministers was allocated NPR 3 billion 597.791 million as initial budget for provincial special programs. Of this, NPR 272 million 978 thousand was approved as unallocated budget. The amount was not allocated on the basis of programs and was decided to spend through discretionary decisions under the capital expenditure heading.

Rs 260 million allocated for the Provincial Governance Centre was spent on a training program for officials of 16 local judicial committees, as per the decision of the Provincial Coordination Council on 4th Ashoj 2078. Out of the Rs 1 billion allocated for subsidized loan grant programs, Rs 500 million was redirected to the Karnali Ujyalo Program, Rs 300 million to the Integrated Settlement Development Program, and Rs 200 million was handed over. Budget allocation and distribution should be in accordance with the law, and control should be maintained over the unallocated budgets.

### **3.4.2 Virements in Asar**

According to Section 16(2) of the Karnali Province Financial Procedures Act, 2074, funds allocated by the Appropriation Act must be distributed to more than one entity, and the relevant office must be informed. Once the allocation is made, it should not be repeatedly redistributed. Section 17(2) of the same Act stipulates that transfers from the current budget to current expenditure and from the capital budget to capital expenditure should not exceed 25% of the allocated amount, and any transfer exceeding this amount from one subheading to another can only be done by the Ministry of Economic Affairs and Planning. Additionally, Section 17(1) allows for the transfer of funds within the same grant indicator, where if funds are insufficient under one

budget subheading, the savings from other subheadings within the same grant indicator can be transferred up to 25% of the allocated amount.

Despite these legal provisions, it appears that in Karnali Province, budget reallocations at the end of the fiscal year or in the month of Ashar, often conducted by powerful political leaders, the Chief Minister, Ministers, and other influential figures, are being used to serve personal interests. Practices such as reallocating budgets in Ashar and changing expenditure headings, as well as allocating budgets to arbitrary projects, negatively impact the planned expenditure system. The following table illustrates the state of budget reallocations that occurred in Ashar.

Table 16

*Status of Virements of Karnali Province Government*

Fiscal Year	Total Budget	Virements	Percentage of Virements	Explanation
2075/76	28282828000	861173000	3.40	All virements done in Ashar
2076/77	34353425000	6066510000	17.66	All virements done in Ashar
2077/78	33741300000	1022878000	3.03	All virements done in Ashar
2078/79	36746636000	17790606000	48.68	Virements in Ashar was Rs. 1810480000
2079/80	326163000	13253743000	40.64	Virements in Ashar was Rs. 629111000

Source: Report of the Auditor General 2077 to 2081, Karnali Province

Virements in Asar of the fiscal year 2075/76 was a total of Rs 861,173,000. This amount represents 3.04% of the budget for that fiscal year. Similarly, such figure in the fiscal year 2076/77, 17.66% of the total budget, amounted to Rs 6,060,665,000 in the month of Asar. In the fiscal year 2077/78, virements was Rs 1,022,878,000 in Asar, which is 3.03% of the total budget for that year.

In the fiscal year 2078/79, virements was of Rs 17,790,606,000, NPR 1,810,480,000 was in Asar alone, which is 4.95% of that year's total budget. Similarly, in the fiscal year 2079/80, Rs 629,111,000 of the total budget was virements in Asar, representing 1.93% of the total budget for that year.

Transferring and spending a large portion of the budget at the end of the fiscal year leads to issues such as increased misuse of the budget and substandard work. The tendency to transfer and spend during Ashad creates a rush to complete work and raises concerns about quality. Additionally, transferring without proper study and research can also increase financial irregularities.

### **3.4.3 Power-Centred Budget Allocation**

Karnali Province government's budget reveals that the allocation practice is based more on power rather than necessity. It appears that key and influential figures in the provincial government have misused their positions to allocate the budget. This section analyses the budget allocated to the Physical Infrastructure and Urban Development Ministry over three fiscal years. This ministry receives the largest proportion of funds from the provincial government's budget, making it the focus of this study.

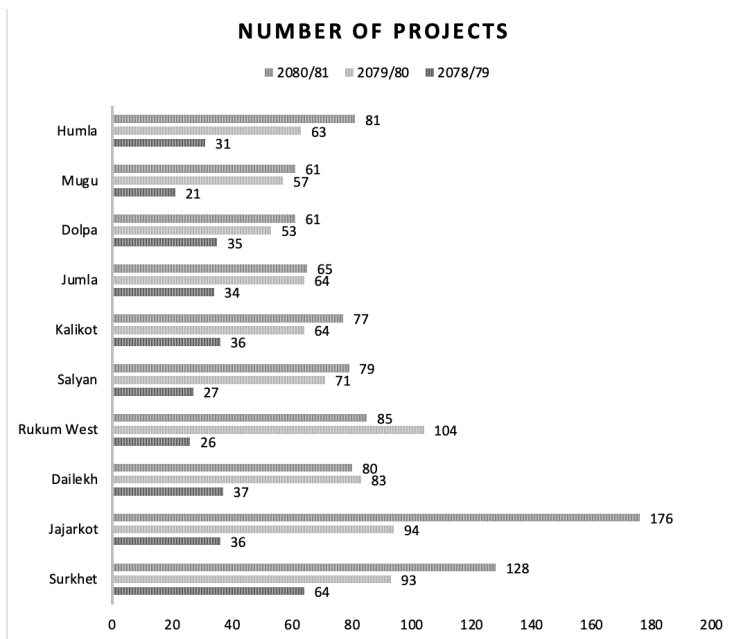
The table below lists influential leaders or key figures who have held leadership or significant roles in Karnali Province government over the three fiscal years.

*Table 17*  
*Districts related to the Chief Minister and Minister of Economic Affairs*

<b>FY 2078/79</b>			
Chief Minister	District	Finance Minister	District
Mahendra Bahadur Shahi	Kalikot	Gopal Sharma	Rukum West
<b>FY 2079/80</b>			
Chief Minister	District	Finance Minister	District
Jeevan Bahadur Shahi	Humla	Bindaman Bista	Surkhet
<b>FY 2080/81</b>			
Chief Minister	District	Finance Minister	District
Rajkumar Sharma	Rukum West	Bedraj Singh	Jajarkot

In these three fiscal years, the Chief Minister and Finance Minister of the Karnali Province Government have been analysed in relation to the budget allocated for the planning of physical infrastructure development in their respective districts. Due to political instability, there has been a tendency to change the government and the chief minister or ministers allocate more budget to their respective constituencies or districts in terms of reach and power.

*Figure 21*  
*Number of projects for the next three fiscal years*



Source: Annual Development Program, FY 2078/79 to 2080/81, Karnali Province Government

An examination of the budget over three fiscal years shows that the Finance Minister’s district often receives a majority of the budget. Similarly, projects are frequently concentrated in the Chief Minister’s district. For example, in the fiscal year 2080/81, the district of Jajarkot, associated with Finance Minister Bedraj Singh, had the highest number of projects—176 included in the budget. In contrast, Surkhet, the most populous district, had 128 projects, while Rukum West had 85 projects. During that period, Rajkumar Sharma was the Chief Minister of Rukum. This pattern of budget allocation is evident in other fiscal years as well.

The practice of allocating budgets based solely on power or influence has adversely affected the balanced development of the province and directly disregards legal norms. To address this issue, it is essential to establish a project bank and develop a system for budget allocation based on clear criteria and priority.

### **3.4.4 Project Duplication**

Since the implementation of federalism, multiple offices with similar objectives have been established in Karnali Province. In some cases, federal, provincial, and local government offices are carrying out the same types of work. It is observed that different ministries, departments, or offices allocate budgets for the same project. This has led to duplication in projects. Such duplication can result in the misuse of resources and increase financial irregularities.

When different entities incur separate expenses for the same work, it not only prevents optimal use of limited resources but also causes performance disruptions due to a lack of coordination. Multiple agencies involved in the same project can hinder effective project implementation. A key issue is the lack of sufficient discussion with local bodies when planning and budgeting. To address this, it is essential to develop appropriate and effective communication methods

According to the fifth report of the Office of the Auditor General for the fiscal year 2079 BS, the National Planning Commission has established project criteria by clearly delineating the functional areas of local bodies and the provincial government. In the fiscal year 2078/079 BS (2021-2022), the Ministry of Water Resources and Energy Development allocated Rs 1.2164 billion for irrigation project construction and maintenance, while the Ministry of Land Management, Agriculture, and Cooperative spent Rs 526.953 million. Additionally, donor agencies have been investing in irrigation, embankments, and agricultural technology.

However, most of the projects approved by the ministries are valued at less than Rs 1.5 million. There appears to be a lack of coordination between offices dealing with similar types of projects, such as irrigation, agriculture, and infrastructure. Implementation agencies have sometimes failed to identify project sites, leading to the non-execution of planned projects. The practice of allocating budgets from multiple sources and spending on small-scale projects has not demonstrated significant results.

### **3.4.5 “Asare” Development**

A significant issue and challenge in the budget implementation of Karnali Province is the tendency to spend a large portion of the budget in the month of Ashar (June/July). In the fiscal years 2077/078 to 2079/080 (2020/21 to 2022/23), budgets for physical infrastructure development and other social programs are predominantly utilized during the third quarter, which spans from Chaitra (March-April) to Asar. This period coincides with the time for preparing the budget for the upcoming fiscal year. Additionally, heavy rainfall during Ashar poses risks to the effective construction of infrastructure development projects.

Spending a significant portion of the budget in the final quarter raises questions about the effectiveness of budget implementation and its reliability. The data on quarterly budget expenditures for the fiscal years 2077/078 to 2079/080 illustrates this trend of excessive budget expenditure in Ashar, highlighting a recurring issue in budget management in Karnali Province.

Table 18  
Quarterly Budget Expenditure

Quater	Budget Expenditure Percentage		
	2077/78	2078/79	2079/80
First and Second quarter	13.41	16.13	20.86
Third quarter	54.02	50.31	47.41
Total Expenditure	67.43	66.44	68.27
Unspent Budget	32.57	33.56	31.73

Source: Province Financial Comptroller Office

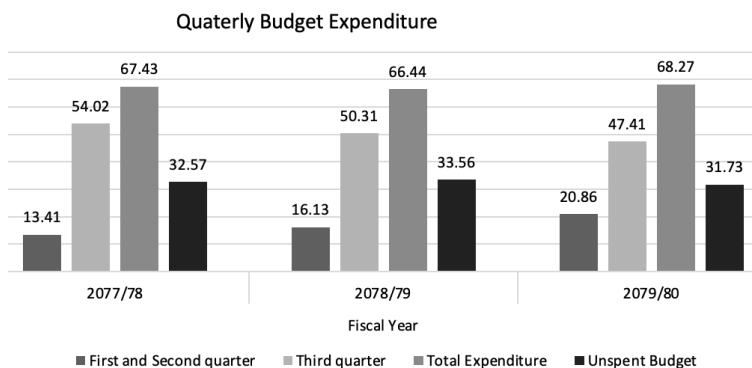
The budget expenditure details on a quarterly basis reveals that a significant portion of the total budget is spent during the third quarter, which spans from Chaitra (March-April) to Ashar (June-July).

In the fiscal year 2077/078, out of the total budget, 67.43% was spent, with 54.02% of this expenditure occurring between Chaitra and Asar. Similarly, in the fiscal year 2078/079, 66.44% of the budget was utilized, with 50.31% spent during the Chaitra to Ashar period. For the fiscal year 2079/080, 68.27% of the total budget was expended, with 47.41% spent from Chaitra to Asar.

This trend indicates that a large portion of the budget

is spent at the end of the fiscal year. Since the period from Chaitra to Ashar also overlaps with the preparation time for the upcoming fiscal year’s budget, this results in increased pressure on budget implementation. This pattern suggests the need for a reassessment of expenditure practices to improve effectiveness and manage the risks associated with end-of-year spending.

Figure 22  
Quarterly Budget Expenditure



Source: Province Financial Comptroller Office

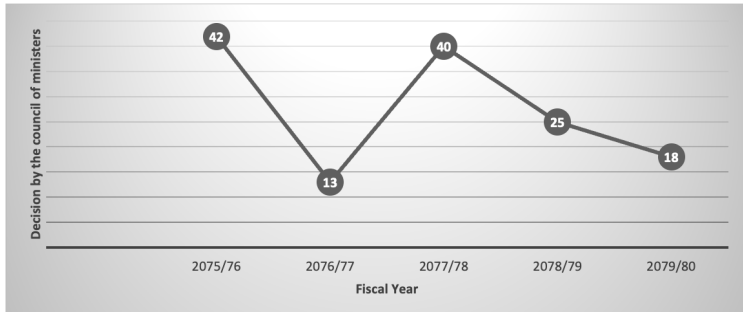
The details of the budget expenditure of the Karnali Province Government for the three fiscal years from the fiscal year 2077/078 to 2079/080 have been placed in Annex 10.

### 3.5 The budget in the Council of Ministers

The executive body of the provincial government is the Provincial Council of Ministers. Therefore, it plays a crucial role in the formulation and implementation of the provincial budget. This section analyses the decisions related

to the budget made by the Provincial Council of Ministers. The number of budget-related decisions taken by the Karnali Provincial Council of Ministers from the fiscal year 2075/076 to the fiscal year 2079/080 is presented here.

Figure 23  
Decisions of the Council of Ministers



Source: Office of the Chief Minister and Council of ministers, Karnali Province

The Karnali Provincial Council of Ministers made the most decisions regarding the budget in the fiscal year 2075/076. There were 42 budget-related decisions in the fiscal year 2075/076, 13 in the fiscal year 2076/077, 40 in the fiscal year 2077/078, 25 in the fiscal year 2078/079, and 18 in the fiscal year 2079/080. The frequent decisions on budget-related matters by the Council of Ministers, which should ideally be passed by the parliament and implemented thereafter, suggest that there may be an encroachment on parliamentary authority. Additionally, this practice reflects a development of an arbitrary attitude where the government might act without adequate oversight.

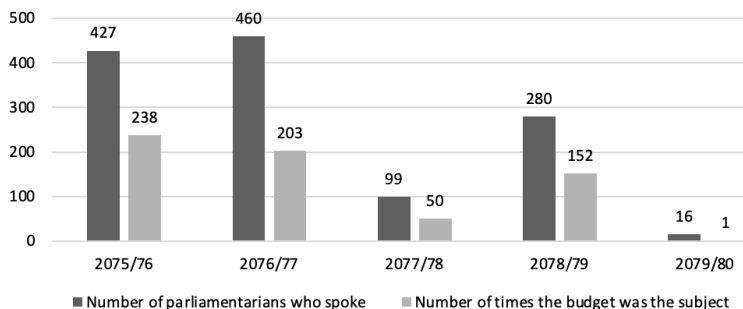
### 3.6 In the Provincial Assembly

There is a legal provision that the Minister of Economic

Affairs and Planning must present the budget to the Provincial Assembly on the first day of the fiscal year. Discussion on the budget in the Provincial Assembly is considered a crucial aspect of democracy. MPs deliberate on the budget to hold the government accountable. Additionally, the government is required to address issues raised in the Assembly. This section illustrates the discussions related to the budget in the Karnali Provincial Assembly.

Figure 24

*The status of budget discussions in the Karnali Provincial Assembly*  
**Status of budget discussions in the Karnali Provincial Assembly Title**



Source: Karnali Province Assembly's Verbatim's as retrieved from their website

In the fiscal year 2075/076, out of a total of 427 speeches by Members of the Provincial Assembly, 238 were on the topic of the budget. Similarly, in the fiscal year 2076/077, out of a total of 460 speeches, 203 were related to the budget. In the fiscal year 2077/078, of 99 speeches, 50 were about the budget. During the fiscal year 2078/079, out of a total of 280 speeches, 152 were on the budget topic. In the fiscal year 2079/080, there were only 16 speeches, with just 1 addressing the budget. The first term of the Provincial Assembly had concluded, so there were fewer speeches in this fiscal year. Moreover, due to political instability in recent years,

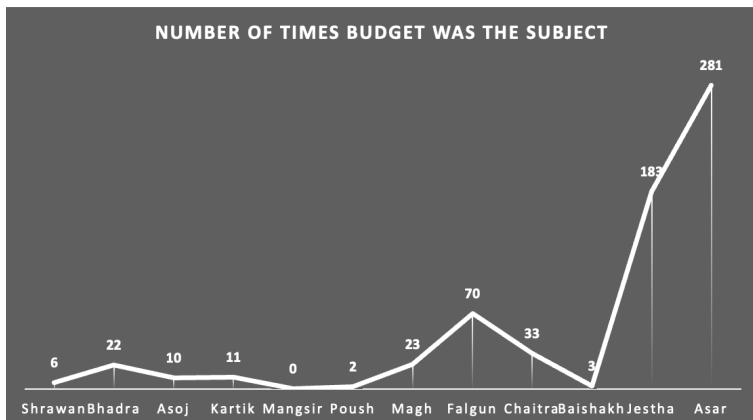
the Provincial Assembly meetings were held less frequently. Consequently, the number of speeches by members also decreased. Despite this, the number of discussions specifically on the budget has been notably significant.

## Status of Budget Discussions in the Karnali Provincial Assembly (by Month)

This section analyzes the frequency of budget-related discussions in the Karnali Provincial Assembly from the fiscal year 2075/076 to 2079/080 on a monthly basis.

Figure 25

*The number of discussions on the budget in the Karnali Provincial Assembly in five years*



Source: Karnali Province Assembly's Verbatim's as retrieved from their website

Over the past five years, analyzing the details of budget-related discussions by members of the Karnali Provincial Assembly, it is observed that the highest number of discussions—281 times—occurred in the month of Ashad. This is followed by 183 discussions in Jestha, which is naturally a time for discussions on the upcoming fiscal year's budget. However, in terms of the actual implementation of the budget,

the highest number of discussions occurred in Falgun, with 70 instances. Additionally, discussions took place 6 times in Shrawan, 22 times in Bhadra, 10 times in Ashwin, 11 times in Kartik, 2 times in Poush, and 23 times in Magh. Discussions also occurred 33 times in Chait and 3 times in Baishakh. This indicates that the budget has received significant attention in the assembly. However, it appears that many of the directives given by the assembly to the government have not been adequately implemented.

A detailed account of the questions raised by the members of the Karnali Provincial Assembly regarding the budget from the fiscal year 2075/076 to 2079/080 can be found in Schedule 9.

## Budget in the Media

In a democracy, the media plays a crucial role in informing citizens and holding the government accountable. Additionally, media coverage helps shape public opinion. This section provides an analysis of media coverage related to the Karnali Provincial Government's budget from the fiscal year 2075/076 to 2079/080, based on the details provided.

### A. The local media

Table 19  
Content in the local media  
(FY 2075/076 to 2079/080)

Month	News	Opinions and Interviews	Editorial	Total materials related to the budget
Shrawan	35	4	8	47
Bhadra	13	7	2	22
Asoj	11	2	2	15

Kartik	10	0	2	12
Mangsir	26	1	11	38
Poush	10	3	4	17
Magh	13	1	6	20
Falgun	23	2	6	31
Chaitra	14	5	4	23
Baishakh	19	9	9	37
Jestha	79	26	25	130
Asar	95	14	25	134
<b>Total</b>	<b>348</b>	<b>74</b>	<b>104</b>	<b>526</b>

Source: Archives of the related media house

For this study, the news published during the period in three newspapers under the local media—Sajha Bisauni Dainik, Yugawahan Dainik and Nepali Raibar dot com—were analyzed. The highest number of 348 budget related news were included in this category. During the same period, 74 opinions or interviews and 104 editorials were published on the subject of budget. Looking at this figure, the budget seems to have got enough space in the media. This makes it clear that citizens are monitoring the province government through the media.

Figure no. 26  
The status of the local media  
News / Opinions / Interviews / Editorial



Source: Archives of the related media house

The highest number of budget-related articles are published in Asar. In Jestha, 130 budget-related articles were published, while Asar saw 134 articles and Baishakh had 37. The increase in budget-related news from Falgun to Asar can be attributed to both the preparation of the new fiscal year's budget and the implementation of the current fiscal year's budget.

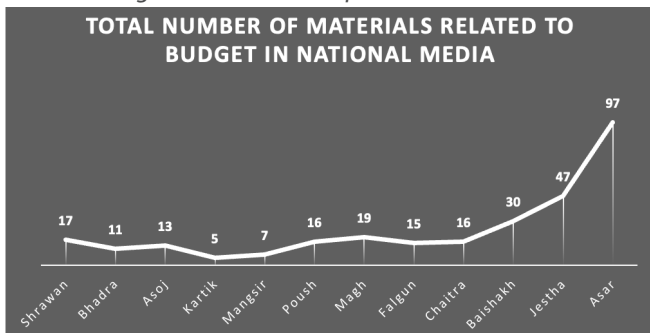
During the five-year period, media coverage on budget-related topics showed that 31 articles were published in Falgun and 23 in Chaitra. In the first and second quarters (i.e., from Shrawan to Falgun), there were fewer budget-related articles. Specifically, in the beginning of the fiscal year, Shrawan had 47, Bhadra had 22, Ashoj had 15, Kartik had 12, Mangsir had 38, Poush had 17, and Magh had 20 budget-related articles.

## B. National Media

This section covers the study of news materials from Kantipur Daily, Gorkhapatra, and Ratopati.com specifically for Karnali Province. The study focuses on budget-related content published in these media outlets from the fiscal year 2075/076 to 2079/080.

Figure 27

Number of budget-related content published in the national media



Source: Archives of the related media house

There is a noticeable increase in the publication of budget-related news from Falgun to Ashad in the national media too. During this period, the newspapers published 15 budget-related articles in Falgun, 16 in Chait, 30 in Baishakh, 47 in Jestha, and 97 in Ashad. Similarly, in Shrawan there were 17, in Bhadra 11, in Ashoj 13, in Kartik 5, in Mangsir 7, in Poush 16, and in Magh 19 budget-related articles.

This indicates that the media is actively publishing articles on budget issues, providing continuous scrutiny of both the parliament and the government. Particularly in the third quarter, there has been significant coverage on budget misuse, irregularities, and the quality of work. By focusing on issues of mismanagement in the budget, the media serves as a watchdog for the government and parliament. Therefore, it is essential for both the government and parliament to remain sensitive to such matters.



# Conclusion and Recommendations

## 4.1 Conclusion

The practice of federalism has decentralized the fiscal rights and responsibilities in Nepal. The federal, provincial and local levels, which have constitutional rights, have started managing the budget with legislative powers. Creating a scientific budget makes the implementation of the budget effective, and it helps to maintain public trust in the government. However, the government has not been able to formulate plans and budgets according to the basic principles of federalism and the needs of the people.

This section there are various challenges in the budget formulation and implementation process of the Karnali Province Government.

First, the lack of adequate participation of stakeholders in the budget-making process is a major challenge. Excluding women, people with disabilities, and other disadvantaged and marginalized communities from budgeting is ignoring their needs and perspectives. Also, the lack of authentic stats and figures required for budget formulation has led to problems in effective planning. The budget has not given enough importance to the inclusion related projects in determining the priorities, resulting to a lack of budget in areas of importance.

Second, there are also various problems in the implementation process. Lack of adequate financial resources is a major challenge for the effective implementation of the programs and schemes mentioned in the budget. In addition, there is a lack of implementation capacity at the local level and at the provincial level. The plans are not

implemented effectively due to the lack of efficiency, training, and technical knowledge of the employees. The lack of effective coordination between government agencies, non-governmental organizations, and the community has also caused problems in budget implementation.

Third, there is a weakness in the monitoring and evaluation process of the project. There is a lack of effective system for monitoring and evaluation of the projects. It has created difficulties in ensuring proper utilization of budget and effectiveness of the projects. The lack of an effective system to ensure transparency and accountability in budget implementation has hampered the success of the projects. Due to such problems, there are various challenges in the budget formulation and implementation process in Karnali Province.

Finally, specific steps need to be taken to solve the problems identified in the Karnali province's budgeting process. The budget-making process needs to be participatory, reliable data, and improved prioritization are required. Clear and enforceable standards must be created to ensure citizen participation in the budget. In addition, it is important to improve the management of financial resources, the development of implementation capacity, and coordination. It is also necessary to ensure transparency and accountability while making the monitoring and evaluation system of the projects effective. In this way, the goal of inclusive development of Karnali Province can be achieved.

### **Budget structure: Half of the allocation is for current budget**

The Karnali Province government has brought a total

budget of Rs 165.54 billion in five fiscal years from the fiscal year 2075/076 to 2079/080. The budget of 36 billion rupees in the fiscal year 2078/079 is the largest budget in five fiscal years. The budget of Rs 28.28 billion introduced in the fiscal year 2075/076 is of the smallest size in the five fiscal years. The total budget for five fiscal years shows that the Karnali Province Government allocates a budget around 33 billion rupees annually. In the five fiscal years the current budget was 62 billion 26 million 864 thousand and the capital budget was 103 billion 513 million 541 thousand rupees. A study of the budget allocation structure of the five fiscal years shows that the current expenditure in the fiscal year 2075/076 is the lowest at 21.98 percent and the capital expenditure is the highest at 78.02 percent compared to other fiscal years. In the five fiscal years from 2075/076 to 2079/080, the current and capital budget structure of the Karnali Province Government shows that the current budget is 37 percent and the capital budget is 63 percent of the total budget of the five years.

### **The main source of budget: Fiscal Equalization Grant**

The budget of the Karnali Province Government from the fiscal year 2075/076 to the fiscal year 2079/080 shows that the main source of the budget is the fiscal equalization grant from the federal government. The average of such grant in 5 fiscal years is around 30%. The sources of income of the budget from the fiscal year 2075/076 to 2079/080 reveals that the amount saved in the current fiscal year is in huge proportion. 23.03 percent of the budget of the current fiscal year is not spent but saved. Similarly, the share of internal revenue in the budget to is very low. In five fiscal years, the internal revenue contribution is only 1.43 per cent of the total budget. The budget implementation situation is very fragile as about one-third of the budget is not being spent in the current fiscal year.

## **The low-level of internal revenue**

Since the establishment of the province, the internal revenue collection up to the fiscal year 2079/080 has been 2 billion 241 million 363 thousand rupees, which is 94.8 percent of the total revenue target. In the fiscal year 2080/081, the internal revenue collection of the province till the end of Jestha was Rs 619 billion 700 thousand i.e. 74.10 percent against the target. While the revenue collection as per the target is satisfactory, the total revenue collection is disappointing. For this, there is a need to formulate and implement an internal revenue reform plan.

## **Disappointing state of budget expenditure**

From FY 2075/076 to FY 2078/079, the average current budget allocation was Rs 62 billion 26 million 864 thousand. On average, the expenditure was only Rs 61.66 billion. Similarly, the percentage of capital expenditure was 58.35 percent. Thus, due to the non-expenditure of the allocated development budget, the effectiveness of the province government has been reduced and the citizen's view of the provincial structure is being eroded.

## **Agency wise budget spending**

The office of the Chief Advocate appears to be at the forefront in case of the Karnali Province government's accumulated institutional budget expenditures of five fiscal years. The organization has spent 83.59 per cent of the total budget in those years. The Ministry of Water Resources and Energy Development has implemented 78.80 percent of the budget in the two fiscal years since its establishment. (This study includes budget allocation and expenditure for four fiscal years from fiscal year 2076/077 to 2079/080 in the case

of Karnali Province Planning Commission and two fiscal years from fiscal year 2078/079 to 2079/080 in the case of Ministry of Energy and Water Resources. The data on budgetary allocation and expenditure for other years is not available.)

Similarly, the Ministry of Land Management, Agriculture and Cooperatives is the highest budget spending body in the period with 76.86 percent of the expenditure. In contrast, the Ministry of Economic Affairs and Planning has implemented only 14.26 percent of the budget. The expenditure of the ministry has been reduced by keeping a large budget on various topics like miscellaneous budget. The Karnali Province Planning Commission has spent 35.92 percent of the amount in the last four fiscal years. Similarly, the Ministry of Internal Affairs and Law has implemented 46.35 percent of the budget in the last five fiscal years. The Ministry of Physical Infrastructure Development, which has a large chunk of the province's budget, spent 57.77 percent of the budget during the period. The Chief Minister's Office spent 51.72 per cent, while the Ministry of Industry, Tourism, Forest and Environment spent 64.41 per cent. During the same period, the Ministry of Social Development has implemented 69.30 percent of the budget and the Province Public Service Commission 63.91 percent.

Thus, the situation of budget implementation is disappointing when analysing the status of the Karnali Province Government's institutional spending. This proves that the established structure is not working as per the target. It can be assumed that the effective planning of the province could not be done due to the erosion of the fiscal capacity of the Planning Commission to formulate a comprehensive plan of the province.

## Effectiveness of Federal Grant Spending

The Karnali Province government receives the highest amount of conditional grants from the federal government. Over the past five fiscal years, 72% of the total grant amount has been conditional, while special and supplementary grants have each constituted 14%. A review of grant details shows that during these five years, Karnali Province received NPR 26 billion 334 million 940 thousand in conditional grants. Similarly, NPR 5 billion 181 million in supplementary grants and NPR 5 billion 101 million 500 thousand in special grants were received.

Analysing the expenditure of these grants from the fiscal year 2075/76 to 2079/80, Karnali Province has spent NPR 20.19 billion out of the total NPR 36.61 billion received in conditional, supplementary, and special grants, which is 55.15% of the total grants received. Breaking this down by fiscal year, the highest expenditure was in 2078/79 at 93.82%, and the lowest was in 2076/77 at 43.95%. The expenditure in the fiscal years 2075/76, 2077/78, and 2079/80 was 42.9%, 77.27%, and 52.87% respectively. Therefore, 44.85% of the conditional, special, and supplementary grant amounts were returned over these five years. Of the grant expenditures, 66.56% was spent on conditional grants, 32.13% on supplementary grants, and 19.65% on special grants.

## Effectiveness of Provincial Budget Spending

The expenditure of grants by the provincial government, the situation appears somewhat satisfactory. The percentage of expenditure from the budget increased from 30.19% in fiscal year 2075/76 to 72.11% by fiscal year 2079/80. The budget implementation percentages for the fiscal years

2076/77 and 2077/78 were 51.93% and 63.34% respectively. Over the five fiscal years, 69.13% of the provincial government grant amounts were spent, while the expenditure of the equalization grant was 43.01%.

Karnali Province's budget implementation has also shown some weaknesses. Problems such as delays in project completion, improper use of the budget, and declining quality of projects are major issues. The effectiveness of spending has diminished due to projects not being completed on time. Karnali Province faces various challenges in increasing budget effectiveness, including lack of institutional capacity, inadequate coordination with local levels, and failure to ensure transparency and accountability.

## **Main Challenges in Budget Implementation**

### **Budget Freeze**

The biggest challenge is the inability to spend allocated budgets on time. Over the past five fiscal years, 43.55% of the total grants have been frozen. The percentage of frozen grants (equalization, complementary and special) varied by fiscal year, with 57.10% in 2075/76, 61.22% in 2076/77, 28.23% in 2077/78, 17.35% in 2078/79, and 34.99% in 2079/80.

Special grants have had the highest percentage of frozen budget, with 75.49% frozen from fiscal year 2075/76 to 2079/80, followed by supplementary grants at 59.28% and conditional grants at 33.77%. The reasons for budget freeze include administrative delays, opaque budget allocation processes, problems with fund disbursement, and delays in procurement processes. Lack of expertise among local administration and difficulties in infrastructure development

and service delivery in remote areas also contribute to slow expenditure.

### **Continuity of Irregularities (*Beruju*)**

Another significant issue affecting budget preparation and implementation in Karnali Province is unsettled accounts, or irregular expenditures. Various factors contribute to this problem, including lack of financial discipline, lack of transparency in expenditure processes, and weak monitoring and evaluation procedures. Unsettled accounts varied, with 2.72% in fiscal year 2075/76, 3.56% in 2076/77, 10.26% in 2077/78, 4.91% in 2078/79, and 2.59% in 2079/80. Despite fluctuations, the average unsettled accounts have consistently been unable to be below 2%.

### **Increasing Corruption and Discrepancies**

Rising corruption and irregularities present another challenge to effective budget implementation. The number of complaints received by the Commission for the Investigation of Abuse of Authority (CIAA) regarding corruption in Karnali Province indicates issues with budget discipline. According to CIAA statistics, there were 117 complaints in fiscal year 2075/76, 201 in 2076/77, 347 in 2077/78. The complaints related to province government were 405 in 2078/79, and 349 in 2079/80.

### **Mismatch of Budget Cycle**

The current fiscal year and budget cycle practiced in Nepal do not suit the geographical context of Karnali Province. The social, geographical, and cultural conditions in Karnali do not align with the budget cycle, creating challenges in budget implementation. Many districts and municipalities in Karnali

are located in mountainous and hilly areas, making it difficult to align development activities with the current budget cycle. The legal provision requires the budget to be prepared and passed by Asar (June-July), which coincides with the monsoon season. Even if the budget is passed, there is no system for implementation in the first quarter, and by the second quarter, snow begins to fall in the mountainous districts. By the third quarter, the budget preparation for the new fiscal year begins. Therefore, aligning the budget cycle with the geographical challenges and revising the timing of budget cycle of all three levels of the government as well as financial laws is essential for effective budget implementation in Karnali Province.

### **“Asare” Development**

The Karnali Provincial Government faces significant challenges and issues related to budget implementation, particularly during the Asar (June-July) period. A large portion of budget in physical infrastructure and social development is spent in the third quarter of the fiscal year. It coincides with the preparation period for the upcoming fiscal year’s budget. Furthermore, the heavy rainfall in Asar can affect the effectiveness of infrastructure projects. Spending the budget at the end of the fiscal year also raises questions about the effectiveness and reliability of budget execution.

From fiscal year 2077/078 to 2079/080, the budget expenditure details reveal a clear trend of excessive spending in Asar. For these three fiscal years, over half of the total budget is spent from Chaitra (March-April) to Asar. For example, in fiscal year 2077/078, 54.02% of the total budget expenditure was spent during this period, 50.31% in fiscal year 2078/079, and 47.41% in fiscal year 2079/080. The total budget expenditures in these periods were 67.4%, 66.44%, 68.27% respectively. The simultaneous preparation of the new budget and the

execution of the current year's budget creates ambiguity and urgency for the provincial assembly, government, and local bodies.

### **Political Interference in Budget Preparation**

There is a political interference even in the budget preparation process for the provincial government. The focus of political parties and leaders on the misuse of the budget highlights systemic issues in budget allocation. The competition among parliamentarians for development credit, political bargaining, and election agendas further complicates the process. Plans and budgets often lack thorough research, needs assessment, and long-term impact analysis. Instead of aligning with the Planning Commission's proposals, the actions of those in power can result in inconsistencies in the plans and budgets. Additionally, political agreements often override basic budgetary rules, leading to limited benefits for the general populace and serving the interests of a select few.

Frequent changes in political leadership and staff transfers within regional bodies also impact budget preparation. The lack of clear criteria for budget allocation, project selection, and coordination between representatives and staff can affect the effectiveness of the budget. Lack of coordination between representatives and civil servants in the process of project selection budget formulation and implementation also affects the effectiveness of the budget.

### **Involvement in Small Projects**

The provincial government tends to include small projects in its budget, leading to challenges in program implementation. Instead of delegating small projects to local bodies, the provincial government often retains control over

them, which complicates implementation. The province should be allocating budget for medium sized projects but it is rather filled with large number of small projects. The lack of effective coordination among the three levels of government has resulted in duplicative projects and increased costs. Developing a clear and effective coordination mechanism is essential to address these issues.

### **Lack of Preparation and Adequate Study**

A notable challenge in budget preparation is the lack of prior preparation and sufficient study. The provincial government fails to conduct comprehensive studies and planning for the budget. Generally, long-term studies are needed for plans and programs included in the budget. The role of the provincial planning commission could be enhanced to improve effectiveness. However, the provincial government's plans are often unsupported by the budget. Prior to budget formulation, a needs assessment and impact study are crucial, as demonstrated by failed projects due to lack of long-term planning, such as the ineffective 'Savings Account for Daughter, Security for Lifetime' program.

### **Issues of Gender Equality, Disability, and Social Inclusion**

Problems exist in the budget related to gender equality, disability, and social inclusion. These aspects are often neglected or given insufficient importance in budget preparation, implementation, and planning. Budget disparities, lack of policies and plans, capacity issues, public awareness, cultural challenges, and weaknesses in monitoring and evaluation contribute to the lack of inclusivity in the budget.

## **Incorrect Practices in Budget Implementation**

Several incorrect practices are observed in the budget preparation and implementation process in Karnali Province, hindering overall development and addressing citizen needs. These include unallocated budget, virements in Asar, duplication of projects, and incompleteness of the projects.

### **Unallocated Budget Allocation**

Between fiscal year 2077/078 and 2079/080, a total of NPR 4 billion was allocated under miscellaneous headings as unallocated budget, with Rs 3.35 billion being reallocated in Asar. It constitutes 45.19% of the total allocated amount. This trend of allocating large sums under miscellaneous headings and reallocating in Asar is contrary to financial discipline, as noted in auditor reports. This exercise of using this heading started in fiscal year 2077/78.

### **Budget Virements in Asar**

At the end of the fiscal year, powerful political leaders and officials often reallocate the budget to suit their interests. Asar is the final month of the fiscal year, and reallocating budgetary titles and directing funds to favoured projects undermines the purpose of the budget. Such practices disrupt planned expenditure procedures passed by the parliament.

### **Duplicative Projects**

Many offices in Karnali Province with similar objectives lead to duplication of plans and budgets, resulting in inefficiencies and increased costs. Many of the federal, provincial and local offices have similar nature of work. Spending the budget from different entities is making the

budget implantation hectic and unnecessary expenditure is increasing. The overlap in project funding by different entities causes resource misuse, questions the capability of government agency and reduces project effectiveness.

### **Incomplete Projects**

Many projects within Karnali Province are not completed on time, which disrupts expected development and fails to meet basic citizen needs. The main reasons for this are economic, administrative, technical etc. Incomplete projects lead to increased public frustration and distrust in the government, as well as wastage of limited resources.

### **Use of Position and Access in Budget Allocation**

Analysis of the budget for the three fiscal years shows that budget allocations are often concentrated in the districts of influential figures, such as the finance minister and the Chief Minister. For example, in fiscal year 2080/081, the budget for the Ministry of Physical Infrastructure included the highest number of projects (173) in the district of then-Finance Minister Bed Raj Singh. Similarly, the district with highest population, Surkhet, had 176 projects and the third highest was 85 projects centred in Rukum West. This happened during the tenure of Chief Minister Raj Kumar Sharma who was from Rukum West.

### **Discussions on the Budget**

#### **Council of Ministers' Meetings**

The Council of Ministers' meetings in Karnali Province have shown the highest number of budget-related decisions in fiscal year 2075/076. A total of 42 budget-related decisions

were made in this year, compared to 13 in 2076/077, 40 in 2077/078, 25 in 2078/079, and 18 in 2079/080. These decisions mainly involve theoretical approval of expenditure and reallocations, often promoting opaque spending practices.

### **Provincial Assembly Meetings**

According to provisions, the Minister of Economic Affairs and Planning must present the budget on the 1st of Asar in the provincial assembly, followed by discussion and approval. Analysis of the provincial assembly meetings shows varied engagement on budget topics. For instance, in fiscal year 2075/076, out of 427 discussions, 238 were about the budget. In fiscal year 2076/077, 203 out of 460 discussions were on the budget. 50 out of 99 in 2077/78, 152 out of 280 in 2078/79 and 1 out of 16 times, was the number of times the parliamentarians spoke about the budget. The number of budget-related discussions decreased in subsequent years, reflecting reduced parliamentary engagement on the budget, likely due to political changes and fewer meetings. Therefore, discussion about the budget shows that the parliament is sensitive towards the budget. The discussion was mainly about budget formulation, implementation and monitoring, evaluation and the directions given to the government.

### **Local and National Media**

Over the study period, 348 news items on the budget were found in the media. Local media published 74 opinion pieces/ interviews and 104 editorials on the budget, with the highest number of publications in Asar. National media followed a similar trend, with an increase in budget-related news from February to Asar. There were 134 publications in Asar, 130 in Jestha and 37 in Baishakh.

The pattern is same even in national media. The published materials increase from Asar to Falgun. There were 15 in Falgun, 16 in Chaitra, 30 in Baishakh, 47 in Jestha and 97 in Asar. Also, the publications in Sharawan, Bhadra, Ashoj, Mangsir, Poush and Magh were 17, 11, 13, 5, 7, 16, and 19 respectively. This shows that the topic got the deserved attention in the media. These materials often focused on budget preparation, implementation, and monitoring, reflecting the importance of these issues in public discourse.

## 4.2 Recommendations

To enhance the effectiveness of the budget in Karnali Province, it is necessary to implement the following recommendations. These include accountability, transparency, citizen engagement, realistic budget formulation, not reallocating funds in the month of Ashar, gender equality, and budget allocation in the areas of disability and social inclusion. Detailed descriptions of these measures are as follows:

### 1. Development and Implementation of a clear law

- It is necessary to develop a simple and clear law for budget formulation, especially for project selection and prioritization. Along with developing the methodology, a simple and effective timeline for implementation should be created.

### 2. Project Bank Development and Coordination with Local Levels

- The provincial government should ensure that plans coming from local levels are mandatory in the local project bank and prioritized. Plans suggested by provincial assembly members

should also be mandatory in the local project bank. This will reduce project duplication at the local level and make planning more organized and effective.

- Effective coordination mechanisms between the province and local levels should be developed to prevent duplication in planning and budget implementation. Digital technology can be used to create an efficient coordination system. Digital voting provisions can be considered for prioritizing projects at the local level. Additionally, budget allocation should be practiced only for projects listed in the project bank.

### **3. Enhancement of Accountability**

- Clear responsibilities should be assigned to various entities and individuals in budget formulation and implementation. If a clear responsibility and accountability mechanism for each project can be developed, budget implementation will be more effective. There should be a system of rewards and penalties based on performance for those receiving clear mandates for budget implementation. Additionally, each public entity should prepare and publicly disclose regular progress reports on budget expenditure and achievements.

### **4. Promotion of Transparency**

- The entire process from budget formulation to implementation should be made transparent, and a system for publicly disclosing progress reports should be developed. This can be done through websites, public notice boards, and local

media.

- All information, statistics, and details related to the budget should be made accessible to citizens so that anyone can easily obtain and analyse budget-related details.

## **5. Enhancement of Citizen Engagement**

- Citizen engagement should be ensured to make budget formulation and implementation more effective. This can be achieved by organizing various discussions and public hearings during the budget formulation and implementation process to gather citizen suggestions and feedback.
- Advisory committees should be formed by including representatives from various sectors, including non-governmental and private sectors, in the budget formulation process.
- Surveys and suggestions can be collected from citizens through online and offline methods and used in budget formulation.

## **6. Realistic Budget Formulation**

- To enhance the effectiveness of the budget, a realistic study and analysis of needs and resources should be conducted before budget formulation.
- Feasibility studies should be conducted for each project before starting the budget formulation process to assess real costs and resources.
- Budget allocation should be based on identifying equitable development and regional needs.

## **7. Avoid Unallocated Budget**

- During budget formulation, funds should not be allocated for projects unless they are specifically identified. Additionally, projects or programs with insufficient sources should not be included in the budget under the pretext of sequential allocation.

## **8. No Virements in the Month of Ashar**

- The expenditure plan for the budget should be made at the beginning of the fiscal year and strictly adhered to.
- A system for regular monitoring and review of budget expenditure should be followed to make necessary adjustments in time. The practice of reallocating funds at the end of the fiscal year or in the month of Ashar should be stopped.

## **9. Budget Implementation in the First and Second Quarters**

- It has been observed that significant expenditure is made by the provincial government in the last quarter (from Chaitra to Ashar). This practice has prevented the establishment of a working pattern from the beginning of the fiscal year and has also affected the quality of work at the end of the fiscal year. To address this, a plan should be created and implemented for budget implementation in the first and second quarters.

## **10. Gender Equality**

- Special attention should be given to gender inclusivity during budget formulation. Budget allocation and implementation should be carried

out considering the specific needs of women, men, and gender and sexual minorities.

- Various programs should be conducted for gender empowerment, and a system for evaluating the gender impact of the budget should be developed.

## **11. Disability and Social Inclusion**

- Budget allocation should be made for appropriate infrastructure and social development for persons with disabilities. Additionally, a system for including people from all levels and strata of society in budget formulation and implementation should be developed.
- The provincial government should enhance the broad participation of stakeholders in budget formulation. It is essential to address the needs and perspectives of women, persons with disabilities, and other marginalized communities in the budget. Furthermore, budget formulation should be based on facts.

## **12. Regular Monitoring**

- Effective progress monitoring and evaluation of each project should be carried out. Regular review meetings should be organized to address progress and problems. Additionally, project progress reports should be updated and made public regularly.

## **13. Other Recommendations**

- The capacity of relevant entities to spend should be analysed during budget formulation. Special attention should be given to capacity

development for entities with weak capabilities.

- Ensure that budget expenditure leads to increased production and productivity. A system for analysing the effectiveness of budget expenditure should be developed and reported periodically. For this, monitoring and evaluation methods should be developed in the relevant branches.
- The provincial government should reduce operational expenses by creating a streamlined organizational structure and controlling unnecessary expenditures.
- An internal control system should be developed and implemented to ensure that activities carried out by provincial ministries and their associated entities are done efficiently and in accordance with financial reporting standards and prevailing provincial laws.
- Increase the efficiency and technical capabilities of employees to improve provincial government budget expenditure, and enhance effective coordination among government agencies, non-governmental organizations, and communities.
- Develop an effective system for monitoring and evaluating provincial government plans. This could include policy arrangements to ensure the optimal use of the budget and the effectiveness of plans. Additionally, enhancing the capacity of subjective committees in the provincial assembly with adequate resources could improve the effectiveness of monitoring and evaluation.
- The provincial government should develop and implement programs for entrepreneurship and

increasing production to boost internal revenue. Grant programs should be made more organized and effective.

- A system should be developed to link periodic plans prepared by the Provincial Planning Commission with government policies and budgets. Additionally, the capacity of the Planning Commission should be enhanced for creating clear, actionable, and fact-based plans.
- A special strategy should be developed to effectively implement conditional, special, and complementary grants received from the federal government, along with necessary coordination with the federal government.
- To reduce irregularities, classes on budget expenditure and project implementation should be conducted for employees and bureaucrats.
- Align the budget cycle with development schedules by adjusting the fiscal year. Necessary facilitation and coordination with the federal government should be done for this purpose.
- In the context of implementing the single and shared rights provided to provincial governments by the constitution, the provincial government should define limits for budget allocation. The provincial government should delegate small project implementation responsibilities to local levels.



# HRITI FOUNDATION





TOWARDS PROSPEROUS KARNALI

Hriti Foundation, a policy think tank in Karnali Province, conducts research, advocacy, and policy recommendations to foster a prosperous Karnali. It organizes the Karnali Utsav Kuda Karnalika policy festival and promotes individual rights and economic freedom.

Hriti monitors government policies, parliamentary actions, and budgets to ensure accountability. It supports provincial and local governments through research, discussions, and workshops, providing policy recommendations based on evidence.

With the shift to federalism, Hriti helps sub-national governments shape policies by bridging policymakers and civil society. It evolved from Tanner Voice, a youth-led initiative focused on policy solutions, to become a structured think tank.

## Hriti Foundation

-  Birendranagar, Surkhet
-  083521564, 9858034426
-  [info@hriti.org](mailto:info@hriti.org)
-  [www.hriti.org](http://www.hriti.org)