

Overview of expenditure allocations: FY 2021/22



Abstract

Government expenditures not only have a significant impact on the economy, they also profoundly affect the life of children in Nepal. This note examines overall budget expenditures in the FY 2021/22 budget based on data primarily from Redbooks (Ministry of Finance, various years). It also examines trends through time.

¹ This product has been financed by the European Union

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Highlights

- FY 2021/22 saw a 12% increase in the consolidated budget over the previous fiscal year with expenditures rising to Nepalese Rupees 1,647.6 billion. The rate of growth of consolidated expenditures has been lower in recent years compared to 2015/16. As a share of GDP the consolidated budget has floated between 35-44 per cent over the last 7 years.
- In terms of fiscal federalism, 77% allocated to Central government, 6% to Provinces and 17% to Local Governments. Increased share of central government allocation in FY 2021/22 and a decreased allocation for Local Governments.
- The social budget – comprising of health, education and social protection has been allocated 30% of the FY 2021/22 budget – similar to FY 2020/21. However, the share of the health budget has risen significantly – growing at over 212% when compared to FY 2015/16. In FY 2021/22, the health budget grew by an additional NPR 30 billion compared to the previous year – mainly on account of the Covid-19 response. Compared to

FY 2015/16, the education budget grew by 81% but the education budget remains well below governments own commitment of 15% of consolidated expenditures. Social protection expenditures – are almost similar in FY 2020/21 and FY 2021/22.

- In terms of functional allocations (COFOG¹ classifications) general public service and economic services are allocated more than 50% the budget.
- 39% of expenditures are considered to directly benefit women, another 34% of expenditures were considered to indirectly benefit women and 27% were considered to be neutral to women.
- 6% of the budget directly benefits climate, 28% indirectly benefits climate while 66% is neutral to climate.
- 71% of the budget is planned for SDGs while 29% remains unallocated to any particular SDG.

1. Overview of recent trends

Nepal's consolidated (including all tiers of government) budgeted expenditures have been rising over the last decade from Nepalese Rupee (NPR) 337.9 billion in FY 2010/11 to a projected NPR 1647.6 billion in FY 2021/22 – translating to a growth rate of 15.5% per year on average through this time period. The current FY budget expenditures rose by 12% compared to FY 2020/21 - though FY 2020/21 marked the first time in 10 years that budget expenditures decreased (Figure 1). The data suggest that rate of growth of budgetary expenditures has been faltering since 2015/16.

The ratio of budgeted expenditures to Gross Domestic Product (GDP) has been between 35 – 44% of GDP since 2015/16 (Figure 2): this ratio is determined by the growth of the numerator (consolidated budget) as well as the denominator (GDP).

The most recent consolidated budget expenditure for FY

¹These are based on international norms defined in the Classifications of Functions of Government (COFOG) produced by IMF and World Bank to enable comparisons across countries.

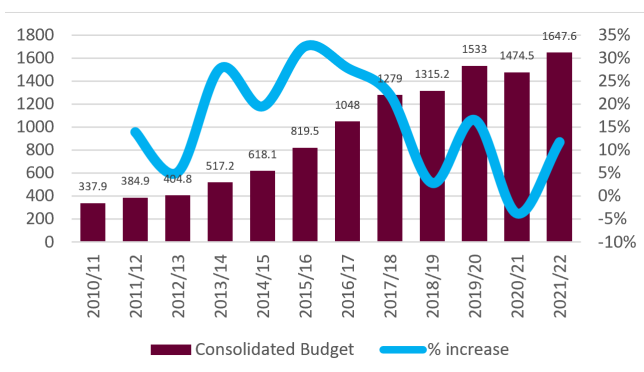


Figure 1. Budgeted Expenditures (NPR Bill., left axis) and rate of growth (right axis)

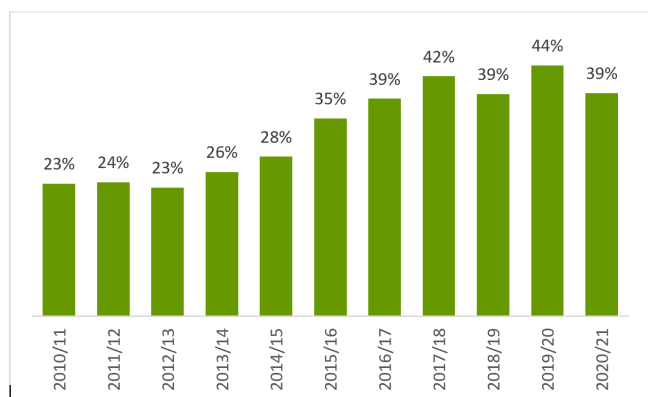


Figure 2. Budget expenditures as per cent GDP

2021/22 is estimated to be NPR Bill. 1647.6. The breakdown among the headings in the budget indicate (Table 1).

- 61% (NPR Bill. 1004.4) would be for recurrent expenditures of which about 14% are for salaries and benefits and 32% for conditional, equalization and special grants to PGLGs.
- 26% for capital expenditures (NPR Bill. 4352.4) a major portion of which is allocated for 'fixed assets receiving expenditures' (81%) such as road and bridge construction and repairs as well as non-residential building construction and purchase.
- 13% (NPR Bill. 208.0) for financial management which includes investments (in domestic debentures and, domestic and international shares) as well as debt servicing. Debt servicing is a non-votable expenditure item (must be paid) and consists of approximately 8

1.1 Ministries with the top allocations

The Ministries with the top 5 budget allocations are the Ministry of Finance-including debt repayment and civil service pensions, (21.2%), Ministry of Education, Science & Technology (10.93%), Ministry of Physical Infrastructure & Transport (10.15%), the Ministry of Home Affairs (10.13%) and the Ministry of Health & Population (7.45%). These five

Table 1. Heading-wise classification of Expenditures

| Heading | % of heading | % of Total |
|-----------------------------------|----------------|------------|
| Recurrent | 1,004.4 | 61 |
| Grants to PGLG | 32 | 20 |
| Salary & Benefits | 14 | 9 |
| Social Service Grants to agencies | 13 | 8 |
| Social Security | 13 | 8 |
| Employees social benefits | 9 | 5 |
| Interest on loans | 4 | 3 |
| Social Assistance to agencies | 4 | 2 |
| Program related expenses | 3 | 2 |
| Capital | 453.2 | 26 |
| Expenditure on fixed assets | 81 | 20 |
| Capital grants to PGLG | 14 | 4 |
| Financial Mgmt | 208.0 | 13 |
| Investment in public enterprises | 60 | 8 |
| Principal repayment(Dom.) | 23 | 3 |
| Principal repayment(Int.) | 17 | 2 |
| Total | 1,647.6 | |

Data are in NPR Bill.

ministries account for nearly 60% of budget allocations. The remaining 40% is allocated among some 14 commissions, the offices of the President, Vice President, Province Chiefs, Federal Parliament, courts, Office of the Prime Minister and council of Ministers, the office of the Auditor General, and 18 remaining Ministries as well as the National Reconstruction Authority.

1.2 Social sector budget & trends

The social sector budget (health plus education plus social protection) has increased from NPR 206 billion in FY 2015/16 to NPR 493 billion in FY 2021/22 (Figure 3). This is an increase of 139% or an annual rate of increase of 16% over this time period. However, not all components of the social budget grew evenly. Comparing FY 2015/16 to FY 2021/22, the health budget grew by 221%, the social protection budget by 175% but the education budget by only 81%. In fact, in the last two years, except for health, the rates of growth have fallen (Figure 3b).

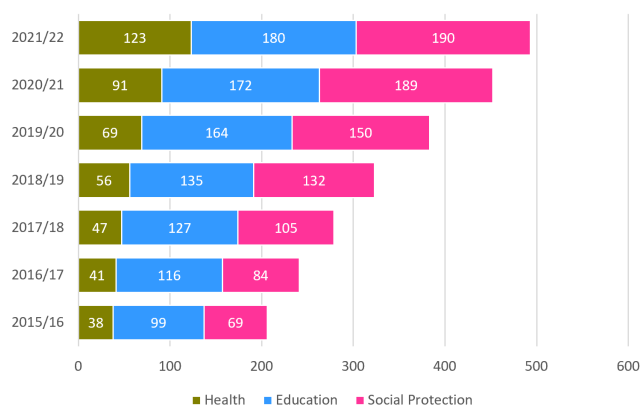


Figure 3. Trends in the social budget (NPR Bill.)

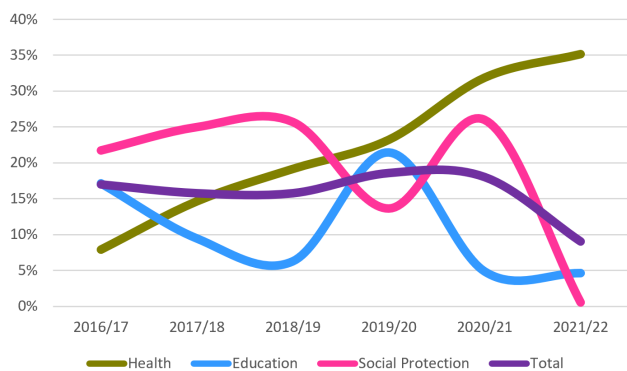


Figure 4. Nominal growth rate of social budget

Despite the increasing budget in nominal terms, overall social budget per capita amounts to NPR 16,433 or USD 142. This is less than 10% of estimated per capita income in Nepal. In terms of budget shares the social budget had remained constrained below 25% until FY 2019/20 (Figure 5). Largely on account of rapidly rising health expenditures, the share of the social budget has been close to 30% over the last two years. However, the allocation for education remains well below the government’s own target of 15% of spending. In terms of GDP, the social budget rose from 9% in FY 2015/16 to 12% in FY 2021/22. It is interesting to note the slightly increased share during the FY 2020/21 and 2021/22 compared to the pre-covid years. It is also interesting to note that the shares in either the overall allocation or the budget have risen but expanded in terms of ratio to total expenditure or GDP over the last two years (Figure 5 & Figure 6).

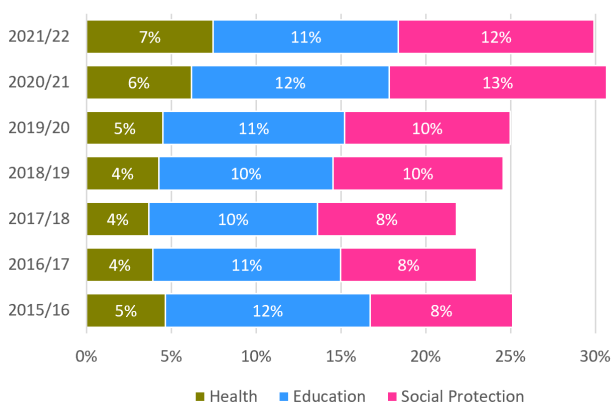


Figure 5. Share of the social budget in the total budget

1.3 Functional classification

A functional classification of the budget is also provided in the most recent Red Books for FY 2021/22 – including expenditure at PGLG levels. For the consolidated budget, General Public Services, Defense, Public Order & Safety, and Economic Affairs comprise 62% of expenditures when the

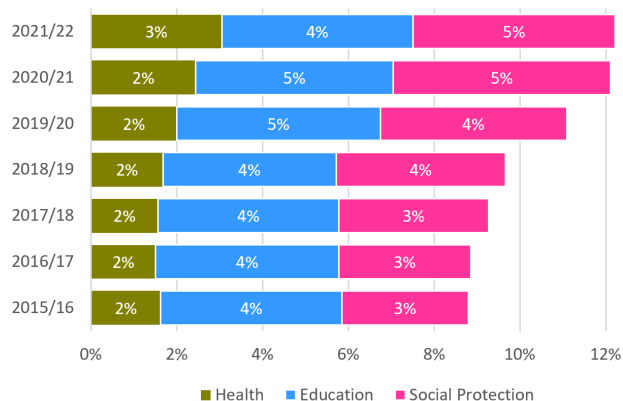


Figure 6. Share of the social budget in GDP

COFOG² methodology is applied to budget allocations. Social protection, education and health comprise another 32% (Figure 7).

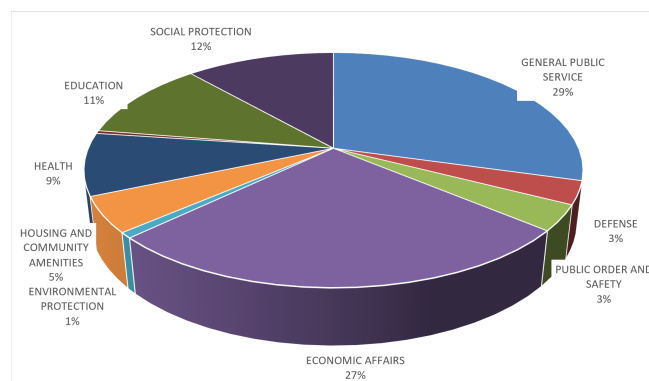


Figure 7. Functional classification of the consolidated budget (COFOG)

1.4 Federalism and the budget

The classification of functions expenditure categorization can be split into the three different layers of government. Education has the highest allocation (in per cent terms) to local governments, followed by General Public Services and Health. Overall, 77% of consolidated budget allocations are central government expenditures while 23% are for PGLGs – 6 per cent for Provincial governments and 17 per cent for local governments (Figure 8).

It is interesting to note that in comparison to FY 2020/21, the central government has retained a higher share of expenditures (by 2 per cent points – achieved by reducing PGLG allocations by 1 per cent point each). Since most of the expenditures at PGLG levels are controlled through central releases of grants (mainly conditional), it is not really clear if there is full autonomy at the local levels in designing, implementing, monitoring and evaluating the projects and programs that are

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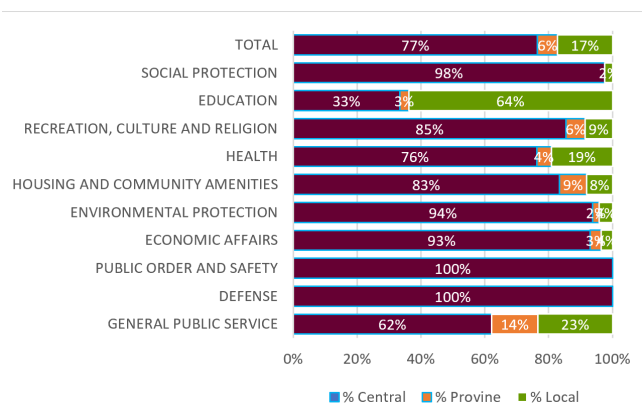


Figure 8. Functional classification of expenditures by government type

driven by local government context specific evidence and risk informed decisions.

1.5 Gender and the budget

The most recent FY budget for 2021/22 presents a 'Gender Responsiveness' classification of the consolidated budget. Activities were women benefit more than 50% are considered direct, activities were women benefit between 20 – 50% are considered indirect and activities were women benefit less than 20% are considered neutral. As per these guidelines, the data suggest 39% of expenditures are considered to directly benefit women, another 34% were considered to indirectly benefit women and 27% were considered to be neutral to women.

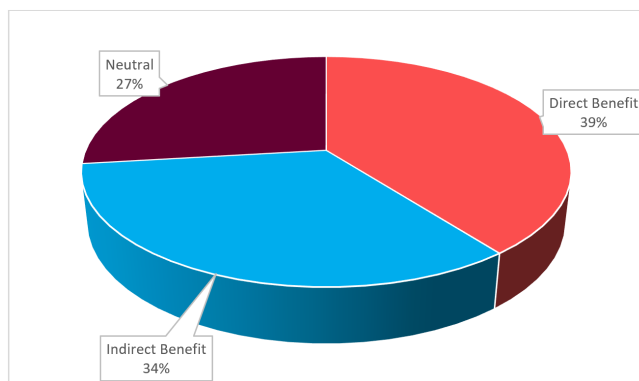


Figure 9. Gender responsiveness of the budget

The top 3 ministries directly supporting women were found to be Ministry of Home Affairs (14% of direct benefit expenditures), Ministry of Education, Science & Technology (19% of direct benefit expenditures), and Ministry of Health & Population (15% of direct benefit expenditures). These three comprise just under half of all direct expenditures for women. In addition, all PGLG expenditures were considered to directly benefit women (comprising of 27% of direct benefit expenditures). In terms of indirectly benefiting women, the Ministry of Physical Infrastructure and Transport had the

highest share – 21% followed by the Ministry of Education, Science & Technology (10%).

1.6 Climate responsiveness of the budget

The budget Red Books contain tables on the climate responsiveness of the budget. The data suggest that 6% of the budget directly benefits climate, 28% indirectly benefits climate while 66% is neutral to climate. The highest allocations for direct climate responsive expenditures are for the Ministry of Energy, Water Resources and Irrigation, Ministry of Water Supply, and the Ministry of Finance (Fiscal Management).

1.7 SDGs and the budget

The most recent budget Red Book provides information on allocations by Sustainable Development Goals (SDGs). 71% of the budget is planned for SDGs while 29% remains unallocated towards any particular SDG. SDG9: Resilient infrastructure, has received the highest allocation (14.07%), followed by SDG4 Quality Education (11.03%), SDG11: Sustainable cities and settlements (8.75%) and SDG3: Healthy lives (7.67%). Although further dis-aggregated data are unavailable, 7 SDGs are allocated less than 5% of expenditures and there is scope to allocate more expenditures towards gender equality, utilization of surface land, climate change adaptation, sustainable clean water sanitation, inclusive growth and dignified work, and, zero hunger. There also does not appear to be any allocation towards SDG 12: Sustainable consumption and production.

Table 2. SDGs and the FY 2021/22 Budget

| SDG | Goal | % of budget |
|-----|--------------------------------------|-------------|
| 1 | End Poverty in all forms | 7 |
| 2 | Zero Hunger | 4 |
| 3 | Healthy Lives | 8 |
| 4 | Inclusive & Quality Education | 11 |
| 5 | Gender Equality | < 1 |
| 6 | Sustainable clean water/sanitation | 2 |
| 7 | Access to modern energy | 5 |
| 8 | Inclusive Economic Growth | 3 |
| 9 | Resilient infrastructure | 14 |
| 10 | Inequality Reduction | 6 |
| 11 | Sustainable cities and settlements | 9 |
| 13 | Climate change adaptation | 1 |
| 15 | Sustainable Utilization of ecosystem | < 1 |
| 16 | Peaceful, Just and Active Society | 7 |
| 0 | Not allocated for any SDG | 21 |

2. Issues

- **Sustainability** issues with increased spending and increased debt service payments which are non-votable and almost equal to the health budget.
- **Expenditure allocations to PGLGs still being aligned with functional assignments** to PGLGs. These are still evolving. Less than 1/4th of the consolidated budget is

allocated towards PGLGs but some major responsibilities such as primary health care and education which affect children critically, are the primary remit of these tiers of government.

- **Social budget growth** driven primarily by the growth in health – specially for this FY 2021/22 where an additional NPR 30 billion was allocated to health. Per capita social budget spending remains low at an estimated 142 USD.
- **Gender responsiveness** of the budget is at 39
- **29% of the budget is not allocated towards any particular SDG** – and hence there is scope to reallocate towards SDGs involving partnerships and inclusive growth.

Acknowledgments

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