Linking Planning and Budgeting in Nepal:
A case of Education Sector

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Linking planning with budgeting was one of the important issues raised in the last CoP MfDR launch event in Manila. Thus, this paper tries to briefly highlight how Nepal has been making efforts to establish such linkages taking education sector as a case. Before presenting the education case it will summarize the institutional and procedural provisions for planning and budgeting at the central level in order to clearly show such linkages.

Planning process

In Nepal, National Planning Commission (NPC), under the chair person-ship of the Prime Minister, is the apex- body for formulating development plans. In the NPC, there is a full time Vice-Chair person and some sectoral members. In addition, the Chief Secretary of the government and the Finance Secretary are the ex-officio members whereas the Secretary of NPC Secretariat is the member-secretary in the Commission.

The NPC coordinates the periodic plan preparation processes, sets the main objective of the plan, determines macro level targets along with growth targets and total investment requirements including the necessary financing plan. Further, it advises the government in its effective implementation and also conducts monitoring and evaluation of development interventions.

The NPC coordinates and also ensures that the sectoral plans contribute to achieve the main objective and targets of the periodic plan. However, the respective ministries draft the sectoral plan with suggestions from sectoral expert groups and the respective NPC members. These sectoral plans become the sectoral chapters in the medium-term plan, which lays the basic foundation for the plan's objectives, sectoral targets and programmes. While finalizing the macro and sectoral chapters NPC ensures that adequate consultations have been made in order to acquire inputs, comments and suggestions from various stakeholders. Finally, the sectoral ministries start plan execution after the approval from the NPC and the Cabinet.

Budgetary process

The Ministry of Finance (MOF), the NPC and sectoral line ministries along with their departments/projects involve in the budgetary process in Nepal. There is both regular and development or capital and recurrent classification of the budget. In the case of development budget, the NPC drafts the macro and sectoral ceilings for the next fiscal year and submits it in the Resource Committee. Once the Committee approves it, the NPC instructs the line ministries to submit development budget proposals with guidelines and budget ceilings.

The budget proposals prepared by various implementing agencies are appraised at different levels. The line departments/ministries review and consolidate the proposals received from projects and district offices taking into account their contribution to achieve sectoral targets and finally send them to NPC and MOF.

Then the NPC organizes tripartite discussion sessions among its officials, representatives from the MOF and the line ministries concerned. The discussion here tries to explore the extent to which the annual programmes contribute to achieve periodic plan macro and sectoral objectives, among others. Finally, the NPC approves next fiscal year's programme inviting the Finance Minister as well in its respective meeting. Then it publishes detailed programming of projects for the next fiscal year.

On the other hand, after final review and consolidation of the budget in the MOF-received from the NPC- the Finance Minister submits the budget to the Parliament getting approval from the Cabinet.
**Arrangements for planning and budgeting linkages**

Following institutional and procedural arrangements have been made in order to link planning and budgeting processes.

- The NPC formulates the periodic plan and approves annual programmes and projects
  - the Finance Minister is invited in the NPC meeting where annual programmes are approved
  - Finance Secretary is the ex-officio member of the NPC
  - Every new project has to be approved by the NPC before entering it in the annual budget
  - NPC publishes annual programme book
  - NPC publishes PRSP progress reports and the evaluation of periodic plan

- Annual budget ceilings are finalized by the Resource Committee
  - The Resource Committee comprises the representatives from NPC, MOF, Nepal Rastra Bank (central bank) and the Financial Comptroller General’s Office which decides the resource envelope for the next fiscal year

- MOF finalizes the budget estimates
  - Annual development budget discussions are tripartite- NPC, MOF and the line ministry
  - The MOF finalizes the regular budget- mostly incremental- based on the estimates prepared by the respective ministries. The discussion here is between MOF and the line ministries
  - MOF publishes annual budget book (Red book) and the economic survey

**Linkage between plan and budget- Education sector case**

In order to link PRSP and annual budget Nepal has been using two tools in the education sector- the Education Sector Business Plan and the MTEF.

**Education Sector Business Plan**

The Business Plan is a three-year rolling plan that gives importance to themes not projects so that it contributes the MTEF to link the project level outputs and outcomes with PRSP objectives. Further, it includes result-based targets and indicators so that it facilitates the results monitoring on an annual basis. The Plan provides a framework for harmonizing external assistances and potentially for sector-wide approaches (SWAPs). In the education sector Nepal has been implementing Education for All in primary education as sub-sector-wise approach. The education sector Business Plan was prepared in 2005 and updated in 2006, which contains vision, mission and strategies of the sector. Theme-wise core business and corresponding budget for 2006/07- 2008/09 is presented in the following table.

**Core business and budget for 2006/07- 2008/09**

<table>
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<tr>
<th>Theme/Sub-sector</th>
<th>Projected amount (in '000 Rs.)</th>
<th>Percent</th>
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<tbody>
<tr>
<td>Literacy</td>
<td>424,300</td>
<td>6.4</td>
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<tr>
<td>Early Childhood Development (ECD)</td>
<td>265,396</td>
<td>4.0</td>
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<tr>
<td>Primary</td>
<td>3,288,460</td>
<td>49.5</td>
</tr>
<tr>
<td>Lower secondary</td>
<td>1,114,611</td>
<td>16.8</td>
</tr>
<tr>
<td>Secondary</td>
<td>358,498</td>
<td>5.4</td>
</tr>
<tr>
<td>Higher Secondary</td>
<td>238,188</td>
<td>3.6</td>
</tr>
<tr>
<td>Quality</td>
<td>311,000</td>
<td>4.7</td>
</tr>
<tr>
<td>Technical Education &amp; Vocational Training</td>
<td>260,000</td>
<td>3.9</td>
</tr>
<tr>
<td>Tertiary</td>
<td>389,032</td>
<td>5.9</td>
</tr>
<tr>
<td>Total</td>
<td>6,649,485</td>
<td>100</td>
</tr>
</tbody>
</table>
Moreover, the Plan clearly identifies three-year businesses and outcomes along with the annual business and outcome of the year 2006. It has been a good basis for preparing education MTEF 2006 with linking the project/programme level input, output and outcomes with the theme-wise input, outputs and outcomes.

**Education MTEF**

**Background**

In Nepal, NPC coordinates the MTEF process, which has been a top-down and bottom-up process of resource allocation. The Resource Committee based on the previous MTEF's projection of the year concerned determines resource envelope considering the changes occurred or necessary. Then, NPC and MOF jointly prepare budget ceilings for the ministry.

Based on the resource ceilings and guidelines of the NPC, the Ministry of Education and Sports (MOES) formulates the education MTEF, which aims to: (i) link annual programme and budget of the education sector with the PRSP targets and outcomes, (ii) prioritize programmes along with costing, outputs and expenditures in accordance with PRSP objectives, (iii) adjust the annual expenditure programmes of the PRSP to a level consistent with resources availability, and (iv) provide funding guarantee to priority projects.

The first version of the education MTEF and the PRSP were prepared concurrently so that both of these benefited from each other. In the process of updating the education MTEF every year the MOES has just finalized the MTEF IV (2006/07-2008/09).

**Features of Education MTEF**

The education MTEF has certain features as follows:

- It has been prepared in line with the education sector Business Plan and prioritized projects in three categories- P1, P2 and P3 based on seven criteria.
- Budget estimates are based on unit costing.
- As an initiative of pro-poor and gender budgeting it has provided the pro-poor programme and gender programme coding separately to every programme and project. Thus, as per the coding about 62 percent of the total education budget is pro-poor and about 59 percent directly contribute to gender equality and women empowerment in the fiscal year 2005/06.
- As an effort to internalize the MTEF process in the MOES, a MTEF Working Group has been formed which leads the whole MTEF process. Most of the members of the Group have already been trained to build their capacities in MTEF formulation.

**Results of Education Sector MTEF**

As per the PRSP, the education MTEF process has contributed to increase education sector budget both in total allocation (Figure 1) and also as a percentage of GDP. Moreover, the share of priority one project in the total budget has also increased significantly. In the FY 2005/06, the first year of the education MTEF IV, there were 16 development projects in which 7 were priority one (P1), whereas 6 were P2 and 3 under P3. In the year, the share of P1 projects' budget in total development budget allocation was 75.65% (NPC, 2005b, p. 46).
Moreover, the percentage of pro-poor education budget as percentage of GDP has been increased (18.86) in 2006 compared to 13.03 in 2002/05 period (NPC, 2005a, p.16). As a proportion of GDP, public spending on education in Nepal is comparable to that in other countries in the region (World Bank, 2005, p. 92).

The PRSP and the education sector Business Plan has accorded high priority to basic and primary education sub-sector as the strategy to contribute in achieving the sectoral objective and poverty reduction goals. The budget allocation pattern has also been in line with this policy priority. Figure 2 shows that at the sub-sectoral level, primary education has been receiving highest public funds. The basic and primary education accounts almost 60 percent of total education expenditures in Nepal. Similarly, budget estimate for the year 2005/06 shows that allocation both in secondary and higher education has been in the increasing trend. However, the investment in technical and vocational education has been too small and the allocation has further decreased in 2005/06. This is due to the PRSP policy to promote private sector involvement in this sub-sector.

**Linkages of planning and budgeting with results**

In order to strengthen results monitoring system, Nepal has been institutionalizing the Poverty Monitoring and Analysis System (PMAS). For the education sector about 20 intermediate indicators have been identified along with the sources of information and the periodicity of the monitoring. While preparing the education MTEF there has been a practice to link intended annual output of the sector with these intermediate indicators and consequently link with the themes- access, enrolment, literacy and quality as determined in the sectoral Business Plan. Detailed discussion of the monitoring effort is not within the scope of this paper.

**Existing capacities**

Nepal started the MTEF process in a phase-wise manner. In the first year, the development budget of the five sectoral ministries was covered, which expanded in all development related ministries in the second year and in the fourth year all regular budget has also been included under MTEF. Since we started in small and increase coverage based on experience, the staff in the ministries got opportunities to develop their skills in its preparation.

Further, last four years some training programmes on the MTEF have been conducted for the MTEF Working Groups of the ministries. So in the earlier MTEFs sectoral consultants up to 14 in number were used to prepare the sectoral papers needed for the MTEF. However, now the Working Group of the MOES has just prepared the education MTEF V (2006/07-2008/09) without external assistances.

The MOES itself has prepared the Education sector Business Plan as per the guidelines provided by the NPC. Thus internal capacities to prepare planning and budgeting documents including education Business Plan and the MTEF have been increasing. However, in unit costing exercise there is still a need to develop capacities not only within the MOES but also in other sectors as well.
Challenges and Risks

There are several challenges in linking planning and budgeting in Nepal. The main challenge is to protect the credibility of the planning and budgeting processes including MTEF. It is because the PRSP targets will be achieved only if the resources are mobilized as per the financing plan of PRSP. However, resources especially foreign assistances have not been mobilized as the projected level. This has been weakening the predictability on the one hand and the reliability of funds on the other.

The other challenge is the pressure of various actors in the development process- be politicians, development partners or other interest group that try to tune the programming and budgeting process in line with their priorities and interests. Since the MTEF process bases on the prioritization of projects as per the objective scores, there is no scope for introducing new interventions in the annual budget to serve those individual or institutional interests that are not in line with national or sectoral priorities. Thus, there are possibilities that these groups try to weaken the system.

The refinement of unit cost to make them more objective and realistic is also a challenge. It is because refining the historical unit costs with changing the modality of production and provisions of direct and indirect costs and service delivery processes as well is urgent but has been equally a challenging task since it demands major policy decisions.

Moreover, reducing the gaps between development or capital (Rs. 26.5 bil.) and recurrent or regular budget (44.5 bil.) is also one of the challenges ahead of Education planning and budgeting processes (NPC, 2005b, p. 46). At the same time, providing adequate funding, supplies and teachers for public schools so that the poor are not deterred by high costs of fees that schools feel compelled to charge to meet universal primary education and also improve quality of education is also one of the challenges here.

Last but not least is the continued commitment from the policy levels to continue the reform process even in the case of political changes in the country.

Conclusion

Despite difficult political situation of the country, the reform processes continued in Nepal especially in linking planning and budgeting and also with results for which instruments like MTEF have been playing a major role. Starting small and expanding coverage has contributed to develop internal capacities to proceed such reform efforts. However, in order to avoid risk in the planning and budgeting reform processes there is a need to continue commitment from the policy level to strengthen and upscale that what has already been achieved.

References


