

A Comparative Review of Budget Making Process in SAARC Countries

A Research Paper produced by the 'Research & Publications Department', ICMA Pakistan

Origin of the word 'Budget'

The word 'budget' is derived from the Latin word 'bulga' which means 'a little pouch or knapsack'. This word is later traced in the French language with word 'bougette' which means 'purse' or a 'leather bag'. In English, this word was used during the fifteenth century, with meaning of 'pouch' or 'wallet' or 'bag'. Afterwards, during 1880s this word began to be used as a verb for the meaning 'planning expenditure'.

First Budgets of Independent Pakistan and India

In the context of the Indo-Pak Sub-continent, budget was first introduced on 7th April, 1860, two years after the transfer of Indian administration from East-India Company to the British Crown. Mr. James Wilson was the first Finance Member who presented the Budget.

Mr. Liaquat Ali Khan, Member of the then Interim Government of India presented the Budget of 1947-48. After Independence, Pakistan's first Finance Minister, Mr. Malik Ghulam Mohammad presented the first budget of Pakistan on 28th February 1948 to the Legislative Assembly, which approved it the following day. As a result of this budget, the fields of commerce, banking and economics were rendered so stable that Pakistan was able to stand on its own feet. On the other hand, India's first Finance Minister, Shanmukham Chetty presented the first budget of Independent India on 26th November, 1947.

Definition of 'Budget'

'Budget' is an important policy document through which a Government establishes its economic and social priorities and sets the direction of the economy. 'Budget' reflects the basic values underlying the Government's economic policies and objectives and its future plan to spend huge amount of fund on defense, administration, development and other welfare projects. It is the responsibility of the government to identify possible sources of funds which could be utilized for meeting these expenditures. Budget, in fact, signify the planning process of the government to assess the revenue and expenditure. It shows the income and expenditure of the government during a financial year.

A budget is a financial plan and a list of all planned expenses and revenues of a government. According to **Taylor**, "Budget is a financial plan of government for a definite period". **Rene Stourm** defines budget as "A document containing preliminary approved plan of public revenues and expenditure". Being a legal document, the budget of any country is often passed by the legislature and approved by the President or the Chief Executive of the country.

For the common man, the budget provides an understanding of the financial performance of the government during the previous year and its policies and financial programs for the next year. They are

also interested to know about the impact of proposed measures in the budget on their living standard.

Types of 'Budget'

Generally, there are two different types of budget viz. (1) Balanced Budget and (2) Unbalanced Budget. The unbalanced budget is further classified into (1) Surplus Budget and (2) Deficit Budget.

A **Balanced budget** is one in which estimated revenues are equal to anticipated expenditures and there is neither a 'budget deficit' nor a 'budget surplus' available to the government.

An **Unbalanced budget** is one in which the revenues and expenditures are not equal to each other.

A **Surplus budget** occurs when estimated revenues exceeds anticipated expenditures. Surplus budget indicates the financial soundness of the government. In case of high inflation, the government can adopt surplus budget policy to reduce aggregate demand and price level. In present times, however, government has so much economic and social responsibilities that it does not adopt surplus budget strategy.

A **Deficit budget** is one in which estimated expenditures exceeds the anticipated revenues. Deficit budget indicates the financial weakness of the government. Such deficit amount is generally covered through public borrowings or withdrawing resources from the accumulated reserve surplus. In developing countries like Pakistan, where it is not possible to raise such resources through taxation, the government normally resorts to deficit budgeting as the only option. It has been observed that the developed countries normally use deficit budget as a tool to stabilize and control business and economic fluctuations.

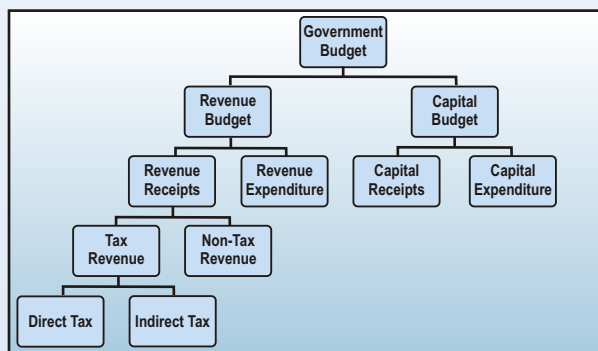
Approaches to Preparing a 'Budget'

- o **Line-Item budgeting** – It is the traditional approach and also called 'incremental budgeting'. It simply uses the current year's actual results and adds expected increases and expected decreases for each account. The budget item groups are usually presented in an incremental fashion as compared to previous time periods, assuming that the "baseline" is automatically approved.
- o **Zero based budgeting** – It is opposite to traditional incremental approach. In this approach every budget line item need to be approved, rather than only changes. Previous expenditure is not taken into account and each program or project is vulnerable to zero-funding.
- o **Performance budgeting** – It is the practice of developing budgets based on relationship between resource applied (i.e. inputs) to units of work accomplished (outputs). It classifies expenditures by administrative units; by functions and by items and determines costs of each program or activity.

- o **Program budgeting** – It provides detailed costs of every activity or program that is to be carried out in a budget. Objectives, outputs and expected results are described fully as are their necessary resource costs. The sum of all activities or programs constitutes program budget. It is considered a transitional form between traditional incremental and performance approaches.
- o **Medium Term Budget Framework** – It is a budgeting approach which relates government's policy priorities to resource allocations and then to the performance. It emphasizes efficient use of limited public resources and supports a strategic allocation of resources. This budgeting approach is intended to improve the aggregate fiscal discipline and micro-level efficiency.

Basic Elements of a 'Budget' – Revenue Budget and Capital Budget

The Annual Financial Statements released by the government constitutes its main budget document. There is a provision in the budget to differentiate the expenditure on 'Revenue Account' from other expenditures. The budget is therefore classified into 'Revenue Budget' and 'Capital Budget'.



(1) Revenue budget

Revenue budget consists of the revenue receipts of the government and the expenditure met from such revenues.

Revenue receipts are those revenues which are derived mainly from tax revenues and non-tax revenues. **Revenue expenditures** are incurred by the government on public spending, infrastructure development, welfare projects, defense expenditures, social sector investments, grants and subsidies.

Tax Revenues are generated from direct and indirect taxes. Direct taxes are those which are to be paid directly by the tax payer (such as income tax, wealth tax, CVT etc), whereas indirect taxes are those whose burden could be passed on to others (such as custom duty, sales tax, federal excise etc)

Non-Tax Revenues are generated by government from property and enterprises (including profits, interest receipts and dividends from government's investment), receipts from civil administration, royalties etc.

(2) Capital budget

Capital budget consists of capital receipts and capital expenditure of the government. It shows

the capital requirements of the government and the pattern of their financing. **Capital receipts** are normally raised by the government by seeking loans from the central bank, commercial banks, financial institutions, market borrowings or through sale of treasury bills, disposing of assets etc. **Capital expenditures** are normally incurred by government on purchasing property, making investments, loans and advances etc.

Stages of a Budget Cycle

The budget reflects the government's policy priorities and fiscal targets and is developed after passing through a series of consultation processes, normally regarded as the 'budget cycle'. It is an interactive and evolving process in which many stakeholders play their decisive roles to develop a balanced budget. The Budget Cycle normally consists of following stages, depending from country to country:

Stage 1: Budget Preparation

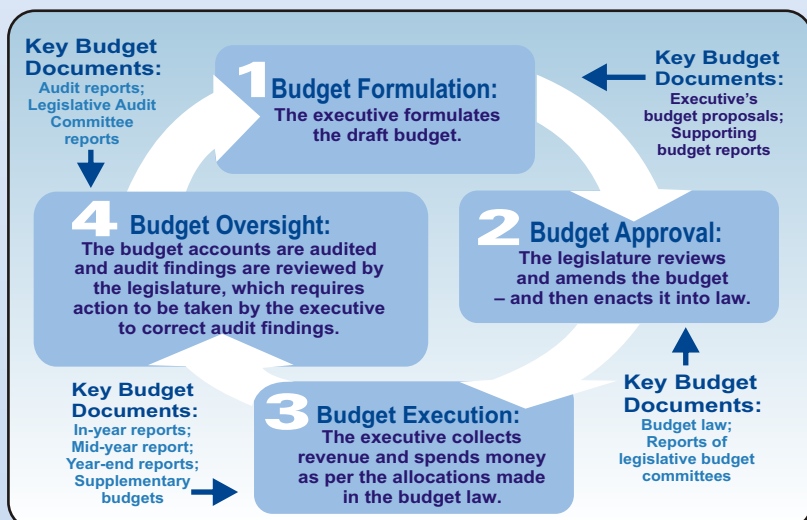
The first phase of the budget cycle is budget preparation or formulation in which the executive agency like the Ministry of Finance or Finance Division prepares a draft budget plan or budget proposal. This draft plan is normally formulated behind closed doors and then submitted to the legislative body (i.e. the Parliament) for consideration and debate. Normally, the executive body request proposals from its association departments and divisions, and even the private sector, to send recommendations for budget. The size of the budget depends largely on anticipated revenues and expenditures and also on key parameters like GDP, government priorities areas, inflation, budget deficits, welfare initiatives, etc.

Stage 2: Budget Enactment

The budget plan is presented by the Finance Minister in the Parliament. It is then debated, altered and approved by the legislative body i.e. Parliament. The input of the parliamentary committees is obtained on the budget proposal and eventually after extensive discussion; the budget is passed either intact or with amendments. The approved budget is then executed and implemented by the concerned organizations.

Stage 3: Budget Execution

Once the budget is approved by the legislative body, it must then be executed as planned with appropriate management control and accountability systems in place. For efficient and effective



utilization of funds, the government must ensure a fool-proof system to control spending and provision of execution infrastructure. At the execution stage, the responsibility shifts from the federal or central government to a diverse network of agencies and departments such as tax authorities and finance divisions etc. The budget resources are distributed to the designated recipients within the government.

Stage 4: Budget Oversight

The last stage in the budget cycle involves oversight mechanism to ensure effective use of public funds. The budget is audited and reviewed following implementation. This audit task is normally performed by the independent Auditor General office or other audit institutions. Evaluation and auditing are not only important for the legislature to exercise its oversight function, but they are also an integral part of the overall public expenditure management system.

A budget glossary is given at the conclusion of this research paper which would provide basic understanding to the readers about different terminologies used in budget documents.

Role of Parliament in Budget Process

The Parliament has to play a proactive and most vital role in analyzing the budget proposal, drafted by the executive agency (Finance Ministry) with a view to safeguard the interest of the general public as well as to match the nation's needs and people's aspirations. As a representative of the people, the parliament acts as a link between the tax payers and the government which spend the tax payers' money. It ensures that the budget reflects the priorities of the nation. The check and balance by the Parliaments brings transparency and accountability and leads to good governance.

The parliament debate, criticize and recommend amendments to the budget and for this purpose they seek the input from the parliamentary committees. A strong parliamentary committee system is a precondition for efficient parliamentary involvement and input in the budget process. These committees monitor, reviews and assesses the budget and make useful suggestions for improvement in the budget.

Budget Making Process in SAARC Countries

After basic understanding about the budget, its types, components, cycle, etc now let us have a look at the budget making process in the SAARC countries viz. Bangladesh, India, Nepal, Pakistan and Sri Lanka.

(1) Bangladesh

Legal Provisions - The constitution of the Peoples' Republic of Bangladesh 1972 provides the basic legal framework for the governmental budgeting process. Articles 81 to 92 of the Constitution outline the requirements of the budgetary procedures. The **Annual Financial Statement** or the statement of the estimated receipts and expenditure of the Government of Bangladesh in respect of each financial year (referred to as "the budget") is presented to Parliament in accordance with the provisions of **Article 87 of the Constitution**. The budget is presented to the House in such form as the Finance Minister considers suitable.

Budget Cycle - The Budget Cycle starts with formulation of relevant planning and policies. For proper implementation of pledged deliverables, the government formulates policies/planning with varying time-frames. The single most important planning

document that initiates budget preparation is the 6th Five Year Plan titled "Accelerating Growth & Reducing Poverty". The line ministries determine their strategic objectives and then identify the major activities by operationalizing the strategies into actions. Ministries also consider sector specific planning documents. Under planning stage, some KPIs (Key Performance Indicators) are also defined and also quantitative targets are set against the KPIs. The budget process focuses on services (outputs) delivered and resources required (inputs).

Budget Preparation - The Finance Division of the Ministry of Finance has overall responsibility for initiating the budget making process. The 'Budget Wing' within the Finance Division collate and examine the revenue budget submissions, received from different Ministries; summarize them; forward to Parliament for approval and its final publication. The 'Development Wing' is responsible for the Development Budget. The budget is prepared using the Medium Term Budget Framework (MTBF) approach, introduced in FY 2004-2005. MTBF system connects government strategic policy priorities to resource allocations and resource allocations to performance.

Under the MTBF, the budget preparation process in Bangladesh is completed in three phases. In first phase, the Ministries and Divisions prepare/update Ministry Budget Framework (MBF). In second phase, the line ministries prepare estimates for one year and projections for four years, which are forwarded to Finance Division and Planning Commission. These estimates/ projections are reviewed to check for consistency with policies and priorities and for compliance with ceiling and guidelines provided in budget circular. In the last phase, the Finance Division and Planning Commission finalize development and non-development estimates in consultation with respective ministries and submits them before the Parliament for approval.

Budget Enactment - The Finance Minister presents the budget (Annual Financial Statement) in June in the Parliament of Bangladesh. Except for the Minister's budget speech, there is no discussion on budget on that day. After the budget presentation of budget, there is a general discussion by the House, in which the members express their views on the budget and raise issues thereon, without moving any motions at this stage. The Business Advisory Committee (BAC) decides in advance the time needed for discussing the budget at different stages. Usually more time is allotted for the general discussion of the budget.

After conclusion of general budget debate, the House discusses the demands for grants and appropriations in respect of charged expenditure commences. At this stage, the members can move motions to reduce expenditure. Members can move three types of motions to reduce expenditure; these are commonly referred to as policy cut, economy cut and token cut. The Rules neither allows any motion to increase expenditure, nor to alter the destination of a grant. The Speaker, in consultation with the Leader of the House, allots number of days that is compatible with the public interest for discussion and voting on demands for grants. On the last of the allotted days, at the time when the meeting is to terminate or at such hour, the Speaker may fix in advance, every question necessary to dispose of all the outstanding matters in connection with the demands for grants is put forward.

Budget Execution - After approval of budget by Parliament, the line Ministries, Divisions and relevant Institutions can spend funds allocated to their departments according to approved expenditure

plans. All expenditures are monitored and evaluated by the implementing departments themselves. The Planning Commission monitors and evaluates implementation of development projects under Annual Development Program (ADP). The Finance Division reviews quarterly trends of revenue receipts and expenditures against targets set out in the budget. The Finance Minister submits a statement at the ensuing session of the Parliament on the results of the aforesaid review and report on possible remedial measures.

Budget Oversight – At the end of financial year, public expenditures are audited independently by the Office of Comptroller and Auditor General (OCAG) of Bangladesh. It audits government receipts and public spending and ascertains whether expenditures have yielded value for money in government offices, public bodies and statutory organizations. In addition, financial and performance audits are conducted by OCAG throughout the year who reports are considered by the Parliament to determine whether public spending met its objectives, and whether implementing departments used their resources efficiently and effectively. The Parliament plays its oversight role through three financial committees of the Parliament, i.e. 1) Public Accounts Committee, (2) Committee on Public Undertakings, and (3) Committee on Estimates. These committees make sure that public money is spent in a transparent, effective and efficient manner.

Budget Documents - The following financial documents are prepared at the time of budget presentation to the Bangladesh Parliament by the Finance Division:

- (a) Budget Speech
- (b) Budget in Brief
- (c) Supplementary Estimates
- (d) Annual Financial Statement
- (e) Budget Summary Statement (Contains 14 separate statements)
- (f) Detailed Estimates of Revenue and Receipts
- (g) Demands for Grants and Appropriations (Non-Development)
- (h) Demands for Grants and Appropriations (Development)

(2) India

Legal Provisions - The President is obliged under Article 112 of the Indian Constitution to have the Annual Financial Statement (i.e. Union Budget of India) of the ensuing financial year laid before the Parliament (known as Lok Sabha). The Union Budget is presented in Parliament by the Finance Minister each year on the last working day of February. The budget is to be passed by the House before it can come into effect on April 1, the start of India's financial year.

Budget Cycle - The Budget cycle begins with the formulation of next financial year's Union budget in the months of August-September every year by the budget division in the department of economic affairs under the Ministry of Finance. An annual budget circular is issued by the last week of August or the first fortnight of September every year. This annual budget circular contains detailed instructions for the Union government ministries/departments/UTs/autonomous bodies and defense forces, relating to the form and content of the statement of budget estimates to be prepared by them. The ministries are required to provide three different kinds of figures relating to their expenditures and receipts during this process of budget preparation i.e. budget estimates, revised estimates and actual.

Budget Preparation - The Ministry of Finance has the overall responsibility for framing the Budget. The Planning Commission sets the overall targets for the ministries, which have specific

responsibilities. The Comptroller & Auditor General (CAG) keeps a check on accounts. The administrative ministries state their plan priorities. The budget is prepared by the budget division in the ministry of finance after consulting with other ministries and the planning commission. Ministries prepare estimates of how much their plan and non-plan expenditure is likely to be for the year. This is reconciled with the finance ministry's estimates of how much money it can make available. The finance ministry estimates how much tax revenue it can raise after accounting for increases in income and inflation. Throughout the process, the finance minister and other officials meet with economists, experts, industry representatives and citizen groups. The finance minister briefs the prime minister and cabinet on budget proposals.

Budget Enactment - The Finance Minister presents the Budget in Lok Sabha on the last working day of February. The Budget speech has two parts. **Part A** deals with general economic survey and policy statements, whereas **Part B** contains taxation proposals. The budget documents are made available to the members of Parliament after the finance bill has been introduced in Lok Sabha, and the House has been adjourned for the day. A few days after budget presentation, there is debate and finally a 'Vote of Account' for expenditure for the next two months of ensuing year is obtained after which the house is adjourned. During this period, detailed estimates of ministries' expenditure, called demands for grants are considered by relevant standing committees. There are 24 such committees which submit reports to the Lok Sabha on each ministry's Demands for Grants. The House discusses and votes on demands for grants. The Speaker puts all outstanding demands to the vote of the House. This device is called 'guillotine'. The Lok Sabha has power to approve or refuse any demand. After discussion and voting, the government introduces the Appropriation Bill, which is intended to give authority to government to incur expenditure.

Budget Oversight - The Comptroller and Auditor General of India (CAG) play a crucial role in parliamentary financial control. The Indian Constitution provides for a unitary and independent audit by CAG. The audited Appropriation and Finance Accounts are submitted along with the audit reports of the CAG to the President of India or the Governors of the States according to whether they relate to the Union or the States. These accounts and reports are then caused to be laid before the Union Parliament or the State Legislatures concerned. The primary function of the audit of the CAG is to verify the accounts to ascertain effective and proper utilization of funds. The jurisdiction of CAG extends to audit of Government commercial enterprises, as well as to bodies and authorities substantially financed from Government revenues. The CAG also examines accounts relating to grants and loans given by the Government. CAG has complete discretion to regulate the scope of his audit. Apart from the traditional forms of audit, commonly known as the appropriation audit and regularity audit, the discretionary forms of audit (the propriety audit and the efficiency-cum-performance audit) developed by the CAG have assumed significance from the viewpoint of 'accountability' in a comprehensive sense. The audit looks beyond the mere regularity of expenditure to its prudence and economy and to a general examination of the efficiency and effectiveness with which an organisation is discharging its financial responsibilities.

Other Budgets - The Indian Railways, largest public-sector enterprise, and Department of Posts and Telegraph have their own budgets, funds, and accounts. The appropriations and

disbursements under their budgets are subject to same form of parliamentary and audit control as other government revenues and expenditures. Dividends accrue to central government and deficits are subsidized by it like other government enterprises.

Budget Documents - The Union Budget comprises various documents, which are as under:

- (1) Budget Speech
- (2) Budget Highlights
- (3) Key to Budget
- (4) Annual Financial Statement
- (5) Finance Bill
- (6) Memorandum
- (7) Budget at a Glance
- (8) Expenditure Budget
- (9) Receipts Budget
- (10) Customs & Central Excise
- (11) Implementation of Budget Announcements
- (12) Macro Economic Framework Statement
- (13) Medium Term Fiscal Policy Statement
- (14) Fiscal policy Strategy Statement

(3) Sri Lanka

Legal Provisions - The Sri Lankan constitution mandates that Parliament shall have full control over public finance and taxes and other levies cannot be imposed without permission of Parliament. The funds of the republic form one consolidated fund, withdrawal from which cannot be made except under the authority of a warrant, issued under the hand of Finance Minister. No bill relating to public finance can be introduced in Parliament except with the sanction of the Cabinet, which is collectively responsible to Parliament.

Budget Cycle - In Sri Lanka, the budget is drafted by senior bureaucrats in the Ministry of Finance which determine the budgetary requirements. In July each year, ministries are sent circular asking for submission of budget recommendations. The Appropriation Bill, which is government's main financial authority for the year, is presented in Parliament in the first week of October after which it may be challenged before the Supreme Court within one week. If challenged, the Court is allowed to deliver its verdict within a period of three weeks. The Second Reading of the Bill usually takes place in early part of November and begins with delivery of the budget speech by the Finance Minister. The debate on the Second Reading of the bill lasts for seven days in which almost all members participate. After the passage of the Second Reading, the Bill is referred to the Committee of the whole House. The appropriation estimates are examined by a committee of whole House. At this stage, the relevant minister, as well as the Finance Minister is answerable to the House. The committee stage lasts 19 days, after which the Third Reading is passed. Apart from the Appropriation Bill, supplementary estimates may be moved at any time during the year and when required.

Budget Preparation - The budget process begins from start of fiscal year in Sri Lanka i.e. from January. The Fiscal Policy Department (FPD) and the Treasury of the Ministry of Finance and the Central Bank of Sri Lanka jointly start discussing the macroeconomic framework in January. Based on macroeconomic outlook the Department of National Budget (DNB) prepares expenditure ceilings for each Department and Ministry. Budget ceilings are made in terms of nine broad clusters i.e. (1) pro-poor, pro-growth livelihood and regional development, (2) human resource development, (3) infrastructure development, (4)

production, services & environment, (5) science, technology, research & development, (6) social protection, (7) art, culture & religion, (8) governance, operations & monitoring, and (9) public order & safety. In the month of May, the DNB sends circulars to government departments and ministries requesting their expenditure requirements. A process of consultations between the departments, ministries, DNB and the treasury takes place between the call for requirements and the presentation of the Appropriation Bill in parliament based on the Annual Appropriation Act. Guidelines and directions for preparation of annual budget are sent to all departments, ministries, and semi- government institutions in the National Budget Circular ('Budget Call') during July of each year, which is posted on the Treasury website and available to the public.

Budget Enactment - In November, on the day of Second Reading of Appropriation Bill, the Finance Minister presents his budget speech in the Parliament in which detailed revenues and expenditure proposals are submitted. The macroeconomic framework, budget ceilings, and appropriations are earlier approved by the Sri Lanka Cabinet and the approved "Appropriation Bill" is presented in Parliament at least six weeks before presentation of budget. The allocations made in Appropriations Bill could be amended at the committee stage of budget debate in parliament, which is called Third Stage of Reading. The estimates of expenditure of each Ministry and the previous year's performance of Ministries are scrutinized at the Committee Stage Debate. All amendments to the Appropriations Bill need to be finalised before end of December and the Finance Minister has to issue warrants authorizing expenditures from 1st January of the following year. The budget has to be initially approved by majority of Parliament and then prior to the Committee Stage scrutiny and finally at the conclusion of the Committee Stage proceedings. If the Appropriation Bill is not passed in Parliament, rejecting the Budget, it will result in the resignation of Government or in the dissolution of Parliament, as stipulated in the Constitution.

Budget Execution - After the approval of Appropriation Bill by the Parliament, execution of the budget proposals takes into effect as soon as the Finance Minister signs the warrant and the Budget Department prepares cash flows. Relevant laws and regulations are made to give effect to the budget proposals. The Treasury Operation Department releases imprest to spending agencies, which starts making expenditures as per the approved budget. They are required to send monthly expenditure reports to the State Accounts Department. The execution process normally continues till end of December each year. There is also a system for constant monitoring of cash flows, project performance, revenue targets etc.

Budget Oversight - The government's finances are monitored by an auditor-general appointed by the President of Sri Lanka. The Auditor-General is required to audit the government accounts and submit his report within ten months, that is by October of the following year and his reports are referred to the Public Accounts Committee or the Committee on Public Enterprises.

Budget Documents - The budget documents presented at the time of budget in Sri Lanka are as under:

- 1) Budget Speech
- 2) Budget Estimates
- 3) Summary of Budget
- 4) Fiscal Management Report
- 5) Global Partnership towards Development

- 6) New Revenue Proposals
- 7) New Expenditure Proposals
- 8) Gross Borrowing Requirements
- 9) Technical Notes to Budget Proposals

(4) Nepal

Legal provisions - The interim constitution of Nepal provides some explicit provisions for the financial procedure of the country. The constitution has not mentioned the word 'budget' explicitly. It is referred to as the "Annual Estimates". The Financial Procedural Act, 1998 provides authority to the Ministry of Finance to formulate, execute, and control budget. The Economic Administration Regulation, 1999 to the Financial Procedural Act, specifies the procedures to sanction and spend the allocated budget, and to implement the budgetary policies. A separate Budget Division in the Finance Ministry works on budgetary expenditures.

Budget Cycle - The Budget Division of Finance Ministry prepares the budget guidelines in line with economic planning and fiscal policy. It sends circulars to government ministries and departments to send the estimate of revenue and expenditure on the basis of these guidelines. The ministries and departments also send such circulars to their concerned offices. After receiving the estimates, there is detail discussion with representatives of different agencies in the budget division. Finally, the budget document is prepared in the final form. In general, the Finance Minister presents the budget message with budget-in-brief in the parliament (Sansad). The fiscal year in Nepal starts from 16th July and ends with 15th July of the following year. The "Annual Estimates" include an estimate of revenues; the money required to meet the charges on the Consolidated Fund (Charged Expenditure); and the money required to meet the expenditure to be provided for by an Appropriation Act (Voted Expenditure).

Budget Preparation - The budget is formulated by the Budget Division of the Ministry of Finance (MOF) Nepal. The regular budget is prepared by the Finance Ministry, whereas the development budget is formulated by National Planning Commission (NPC), in consultation with the concerned Ministries. The budget process starts few months before the start of the i.e. 16th July and consists of six stages. In the first stage, the level of government expenditure and size and ceilings of next budget is determined by the Resource Committee. In second stage, the NPC fixes priority on main sectors of government activity. In third stage, the operating department formulates proposed projects and submits them to the NPC. In fourth stage, NPC reviews and selects the projects for inclusion in budget and submits them to budget division of MOF along with financial estimates. In the sixth and last stage, the budget division reviews selected projects and gives final shape to the budget.

Budget Enactment - In second or third week of July, the Finance Minister of Nepal presents his budget speech, along 'budget-in-Brief', at the joint session of Parliament, which is followed by a brief discussion of underlying budgetary principles and policies. After completion of broad discussion on budgetary estimates, the Finance Minister tables the 'Appropriation Bill' and 'Finance Bill'. The Appropriation Bill consists of details of programs and their regional distribution. The Parliament then participates in the Article-wise and Ministry-wise discussion on budgetary allocation. The parliament debate continues upto two months and finally in September, voting on bill takes place. After enactment in the Parliament, the budget is submitted to His Majesty the King for

approval, after which the budget becomes an Act.

Budget Execution - The execution of budget is made by Ministry of Finance. The fund is disbursed in four- monthly basis to the departments according to the schedule of the project and actual performance. The first four-monthly fund is disbursed on the basis of proposed expenditure and work. The next four-monthly budgets are disbursed after submission of the progress reports of the work. The planning office scrutinizes the progress reports, finds out the causes of deviation if any, and gives advice for correction. The budget office, on the other hand, may stop fund disbursement or reduce the fund on the basis of the information received in the four-monthly report regarding actual expenditure and physical performance. The control of budget through audit is done by the office of Comptroller General and Auditor General. The purpose of audit is to ensure that expenditures are made according to budget and the existing the laws and rules.

Budget Oversight - In Nepal, the overall responsibility of audit rests with the Auditor General (AG). The AG prepares the annual report after carrying out audits of all government transactions and submits its report to the government. This report is then forwarded to Parliament for discussion and implementation. There is also a 'Central Monitoring and Evaluation Division (CMED) of the National Planning Commission (NPC) which monitors the core projects selected and sends its report after every four months to the National Development Action Committee (NDAC), headed by the Prime Minister.

Budget Documents - The following documents are presented at the time of budget presentation:

- 1) Budget Speech
- 2) Budget-in-brief
- 3) Red Book - contains line-item Estimates of Expenditure
- 4) Yellow Book - contains performance review of Public enterprises
- 5) White Book - It is a source book for projects financed with foreign assistance

(5) Pakistan

Legal Provisions - In Pakistan, budget is governed by the Constitution and rules relating to Parliamentary procedure. The Constitution requires that the Federal Government presents an 'Annual Budget Statement (ABS) to the National Assembly in respect of each financial year, which begins on 1st July. The business of the National Assembly is governed by the Rules of Procedure and Conduct of Business in the National Assembly Rules, 2007. Essentially, Rules 182-197 govern the manner in which the National Assembly participates in the budgetary process. Prior to presentation to National Assembly, the budget is discussed and approved by the Cabinet. The budget shall then be presented to the National Assembly by the Finance Minister on a date determined by the Leader of the House. No other business is allowed in the House on that day. After this, at least two days are set aside before any discussion of the budget commences. At least four days must then be allocated for budget discussion.

The Constitution underlines that all receipts and expenditure to be incurred in a particular financial year are to be met by the **Federal Consolidated Fund (FCF)** of Pakistan, which constitutes the total sum of revenues and moneys received and loans raised by the Federal Government. There is also a **Public Account of the Federation (PAF)**, which consists of all other moneys received by or on behalf of government. The custody of both the FCF and PAF is

governed and regulated by the Act of Parliament (*Majlis-e-Shoora*). Budget Cycle - In Pakistan, the budget is presented usually in the first week of June every year by the Federal Government in the National Assembly and is followed by each of the provincial governments in their respective Provincial Assemblies. The budget cycle / calendar begin with issuance of a 'Budget Call Circular' by the Finance Division of the Ministry of Finance in October every year. From November to January, the budget estimation is carried out on the basis of estimates received from different Ministries and Divisions. The Finance Department conducts detailed scrutiny during January and February and finally in April the budget proposals are finalized by the Finance Department. In May/June, these budget proposals are forwarded to the Federal Cabinet for approval, after which it is presented in the Parliament (National Assembly) in June. In July, after the approval of the Budget by the Parliament, the funds are released by the Finance Department for spending by the different Ministries and Departments.

Budget Preparation - The budget process begins in October every year with the issuance of a 'Budget Call Circular (BCC)' by the Ministry of Finance to all ministries, divisions and departments of the government. The BCC explains the procedure for preparation of Budget estimates and provides time-line for completion of various stages of Budget. The original estimates are developed by agencies and departments, keeping in view the past actual, current trends and future expectations and commitments. These estimates are then submitted to relevant administrative ministries and divisions for examination and onward transmission to concerned Financial Advisers with recommendations. Thereafter, the Financial Adviser and Finance Ministry carry a detailed scrutiny of the estimates before they are finally accepted for inclusion in the budget.

For the finalization of Annual Development Plan (ADP), there is another institution named as 'Priorities Committee (PC)' which meets regularly in April each year, under chairmanship of Planning Division to evaluate and prioritize projects for allocation of resources. This meeting is attended by all line ministries and provincial governments. In May, another meeting of 'Appropriations Committee' is held which is chaired by Finance Division. This Committee discusses proposals for sector-wise allocations which are then finalized by the Finance Division.

Budget Enactment – The budget (Annual Budget Statement) is presented by the Finance Minister in the National Assembly during the second week of June every year and is passed by the National Assembly by the beginning of last week of June. This process generally leaves 15 to 20 calendar days and around 12 to 17 working days for various stages of budget debate in the National Assembly. Since 2003, it is a requirement that the budget statement is copied to the Senate at the same time as its presentation to the national assembly. The Senate may discuss the budget proposals and make recommendation to the National Assembly. However, its recommendation are non-binding. Besides ABS, the 'Demands for Grants' is also presented which is made in respect of the grants proposed for each Ministry or Division. Each demand contains a statement of the total grant proposed and a statement of the detailed estimate under each grant divided into items. The approved budget is referred to as the 'Schedule of Authorized Expenditure' (SAE), which is then submitted to the President of Pakistan for assent.

Budget Execution – After legislative and executive approval of the Budget, the Finance Ministry sends a release letter to all ministries, departments and agencies and their respective offices of Accountant General of Pakistan Revenue (AGPR) or Accountant General (AG) advising that funds are being made available against their budgets. AGPR/ AG offices in turn inform district accounting/ treasury offices of the availability of their funds. The federal government releases funds at specific intervals according to specific formulae and percentages. The provinces release allocations to district governments on first of every month.

The Ministries/divisions are required to send a monthly statement of expenditure to the Ministry of Finance through financial advisors. A mid-year review of budget based on reconciled accounts is conducted, which helps formulate a strategy for budget implementation for remaining period. There are clearly established procedures for approved reallocation of expenditures from one line item to another. The Principal Account Officer (PAO) has power to reallocate funds within the department below a certain threshold. Reallocations above a certain threshold and transfers between major budget heads must be approved by the Ministry/ Departments of Finance at the time of each month's reconciliation process. All supplementary grants are subject to approval by the Parliament at the time of the next year's budget.

Budget Oversight – The Auditor General of Pakistan (AGP) is authorized to conduct independent and objective assessment of financial governance process to facilitate legislative oversight of the parliament on government operations at national, provincial and district levels. It is a constitutional body which is fully mandated to conduct all kinds of audit such as certification audits, regularity and compliance audits of expenditure and revenue receipts, performance audits on the outcomes of various projects and programs with emphasis on social sectors. AGP also conducts special studies on any matter of public importance on the case of urgency. The audit reports are placed before the assembly and the Public Accounts Committee (PAC) which deliberates on the reports and decides to hold the officials accountable for audit findings and may even order action including administrative or criminal action against officials.

The document "System of Financial Control and Budgeting (2006)" has underlined the scope for internal auditing of the spending by each ministry/department. In each ministry/division there is a Chief Finance and Accounts Officer (CFAO) who is assigned with matters of risk management, asset protection, internal control/audit, reconciliation of accounts, monitoring and coordination with Departmental accounts Committee, Public Accounts Committee and financial properties of expenditure and receipts.

Budget Documents – The following budget documents are usually presented at the time of budget presentation of the Finance Minister in the National Assembly:

- 1) Budget Speech
- 2) Budget-in-Brief
- 3) Budget at a Glance
- 4) Annual Budget Statement (ABS)
- 5) Details of Demands for Grants and Appropriations (Pink Book)
- 6) Demands for Grants and Appropriations (White Book)
- 7) Explanatory Memorandum of Federal Receipts
- 8) Schedule of Authorized Expenditure
- 9) Supplementary Demands for Grants and Appropriations
- 10) Estimates of Foreign Assistance

BUDGET GLOSSARY

1. Actual Expenditure	Amount expended by a spending department/spending unit out of the funds allocated against a particular account head.
2. Appropriation Accounts	A comparative statement of actual expenditure against respective budget allocations separately for each grant. These Accounts are published annually by Auditor General's office (through the provincial Accountants General/AGPR) and are prepared according to Function and Object classification
3. Annual Development Plan	A document is issued by Planning Commission and includes yearly targets. The key sectors covered include Growth, Saving and Investment; Balance of Payments; Fiscal and Monetary Development; Poverty Reduction and Human Development. (See also 'Medium Term Development Framework')
4. Annual Development Program (ADP) Statement	A statement of ongoing development schemes and those proposed to be launched by a provincial government in a fiscal year. It is similar to Public Sector Development program (PSDP) at the Federal level.
5. Appropriation	Allocation of funds to a spending department. It is an Act of Parliament that enables department to spend money for specific purposes.
6. Budget	A government's Annual Financial Plan describing the proposed expenditures and the means of financing them.
7. Budget Call Circular	An official notice issued by Ministry of Finance (or Finance Department in case of a Province) to line ministries/departments inviting them to prepare and submit budget estimates for the following fiscal year. This includes budget forms, guidelines and instructions for preparing budget estimates and calendar of activities leading to final presentation of budget in Parliament.
8. Budget Estimates (BEs)	Demands prepared for next fiscal year submitted to the Parliament for approval.
9. Budget Resolution	Annual framework within which the Parliament makes its decisions about spending and taxes. This framework includes targets for total spending, total revenues and the deficit as well as allocations, within the spending target for spending.
10. Capital Receipts	Receipts obtained from sources of finance other than Revenue. Examples include loans, advances, grants, etc.
11. Capital Expenditure	Expenditures met from capital receipt. For example, research and development activity met from loan obtained from domestic sources. This can be both Development and Non-Development (or Current) Expenditure.
12. Cash & Work plan	A system of budget control whereby funds are released to spending units on the basis of activities planned to be carried out in a fiscal year. Currently, this system is applicable to Federal Development Projects only.
13. Charged Expenditure	Expenditures met from the consolidated fund, which, under the Constitution, must be discussed, but are not submitted to the vote of the National or Provincial Assemblies.
14. Chart of accounts	A scheme of systematically recording, aggregating, consolidating, summarizing and reporting government financial transactions. Chart of Accounts prescribes various codes for Function, Object, Entity, Fund, Project, etc. All budget books (including Annual Budget Statements) use codes prescribed under the Chart of Accounts.
15. Consolidated Fund	Operating account of the Government and consists of various financial resources, the balance of which is available for appropriation against the general operations of the Government. There are separate Consolidated Funds for Federal and each of the Provincial Governments, i.e.: Federal Consolidated Fund Sum of internal and external resources of the federal government. Provincial Consolidated Fund Sum of internal and external resources of the provincial government
16. Development Project	A development project is an activity undertaken to acquire, build or improve physical assets or develop human resources and is provided within the development expenditure grant. A development project usually has a finite life and a specific source of funding. At the provincial level, it is normally referred to as "Development Scheme". (See also 'Non-Development Expenditure')
17. Direct Tax	A tax imposed directly on the income or capital of a person or organization, rather than as part of the price of goods or services. Tax on an individual's income, referred to as Income Tax, is an example of a Direct Tax.
18. Expenditure	All current and development expenditures on Revenue Account and current and development expenditures on Capital Account. The term 'Expenditure' as used in Annual Budget Statement and related documents usually covers Budget Estimates, Revised Estimates and Actual Expenditure.
19. Fiscal Year	Accounting period followed by the government. It begins on 1st July and ends on 30th June every year.
20. Function Code	One of the five components of Chart of Accounts' used to identify 'the purpose' for which a budget allocation is utilized. Some common "functions" (and their relevant codes) are: Health (07), Education Affairs and Services (09), Economic Affairs (04), etc.
21. Grant	Funding approved for a Ministry or department against their Demands through the Schedule of Authorized Expenditure (SAE).
22. Gross Domestic Product (GDP)	A standard measurement of the size of the economy. It represents the total value of goods and services produced during a fiscal year, including those of the private sector and the government.
23. Medium Term Budgetary Framework (MTBF)	Unlike an Annual Budget, the MTBF is a multi-year approach to budgeting which links the spending plans of the government to its policy objectives. It is aimed at providing ministries/departments the space and flexibility they need to formulate, plan and implement policies that focus on public service delivery or 'output'.
24. Medium Term Development Framework (MTDF)	A Framework that provides medium term strategies for the key sectors of economy. It is prepared by Planning Commission under the direction of National Economic Council. It is implemented through Annual Development Plan, which provides the flexibility for adjustments to targets/strategies given in the MTDF.
25. Mid-Year Budget Review	A Review of budget allocations and actual expenditures during a fiscal year. For development projects, budget review is carried out on a quarterly basis with detailed review in the middle of the year and usually involves both financial performance and physical progress of the projects/schemes.
26. Non-Development Expenditure	Expenditure relating to on-going/operational costs of the government e.g. Pay and Allowances of employees, operating expenditure, repair & maintenance, etc. Non-Development Expenditure is also referred to as 'Current Expenditure'.
27. Object Code	One of the five components of Chart of Accounts' used to identify 'economic classification' of a budget allocation. Examples include Pay & Allowances (Code A01), Repairs & Maintenance (Code A13), Operating Expenses (A03).
28. PC-1	A Pro-forma prescribed by Planning Commission to be prepared before initiating any development project.
29. Poverty Reduction Strategy Paper (PRSP)	A document that provides focused strategy for poverty reduction based on four pillars, i.e. accelerated and broad-based economic growth while maintaining macroeconomic stability; improving governance and consolidating devolution; investing in human capital; and targeted programs with emphasis on social inclusion.
30. Public Sector Development Program (PSDP)	Combined Expenditure of the federal and provincial governments relating to development projects/schemes. PSDP document includes project wise allocations for federal projects separately for each Ministry/Division for a particular fiscal year. This is similar to the Annual Development Program (ADP) in the provinces.
31. Public Account	Those specific-purpose moneys for which Federal and Provincial Governments have a statutory or other obligation to account for, but which are not available for appropriation against the general operations of the Governments. For example, inflows into and disbursements from savings schemes launched by the government from time to time.
32. Public Accounts Committee	A body constituted from the members of the National Assembly or Provincial Assembly which is responsible for examining and reporting, as detailed in the consolidated financial statements prepared by the Auditor General of Pakistan
33. Re-appropriation	Transfer of allocated amount from one unit of appropriation to another such unit is called 'Re-appropriation'. This is done to utilize 'saving' of budget allocation in a unit/head of appropriation. For example, if it is anticipated that budget allocation for Utilities could not be fully utilized during the fiscal year, the spending department can request for transfer of un-utilized amount to another account head, e.g. repairs & maintenance. Certain restrictions apply on Re-appropriations.
34. Revenue Expenditure	Expenditure met from revenue receipts. This can be both Development and Non Development (or Current) Expenditure.
35. Revenue Receipts	Receipts which are collected during the normal operations of the government and make up the largest proportion of government's total receipts in a fiscal year e.g. income tax, sales tax, CVT etc. collected by or on behalf of government.
36. Revised Estimates (REs)	Budget Estimates adjusted for any Supplementary grant, Surrenders or Re-appropriations are called Revised Estimates.
37. Savings and Surrenders	Amount un-utilized out of budget allocation. Relinquishment of allocated funds by a spending department is called 'Surrender'. This happens when allocated funds are not likely to be spent by that spending department in a fiscal year.
38. Schedule of New	A pro-forma used by provincial government departments for preparation of budget estimates.
39. Supplementary Budget	Expenditure (SNE) Additional funds under a particular object not provided in the original budget. Supplementary budget is prepared and approved during the year of execution, by the National Assembly.
40. Voted Expenditure	This refers to that portion of expenditure on which the Assembly votes. Under the requirements of the Constitution, expenditure in the Annual Budget Statement (ABS) is separately shown for "charged expenditures" and "voted expenditures".