
**FACTORS AFFECTING BUDGETARY ALLOCATION PROCESS IN PUBLIC
INSTITUTIONS IN NEPAL; CASE OF THE NATIONAL PLANNING
COMMISSION**

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ABSTRACT

The public administration environment is becoming increasingly complex and there is also an increasing need to align society needs with the limited available resources. This requires that funds that are made available be used for the purpose which they were provided for. In Nepal fiscal policy in macroeconomic management has continued to be a complex area and is often characterized by increasing inflation and interest rates, budget deficits, low economic growth rates and a rising debt burden. This study sought to establish factors affecting budgetary allocation process in public institutions in Nepal. A case study research design was used for the current study. The target population was 309 employees of Nepal Government. Stratified random sampling will be used in selection of sample size. This study sampled 156 employees. The study collected both primary and secondary data. Primary data was gathered using semi-structured questionnaires. Descriptive analysis was used, which included the use of weighted means, standard deviation, relative frequencies and percentages. Tables and other graphical presentations were appropriately used to present the data that was collected for ease of understanding and analysis. The study revealed that citizen participation positively affect budgetary allocation process to a great extent and that regular citizen monitoring helps to identify changing patterns or circumstances that need corrective action. The study noted that active citizen participation in the budgetary allocation process helps in effective allocation of the county resources. The study also revealed that political interference affects budgetary allocation process to a great extent and that members of the County Assembly (MCAs) have a great control over the budgetary process at the county level.

Keywords: *Citizen Participation, Political Interference, Legal Framework, Budget Review and Budgetary Allocation Process*

INTRODUCTION

The public administration environment is becoming increasingly complex and there is also an increasing need to align society needs with the limited available resources. This requires that funds that are made available be used for the purpose which they were provided for. Public institutions get their income from the citizens of a nation and thus they should be subject to legislation and administration processes from the public sector when they deal with expenditure and revenue. Poor performance in most national governments is often caused by poor government spending practices and lack of accountability. To manage public resources in an effective manner, there is need for adequate capacities to be put up, (Aregbeyen and Baba, 2013).

Budget allocation put up in the public sector aim to manage the available limited resources so as to enable the efficient delivery of services which lead to desired outcomes which meet the needs of the society. A well prepared budget allocation plan enables the government to efficiently use the available resources including international aid and this ensures that the community quality of life improves. Expenditure is also managed better and more revenue is raised and the government minimizes its spending and maximizes on the impact of public resources (Bhatia, 2003 and Chang, 2009).

Musgrave (1959) contends that although operations of public institution are characterised by the flow of revenues and also expenditure, complex problems do not come issues related to liquidity, capital markets, finance or money. The major problems are as a result of allocation of resources, attainment of full employment, fair distribution of income and acquisition of price stability and growth. Musgrave (1959) further notes that the task of government is often to investigate the principles of public economy or investigate economic aspects that come up when operations of public budget are going on.

There is a consensus among scholars on the generic stages that have to be followed in a budget cycle. However, review of public financial management reform literature shows that there is no agreed budget allocation definition (Pretorius & Pretorius, 2008). Budget allocation according to the narrowest definition is confined to activities of budget execution, monitoring, evaluation, accounting, reporting and control (Allen, Schiavo-Campo & Garrity, 2004). Rosen (2002) offers a different definition noting that budget allocation can be said to be the spending, taxing and debt management done by governments that influences income distribution and allocation of resources. Spending consists of the budget cycle which consists of the preparation of the budget, installing internal controls, internal and external audit, accounting, monitoring and evaluation and procurement (Witt & Müller, 2006).

So as to achieve strategic government goals, there is need for a strong budget allocation system. Realistic steps and platforms should be incorporated in the system which can help in the management of different relationship and also in in the accommodation of different role players. Each of the platforms should be explained in terms of the improved outcomes and this should form the basis for starting the next step. The relationship of the different players of various roles is highlighted by the budget allocation system which encourages good governance and also puts more emphasis on public financial management capacity, responsiveness and accountability (World Bank, 2008). Such system leads to accountability and collective decision making whereby citizens are given a chance to express their views. The budget allocation system further leads to overall fiscal discipline, fiscal transparency, efficient use of resources, and prioritizing on the important expenditure with the budget being used as a guide to implement the policies of the government.

According to Eising (2013) there should be a well-structured, adequately funded, and participatory and people oriented policy which should focus on the public participation, the people should also be told of this policy so that to increase the public participation. Pre and post budget hearing should also be conducted which can help the stakeholders to familiarize themselves with the budget implementation and proposals which can further enhance their understanding of the budget process. It can also help in the adoption of good budget policies and also enable county priorities to be integrated in the budget.

Objective

The general objective of the study was to establish factors affecting budgetary allocation process in public institution in Nepal with special focus on National Planning Commission.

The study was guided by the following specific objectives:

- To determine how citizen participation affect budgetary allocation process in Nepal
- To find out the effect of political interference on budgetary allocation process in Nepal.
- To examine the effect of legal framework on budgetary allocation process in Nepal.
- To determine effect of budget review on budgetary allocation process in Nepal.

LITERATURE REVIEW

Theoretical Review

Spend and Budget Allocation Hypothesis

The spend and budget allocation hypothesis holds that an administration should first settle on a targeted level of spending and then design the allocation policy on the basis of this target. This theory was hypothesized by Peacock and Wiseman (1961) and it mainly holds that some changes in change in public expenditure can bring about an impact in public revenue that can become permanent. Such changes could be necessitated by a crisis, e.g. war, natural disaster, deep recession, etc. This permanent increment in demand for public revenue is referred to as the displacement effect (Bhatia, 2003 and Chang, 2009). The study finds the Spend and Budget Allocation Hypothesis hypothesis applicable in this study as it seeks to explain the various factor that affecting the Nepal government budget allocation in order to accommodate the desired spending level.

Barro (1974) in his extensive empirical evidence concludes that government spending is an exogenous variable for which tax can be adjusted. He then continues saying that temporary budget can result in a need for higher future allocations due to the current rise in expenditure. Other studies that provide elucidation for this hypothesis are: Chang (2009), Hondroyiannis and Papapetrou (1996), Wahid (2008), and Von Furstenberg, Green and Jeong (1986). This study use the Spend and Budget Allocation Hypothesis to establish the factors affecting budgetary allocation process in public institution in Nepal.

The Fiscal Synchronization Hypothesis

It's mainly associated with Musgrave (1966) and Meltzer and Richard (1981), is based on a fiscal regime where the government outlines the amount of spending programs alongside with the revenues required. They further suggested that a government may change spending and allocation simultaneously and thus adhere to the allocation and spend and spend and allocation scenarios. Moreover, the voter compares the marginal costs and benefits of government programs when deciding the appropriate level of spending and allocation. This

study uses the Fiscal Synchronization Hypothesis to explain the factors influence the county government budget allocation process.

Empirical Review

Empirical studies of the actual effect of budget allocation process in public institution are relatively few. The arrived conclusions by the few studies done are also different. Stiefel, Rubenstein, and Schwartz (1999) used adjusted performance measurers to analyse the relationship between budget allocation patterns and the spending of public schools in Chicago. The study came to the conclusion that although there were small differences between the low performing and high performing school total spending, there was a significant difference across the function in the distribution of discretionary spending. They came to the conclusion that “high performing schools average almost five percentage points more discretionary spending on instruction and less on instructional support and administration” (Rubenstein, and Schwartz, 1999).

Kluvers (2001) surveyed municipalities in Victoria, Australia, and reported that “the question of whether budget allocation indicators, used would provide important information was answered in the affirmative by a large number of the survey respondents. This result was however tampered by the fact only a few of the councils used the budget allocation indicators. According to Kluvers (2001), managers often used the budget allocation primarily to allocate resources or to increase productivity. Furthermore, the use of budget allocation appeared to foster a changed attitude toward planning and to influence could influence spending overtime.

Lee and Wang (2009) analysed the effect of budget allocation practices on spending behaviour across three countries, Taiwan, China (Guangdong Province) and the United States. This analysis was done over a multiple of years and also after the budget allocation was done. They reported that that budget allocation had differential impact in different regions and countries on the growth rate of spending: A significant relationship was observed between the budget allocation and Taiwan spending growth (coefficient of 20.103). However, the regression coefficients were not statistically significant and negative for China (-0.1903) and the United States (- 0.192).

Ho (2011) conducted a case study of budget allocation exercise in the city of Zambia from 2008 to 2010 so as to analyse the implications of using information on performance at the sub-departmental level on the budge. According to the regression results, performance measures put up in each department were positively and significantly correlated with the budget variation of the program. However, after the study put some control on some factors, the researcher concluded that the number of outcome related performance measurers negatively affected the variation of the program budget.

Nkanata (2012) undertook a study on the factors that affected the spending of the budget allocation by Nepaln accounting officers. Descriptive survey design was used for the study. 42 government ministries made the study population and the sample used for the study was 70 respondents. The study findings showed that different procedures and policies did impact on the spending of the budget allocations. The legal framework was also found to be weak and need to be modified as the executives were constantly abusing the legal provisions put up for making the budget flexible. The legislature also had more power than necessary thus controlling the budget utilization. Such challenges that made it difficult to match budget allocation to the laid down policies led to unethical practices during the budget allocation process.

Conceptual Framework

Conceptual framework is a scheme of variables or concepts utilized by the study’s researcher so as to achieve the objectives he/she has set. A variable is a measure characteristic that assumes different values among subject, (Kothari, 2006).

Independent Variables

Dependent Variable

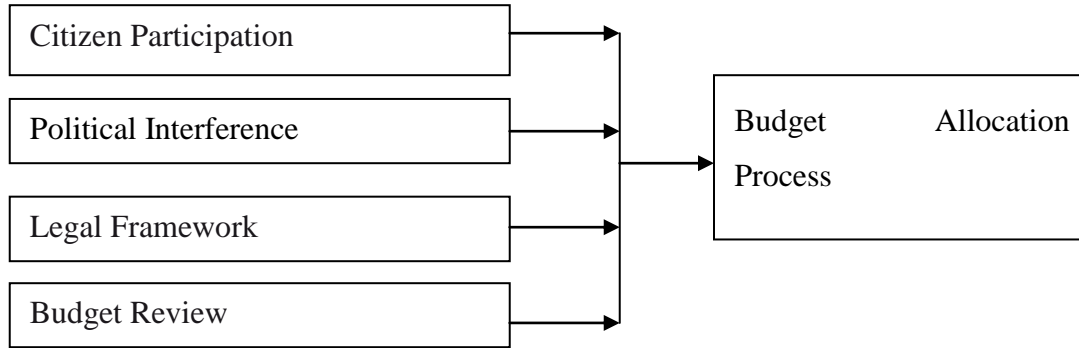


Figure 1: Conceptual Framework

METHODOLOGY

A case study research design was adopted. According to Kothari, (2006) a case study design is a way of organizing data and looking at the object to be studied as a whole, a case study makes a detailed examination of a single subject or a group of phenomena. The target population was the employees of the National Planning Commission. The study targeted 309 management employees. The study selected a sample of 156 employees. Primary data was gathered using semi-structured questionnaires where the respondents were issued with the questionnaires. Descriptive analysis was used. A correlation matrix was developed to analyze the relationships between the independent variables and the dependent variable. Regression analysis was used to determine the relationship between the study variable.

FINDINGS

Citizen Participation

The study sought to determine the respondents’ level of agreement with some statements relating to citizen participation.

Table 1: Statements Relating to Citizen Participation

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Deviation
Citizen participation during the budget preparation delays the budget allocation process	6	37	22	49	15	3.232	1.128

Low citizen turn out affect the budget preparation process	5	30	24	28	42	3.558	1.268
Budgetary monitoring by citizen helps ensure financial control and identify where change is required.	16	7	7	73	26	3.666	1.220
Citizen participation requires managers to be provided with relevant, timely and accurate information appropriate to their level of responsibility	4	9	4	66	46	4.093	.9718
Citizen participation ensures provision of clear and consistent feedback in a timely manner	6	6	17	67	33	3.891	.9940
Regular citizen monitoring helps to identify changing patterns or circumstances that need corrective action	6	5	2	72	44	4.108	.9621

From the study findings, majority of the respondents agreed that regular citizen monitoring helps to identify changing patterns or circumstances that need corrective action, as shown by a mean of 4.108; Citizen participation requires managers to be provided with relevant, timely and accurate information appropriate to their level of responsibility, as shown by a mean of 4.093; Citizen participation ensures provision of clear and consistent feedback in a timely manner, as shown by a mean of 3.891; Budgetary monitoring by citizen helps ensure financial control and identify where change is required, as shown by a mean of 3.666; Low citizen turn out affect the budget preparation process, as shown by a mean 3.558; and that Citizen participation during the budget preparation delays the budget allocation process, as shown by a mean of 3.232. These findings were found to concur with the findings of the Article 174 of the constitution which gives the powers of self-governance to the people and encourages that people must participate in making decisions that will affect them and in the exercise of the state powers.

Political Interference

The study sought to determine the respondents' level of agreement with some statements relating to political interference.

Table 2: Statements Relating to Political Interference

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Deviation
Member of the county assembly are hostile if they see exclusion as a threat	14	16	5	51	43	3.7209	1.33450
Member of the county assembly have a great deal of control over o the budgetary process at the county	9	8	5	22	85	4.2868	1.22598
Member of the county assembly have much power on how much power to share	4	9	27	27	62	4.0388	1.12085

Budget making process have positive effect in forcing collaboration in bureaucracies due to the nature of politicians demands	1	6	26	69	27	3.8915	.81241
Political participation may provide information that improves technical or allocative efficiency	1	11	15	82	20	3.8450	.81442
Political participation offer innovative solutions that would not have arisen from traditional decision-making; and raise acceptance of programmes.	6	21	19	50	33	3.6434	1.16457

The findings revealed that majority of the respondents agreed that Member of the county assembly have a great deal of control over the budgetary process at the county, as shown by a mean of 4.2868; Member of the county assembly have much power on how much power to share, as shown by a mean of 4.0388; Budget making process have positive effect in forcing collaboration in bureaucracies due to the nature of politicians demands, as shown by a mean of 3.8915; Political participation may provide information that improves technical or allocative efficiency, as shown by a mean of 3.8450; Member of the county assembly are hostile if they see exclusion as a threat, as shown by a mean of 3.7209; and that Political participation offer innovative solutions that would not have arisen from traditional decision-making; and raise acceptance of programmes, as shown by a mean of 3.6434. The findings were found to be consistent with the findings of Stillman (2010) who argued that budgets are political since they reflect the relative proportion of decisions made for local and constituency purposes and for efficiency, effectiveness and broader public goals and in relation to this it portrays the degree of importance that legislators put on to satisfy their constituents and legislators willingness to listen to interest group demands.

Legal Framework

The study sought to determine the respondents' level of agreement with some statements relating to legal framework.

Table 3: Statements Relating to Legal Framework

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Deviation
Policies and procedures influence the spending of budget allocations	14	8	13	56	38	3.744	1.251
Current legal and institutional framework governing counties is weak and thus modification needed	2	10	13	53	51	4.093	.9718
Executive abuse the legal provisions in order to enhance budget flexibility.	14	17	32	43	23	3.341	1.227
Challenges of matching budget allocations against	12	30	26	39	22	3.224	1.245

policies create pathway for unethical practices.

Presence of stalled and idle projects in counties and an indication that modern appraisal techniques of capital budgeting are not highly applied 0 10 20 65 34 3.953 .8556

From the study findings, majority of the respondents agreed that Current legal and institutional framework governing counties is weak and thus modification needed, as shown by a mean of 4.093; Presence of stalled and idle projects in counties and an indication that modern appraisal techniques of capital budgeting are not highly applied, as shown by a mean of 3.953; and that Policies and procedures influence the spending of budget allocations, as shown by a mean of 3.744. However, majority of the respondents were neutral on whether Challenges of matching budget allocations against policies create pathway for unethical practices, as shown by a mean of 3.224; and whether Executive abuse the legal provisions in order to enhance budget flexibility, as shown by a mean of 3.341. These findings were found to concur with the findings of Section 125 of the Public Finance Management Act (2012) which provides the procedure to be followed in the budget making process at the county level.

Budget Review

The study sought to determine the respondents' level of agreement with some statements relating to budget review.

Table 4: Statements Relating to Budget Review

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Deviation
Running a county often requires the administration to carefully plan and review the county finances	9	3	11	65	41	3.992	1.277
Budget review has a statistically significant and positive effect on state per capita expenditures	5	2	13	64	45	3.976	1.064
Budget allocation had differential impact on the spending growth rate in different countries (regions)	5	6	6	65	47	4.100	.9257
budget review enhances local service delivery more efficient and effective in the county	8	10	14	53	44	4.108	.9701

From the research findings, majority of the respondents agreed that budget review enhances local service delivery more efficient and effective in the county, as shown by a mean of 4.108; Budget allocation had differential impact on the spending growth rate in different countries (regions), as shown by a mean of 4.100; Running a county often requires the administration to carefully plan and review the county finances, as shown by a mean of 3.992; and that budget review has a statistically significant and positive effect on state per capita expenditures, as shown by a mean of 3.976. The findings concur with those of Klase

and Dougherty (2008) implementation of budget allocation has a statistically significant and positive effect on state per capita expenditures.

Budget Allocation Process

The respondents were requested to indicate their level of agreement with some statements relating to budget allocation process.

Table 5: Statements Relating to Budget Allocation Process

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Deviation
There is transparency in the budget allocation process in this county	19	22	27	40	21	3.891	1.147
There is equity in the budget location process in the county	9	10	25	57	28	3.170	1.305
Development project allocated funds reflect the will of the people	9	9	24	42	45	3.658	1.114
There is accountability in the budget allocation process in the county	5	2	13	64	45	3.814	1.190

Majority of the respondents agreed that there is transparency in the budget allocation process in this county, as shown by a mean of 3.891; there is accountability in the budget allocation process in the county, as shown by a mean of 3.814; and that development project allocated funds reflect the will of the people, as shown by a mean of 3.658. However, majority of the respondents were neutral on whether there is equity in the budget location process in the county, as shown by a mean of 3.170.

Correlation Analysis

Table 6: Correlations

		Budgetary Allocation Process	Citizen Participation	Political Interference	Legal Framework	Budget Review
Budgetary Allocation Process	Pearson Correlation	1				
	Sig. (2-tailed)					
Citizen Participation	Pearson Correlation	.853*	1			
	Sig. (2-tailed)	.039				
Political Interference	Pearson Correlation	-.597*	-.087	1		
	Sig. (2-tailed)	.011	.483			
Legal Framework	Pearson Correlation	.689**	.781**	-.065	1	
	Sig. (2-tailed)	.005	.000	.600		
Budget Review	Pearson Correlation	.789**	.871**	.365	.687	1
	Sig. (2-tailed)	.005	.000	.600	.083	

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Research Data

Results reveal that the correlation between budgetary allocation process and citizen participation is positive and significant (R= 0.853, p value=0.039). This implies that an increase in citizen participation is associated with an increase in budgetary allocation process and a decrease in citizen participation is associated with a decline in budgetary allocation process. Findings reveal that the correlation between budgetary allocation process and political interference is negative and significant (R= 0.597, p value=.011). This implies that an increase in political interference is associated with decrease in budgetary allocation process and a decrease in political interference is associated with an increase in budgetary allocation process. In addition, the study reveals that the correlation between budgetary allocation process and legal framework is positive and significant (R= 0.689, p value=.005). This implies that an increase in legal framework is associated with an increase in budgetary allocation process and a decrease in legal framework is associated with a decrease in budgetary allocation process. The study further revealed that the correlation between budgetary allocation process and budget review is positive and significant (R= 0.789, p value=.005). This implies that an increase in budget review is associated with an increase in budgetary allocation process and a decrease in budget review is associated with an decrease in budgetary allocation process.

Regression Analysis

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.788 ^a	.621	.634	.06210

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings, the value of adjusted R squared was 0.634 an indication that there was variation of 63.4% on budget allocation process due to changes in citizen participation, political interference, legal framework and budget review at 95% confidence interval. This shows that 63.4% changes on budget allocation process could be accounted for by changes in citizen participation, political interference, legal framework and budget review. R is the correlation coefficient which shows the relationship between the study variables. From the findings, the study found that there was a strong positive relationship between the study variables as shown by 0.788.

Table 8: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
1 Constant	2.302	.453		5.082	.001
Citizen Participation	.451	.160	.198	2.819	.004
Political Interference	.533	.126	.245	4.230	.001
Legal Framework	.629	.145	.008	4.338	.009
Budget Review	.400	.114	.031	3.509	.007

Using multiple regression analysis, the study sought to establish factors affecting budgetary allocation process in public institution in Nepal with special focus on Nepal. Assuming a linear relationship between the independent and the dependent variable and guided by OLS estimation methods, the relationship between the independent and dependent variables as presented by the regression model was tested. The multiple regression equation will be

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Whereby Y = Budgetary Allocation Process, X₁= citizen participation, X₂= political interference, X₃= legal framework and X₄= budget review, while β_1 , β_2 , β_3 and β_4 are coefficients of determination and ε is the error term. From the data in the above table the established regression equation was

$$Y = 2.302 + 0.451 X_1 + 0.533 X_2 + 0.629 X_3 + 0.400 X_4$$

Where Y= Budgetary Allocation Process, X₁= Citizen Participation, X₂= Political Interference, X₃= Legal Framework and X₄= Budget Review.

From the above regression equation it was revealed that holding citizen participation, political interference, legal framework and budget review to a constant zero, budget allocation process would be at 2.302. A unit increase in citizen participation would lead to increase in budget allocation process by a factor of 0.451, a unit increase in political interference would lead to increase in budget allocation process by a factor of 0.533, a unit increase in legal framework would lead to increase in budget allocation process by a factor of 0.629 and unit increase in budget review would lead to increase in budget allocation process by a factors of 0.400.

Conclusion

The study revealed that citizen participation does positively affect budgetary allocation process to a great extent and that regular citizen monitoring helps to identify changing patterns or circumstances that need corrective action. Thus, this study concludes that active citizen in the budgetary allocation process helps in effective allocation of the county resources.

The study also revealed that political interference does affect budgetary allocation process to a great extent and those members of the county assembly have a great deal of control over the budgetary process at the county. From these findings, the study draws conclusions that there will be effective budgetary allocation in a county whose members of the county assembly has the same demands as those of the citizens.

Findings also unfolded that the structure of institutional framework is a vital factor affecting budgetary allocation process. The study draws further conclusion that application of modern appraisal techniques in county projects will accelerate the completion of those particular projects and procedures.

The study established that budget review positively affect budgetary allocation process to a great extent. The study further revealed that budget review enhances local service delivery more efficient and effective in the county. From these findings, the study concludes that frequent budgetary review will help to identify areas that need special attention and hence making the process more efficient.

Recommendations

The study recommends that the politicians need to encourage citizens to actively participate in the budgetary allocation process. This is because citizen participation will give a clear

vision and direction since the resources will end up being allocated in those areas that need special attention.

The studies revealed that member of the county assembly have a great deal of control over the budgetary process at the county. The study therefore recommends that politicians need to positively intervene in the budgetary process in a way that offers innovative solutions that would not have arisen from traditional decision-making.

There is need for reformation of the weak county institutional frameworks so as to bring about a positive change in the budgetary allocation process. This will ensure that county spending is directed to implementation of the intended policies and procedures.

The study finally concludes that there is need for frequent review of the budget as this will help to monitor how far the county is from achieving their goals, as well as identifying the areas that need special attention. Frequent budget review will also help in identifying what the county has achieved and hence motivate them to work even harder towards achieving their goals.

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