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Master's Thesis of Public Administration

**Impact of Budget Preparation on Budget
Implementation in the Government Agencies
of the Royal Government of Bhutan**

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Impact of Budget Preparation on Budget Implementation in the Government Agencies of the Royal Government of Bhutan

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April 2019

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Abstract

Impact of Budget Preparation on Budget Implementation in the Government Agencies of the Royal Government of Bhutan

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The amount of funds underutilized by the government agencies in the Royal Government of Bhutan by the end of the fiscal year has been a cause of concern to all the stakeholders inside and outside the country in the public management field. As such, on this basis the study sought to determine the impact of budget preparation on the budget implementation and find out if ineffective budget preparation was the cause of the underutilized budget at the end of the fiscal year. The study was carried out in 10 Ministries and 20 District Government Offices of the Royal Government of Bhutan. The purposive sampling method was used and the respondents were the Finance Officers working in those 30 Government Agencies. The data were analyzed using SAS and the result revealed that effective budget preparation would enhance the budget implementation.

According to the findings, the budget preparation process overall is effective in the government agencies. However, the budget preparation is not the only factor which influence the budget implementation. The study hence recommends further research be done taking other budgeting process to broaden the causes of budget utilization. Based on the findings, it is recommended that finance officers' be trained and enhance their skills and knowledge with regard to budgeting and preparation of realistic budget. The underutilization of budget in the Ministries were attributed to the incorporation of donor funded activities without the actual receipt of the donor fund. Therefore, the incorporation of the donor funded activities needs to be reviewed by the Department of National Budget.

Keywords: budget preparation, implementation, budget underutilization, government agencies.

Student ID: 2017-26860

Table of Content

Abstract	i
Table of Content.....	iii
Figures.....	v
Tables	v
CHAPTER 1: INTRODUCTION	1
1.1 Background of the study.....	1
1.2 Statement of Problem	2
1.3 Objective	4
1.4 Significance of the Study	6
1.5 Country Profile.....	7
CHAPTER 2: LITERATURE REVIEW	9
2.1 Concept of budget	9
2.2 Types of budgeting techniques.....	12
2.3 Budgetary Process	15
2.4 Effective Budgeting Process	17
2.6 Budget reforms over the years in Bhutan.....	22
2.7 Theoretical Background	25
2.8 Empirical Review	28
CHAPTER 3: RESEARCH METHODOLOGY	33
3.1 Research Design.....	33
3.2 Research hypothesis.....	33
3.2.1 Independent variable	34
3.2.2 Dependent Variables.....	36
3.2.3 Conceptual Framework	37
3.3 Scope of the study.....	37
3.4 Data Collection	37
3.5 Population	38
3.6 Sampling	38
Chapter Four: Data Presentation and Analysis of Data.....	40

4.1 Descriptive Statistics	40
4.1.1 Profiles of Respondents	40
4.2 The Budget Preparation	42
4.3 Budget Implementation	44
4.4 Verification of Hypothesis	48
4.4.1 Model significance and results of hypothesis.....	48
4.4.2. Correlation Presentation and Results of Hypothesis	54
CHAPTER FIVE: DISCUSSION, RECOMMENDATIONS AND CONCLUSION.....	58
5.1 Discussion	58
5.2 Recommendations	61
5.3 Conclusion.....	62
5.4 Limitation of the study	63
Bibliography.....	67
Annexure	72

Figures

Figure 1: Level of underutilized budget in the Royal Government of Bhutan from FY 2011-12 to FY 2016-17	4
Figure 2: Level of underutilized budget between Ministries and Dzongkhags .4	
Figure 3: The budgeting process in the Royal Government of Bhutan	22
Figure 4: Conceptual Framework.....	37
Figure 5: Position of the respondents	41
Figure 6: Percentage of male and female respondents	41
Figure 7: Different age groups of the respondents	42
Figure 8: Practice of budget preparation by the government agencies.	44

Tables

Table 1: The mean and standard deviation of the sub-variables under the independent variable Budget Preparation.	43
Table 2: Budget implementation by the government agencies	44
Table 3: Cronbach Coefficient Alpha for independent variable – Budget preparation.....	47
Table 4: Cronbach Coefficient Alpha for dependent variable - Budget implementation.....	48
Table 5: Model Summary.....	49
Table 6: Regression Model – Budget preparation.....	50
Table 7: Regression model – Budget ceiling.....	51
Table 8: Regression model – Budgetary Rules and Procedures.....	52
Table 9: Regression model – Stakeholders’ participation.....	52
Table 10: Regression model – Planning & Coordination.....	53
Table 11: Regression model – Adequate Resources	54

Table 12: Pearson Correlation Coefficients between budget preparation and budget implementation.....	55
Table 13: Pearson Correlation Coefficients between sub variables of budget preparation and budget implementation.....	56

CHAPTER 1: INTRODUCTION

1.1 Background of the study

Budget is the financial representation of the organizational policy objectives. As per OECD, the budget is the single most important policy document of governments, where policy objectives are reconciled and implemented in concrete terms. Budgeting involves planning, consultation, negotiation, execution etc. The planning is very important for the utilization of the limited resources and budget is one of the most widely used tools for the planning and controlling organizations. But budgeting in the public sector is a complex exercise since it indicates the formulation and execution of the policy of the government. Financial resource is one of the key elements in achieving organizational goals and objectives. However, in order to achieve the objectives budget has to be prepared effectively and adhered to.

The budgeting in Royal Government of Bhutan (RGoB) is based on five year plan. The Five Year Plans are broken down into annual targets and budgeted accordingly in the system called Multi-Year Rolling Budget (MYRB). The daily functions with regard to the budget is seen by the Department of National Budget under the Ministry of Finance. As per the Budget Manual (2016) RGoB, the principal objectives of the budgeting are;

- Provide a framework for the assessment and allocation of resources, execution, monitoring and evaluation of all government programs/projects/activities under a comprehensive fiscal plan developed, authorized and executed in accordance with laws, rules and regulations, and the principles of sound fiscal management;
- Provide for the budgetary status of the Government in such detail that persons entrusted by laws, rules and regulations with the responsibility

can determine the adequacy of budget actions taken, authorized or proposed, as well as the true financial position of the Government; and

- Enforce effectively the various means of raising revenues and receipts, and the limitations on the expenditure of Government funds.

This determination requires, amongst others, a comparison of what has been accomplished in relation to fiscal policies and proposed time bound programs of the Government.

The budget in Royal Government of Bhutan (RGoB) has been classified into two categories namely, current and capital expenditure. The current expenditure includes wages, salaries, utility payments, interest on loan, maintenance etc. The capital expenditures includes expenditures on infrastructures like road, building, bridges, purchase of vehicles, and long term and short term trainings for the capacity development etc.

Budgeting, essentially is determining for a future period of time what is to be done, what is to be accomplished, the manner in which it is to be done, and the cost of doing it. It requires that the broad objectives of the agency be broken down into detailed work plans for each program/sub-program/activity/project and for each unit of the agency. Thus, the budget is a monetary definition of the future plans of the agency.

1.2 Statement of Problem

The financial resources is one of the key elements in achieving the organizational objectives and goals although there are several other resources like human capacity, organizational structure and other resources. According to David Shand (2010), a good budget system and implementation process should ensure that the intended government policies and priorities are achieved. It

should promote efficiency, effective and transparency in the service delivery and eliminate waste of resources and corruption in the process.

Despite the evolution of the budgeting system in Bhutan, a very little attention and importance has been given to the budget and its implementation challenges which is a tool for achieving plan targets. Many of the government agencies are suffering from having huge budget underutilized at the end of the financial year. Since the budgeting is the product of the plans and objectives of the organization, the underutilization of budget at the end of the financial year only implies that the government agencies are not able to perform well and are not able to achieve their goals. This also have negative impact on the future funding since the underutilized fund entails the lack of absorbing capacity of the agency. The accumulation of huge budget underutilization at the end of the year is of concern to many institutions and the Royal Audit Authority has raised this issue many times in their Annual Audit Report.

The underutilization of the budget or the absorption capacity of the budgetary agencies is an issue for the developing countries and similarly in the Royal Government of Bhutan. The figure 1 illustrates the percentage of underutilized budget over the six years in the Royal Government of Bhutan.

Figure 1: Level of underutilized budget in the Royal Government of Bhutan from FY 2011-12 to FY 2016-17

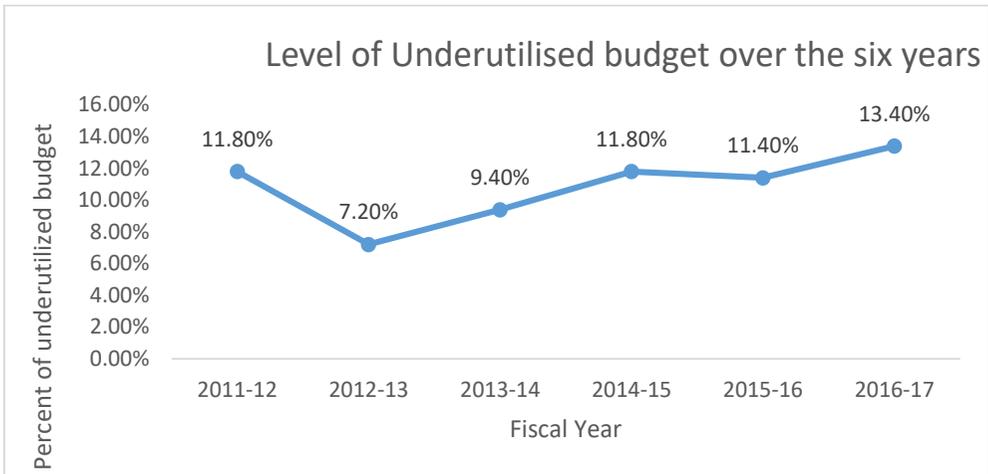
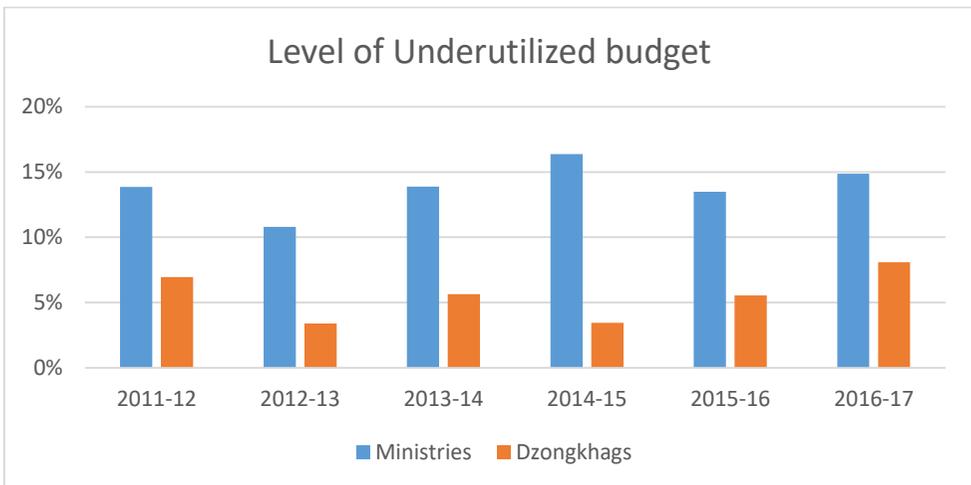


Figure 2: Level of underutilized budget between Ministries and Dzongkhags



Source: Annual Financial Statement, MoF

1.3 Objective

Budgeting now has become more complex process compared to the past where

the budgets were just the process by which annual financial allocation were incrementally adjusted, legalized and made accountable to the legislators. The budgeting today is more closely linked with other process of planning, operating management and performance measurements. Therefore the proper utilization of the budget would indicate the plans are achieved and the organizations is performing well. The budgeting in Bhutan has not been free of the challenges. One of the biggest challenge of the budgeting has been the underutilization of budget in the government agencies of Bhutan over the years. Recognizing the problem and the importance of proper budget utilization and to encourage the agencies from preparing realistic budgeting, the government has initiated the level of budget utilization as one of the criteria for measuring the annual performance of the agency from the fiscal year 2017-18. However, the reasons to why the agencies are not able to utilize the budget fully by the end of the fiscal year has not been studied. As such, through this study the researcher will try to identify the factors which affect the budget underutilization in Bhutan.

This study will also help examine the government budgeting process and its effectiveness in achieving the planned activities.

Specific objective

To determine the relation between the budget preparation and implementation in government agencies in the Royal Government of Bhutan.

Research Question

1. What is the impact of budget preparation on implementation of budget in government agencies in the Royal Government of Bhutan?
2. What are the factors that affect budget implementation in government

agencies in Royal Government of Bhutan?

Research Hypothesis

1. **H1:** There is a positive relationship between budgetary preparation and budget implementation in government agencies in Bhutan.
2. **H2:** There is positive relationship between the budget ceiling during the budget preparation and the budget implementation in the government agencies of the Royal Government of Bhutan.
3. **H3:** There is positive relationship between the guidelines for the preparation of budget and the budget implementation in the government agencies of the Royal Government of Bhutan.
4. **H4:** There is positive relationship between the stakeholders' participation during the budget preparation and the budget implementation in the government agencies of the Royal Government of Bhutan.
5. **H5:** There is positive relationship between the coordination among te departments of the agency during the budget preparation and the budget implementation in the government agencies of the Royal Government of Bhutan.
6. **H6:** There is positive relationship between the human resource and the budget implementation in the government agencies of the Royal Government of Bhutan.

1.4 Significance of the Study

Budgeting is a very important process since it represents the policy objectives into strategic financial framework. The annual budget is the document which contains the entire programs and plans of the government in a given financial year. It indicates the expectation and intentions of the government over the year.

It is an important economic instrument for facilitating and realizing the vision of government in a given financial year (Adekunle). The underutilized budget at the end of the financial year has been a concern to many institutions in Bhutan. The underutilized budget at the end of the fiscal year implies weak budget preparation process and budget implementation as a result of unrealistic budget preparation. But the implication of the budget preparation on the budget implementation in the government agencies of Bhutan has not been carried out in the past. As such, the deeper understanding of the budget preparation process and its importance might contribute to effective and efficient utilization of the budget. The analysis of the impact of the budget preparation process on the budget implementation might assist policy makers to reflect on the processes and work towards better budgetary process.

Although many studies have been carried out and empirical literatures are available on the budgeting, such study has never been carried in Bhutan. As such the study will be useful for the Royal Government of Bhutan in analyzing the budget preparation process in the government agencies and the factors which affect budget implementation and initiate possible measure and policies to effective budget utilization.

1.5 Country Profile

Bhutan is a small developing country with an area of 36,394 square kilometer. It is located between the two largest countries in the world (India and China), both in its size and economy. The Gross Domestic Product (GDP) per capita income is US \$ 2,879.07 (NSB, 2016) and the population of the country is 779,666 (Bhutan Living Standard Survey, 2017).

The internal revenue of Bhutan is not able to meet all the expenditure as such

Bhutan has been highly dependent on the grants and aid from the developing partners to carry out its developmental works. Bhutan being one of the less developed country in the region, received lots of grants and had access to concessional loans from the international organizations in the past. However, due to the classification of Bhutan in the Medium Developed Country (World Bank report), Bhutan is losing the grants and the concessional loans it used to receive. Bhutan's debt is reaching the highest level with the outstanding debt to GDP ratio of about 106.58% (Annual Financial Statement, 2016-17) and has the highest debt to GDP ratio in the region (IMF) which is alarming for the small country. The revenue generation is expected to be increased with the commissioning of the hydro powers. However, until then Bhutan might have to resort to loans to meet its expenditure.

According to the World Bank, "Bhutan is one of the smallest but fastest-growing economies in the world. Annual average growth between 2006 and 2015 reached 7.5 percent, which places the country 13th of 118 countries, far exceeding the average global growth of 4.4 percent". Large hydropower developments, better performance in the tourism sector, and improved services lead the country's economic growth (PFM Performance Report, 2016). But the infrastructure development has been slow and costly due to its geographical terrains. As per the Asian Development Bank Critical Diagnostic study, Bhutan's difficult terrain poses challenges to providing adequate infrastructure and key public services throughout the country. The limited and less developed transport and its connectivity has hampered the economic opportunities.

CHAPTER 2: LITERATURE REVIEW

2.1 Concept of budget

The budget is a central policy document of government, showing how it will prioritize and achieve its annual and multi-annual objectives (OECD). In the words of Charles T. Horngren, “A budget is a formal quantitative expression of management plans.” According to J.R. Brown and L.R. Howard “A budget is a pre-determined statement of management policy during a given period which provides a standard for comparison with the result actually achieved.”

Public budgeting according to D. Nice “is making and implementing decisions regarding the acquisition, allocation, and use of resources by government, with a primary focus on money in the modern age”. The budget is seen differently by different interest group (Irene S. Rubin, 1988). The politician look to budgeting as a source of political power and control over policy. The politicians try to influence the agencies and their political support through allocation of budget. The public is interested in budget because they want to know where their money is going. The bureaucrats are interested in budgeting because they have major responsibilities in preparing budgets and administrating it. One of the concerns of bureaucrats is the adequacy of funds to stated goals since they are the ones to estimate revenues and draw up the proposal for spending. As such, the Public budgeting in the modern era is quite complex and confusing with the large number of rules, regulations, guidelines, etc.

According to Hyde and Shafritz, public budget has four dimensions. First, it is political instruments since it distributes the scare public resources. Second, budget is a managerial or administrative instrument since it specifies means and ways of providing public services. It is a criteria through which their efficiency and effectiveness is evaluated. The budgeting process ensures that all the

activities within the jurisdiction are being evaluated during the budgeting cycle. Third the budget is an economic instrument that can direct the nation's economic growth and development since government budgets are the primary instrument are redistributing income, stimulating economic growth, promoting employment, combating inflation and maintaining economic stability. Fourth, budget is an accounting instrument that can hold government officials accountable and responsible for the expenditures of the fund for which they have been entrusted.

Thomas D. Lynch in the Public Budgeting in America, "Budget is a plan for the accomplishment of programs related to objectives and goals within a definite time period, including an estimate of resources required, together with an estimate of the resources available, usually compared with one or more past period and showing future requirements". Budgeting is a good reflection of actual public policy and states the planned priorities and the programs in a meaningful way to the people who must carry out the policy.

Budgeting is the process of allocating the resources to achieve the organizational objectives. Therefore, to achieve those goals, it is very important to have a comprehensive and effective budget system. According to the IMF, the soundness of the budget system can be judged based on the following;

1. Comprehensiveness
2. Transparent
3. Realistic
4. Policy oriented.
5. Clear accountability in budget execution:

The public budgeting is expected to achieve the following according to David C. Nice (1952) in his book on Public Budgeting;

1. Setting goals and priorities

One of the important and difficult task of budgeting is the setting of goals and priorities. Agencies are always faced with the problem of budget constraints and required to decide and prioritize their goals and objectives.

2. Linking goals to actions

The goals once set should be achieved and the agency should set certain objectives and strategies to achieve those goals. As such budget is expected to help the agencies to put goals into action.

3. Managing economy

Budget should help steer the economy. If the economy is growing too slowly, the budgetary stimulus can help to correct the problem.

4. Promoting accountability

Budgets also serve as instruments to promote accountability, both to public officials and particularly in democracies, to the public. Public agency received public money to perform their task and the part of the budget process involves assessing whether that money was properly and productively used. Budget can be used to assess whether the government or political leaders have honored their campaign promises and whether government is using the tax revenue appropriately.

5. Controlling the use of public resources

The budget task involves providing control over the use of public resources. If an agency's budget provides it with \$350 million to spend

in the next 12 months, the budget process needs mechanism to make certain that the agency doesn't spend more than \$100. And if the agency received \$2 million to spend for the office equipment, an effective budget process needs to ensure that the money is not spent on any other activities or misuse of public funds.

6. Promoting efficiency and effectiveness

One of the important task of budgeting is to encourage greater efficiency and effectiveness in government. The tendency is that we often want more than what we can afford, but if we try to accomplish more with the given resources, the gap between want and the resources would be reduced. The officials need to assess how well programs are performing and constantly look for alternative strategies which might be more effective.

7. Keeping the process manageable

The budget process should be kept simple and manageable. The complex process and too many formalities and requirements will confuse the budgeters and as such their job becomes impossible and demotivating which would eventually effect the decision making.

2.2 Types of budgeting techniques

The public sectors have used different types of formats for the purpose of budgeting. Each technique has both advantages and disadvantages. David C. Nice (Public Budgeting: 1952) discuss them as follows:

1. Lump sum budgeting

This is relatively a simple budgetary format with only few broad

categories. In this kind of format, the agencies are provided lump sum amount and there is no specific information regarding the use of the money. This technique is preferred for its simplicity and broadness which gives the agencies some flexibilities to spent. It minimizes conflict since it need not be argued on which specific programs or project.

This technique has been criticized on not providing enough guidance if the budget gets changed in the future.

2. Line item budgeting

In this format, the budget is broken down by department and agency and within agency, by what objects the agency spends the money to acquire. This technique requires the agency to prepare the budget in the details and it becomes easier for the Ministry of Finance to monitor the budget proposal and the agency to convince the government for the budget requirement. This technique if used properly would reduce the unnecessary spending and also guide the budgeters where the money is going.

This technique fails to give meaningful information regarding what agencies are actually doing and their accomplishments which are necessary for important decision making. Moreover, the detail requirement may deprive the agencies of flexibility needed to cope up with the unexpected developments.

3. Performance budgeting

It is developed from the line budgeting technique with more

information on the activities and workloads of agency personnel and facilities. It aims to improve the efficiency and effectiveness of the public expenditure (Robinson and Lost, 2009). It is seen as managing for results and may encourage efforts to improve productivity in public agencies.

Critics on this technique complain that its preparation requires a great deal of effort compared to other techniques. David C. Nice mentions that this technique might prompt the agencies to take up simple and easy activities to increase their performance rate. And as such the performance budget might not address the question of whether these activities are accomplishing anything.

4. Program budgeting

According to Schick, program budgeting's core idea "is that expenditures should be grouped and decided in terms of governmental objectives, not according to the organizations spending the money. All activities contributing to the same objective should be placed in the same program, regardless of the organizational entity to which they are assigned".

This is also known as Planning-Programming-Budgeting (PPBS) and was introduced to improve the government performance. In this system the agencies forecast their expenditures for several future years.

According to David C. Nice, this technique started to lose its popularity in the early 1970s since the rigorous analysis of program impact proved to be more difficult and expensive.

5. Zero based budgeting

This technique requires the agency to make the budget proposal with

zero as base and justify the budget requirement for each activity every year. Agencies should be preparing the budget proposal based on current year's level of funding. The fact that resources have already been granted to a program does not guarantee that it would be continued. The zero based budgeting is not based on the incremental approach and previous figures are not adopted. According to Lucey (2002), zero based budgeting is also called priority based budgeting since it requires all activities to be justified and prioritized before decision are taken relating to the amount of resources allocated to each activity.

This technique has been useful in curbing the wasteful spending by removing obsolete and inefficient activities. However, according to critics, this technique is too complex and still requires great deal of more work and time.

2.3 Budgetary Process

The budget process involves setting strategic goals and objectives and developing forecasts for revenues, costs, production, cash flows and other important factors (Jr. Bierman 2010; Bonner 2008). Budgeting process pushes managers to take time to create strategies, targets and goals before activity begins. Budget preparation helps management focus on the next month or the entire coming year. The budgeting process forces managers to assess current operating conditions and aids in forecasting and implementing needed changes (Anderson, 1996). At the end of a period the budget helps managers evaluate performance, locate problematic areas, bottlenecks and provide solutions to these problems (David, 1988).

According to World Bank budget preparation process should have

- 1) Strategy setting which:
 - Limits on total expenditure and is consistent with medium term fiscal objectives and targets
 - Identifies sectoral priorities for services and public investment
 - Ceiling on expenditure for spending ministries
 - Avoiding questionable budgeting practices

- 2) Budget guidelines and submissions
 - Budget circulars
 - Ministries submit budget within ceilings according to guidelines

- 3) Budget review; negotiation and reconciliation
 - MoF reviews submissions to ensure compliance with policy, limits and effectiveness.
 - MoF suggest revisions and negotiations with spending ministries
 - MoF reconciles final submissions with expenditure ceilings
 - Draft budget is approved by the cabinet/parliament

The budget implementation takes place after the approval of the budget by the parliament and it will happen throughout the financial year. The budget implementation is critical for any agency to perform. It's the actual execution of the budget and application of funds to the planned activities (Kirira, 2007). Generally, the level of revenue collected and the availability of the external resources would affect the budget implementation. If the actual revenue collected fall short from the revenue forecasted, the expenditure needs to be adjusted to that extent which would affect the service delivery or the performance of the agency.

Budget implementation is not simply a matter of executing the approved budget.

It involves ensuring the proposal made in the budget are undertaken and implemented effectively. A successful budget implementation relies on capacity of the agency to react to various macroeconomic environment changes and the capacities of the authorities to implement the planned objectives (Nicoleta Sofianu, 2009).

Tanase (2014) listed the difficulties of the budgeting process and advantages of the budget. According to him the scholars have criticized the budgeting process to be time consuming and do not allow entity to seize opportunities. It reduces flexibility and the agency's ability to adopt to the environment. It is bureaucratic and limit creativity which might eliminate the desire to improve. Some critics argue that budgets do not reflect the entity's strategy and rather than adding value is more focused on costs. The budget had also been criticized on the fact that they support vertical control and limits the communication between the departments, very little consideration on the structure of the agency is made.

2.4 Effective Budgeting Process

The budgeting process is the approach the organization adopts for constructing its annual budget and implementing it. The budgeting process involves lots of activities like planning and setting goals, drawing budget guidelines and preparation of budget proposals, budget reviews and negotiation, budget approval and execution, accounting and reporting and finally auditing and controlling. A sound budgeting system is one which promotes trust among citizens and government by listening to their concerns, makes plans to achieving the objectives and use of available resources effectively and efficiently. However, to achieve a good budgeting system, the budgeting process needs to be effective. Effectiveness is defined as the degree to which something is successful in producing a desired result with reasonable means (Dione, 2016). Hence, the effective budgeting process can be defined as the

process which helps the agencies to achieve their set goals and objectives through budgeting. The budget is expected to assist in setting goals and priorities in the agency and linking those goals to actions. The budget should control the use of public resources and manage the economy and make the concerned agency accountable for their action. If the budgeting process enable in achieving those targets and objectives, we can say to some extend that the budgeting process is effective.

According to the OECD, the effective budgeting process is the one that takes contribution from ministries, parliamentarians, public officials, civil society and other trust groups and from citizens, weighs and considers them, and transform them into set of proposals for actions for the betterment of society.

Budget Preparation

According to IMF, budget preparation is a process with designated organizations and individuals having defined responsibilities that must be carried out within a given timeframe and normally controlled by a legal and regulatory framework. The budget preparation helps control expenditure according to the macroeconomic constraints and it is also a principal mechanism for achieving effective resource allocation that reflects expenditure policy priorities.

The budget preparation process involves three steps. The first one is the strategy setting. The budget preparation process should limit the total expenditure and should be consistent with medium term fiscal objectives and targets. The ceiling for the expenditure for the spending agencies should be determined according to the macroeconomic framework. Secondly, the budget preparation should be guided by the guidelines and regulations. The Ministry of Finance should sent the budget circulars should contain Macro-fiscal targets and information,

budget priorities and ceilings and procedural guidelines for submissions. The final process of the budget preparation is the budget review; negotiation and reconciliation. In this the agencies submits the budget proposal to the MoF and MoF reviews the budget to ensure compliance with policy and effectiveness. The final recommendation is made after the discussion and negotiation between the MoF and the spending agencies.

The annual budgeting of an agency should have link between sectoral policies and the budget allocation. Often the link is weak and since the sectors have many activities and the resources are limited always. As such it is very important to have strong coordination between the different sectors and departments within the agency to plan and prioritize the activities according to the available resources and priorities.

In order to have sound budget preparation, there should be certain conditions according to the World Bank. The conditions are discussed below:

1. The need for early decisions/realistic budgeting

The resources are always limited and as such preparation of budget entails many choices and prioritizing. The objective of the budget preparation is to prioritize and make trade-offs among the programs to ensure budget fits government policies and priorities through the most cost effective mechanism. This process helps agencies prepare a realistic budget based on their priority and resources. It will assist in the smooth implementation of priority programs and avoid disturbing program management during the budget execution. The unrealistic assessments of the cost will lead to under estimation or over estimation of budget which later will have impact on the implementation. The World Banks stresses on the point that the unrealistic budget can be implemented badly but it is impossible to implement an unrealistic budget.

Therefore, for the budget implementation to be effective, it is very important for the budget to be realistic.

2. The need for hard constraint/budget ceiling

According to the spending agencies all the activities are important and need to be carried out at the earliest. The budget preparation becomes difficult when the agencies want all their activities to be achieved. Therefore, according to the World Bank; giving hard constraint to the line ministries from the beginning of budget preparation will institute the shift of mentality from the need to availability. The mix of top-down and bottom-up approach is idle for the effective budget preparation. The resources available for public spending is determined by the Ministry of Finance and the amount available for spending by each line ministry is intimated and within the sectoral spending limits the line ministries need to formulate sectoral spending programs.

3. Avoiding questionable budgeting practices

Some budgeting practices like incremental budgeting, open ended processes, and excessive bargaining are inconsistent with sound budgeting. The incremental budgeting focus on inputs and leads to very poor results. The open-ended budget preparation is the process where the spending agencies prepare budget without any constraints and often exceeds the available resources. This leads to the improper implementation of the activities since the approved budget is not properly formulated and depends upon the negotiation and bargaining with the Ministry of Finance. The excessive bargaining will lead to the efficient allocation of the resources since in the bargaining it depends on who can convince the each party.

2.5 Budgeting system in Bhutan

The Ministry of Finance has constantly strived to improve the budget system in Bhutan. The various reforms were initiated to improve the budgeting system. Bhutan has adopted the Five Year Plan since 1961 and have been linking the budget to the Five Year Plans of the Government at large. The Multi-Year Rolling Budget (MYRB) was initiated in the financial 2009-2010 and this system assists the government agencies to link the five year plans more closely with the annual budget process through the adoption of three year rolling budget. Bhutan maintains a dual budget, with separate resource envelopes, procedures and classification for recurrent and capital expenditure (PFM Reform Strategy 2017-21).

The objective of the budgeting as per the Budget Manual, 2016 is to provide a framework for the assessment and allocation of resources, execution, monitoring and evaluation of all government programs/projects/activities under a comprehensive fiscal plan developed, authorized and executed in accordance with laws, rules and regulations and principles of sound fiscal management.

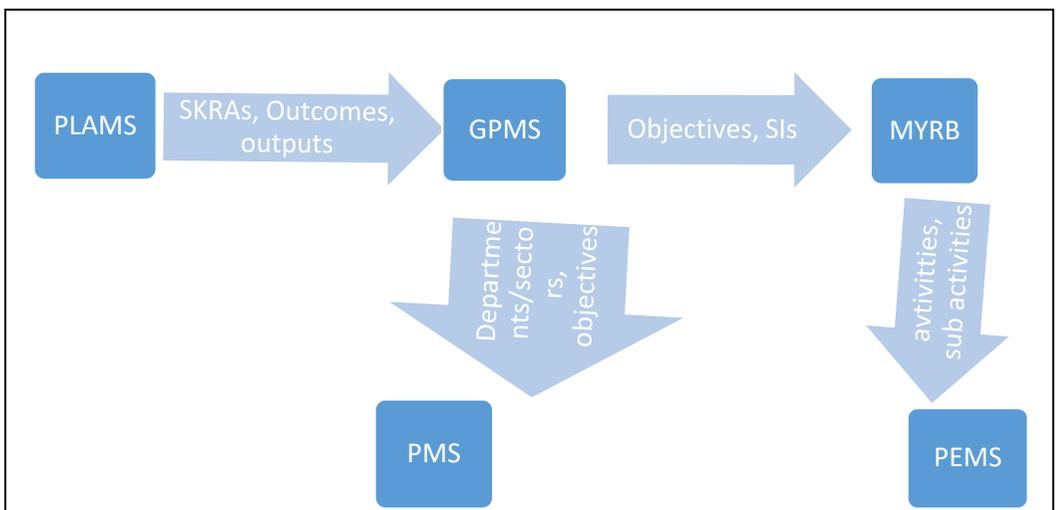
The budget preparation starts with the forecasting of receipts and expenditures. The receipt here means all the fund that the government receives in the form of taxes and duties, grants from developing partners, loans, etc. This responsibility is basically carried out by the Macroeconomic Framework Coordination Committee (MFCC), chaired by the Finance Secretary.

On the basis of the resource envelope prepared and endorsed by the government, the budget call notification is sent to the government agencies to prepare the budget proposal. The budget call highlights the financial policies and specific macroeconomic information and provides the agencies the guidelines to

prepare the budget proposal in the given time frame. After all the budget proposals have been submitted by the government agencies the budget discussion is held between the line agencies and the Department of National Budget for the prioritization of the activities based on the resources and the capabilities. The final budget is endorsed and approved by the parliament after deliberation.

The figure 3 illustrates how the budget is determined in the Royal Government of Bhutan.

Figure 3: The budgeting process in the Royal Government of Bhutan



Source: GPMS, Bhutan

2.6 Budget reforms over the years in Bhutan

The Department of National Budget is one of the departments under the Ministry of Finance and is responsible for consolidating the national budget for the Royal Government of Bhutan. The Department of National Budget (DNB) had been mandated to formulate annual, conduct mid-year budget review, facilitate budget revisions. It is also their responsibility to conduct monitoring

and develop sound budgeting system. Broadly, the functions of the DNB has been classified as Budget Management Function, Programming Functions, Monitoring Functions and developing sound budgeting system. Very recently DNB has started to prepare the macro economic framework and allocate the budget to the government agencies. The budgeting system in Bhutan follows both top down and bottom up. The budget ceilings are determined by the department of National Budget after determining the macro economic framework and given to the agencies. The government agencies after receiving the budget ceiling in the form of budget call notification start to prepare their budget. The budgeting system in Bhutan has evolved over the time.

Another reform initiative taken by the DNB has been on the budget call notification. The revised budget call notification includes submission of pre-requisite documents like social clearance, estimates with drawings and designs, environmental clearance for any kind of construction works. The pre-requisite documents that needs to be submitted along with the budget proposal was initiated by the DNB to reduce the gap between the budget allocation and the actual expenditure by the budgetary agency. The DNB is extra careful with those documents and reviews the proposed estimates to check there is no lavish designs and over estimation of the activity before the budget is approved and works are awarded for implementation.

Further, signing of the Annual Performance Agreement (APA) with the Prime Minister and the budgetary agencies requires the budgeted activities are aligned to the APA. The performance agreement is one of the tools of measuring and analyzing the annual performance of an organization. Annual Performance Agreement or a contract is a written agreement between two parties that clearly specifies their mutual performance obligations. It sets specific targets to be

achieved and their timeframe as well as responsible agency. Peterson (2005) defines performance contract as a freely negotiated performance agreement between the Government, acting as the owner of the Government agency, and the agency.

This initiative was undertaken by the government to address the concerns of good planning verses poor implementation. The Performance Agreement System works on a result-based planning by holding agencies accountable for the outcome and output level and at the same time providing flexibility at the activity and input level. It aims to strengthen decentralization and implementation flexibility at local government level and restricting the roles of the central agencies to policy, planning, monitoring and evaluating.

The existence of the APA and the alignment of the budget to the APA ensures that budgetary agencies prepare budget properly and implement whatever has been budgeted to achieve their target in the APA. As such all those activities in a way guarantees and indicates an effective budgeting system instituted in the country. However the effectiveness would depend in the usage and implementation of such systems by the budgetary agencies.

Since Financial Year 2010-11, the budget and expenditure management system was transferred from a standalone system to a web-based and real time online system called Multi-Year Rolling Budget (MYRB). The new system has improved the monitoring of budget and expenditure and shortened the budget incorporation of donor funds (World Bank). The Ministry of Finance has constantly been trying to improve the budget process in Bhutan. One of the reforms has been the revision of the Financial Manual 2016 which comprises the Financial Rules and Regulations. The revised budget manual sets out the annual budget processes of the Royal Government of Bhutan.

2.7 Theoretical Background

Various theories have been developed and available with regard to the budgeting. According to Wildavsky (1961) “budgeting is more than allocating the scarce resources between X and Y activities, it is about meeting the conflicting needs of a society by bringing about compromises in the political marketplace through incremental adjustment(s) in budget allocation.

Hyde (1992:1) “In their voluminous and complex formats, budgets simultaneously record policy outcomes, cite policy priorities and program goals and objectives, delineate a government’s total service effort; and measure its performance, impact, and overall effectiveness”. Hyde says that budget is partly political, partly economic, partly accounting and partly administrative. As a political document, it allocates the scarce resources of a society among multiple, conflicting and competing interests. As an economic and fiscal document, it serves as the primary instrument for evaluating a jurisdiction’s redistribution of income, stimulating its economic growth and development, promoting full employment, combating inflation, and maintaining economic stability. As an accounting document, it provides a ceiling on government spending and makes it legally binding for it to live within the allocated funds. Finally, as a managerial and administrative document, it specifies the ways and means by which public services are provided, and it establishes criteria by which they are monitored, measured, and evaluated.

The Principal-Agent Model and Budget Theory

John Forrester explains as the relationships within the executive and the legislative branches, between members of the branches, and between actors at different levels of governments and how they are affected by budgeting process. The agency relationship is a contract under which one or more person (the

principals) engages another person (the agent) to perform services on their behalf and delegates decision making authority to them. In other words, those who make claims on governmental resources are agents and those who allocate and ration the resources are principals (J. Forrester). The distribution of the management and information and the hierarchical relationships among budget participants binds the contract. Governments at all levels use information, especially input and process information, to decide upon revenues and expenditures, and to assess performance. From the principal-agent perspective, the information is managed by principals and agents to advance their own self-interest or to maximize their own utilities.

All government programs and policies are determined and implemented in a hierarchical manner. Agencies report to departments, departments to the chief executive officer (CEO), and the executive generally to the legislature (J. Forrester). The agents need money and budget authority to implement the programs and the dominance of the one party over another during the budget negotiation determines the budget and the authority.

The budget is the contract between the Ministry of Finance and the other line Ministries. The Ministry of Finance has the authority and negotiates with the other Ministries on the budget appropriation as such the role of the principal is assumed by the Ministry of Finance. The other line ministries are the agents here since they receive the budget and authority from the government to implement the budget. The line ministries have to convince the Ministry of finance during the budget negotiation with enough justification for the budget requirement for the program. Therefore, the budget negotiation and the appropriation depends on how well the each party is able to convince each other base on the information each party provides for the budget approval.

The agency problem arises when there is conflict of interest between the agents and the principal. The principal and the agent might have their own agenda and objectives and as such their interest might differ. The problem also arises when there is asymmetric information between the agent and principal; where one party has more information over the other. The agencies have the tendency to maximize their budget always by trying to convince the principal. The budget implementation becomes difficult when the agencies maximize and on the other hand do not have enough resources to execute the budget.

Good Governance Theory

Good governance should include principles like accountability, responsiveness, transparency, public participation, economy efficiency etc (Ekundayo, 2017). According to Mathenge et al. good governance is a proper application of the ideals, accountability, transparency, etc. According to Lasswell, as cited by Mathenge “there can be no good budgeting without good governance because good governance is a ground to achieving good budgeting”. The components of transparency and accountability will be helpful for the organization in achieving efficiency and effective in budgeting. The concept of good governance in budgeting will entail the organization to achieve their goal and gain the confidence of the people by fixing accountability and being transparent with tax money collected and used. Understanding the importance of the good governance in the proper utilization of the fund, the World Bank and IMF also have instituted the requirement of the good governance to receive the international grants. All those indicate that good governance theory drives the good budgeting and implementation.

Stakeholder Theory and Participation

This theory was first described by Dr. F. Edward Freeman and according to him

a company's real success lies in satisfying all its stakeholders. The stakeholder are not just those who benefit from its stock but all those who have invested and involved and are affected by the company. Freeman states that this theory promotes practical, efficient, effective and ethical way to manage organizations in a highly complex environment. According to Harrison et al. stakeholders are individuals, groups and organizations who have interest in processes and outcome of the firm and that entails the firm achieve its goals.

The budgetary agencies, employees, suppliers, contractors etc. are the stakeholder of the concerned agency or government. Every agency is a stakeholder to another agency. How successful they are in managing the stakeholders will have impact on their performance. Budgeting is the tool for managing the stakeholders in government. The budgeting is the allocation of the money from the Ministry of Finance to the different government agencies to deliver services to the public. The ministry of finance provide the budget ceiling to the each line agencies and it is the responsibility of the line agencies to provide ceiling to their sectors and departments. The budget preparation process also require the involvement of many actors for the effective budgeting. Suppose in preparing the budget for the Ministry, all the departments and the field agencies under the ministry should be involved in the preparation of the budget for the ministry and for the purpose of the achievement of the ministry's overall goals. This will also prevent the overlapping of the activities between the departments and resource saving.

2.8 Empirical Review

Silva and Jayamaha have conducted a research on the topic budgetary process and organizational performance of the Apparel Industry in Sri Lanka. They conducted survey research on 50 companies using questionnaire. The primary

data was collected from 228 managers. The study also made use of the data from the secondary sources. The authors used the regression analysis to test the relation between the budgeting process and the organizational performance. The study found out that there is strong positive relationship between the budgeting process and the organizational performance and recommended on improving the budgeting process in those companies to improve the company's performance.

John and Ngoasong conducted similar research on budgetary and management control process in Nigerian manufacturing company. They adopted a quantitative method and collecting data through phone interview using the questionnaire. They used budget as the total for the management control and their study also concluded that there is positive relationship between firm's management control system and performance. They mentioned that if management control system is designed in to address the strategic issues like pattern, mission and position then it would enhance the competitiveness which when attained can be translated as high performance.

Gachithi (2010) did a study on the challenges of budget implementation in the University of Nairobi. The researcher had used both data from both primary and secondary source and primary data from the people working as accountant, financial manager and administrator in the university. The study revealed that the budget implementation was affected by the amount of fund allotted to the department, institutional weaknesses, and methods used for the budget allocation, inability of the users departments to utilize the allocated funds and the unattainable targets set in the budget. The study also revealed that planning was the key element to drive smooth implementation of budget and the co-ordination among the departments was also felt important for the

implementation.

Mutuma, Ileri and Lyria (2016) did a similar study on the challenges of budget implementation in the Meru County in Kenya. The study adopted the descriptive research design and collected data from 40 top level employees working in the Meru County. The researcher used the variables like institutional constraint, performance in revenue collection, use of IFMIS and effective oversight and audit function to study its impact on the budget implementation. Their study found out that all the variables used affected the budget implementation except for the performance in the revenue collection. It was found out that the institutional constraints significantly affected the budget implementation and recommended on human resource development. The institutional capacity was defined as human resource capacity and structures of the public sector and the shared values.

A survey conducted by Mathenge, Shavulimo and Kiama on financial factors influencing budget implementation in counties in Kenya used the variables monitoring, financial availability, financial policies and government financial regulations to study the budget implementation. The survey collected data from 72 respondents who were directly involved in the budget preparation, execution and implementation. According to the regression analysis, the study showed that all those variables have significant effect in the budget implementation.

Blondal and Kim (2006) wrote a paper on Budgeting in Thailand and according to them the challenges to the budget implementation are; centralization of budget process, willingness of the executives to reallocate the resources among their various departments or agencies and another challenge is the budget ceiling provided to the line ministries. The budget ceilings are always lower

than the budget submission from the agencies and this makes the agencies lose control of their programs especially on time frame and hence, demotivates the implementing agencies. The final challenge highlighted were the link with the strategic policies. If the budget is linked to the policies of the government, the line ministries need not submit the budget but rather the budget be determined from the plans; top down allocation of the resources.

Kirimi (2012) conducted a survey research to find out the factors influencing budget utilization in government ministries in Kenya. She used descriptive statistics (measures of central tendency and measure of variations) and inferential statistic tools for the data analysis. The study found out that interference by the treasury on the ministries activities, lack of proper reporting system, need of involvement of the auditor general and attorney general, lack of staff capacity and the culture of accountability for their action affected the budget utilization in the government ministries of Kenya.

According to David Shand, PFM consultant, the budget formulation and the implementation are the two sides of the one coin, they are interdependent to each other. The poorly formulated or unrealistic budget formulation will lead to poor budget implementation. The involvement of the spending ministries in the budget formulation is very important to understand and own their budget. According to him, the release of fund, control and monitoring of expenditure and revenues, in year budget modifications or budget reviews, internal controls and external audits and reporting on budget implementation are the important components of Budget Implementation System.

Yang Qi, a PhD student from China has conducted a research on the impact of the budgeting process on performance in small and medium sized firms in

China. The research adopted the indicators like sales revenue, profit, managerial performance, budgetary performance, job satisfaction, job motivation as the SMEs' performance measurement. According to the author the clear goal setting improves the budgetary performance. The goals though difficult but if achievable, will motivate the employees. The researcher found out that the budget planning, budgeting sophistication, and budgetary control can positively affect the financial performance of SMEs, which the budget goal clarity and difficulty can strongly impact on the non-financial performance of SMEs.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research Design

The research design decision depends on the purpose of the study. The three of the most common and useful purposes are 1) exploration, 2) description and 3) explanation (E. Babbie, 2013). These purposes assist the researcher in planning and deciding on the methods of collection and analysis of data which may be best for the study intended. This study used both exploratory and descriptive approaches for complementary purposes since they vary in strength and weakness.

Qualitative approach is expected to deeply explore, understand and interpret the social phenomena within its natural setting (Creswell, 2002). It helps the researcher to collect richer information and get more detailed information about the issues, cases or events (Arora and Stoner, 2009). This approach enabled to explore the respondents' feelings and attitudes with regard to the budget utilization.

The descriptive approach is chosen due to the fact that it provides an accurate description of characteristics including behavior, opinions, ability, beliefs and knowledge of a particular individual, situation or group (Burns & Grove, 1993). The open ended questions were useful for examining the challenges the agencies are facing in budgeting process and changes they wanted to see in the budgeting process.

3.2 Research hypothesis

H1: There is a positive relationship between budgetary preparation and budget implementation in government agencies in Bhutan.

H2: There is positive relationship between the budget ceiling during the budget preparation and the budget implementation in the government agencies of the Royal Government of Bhutan.

H3: There is positive relationship between the guidelines for the preparation of budget and the budget implementation in the government agencies of the Royal Government of Bhutan.

H4: There is positive relationship between the stakeholders' participation during the budget preparation and the budget implementation in the government agencies of the Royal Government of Bhutan.

H5: There is positive relationship between the coordination among the departments of the agency during the budget preparation and the budget implementation in the government agencies of the Royal Government of Bhutan.

H6: There is positive relationship between the human resource and the budget implementation in the government agencies of the Royal Government of Bhutan.

Operational Definition

3.2.1 Independent variable

The budgeting preparation involves various stages and each stage has its own characteristics. The various stages of the budget preparation will be the indicators for measuring the budget preparation process:

Budget Preparation

The budget preparation is the first stage of the budgetary process. It is in this stage where the actual budget of the agency is prepared and draft is submitted to the Ministry of Finance for the discussion and forward submission to the parliament for approval. According to the OECD and World Bank, the main

elements of the sound budget preparation are; providing budget ceiling which will encourage the agencies to prioritize and propose within the limit provided to them. Proper guidelines should be available for the agencies to prepare budget. The stakeholder's coordination and participation during the budget preparation will enhance the ownership and accountability which will contribute to realistic budget preparation.

In order to have sound budget preparation, there should be certain conditions according to the World Bank. The conditions are discussed below:

1. Planning & coordination

The planning and coordination is the process of prioritizing and agreeing upon and coordinating targets, actions plans and resources for the year ahead (Silva and Jayamaha, 2014). The budget of an agency cannot be decided by one person since each department have their own targets and plans. As such the budget needs to be prepared in coordination with the all departments of the agency so that it does not affect the implementation in the later stage.

2. Budget ceiling

According to the World Bank, budget ceiling is the aggregate spending ceiling provided to the line ministries and government agencies by the Ministry of Finance after determining the macroeconomic framework. Giving hard constraint to the line ministries from the beginning of budget preparation will institute the shift of mentality from the need to availability.

3. Stakeholders' participation

The stakeholders' participation is the involvement of all those who are and will be affected by the activities of the agency in making the decision and proposing budget for the agency. Through participation it provides the stakeholders' an opportunity to influence the budget before it is finalized.

4. Budget rules and procedures

The budget call notification should contain the clear guidelines and instructions to the line ministries on how to prepare their estimates in a way that will be consistent with macro objectives (World Bank). Having clear budget rules and procedures will help in effective resource allocation, efficient service delivery and setting fiscal responsibility.

5. Adequate Resources

The government agency or any organization need to have both financial resources and human capacity to implement any project of the government (Dunk, 2001). The government agencies should propose budget for only those activities where there is adequate fund and technical and human capacity to implement the proposed activity.

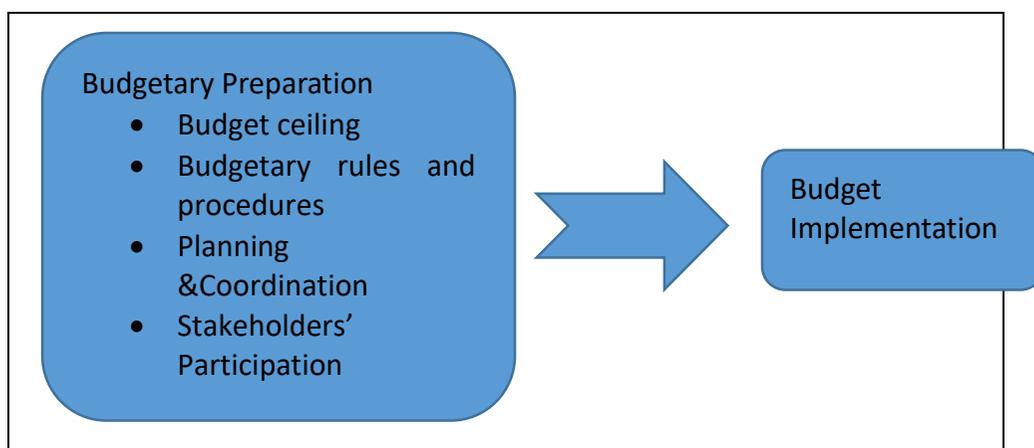
3.2.2 Dependent Variables

Budget Implementation

The budget implementation is the phase where resources are used to implement policies incorporated in the budget (OECD). The budget implementation comes after the budget preparation and for the budget implementation to be effective it is important for the preparation to be good. According to Tamassi, the implementation of the budget might be poor even though the budget is formulated well, but it is not possible to implement a poorly formulated budget. As such, for the effective budget execution, to be effective it is important to have a well prepared budget in the first stage.

3.2.3 Conceptual Framework

Figure 4: Conceptual Framework



3.3 Scope of the study

The study is carried out in the government agencies of Bhutan. The study covers all 10 Ministries and the 20 District Offices known as Dzongkhag in the local language. The 205 gewogs (local governments) and the government autonomous agencies and the constitutional bodies were not part of the study. The survey is limited to the experiences of the user; the budgetary agencies. The views and the experiences of the Department of National Budget has not been captured for the study and analysis.

3.4 Data Collection

The study collected data from both the primary and secondary sources. The primary source of data was collected in the form of questionnaire from the focal persons. The focal people were the people involved in the budgeting process in the Ministries and the District Offices. Both open and closed ended questionnaire were used to get the information. The open-ended questions allow respondents to share their own experiences and provide more details. The

closed ended questionnaire on the other hand will be easier to administer and analyze.

The questionnaire was used to collect the primary data from the finance officers of the government agencies from which the generalization may be made for the overall budget utilization in government agencies of Royal Government of Bhutan. The respondents were the people who are involved in the budgetary process and as representative samples the focal person from the Government Offices were selected.

The data from the secondary source like annual financial reports, Budget reports, Expenditure reports, Annual Performance Agreements, journals etc. were the bases of comparison and to examine impact of budgeting process on the organizational performance.

3.5 Population

The target population of the study is the Finance Officers working in the government sector. There are about 120 finance officers working in various government agencies. The basis for selecting the Finance Officials were based on their knowledge about the budgeting. The expert sampling method helps the researcher get deep knowledge and information rooted in the particular form of expertise.

3.6 Sampling

The purposive sampling method was used for the study. The purposive sampling is based on the characteristics of a population and the objective of the study (Crossman, 2018). The purposive sampling design is helpful in providing as much insight as possible into the event or the phenomenon under

examination. As such to have uniformity, all the 10 Ministries and the 20 Dzongkhag (District Offices) were selected for the study. Those agencies are also the main budgetary agencies of the government and the selection of ministries and district offices will also allow me to better understand the situation between central and district level.

The questionnaire were sent to all the finance officers working in those 30 agencies. There are about 55 finance officers working in those government agencies but the response were received from only 49 respondents.

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Chapter Four: Data Presentation and Analysis of Data

This chapter presents the data and the interpretation of the data collected for the analysis of the study.

4.1 Descriptive Statistics

As mentioned in earlier chapter, the questionnaires were designed to ascertain the perception of the effect and the success factor of the effective budget preparation on the level of budget utilization. The responses were measured with a five scale Likert system where Strongly Agree=5, Agree=4, Neutral=3, Disagree=2 and Strongly Disagree=1.

The questionnaire also contained some open ended questionnaire to provide in-depth analysis of the proposed study. The questionnaires were distributed to the focal person since they have the best knowledge about the budgeting process and the challenges of the present system. The open ended questions were helpful in providing more information for the analysis.

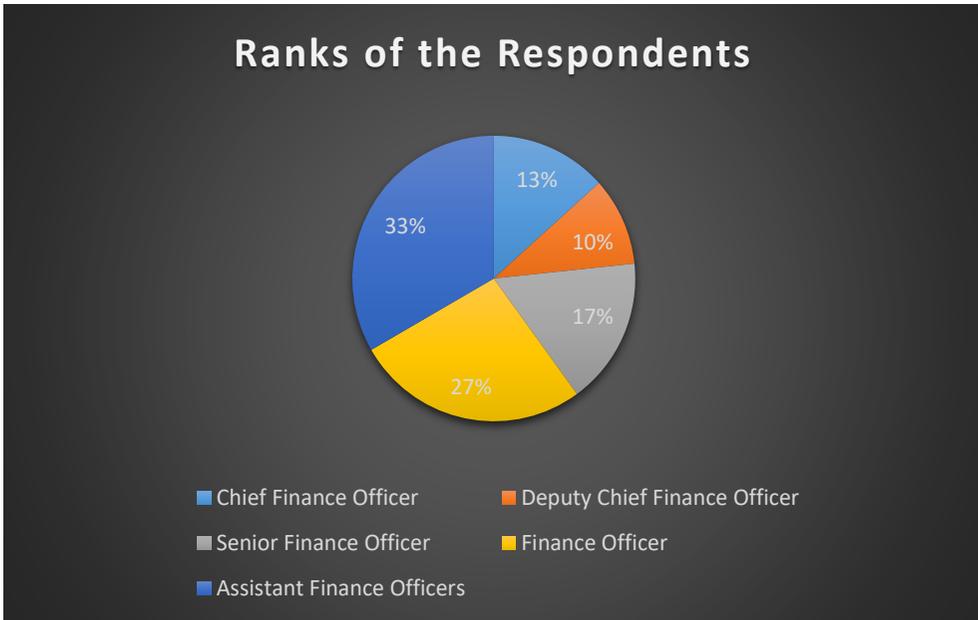
The questionnaire were distributed to 30 agencies and the target respondents were the head of the finance section who is involved in the budget preparation and the implementation.

4.1.1 Profiles of Respondents

The respondent comprised of different rank such as Assistant Finance Officer, Finance Officers, Senior Finance Officers, Deputy Chief Finance Officer and the Chief Finance Officers. The diagram below shows the percentage of respondents under different ranks. The maximum number of respondents were

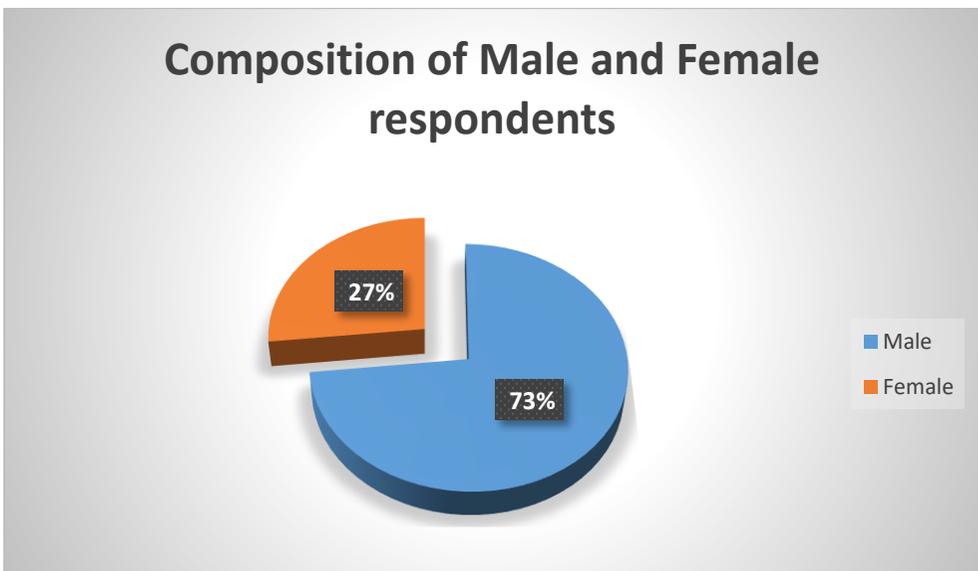
under the Assistant Finance Officers and lowest were the Deputy Chief Finance Officers with 33% and 10% respectively.

Figure 5: Position of the respondents



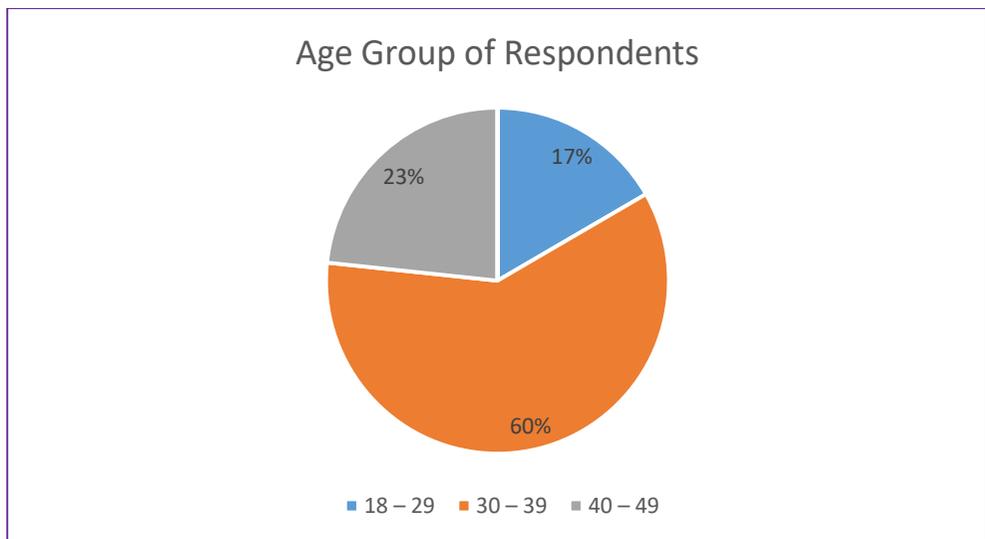
The figure 5 shows the percentage of male and female respondents. The 27% of the respondents were female and 73% were male out of the total respondents.

Figure 6: Percentage of male and female respondents



The figure 6 illustrates the percentage of different age group of the respondents. The 60% of the respondents were in the age group of 30-39 followed by 23% under the age group of 40-49. The respondents under the age group 18-29 was 17% only.

Figure 7: Different age groups of the respondents



4.2 The Budget Preparation

Questions related to adherence of sound budget preparation by the agencies were asked to the finance officers of the government agencies. The sub variables related to the budget preparation were chosen as agreed by the OECD and World Bank. The range was Strongly Agree (5) to Strongly Disagree (1). The mean score of 3.5 to 5 on the continuous Likert scale against each variable represents the average score of strongly agree and agree. The score of neutral has been represented by the mean score between 2.5 to 3.4 and the mean score of 0 to 2.5 represents the variables which has disagree and strongly disagree. A standard deviation of > 8 implies significant differences on the impact of the variable among respondents.

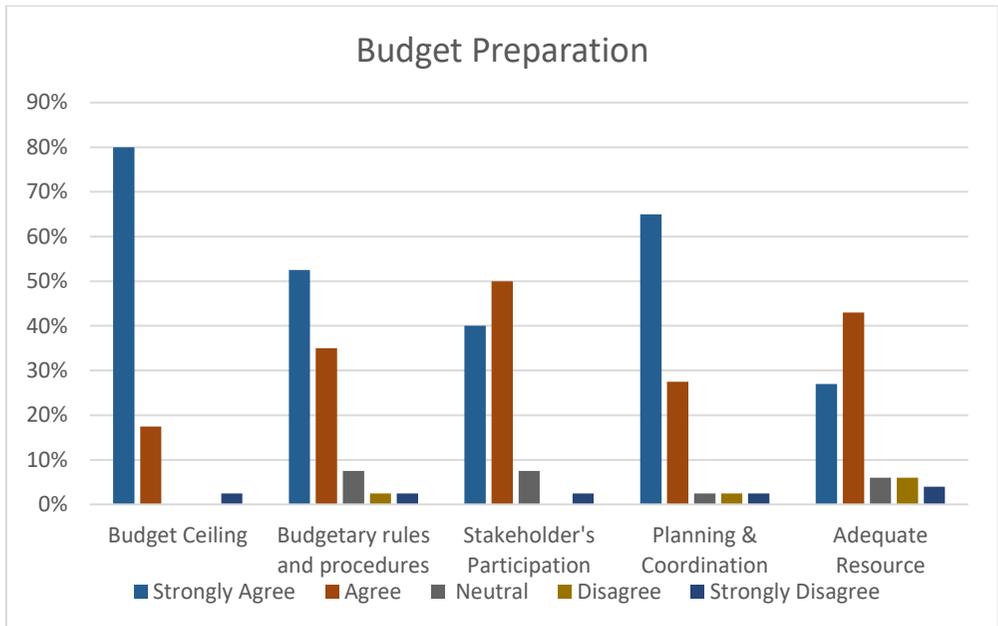
Table 1: The mean and standard deviation of the sub-variables under the independent variable Budget Preparation.

	Mean	Standard Deviation
Budget ceiling	4.6939	0.6833
Budgetary rules and procedures	4.3265	0.8512
Stakeholders' Participation	4.2245	0.8482
Planning & Coordination	4.4490	0.8912
Adequate Resources	3.8163	0.9932

The table 1 results shows that all the elements have a mean greater than 3.5 which is strongly agree and agree. The budget being prepared based on the ceiling provided by the Ministry of Finance and the preparation of budget after planning & coordination with all the departments under the agency were the most popular practice with the mean score of 4.6 and 4.4 respectively. The preparation of budget based on the budgetary rules and procedures provided by the Ministry of Finance in the budget call notification and involving all the stakeholders and discussing on the budget proposal of the agency is also above the average with the mean score of 4.3 and 4.2 respectively. The least score among the five elements is the not having adequate both human and financial resources for the agency to implement the budget with mean score of 3.8 each which is little above the neutral mean score.

The above information is also presented in the figure below for the readers to get the clear picture.

Figure 8: Practice of budget preparation by the government agencies.



4.3 Budget Implementation

The respondents were requested to indicate the level of agreement concerning budget implementation. The responses were placed on a five Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The mean score of 3.5 to 5 on the continuous Likert scale against each variable represents the average score of strongly agree and agree. The score of neutral has been represented by the mean score between 2.5 to 3.4 and the mean score of 0 to 2.5 represents the variables which has disagree and strongly disagree. A standard deviation of > 8 implies significant differences on the impact of the variable among respondents.

Table 2: Budget implementation by the government agencies

Budget Implementation	No. of observ	Mea n	Standard Deviation	Minimum	Maximum
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	-ations				
There are sufficient financial rules to guide the agency in budget implementation	49	4.306	0.796	1	5
Budget activities that are funded by external sources are easier to budget and implement.	49	3.041	1.117	1	5
The agency prepares the budget implementation plan after the budget has been approved by the parliament	49	3.960	1.172	1	5
The budget is re-appropriated from one activity to another according to the need and changes of plans of the agencies.	49	3.960	1.000	1	5

Table 2 shows the responses with regard to the budget implementation by the

government agencies. The respondents agreed that there is sufficient rules and regulations to guide the agencies in budget implementations with a mean value of 4.3. Having rules and law ensures that the budget is implemented in conformity with the authorizations granted by law in relation to financial and policy aspects (OECD). As per World Bank, having clear financial rules and regulations will guide the agencies in budget execution appropriately. In Bhutan the FFR 2016 (Financial Rules and Regulations) is the main documents which guides the government agencies in the budget execution. The FRR 2001 was revised in 2016 to incorporate and amend the rules according to the current situation.

The preparation of the budget implementation plan after the budget has been approved by the parliament score a mean of 3.9. The planning is the one of the crucial basic element in the effective budget implementation in the budgeting process. Budget planning here refers to the spending plans of the organization. After the budget has been approved by the parliament and intimated to the agencies, it is the responsibility of the concerned agencies to develop a budget spending plan. According to Little et al., 2002, spending plans frequently build up execution objectives for the unit as far as costs, incomes, as well as production. The budgeting does not end after the budget approval, the approved budget needs to be planned for execution. The sectors or the concerned departments should plan their activities once the budget has been approved. This would facilitate the agencies in getting the money on time from the Ministry of Finance (MoF) and achievement of target by the end of the year. In Bhutan, as notified by the Ministry of Finance, the budgetary agencies are required to prepare the budget implementation plan once the budget has been passed by the parliament. The implementation plans are submitted to the Ministry of Finance quarterly and are updated every quarter according to the

plans and priorities of the agencies. This process helps Ministry of Finance in cash management and for the budgetary agencies to make the fund available when required.

According to the OECD the budget should have enough flexibility to assist the agencies to implement their budget efficiently. The agencies should make sure that they comply with the budget approved by the parliament but still have some flexibility in adjusting the budget within the approved framework to the changes and needs of the agencies and the circumstances. The respondent's mean score against the re-appropriation of budget during the year due to the change of plans were 3.9 which is little above the average score of neutral. However with the standard deviation of 0.99 it also indicates that there is significant differences on the impact of the variable among respondents.

The timely receipt of donor fund and its impact on the implementation of budget score 3.04. The standard deviation more than 1 also indicates that there is significant differences on the impact of the variable among respondents.

Reliability Analysis

The table 6 and 7 shows that budget preparation and budget implementation have Cronbach Coefficient Alpha of 0.846 and 0.631 respectively which indicates internal reliability.

Table 3: Cronbach Coefficient Alpha for independent variable – Budget preparation

Cronbach Coefficient Alpha	
Variables	Alpha
Raw	0.846021
Standardized	0.855277

Table 4: Cronbach Coefficient Alpha for dependent variable - Budget implementation

Cronbach Coefficient Alpha	
Variables	Alpha
Raw	0.630929
Standardized	0.639736

4.4 Verification of Hypothesis

4.4.1 Model significance and results of hypothesis

The simple linear regression analysis was used to further determine the casual relationship between the budget preparation and implementation in the 30 government agencies of the Royal Government of Bhutan. The table 8 shows the simple linear regression between the budget preparation and implementation and it indicates that the model is fit with the significance <0.0001 (confidence interval 99%). This model supports the fact that budget preparation has impact on budget implementation.

Hypothesis 1 – Budget preparation have positive relationship with the budget

implementation in the government agencies of the Royal Government of Bhutan. The simple linear regression was used to test the hypothesis. The results are presented in the tables below.

Table 5: Model Summary

Analysis of Variance					
Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	1	6.86339	6.86339	18.58	<.0001
Error	47	17.35854	0.36933		
Corrected Total	48	24.22194			

Root MSE	0.60773	R-Square	0.2834
Dependent Mean	3.81633	Adj R-Sq	0.2681
Coeff Var	15.92437		

The R-square of the model is 0.28. Thus the model summary shows that budget preparation explained 28.34 % of the variations in the budget implementation of the government agencies. The remaining 71.66 is explained by other variables which are not in this model.

Table 6: Regression Model – Budget preparation

Parameter Estimates						
Variable	Label	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	Intercept	1	1.40960	0.56501	2.49	0.0162
BP	Budget Preparation	1	0.67133	0.15573	4.31	<.0001

The regression model of the study was

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where

Y= Budget implementation

β_0 = Intercept

β_1 = Regression parameter

X1= Budget Preparation

E= Standard error

Thus,

$$\text{Budget implementation} = 1.4096 + 0.67133 \text{Budget preparation} + 0.56501$$

This explains that a unit increase in budget preparation will lead to 0.67133 increase in budget implementation. The p-value of <0.0001 means that the budget preparation (independent Variable) makes a statistically significant contribution to the model. As such, the hypothesis that there is a positive relationship between the budget preparation and implementation in the government agencies in the Royal Government of Bhutan is accepted.

Further to determine the impact of each element of budget preparation on the

budget implementation was tested with the individual element as the independent variable on the dependent variable.

Table 7: Regression model – Budget ceiling

Parameter Estimates						
Variable	Label	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	Intercept	1	1.97298	0.47401	4.16	0.0001
BP1	Budget Ceiling	1	0.38692	0.09995	3.87	0.0003
R-Square	0.2417					
Adj R-Sq	0.2256					

Hypothesis 2 – There is positive relationship between the budget ceiling during budget preparation and budget implementation is supported by table 7.

The Table 7 shows the result of regression model when the independent variable is budget ceiling. The model illustrates a p-value of 0.0003 which means that the budget ceiling is statistically significant for the model. The R-square value of 0.2417 suggests that budgeting ceiling explains 24.17% of the variation in the dependent variable.

Table 8: Regression model – Budgetary Rules and Procedures

Parameter Estimates						
Variable	Label	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	Intercept	1	2.91315	0.38471	7.57	<.0001
BP2	Guidelines	1	0.20246	0.08728	2.32	0.0248
R-Square	0.1027					
Adj R-Sq	0.0836					

Hypothesis 3 - There is positive relationship between the budgetary rules and procedures during the budget preparation and the budget implementation in the government agencies of the Royal Government of Bhutan is explained by Table 8. The model is statistically significant at the level of $p < 0.0248$ it explained 10.27% of variation in budget implementation. Thus the hypothesis is accepted.

Table 9: Regression model – Stakeholders’ participation

Parameter Estimates						
Variable	Label	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	Intercept	1	2.54699	0.35283	7.22	<.0001
BP3	Stakeholders’ participation	1	0.29403	0.08192	3.59	0.0008
R-Square	0.2151					
Adj R-Sq	0.1984					

Hypothesis 4 – There is positive relationship between the stakeholders’ participation during budget preparation and budget implementation in the government agencies of the Royal Government of Bhutan. Table 9 shows the participation of the different sectors and departments of the agency during the preparation of the budget as the independent variable and its relationship with the budget implementation. The model is statistically significant at 1% ($p < 0.0008$) and had explained 21.51% of the variation in the budget implementation. As such the hypothesis is accepted.

Table 10: Regression model – Planning & Coordination

Parameter Estimates						
Variable	Label	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	Intercept	1	2.76142	0.36873	7.49	<.0001
BP4	Coordination	1	0.23100	0.08130	2.84	0.0066
R-Square	0.1466					
Adj R-Sq	0.1284					

Hypothesis 5 – There is positive relationship between the planning & coordination among the departments and sectors and MoF during the budget preparation and the budget implementation. Table 10 explains the relationship between the coordination during the budget preparation and budget implementation. With the p-value of 0.0066 we can say that the model is statistically significant at 1 % and with the R-square of 0.1466, the 14.66% of variation in the budget implementation in the government agencies of Royal

Government of Bhutan is explained by coordination during the budget preparation and thus the hypothesis is accepted.

Table 11: Regression model – Adequate Resources

Parameter Estimates						
Variable	Label	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	Intercept	1	3.00859	0.27908	10.78	<.0001
BP5	Human Resources	1	0.20344	0.07031	2.89	0.0058
R-Square	0.1512					
Adj R-Sq	0.1331					

Hypothesis 6 – There is positive relationship between the adequate resources and the budget implementation in the government agencies of the Royal Government of Bhutan. Table 11 explains the financial and human resources have relationship with the budget implementation. The model is statistically significant at $p > 0.0058$ and with R-square 0.1512, the model had explained 15.12% of variation in the budget implementation in the government agencies of the Royal Government of Bhutan thus the hypothesis is accepted.

4.4.2. Correlation Presentation and Results of Hypothesis

The correlation analysis was done to determine the relationship between the budget preparation and implementation. The table 12 shows that the Pearson Correlation Coefficients between budget preparation and implementation was

0.532 at significance level of alpha 1% (confidence level 99%) and p-value 0.0001. This supports the statement that there is relationship between budget preparation and budget implementation.

Table 12: Pearson Correlation Coefficients between budget preparation and budget implementation

Variables	BX	BP
BX Budget Implementation	1.00000	0.53231 <.0001
BP Budget Preparation	0.53231 <.0001	1.00000

The table 12 also illustrates the correlation between the sub-variables of the budget preparation and the budget implementation. The budget implementation is positively correlated with the budget ceiling with $r=0.49$ followed by budget discussion with different stakeholders in the budget preparation with $r=0.47$. The coordination with the departments and sectors under the agency during the budget preparation and its impact on implementation is also high compared to other variables with $r=0.42$. The coordination among the various departments during the budget preparation to enhance owner and accountability and the consideration of the various capacities like human resources and fund, which otherwise will contribute to the production of realistic budget have $r=0.38$ and 0.32 respectively. The budget guidelines is also positively correlated to the budget implementation but the influence is less compared to other variables with $r=0.32$. All the sub-variables of the budget preparation are positively correlated with the budget implementation and is significance at 5%.

The correlation between the adequate resources and the budget implementation in the government agencies in Bhutan as per the table 5 is weak compared to other sub-variables because as per the response of the finance officers of the agencies, the fund receipts for donor projects are sometimes delayed and also the activities cannot be carried out due to the lack of the technical expertise.

Table 13: Pearson Correlation Coefficients between sub variables of budget preparation and budget implementation

Variables	BX	BP1	BP2	BP3	BP4	BP5
BX Budget Implementation	1.0000 0 0	0.4934 0 0.0003	0.3769 0 0.0076	0.4761 5 0.0005	0.4209 2 0.0026	0.3645 9 0.0100
BP1 Budget ceiling	0.4934 0 0.0003	1.0000 0 0	0.6411 6 <.0001	0.6243 5 <.0001	0.6067 8 <.0001	0.4373 3 0.0017
BP2 Budgetary Rules & Procedures	0.3769 0 0.0076	0.6411 6 <.0001	1.0000 0 0	0.6466 5 <.0001	0.5167 8 0.0001	0.4667 3 0.0007
BP3 Stakeholders' Participation	0.4761 5 0.0005	0.6243 5 <.0001	0.6466 5 <.0001	1.0000 0 0	0.6080 5 <.0001	0.4209 4 0.0026
BP4	0.4209	0.6067	0.5167	0.6080	1.0000	0.4481

Variables	BX	BP1	BP2	BP3	BP4	BP5
Planning & Coordination	2 0.0026	8 <.0001	8 0.0001	5 <.0001	0	8 0.0012
BP5	0.3645	0.4373	0.4667	0.4209	0.4481	1.0000
Adequate Resources	9 0.0100	3 0.0017	3 0.0007	4 0.0026	8 0.0012	0

Based on the regression model and correlation presentation, all the hypothesis have been accepted and concluded that budget preparation have positive relationship with the budget implementation.

CHAPTER FIVE: DISCUSSION, RECOMMENDATIONS AND CONCLUSION

This chapter presents the summary of the findings, recommendation and conclusion based on the findings. The main objective of the study was to find the relationship between the budget preparation and implementation due to the issue of underutilized budget in the government agencies in the Royal Government of Bhutan.

5.1 Discussion

The study's main objective was to find the relationship between the budget preparation and implementation in the government agencies in Bhutan. The study found that there is positive relation between the budget preparation and implementation. The regression analysis confirmed that the budget ceiling, budgetary rules and procedures, planning & coordination, stakeholders' participation and adequate resources have impact on the budget implementation in the government agencies of Bhutan. World Bank and OECD have also highlighted the importance of sound budget preparation for the effective budget implementation. As such, for the effective budget implementation, it is important to have a well prepared budget in the first stage.

The importance of the budgeting and budget preparation has been recognized by the Ministry of Finance of Bhutan. The efforts have been made continuously to improve the budgeting process. The study found out that overall the budget preparation is effective in those 30 government agencies. The response of the finance officers of those government agencies on the 5 point Likert scale scored average mean of 4.2.

The first step of the budgetary process is to actually generate a budget. As such the budget should be planned and prepared carefully. A proper planning and coordination will help generate a realistic budget. It would be unrealistic to plan projects when there is no fund or manpower to carry out the project. The annual budget is the government's most important policy instrument and as such during budget preparation, the agencies preparing budget must be cautious and ensure that the budget fits government policies and priorities. The coordination among the government agencies and within the agencies is very crucial to check if the activities are not overlapping. This will facilitate a smooth implementation of priority programs and avoid disrupting program management during budget execution.

Different actors are involved in budget preparation and the quality of the budget depends largely on the mode of coordination that is established among these different actors. According to the World Bank, Line ministries are responsible and accountable for defining and implementing government policies in their sector. Therefore, they should be responsible for developing sectoral policies and their sectoral budgets as well, but within the framework established by the government. Moreover, they (and not the center or the Ministry of Finance) should have the technical capacities and information needed for trade-offs among ongoing programs and appraise new programs. In turn, line ministries are responsible for formulating guidelines for their subordinate agencies and scrutinizing their draft budgets. Subordinate agencies should prepare their budgets within the guidelines provided by their immediate direct authority. Often, powerful agencies prefer to deal directly with the Ministry of Finance; this hampers the definition of consistent sector policies.

According to the OECD and World Bank the top down and bottom up approach for the budget preparation is very crucial to have sound budgeting process. This determines how policy priorities and fiscal targets will be taken into account during the budget preparation cycle (Tommasi, 2001).

The budget manual 2016 also requires the proposed programs and policies be in consistent with the five year plan. It is the responsibility of the budgetary agencies to ensure that the budget proposals are prepared in accordance with the budget call guidelines and the ceiling provided to them by the Ministry of Finance. The 94% of agreement by the respondent indicates that agencies are followings the budget call notification in preparing their agency's budget.

According to World Bank, giving hard constraints to the line ministries from the beginning of budget preparation will institute the shift from need mentality to availability mentality. As such it becomes important for the Ministry of Finance to provide the budget ceiling to the line ministries.

However, from the open ended questionnaire, it appears the budgeting ceilings are rather seen as an obstacle to the realistic budget preparation since the budget proposals always exceeds the budget ceiling provided. How and why the budget ceilings are provided to the budgetary agencies seems less understood by the budgetary agencies. As reported by many agencies in the open ended question, the budget ceiling provided is not realistic and it is being decided by few stakeholder. As such, the issues of budget ceiling needs to be discussed and sensitized with the budgetary agencies for effective budget preparation.

The study found that the budget implementation is dependent on the budget preparation. The effective budget preparation will enhance the budget

implementation. However, through this study and the survey, it found that the implementation of the budget in the government agencies of the Royal Government of Bhutan cannot be attributed to only budget preparation. There are other factors which affect the budget implementation. The delay in receipt of the donor fund, realistic budget, insufficient funds allocated to the departments affect budget implementation, limited time available for the budget preparation, lack of information of which activities are getting approved and making the implementation activity only after the approval of the budget by the parliament in the month of June, delays the budget implementation.

5.2 Recommendations

The study found that there is correlation between the budget preparation and budget implementation. The implementation of the budget would be successful if the budget is prepared effectively and realistic budget is produced. Overall from the responses of the finance officers in the government agencies of the Royal Government of Bhutan, the preparation of the budget is effective. Never the less there is room for improvement since the preparation of realistic budget scored the least among the other variables of the effective budget preparation. Most of the respondents in the open ended question mentioned about the lack of training and knowledge to prepare and implement budget effectively. As such there is need for proper training to the finance officer. This would lead to the realistic budget preparation as well and that would reduce the budget underutilized.

The study also found that there were other factors which affect the budget utilization like the poor monitoring. Timely and proper monitoring of the budget implementation progress will help management identify the lapses and

make decisions at the earliest. As such there is need for improvement in the control and monitoring system.

The impact of the donor fund receipt on the implementation of budget scored less mean. Although Ministry of Finance has recognized the issue and has initiated the reforms by informing through budget call notification to the government agencies to process budget appropriation only after the receipt of the fund, the problem still seems to be still an issue which contributes to the underutilization of the budget. As such there is need for proper coordination between the concerned agencies. The DNB should only approve the budget appropriation of the activities fund by donors after the receipt of the fund from the donors.

The government should look at the budget call notification period and if possible sent budget call notification earlier than January so that agencies get adequate time to collect the information to prepare good budget estimates. Currently, some of the agencies are making the assumptions and proposing the budget which becomes difficult during implementation.

The government should also explore the option of block grants to the local government so that they have the flexibility and authority to spend wherever necessary.

5.3 Conclusion

The study is the result of the unused budget at end of the fiscal year by the government agencies of the Royal Government of Bhutan. The study was aimed to find the impact of the budget preparation on the budget implementation. The elements of the budget preparation which is deemed necessary for the sound

budget preparation by World Bank and OECD like budget ceiling, budgetary rules, stakeholders' participation, planning & coordination and having adequate resources both in financial and human capital were used to study the budget preparation process and find the individual element's impact on the budget implementation in the government agencies.

The regression results supported the fact that the sound budget preparation is essential for the effective budget implementation.

The budgeting process have gone through many reforms in Bhutan as per the World Bank PFM report. One of the reform was the inclusion of the submission of the documents like social clearance, estimates and drawings, environmental clearance etc. along with the budget proposals. This initiative try to reduce the gap between the budget allocation and the actual expenditure. However, for some agencies the time allotted for the budget preparation and collection of those documents were not sufficient and as such the estimates were not very accurate.

The data analysis showed that 28.34 % of the variance in the budget implementation was explained by the budget preparation. As such, it can be concluded that the sound budget preparation is not the only factor which affects the effective budget implementation in the government agencies of Bhutan. There are other factors which affects the budget implementation and as such the future researchers can undertake the similar study but with more variables to determine the variability in budget implementation.

5.4 Limitation of the study

The study was carried out in the 30 government agencies in Bhutan and the respondents were the finance officers working in those 30 agencies. Although

the questionnaire were distributed to all the finance officer working in those agencies, the total number of finance officers were only 55 and the response were received from only 49 finance officer. As such, the sample size might look relatively small. Never the less, the sample size was diverse with inclusion of all the large government agencies and years of experience of the finance officers.

The study of the budgeting process demands more in-depth study like direct and indirect observations, key interviews and focus group study. But the study has been more focused on the quantitative data and information. However, the information collected are more reliable since it has been collected from the focal persons responsible for the budgeting process.

예산 편성이 부탄 왕립 정부 부처의 예산집행에 미치는 영향

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회계연도 말까지 부탄 왕립 정부의 정부기관들이 충분히 활용하지 못한 예산은 공공 관리 분야, 국가 내외의 모든 이해당사자들에게 우려의 원인이 되어 왔다. 이를 바탕으로, 본 연구에서는 예산 편성이 예산 집행에 미치는 영향을 파악하고, 비효율적인 예산 편성이 회계 연도 말에 활용되지 않은 예산의 원인인지 아닌지 알아내고자 하였다. 이 연구는 부탄 왕립정부 산하 10 개 중앙부처와 20 개 지방정부에서 실시되었다. 의도적 표본 추출 방법을 사용했으며 응답자들은 30 개 정부 기관에서 근무하는 재정 공무원이었다. 데이터는 SAS 를 사용하여 분석되었으며, 그 결과 효과적인 예산 편성이 예산 집행을 강화한다는 것이 밝혀졌다.

조사 결과에 따르면, 예산 편성 과정은 전반적으로 정부 부처에 효과적이다. 그러나 예산 편성이 예산집행에 영향을 미치는 유일한 요소는 아니다. 따라서 본 연구는 예산 활용의 원인을 더 알아보고 확대하기 위한 다른 예산 프로세스를 취한 추가 연구를 실시할 것을 권장했다. 그 조사 결과에 따르면, 재무 담당자들은 예산 편성 및 현실적 예산의 준비와 관련하여 훈련되어야 하고, 그들의 기술과 지식을 향상시킬 것을 권고하였다. 정부 부처의 예산 활용률이 낮은 것은 기부자의 기금을 실제로

수령하지 않은 상태에서 기부자 자금 지원 활동을 통합하는 데 기인하였다.
따라서 기부자 기금 활동의 통합은 국가 예산 부서에서 검토할 필요가 있다.

주제어: 예산 편성, 집행, 예산 저활용도, 정부 기관

학번: 2017-226860

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Annexure

Survey Questionnaire

SECTION (A) Please enter an x in the appropriate box for each statement using the following scale:

1 – Strongly Disagree/Dissatisfied

2 – Disagree/dissatisfied

3 – Neutral

4 – Agree/Satisfied

5 – Strongly Agree/Satisfied

N/A – Not applicable

Feel free to add comments after each section to assist further.

A. Budget Preparation process	5	4	3	3	1
1. The budget of the agency is prepared within the ceiling provided by the Ministry of Finance (MoF).					
2. Budget call notifications contain adequate guidelines and budget is prepared according to the guidelines.					
3. Enough budget discussions are done among the sectors to prioritize the agencies' activities before the draft budget is submitted to MoF.					
4. The budget is prepared in consultation with all the departments and sectors of your agency.					
5. The budget is prepared after considering the manpower and fund necessary for the implementation of the activity.					
B. Budget Implementation	5	4	3	2	1
1. There are sufficient financial rules to guide the agency in budget implementation					

2. Budget activities that are funded with external sources are easier to budget and implement.					
3. The agency prepares the budget implementation plan after the budget has been approved by the parliament					
4. The implementation plan can be revised based on the agency's priority plans					
C. Alternatives					
1. What are the challenges of the current budgeting process?					

SECTION B:

Please choose the appropriate answer (s)

Male

Female

2. Which age group do you belong?

18 - 29

30 – 39

40 – 49

50 – 59

2. Name of your organization?

.....

4. What is your Job Position?

.....

5. How long have you been working for your current organization?

Less than 3 years

3- 5 years

5-7 year

7-10 years

More than 10 years