

USING M&E TO LINK BUDGETS AND PLANNING IN NATIONAL GOVERNMENTS



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Discussion Paper: Using M&E to Link Budgets and Planning in National Governments

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I. Introduction:

As governments increasingly face a demand in accountability, there has been a growing focus in using evidence to inform plans and link them better with budgets. With significant public financial management reforms across emerging markets and developing countries in the last two decades, there are a range of budgeting tools, systems and processes that governments have adopted to align policy goals to planning needs. However, there are still specific challenges in the extent to which future national plans and budgeting decisions are grounded in evidence on specified criteria, including cost effectiveness of the previous national plans and budgets.

There are some common barriers that have been identified across the budgeting and planning process of African countries. National plans can be oftentimes unrealistic, unaffordable or under-estimate the full range of capabilities required for implementation. In addition, budgets may not reflect national plans, react to changing policy priorities and emerging evidence from monitoring and evaluation (M&E) systems. There is seldom a connection or usage of past year's program performance to inform the future budgeting process, which may be due to mis-aligned timelines of evidence generation, national planning and national budgeting. This literature review is a starting point to understand how some of these challenges could be addressed with new and existing tools in the Global South and highlight factors that can affect their implementation.

It is part of a series of scoping activities expected to lead to the development of a multi-faceted program of work that supports the improved linkage of the planning, budgeting and M&E systems in the six Twende Mbele countries (Benin, South Africa, Niger, Kenya, Uganda and Ghana), and improve capacity of government officials to understand, use and present evidence; and improve leadership for evidence use across various levels of government.

II. The Budget process and M&E:

Monitoring and evaluation processes help inform policy decision making in different spheres of government, including budget formulation. Even though M&E is predominantly used to track and evaluate various government programs and policies, it can play a critical role in improving the cost effectiveness of the program budgets¹.

The current guidance from OECD and PEFA (Public Expenditure and Financial Accountability Framework) says that national budgets should be linked to national development plans and medium-term strategic priorities that go beyond the traditional annual cycle and recognizes the alignment of budgets with strategic planning to identify the resources required to achieve planned outputs and outcomes. Challenges often exist despite using various budgeting tools because of a lack of technical capacity, weak

¹ (M&E Systems and the Budget.2010)

data management systems (and inadequate performance data), and an overall lack of understanding of why M&E is important in budgeting.

Therefore, even if there are different tools that allow for the linkage between national plans and budgets, their implementation can vary depending on country strategies on Public Financial Management (PFM) reform. This review looks at specific strategies that can either enhance the usage of existing tools in the system like Medium-Term Budgeting, Public Expenditure Reviews or incorporate new tools like the World Bank's readiness assessment for M&E implementation. Medium term budgeting as a PFM reform, creates an effective link between annual budgets and national priorities, while performance-based budgeting is another tool that can enable the implementation of the medium-term budgeting.² (OECD)

The budget process involves various actors and stakeholders, some of which are common across different countries. A standard budget process involves the Ministry of Finance as the key stakeholder, which coordinates with the rest of the government to formulate the annual budget.

M&E can interact with all stages of the budget process and inform decision making both from the formulation to execution of the budget. Broadly, there are three ways in which monitoring and evaluation is integrated in the budget process through various degrees of performance-based budgeting³–

- 1) Presentational performance budgeting involves the provision of performance information in parallel with the annual budget, e.g., sector ministries can publish M&E data or attach performance reports on programs at the end of the budget year. These reports could be used by the legislature for budget negotiations but there is no requirement to do so without a formal process and is used as a transparency exercise or as background information for policy makers.
- 2) Performance-informed budgeting presents performance information in a systematic manner alongside the financial allocations, with the objective of facilitating policy makers in taking account of this information, to the extent that they may deem appropriate, when deciding upon with the budget allocations.
- 3) The most rigid form of performance based budgeting (PBB) is Direct Performance Budgeting where performance information is linked to previously stated objectives and will have direct consequences for the budget allocations. However, when funding is tied to specific performance targets, there is limited scope for evaluations and the system tends to be rigid to changing priorities or contexts.

Based on evidence from the IMF, for even the most basic version of PBB to be functional, there are some key pre-requisites or factors of success --

- 1) Availability of information about the objectives and results of the government expenditure in the form of key performance indicators and program evaluation.
- 2) A budget process that is designed to facilitate the use of this information in budget spending decisions, including simple expenditure reviews and processes. This is further aided by program-based classification of expenditure.

² (Anderson, 2008)

³ (Anderson, 2008)

- 3) Spending agencies are required to explicitly define the outcomes that its services aim to deliver to the public and provide the Ministry of Finance and decision-makers during the budget preparation process the key performance indicators of its services.

The following schematic shows the specific ways in which M&E interacts with the Budget Cycle:

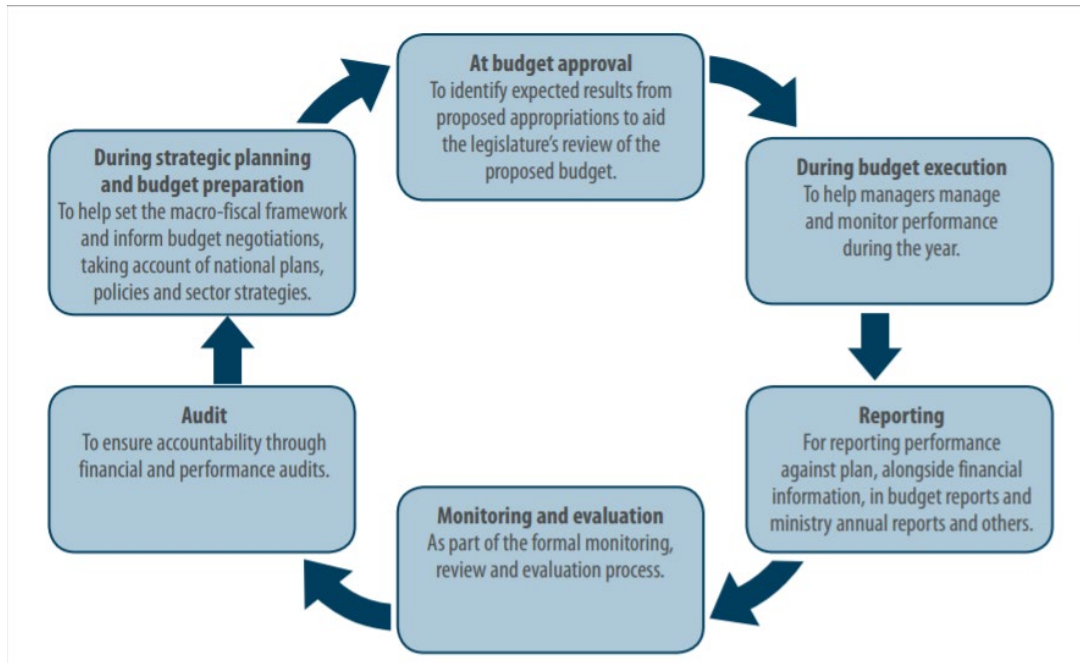


Figure 1: M&E and the budget cycle⁴

Next we discuss the challenges and strategies in integrating performance information in the budget process, where M&E is a tool to achieve that integration.

III. Existing common challenges in incorporating M&E into budget processes:

There are various challenges when it comes to incorporating M&E in the budget process. Most countries incorporate performance information in their budgets, which can be helpful if it is used by the right actors in the budget process. The literature review and research by Twende Mbele shows that even though M&E systems have been adopted in many countries in sub-Saharan Africa, there remains a vast degree of underutilization of the data and information from M&E activities, which calls for a greater alignment and prioritization in budget execution and formulation.

A self-evaluation from east African countries and diagnostics from Pacific Island Countries showed the key issues were,

- There are critical missing links between budgets and national/sector priorities, where budgets do not usually reflect the latter, within a resource constrained macro-economic framework.
- Budget management controls are not adequate which can ensure that expenditures, both capital and recurrent are in line with approved allocations. This impedes the analysis of spending on programs against program performance, to feed back into the policy planning cycle.

⁴ (Results, Performance and Trust in Government 2010)

- Lack of a country-appropriate medium-term expenditure frameworks (MTEF) that incorporates long term policy goals in the budget.
- Challenges with off-budget support projects that are not reviewed, costed and monitored explicitly and not captured in line ministry proposals and national budget documents.
- Most budget documents have limited or no reference to planned priorities, without narratives to explain use of current (and future direction) of estimated revenue and expenditure.
- Weak institutional links between the national/sector planning functions and budget functions within government can further exacerbate the lack of coordination between planning and budgeting, due to the common practice of separating planning and budgeting departments/ministries/staff resources.
- The Cabinet may devote inadequate time to discussing budget realities and deciding development priorities holistically and might focus mostly on budget allocations based on requests raised by the specific line ministry. Moreover, Cabinet procedures may not be systematic in approving policy changes throughout the year without appropriate fiscal reviews or medium-term prioritization
- There can be a lack of alignment between monitoring of performance indicators for national/sector plans and the measurement of service delivery, and budget monitoring and expenditure management. Budget reporting is limited to monitoring expenditure against allocations and led by finance ministries and focuses on aggregate expenditure, expenditure against the budget allocation by agency and type (e.g., salaries, wages). Whereas national/sector plan reporting is led by planning agencies and sector ministries, focusing on broad development outcomes without drawing any strong links between these outcomes and government spending. Therefore, it becomes difficult to ascertain the effectiveness of actual expenditure on specific policy and planned priorities within individual sectors.
- There may be a lack of common understanding of the benefits of M&E among various levels in government which creates resistance to the introduction of these reforms
- The reforms enacted to introduce M&E are not entirely reconciled with the laws, regulations and procedures in place to completely reap the benefits of the reforms.
- There is often more focus on reform technicalities like developing reporting templates and performance indicators without establishing how this information would be used to improve decision making in prioritization and allocation of resources
- Ministries and agencies may lack the adequate skills and capacity to analyze this performance information and integrate it with financial information through the Integrated Financial Management Information Systems (IFMIS)

IV. Strategies and tools to better integrate M&E with the budget process

Given these challenges, it is evident that there needs to be a more robust link between national planning and budgeting at different stages of the budget process. Based on the experience of the assessment of Pacific Island countries, as well as countries in sub-Saharan Africa like Ghana, there are specific strategies and tools that can be incorporated to improve the usage and consumption of M&E in the budget and planning process:

1. Linking the national planning and budget process⁵:

Integrating national planning and budgets is not a straightforward process, however, the following lessons emerge as potential strategies, which include using already existing tools, to initiate the linkages:

- Creating ownership of the national development agenda which goes beyond the Ministry of Finance to various sector ministries and departments, as well as the private sector and civil society organizations.
- Strengthening institutional linkages between planning and budgeting – through strong political leadership and specifically through a clear coordinating mandate with a unit in the Ministry of Finance or a separate entity, which works with the teams of both the planning agency and the Ministry of Finance.
- Creating sector groups within the Ministry of Finance (education, health etc.) to generate ownership and resourcing and reorganizing central agency (Ministry of Finance) with combined responsibilities on budget analysis, planning and resource mobilization, and primarily coordinate with their counterparts in the line ministries
- Requiring budget documents to have narratives on direction of current and future expenditure estimates, including data on implementation of projects/policies approved in the past, and new approved projects or policies
- Requiring ministry of Finance to conduct “Budget Impact reviews” of all policy/project proposals (included those externally funded) to have reviews of impact before consideration by Cabinet for decision
- Introducing a strategic phase in the budget cycle_early in the budget cycle to incorporate preliminary consideration of the government’s broad expenditure priorities. Introducing a strategic phase and a medium-term perspective into the budget process can foster a greater appreciation of priorities and assists in building stronger links between planning and budgeting. It specifically reviews national and sector plan priorities and new policy initiatives. These can then be framed within the overall budget context. A strategic phase in the budget process also assists in facilitating the prioritization of competing policy initiatives and helps to reconcile costs to available resources. It also enables more detailed scrutiny of budget proposals by sector ministries, the ministry of finance, and political decision makers. (UN 2018) (IMF 2009)
- Developing an MTEF that is suited to the capacity levels in the government, can help achieve greater coordination and integration of planning and budgeting system. A full MTEF process may not be feasible in low-capacity environments, but a phased approach can be implemented.
- This can be followed by a simple public expenditure review process which should have specific reporting requirements for program expenditures for the past year accompanied by basic performance information on programs.

2. Implementing a readiness assessment for M&E⁶:

Readiness Assessments can help countries diagnose their M&E capacity and systems to understand what incentives are in place, and what demand exists for such information. Evidence from various developed and developing countries shows that incentives and demand for information on results is the most

⁵ (*Challenges of Developing MTEFs and PBB in East Africa* .2016)

⁶ (Zall et al., 2011)

important determinant of the degree to which these systems add value in linking program performance with resource allocation. The M&E readiness assessment can provide key insights into understanding where the gaps in demand exist, which can help address the challenge of better utilization of M&E .

A readiness assessment is a diagnostic tool – a questionnaire – to understand the following

- i) What can be measured and monitored?
- ii) What is currently being measured and monitored – both within national development plans and budget performance
- iii) Who are the stakeholders involved in the various aspects of reporting?
- iv) Who consumes the reported information and where is it being delivered?

On the demand side, a readiness assessment can help identify the status of demand for monitoring and performance information from a breadth of stakeholders and identify ways to harmonize incentives and stakeholder engagement to improve accountability, transparency and learning.

On the supply side, a readiness assessment can identify strengths and gaps in country capacity develop and use M&E tools over the long run, alongside other budgetary tools that M&E will compliment, like medium term budgeting.

For example, in Egypt, the readiness assessment provided crucial information about potential entry points for designing an M&E system by identifying existing strong champions in government to support the process. Moreover, in Egypt the Minister of Finance supported the move to performance-based management and provided the necessary political leadership to form key performance partnerships with ministerial counterparts across the government. Therefore, there was significant buy in from the government before an elaborate M&E system was implemented.

3. Strengthening indicator reporting links between Budgets and National plans

Creating adequate performance indicators without over burdening the system is key for the success of operationalizing the use of M&E.

- Since the budgets focus on expenditure outcomes while plans focus on development outcomes, it is important to create an effective link between the two by identifying a set of common and comparable indicators for both plans and budgets. The commonality of indicators would allow the M&E framework to track both plan and budget performance in an integrated manner and against each other to measure cost-effectiveness of programs.
- One of the tools that can incorporate common indicators and used for the purpose of integrating plans and budgets through M&E is the **Public Expenditure Review (PER)**. A PER can help the government assess whether the budget allocations reflect policy priorities of the government and whether the desired outcomes are being achieved.
- There should be a narrative in the budget documents that draws a link between the trends of performance indicators and budget allocation. They can also include expenditure estimates for the current budget year and for medium-term budgeting, with reference to medium-term plans and priorities.
- Producing performance indicators is not enough and monitoring needs to be combined with program evaluations, where possible. Impact evaluations are the most rigorous and scientific form of producing

evidence of program performance that directly establish a causal linkage between the intervention and the impact on beneficiaries. However, impact evaluations can be expensive, lengthy and cannot be conducted on a regular basis to actively identify program success within a budget cycle. Therefore, there is a need for more rapid, frequent but comprehensive evaluations. Rapid evaluations can be carried out in the same budget year and inform budgetary processes as well. For example, Chile conducted almost 250 rapid evaluations between 1997 and 2010 – and the evaluation schedule is determined by the Ministry of Finance and Congress. The evaluations are conducted by the expert consultants and monitored by the Chilean Budget office and used during Chilean budget negotiations. Even though desk-based evaluations are not rigorous, they can provide significant insights into operational issues relevant to budgetary considerations. (M&E links)

4. Reliable and consistent information and financial management systems:

For establishing common indicators and tracking performance of plans and budget simultaneously, it is important to have a system of reconciling the performance of programs with the budgetary allocations made to them over the course of the year. However, a key pre-requisite for that is to have a well-functioning IFMIS and a good cash management system for cash forecasting and managing arrears. It is not necessary that the performance data be linked to the Financial Management Information system (which would be a more advanced system), however, there would need to be a process in place to reconcile the program related financial data to the performance data in the course of a year to ensure that the Ministry of Finance and the line ministries are in agreement on the cash allocated to specific programs and the corresponding activities and outputs generated. This reconciliation between the IFMIS and performance data at a program level would also be critical for the spending review process.

5. M&E skills training for staff across all ministries and agencies

Some of the key challenges with implementing M&E systems is that the staff responsible for implementing and executing these processes may not either completely understand the purpose of doing M&E or may not see an advantage to it, which is from a missing “M&E mindset”. To enable a consistent understanding of the importance of incorporating performance information in the budget cycle, there needs to be significant investment in providing M&E training to all staff, irrespective of whether they are directly involved in M&E processes or not. This would help develop consensus on the importance of assessing performance across the board and make it easier to create a buy in on implementing these processes in government.

6. Synchronizing the national plan and budgeting cycles⁷

If the cycles of reviewing national plans and budgeting are more coordinated, it can enable joint reporting and integration of performance and expenditure information in the budget, as discussed earlier. The following schematic describes an example of how this can occur in an annual budgeting cycle.

- 1) National development plans are prepared in advance of the budget cycle, with explicitly defined policy goals that can feed into the budget formulation process
- 2) The National plan can then help determine

⁷ (UNESCAP, 2018)

- a. the MTEF which is clearly linked to sector plans, with each sector having an idea of their medium-term resource ceilings
 - b. specific sector ministry plans with outcomes
- 3) The above two components will then be reviewed in the Strategic Phase of the annual budget, where the national development plans are linked to planned expenditures and available resources
- 4) The Strategic Phase should result in an agreement of the final policy priorities to be achieved in the given budget cycle and associated common performance indicators for performance and expenditure
- 5) The budget formulation and implementation phase will follow the strategic phase, with performance monitoring through the budget implementation cycle, done by sector ministries and the specific sector teams within the Ministry of Finance, coordinated by a single entity in the planning ministry (as an example)
- 6) At the end of the budget cycle, the public expenditure review will use all the performance information, which will then be fed into the subsequent year's budget cycle.

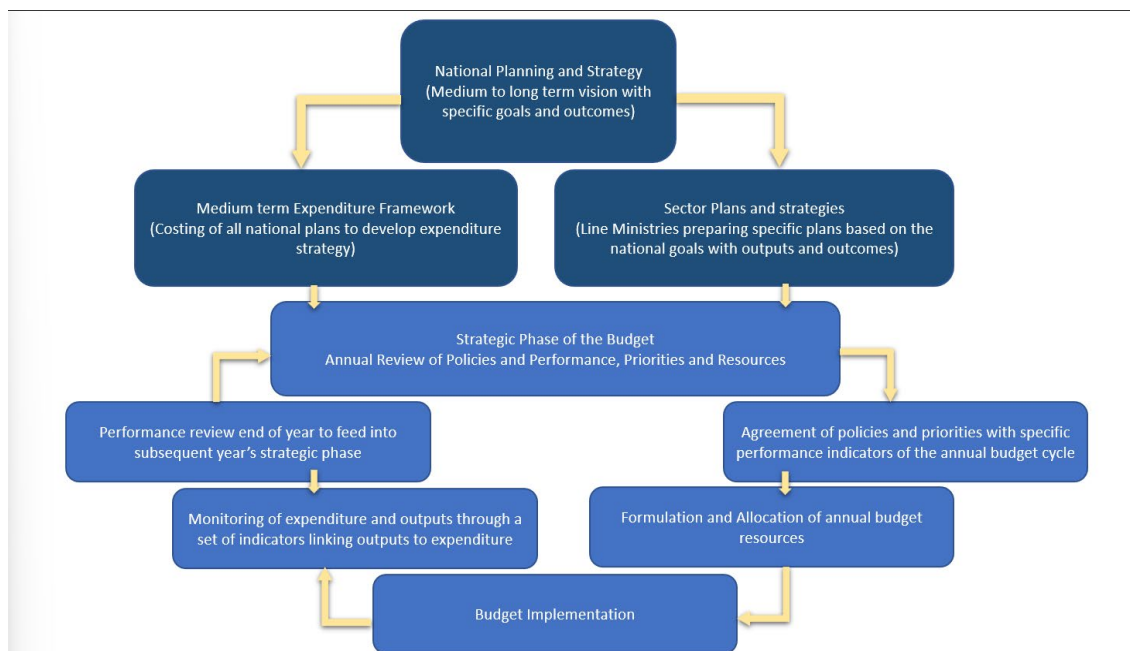


Figure 2: Schematic of integrating M&E with the budget process⁸

Additionally, evidence from IMF shows that there are certain common factors that have contributed to a successful linkage of M&E to budgets:

- 1) Senior government officials in the Ministry of Finance were convinced that the present budgetary toolkit was insufficient to deal with adequate fiscal planning to achieve specific development objectives, which was often catalyzed by periods of fiscal austerity, volatile revenues, or crises of confidence in the government's ability to spend wisely – which often combined to create a sense of urgency for reform.

⁸ Author's illustration

- 2) There were individuals or islands of excellence who were the “champions” ready to sell performance information as a product for the technical and political benefits of different stakeholders – in a centralized ministry like the Ministry of Finance.
- 3) The above two were instrumental in providing an impetus to the ministers and political leaders to adopt an M&E mindset and overcome resistance.
- 4) Delegating M&E to ministries and agencies is an important factor not only for the buy-in of reforms, but also manage the workload of a centralized M&E system (or within a Ministry of Finance). When ministries operate performance indicators and buy into the evaluation results, it forestalls many potential conflicts later in the budget negotiation process with the Ministry of Finance. A stronger stake of ministries increases the likelihood of M&E results being used for managerial purposes within ministries, to benefit operational efficiencies.

The case of Paraguay⁹ shows a successful performance informed framework which was a result of a government’s decision to implement performance-based budgeting to establish a more direct link between public expenditure and resource allocation. Paraguay followed a phased approach where it started using performance information in 2004 but it was only in 2011 that government laid the groundwork for a more comprehensive performance framework. According to the framework, the Ministry of Finance exercises the role of control, monitoring and evaluation of the information submitted by the Agencies and Entities of the State under the performance informed framework.

There are three main tools adopted under this framework –

- 1) Performance indicators. These indicators provide qualitative and quantitative information related to outcomes on goods and service provision. In 2015, there were 166 performance indicators applied against 57 programs, subprograms and projects from the central administration.
- 2) Public Management Annual Reviews (Balances Anuales de Gestión Pública BAGP). The BACPs are annual reviews where ministries and agencies report the progress achieved during the fiscal year, in terms of objectives, goals and results, and set the institutional commitments for the next fiscal year. These documents are presented to Congress and are available on the webpage of each institution.
- 3) Public programme evaluation. This is a form of ex-post evaluation report on the evolution of public programmes, comparing the achieved results with the initial objectives. There have been 26 public programmes/sub-programmes evaluated in the past 5 years.

⁹ (OECD, 2018)

V. Conclusion

This literature review provides a starting point for further discussion on how to improve the integration of the three processes - M&E, national planning, and budgeting. There are several factors and prerequisites that can determine the success integrating the systems which include – cultivating an M&E mindset in institutions, ministerial ownership of the M&E process, integration of data systems that track financial and performance information and streamlining indicators across the three processes. Conducting a readiness assessment before implementing an M&E system would help develop a system that is more suited to the country context. Existing tools like MTEF, PERs can be leveraged to enhance the use of M&E through creating dependencies between the M&E information and these specific outputs. Ultimately, the integration of these systems will depend on significant synchronization between various government agencies, and M&E can be leveraged to be a tool of coordination as well as accountability.

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