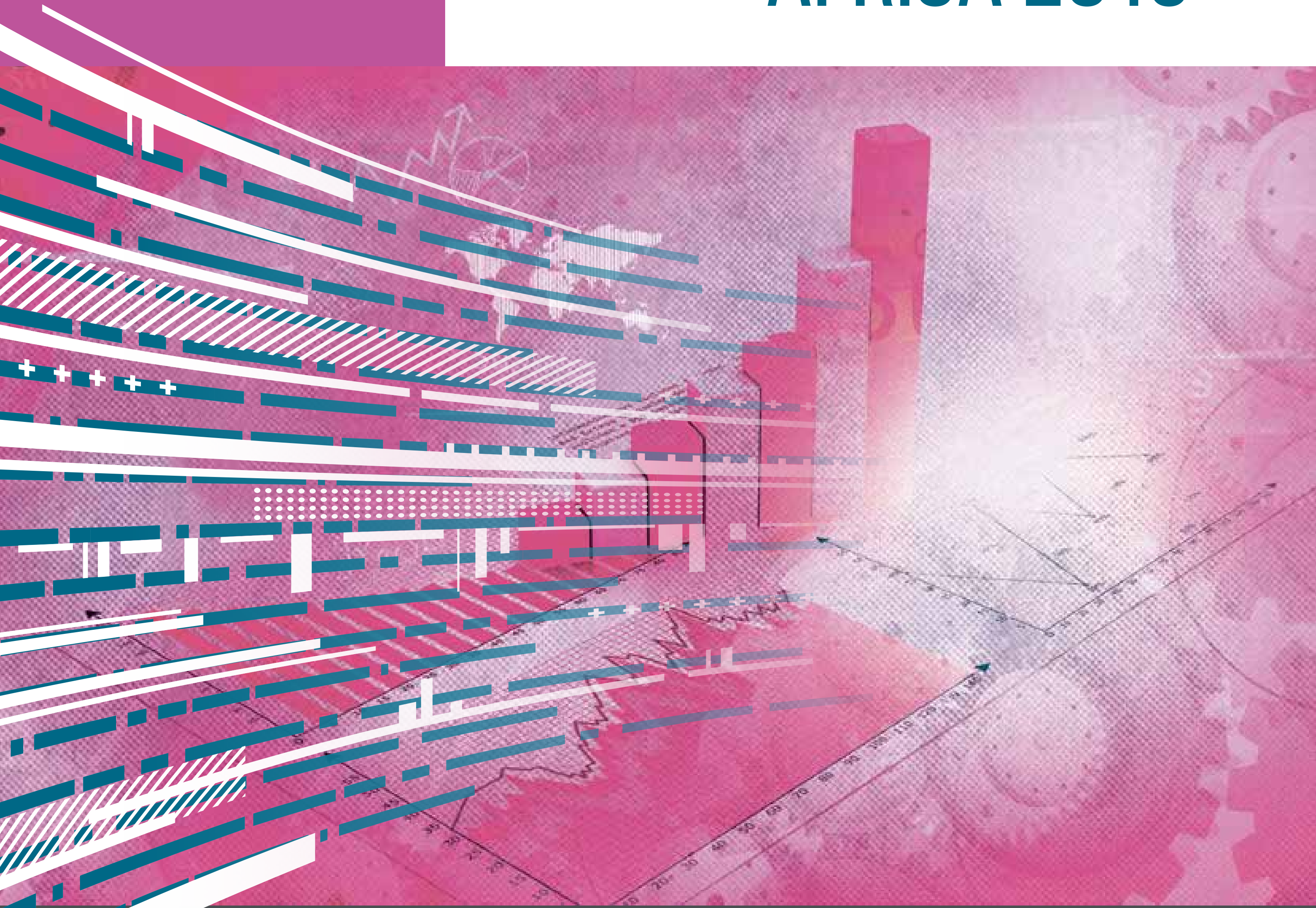
BUDGET PRACTICES AND PROCEDURES IN AFRICA 2015



INSIGHTS INTO EXPENDITURE PRACTICES IN AFRICA

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ACKNOWLEDGEMENTS

CABRI would like to thank the participating countries and development partners for their time and inputs that made these reports possible. Special thanks are due to the senior government officials of Benin, Botswana, Burkina Faso, Burundi, Central African Republic, Comoros, Cote d'Ivoire, Ghana, Guinea, Kenya, Lesotho, Madagascar, Mali, Mauritius, Namibia, Niger, Seychelles, Sierra Leone, South Africa, Zanzibar, The Gambia, Tunisia and Uganda. The research and reports were funded with the kind support of the African Development Bank, UK aid from the British People and the Swiss State Secretariat for Economic Affairs. The findings and conclusions contained within do not necessarily reflect their positions or policies.

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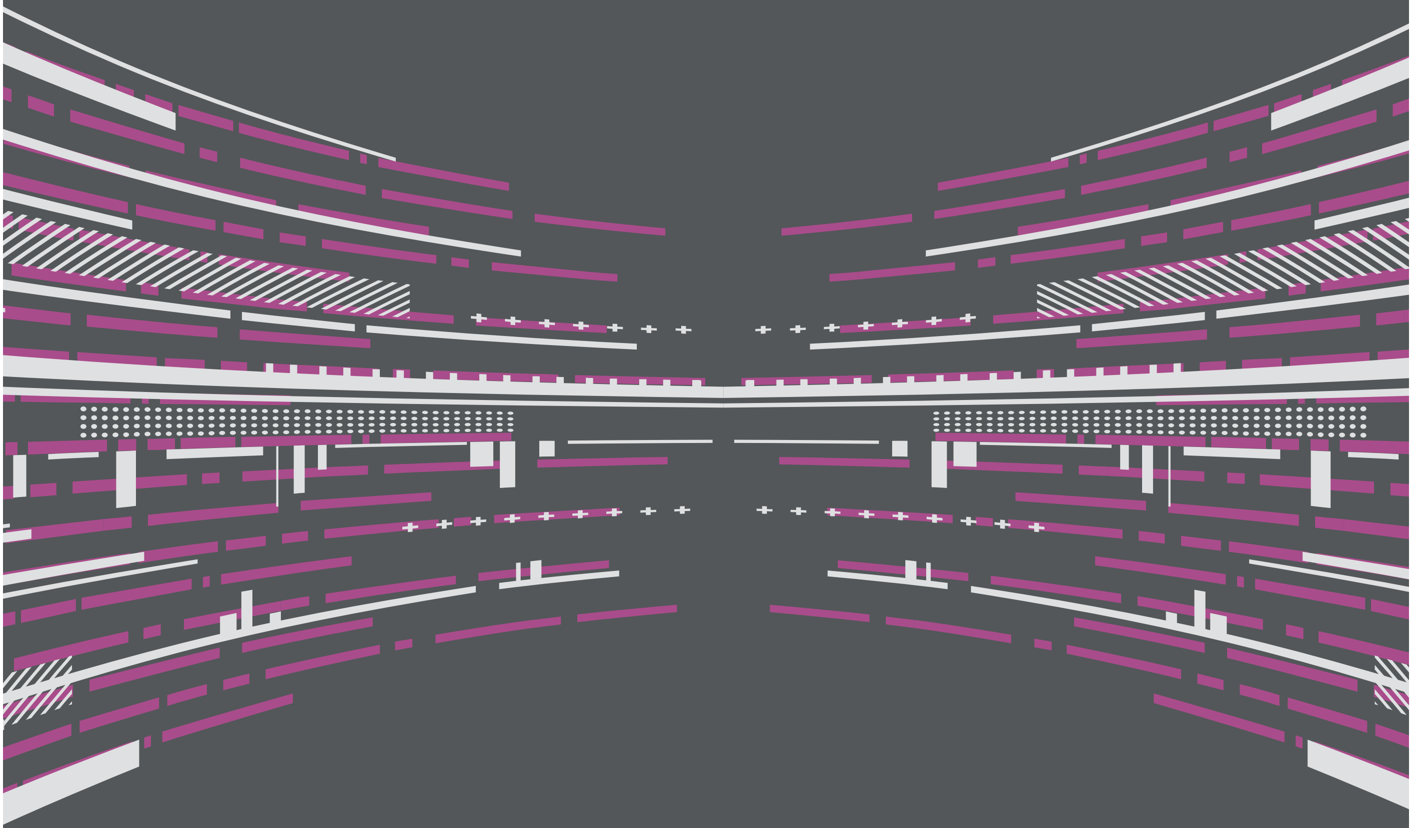

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ABOUT THIS SURVEY

The Collaborative Africa Budget Reform Initiative (CABRI) is an intergovernmental organisation that provides a platform for peer learning for African finance and planning ministries. The availability of comparative information on how budget systems work across the African continent enriches this knowledge exchange.

The Budget Practices and Procedures (BPP) survey provides CABRI with an overall picture of the state of budgeting in Africa. It contributes to CABRI's PFM Knowledge Hub, through which the organisation is building an evidence base on public finance management in Africa.

The first BPP survey took place in 2008, when CABRI partnered with the Organisation for Economic Cooperation and Development to survey 26 African countries. CABRI undertook a second survey in 2015, adapting the 2008 survey to relate it more closely to the African context.

The survey, conducted from January to September 2015, involved 23 participants: Benin, Botswana, Burkina Faso, Burundi, Central African Republic, Comoros, Côte d'Ivoire, Ghana, Guinea, Kenya, Lesotho, Madagascar, Mali, Mauritius, Namibia, Niger, Seychelles, Sierra Leone, South Africa, Tanzania (Zanzibar), The Gambia, Tunisia and Uganda. This group forms 60 percent of the countries that actively participate in CABRI activities.

The survey was completed by senior officials within each country's ministry of finance. On completion, a team of independent reviewers verified the country responses.[1] Comments made by the reviewers were shared with the responding countries before a validation workshop, which was held in July 2015. Countries that did not attend the workshop were able to discuss the reviewers' comments via email. This series of papers reflects data reported and agreed to by the responding countries, unless otherwise noted.

While the sample of 23 countries allows us to compare country practices and identify correlations between indicators of fiscal performance, there is limited scope for using statistical regressions. The correlations highlighted in the reports do not necessarily establish causal relationships between budget practices and fiscal outcomes. More detailed research could shed more light on the relationship between budget practices and procedures, and budget policies and outcomes.

THE SURVEY ANALYSIS IS REPORTED IN SEVEN BRIEFS:

1. The executive budget process: Longer, but better?
2. Understanding fiscal management practices in Africa
3. Insights into expenditure practices in Africa
4. The legislatures' dilemma: Powers without information, information without powers
5. Probing finance ministry powers and size
6. Managing aid in an environment of data scarcity
7. Cross-country analysis on PFM system status and reforms

[1] Mokoro Limited assisted with the administration of the survey, cleaning the data and providing preliminary analysis of the results.

INSIGHTS INTO EXPENDITURE PRACTICES IN AFRICA

The quest for better fiscal control and service delivery has put the modernisation of budget and expenditure management systems at the forefront of public administrative reform across Africa since the 1990s. Governments and their partners have invested much to improve internal control systems, how budget decisions are taken, the quality of information available to decision-makers and the public on the allocation and use of public resources, and the delivery of public services.

Governments have sought to improve their formal budget systems by introducing development and strategic planning; using medium-term expenditure frameworks, programme performance-based budgets, and expenditure reviews; integrating capital and recurrent budgets; reintroducing public investment programmes; and changing the information and rules used in the budget process.

This brief, the third in a series of seven, summarises how responding countries presented the key features of their formal systems in the 2015 CABRI BPP survey. The brief is divided into two sections: budget preparation practices and budget execution practices.

CABRI's analysis of the surveyed countries' expenditure management revealed the following key points:

Budget preparation practices

- The presentation of multi-year perspectives in budgeting is a common practice in African countries. Almost all the responding countries reflected a multi-year perspective at some level in the budget process, with about a third using forward estimates at the line item level.
- Most countries appear to cost anticipated policies and projects to derive the forward estimates, rather than just applying percentage increases to the proposed budget to derive outer year estimates. This contrasts with practices in 2008, when inflation-linked increases were commonly used for forward projections.
- Almost all responding countries now use top-down ceilings in the budget process.
- In contrast to reports 10 and more years ago on medium-term budget practices in Africa, it appears that more countries now roll over and adjust the previous year's forward estimates to set a base for budget preparation in the new year. A few, however, still start afresh.
- Most countries use performance information in one form or another. In general, finance ministries use this information for high-level allocations, while line ministries use it to allocate resources at lower levels, cut expenditure or set performance targets.
- Countries have integrated processes to plan, manage and report on capital and recurrent expenditure. In 2015, a total of 14 countries reported using integrated processes and documents, while nine keep the two types of expenditure separate. Of these nine, a third reported that their budget

formulation and execution processes are integrated. Most countries report that they take the recurrent cost of investments into account in budgeting, as well as in capital investment planning processes.

Expenditure execution practices

- As of 2015, single treasury accounts appear to be common practice in African countries. Almost all responding countries reported consolidating cash balances and that this consolidation is comprehensive. Most often, foreign currency accounts are not included in this single treasury account.

- Countries use various measures to balance the need for flexibility with the need for predictability and certainty in budgeting and expenditure management. Most countries, however, restrict changes to budget appropriations outright or to some degree. The use of supplementary budgets is common. In 2014, the number of supplementary budgets issued by the surveyed countries ranged from zero to three. They are mostly used in response to changing macro-economic circumstances and natural disasters.

- Between 2008 and 2015 there was a significant increase in the use of reserve funds by the countries that responded to both surveys. In the 2015 survey, the most common reason given for having a reserve fund was to cover unforeseen expenditure.

- In-year expenditure controls are still significantly vested with finance ministries, with most countries having some kind of finance ministry expenditure control in place.

BUDGET PREPARATION PRACTICES

MULTI-YEAR TOP-DOWN BUDGETING

Over the last three decades, most countries in the world have introduced some form of multi-year perspective into their budget systems to take into account medium-to long-term implications. Ideally, a medium-term budgeting perspective should be framed by an understanding of what is affordable over the medium term, providing a hard top-down budget constraint in which budget holders are incentivised to create space within their existing budgets for emerging priorities. In practice, however, in developing countries medium-term expenditure planning often starts afresh each year and is disengaged institutionally from the annual budget process in which allocations for the upcoming year are determined. The result is that efforts to forecast medium-term cost and affordability have limited influence on budget decisions.

Furthermore, there is limited technical capacity to estimate baselines – the future cost of current activities and commitments – and assess ways of creating spending space within an overall fiscal constraint. This results in estimates that are little more than an incremental increase on yearly budget allocations. In the absence of effective top-down limits, forward spending ceilings run the risk of being perceived as the minimum allocations or floors for the relevant years. The BPP survey probed country practices in relation to some of these issues.

Medium-term budgeting appears to be a common practice in Africa: The survey asked whether countries used a medium-term perspective when preparing their budgets. Of the 22 countries that responded to the question,[2] 20 indicated that they used a multi-year perspective, some with more detail than others, as shown in Figure 1. The figure denotes the most detailed level of medium-term estimates used. In other words, if a country reported using multi-year estimates at the line item level, it is assumed that it also uses this perspective at the ministry and aggregate level.[3] Only six countries reported that they used a multi-year perspective below ministry level, suggesting that, on average, multi-year perspectives are used more frequently in the central allocative process than in detailed intra-entity expenditure planning. Central African Republic[4] and Comoros reported that they do not use multi-year perspectives at all in their executive budget processes. With one exception, the countries using a multi-year perspective reported that it is for three years including the budget year and that the estimates are updated annually. Uganda reported using a five-year horizon.

In many cases, forward costing is driven by real costs rather than incremental calculations: The survey probed how the participating countries calculate their multi-year estimates. Table 1 reflects countries by the level of estimates that are calculated and the basis for these calculations. No respondent selected the fifth option – that the estimates are based on current budget law (that is, existing legislature-approved services and policies). Eleven countries reported including in the estimates clearly identified anticipated policies and projects,

[2] Mali did not provide answers for questions on whether and how a multi-year perspective is used.
[3] A number of countries' recorded responses have been adjusted to more detailed levels for the purposes of this brief to tally with their answers to the question on what level of multi-annual ceiling is used.
[4] Central African Republic reported that a multi-year framework was used in 2008 but that this has not been repeated due to lack of resources.

but seven of these countries only looked at projects and policies at ministry level. A further four reported also basing future estimates on anticipated policies and projects, but without these being clearly identified. Three countries used inflation projections in their expenditure estimates.

The responses suggest development in medium-term budgeting practices over the last decade. Several reviews of medium-term expenditure framework practices in the 2000s noted weak practices in determining the forward estimates.[7] The progress is also evident against the 2008 survey in terms of the basis for forward estimates, but less evident in terms of the level of forward estimates provided.

The 2008 survey asked fewer and less detailed questions about countries' multi-annual practices, and did not make as clear a distinction as the 2015 survey between using such a perspective in the budget process and reflecting multi-annual estimates in the budget documents as well. Nonetheless, it provides useful information against which to assess progress.

FIGURE 1 **Level of multi-year perspectives**

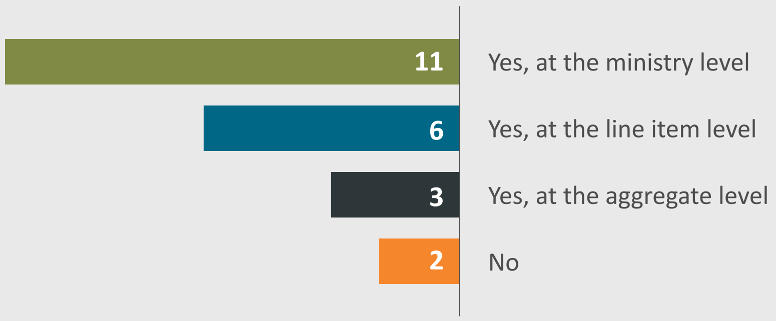


TABLE 1 **Basis for estimating forward expenditure**

	Expenditures in future years are based on anticipated policies and projects that have not yet been clearly identified (4 countries)	Expenditures in future years are based on anticipated policies and projects that have been clearly identified (11 countries)	Expenditures in future years are based on a percentage increase calculated on the basis of inflation projections (3 countries)	Not specified (2 countries)
Aggregate level (3 countries)	Madagascar		Guinea	Zanzibar
Ministry level (11)	Mauritius, The Gambia	Ghana, Kenya, Niger, Seychelles,[5] Sierra Leone, Tunisia, Uganda	Benin	Botswana
Line item level (6)	Burundi	Côte d'Ivoire, Lesotho, Namibia, South Africa[6]	Burkina Faso	

[5] Seychelles is currently rolling out a multi-year perspective. The detail on Seychelles in this section therefore refers to its emerging multi-year practices.
[6] South Africa's response has been edited for the purposes of this analysis to align with the common interpretation for the question. South Africa selected the percentage increase option, but explained that this only applies to preparing estimates for the second outer year (the third year of the medium-term forecast) at the start of the executive budget process. The estimates by the end of the budget process are based on specific policy and spending information for each of the three years.

Thirteen countries answered questions on multi-annual perspectives in both surveys. Of these:

- The four countries that reported not having multi-annual perspectives in their budget documents in 2008 (Botswana, Burkina Faso, Guinea and Tunisia) reported that they now use a multi-year approach.
- Of the remaining nine countries, only two reported working with more detailed levels in the budget process in 2015 compared to what was reported in the budget documents in 2008. Namibia reported providing information at the ministry level in 2008 and using a line item level in 2015, and Benin provided multi-year information against investment expenditure and now provides it at the ministry level.
- Three countries have not changed the level at which medium-term budgeting occurs or is reported. These are Mauritius (ministry level), Ghana (ministry level) and South Africa (line item level).
- Four countries reported using medium-term perspectives at a less detailed level in 2015 than previously: Madagascar (previously at line ministry level), Kenya (previously at line item level), Sierra Leone (previously at line item level), and Uganda (previously at line item level).

In 2008, all nine countries that used a medium-term perspective reported using the macro-economic projections (inflation forecasts) as a basis for updating the multi-year estimates. In sharp contrast, in 2015 all nine reported basing projections on bottom-up policy and project-costing factors. Of the four that introduced a medium-term perspective between 2008 and 2015, two (Burkina Faso and Guinea) reported applying percentage increases derived from a variable such as inflation, one (Tunisia) used the cost of anticipated policies, and the fourth (Botswana) did not specify the basis for its projections. This suggests that countries graduate from a medium-term system based on incremental increases to more effective ways of projecting costs and making forward allocations.

While the survey findings suggest that countries have improved their practices, information is lacking on how comprehensive or accurate the resulting forecasts are in practice. Nonetheless, the improvement reported in the formal practices represents a step towards more meaningful multi-year estimates in responding countries.

Almost all responding countries use multi-year top-down ceilings in the budget process: The survey probed the degree to which multi-year top-down ceilings are used in the budget process. Of the 20 countries reporting the use of a medium-term perspective, 11 used aggregate (higher-level, less detailed) ceilings, of which one used sector ceilings for clusters of ministries or programmes. Twelve countries used ministry or programme ceilings of which two at the line item level. Two countries reported that they did not use multi-year ceilings, even if they took a medium-term perspective in some other way or applied a ceiling just for the budget year. Table 2 illustrates how countries use multi-annual ceilings in different combinations.

Twelve countries answered the survey questions on the use of multi-year ceilings in both 2008 and 2015, with eight having indicated the use of those ceilings in 2008, though the level at which they are used has shifted. A further two have started using multi-year ceilings since 2008 (South Africa and Guinea). Table 3 reflects data only for the countries that specified how they use ceilings in both years. Some countries have shifted to lower-level, more detailed budget ceilings, and others to less detailed ceilings at aggregate levels.

Most countries roll over and adjust the previous year's forward estimates to set a base for budget preparation in the new year. A few still start afresh each year. The survey

[7] See for example CABRI (2007), Holmes and Evans (2003) and Le Houero and Talierco (2002).

TABLE 2 **Use of multi-annual ceilings in budget preparation**

Ceilings that are used	No. of countries	Countries
Aggregate ceilings	5	Botswana, Guinea, Madagascar, South Africa, Zanzibar
Aggregate ceilings, ceilings for clusters of ministries/programmes, ministry/programme ceilings	1	Kenya
Aggregate ceilings, ministry/programme ceilings	5	Benin, Burkina Faso, Lesotho, Niger, Sierra Leone
Ministry/programme ceilings	4	Ghana, Mauritius, The Gambia, Uganda
Ministry/programme ceilings, line item ceilings	2	Burundi, Côte d'Ivoire
Medium-term ceilings are not used	2	Seychelles, Tunisia
Not specified	1	Namibia

looked at the way countries treat the previous year's forward estimates at the start of a new budget preparation cycle. Medium-term expenditure frameworks are an important function of budgeting, providing more certainty to spending ministries to encourage realistic planning and savings. On the other hand, forward estimates that roll over without adjustment may turn too easily into entitlements, introducing new forms of upwardly biased incrementalism into budget practices.

As can be seen in Table 4, practices differ widely across countries. Only South Africa (see Box 1 for more detail) adjusts existing estimates on the basis of both macro-economic and expenditure factors. Seven countries revise the estimates based on either macro-economic factors and available resources or expenditure factors. In total, four countries indicated that the forward estimates are not used at all in the next year's budget cycle, but that the cycle starts afresh.

TABLE 3 **Changes to the use of multi-year ceilings from 2008 to 2015**

Shift in use of multi-year ceilings	No. of countries	Countries
From no ceilings to using ceilings	2	Guinea, South Africa
From ministry ceilings to aggregate	2	Botswana, Madagascar
Ministry-level ceilings in both years	5	Benin, Burkina Faso, Kenya, Mauritius, Sierra Leone
From aggregate to ministry level	2	Ghana, Lesotho
From line item to ministry level	1	Uganda

TABLE 4 **Practices in rolling over the forward estimates**

Practices in rolling over the forward estimates	No. of countries	Countries
Yes, the projection of total expenditure for year (+2) of the medium-term expenditure framework is used for establishing the expenditure ceiling for year (+1) of the new annual budget	**13**	
Adjusted on macro-economic and expenditure factors	1	South Africa
Adjusted on macro-economic factors	4	Benin, Burundi, Ghana, Niger
Adjusted on expenditure factors, such as new policies or programmes, implementation of existing expenditure programmes	3	Kenya, Mauritius, The Gambia
Automatically becomes the ceiling for the new budget	2	Madagascar, Zanzibar
Ceilings revised but basis not specified	3	Lesotho, Namibia, Uganda
No, the projection of total expenditure for year (+2) of the medium-term expenditure framework is not used for establishing the expenditure ceiling for year (+1) of the new annual budget	**4**	**Botswana, Burkina Faso, Sierra Leone, Tunisia**
Did not answer	3	Côte d'Ivoire, Guinea, Seychelles

BOX 1: SELECTED PRACTICES IN ROLLING OVER THE FORWARD ESTIMATES

The survey asked countries to explain if they reported revisions of estimates. This box provides a selection of the more detailed explanations provided.

South Africa: Once-off allocations are removed from the second-year baseline and then growth rates in line with general inflationary projections are applied to budgetary line items to calculate the third-year baseline. The initially determined indicative third-year baseline allocations are, however, only used to provide a basis for discussion. They are modified based on fiscal framework considerations as decisions are taken throughout the process.

The Gambia: The current year's total spending is used, at least for a quarter, to determine or set ceilings in addition to new policy measures for year+1 and year+2.

Mauritius: The ceiling for year 2 is adjusted, taking into account the pace of implementation of capital projects, schemes and policies for which funds were earmarked in year 1; new policies implemented in the course of the year; and the status of vacancies filled.

Many countries have more medium-term information available than what is reflected in the budget documentation. Interestingly, countries do not necessarily publish the multi-year expenditure information used in the budget process in their budget documentation.

Table 5 shows that half the responding countries reflect the same or more detail in budget documentation than what is used internally. Nine countries have more information available on medium-term estimates than what is reflected in documentation, and four of these do not present any medium-term estimates publicly.

TABLE 5 Multi-year perspective in budget document versus budget formulation

From budget formulation to budget document	No. of countries	Countries
Same level in both	8	Botswana, Kenya, Lesotho, Madagascar, Namibia, Seychelles, South Africa, Uganda
More detail in budget documentation	3	Mauritius, Niger, Zanzibar
Less detail in budget documentation	5	Benin, Burundi, Côte d'Ivoire, Ghana, Sierra Leone
In formulation but not in budget documentation	4	Burkina Faso, Guinea, The Gambia, Tunisia
Not in either	2	Central African Republic, Comoros

PLANNING AND PERFORMANCE MANAGEMENT PRACTICES

Using public sector plans and performance information helps to improve the quality of budget decision-making.

National planning processes are commonly used, uniform and linked to the budget process, at least insofar as budget requests must be justified in terms of the plans. This is possibly an outcome of the international donor community's emphasis on public investment planning in the 1980s and on holistic national development/poverty-reduction plans in the 1990s.

All countries except Mauritius reported that they have a national plan in place that uses a multi-year perspective. In all cases, with the exception of Tunisia and Seychelles, the plan includes non-financial performance measures.[8] Countries also generally reported that some basic measures are in place to facilitate a link between plans and the budget process:

- All countries cost their plans, except for Kenya, Madagascar, Lesotho and Namibia.
- In all countries the finance ministry requires line ministries to justify their budget proposals in terms of the national plan.
- In 19 countries the finance ministry either takes the lead or is formally involved in formulating the plan. In Namibia, Burundi and Zanzibar, respondents did not specify a role for the finance ministry in this process.

Most countries use performance information in some form. In addition to probing national planning practices, the survey

TABLE 6 Use of performance information in the budget process

	Finance ministries	Line ministries
To allocate resources between ministries/agencies	19	4
To allocate resources between budget programmes within a ministry/agency	10	16
To reallocate resources within particular budget programmes	7	11
To cut expenditures on particular programmes	10	10
To set performance targets for next year	6	15
Did not answer, or answered NA/Sector strategies and performance have no impact on annual budget decision-making	4	4

[8] Niger did not provide a response to this question.

looked at how finance and line ministries use performance information and sector strategies in the budget process. However, it did not explore how effectively this information is used to improve the financing and quality of services.

Of the 23 responding countries, only three did not indicate a use for performance information at either the finance or line ministry level, namely Comoros, the Central African Republic and Guinea.[9] A total of 19 indicated that the finance ministry uses performance information to allocate resources between ministries, departments and agencies (MDAs) and 10 to allocate resources between budget programmes within an agency. Far fewer finance ministries use this information to allocate resources at lower levels, cut expenditures or set performance targets. Mostly it is line ministries that use performance information for these purposes, as shown in Table 6.

Comparison with 2008 data (for the countries that responded in both years) shows an increase in finance ministries' use of performance information for allocating resources at higher levels of the budget. Table 7 also shows that while line ministries may use performance information more often than the finance ministry to allocate resources within budget programmes in 2015, they are doing so less often than they were in 2008. In fact, the use of performance information to allocate resources within budget programmes showed the largest decline between 2008 and 2015.

Over the same period, line ministries increased their use of performance information to allocate resources to agencies and budget programmes, and to set targets. At the level of the finance ministry, countries reported using performance information far more often to allocate resources between programmes and less to cut expenditure or set performance targets.

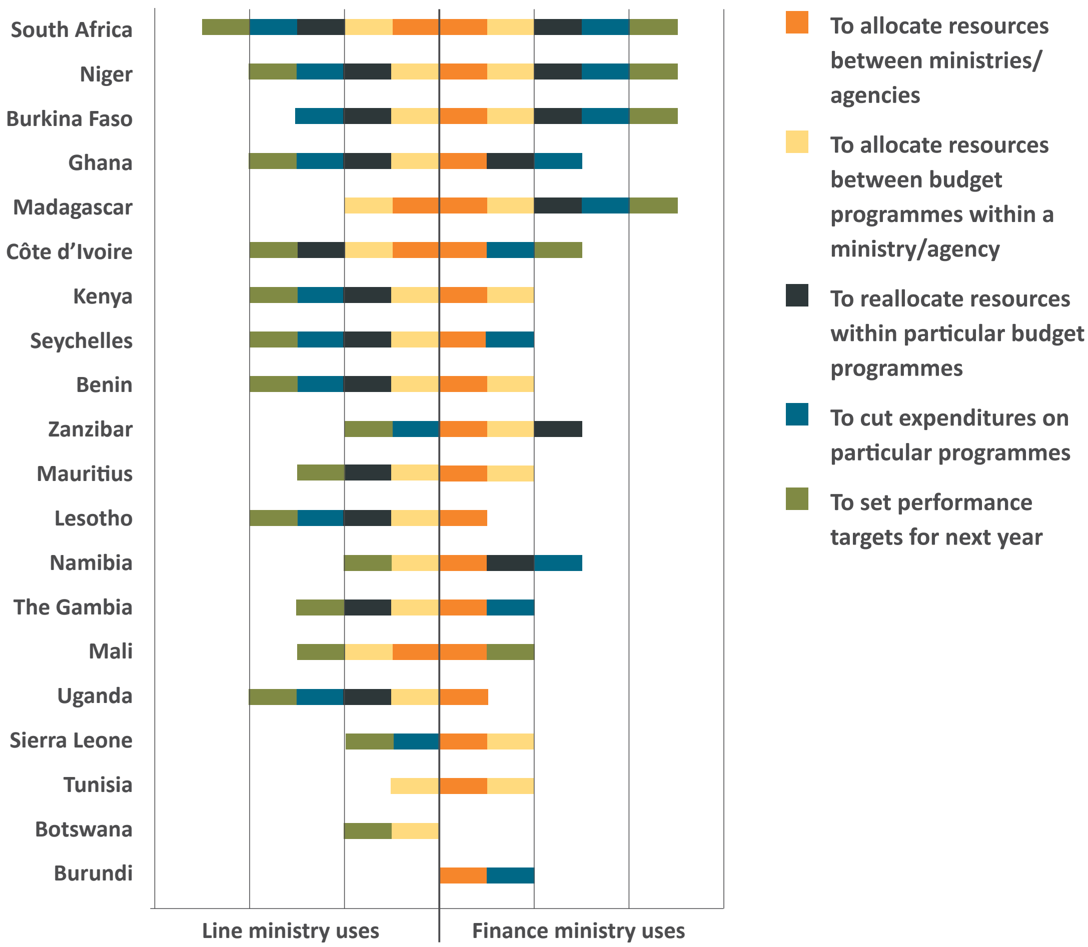
Most often it is at the line ministry level that performance information is used. Figure 2 shows that in 11 countries, line ministries use performance information for more purposes than their finance ministries. Overall, countries are using performance information at line ministry level for four or more purposes. In two countries, information is used for an equal number of purposes. In 2015, South Africa reported using performance information the most, at central and line ministry level, followed by Niger and Burkina Faso.

TABLE 7 Use of performance information in the budget process

	Finance ministries		Line ministries	
	2008	2015	2008	2015
To allocate resources between ministries/agencies	73%	87%	7%	20%
To allocate resources between budget programmes within a ministry/agency	33%	53%	67%	80%
To reallocate resources within particular budget programmes	20%	33%	67%	47%
To cut expenditures	53%	33%	27%	47%
To set performance targets	46%	27%	54%	67%
NA/No impact on decision-making	0%	7%	0%	7%

[9] The Central African Republic did not provide a response on whether or how finance ministries use performance information, and Burundi did not provide a response on how line ministries use performance information.

FIGURE 2 **Finance and line ministry use of performance information by country**



INTEGRATION OF CAPITAL AND RECURRENT BUDGETS

Dual budgeting – the preparation of investment expenditure separately from recurrent expenditure budgets – stems from the desire to prioritise investment or capital expenditure (Schiavo Campo & McFerson, 2014). After the introduction of public investment programmes in the 1980s, budgeting for these two economic purposes became even more separated, with distinct institutions managing separate planning and budgeting processes. However, this separation of capital and recurrent expenditure introduces budgeting problems and hinders coordination.

One of the major shortcomings of dual budgeting is the weak integration of spending that contributes to the same policy objectives. Coordinative issues such as lack of planning for the recurrent cost of capital expenditure or recurrent programmes that come to a standstill due to a lack of capital investment are common. At the same time, it is recognised that the nature and expense of investment projects, as well as the non-recurrent nature of such expenditure, require special treatment in the budget process.

Countries have integrated processes to plan, manage and report on capital and recurrent expenditure. The survey probed whether capital and recurrent budgets are separately prepared, presented, executed and/or reported, or fully integrated. In 2015, a total of 14 countries reported using integrated processes and documents, while nine keep the two types of expenditure separate. Of these nine, three countries (Lesotho, Zanzibar and Uganda) reported that their budget formulation and execution processes are integrated. The only aspect that remains distinct is a separate report that is prepared for the capital investment budget.

A comparison of the 2008 and 2015 data shows that while in total there was not a shift from integrated to separate budgets (or vice versa), countries moved between the categories. While Kenya, Mauritius and Sierra Leone moved from split to integrated budgets, Lesotho, Madagascar and Uganda reported that their budgets were split in some way in 2015, whereas in 2008 they reported integrated formats. In Lesotho and Uganda, however, budgets were largely integrated in 2015 too.

Figure 3 on page 14 shows practices in the countries that reported less than full integration across the budget cycle. Namibia has the most separated process, where the investment budget is formulated separately, managed or overseen by a different agency to the ministry of finance, and presented in a separate budget document. Four countries (Botswana, Madagascar, Tunisia, The Gambia) reported using a separate process to formulate the investment budget, but did not report separation in presentation, execution or reporting.

Most countries reported taking the recurrent cost of capital expenditure into account in budget planning. Of the 22 countries that answered the question, 20 required this information in the budget process. A total of 15 also used this information in their capital investment planning processes. Namibia and Guinea reported not requiring the recurrent cost of capital projects for the budget process or capital investment planning.

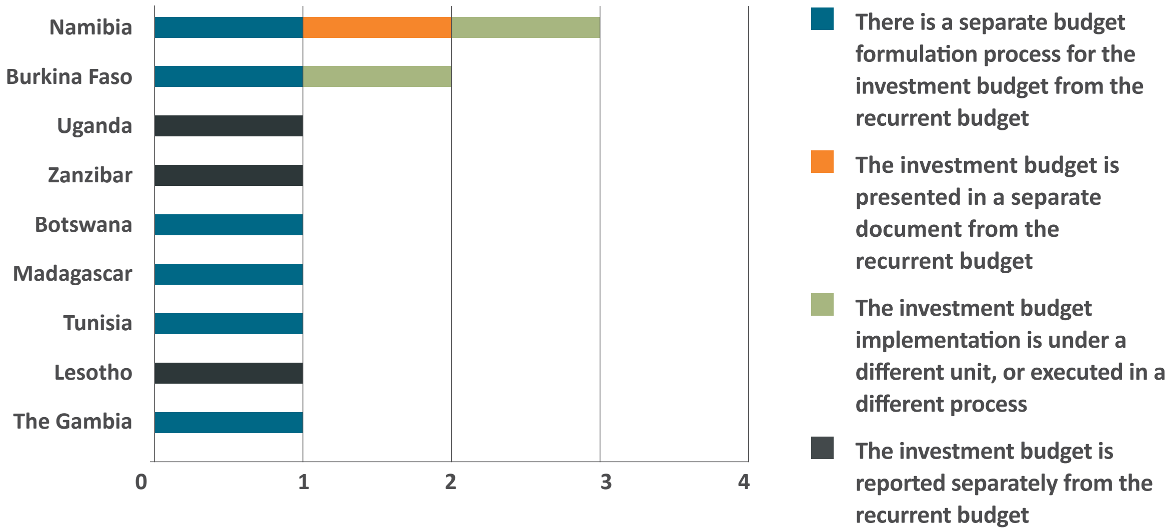
TABLE 8 **Integration of recurrent and capital budgets, all 2015 respondents**

	Split	Integrated
Is management of the budget split into recurrent and capital in formulation, execution or reporting phases?	9 Botswana, Burkina Faso, Lesotho, Madagascar, Namibia, The Gambia, Tunisia, Uganda, Zanzibar	14 Benin, Burundi, Central African Republic, Comoros, Côte d'Ivoire, Ghana, Guinea, Kenya, Mali, Mauritius, Niger, Seychelles, Sierra Leone, South Africa

TABLE 9 **Integration of recurrent and capital budgets, 2008 and 2015 respondents**

	Split	Integrated
2008	7 Botswana, Burkina Faso, Kenya, Mauritius, Namibia, Sierra Leone, Tunisia	8 Benin, Ghana, Guinea, Lesotho, Madagascar, Mali, South Africa, Uganda
2015	7 Botswana, Burkina Faso, Lesotho, Madagascar, Namibia, Tunisia, Uganda	8 Benin, Ghana, Guinea, Kenya, Mali, Mauritius, Sierra Leone, South Africa

FIGURE 3 **Practices to manage capital budgets in countries where processes are not fully integrated**



Most countries appropriate capital and recurrent expenditure incrementally each year. While there is merit in integrating capital and recurrent expenditure, capital expenditure requires separate attention in budgeting and expenditure management, because it often takes place over many years, involves large expenditure commitments at a time, and affects growth and development differently from recurrent expenditure. The survey therefore asked to what degree countries treat investment expenditure differently.

First, it asked how countries treat capital expenditure in budget appropriations. As shown in Table 10, most countries make little distinction between how capital and recurrent expenditure is appropriated, voting incrementally each year. Only four countries vote all capital funding upfront. Interestingly, six countries reported that there is no rule, but that treatment differs on a case-by-case basis. No country indicated that it has followed the Brazil example, where the annual budget makes a contribution to a revolving fund for public investment. Several countries noted that, despite integration, there are additional procedures for investment expenditure outside the budget process, such as extra approval processes or their consolidation in public investment plans.

TABLE 10 **Treatment of investment expenditure**

Option	Number	Countries[10]
The budget requests funding upfront for the entire cost of a multi-year project	4	Côte d'Ivoire, Namibia, Tunisia, Zanzibar
The budget requests funding incrementally each year until the project is completed	11	Burundi, Burkina Faso, Central African Republic, Guinea, Lesotho, Madagascar, Mali, Niger, Sierra Leone, The Gambia, Uganda
The budget establishes funds outside of the budget	0	
There is no general rule, funding is determined on a case-by-case basis	6	Benin, Ghana, Kenya, Mauritius, Seychelles, South Africa

[10] Botswana and Comoros did not respond to this question.

BUDGET EXECUTION PRACTICES

The survey provides data on several aspects of in-year expenditure management, namely the use of single treasury accounts, mechanisms to manage the trade-off between flexibility and predictability in budgeting, and the use of expenditure controls and sanctions.

CASH MANAGEMENT: USE OF SINGLE TREASURY ACCOUNTS

The survey asked whether countries consolidate the cash balances in all government accounts (excluding donor-managed accounts) in a single treasury account. A single account ensures that all cash received is available for making payments and carrying out governments' expenditure programmes, thus minimising borrowing costs. When banking arrangements are fragmented and the finance ministry does not have a consolidated, up-to-date view on available cash, money can lie idle for extended periods in spending agency bank accounts while government continues to borrow to execute its budget.

A fully fledged single treasury account usually has three features: all banking arrangements are unified to allow the finance ministry to oversee government cash flows in and out of bank accounts, no government agency operates a bank account without the treasury's oversight, and the consolidation of cash resources is comprehensive, including budgetary and extra-budgetary cash resources (Pattanayak & Fainboim, 2010).

Most countries have single accounts in place. Of the 22 countries that responded,[11] all except Guinea and Comoros reported that they operate single treasury accounts. In 15 cases these accounts were comprehensive. Five countries reported that they exclude some accounts from the single account. Although the types of account excluded differed from country to country, all five countries excluded foreign currency accounts from their consolidated government accounts.

TABLE 11 **Use of single treasury accounts**

Option	No. of countries	Countries responding
No, the balances of government accounts are not consolidated	2	Comoros, Guinea
No, the balances of only some government accounts are consolidated (types of excluded account are provided in brackets)	5	Burundi (foreign currency accounts), Kenya (extra-budgetary, special treasury accounts and foreign currency accounts), Namibia (extra-budgetary, special treasury, foreign currency and some spending agency private bank accounts), Niger (special treasury and foreign currency accounts), Sierra Leone (extra-budgetary and foreign currency accounts)
Yes, the balances of all government accounts are consolidated	15	Benin, Botswana, Burkina Faso, Central African Republic, Côte d'Ivoire, Ghana, Lesotho,[12] Madagascar, Mali, Mauritius, Seychelles, South Africa, The Gambia, Tunisia, Uganda

[11] Zanzibar did not respond to this question.
[12] Lesotho's response (only some accounts are consolidated) was edited as the exceptions noted were donor accounts, which were excluded by the question.

MECHANISMS TO MANAGE UNCERTAINTY

Budgeting processes thrive on stability (Caiden, 1981). The accurate estimation of available revenue and the cost of delivering public services, in total and for distribution for public functions, is at the heart of legislative appropriation and expenditure control. However, most budget systems face uncertainty and instability during the budget year and need to adjust appropriated expenditure. While there are informal ways in which governments can manage this uncertainty (for example, by underestimating revenue and overestimating expenditure), systems often have formal mechanisms for this purpose. Key among these mechanisms are the use of virements, reserve funds, and supplementary or revised budgets, all of which the BPP survey investigated.

RESTRICTIONS ON SPENDING CONTRARY TO THE APPROPRIATIONS

The survey included three questions focusing on how much flexibility the executive is given legally to spend more, less or differently from the legislative appropriations. Figure 4 shows countries' responses (see the table in Annex 1 for more detail).[13;14] The practices are mixed, but only in a few countries can changes be made in some respects without restrictions:

- Can the executive cut or cancel approved spending? In five countries the executive can cut or cancel funding without restrictions, and in a further nine with some restrictions, mostly on condition that the reduced funding is regularised by the legislature afterwards.
- Can line ministries reallocate appropriations? No country allows funding to be moved by spending agencies between spending purposes without some restrictions. Most allowed some flexibility to move funding. The restrictions that were noted included approval by the finance ministry/treasury and limits on the amount or type of funding that could be moved.
- Can overspending occur? In only two countries can overspending occur without restrictions. In the other 21 that answered the question, it is either not allowed or allowed with restrictions (mostly for emergency purposes or up to a specific limit, which ranged between 5 percent and 20 percent of appropriated funding).

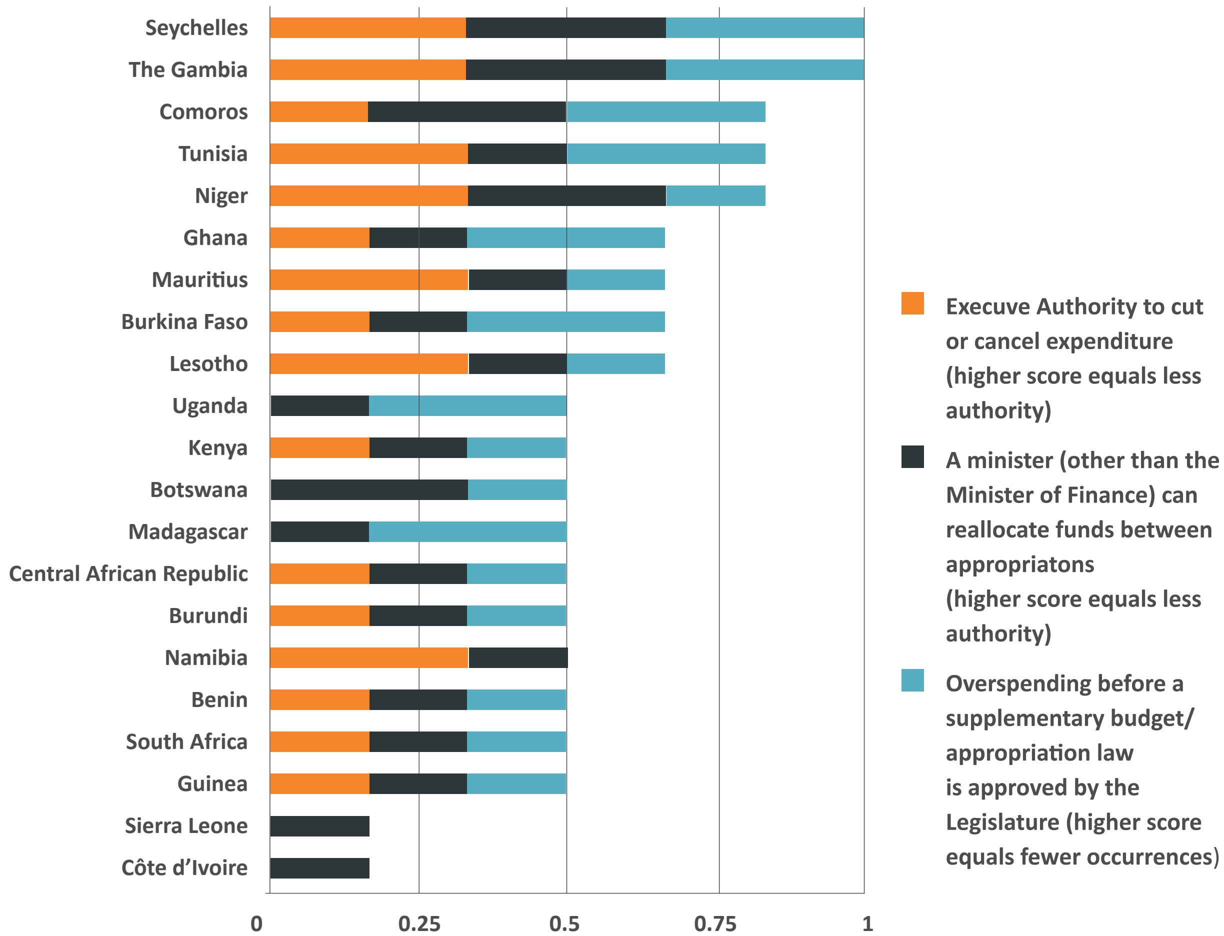
Figure 4 provides a visual index of the countries against the three questions: a score of 1 indicates that no flexibility is allowed in each of the questions and a score of 0 indicates full flexibility against each of the questions (changes without restrictions). The three questions were weighted equally. When countries indicated that changes can be made in any of the three dimensions (cutting and cancelling, reallocating, or overspending) but with some restrictions, they were scored 0.167 (or one-sixth) for that dimension.

Countries that allow the least flexibility (or have the strongest legal restriction) are at the top of the graph (with a score of 1, equalling 0.333 for each dimension) and countries that are the most flexible (or have the least legal restrictions) across the three dimensions are at the bottom.

Mostly countries did not alter the restrictions on changes to appropriated expenditure. Of the 15 countries that responded to the survey in both years, five (Ghana, Guinea, Kenya, Sierra Leone and South Africa) reported no change in practice. In the remaining 10 cases, only Tunisia reported a change in more than one dimension. Six countries reported a change in practices with regard to overspending, of which five shifted from allowing overspending with restrictions to not allowing overspending, namely Burkina Faso, Madagascar, Namibia and Tunisia and Uganda. Three countries reported changes to cutting or cancelling spending: Mauritius and Tunisia reported that now no cutting is allowed, whereas Benin now allows cuts with restrictions. Only Botswana reported a change in its virement regime, from allowing reallocations without restrictions in 2008 to not allowing reallocations in 2015.

[13] The question on overspending also distinguished between restrictions linked to categories of expenditure and restrictions based on a quantitative limit.
[14] Mali did not answer the questions on cutting/cancelling spending and reallocating funds.

FIGURE 4 **Constraints on executive expenditure flexibility**



Supplementary budgets

The survey probed how many supplementary budgets countries approved in 2014. On average, countries passed one supplementary budget in 2014. Four countries reported not passing a supplementary budget at all.

For the 14 countries that answered the question in both years, marginally more supplementary budgets were passed in 2014 than in 2007 (17 against 15).

Similar to 2008, the reasons given in the 2015 survey for needing a supplementary budget were most often related to changing economic circumstances, new policy initiatives or natural disasters.

Reserve funds

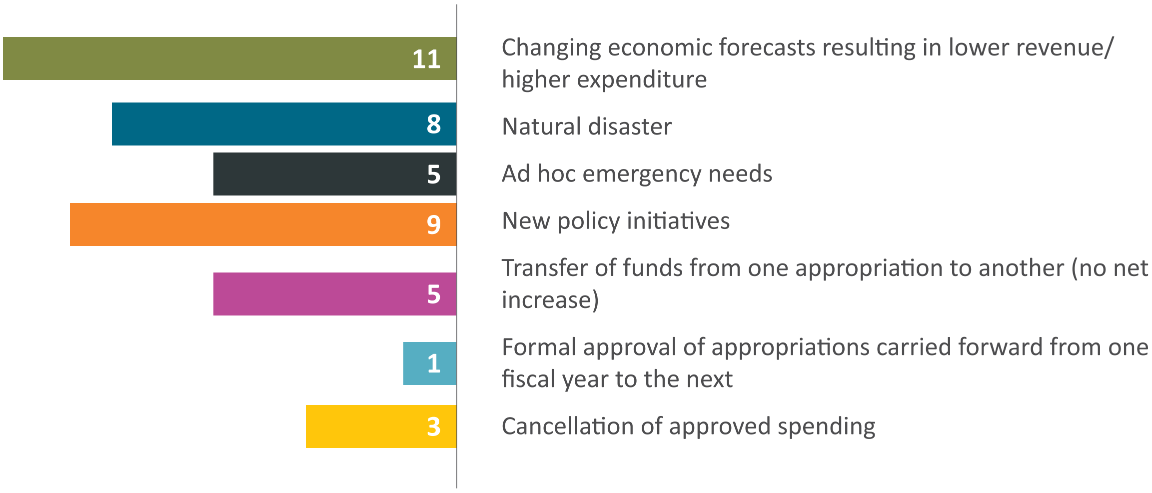
Reserve funds are a common mechanism to make provision for uncertainty. Most countries reported using reserve funds or contingency reserves, mostly for unforeseen expenditure. Only five of the 23 responding countries reported not using a reserve fund.

Between 2008 and 2015 the use of reserve funds became far more common, with 12 out of the 15 countries reporting having a reserve fund in 2015, compared to eight in 2008. Benin, Botswana, Mali, Mauritius and Sierra Leone reported not using a reserve fund in 2008, but by 2015 all five countries had a fund in place to meet general unforeseen expenditure. Only Madagascar reported not using

TABLE 12 Use of supplementary budgets

No. of supplementary budgets passed in 2014	No. of countries	Countries
None	4	Benin, Central African Republic, Namibia, Zanzibar
One	11	Burundi, Comoros, Côte d'Ivoire, Ghana, Guinea, Lesotho, Madagascar, Mauritius, South Africa, The Gambia, Tunisia
Two	6	Burkina Faso, Kenya, Mali, Niger, Seychelles, Sierra Leone
Three	2	Botswana, Uganda

FIGURE 5 Reasons for supplementary budgets



a reserve fund in 2015, when in 2008 it did. Burkina Faso and Uganda did not have a reserve fund in both years.

EXPENDITURE CONTROLS AND SANCTIONS

The regularisation of budget execution in line with voted funds by parliament through internal controls is critical for achieving budget credibility, and reliable and efficient resource flows and transactions. At the same time, the use of sanctions when internal controls are breached is a sign of the degree to which budget execution rules are enforced.

The survey asked countries to describe the expenditure controls they use, based on a series of options. Figure 6 provides a summary of the responses. No country reported having line ministry controls that are determined solely by the line ministry. Where these controls are used, they are within a framework determined by the finance ministry.

The responses showed significant reliance on the finance ministry exercising expenditure controls. In all but two (Mauritius and South Africa) of the 23 responding countries, finance ministries exercised one or more "ex ante" expenditure control types – controls based on projected outcomes. Fourteen countries reported that line ministries exercise expenditure control, in 12 cases in combination with finance ministry controls (Mauritius and South Africa are the exceptions). In nine countries, all expenditure controls were at the finance ministry level. Cutting expenditures relative to appropriations and the ability to stop payments are common forms of finance ministry control. In 11 countries, spending commitments or payment order issuance required the finance ministry's approval.

TABLE 13 Use of reserve funds

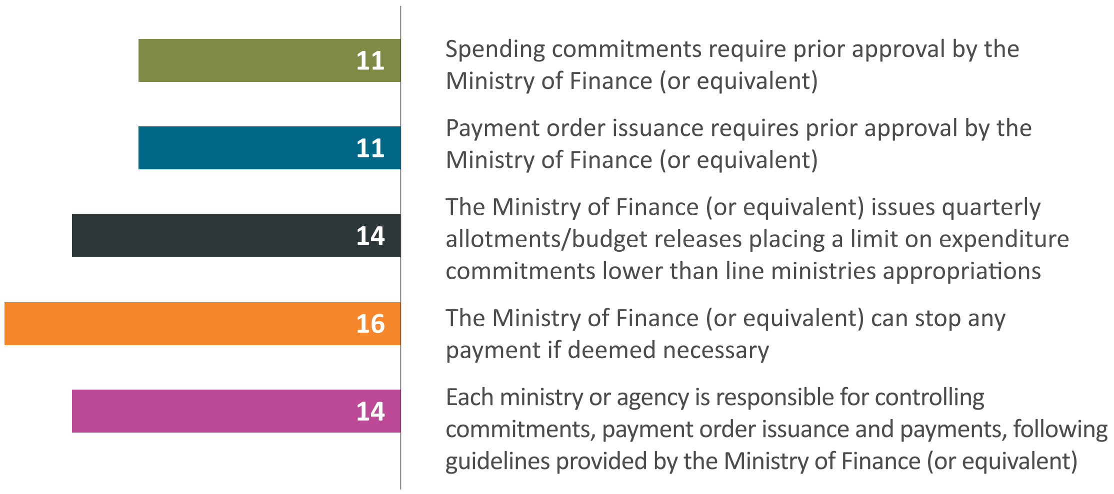
	No. of countries	Countries
No reserve fund	5	Burkina Faso, Comoros, Madagascar, The Gambia, Uganda
Yes, to finance new policy initiatives	2	Ghana, South Africa
Yes, to meet general unforeseen expenditures[15]	18	Benin, Botswana, Burundi, Central African Republic, Côte d'Ivoire, Ghana, Guinea, Kenya, Lesotho, Mauritius, Mali, Namibia, Niger, Seychelles, Sierra Leone, South Africa, Tunisia, Zanzibar
Yes, to meet major forecasting errors in macro-economic and other assumptions underlying the budget	2	Burundi, Tunisia

Interestingly, out of the eight countries that reported that the executive cannot cut or cancel expenditure appropriated by the legislature, five (Niger, Seychelles, The Gambia, Tunisia and Zanzibar) reported that in practice the ministry of finance issues periodic expenditure allotments/budget releases that are lower than legislative appropriations. Figure 6 below provides information by country on the type of expenditure controls used.

The survey asked whether sanctions exist when these controls are breached and whether they are applied. Table 14 provides a description of the types of controls countries have in place, with the countries grouped by sanctioning practice.

There are no clear patterns suggesting a connection between the types of controls and sanction practices. A third of the countries that provided information on sanctions indicated that these are always applied. All but one had line ministry-level controls. On the other hand, all but one of the countries with no formal sanctions had line ministry-level controls.

FIGURE 6 Internal controls
What types of in-year expenditure controls are in place?



[15] Note that Namibia and Seychelles selected the option "other" for the purpose of the reserve fund, but this selection was changed to general unforeseen expenditure based on the descriptions provided.

TABLE 14 Internal controls and use of sanctions

Sanction practices	Number	Ministry of finance controls	Line ministry controls
There are no formal sanctions (5 countries)	Madagascar	Prior ministry of finance approval of commitments and payments; ministry of finance can stop payments	
	Mauritius		MDA-level controls within ministry of finance guidelines
	Seychelles	Limited cash releases; ministry of finance can stop payments	MDA-level controls within ministry of finance guidelines
	Sierra Leone	Prior ministry of finance approval of commitments and payments; limited cash releases; ministry of finance can stop payments	MDA-level controls within ministry of finance guidelines
	Namibia	Limited cash releases; ministry of finance can stop payments	MDA-level controls within ministry of finance guidelines
Sanctions are rarely or never applied (3 countries)	Lesotho	Limited cash releases; ministry of finance can stop payments	MDA-level controls within ministry of finance guidelines
	Mali	Prior ministry of finance approval of commitments and payments; ministry of finance can stop payments	
	Central African Republic	Prior ministry of finance approval of commitments and payments; ministry of finance can stop payments	
Sanctions are sometimes applied (6 countries)	Ghana	Prior ministry of finance approval of commitments and payments; limited cash releases; ministry of finance can stop payments	MDA-level controls within ministry of finance guidelines
	Côte d'Ivoire	Prior ministry of finance approval of commitments and payments	
	Burundi	Prior ministry of finance approval of payments; ministry of finance can stop payments	
	Botswana	Ministry of finance can stop payments	MDA-level controls within ministry of finance guidelines
	Kenya	Limited cash releases; ministry of finance can stop payments	MDA-level controls within ministry of finance guidelines
	Uganda	Limited cash releases	
Sanctions are always applied (7 countries)	Niger	Prior ministry of finance approval of commitments and payments; limited cash releases; ministry of finance can stop payments	
	Guinea	Prior ministry of finance approval of commitments; limited cash releases; ministry of finance can stop payments	MDA-level controls within ministry of finance guidelines
	South Africa		MDA-level controls within ministry of finance guidelines
	The Gambia	Prior ministry of finance approval of commitments; limited cash releases; ministry of finance can stop payments	MDA-level controls within ministry of finance guidelines
	Benin	Limited cash releases; ministry of finance can stop payments	MDA-level controls within ministry of finance guidelines
	Tunisia	Prior ministry of finance approval of payments; limited cash releases	MDA-level controls within ministry of finance guidelines
	Burkina Faso	Prior ministry of finance approval of commitments and payments	MDA-level controls within ministry of finance guidelines

Not specified	Comoros	Prior ministry of finance approval of commitments and payments; limited cash releases; ministry of finance can stop payments	
	Zanzibar	Limited cash releases	

ANNEX

TABLE 15 Legal flexibility on executive spending differently to appropriations

QUESTION	No. of countries answering "No"	No. of countries answering "Yes, but with restrictions"	No. of countries answering "Yes, without restrictions"
Does the Executive have the authority to cut or cancel spending that has been approved by the legislature?	8 Lesotho, Mauritius, Namibia, Niger, Seychelles, Tanzania, The Gambia, Tunisia	9 Benin, Burkina Faso, Burundi, Central African Republic, Comoros, Ghana, Guinea, Kenya, South Africa	5 Botswana, Côte d'Ivoire Madagascar, Sierra Leone, Uganda
Is a minister (other than the Minister of Finance) allowed to reallocate funds between appropriations under his/her direct responsibility?	6 Botswana, Comoros, Niger, Seychelles, The Gambia, Tanzania	16 Benin, Burkina Faso, Burundi, Central African Republic, Côte d'Ivoire, Ghana, Guinea, Kenya, Lesotho, Madagascar, Mauritius, Namibia, Sierra Leone, South Africa, Tunisia, Uganda	0
Can overspending occur before a supplementary budget/appropriation law is approved by the legislature?	10 Burkina Faso Comoros, Ghana, Madagascar, Mali, Seychelles, Tanzania, The Gambia, Tunisia, Uganda	11 Benin, Botswana, Burundi, Central African Republic, Guinea, Kenya, Lesotho, Mauritius, Namibia, Niger, South Africa	2 Côte d'Ivoire, Sierra Leone

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