

Establishing a PBO: The experience of African countries

Analytical Capabilities: Budget Formulation



Budget Process



Budget formulation process allows for...

- A single allocation process that limits the possibility of “secret budget deals” being struck
- The reprioritisation of resources in order to accommodate new priorities or the scaling-up of an existing spending programme
- The allocation of additional revenue in accordance with the strategic priorities, which in most cases will require that trade-offs be made, often between equally high-priority programmes
- More inclusive budget decisions that considered both technical inputs and political imperatives

Why a budget process





... because there is a budget constraint

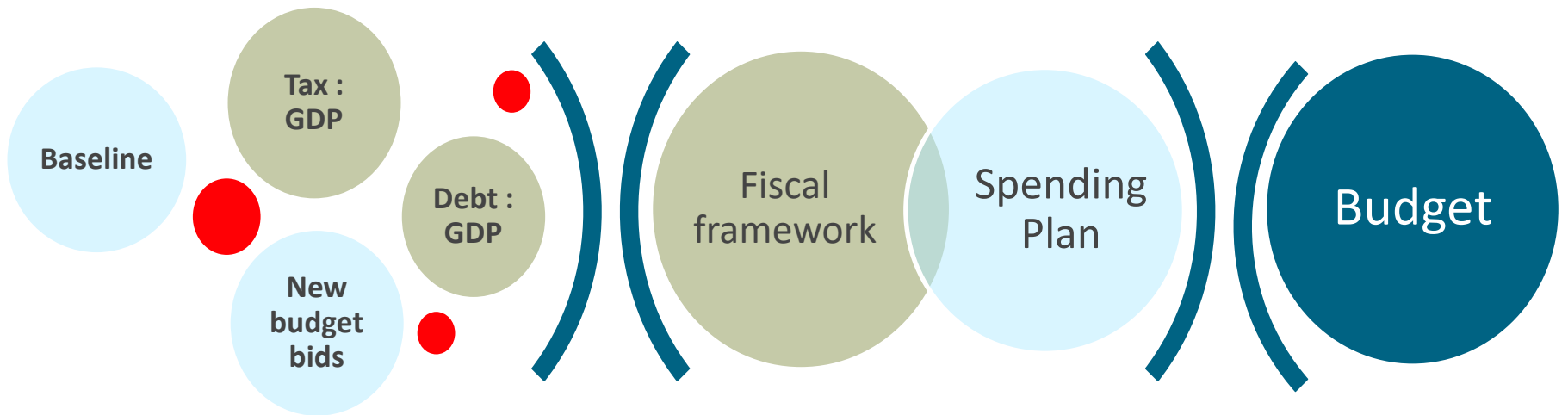
uses of budget
revenue

sources of
budget revenue

$$G_t + r_t B_{t-1} = T_t + B_t + A_t + O_t$$

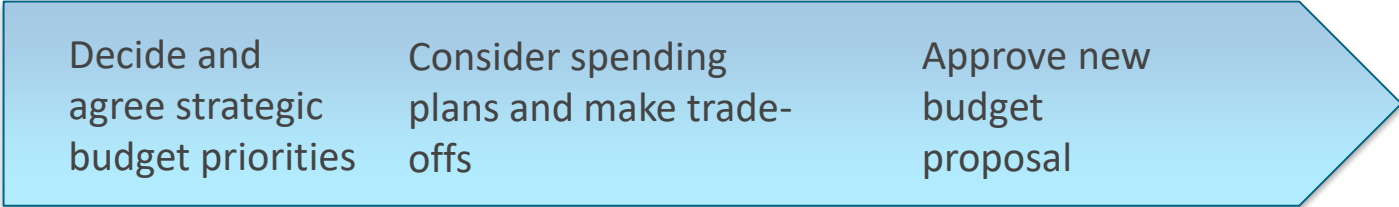
- **G_t** is government non-interest expenditure in time t;
- **r_tB_{t-1}** is non-discretionary debt interest payments;
- **T_t** is taxes, fees, and other government revenues, including those arising from seigniorage (inflationary finance);
- **B_t** is total government borrowing (domestic and foreign net of use of deposits); and
- **A_t** is grants; and **O_t** is other sources of funds, such as sale of assets

Budget process (1)



Budget process (2)

Executive



Ministry of Finance/Budget



Ministries, departments & agencies



Tabling of Budget for Legislative Approval

Budget formulation checklist

	Action taken / to be taken
Political considerations	Can spending plans be aligned to the medium- to long-term strategy
Broad consultation	Are role-players routinely consulted, including the finance ministry, in the policy design phase
Financial considerations	Has a credible costing method been used to determine medium-term spending estimates
	Have different financial options been considered, such as public-private partnerships, user-charges, etc.
	If an MTEF is in place, can funding be deferred to a later year
Implementation capacity	Is there absorptive capacity, and can this be demonstrated from past performance

Financing the budget

Financing the budget

Sources		Application
Taxes	Value Added Tax	Tax:GDP <ul style="list-style-type: none"> • Forecast • Policy • Administration • Compliance
	Personal Income Tax	
	Customs	
	Excise Duties	
Grants	Budget Support	<ul style="list-style-type: none"> • Integration • Predictability • Transparency
	Program	
	Project	
Debt financing	Concessional (MDB)	<ul style="list-style-type: none"> • Proportion between domestic and foreign • Risks • Sustainability • Contingent Liabilities
	Domestic	
	Foreign	
Other	Privitization	<ul style="list-style-type: none"> • Who pays: taxpayer or user • Capabilities needed • Understanding the market incentives
	Market participation	

And improved fiscal space

Fiscal space

Fiscal space is commonly defined as the budgetary room that allows a government to provide resources for public purposes without undermining fiscal sustainability.

1. Conducive macroeconomic conditions
2. Re-prioritization within the budget
3. Foreign aid
4. Greater efficiency of existing government outlays
5. Market engagement

Better and more credible budgets

Budget credibility is undermined by...

- Unrealistic and escapist budgeting
 - authorizes more spending than governments can mobilize
- Hidden budgeting
 - real priorities are known to a small and narrow clique within government
- Deferred budgeting
 - real spending patterns are obscured by the generation of arrears
- Fiscal dumping
 - poor planning and absorptive capacity

Reforms to produce better budgets...

- Formalized budget preparation processes
 - Structure and formality to budget preparation process
 - Budget calendars
 - What decisions are taken and when
- Fiscal rules
 - Limits to spending or debt and deficits
 - Form of:
 - Balanced budget laws
 - Administrative ceilings to constrain budget proposals

Reforms to produce better budgets (cont...)

- Medium-term budgeting
 - Reconcile aggregate fiscal discipline and public spending plans
 - Aims to create better linkages between policies and plans and revenue and expenditure estimates
- Program-based budgeting
 - Shift from controlling inputs to emphasizing outputs and outcomes
 - Changes to resource allocation, responsibility and accountability
- Budget classification systems
 - Classifying according to economic, administrative or functional nature of budget items

Important reminder

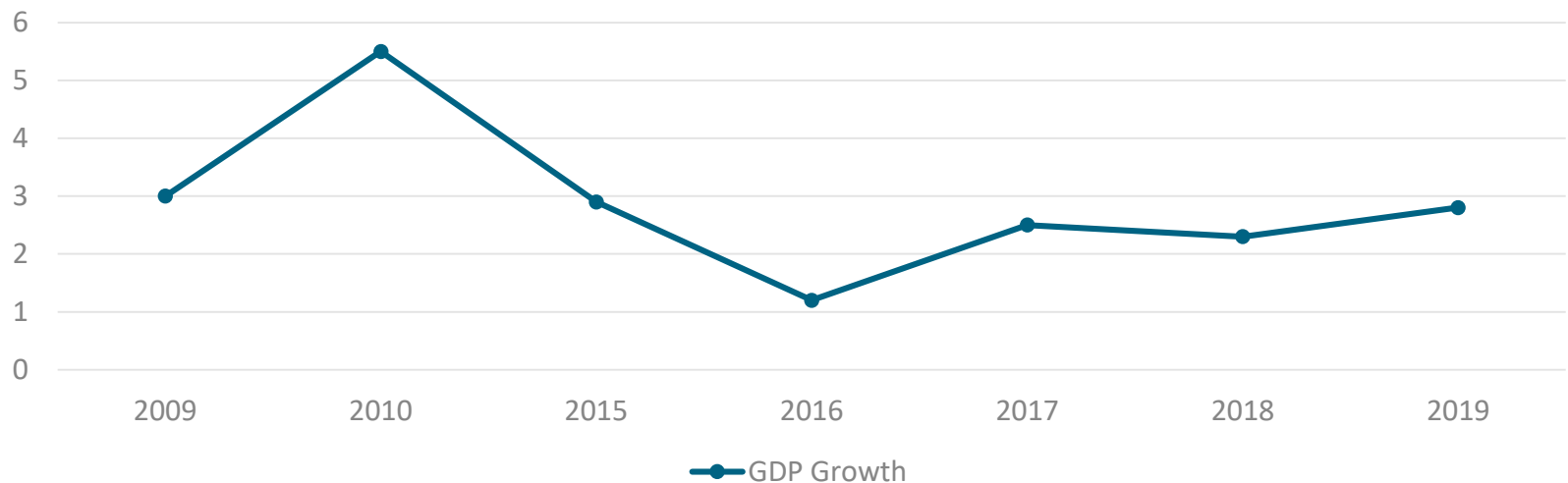
1. Single allocation process
2. Policy informs budgets
3. Do not promise more than can be afforded
 - The needs are always more than can be afforded
4. Trade-offs are necessary
 - Trade-offs are between equally important plans
5. Value 4 Money starts with the budget process
6. Decisions need to be informed by a wide-array of evidence
7. Absorptive capacity must be considered

Thank you

Additional Slides

Conducive macroeconomic conditions

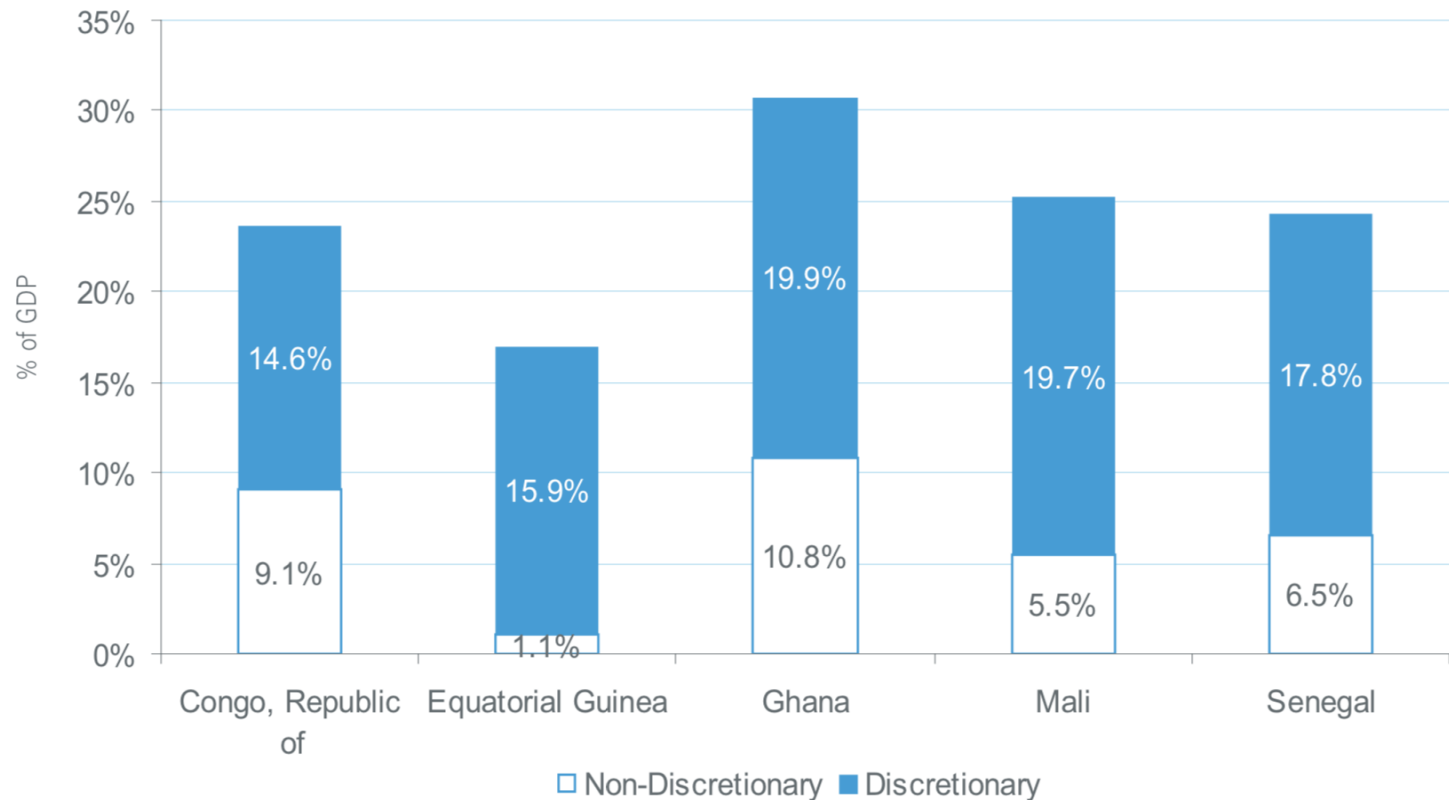
- Sustained economic growth = improved revenue generation = lower fiscal deficits and debt
- Economic growth in Africa still a commodities story
- Room for counter-cyclical fiscal policy has narrowed



- No escaping the need for diversification and skills development

Reprioritisation

- Making a case for a reallocation of resources from elsewhere (elsewhere could be funded differently – market)
- Space for reallocation in discretionary and non-discretionary expenditure



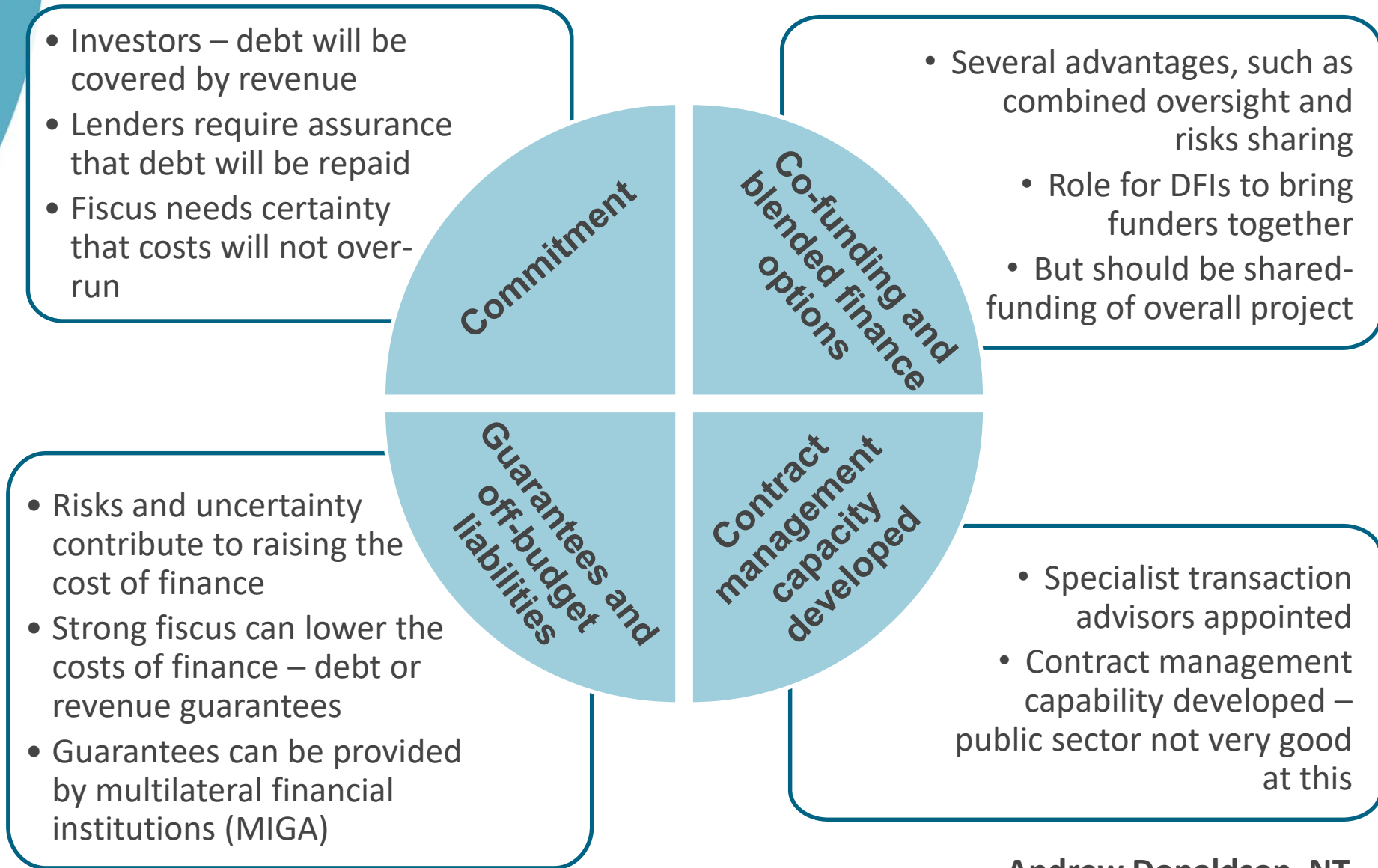
Earmarked taxes

- Ensures the ring-fencing of revenue source, which makes it more political than economic
- Earmarking is often viewed as an imposition of an unnecessary constraint on fiscal policy-making - reduces flexibility and allocative efficiency

Ghana National Health Insurance

2.5% levy on goods and services	75% of financing
2.5% wage related premium (formal sector)	
General tax funded budgetary transfers	

Engaging the Market



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