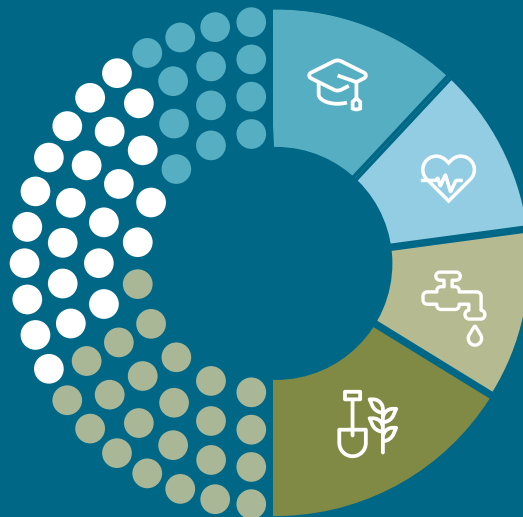


Establishing functional parliamentary budget offices in Africa

WORKBOOK

11 AND 12 JUNE 2019
BAMAKO, MALI



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Overview

The role that legislatures/parliaments play in the budget process is dependent on the institutional configuration of the country concerned.¹ In Africa, this is often a mix of colonial institutional heritage and post-independence political and institutional structures. Legislatures in Anglophone African countries modelled on the British system tend to be involved in the budget evaluation stage. Legislatures in Francophone African countries usually provide budget oversight during the budget execution stage. Legislatures in African countries modelled after the United States Congress tend to be heavily involved in the budget formulation stage.

Different institutional arrangements often lead to varying relationships between the executive and legislature throughout the budget process. In African parliamentary systems, the ruling party controls both the executive and the legislature making the budget process more streamlined. In some African countries, the budget process is a site of contention between the executive and the legislature, which can cause delays in budget approval, resulting in delays in budget execution that hinder service delivery.

CABRI's Budget Practices and Procedures (BPP) report, 'The Legislatures' Challenge: Powers without Information, Information without Powers'² finds that despite improvements in the formal powers of parliamentary budget institutions, these institutions lack the organisational capacity (legislative research capacity, committee structures and processes) to fulfil their roles in the budget process.

To better understand the roles of different African legislatures in the budget process, and how these facilitate improved budgeting, implementation of spending plans and oversight, CABRI hosted a 'Policy Dialogue on the Role of the Legislature in the Budget Process'. At the dialogue, ministry of finance officials, legislators and parliamentary budget office (PBO) officials identified challenges and critical action required to improve their country's public financial management (PFM) cycle. Among the various challenges identified by officials, the key ones were the need to establish or improve the functioning of PBOs, to improve the relationship between the executive and legislature during the budget process, and to improve

the legislation and rules guiding the institutions involved in the budget process and the process as a whole. Many Francophone African countries lack a PBO, as noted in CABRI's case study 'The Role of the Legislature in the Budget Process: Burkina Faso'.³

PBOs are meant to provide objective, nonpartisan analysis to support the budget process and help parliaments make effective budget and economic policy. CABRI's BPP, 'The Legislatures' Challenge' (see above) notes that some legislatures in Africa (e.g. Kenya and South Africa) have established PBOs to support parliamentarians in the budget process. To facilitate peer-learning and exchange, the African Network of PBOs was established and is currently housed at the South African PBO. CABRI also indicates that legislative committees may not always utilise the expertise of their PBO to hold the government to account.⁴

As part of its peer exchange initiatives, the African Network of PBOs hosts an annual conference that brings together officials from PBOs, ministries of finance and development partners to discuss challenges faced by PBOs. Among the many issues discussed, capacity and the functionality of the PBO for success is key to this training. The Regional Technical Assistance Centre for Southern Africa (AFRITAC South) defines capacity as containing the following elements:⁵

- human and financial;
- analytical;
- co-ordination;
- communication; and
- credibility and independence.

CABRI considers most of these issues in 'The Role of the Legislature in the Budget Process in Nigeria'.⁶

This two-day workshop will train ministry of finance officials, legislators, PBOs and technical staff from legislative committees to focus on the analytical capabilities and structure of a functional PBO that would allow legislators to be better involved in the budget formulation process, make better-informed decisions on expenditures and debt, and improve their budget oversight role.

1 GIZ (2016) *Guardians of democratic accountability: The roles of Anglophone and Francophone African Parliaments in supervising the budget*. Good Financial Governance in Africa, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ).

2 Available at: <https://www.cabri-sbo.org/en/publications/budget-practices-and-procedures-in-africa-2015> [accessed 5 June 2019]

3 Available at: <https://www.cabri-sbo.org/uploads/files/Documents/CABRI-Legislature-CS-Burkina-Faso-ENG-WEB.pdf> [accessed 30 April 2019].

4 CABRI (n.d.) *The role of the legislature in the budget process: Kenya*. Available at: <https://www.cabri-sbo.org/uploads/files/Documents/CABRI-Legislature-CS-Kenya-ENG-WEB.pdf> [accessed 30 April 2019].

5 Sybi Hida (2016) *Independent Fiscal Institutions (IFIs) / Parliamentary Budget Office (PBO): Discussion on Capacity Requirements for IFIs/PBOs*, AFRITAC South, IMF. Paper presented at the 2016 African Parliamentary Budget Office Conference, 'The role of African PBOs in African parliaments fiscal oversight: Contribution to the African development agenda.' Available at: https://www.parliament.gov.za/storage/app/media/PBO/conf2016/African_PBO_Conference_IMF.pdf [accessed 1 May 2019].

6 Available at: https://www.cabri-sbo.org/uploads/files/Documents/Session-2_Role-of-Legislature-Nigeria_-ENGLISH.pdf [accessed 1 May 2019].

Programme

CABRI hosted a 'Policy Dialogue on the Role of the Legislature in the Budget Process', which brought together ministry of finance officials, legislators and parliamentary budget offices (PBOs) from 14 African countries to discuss how legislatures contribute to improving budget planning and formulation, and the implementation of spending plans and oversight.

At the dialogue, ministry of finance officials, legislators and PBO officials identified challenges and critical actions to improve their country's public financial management (PFM) cycle. Among the various interventions identified by participants was the establishment of PBOs and

the improvement of the functionality of those already existing, especially in terms of the relationship between the executive and legislature during the budget process. The training will also cover the rules guiding the institutions involved in the budget process and the process as a whole.

This training workshop will focus on the analytical capabilities and structure of a functional PBO, which would allow legislators to be better involved in the budget formulation process, make better-informed decisions on expenditures and debt, and improve their budget oversight role.

DAY 1: 11 June 2019	
8:30	Registration and coffee/tea
9:00	<p>Welcome remarks</p> <ul style="list-style-type: none"> • Mrs BARRY Aoua SYLLA (Minister of State to the Prime Minister, Head of Government, Minister of Economy and Finance, in charge of Budget, Mali) • Honourable Issaka Sidibé (President, National Assembly, Mali) • Mr Neil Cole (Executive Secretary, CABRI)
9:35 – 9:40	Group photo
<p>Session 1</p> <p>9:40 – 11:00</p>	<p>Establishing a Parliamentary Budget Office: Experiences in Africa</p> <p>The panel will explore the process and challenges in establishing a PBO by providing country examples of Kenya and Mali. Panellists will focus on the necessary structures and analytical capabilities of a functional PBO in Africa.</p> <p>Moderator: Mr Neil Cole, CABRI</p> <p>Panellists:</p> <ul style="list-style-type: none"> • Mr. Edison Opiyo Odhiambo (Senior Fiscal Analyst, Parliamentary Budget Office, Kenya) • Mr Yacouba KONE (Coordinator, National Unit of Analysis, Oversight and Budget Evaluation (UNACEM), National Assembly of Mali)
11:00	Tea break
<p>Module 1</p> <p>11:30 – 13:30</p>	<p>Analytical Capabilities of a Functional PBO: The PFM cycle</p> <p>Objective: By the end of the session, participants will better understand the PFM cycle, its functionality, and the role of the legislature throughout the budget process.</p> <p>Presenter: Mr Sidiki Traoré (Director, Budget Directorate, Mali)</p>
13:30 – 14 :30	Lunch break

Module 2 14:30 – 15:30	<p>Analytical Capabilities of a Functional PBO: Budget Formulation</p> <p>Objective: By the end of the session, participants will better understand the information needs and analytical capabilities of PBOs to review the fiscal framework (expenditure, revenue, and debt) that guides the direction of the budget, especially affordability of newly proposed programmes/projects not developed by the ministries, departments and agencies (MDAs) .</p> <p>Presenter: Mr Neil Cole (CABRI)</p>
15:30 – 17:00	<p>PFM Pursuit Game</p> <p>(Tea break during the session)</p>
19:00	Official Dinner

DAY 2: 12 June 2019	
09:00 – 9:05	Overview of Day One
Module 3 09:05 – 10:35	<p>Analytical Capabilities of a Functional PBO: Programme-Based Budgeting</p> <p>Objective: By the end of the session, participants will better understand how a PBO can help committees to analyse the executive’s budget proposal (EBP) when a country has shifted to programme-based budgeting.</p> <p>Presenter: Ms Awa Touray (CABRI)</p>
10:35 – 11:00	Tea break
Module 4 11:00 – 12:30	<p>Analytical Capabilities of a Functional PBO: Budget Oversight</p> <p>Objective: By the end of the session, participants will better understand how a PBO can help committees (finance, social sectors, public accounts, etc.) review budget execution reports to hold the government to account.</p> <p>Presenter: Mr Michael Castro (CABRI)</p>
12:30 – 13:30	Lunch
Module 5 13:30 – 15:30	<p>Analytical Capabilities of a Functional PBO: Audit and Evaluation</p> <p>Objective: By the end of the session, participants will better understand how a PBO can help committees (finance, social sectors, public accounts, etc.) to review the year-end and audit reports to hold the government to account in respect of improved budget formulation.</p> <p>Presenter: Mr Michael Castro (CABRI)</p>
15:30 – 16:00	Tea break
Session 2 16:00 – 16:45	<p>Challenges and critical actions: Way forward</p> <p>Participants from the legislatures and the ministries of finance will identify the next steps in how best to develop a foundation to establish a functional PBO to improve the PFM cycle.</p> <p>Facilitator: Mr Michael Castro (CABRI)</p>
16:45 – 17:00	Closing Remarks

Module 1

Analytical capabilities of a functional PBO – the Public Financial Management (PFM) cycle

Module objective

By the end of this module, participants will be able to understand:

- the issues related to the PFM system;
- the essential components of a functional PFM system;
- the role of the legislature throughout the budget process.



Why do Parliamentarians need to understand PFM?

PFM stands for ‘public financial management’ and it is linked to how governments raise public resources and manage these public resources. It also looks at the immediate and medium-to-long-term effect of these resources on the economy and citizens. The budget is the government’s most powerful tool. Parliamentarians, as elected officials representing their constituencies, play a critical role throughout the PFM cycle. While the ministry of finance develops the macroeconomic and fiscal framework, parliaments in Africa play a significant role throughout the PFM cycle.

Strong PFM systems ensure that limited public resources are spent economically and with efficiency and efficacy. These strong systems have five components to ensure economy, efficiency and efficacy:

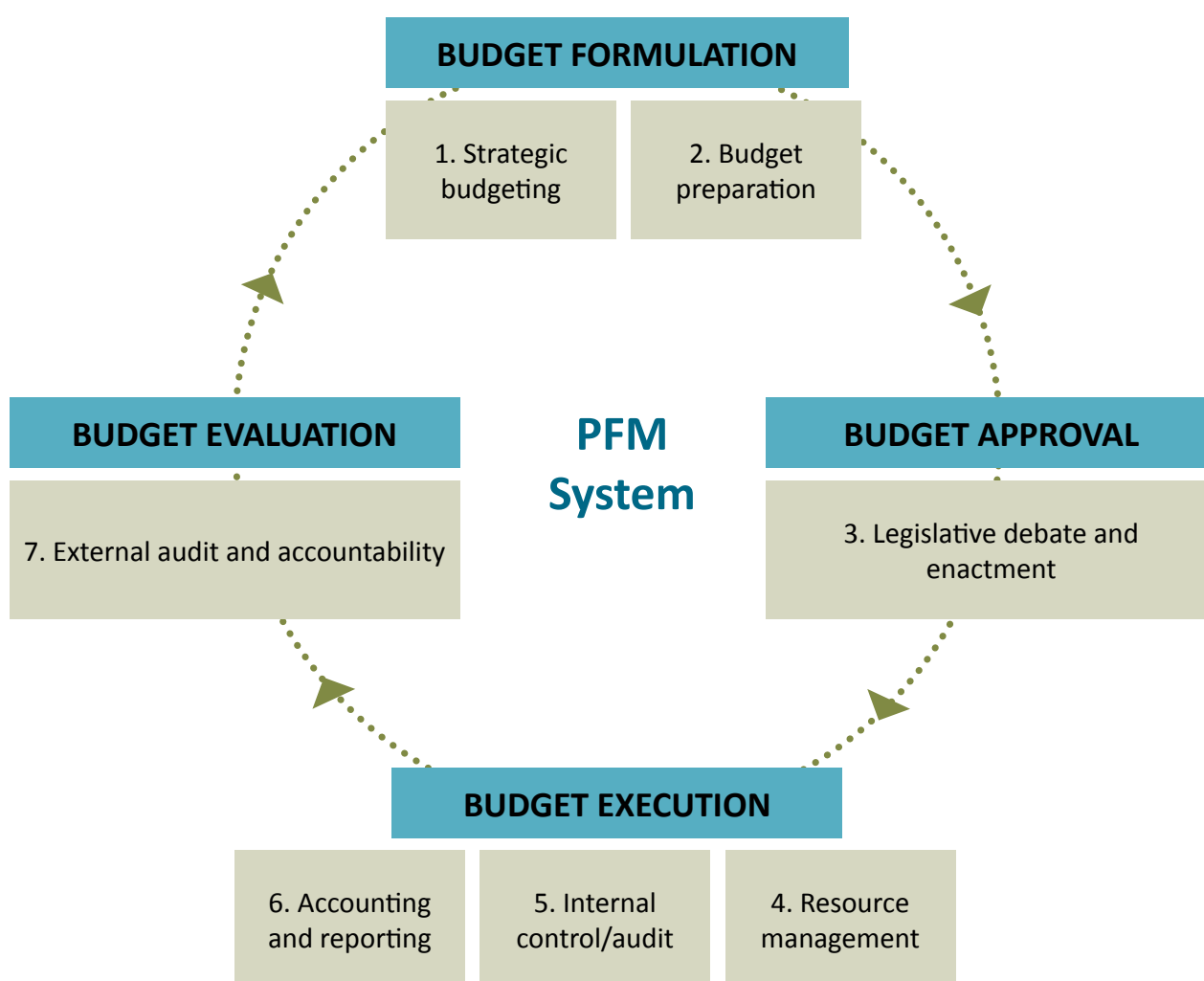
- **Strategic budgeting:** translating broad plans and policy goals into concrete programmes to benefit citizens;
- **Sustainability of the budget (including debt):** ministry of finance ensures allocative efficiency among spending ministries, departments and agencies (MDAs) and keep debt levels to a minimum;
- **Robust conceptualisation of capital expenditures:** capital expenditures (notably infrastructure) ought to be conceptualised through the annual and medium-term budgeting processes;
- **Programme-based budgeting (PBB):** aligning planning and budgeting systems to ensure that outputs and outcomes are associated with public policy objectives; and
- **Prudent budget execution:** legislative oversight is integral to reviewing budget execution reports to ensure public resources are used in the manner they were approved.

What is the legislature's role throughout the PFM cycle?

The legislature has an important role to play throughout the PFM cycle. Andrews, Cangiano, Cole, De Renzio, Krause, and Seligmann (2014) in *This is PFM*⁷ state:

PFM systems are embedded in – and influenced by – broader sets of processes, systems and institutions. Think, for instance, of the political rules that determine how budgets work, or the way human resource management systems overlap with the management of public finances. PFM systems are also part of broader national policy processes, which produce directives or plans that inform public resource allocation. Such influences vary across countries, making PFM contextual. Despite contextual differences, however, some processes are similar in PFM systems across most countries. Figure 1 illustrates these.

Figure 1: A simplified view of a typical PFM system



⁷ Full text available at: https://bsc.cid.harvard.edu/files/bsc/files/285_andrews_this_is_pfm.pdf

Budget formulation

The strategic budgeting process exhorts governments to align national priorities within the existing fiscal space to ensure sustainability of the budget (and debt). In several African countries the medium-term expenditure framework (MTEF) is approved by the legislature. The legislature plays a role in determining the budget priorities in the medium term.

Budget approval

Legislative approval of the budget is arguably the legislature's most important role. During legislative debate of the executive's budget proposal (EBP), MPs scrutinise what is to be implemented by taking into account existing revenue and debt levels.

Budget execution

Legislative oversight during budget execution is paramount to accountability. The scrutiny of budget execution reports by legislative committees are essential to public resources being used in a judicious manner.

Budget evaluation

Legislatures can also conduct post-hoc review of budget execution by reviewing year-end reports and financial statements. Supreme audit institutions (SAIs), as the government's independent external auditor, report to the legislature on its audit findings to promote accountability, effectiveness and transparency of public administration. The legislature can review the audits conducted by the SAI to solicit explanations from the executive to improve budget planning and formulation.



Module 2

Analytical capabilities of a functional PBO – budget formulation

Module objective

By the end of this module, participants will be able to understand:

- the issues related to the legislature’s role during budget formulation;
- the specific analytical capabilities of PBOs during budget formulation including debt documents;
- budget analysis techniques;
- costing estimates of new programmes proposed by MPs; and
- the risks associated with debt (debt stock, debt composition and borrowing costs) and guarantees to the budget.

Why are these capabilities needed?

Public financial management acts/organic budget laws (PFMAs/OBLs) establish the rules and responsibilities of the executive and legislature in the budget process. Some countries, like Nigeria, approve a medium-term expenditure framework/fiscal strategy paper. New OBLs in Francophone African countries instituted the Budget Policy Debate (*Debat d’Orientation Budgetaire*) to give their legislatures a greater role in determining budget priorities timeously. Kenya’s parliament has 14 days to review both a budget policy statement and a medium-term debt strategy paper, which guides the overall budget process in the country.

While these mechanisms are supposed to give parliaments a greater role in the budget formulation process, there is still a poor level of executive–legislature engagement at the formulation stage. Legislatures in Africa still lack the analytical capabilities to make an effective contribution to the budget formulation process, which makes the inclusion of their inputs on the budget difficult for the government. Succinctly put, limited time to analyse pre-budget documents and budget proposals, coupled with MPs’ limited analytical capabilities and no provisions requiring that their comments be taken into account, leads MPs inclusion of projects that have not been conceptualised by the MDAs. How can establishing a PBO help to remedy some of these challenges? What analytical capabilities do these PBOs require in order to be able to support the legislature’s role of scrutinising economic policy and budget formulation documents for effective budget decisions?

The legislature has the ultimate power to borrow on behalf of the central government. Legal frameworks provide for the delegation of the borrowing power from the legislature to the ministry of finance, which then delegates the responsibility of debt management to a debt management office (DMO), central bank and other institutions. These institutions are meant to develop a strategy to finance the government’s deficit and to maintain sustainable levels of debt.

PFMAs and fiscal responsibility acts are meant to keep debt levels to a minimum, thereby reducing the risks to the budget and the economy. These laws are also intended to determine what role the legislature plays in setting debt limits, what loans need legislative approval and what levels of debt are sustainable. Some legislatures such as those of Côte d'Ivoire and Kenya approve the medium-term debt strategy (MTDS) as a part of the budget formulation process. In addition to the MTDS, 'the [debt sustainability analysis] DSA is a key fiscal and budgetary tool to assess the long term of future debt path under certain macroeconomic assumptions'.⁸ The documents should provide the legislature with:

- the total stock of debt as at the date of the MTDS;
- the sources of loans (domestic and foreign) made to the government, and the nature of the guarantees (securities, bonds, etc.) and maturity profile (short, medium and long) given by the government;
- the principal risks associated with these loans and guarantees;
- the macroeconomic assumptions underlying the debt management strategy; and
- an analysis of the sustainability of the amount of debt, both actual and potential.

How can establishing a PBO help to remedy some of these shortcomings? What analytical capabilities do these PBOs need to support the legislature's role in the scrutiny of debt sustainability, borrowing costs and risks to the budget?

Budget analysis

To support the MPs' role in analysing budget formulation documents, PBOs can simplify budget estimates and assumptions.⁹

The techniques below require budget and economic data/information from the government (budget documents, MDAs, development plans, etc.) and external sources (legislative committees, auditor-general reports, International Monetary Fund (IMF), World Bank (WB), etc.). This type of information tends to be widely dispersed.

Technique 1: Calculate the percentage share of the budget and economy

Percentages can help MPs to determine the priorities of the budget by sectors/items and across time. These include:

- individual MDA budget as a share of national budget (expenditure);
- individual MDA budget as a share of country's gross domestic product (GDP);
- individual programme as a share of the individual MDA budget;
- individual programme as a share of country's GDP;
- sub-programme budget as a share of the individual programme; and
- sub-programme budget as a share of the country's GDP.

Box 1: Guiding questions to ask on budget estimates

- Are budget estimates realistic, given the macroeconomic and monetary policy position of the country?
- How are budget estimates aligned to the government's development plan/national development plan?
- Do budget estimates include justification per sector/programme?

Technique 2: Trend analysis

Budgetary trend analysis can help MPs to determine shifts in the government's budget priorities within an individual MDA's budget or across time to help inform policy and budgetary decisions. They include:

- calculating how much the percentage share has changed for specific sectors/MDAs across time; and
- calculating the change in percentage shares within specific sectors across time under the same government administration.

⁸ World Bank (2015) *Debt management performance assessment methodology*, page 18.

⁹ What follows in this section has been adapted from the parliament of Uganda, Revised Budget Handbook, prepared by the Parliamentary Budget Office, July 2016.

Technique 3: Nominal versus real amount comparison

The effect of price changes over time is critical with regard to making sound decisions on economic and budgetary policy. Amounts in nominal values will not help MPs to understand the actual purchasing power of a budget line-item. Increases in nominal amounts across time that do not consider inflation will most likely mean that the inputs acquired by the government will be insufficient to achieve a desired outcome. PBOs can help MPs by:

- using inflation to calculate the budget estimates of a specific MDA/programme/line-item in real amounts based on the fiscal year in review (to determine growth rate and calculate average real growth rate); and
- using a deflator to calculate how much the general price has increased or decreased over time.

Technique 4: Calculate budget variances

Even the best formulated budgets have variances. A comparison between the planned expenditure estimates and the actual outturn for the preceding budget year can help MPs make better-informed decisions. This variance between the planned expenditure and actual outturn is a proxy to determine how realistic the budget is. PBOs can help MPs by:

- calculating the budget variances for MDAs that do not spend their allotted budgets, and ask for explanations; and
- calculating the budget variances for MDAs that overspend their allotted budgets, and ask for explanations.

Technique 5: Recurrent versus capital expenditures

The composition of the budget is key to analysing whether expenditure is allocated to paying salaries and operational expenses (recurrent expenditure) or allocated for infrastructure or strategic purchasing of inputs (capital expenditure). Recurrent expenditure tends to be the overwhelming share of the budget in most African countries. The comparison of recurrent and capital expenditures per MDA, programme and sub-programme can provide MPs with hints as to how these budgets may be executed. PBOs can assist MPs by:

- calculating the variance between recurrent and capital expenditure to better understand which portions of the budget may have under-expenditure and/or over-expenditure.

Technique 6: Analysing estimates in the MTEF

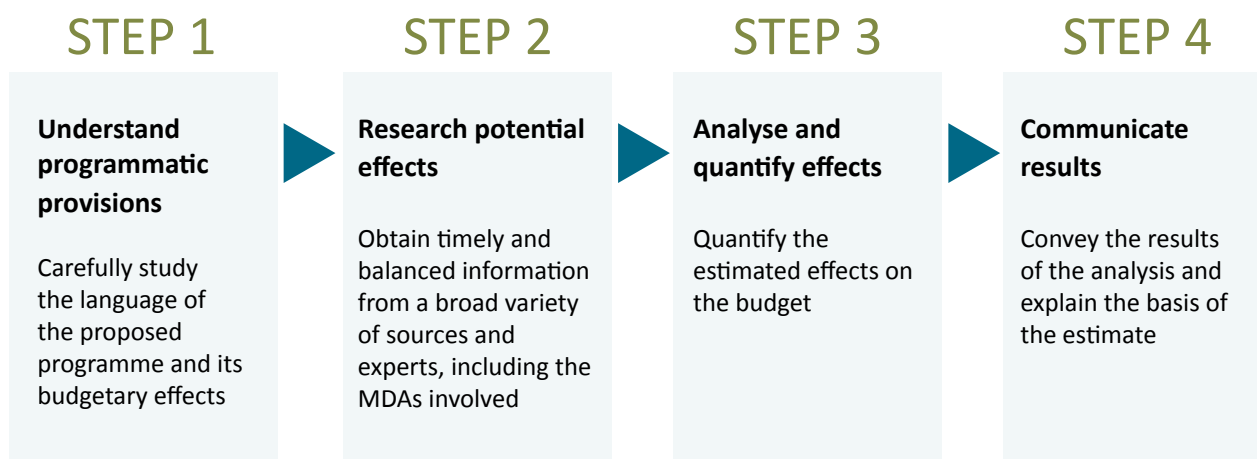
Medium-term budgeting requires a shift in mindset. Not all national priorities can be achieved in one fiscal year. In a MTEF, development objectives with estimates in a medium term (usually 3 years) allows MP to understand how the government plans to achieve these objectives. The prioritisation of means that MPs will have to consider previous year's execution to determine if an MDA is able to execute the outer year (N+2) of the MTEF. If an individual MDA has a low level of execution for the previous year (N-1), the budget estimate of the outer year (N+2) may not be realistic. PBOs can assist MPs in the reprioritisation of expenditure to promote budget credibility.

Costing estimates

CABRI's research on the role of the legislature in the budget process in Kenya and Nigeria highlighted the issue of the inclusion of programmes not conceptualised by MDAs. While legal provisions in both countries allow the legislature to be involved in the budget process, fiscal responsibility provisions limit what can be included in the budget. The programmes inserted by MPs must consider the existing macroeconomic and fiscal framework to avoid increasing already high levels of debt due to limited fiscal space. PBOs are tasked to help MPs to think critically about the effects of these proposed programmes on the budget. The United States' Congressional Budget Office (CBO) developed a process to help their elected officials in costing proposed programmes.¹⁰ Figure 2 illustrates this process.

¹⁰ Adapted from the United States' Congressional Budget Office's *How the CBO prepares cost estimates*, February 2018. Available at: <https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53519-costestimates.pdf> [accessed 1 May 2019].

Figure 2: The CBO's four-step process for preparing formal cost estimates



Debt stock and sustainability

National development plans (NDPs) are aspirational plans of where countries would like to be in the long term. The majority of countries lack the resources to fully implement such plans. Thus, debt is incurred to finance the annual budget deficit to achieve countries key development objectives.

In most African countries, much more information on expenditure and revenue than on debt is included in budget documents. While the MTDS and the DSA contain information on the debt stock, it may not always be presented as a part of the EBP, resulting in MPs making decisions based on incomplete information. This leads to decisions being made on the specific year's net borrowing requirement, with almost no regard to total stock of debt, guarantees, liabilities and borrowing costs. MPs have the difficult task of weighing the costs and benefits of debt on the basis of information provided by the ministry of finance. PBOs should compile information on debt, guarantees and liabilities from various official sources (MoF, DMO, Central Bank, etc.), if it is not a part of the EBP and supporting documents, to help MPs with this onerous task. In *Restoring public debt sustainability: The role of independent fiscal institutions*, George Kopits (2013) argues that independent fiscal institutions (IFIs) or PBOs play a role in assisting MPs to understand the key policy issues related to debt and containment of the public debt crisis. Overall, legislatures play an important role in public debt management.

Box 2: Guiding questions to ask on debt sustainability and debt stock

- What is the country's level of debt?
- How long will it take to pay the debt off?
- What is the effect of this fiscal year's deficit on the total debt stock?
- What are the country's guarantees and liabilities?
- How would these affect the budget?
- How should debt be used?
- Will the debt incurred stimulate the economy?
- What are acceptable risks to the budget?

Composition of debt

If not managed carefully, rising debt levels will crowd out public expenditure and compromise long-term growth and financial stability. This translates into limited resources being allocated to high debt-servicing costs, instead of to capital projects aimed at improving the lives of citizens. Part of the risk associated with rising debt levels is whether the debt is domestic or foreign, the maturity profile and borrowing costs, and type of debt instrument. Legislative scrutiny of the country's debt portfolio is imperative to ensure that the risk exposure is kept to a minimum to limit its impact on the budget.

Domestic versus foreign

Loans from the international market tend to be cheaper than borrowing from the domestic market. Most of this international borrowing has been in foreign currency, which creates risks related to a stronger US dollar, euro and other foreign currencies. Unfavourable currency exchange rates linked to African currencies mean that borrowing in these currencies will incur higher debt servicing costs than the budgeted amount. To limit the risk associated with foreign borrowing, PBOs can assist MPs in analysing debt documents to assess:

- the ratio of foreign currency debt to domestic debt; and
- the currency composition of foreign currency debt.

Maturity profile and borrowing costs

Another dimension related to debt composition/ portfolio is the maturity profile (defined as time for paying off the loans) and the interest rate of said loans (borrowing cost). Why do maturities and interest rates matter? Research shows that higher budget transparency not only increases market confidence and reduces borrowing costs but also helps countries have longer maturities.¹¹ On average, loans with shorter maturities carry high interest rates to attract investors without much regard to credit rating. These are comparable to high-interest credit cards for individuals with poor credit histories. Longer maturities on loans allow governments to pay lower interest rates.

Box 3: Guiding questions to ask about new loans

- What is the total cost of financing new large projects (including borrowing costs, currency denomination, maturity)?
- What happens to debt when macroeconomic assumptions do not hold?
- Are these large projects feasible?
- What needs to be in place to ensure the feasibility of these projects?

While the responsibility of balancing cost and risk in the midst of fiscal pressures lies with the MoF and DMO, the legislature, as the ultimate decision-maker in the budget process, plays a critical role in analysing the information presented to it. To take on this role, PBOs can assist MPs in analysing the following to truly understand the total cost of debt currently and for the future:

- interest rates (to determine borrowing costs);
- maturity profile of debt under different scenarios (to determine what will happen to debt servicing when macroeconomic assumptions fail); and
- average maturity of debt (to determine how long it will take to pay off loans, particularly those with high interest rates).

Debt instruments

DMOs employ a variety of instruments (e.g. sovereign bonds, treasury bills and loans) to finance the government's deficit. PFMA and other legislation would need to specify what type of debt instruments require legislative approval. In most countries, loan agreements between sovereign governments classified as treaties (bilateral debt) and between debtor country and an international organisation (multilateral debt) need approval from the legislature.¹² PBOs can assist MPs in assessing the costs and benefits to these loans using previously mentioned techniques.

11 International Monetary Fund (2003) *United States: Report on observance of standards and codes—fiscal transparency*. IMF Country Report No. 03/243; Hameed F (2005) *Fiscal transparency and economic outcomes*. Working Paper WP/05/225. Washington DC: International Monetary Fund; International Monetary Fund (2007) *Manual on fiscal transparency*; Glennerster R & Shin Y (2008) *Does transparency pay?* IMF Staff Papers 55(1): 183–209; Arbatli E & Escolano J (2012) *Fiscal transparency, fiscal performance and credit ratings*. IMF Working Paper No. 12–156; Batisda F, Guillamón M & Benito B (2017) *Fiscal transparency and the cost of sovereign debt*. *International Review of Administrative Sciences* 83(1): 106–128.

12 World Bank (2015) *Debt management performance assessment methodology*, page 10.



Exercise

The legislature in your country has approved the concept of a PBO. You are tasked with forming a committee to establish the PBO in your legislature. Your specific role is to help MPs (the budget/finance/appropriations committee, in particular) to analyse the budget formulation documents including debt documents in your country. You are tasked with developing a strategy to guide how the PBO will help MPs to analyse the fiscal framework and budget estimates (revenue, expenditure and debt) with a view to playing a bigger role in determining budget priorities. The following questions are meant to help develop this strategy.

What analytical capabilities do parliamentarians currently have access to during budget formulation? Is it within the committee/legislature? What works well?

What analytical capabilities do parliamentarians still lack for analysing budget formulation documents?

What type of professionals need to be recruited? How would they work with parliamentarians, legislative committees and ministry of finance officials?

What structure/s would need to be in place for the PBO to deliver effectively on its mandate?

Module 3

Analytical capabilities of a functional PBO – programme-based budgeting

Module objective

By the end of this module, participants will be able to:

- understand the issues related to adopting programme-based budgeting; and
- understand the specific analytical capabilities of PBOs to analyse budgets in the new format.



Why are these capabilities needed?

CABRI's (2013) *Performance and programme-based budgeting in Africa: A status report* notes that over 80 per cent of African countries are introducing or are committed to introducing some form of PBB. Most countries hope to improve the link between strategic socio-economic planning with annual budgets and medium-term budgetary frameworks. Regional economic communities like the West African Economic and Monetary Union (WAEMU) and Central African Economic and Monetary Community (CEMAC) have directives for its member countries to implement PBB. However, African countries still lack strong PFM systems to implement PBB well (CABRI 2013).

In addition to having capable ministries of finance, other stakeholders, such as line MDAs and parliaments need to have the capabilities required to implement and understand PBB. Only 20 per cent of African parliaments reported that they were satisfied with ownership of PBB in their country (CABRI 2013). This means that MPs still prefer reviewing a traditional, line-item budget. It is necessary to build the capacity of parliaments to switch from traditional budgeting to PBB. It is almost impossible for MPs to allocate resources to programmes on the basis of their performance rather than a line-item (CABRI 2013). CABRI's research on the role of the legislature in the budget process in Burkina Faso highlights this issue.

Several PBOs have been set up to assist MPs with the task of analysing budgets based on PBB. MPs still struggle to understand the link between cause and effect, particularly the difference between outputs (services delivered by MDAs), outcomes (intended impact of outputs) and input (labour, inputs and goods that are needed to deliver outputs).

Examples of PBB

Table 1: Francophone Africa, 2019 executive's budget proposal, Burkina Faso (in CFA francs)

Sect.	Prog.	Intitulé	Objectifs	Prévision 2019		Prévision 2020		Prévision 2021	
				AE (Autorisations d'engagement)	CP (Crédits de paiement)	AE (Autorisations d'engagement)	CP (Crédits de paiement)	AE (Autorisations d'engagement)	CP (Crédits de paiement)
	052	Sport et activités physiques	Développer le sport et les activités physiques,	1 290 828	5 169 389	1 945 078	5 939 973	1 945 078	6 038 561
	053	Loisirs	Développer la pratique des activités de loisirs,	113 000	597 788	173 000	701 236	173 000	753 328
	054	Pilotage et soutien des services du MSL	Renforcer les capacités strat. et organisationnelles du MSL,	25 000	2 222 787	293 770	2 547 397	593 768	2 968 596
21	Ministère de la Santé			42 289 883	235 986 458	36 220 593	269 028 587	33 963 060	262 495 466
	055	Accès aux services de santé	Améliorer accès populat* service santé qualité,	37 396 501	70 714 787	32 222 661	96 593 835	30 203 120	103 567 024
	056	Prestation des services de santé	Réduire morb.mortalité meilleur prév.soins chgmt comport.,	3 732 882	94 899 910	2 295 932	99 563 575	1 557 940	83 771 267
	057	Pilotage et soutien des services du Ministère de la Santé	Renfor.Cap institut., org., gouvernance leadership sect.sant,	1 160 500	70 371 761	1 702 000	72 871 177	2 202 000	75 157 175
22	Ministère de la Femme, de la Solidarité Nationale et de la Famille			1 282 914	19 346 547	2 328 911	18 196 275	1 293 482	16 509 530
	048	Femme et du genre	Promouvoir un développement participatif,	400 000	3 209 341	250 000	3 003 121	350 000	3 504 789
	049	Enfance et famille	Améliorer les conditions de vie de l'enfant,	753 708	5 699 781	1 458 705	7 350 317	943 482	6 508 081
	050	Solidarité nationale et gestion des catastrophes	Assurer le relèvement/réhabilitation des personnes,	129 206	7 878 376	620 206	5 178 089		3 703 401
	051	Pilotage et soutien des services du Ministère	Améliorer le pilotage des structures du ministère,		2 559 049		2 664 748		2 793 259
23	Ministère de l'Education Nationale et de l'Alphabétisation			18 926 504	414 866 219	14 748 214	444 242 677	17 357 329	484 633 187
	058	Accès à l'éducation formelle	Accélérer développement quantitatif de l'offre d'éducation,	15 659 946	302 738 020	14 310 217	332 322 765	17 357 329	371 473 943
	059	Qualité de l'éducation formelle	Améliorer qualité, pertinence et efficacité système éducatif,	3 266 558	54 680 257	437 997	52 356 277		51 616 052
	060	Accès et qualité de l'éducation non formelle	Réduire l'analphabétisme,		2 487 694		2 485 835		2 500 105
	061	Pilotage et soutien aux services de l'éducation formelle et non formelle	Renforcer capacités stratégiques et opérationnelles,		54 960 248		57 077 800		59 043 087
24	Ministère de l'Enseignement Supérieur, de la Recherche Scientifique et de l'Innovation			56 598 509	91 668 765	10 868 202	98 398 436	16 704 752	103 421 053
	062	Enseignement supérieur	Promouvoir un enseignement supérieur de qualité,	22 666 020	45 036 736	8 625 242	52 988 491	13 609 752	55 935 967
	063	Fourniture des services sociaux aux étudiants	Accroître la fourniture des services sociaux,	29 596 651	27 882 726	70 000	25 852 624	900 000	26 304 280

Table 2: Anglophone Africa, 2018–2019 programme-based budget of national government of Kenya for the year ending 30 June 2019¹³

1066 State Department for Early Learning & Basic Education

PART A. Vision
A globally competitive quality education, training and research for Kenya's sustainable development.

PART B. Mission
To provide, promote and co-ordinate quality education, training and research for empowerment of individuals to become caring, competent and responsible citizens who value education as a lifelong process.

PART C. Performance Overview and Background for Programme(s) Funding

The State Department for Early Learning & Basic Education is mandated to undertake the following; Education policy management, management of alternative provision of basic education and training, management of education standards, management of national examinations and certification, curriculum development, quality assurance in education, special needs education management, adult education management, teacher education and management, school administration and programmes of training Institutions, primary and secondary education institutions management and representation of Kenya in United Nations Education Science and Cultural Organisations.

¹³ Available at: <http://www.treasury.go.ke/component/jdownloads/send/198-2018-2019/1221-programme-based-budget.html> [accessed 4 May 2019].

PART D. Programme Objectives

Programme

Objective

0501000 Primary Education	To enhance access, quality, equity and relevance of Primary Education.
0502000 Secondary Education	To enhance access, quality, equity and relevance of Secondary Education.

PART E. SUMMARY OF PROGRAMME OUTPUTS AND PERFORMANCE INDICATORS FOR 2018/2019 - 2020/2021

Programme: 0501000 Primary Education

Outcome: Improved access, equity, quality and relevance in basic education

Sub Programme: 0501010 Free Primary Education

Delivery Unit	Key Output (KO)	Key Performance Indicators (KPIs)	Targets 2018/2019	Targets 2019/2020	Targets 2020/2021
1066001500 Directorate of Basic Education	Pupils enrolled in public primary schools. Capitation disbursement to free primary education.	Number of pupils enrolled	9,150,000	9,150,000	9,150,000
		Number of Free Primary Education monitoring reports prepared	3	3	3
		Number of pupils in schools receiving top up capitation disbursement on free primary	9,150,000	9,150,000	9,150,000
1066100100 School Infrastructure In North Nyamira/ Borabu	Infrastructure improved in schools affected by 2008 post election violence	Number of primary and secondary schools covered	7	7	7

PART F: Summary of Expenditure by Programmes, 2018/2019 - 2020/2021

Programme	Baseline	Estimates	Projected Estimates	
	2017/2018	2018/2019	2019/2020	2020/2021
	KShs.	KShs.	KShs.	KShs.
0501010 Free Primary Education	-	18,110,013,974	17,031,416,651	17,364,635,885
0501020 Special Needs Education	-	1,001,293,790	1,026,657,440	974,561,205
0501040 Early Child Development and Education	-	24,548,547	28,078,900	28,245,004
0501050 Primary Teachers Training and In-servicing	-	657,384,101	727,443,730	809,610,706



Exercise

Your country is well into the process of implementing PBB. The MoF has provided technical assistance to line MDAs to assist them in the preparation of the annual budgets using the new PBB template. The legislature in your country has approved the concept of a PBO. You are tasked with forming a committee to establish the PBO in your legislature. Your specific role is to help MPs navigate the new PBB template. You are required to develop a strategy that will guide how the PBO will support MPs to analyse the new budget format.

Please illustrate your country's PBB template. Do the MPs, committee staff and PBO staff understand the logic behind the template?

What are some of the difficulties in analysing budgets aligned to PBB?

Module 4

Analytical capabilities of a functional PBO – budget oversight

Module objective

By the end of this module, participants will be able to understand:

- the issues related to legislative budget oversight;
- the specific analytical capabilities of PBOs to analyse budget execution reports; and
- budget analysis techniques.



Why are these capabilities needed?

*The status report on good financial governance*¹⁴ and the *Declaration on good public financial governance*¹⁵ – products of a comprehensive study undertaken by the African Tax Administration Forum (ATAF), African Organisation of Supreme Audit Institutions (AFROSAI), African Organisation of Public Accounts Committees (AFROPAC), and CABRI – provide a vital contribution to each network’s programmatic work. In particular, the Declaration commits the networks to work towards the achievement of six principles, of which transparency, accountability and parliamentary oversight feature prominently. The Declaration states that:

We will deepen our support for supreme audit institutions, legislatures and other constitutional accountability institutions, as well as the social accountability institutions of wider civil society, in their pursuit of an effective role in good public financial governance.

Legislative budget oversight during budget execution is paramount to ensure accountability. Budget execution reports in Africa, however, vary in quality, utility and frequency. As officials elected to represent their constituencies, MPs can have first-hand knowledge of the budget needs and how the government is executing the budget. Parliamentary oversight during budget execution has the following key objectives:

- detect budget variances before the end of the fiscal year and inquire about these deviations with the aim of ensuring service delivery;
- avoid fiscal dumping, where MDAs spend most of their budget in the last quarter to improve their expenditure performance and avoid not receiving funds in the future due to poor performance;
- assess if the macroeconomic assumptions hold during budget execution and reallocate expenditures based on changes to fiscal framework, actual revenue, need and absorptive capacity of MDAs;
- approve virements as required by law; and
- propose solutions to any challenges.

While these key objectives help to improve budget execution and credibility, MPs may not have the requisite capacity to thoroughly analyse budget execution reports. Another challenge is the institutional arrangement of legislatures that assign specific roles and responsibilities to different committees including the public accounts committee (PAC), budget/finance/appropriations committee and sectoral committees (health, education, agriculture, etc.). PBOs can help MPs from various committees to analyse budget execution reports, thereby holding the government to account.

¹⁴ CABRI (2011) Available at: <https://www.cabri-sbo.org/en/publications/status-report-on-good-financial-governance-in-africa> [accessed 4 May 2019].

¹⁵ CABRI (2011) Available at: <https://www.cabri-sbo.org/en/publications/declaration-on-good-public-financial-governance> [accessed 4 May 2019].

Analysing budget execution reports¹⁶

Monthly/quarterly execution reports

Monthly/quarterly budget execution reports provide the legislature with actual expenditures, revenue and debt incurred for the specified period. Some African countries, like Madagascar, include service delivery performance information, allowing for better insight into the impact of the budget on citizens' lives. One of the key challenges to improving accountability in the budget process is timely budget execution reports. The MoF needs to provide the legislature with timely budget execution reports. The various legislative committees also have an obligation to scrutinise said reports in a timely manner, in order to have a meaningful impact on improving the budget process and promoting accountability in the budget process.

Box 4: Guiding questions to ask about budget execution

- When are budget execution reports expected?
- When should legislative committees analyse these reports?
- How can the PBOs help the various legislative committees in their respective roles?

The same budget analysis techniques presented in the budget formulation module can be used to analyse budget execution reports. PBOs can assist the various legislative committees by:

- calculating budget variances between the previous quarter within the same fiscal year and the same quarter for the previous fiscal year to identify problematic trends such as consistent underspending to avoid fiscal dumping and overspending;
- identifying which MDAs tend to have problematic trends to solicit explanations when there are significant differences in what was budgeted and the actual outturns; and
- helping committees with the calculations to provide the rationale for the shifting of funds during the budget readjustment by parliament.

¹⁶ What follows has been adapted from South African Legislative sector (2015) Financial oversight: Introduction handbook for members of parliament and provincial legislatures.



Exercise

The legislature in your country has approved the concept of a PBO. You are tasked with assisting the PBO in determining how best to work within the existing legislative committee structure to perform their function better.

How does the current legislative committee use budget execution reports? What are the outcomes of the legislative scrutiny?

What analytical capabilities do parliamentarians still lack to analyse budget execution reports and make decisions?

What type of professionals need to be recruited? How would they work with parliamentarians, legislative committees and ministry of finance officials?

What structure/s would need to be in place for the PBO to deliver effectively on its mandate?



Module 5

Analytical capabilities of a functional PBO – evaluation and audit

Module objective

By the end of this module, participants will be able to:

- understand the issues related to legislative budget oversight to improve budget planning and formulation;
- understand the specific analytical capabilities of PBOs to analyse year-end and audit reports; and
- apply budget analysis techniques.



Why are these capabilities needed?

It is an essential concept in economics that the best way to predict the future is to explain the past. With the previous year’s budget execution data, MoFs develop the following year’s fiscal framework, and MDAs develop their individual budgets. Limited fiscal space requires governments to be judicious with public resources. This strategic decision-making process can be complemented by the legislature and the supreme audit institution.

In many African countries, year-end reports or financial statements need to be reviewed by the public accounts committee. In Francophone Africa, the *loi de règlement* (settlement law) needs to be approved by the parliament before the SAI conducts its audit for that fiscal year. Ex-post parliamentary oversight has key objectives similar to those of in-year oversight. The main distinction between the two is the use of year-end reports and audit reports to make evidence-based decisions on budget allocations. PBOs can assist the various committees in effective management and can contribute towards the legislature improving budget planning and formulation, and the implementation of spending plans.

Evaluation and audit reports

Year-end execution reports

Year-end/final quarter budget execution reports are intended to inform the legislature and citizens about the government's objectives for the fiscal year. These reports are aimed at linking budget performance (expenditure, revenue and debt) with MDAs' performance plans, strategic planning and service delivery. MoFs often use these reports to inform the following year's macroeconomic and fiscal framework.

Budget analysis coupled with performance information can indicate how well MDAs are performing in terms of their aims and objectives. More importantly, good performance against these plans can help identify what policies and practices work, how they work and why they work. PBOs can assist in analysing these reports by:

- calculating budget variances between the budget estimates and the actual outturn for the same quarter of the previous fiscal year to identify which MDAs tend to have problematic trends to solicit explanations when there are significant differences in what was budgeted and the actual outturns; and
- help committees with the calculations to provide the rationale for shifting of funds between sectors during budget formulation based on performance.

Audit reports

SAIs are mandated to audit the finances of the government, public entities and public institutions. Annually, SAIs audit the budget to attain an external, independent, impartial opinion on how the executive has executed the budget. In addition to auditing the annual budget, SAIs may conduct other audits to assess compliance, performance or value-for-money. These other audits can be conducted at the request of parliament. Parliament, through the PAC, analyses these reports not only to hold the government to account but also to assist the MoF, MDAs and parliament in improving budget formulation and planning.

Most audits provide recommendations on a specific MDA's or programme's performance. This aids the oversight role of MPs. PBOs can help various committees in analysing these recommendations to better understand how such recommendations might assist in budget formulation, planning and implementation.



Exercise

The legislature in your country has approved the concept of a PBO. You are tasked with assisting the PBO in determining how best to work within the existing legislative committee structure to perform its function better.

How does the current legislative committee use year-end and audit reports? What are the outcomes of the legislative scrutiny?

What analytical capabilities do parliamentarians still lack for analysing year-end and audit reports, and making decisions in this regard?

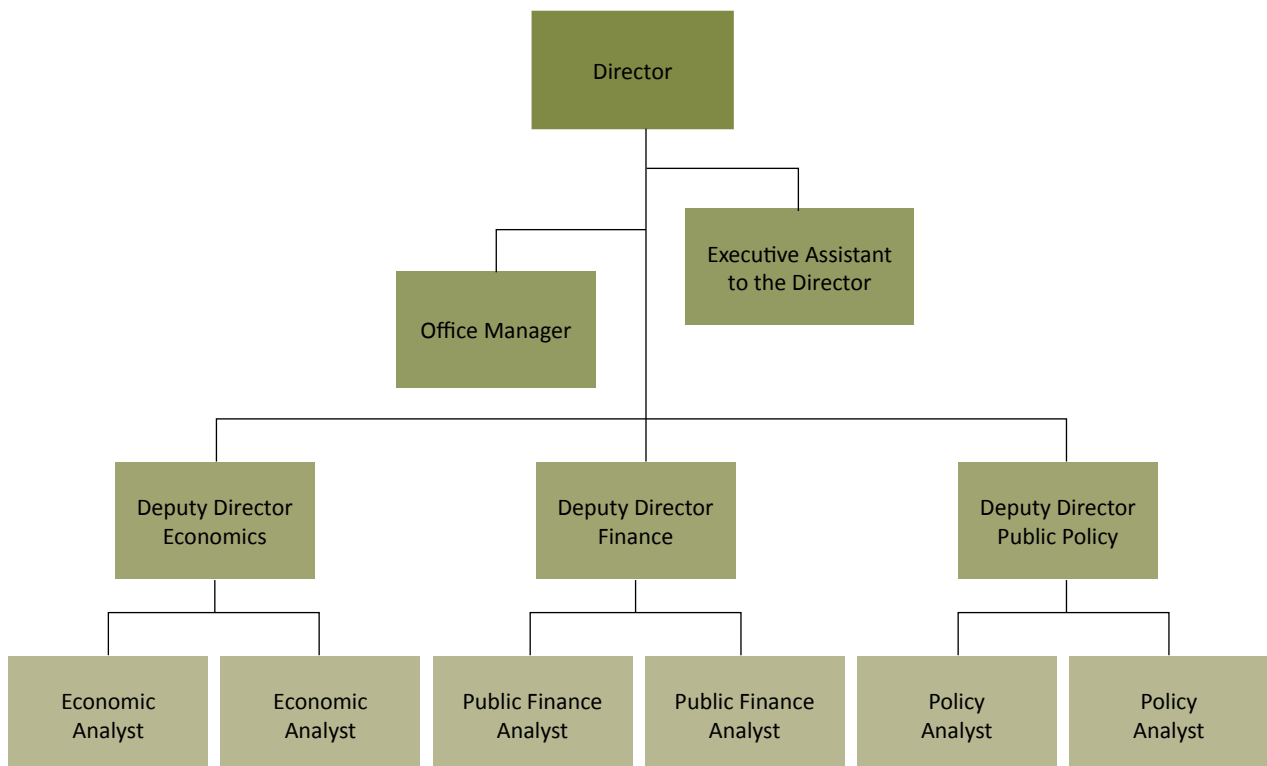
Way forward

What does your PRBO look like?

Some African countries (e.g. South Africa and Uganda) have their PBOs established by PFMA, while other countries (e.g. Liberia) establish their PBO by a separate piece of legislation. Most of these laws set out their respective PBO's mandate and function, administrative structure and staff. They also provide the head of the PBO with the independence to hire qualified staff to deliver effectively on its mandate.

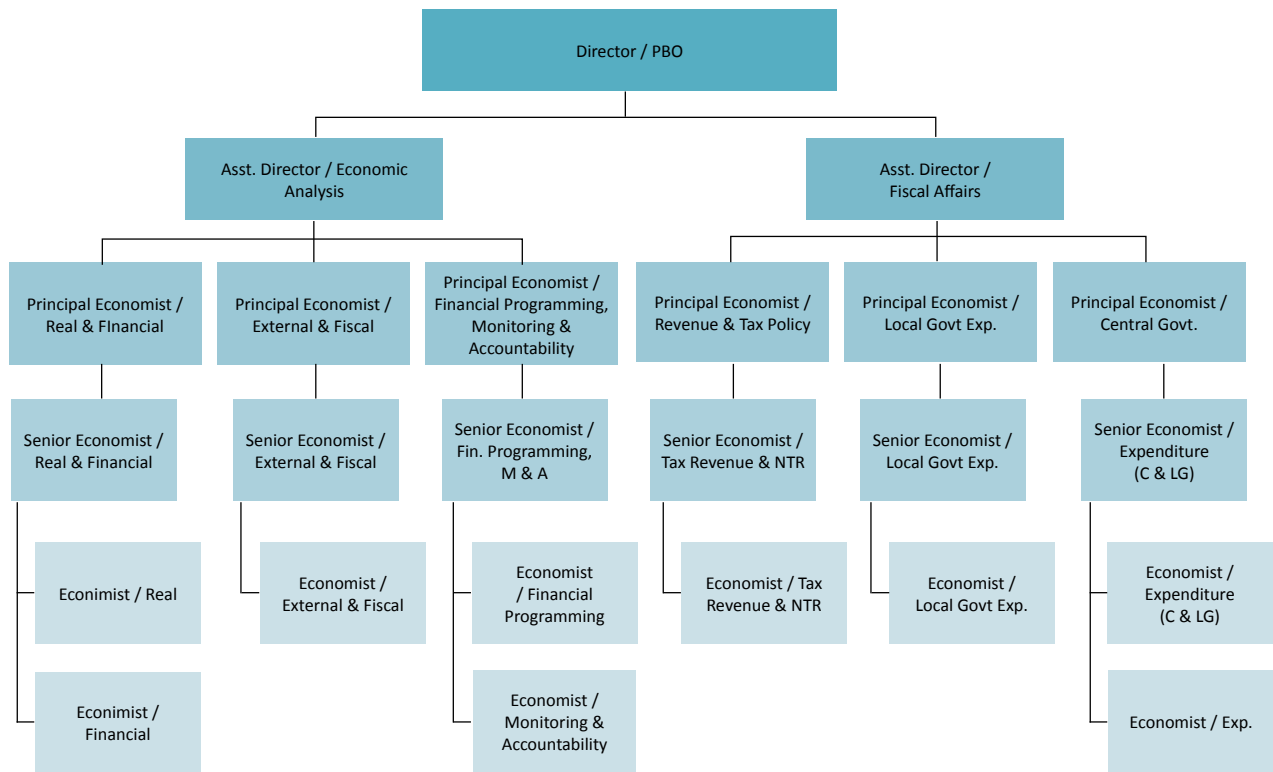
The opening panel provided participants with examples from Mali, Kenya, and South Africa on their process of starting a PBO. The panellists focused on the necessary structures and analytical capabilities of a functional PBO in Africa. The following figures illustrate the organisational structures of the PBOs in South Africa and Uganda. In Uganda's case, the analytical capabilities are quite clear and are directly linked to its mission.

Figure 3: Organogram of South African Parliamentary Budget Office



Source: South African Parliamentary Budget Office. Available at: <https://www.parliament.gov.za/parliamentary-budget-office> [accessed 4 May 2019].

Figure 4: Ugandan PBO organisational structure



Source: Parliament of Uganda. Revised Budget Handbook 2016, page 12. Available at: https://www.e-pbo.org/web/default/files/Events/Annual%20Assemblies/2018%20Annual%20Assembly/Documents/Final_PBO%20Budget_Handbook__July_2016.pdf [accessed 4 April 2019].



Exercise

While the previous exercises assume that the legislature has approved the concept of developing a PBO, this one is intended to assist in developing a strategy to establish a functional PBO.

Conduct a preliminary SWOT (strengths, weaknesses, opportunities and threats) analysis by completing the boxes below.

STRENGTHS

WEAKNESSES

SWOT

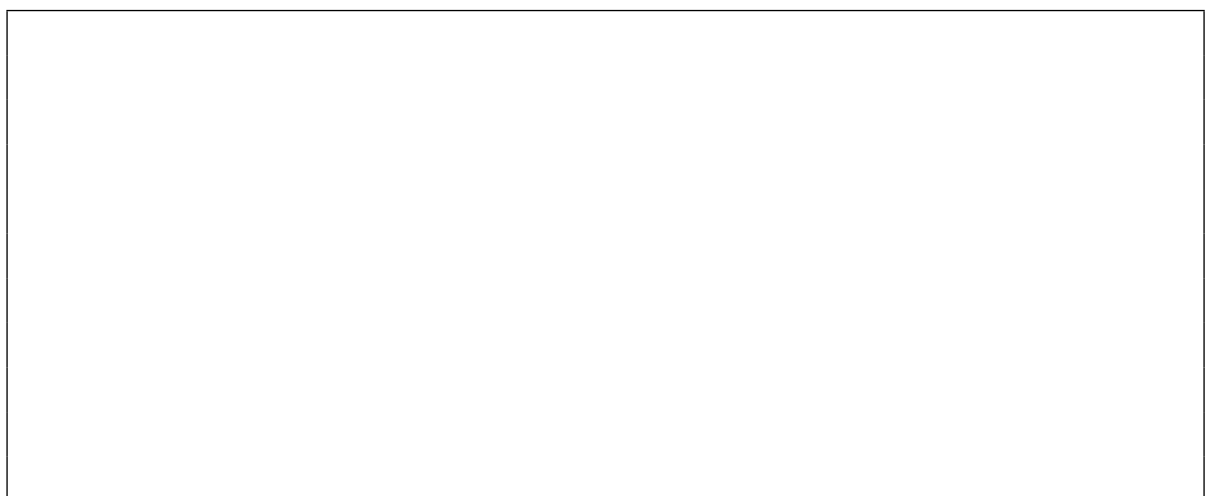
OPPORTUNITIES

THREATS

Who do you need to convince? What would motivate them to approve the establishment of a PBO?

What would be the mission and objective of this PBO? What problems would it solve?

What would your functional PBO look like in its first phase? Illustrate the organogram of your PBO.



Acronyms and abbreviations

AFROSAI	African Organisation of Supreme Audit Institutions
AFROPAC	African Organisation of Public Accounts Committees
ATAF	African Tax Administration Forum
CEMAC	Central African Economic and Monetary Community
DMO	debt management office
DSA	debt sustainability analysis
EBP	executive's budget proposal
GDP	gross domestic product
IFI	independent fiscal institution
IMF	International Monetary Fund
MDAs	ministries, departments and agencies
MoF	ministry of finance
MP	member of parliament
MTDS	medium-term debt strategy
MTEF	medium-term expenditure framework
NDP	national development plan
OBL	organic budget law
PAC	public accounts committee
PBB	programme-based budgeting
PBO	parliamentary budget office
PFMA	public financial management act
SAI	supreme audit institution
WB	World Bank
US	United States
WAEMU	West African Economic and Monetary Union



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