

**Are we asking the right questions?
Embedding a medium term perspective in budgeting**

Draft Programme

Over the last decade and a half, many CABRI members have put significant effort into reforming their budget structure, processes and institutions in order to introduce a medium term perspective. Yet, despite these system changes countries still report that the emphasis in budgeting continues to be annual, medium term budget frameworks prove not to be credible too often and that the quality of the forward expenditure and revenue estimates remains weak.

The fourth annual CABRI seminar provides the intellectual space for countries to consider the policy questions that require a medium-term perspective. In asking the right questions around the areas of the budget that take several years to change, both on the revenue and the expenditure side, we are able to better understand and address the country-specific complexities of moving from an annual to a multi-year budget process. The seminar also allows SBOs to investigate how deeply rooted systems may prohibit or at the very least influence the medium term options that are available and what appropriate strategies in the budgeting arena would address such barriers.

The programme is structured around a central query to participants: “Are we asking the right questions to embed a medium term perspective?” The four sessions examine appropriate questions for senior officials with regards to pertinent aspects of: (i) legacy systems and legal framework practices in the Francophone and Anglophone traditions, (ii) the mobilisation of domestic revenues, (iii) addressing incrementalism and expenditure rigidities and (iv) bringing aid on budget.

Thursday 13 December

08:30 – 09:30

Opening Ceremony

09:30 – 10:00

Break

10:00 – 13:00

Session 1: Legacy systems and legal framework practice in the Francophone and Anglophone traditions

In most of the CABRI countries, much of budget reform has been focused on system improvements towards the institutionalisation of a medium term perspective: often these improvements have adhered to an orthodoxy regarding what is good practice. This session will focus on whether reformers have asked the right questions about legacy formal and informal systems and how they may affect efforts to embed a medium term perspective.

The session approaches the subject through an examination of budgetary legislation and a comparison between Anglophone and Francophone countries:

- What are the institutional arrangements, rules and procedures that facilitate or hinder medium-term budgeting in each system?
- What are the differences in approach or culture that should be taken into account when moving towards medium term budgeting?
- What are the differences in how the legal framework has evolved, its nature and the role it plays in practice and how does this affect the design and implementation of reforms?

- How is power over decision-making and oversight distributed through the system? Where is the divide in the budget process between what the central budget authority does and what line departments do?
- How different are the Anglophone and Francophone budgetary systems, and what are the implications for implementing similar reforms to budgeting practices and processes?
- Are there good practices in Francophone systems which have not featured sufficiently in the Anglophone literature or 'international orthodoxy' on public finance management?

Chair: Ghana
 Presentation: Burkina Faso
 Presentation: Kenya
 Discussant: Ian Lienert, IMF

13:00 – 14:00

Lunch Break

14:00 – 17:00

Session 2: Mobilising of domestic revenues

Parallel Session 1

Tax policy and administration

In many countries, the tax base is extremely narrow, taxes are distortionary in that they reduce innovation and investment and tax incidence is not progressive. Gradually reforming tax policy and administration to raise greater revenue without choking entrepreneurial enterprise must be a key objective of Ministries of Finance. This session will look at what techniques can be used over the medium term to strengthen tax administration, improve tax efficiency and reform tax policy to ensure that taxes are spread more equitably across the economy.

The first presentation will look at the impact of tax policy on tax compliance. Many countries in the region have succeeded over the last decade to increase their own revenue collection as a percentage of GDP, partly on account of improved tax administration, but also by reviewing their tax structure and rates, simplifying the tax code, diversifying and broadening tax bases and phasing out less efficient and more distortionary taxes. While few of these changes can be introduced to a high enough significance over an annual budget cycle, all are medium term options.

The second necessary leg of revenue reforms is an overhaul of tax administration. The unification of revenue services, the introduction of risk-based assessments and integrated information systems, and the establishment of large taxpayer offices are some of the important interventions countries have initiated. Again, these changes will only impact over the medium term. The second presentation will focus on how tax administration reform supports a medium term perspective in budgeting.

Facilitator: Paolo de Renzio
 Presentation: Uganda
 Presentation: Andrew Okello, East AFRITAC

Parallel Session 2

Solving medium-term fiscal policy puzzles

Medium term fiscal policy is a primary instrument of macro-economic management. The links between external and internal debt, government saving or dissaving, expenditure or revenue measures and the size and composition of macro-economic growth are well known. An additional complexity in developing countries is aid inflows, albeit in the form of grants or concessional loans. This session will present two case studies of CABRI countries who have managed themselves out of a situation of high public debt, high deficits, climbing interest rates and interest cost, low or negative growth and looming currency or balance of payment crises to one of relative fiscal health. What were the trade-offs that needed to be made? What political constraints were there on policy

choices? What were the questions that needed to be asked from a medium term perspective to turn the situation around? How have these questions changed with a different fiscal outlook?

Facilitator: Alta Folscher
Presentation: Rwanda
Presentation: Malawi

18:00 – 19:00

Evening presentation on G8 Action Plan for Good Financial Governance in Africa

Friday 14 December

09:00 –12:00

Session 3: Addressing incrementalism and expenditure rigidities

Parallel Session 1

Capital budgeting

Budgeting for the improvement and expansion of economic and social infrastructure and other capital projects is at the forefront of CABRI country interests. Some CABRI countries that are experiencing improved fiscal outlooks are undertaking major medium term infrastructure investment programmes. In others that have had to protect capital spending as government aimed to reduce overall public spending, a natural bias against capital expenditure under a cash-based budgeting regime that makes no distinction between the treatment of current and capital outlays for budgeting purposes, resulted in low levels of investment. While the costs and benefits of consumption expenditure are roughly matched, most of the costs of the capital expenditure are incurred before the benefits are realised. When resources are severely constrained, capital expenditure is particularly vulnerable. The breakaway session on capital budgeting will examine what instrument provides the best solution if infrastructure and other capital budgeting is to be imbued with a proper medium to long term adequacy and sustainability perspective and will identify the critical questions that SBOs should be asking to ensure that capital budgets are allocatively and operationally efficient over the medium term.

Do capital budgets provide a better framework for resource allocation, and specifically, for the determination of long-term investments? How do you shift focus away from an incrementalist approach to capital budgeting to focusing on the level of existing capital stock both in terms of quantity and quality, and the pace at which this needs to be expanded or enhanced? Why is Public Investment Plans making a come-back and what lessons have been learnt? What are the distinctions between presenting separate recurrent and capital budgets and dual budgeting? How would you define a capital budget to embed a medium term perspective: is it projects of certain size; projects (of various kinds, not necessarily producing capital assets) that are partly funded by Development Partners; or any once-off expenditure on assets that is not likely to repeat and for which spending occurs over more than one year?

What are the questions that should be asked at a central level to ensure that the trade-off at the sector level between recurrent and capital is right? How should scrutiny of capital budgets at the central level be structured? How can spending agencies be incentivised to phase project cost properly over the medium term so that cash management and spending is efficient? How can we incentivise proper maintenance of assets?

Facilitator: Paolo de Renzio
Presentation: South Africa
Presentation: Botswana
Discussant: Cameroon

Parallel Session 2

Interrogating baselines and setting expenditure ceilings

Overcoming the deeply entrenched incremental nature of budgeting and its associated consequences for moving resources to priorities is a major challenge. Spending agencies have a fair expectation that the base they have established incrementally over years will be funded in the next budget year. This leaves little room for interrogating existing policies and responding to progress with implementation. In theory, focusing on the incremental addition does allow for resources to be shifted over time. What slows this process down, and what techniques can be used to speed this process up? What basic techniques can be used to interrogate budget baselines? What techniques can be used to incentivise spending agencies to interrogate their own baselines?

This breakaway session will examine different uses of baselines and ceilings in a medium term budget process and distil experience from across CABRI members on what works and what does not to ensure improved quality of expenditure over the medium term. A second theme that will be explored is how scrutiny of baselines can be ensured through a ministry of finance budget scrutiny function: What is the analysis that can be performed? What information should be requested? What skills are required?

Facilitator: Alta Folscher
Presentation: Namibia
Presentation: Ghana
Discussant: Ian Hawkesworth, OCDE

12:00 – 13:00

Lunch Break

13:00 – 14:30

Putting aid on budget

The Paris Declaration recognises the need for aid to be aligned with partner countries' priorities, systems, and procedures. CABRI and the Strategic Partnership with Africa embarked on a joint cross-country comparative study on 'Putting Aid on Budget'. The study – undertaken and completed during 2007 -- looks at how best countries can capture and utilise aid under different circumstances, varying levels of aid, aid management sophistication, public finance management sophistication while taking into account development partner guidelines and practices.

The researchers will present the literature review, a comparison of two of the ten country case studies (Mali and Rwanda), the draft synthesis report and the draft good practice note on Putting Aid on Budget for SBOs to consider and debate.

Chair: South Africa
Presentation: Overview and literature review, Stephen Lister
Presentation: Comparison of two country case studies, Alta Folscher
Discussants: Mali and Rwanda
Presentation: Findings and recommendations, Stephen Lister

14:30 – 15:00

Break

15:00 – 17:00

Putting aid on budget continued

19:30 onwards

Official Dinner hosted by the Ministry of Finance and Economic Planning, Ghana

Saturday 15 December

09:00 – 11:00	CABRI/OECD Budget Survey
11:00 – 11:30	Break
11:30 - 13:00	General Assembly Meeting (Closed session)
13:00 – 14:00	Lunch
14:00 - 15:30	General Assembly Meeting (Closed Session)