

## Case study 1: Alfajiri – limited budget preparation discretion for spending agencies

**Alfajiri is a fictitious country. Its fiscal year runs from January to December. Its budget process and budget process outcomes have features common to many countries in Africa. Please read the case study below and then answer the questions at the end as a group.**

### The case

*Principal Secretary Asha Munda, head of the Alfajiri Ministry of Education, is in her office discussing the final budget allocation to Ministry with her colleague heading up the Primary Education Division, Director Adilah Kaparo, who has just walked into her office. The conversation takes place the day after the Budget was tabled in Parliament.*

**Principal Secretary Munda:** Director Kaparo, did you see what the Ministry of Finance has done to us? I spoke to Personnel this morning and they say if we were to implement the new pay-grade for entry-level teachers announced by the Ministry of Public Administration last month, we will run out of money on the salary budget in November, because we would need to adjust the pay-grade of teachers all the way up the scale. And you know what happened last year, with the cap on wage expenditure from the IMF programme, Finance moved money from goods and services to help cover the payroll for the last three months of the year. We had to scramble for money to pay the examiners and keep the school feeding programme going, paralysing any real work in the other divisions.

I wish Finance officials knew a bit more about our sector and how it works. They look at growth by line items across government and make decisions accordingly.

**Director Kaparo:** And one would wish that Public Administration looks at budget availability before adjusting pay-grades unilaterally. But, that's what I came to talk to you about. I was wondering whether we could pre-empt by not appointing new teachers? I am very worried about the effect on our educational services division. Last year we had to stop the primary curriculum review process as we would not have been able to pay the consultants for the last three month's work. The division tells me it took them six months to get it started again, as the previous reviewers were not prepared to be contracted again, and the new set had to start almost from scratch. And there are numerous education development initiatives that need continuous funding. I don't even want to think how much our IT in schools programme will be affected. The donor money helps, but it cannot sustain a full process.

**Principal Secretary Munda:** If only Finance would tell us what the final allocations are and give us more freedom to move funds against our current allocations between line items. We find out our final allocations at the same time as the man in the street. And I am very sure that if we look closely, we will see that again a percentage was cut across all items besides wages and salaries on the budget we were sent before the budget hearing. If we can make decisions on how to use our funding, I would see what activities we can stop, and cut the budget for all those activities, rather than cope with a budget that has been cut across all line

items. In the end it is a question about whether we are doing too much with our limited resources, and doing nothing well, but I don't see opportunities for having that discussion.

**Director Kaparo:** Yes. Same in our capital spending. I checked the capital projects we put forward for primary, and they have all been reduced by 40 per cent. It would be much better if we could have a few fully funded, rather than many half-funded. With new ones added each year it just means that our open capital projects keep on growing. I have some schools that have been under renovation for years and years, with new contractors every year and deterioration on half-finished work to fix before we can continue.

**Principal Secretary Munda:** It would help if we don't submit requests for projects that are more than twice our previous year's allocation, but if we do that we won't be competing on an equal footing with the other ministries that do the same. And with the budget process for capital projects and recurrent budget being separate, we don't get a proper chance to prioritise our own capital projects given our overall budget. Besides not being able to propose which ones we would fund once Finance has made the allocations across government.

But let's get back to the salary problem. I am not sure not appointing new teachers in primary is going to help, or would be good in the long term. Personnel showed me an analysis of the payroll the other day, and we will be losing 20 per cent of teachers over the next five to 10 years. It is interesting actually – it is the result of the big expansion of the teacher cadre back in the late 70s early 80s when government tried to expand education access. Those teachers are nearing retirement. That means, particularly in combination with the freeze on hiring a decade or so later under structural adjustment, an already widening teacher shortfall in our system. So if we don't appoint new teachers this full year, we will make the problem worse.

The other problem that I can see is that all teacher salaries and goods and services are managed in the school division budget. There is no means to ring-fence just primary teachers, and given our commitment to the donors to lower the learner teacher ratio in secondary, any saving you make in primary will be absorbed by secondary wages and salaries.

You know I was astonished by this teacher information. It is that new deputy director we appointed last year in personnel who did the analysis. I wish we had information like that across the sector to work with. It makes me think we do not use our education information management system nearly enough in budgeting. I am not even sure the finance division knows what is in it.

**Director Kaparo:** You know what PS, now that you mention it, perhaps it is not only about how the finance ministry budgets, but we too! I can see that we should tie things together better ourselves, but where to fit it in our planning cycle? And if we suggest ways of saving money, who says we will get to keep it in our sector. In any case, it looks like we're in for another year of stop-start on any development type programmes, and scrambling for money to undertake any activities.

## Questions

Please see the budget process for Alfajiri below. Review it together with the discussion above, and prepare a group answer for the questions posed below.

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Date	Step
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<b>1 April</b>	Capital budget process starts. Ministries submit proposals for capital projects, with costing
<b>1 to 15 May</b>	Ministries meet with Finance for capital project review. Finance selects projects to put through full appraisal process (large capital projects only).
<b>21 July</b>	Ministries submit 2 <sup>nd</sup> quarter financial reports to Finance
<b>21 July to 1 August</b>	Finance calls selected Ministries to mid-year budget review
<b>15 August</b>	Revised budget is released for remainder of spending year
<b>21 August</b>	Ministry of Finance releases budget circular, with indicative ceilings for personnel and goods and services by ministry. No ceiling on capital.
<b>15 September</b>	Ministries submit budget proposals. A set of excel spreadsheets, detailing budgets by sub-line item against the administrative budget structure One sheet indicates proposals for the capital budget.
<b>15 September to 15 October</b>	Ministry of Finance reviews budget submissions and finalises consolidated budget proposal. In this period it calls selected Ministries to defend budget proposals. Finance sends indicative budgets that resulted from review of budget submissions to all Ministries before selected budget hearings commence.
<b>15 October to 15 November</b>	Final fiscal framework, and adjustment of indicative budgets by Finance within expenditure ceiling. Approval by Cabinet and compilation of budget documents.
<b>15 November</b>	Budget Day
<b>23 December</b>	Budget approved by legislature.

## Questions

Your facilitator will lead a discussion on the strengths and weaknesses of this budget process, and how the process, its rules, roles and responsibilities and available information supports having the right policies and credible plans, ensuring proficiency of funding, and making sure that government can deliver services. Use this discussion to answer the following questions:

- ▶ How could this budget process – both budget preparation and budget execution -- be improved to deliver value for money?
  - ▶ How would you arrange the budget preparation process differently?
  - ▶ What rules would you have in the process (preparation and execution)?
  - ▶ How would you change the budget submissions and sequencing of budget submissions?
  - ▶ What data improvements do you think are needed (preparation and execution)?
- ▶ How should the Budget Office change its own processes?
  - ▶ Does it appear to have the right skills?

- ▶ Does it have right process and instruments internally (preparation and execution)?
- ▶ Does it appear to have or to use the right information effectively to ensure that its decisions support the sector to deliver services effectively and efficiently?

## Case study 2: Shwalane – Policy, strategy, budget disconnects in the budget process and VfM

**Shwalane is a fictitious country. Its fiscal year runs from January to December. Its budget process and budget process outcomes have features common to many countries in Africa. Please read the case study below and then answer the questions at the end as a group.**

### The case

*The text below is a post by Mr Lesebo Moeletsi, the budget director in the Ministry of Finance in Shwalane, to CABRI's on-line discussion forum for senior budget officials. Mr Moeletsi has presided over changes to Shwalane's budget preparation processes, but laments that the quality of spending has not improved.*

Dear colleagues,

I would be grateful for your advice. As I've discussed in the past we have made significant changes to budget preparation over the last five years here in Shwalane. We have introduced a medium term expenditure framework, we now have a programme budget structure and document and we have introduced performance information. We have the national Medium Term Development Strategy, which was done three years ago and is valid for another two years. One of the reasons the Ministry of Finance undertook these reforms was to ensure that we use our limited resources well to fund policy priorities, such as the Development Strategy.

However, these changes have not made much of a difference. We've just had our mid-term review of the Development Strategy, and we found that most of its proposed policy interventions have gone largely unfunded, unless by donors. And we have not seen a reduction in requests for virements, or in overspending, or better budget discipline. It is like the budget is an oil tanker that is impossible to turn around. I have yet to see a single ministry plan better, or use its existing budget baseline allocations better – budgeting is still all about new money with little consideration of policy coherence and strategic expenditure decisions across a ministry's budget, or capacity to implement. Here is my current budget process:

- 1) **In June** we undertake the strategic phase of the budget. In this phase sector working groups prepare sector papers using the programme classification. These were a key reform and are supposed to link the paper to the Development Strategy, review expenditure and project their expenditure needs over the medium term making strategic expenditure choices. We have found these sector papers generally of poor quality. They are long, copy-paste efforts from other documents against our template. It is difficult to see how they offer good comprehensive analyses, policy thinking, or strategies that will result in better value for money. They take up time and resources, but for most sectors, the exercise is meaningless. I have seen no full analysis of a sector's expenditure programmes, using administrative data like we expected in any of these. For example, in education they just reported their performance measures – no use of their education information management system data to look at cost per pupil or in health, using the health information to look at bed occupancy in different regions.
- 2) **In July** we do a macro-fiscal policy round, and review the sector papers. We struggle in this review. The papers cannot be used as meaningful budgeting instruments, they say both too much and too little. And my people are stranded themselves: they comment on whether the papers are complete, quibble about

data accuracy, and fault the layout of tables, but do not themselves identify the key expenditure issues for sectors.

- 3) **In August** we publish the Budget Policy Paper. This includes an economic overview, the expected macro-fiscal policy parameters, brief sector discussions, and indicative allocations to sectors over the medium term. This paper was intended to stimulate debate in Parliament, which it has done, but the debate is an opportunity for political grandstanding, and contains very little policy engagement.
- 4) **In mid-August** we also send out the budget circular. This comprises indicative ceilings for the ministries, including ceilings on wages, and goods and services. My staff calculate these ceilings taking into account the indicative sector ceilings of the Budget Policy Paper, the mid-year expenditure outturns, and any factors they are aware of in ministries' line items. We have a meeting in the Budget Office, where we reconcile these projections by each official for their ministries, with the fiscal framework. As we lack information given the weak sector papers, this does end up being a percentage adjustment across the board.
- 5) **Mid-September** ministries return their budget submissions. These have to be in the new programme classification, for the programme budget document, and by the old budget heads for the estimates of revenue and expenditure, which we still provide to Parliament, as it underpins the Appropriation Act. The budget submission is a big spreadsheet instrument, requesting programme-based projections; detailed information by old budget head and sub-line item for the Estimates; detailed costing of capital projects with detail on donor support; and the performance targets by programme. It includes space to write motivations for proposals in the programme allocations, but the programme structures do not always align with the budget heads, so it is not always possible for my staff to use these motivations in their analysis.
- 6) **Up to mid-October** the Ministry of Finance budget process runs. Firstly we set criteria for reviewing the budget submissions: these are normally about adequacy of budget proposals, effectiveness and efficiency of spending. My staff reviews the budget proposals, noting problems which they first individually take up with technicians in the ministries, before we have a budget hearing. The discussion in this hearing is about the ministries' project proposals. I've been trying to get my staff to give us ammunition to question the baseline more, and they have, but it is by economic item. We seem unable to make the link between economic items and policy priorities, and don't know how to use the performance information without this link.
- 7) **Up to mid-November** when we submit to Parliament: After the hearings we complete the budget allocations, we take them to Cabinet, and compile them into the budget documentation. As always there are last minute adjustments to allocations, with final technical issues emerging, or last minute requests through political channels which we have to accommodate. For the last three years we also have to work back these adjustments from changes to the expenditure heads in the Estimates, into the totals against programmes in the Programme Budget document. Parliament approves the budget late in December, through the Appropriation Act which appropriates by expenditure head.

I would like your advice, as I feel that despite the reforms which were supposed to give us better information in the budget process to work with in the Budget Office, this has not happened. Our expenditure planning is as weak as ever. Please can you tell me how you have tackled these issues,

Your friend and colleague

Lesebo

## Questions

Your facilitator will lead a discussion on the strengths and weaknesses of this budget process, and how the process, its rules, roles and responsibilities and available information supports having the right policies and credible plans, ensuring proficiency of funding, and making sure that government can deliver services. Use this discussion to answer the following questions:

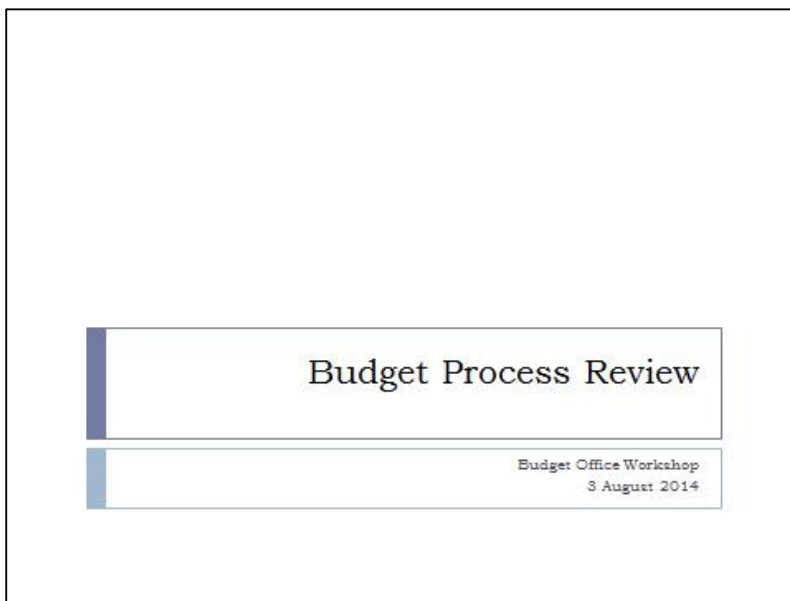
- ▶ How could this budget process – both budget preparation and budget execution -- be improved to deliver value for money?
  - ▶ How would you arrange the budget preparation process differently?
  - ▶ What rules would you have in the process (preparation and execution)?
  - ▶ How would you change the budget submissions and sequencing of budget submissions?
  - ▶ What data improvements do you think are needed (preparation and execution)?
- ▶ How should the Budget Office change its own processes?
  - ▶ Does it appear to have the right skills?
  - ▶ Does it have right process and instruments internally (preparation and execution)?
  - ▶ Does it appear to have or to use the right information effectively to ensure that its decisions support the sector to deliver services effectively and efficiently?

## Case study 3: Nyande – the budget as a political process

Nyande is a fictitious country. Its fiscal year runs from January to December. Its budget process and budget process outcomes are common to many countries in Africa. Please read the case study below and then answer the questions at the end as a group.

### The case

*It is now mid-way through the fiscal year. You are deputy directors in the Budget Office of the Nyande Ministry of Finance. The budget director, Ms Abebi Traore, has called you together for a discussion on the budget process. She has mentioned in individual discussions with all of you that she is very concerned given the mid-year review outcomes. This year, like all years previously, the budget has been derailed. Actual expenditure has deviated significantly from planned expenditure; funding has moved between ministries and within ministries, new programmes that were supposed to have been started, have been delayed with the new funding absorbed in expenditure that was not on the budget in the first place. Below are her opening presentation slides. Read through them and answer the questions that follow as a group.*





## Agenda: Why are we meeting?

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- ▶ Nyande's budget funds only part of what it proposes to fund
  - ▶ Budgets are remade throughout the fiscal year. Why?
    - ▶ Our budget is in perpetual crisis mode: In-year cash shortages means in-year budget allocation decisions
    - ▶ Our politicians and senior officials introduce new spending / new projects throughout the year, skewing actual spending away from proposed spending
    - ▶ We have poor expenditure projections: wage increases, annual floods, demand for cash transfers cause in-year adjustments, every year!
    - ▶ Some programmes underspend, with institutions unable to deliver on projects, others overspend due to under-budgeting
  - ▶ Result: no predictability of funding or cash; no budget credibility; no value for money
    - ▶ Lots of open projects; opportunity cost of new spending not clear in isolation from other demands; no incentives to plan for value for money; sub-optimum service delivery within our resources.
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## Objective

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- ▶ Why do we have problems in budget execution?
    - ▶ Weak budget preparation
    - ▶ Weak budget implementation discipline
    - ▶ Weak information on expenditure and results of expenditure
    - ▶ Weak understanding of capacity to implement, real cost of delivering services / goods
  - ▶ Workshop today to make start to redesign our budget process for value for money
    - ▶ What are the underlying causes of weak budget preparation?
    - ▶ How can we address issues through a better process, better rules, better capacity?
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## Our current process

Time	Step
1 June	Medium term budget circular goes out. Ministries prepare programme budgets over the medium term
1-7 Aug	Medium term budget discussions with ministries and finance
21 August	Ministry of Finance releases budget circular, with medium term ceilings based on ministries programme budget proposals, and requesting detailed annual budget submissions for the fiscal year by main budget heads
15 Sept	Ministries submit budget proposals. A set of excel spreadsheets, detailing budgets by sub-line item against budget heads. One sheet indicates proposals for the capital budget.
15 Sept – 15 Oct	Ministry of Finance reviews budget submissions and finalises consolidated budget proposal. 15 October – approval of budget by Cabinet
30 Sept	Finance publishes pre-budget statement, containing economic review + indicative fiscal framework
15 Oct – 15 Nov	Budget Day 15 Nov Final fiscal framework on 8 November, adjustment and consolidation of ministry budgets within final ceiling, budget speech prepare, documentation printed.

## This is the formal process – what happens in reality?

- ▶ Our medium term programme budgets are supposed to drive value for money
- ▶ They are poor quality:
  - ▶ What do they determine? Indicative ceilings for the annual budget, which are meaningless in turn.
  - ▶ What are they based on? Not clear. There is no continuity in projections from one year to the next. No evidence of ministry budget processes. Weak actual expenditure data and unreliable and incomplete information on results
  - ▶ What do we do with them? Not much. We do not know enough about ministries' policies and what their budgets fund to assess the medium term budgets. And we don't have time – busy with in-year budget decisions.
- ▶ And our annual budget process really decides allocations
  - ▶ We have incomplete actual cost information – fiscal framework pressure leads to under-budgeting rather than strategic choices. We are not in a position to challenge, but contribute, as we adjust allocations to fiscal framework ourselves.
  - ▶ We assess proposals for new spending. But we do very little analysis of the efficiency and effectiveness of overall expenditure beyond growth analysis over previous year budget, and analysis of changes in cost across government in major expenditure items. But no engagement with how ministries deliver services, and use resources for service delivery. We have no basis for such engagement.
  - ▶ As we think we dealt with it in the medium term programme budgets, we do not look at policy-budget link seriously at this stage – it is about inputs and cost
  - ▶ Last year 20% of the budget was decided between 15 Oct and 5 Nov, through direct appeals to our Minister or senior officials in MoF, considered outside of the main budget process. This is just start of practice that continues throughout fiscal year

## What happens in reality?

- ▶ **Fiscal framework not robust**
  - ▶ In aggregate, vulnerable to spending pressures
  - ▶ Once framework set, dysfunctional process to adjust expenditure proposals to ceiling
  - ▶ Weak understanding of likely revenue fluctuations and relationship to expenditure needs in year. Combined with spending pressures leads to cash flow shortages and in-year budget decisions.
- ▶ **Implementation discipline lacking**
  - ▶ Weak implementation discipline – no consequences to overspending
  - ▶ Re-making budget in-year to fit fiscal constraints throws open doors for budget shifts and new proposals.
- ▶ **Our knowledge and engagement is limited**
  - ▶ Time / work study showed that 80% of budget officials time goes into approving in-year spending requests. No basis for these, except what is left in cash budget.
  - ▶ We are financial managers, not sector policy specialists. We have no skill or information basis on which to engage ministries.
  - ▶ Is how we work appropriate? Should we have people working long-term on specific ministries? What cross-cutting skills? How can we grow our policy, and value for money engagement?
  - ▶ What systematic information do we have on which to base our analysis and decisions? Medium term programme budgets have performance information, but is it reliable and complete? Even if reliable, are selected performance indicators all we need – what access to raw administrative data do we need, what is available in government, is it sufficient for our and spending ministry budgeting and review purposes?

## This workshop

- ▶ **Analysis of strengths and weaknesses of budget process**
  - ▶ How does process, its rules, roles and responsibilities and available information support having the right policies and credible plans, ensuring proficiency of funding, and making sure that government can deliver services.
- ▶ **We need to answer:**
  - ▶ How could this budget process (preparation and execution) be improved to deliver value for money?
    - ▶ How would you arrange the budget preparation process differently?
    - ▶ What rules would you have in the process (preparation and execution)?
    - ▶ How would you change the budget submissions and sequencing of budget submissions?
    - ▶ What data improvements do you think are needed (preparation and execution)?
  - ▶ How should we change what we do in the Budget Office?
    - ▶ Do we have the right skills?
    - ▶ Do we have the right process and instruments internally (preparation and execution)?
    - ▶ Do we have enough of the right sector information?

