



Part 2

2.3

Assessment Tool 11

How to assess the enabling environment for sustainable enterprises and identifying priorities for reform

Section 2.3: Assessment tools

Assessing government budgetary processes



Purpose

This tool has been designed to guide an Employers' Organization through the process of understanding and assessing government budgets. It provides a framework for Employers' Organizations to observe the budget process and raise critical questions.



How to use this tool

This Assessment Tool is designed for use by EOs. It is best used as a guide for employers and enterprise development specialists who will facilitate the assessment process with the EO and among other actors.



Government budgets and the budgetary process

The budget is technically the document that includes the government's expenditure and revenue proposals, reflecting its policy priorities and fiscal targets. The budget document is just one part of an ongoing budget decision-making process within government, and of a country's system for managing and assessing its spending and tax policies.¹

Budgets prioritize and balance competing demands. The government's ability to raise revenue is often limited in developing economies, but there are infinite needs to be met by the public expenditure. The budget sets out the resources and funds expected to be available for the upcoming year and how the government will spend those funds, for example, what services and goods will be delivered. The budget allows governments to plan for the upcoming year, and hold government departments responsible for performance.

Knowledge of budgetary processes and cycles is essential for Employers' Organizations. This knowledge will enhance their policy advocacy work. Sound analysis of the budget requires an understanding of:

- Why budgets are important.
- Who is involved in the budgetary process and what their responsibilities are.
- The key stages on the budget cycle.

¹ International Budget Project: <http://www.internationalbudget.org>

Employers' Organizations should understand the underlying strategies and policies that budgets and their allocated resources are supposed to support.

As a country's main economic planning document, the budget necessarily reflects assumptions about key economic and fiscal indicators; however, developing countries typically face a range of macroeconomic circumstances that complicate budgeting and multi-year planning, ranging from a limited capacity to absorb external shocks like falling commodity prices, to narrow tax bases that yield erratic levels of revenue. Vulnerable to rapid shifts in underlying economic conditions, these countries find it more difficult to adhere to expenditure and revenue targets, and keep to even the best-laid budget plans.

Costing

If the Employers' Organizations proposal entails considerable new financial resources which are not accounted for in the current budget, then it needs to consider one of three things: a) advocate for an existing budget line to be downgraded or abolished, b) identify cost savings in the delivery of existing budget lines, or c) identify new resources or new ways of revenue-raising for government to fund its proposal.

In shaping its proposal, the Employers' Organization needs to analyze the national budget data. This entails a quantitative assessment of budget revenues and expenditures.

Revenue composition

Most national budgets derive their revenues from five major sources:²

- Taxation revenues – compulsory contributions, mandated by law, the primary and traditional revenue source for most countries;
- borrowings – debt taken on by the government with obligation for repayment with interest;
- official development assistance (ODA) - financial assistance from other countries or entities that do not require repayment;
- capital revenues – proceeds from sale of assets;
- extraordinary income – non-recurring proceeds or income, and as the name suggests, does not occur regularly (e.g. a sale of a government corporation during privatization).

Expenditure composition

The most common budget expenditure classifications are by:

- Programme – including sub-programmes and sub-sub programmes, etc.;
- economic classification – recurrent or capital expenditures;
- standard item classifications – personnel expenditures, administrative expenditures, equipment, etc.

² Asian Development Bank (ADB): *A Guide to Applied Budget Analysis in the Republic of the Marshall Islands*, 2006

Box 1: Basic expenditure terms

Some definitions for basic expenditure terms include:

Recurrent expenditures: day-to-day operating expenses, usually incurred in the conduct of normal government operations. The largest recurring expenditures are typically public sector wages and salaries, administration, purchase of goods or services for current consumption, and so on.

Capital expenditures: moneys spent on capital items or fixed assets such as buildings, roads, and other infrastructure.

Transfer payments: funds transferred to other organizations or entities, not payments for productive work. These include retirement payments, disability grants, child support benefits, and so on.

Debt service payments: these are payments for past borrowings.

Investment contributions: payments made into capital investments.

Typical budgetary cycles

Most budget cycles have four stages:³

Stage 1: Budget formulation: when the executive branch of government puts the budget plan together.⁴

Stage 2: Enactment: when the budget plan may be debated, altered, and approved by the legislative branch.

Stage 3: Execution: when the policies of the budget are carried out by the government.

Stage 4: Auditing and assessment: when the actual expenditures of the budget are accounted for and assessed for effectiveness.

Each of these stages creates different opportunities for participation by Employers' Organizations.

Budget Formulation⁵

The initial formulation of the budget occurs almost exclusively within the executive branch of government. This process can take a few weeks to several months, largely depending on the extent to which departments are involved and their views are taken into account.

In general, budgets are not built from the ground up every year. Instead, new budgets tend to use the budget most recently adopted into law as a starting point (or baseline), with changes measured from that.

Role of the Employers' Organization

Because the budget is rarely constructed from scratch, major parts of the budget may be anticipated. This creates an opportunity for analysis and advocacy at the formulation stage by the Employers' Organization. During the development of the budget Employers' Organizations can release analyses on issues known to be under consideration or that they believe ought to be priorities with the hope

³ There is an emerging consensus on what countries should do to ensure that their budget formulation processes are fair, open, and accountable. These recommended practices are drawn and synthesized from a number of international organizations including the International Monetary Fund (IMF), the World Bank, the Organisation for Economic Co-operation and Development (OECD) and the Government Finance Officers Association (GFOA).

⁴ See example of the Irish Business and Employers Confederation overall pre-budget submission 2009: <http://www.irishtimes.com/indepth/budget2010/submissions/IBEC.pdf>; Example of the Australian Chamber and Commerce and Industry's pre-budget submission 2010 on a specific issue: http://www.acci.asn.au/text_files/submissions/2010/Feb%202010_ACCI%20Submission%20on%20R&D%20Tax%20Credit.pdf

⁵ Vivek Ramkumar: *Our money, our responsibility: A citizens' guide to monitoring government expenditures*, 2008.

of influencing the budget being formulated.⁶ There might also be opportunities for Employers' Organizations to establish informal lines of communication with executive branch officials. In countries where the legislative process has little impact on the budget Employers' Organizations may have to concentrate on the formulation stage as that is when the key decisions are made.

Budget enactment

The second stage of the budget cycle occurs when the executive's budget is discussed in the legislature and consequently enacted into law. The budget enactment stage typically is when public attention on the budget is the greatest and information about the budget is made broadly available.

Role of the Employers' Organization

With public discussion and interest in the budget typically at their high point when the executive presents its budget to the legislature, this creates opportunities for the Employers' Organization to get media coverage for its budget analyses and proposals.

Budget execution: implementation, monitoring, and control

The next stage of the process occurs once the budget has been enacted. Governments differ widely in how they regulate and monitor spending to ensure adherence to budgets. In some cases, the Treasury (or Finance Ministry) exercises strong central control over spending, reviewing allocations to departments and approving major expenditures. Where departments are more independent, treasuries will monitor expenditures by requiring, for instance, regular reporting by each department of its spending.

Role of the Employers' Organization

Employers' Organizations may engage in some monitoring activities. For instance whether amounts for specific policies or projects have been used for the intended purpose. They also can assess the quality of the spending to see if their policy goals and the associated budget allocation are being met, and if government funds are being used effectively.

Outcome assessment and reporting: audits and performance evaluations

The last stage in the budget cycle includes a number of activities that aim to measure whether there is an effective use of public resources. Ideally, the executive branch should report extensively on its fiscal activities to the legislature and the public. These fiscal activities also should be subject to regular review by an established independent and professional body, such as audit institutions or an Auditor General. The audit office should have the capacity to produce accurate reports in a timely manner.

Role of the Employers' Organization

This budget stage presents a valuable opportunity for the Employers' Organization to obtain information on the effectiveness of particular budget initiatives, as well as to advance accountability by assessing whether the legislature and executive branches respond appropriately to the findings of audit reports.

⁶ See the example from the Confederation of British Employers (CBI) which outlines their overarching economic policies and strategies in a pre-budget communication to the Chancellor of the Exchequer (March 2010): <http://www.cbi.org.uk/pdf/20100308-cbi-budget-submission.pdf>

Key questions for Employers' Organizations

The following list of questions provides a guide to the ways in which Employers' Organizations can interrogate national budgets and the budgetary process:

- Has the state received an increase or decrease in total revenue collected?
- If so, has it earmarked new areas of expenditure or cuts already?
- What new revenue sources are being considered (e.g., gambling revenues, new taxes, changes in mineral rights)?
- Has the State implemented a gender responsive budgeting approach?⁷
- What efforts has the state made to increase the efficiency of public spending?
- Are there areas of “fat” in the budget from which spending can be redirected to more pressing aims?
- If so, what prevented this (e.g., labour agreements might limit the short-term potential for personnel redeployment)?
- What external shocks to government revenue can be expected (e.g. changes in commodity prices)?
- What domestic changes may impact on government revenues (e.g., major infrastructure outlay?)

Sourcing budget information

In many developing countries, government officials monopolize budget formulation and the budget drafting process does not involve public participation or consultation. Often, very little budget information is made available during the budget-drafting phase, even to members of parliament.

In many countries, the general absence of information on budget issues — particularly in accessible, non-technical forms — can hinder the efforts of Employers' Organizations to participate in budgetary planning. Probably the most widespread problem facing democracies of the developing world is the lack of accurate budget data and socio-economic statistics.

The primary sources of data are:⁸

- National Budget Speech delivered by the Minister of Finance to Parliament;
- National Budget Review which generally provides more details and a comprehensive set of public finance statistics;
- National Estimate of Revenue and Expenditure and accompanying explanatory memoranda;
- Auditor-General's report, which can contain useful information on past budgets;
- Parliamentary Committee on Finance or Public Accounts Committee (including records from hearings if in place);
- Department of Finance Intergovernmental Fiscal Review; and
- Adjustments Estimates of national governments, which are presented toward the end of the financial year.

At Provincial level a provincial Budget Review can be produced, which would provide a review of the

⁷ Gender-responsive budgeting is government planning, programming and budgeting that entails identifying and reflecting needed interventions to address gender gaps in sector and local government policies, plans and budgets, and analyzing the gender-differentiated impact of revenue-raising policies and the allocation of domestic resources and Official Development Assistance. Gender-responsive budgeting initiatives seek to create enabling policy frameworks, build capacity and strengthen monitoring mechanisms to support accountability to women. For more information go to: <http://www.gender-budgets.org/>

⁸ Institute for Democracy: *An idiot's guide to compiling a provincial expenditure review in South Africa*, 2006.

previous budget as well as salient features of the current provincial budget and some detail on the provincial budget process.

Ideally, an Employers' Organization should try and obtain actual spending in various departments and then compare this to what was budgeted, as in this way systematic overspending or under-spending may be detected; then it is a matter of figuring out which pressures influenced this outcome. For example, are unspent funds symptomatic of a capacity bottleneck or mainly due to poor financial management? Unfortunately, actual figures are hard to come by.⁹

Trawling through the above documentation is extensive and complex work and beyond many Employers' Organizations' possibilities. However, an Employers' Organization can seek to use other partners and sources to obtain budget information. Among these are:

- Sympathetic public officials: No government is a monolith, while some public officials may be hostile to an Employers' Organization's requests for information and assistance, others can be forthcoming. Identify officials who can help the Employers' Organization with its analysis.
- Auditors and legislators: Public audit institutions can be an excellent source of information. Legislators often have too much information.
- Donors: in countries that are highly donor-dependent, donor organizations may have access to information on public projects.
- National economic research institutions: Such institutions often distil the above information into more digestible products.

Box 2: Checklist for Employers' Organizations on effective budgetary processes

A legal framework for transparency: The legal framework typically dictates the nature of the budget system; to the degree that governments advance transparency only in an informal fashion, such advances are more than likely to prove transitory.	YES/NO
Clarity of the roles and responsibilities of the national and provincial governments: The clarity of roles and responsibilities in the management of public finances is essential to the electorate's capacity to hold specific parts of the government accountable for budget policy and decisions.	YES/NO
Public availability of budget information: A fundamental requirement of fiscal transparency is that comprehensive, reliable, and useful budget information is made available.	YES/NO
Independent checks and balances of budget execution and government data: A critical requirement of fiscal transparency is the opportunity for legislatures and other stakeholders to influence the budget and assess whether government undertook what it planned. Another fundamental issue is to establish checks and balances on the data used in the budget process.	YES/NO
Budget decision-making process: A key issue is whether the legislature and Employers' Organizations are able to participate effectively in the budget process. By effective participation the study refers to the opportunities for the legislature and businesses to make their viewpoints known and to have these views taken seriously.	YES/NO

SOURCE: Adapted from International Budget Project Guidebook, 2001

⁹ Bhajan S. Grewal: Budget Formulation (presentation for Public Finance and Expenditure Management Course, ADB Institute, Tokyo, Japan). Centre for Strategic Economic Studies, Victoria University, Melbourne, Australia, 2005.