

# ***Teaching Notes***

## **Public Expenditure Analysis and Management in the Republic of Kariba: A Case Study**

***Developing More Effective Ways  
to Control and Manage  
Government Resources***

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## Introduction

The Kariba case is designed to provide both policymakers and students of public management with the opportunity to consider how they can improve a budgeting and expenditure management system that is failing to allocate resources effectively. Although the details may differ, well-functioning systems of expenditure management invariably incorporate the principles of strategic focus, transparency, predictability, accountability, affordability, accuracy, timeliness, flexibility, and efficiency in the utilization of resources. Indications are numerous that Kariba's system falls far short of these objectives:

1. *Decision to Move to a Cash Budget:* The fact that Kariba was under considerable pressure from the international donor community to move to a cash budget is a sign that traditional budget discipline had broken down. Under well-functioning systems, ministries should be allowed to spend up to their authorized limit and not beyond; the Ministry of Finance should be reasonably accurate in its forecasts of expenditures and revenues; and the government should practice adequate restraint in its fiscal policy without the added discipline of being forced to rely upon the physical availability and transfer of cash to ensure restraint.
2. *Failure to Allocate Expenditures in Accordance with Government Priorities:* The government has articulated a clear set of objectives. In terms of intersectoral allocations, it is trying to increase the share of public resources going into the social and economic sectors and to law and order, and it is trying to reduce the share going to defense, foreign representation, and administration. In terms of intrasectoral allocations, it is trying to reduce the amount of resources going to

tertiary institutions and devote more to primary schooling and local health care. (Current economic analysis indicates that this expenditure pattern is much more cost-effective and will yield significantly higher rates of return.) Yet resources are consistently not being spent in accordance with these priorities.

3. *Significant Gap between the Official Budget Process and Actual Disbursements:* One of the most fundamental problems with Kariba's current system of expenditure management is that it lacks credibility. As a result, senior officials do not take the budget seriously, and delegate its preparation to junior staff.
4. *Failure to Provide Accurate, Timely, and Comprehensive Reports:* For government officials to be able to manage their programs effectively, they must have timely, accurate, and comprehensive information regarding expenditures.
5. *Failure to Ensure Accountability on the Part of Spending Agencies:* Authority for managing the budget should be concentrated within a single organization and not fragmented between central and line agencies, making it difficult for spending officers to be held accountable for meeting their targets.
6. *Lack of Incentives for Spending in an Efficient and Effective Fashion:* As discussed below, the existing process is rife with disincentives that hinder the prudent use of public resources.
7. *Lack of Trust among Players in the Budget Process:* The case reveals strong tensions and a high level of mutual suspicion between central and operating agencies. They will have to move beyond a state of mutual recrimination if they are to collaborate effectively in reforming Kariba's budget process.

In addition to these major problems, the case reveals a host of more modest or contributory problems, ranging from the failure of the Cabinet Office to ad-

equately communicate, monitor, and enforce its directives to a failure of the line ministries to enforce spending limits on various categories of expenditure to a failure of the central agencies to develop and implement accounting systems that will permit the ministries to play a more active role in monitoring their own budgets. The budget calendar itself is poorly designed to promote predictability, for the final budget is not approved until two or three months into the fiscal year.

## **Developing a Strategy**

In addressing these problems, it is tempting to view the solution in terms of numbers and budget systems. However, the budget is fundamentally about *incentives*. Under the current system, the formal budget process lacks credibility because the major players in the system perceived it to be largely irrelevant to the actual allocation of public resources. From the vantage point of the line ministries, disbursements take place in what appears to be a non-transparent and arbitrary fashion; one that is clearly open to political manipulation, which has enabled powerful ministries like defense to continue to receive a disproportionate share of government resources at the expense of Cabinet's official priorities.

The case makes clear that line ministries currently have no incentive to produce accurate budget estimates or to seek ways to reduce costs. Any effort to integrate accurate cost data into the budget will require considerably more effort on their part. It is much easier to multiply existing budget numbers by a given multiplier than to engage in the type of rigorous cost accounting exercise necessary to produce realistic estimates based upon specific output targets. The case also indicates that their efforts at more realistic budgeting in the past had been generally ignored by the central agencies, creating strong disincentives for repeating such an exercise. Furthermore, the propensity of the Ministry of Finance to take back unspent resources

creates powerful incentives to “use it or lose it” on the part of the line ministries, resulting in suboptimal expenditures on nonessential items.

In addition to the fundamental role of incentives, the case identifies a number of problems that will have to be addressed if Kariba’s budget system is to function effectively. As priorities in the government’s effort to reform its current system of budgeting and expenditure management, the task force should identify at least seven (and possibly more) issues :

1. Cabinet must demonstrate a solid commitment to an agreed-upon fiscal agenda, and do a much better job of recording, disseminating, and monitoring the implementation of its decisions within the line ministries.
2. Permanent secretaries must adopt a more corporate approach to their duties, perhaps by having them report to the permanent secretary of Cabinet and not to their individual minister.
3. Better partnerships must be forged between the central agencies and the operating ministries, and lines of responsibility must be more clearly delineated between the two.
4. The credibility of the budget process must be restored by: (a) improving the accuracy of budget estimates; (b) ensuring that the Ministry of Finance adopts a more transparent and predictable approach in the resource allocation process that closely mirrors the budget process; and (c) strengthening the level of expenditure discipline among the line ministries by giving them more freedom and flexibility in managing their own budget in exchange for their submitting well-costed budget estimates and having to live within their given fiscal parameters.
5. The link between planning and actual disbursements must be strengthened, and resources must be redirected to priority areas both within and among ministries. One approach for achieving this objective would be to foster a process of stra-

tegic planning in the ministries linked with Cabinet priorities. These plans could then be set within a medium-term expenditure framework, which would provide spending targets over a three-year period.

6. Rather than being a serious tool for capital budgeting, the public investment program is currently serving as a “wish list” or a “shopping list” for donors. It should be thoroughly overhauled to eliminate the large overhang of projects and to ensure that priority activities receive adequate funding. Projects within the public investment program must be carefully screened for their rate of return and the degree to which they support current government priorities, and donor projects that are not aligned with these priorities should be scrutinized carefully—particularly if they require significant matching funds. The public investment program must be closely integrated with the recurrent budget to ensure that the downstream implications of current investment decisions are fully accounted for.
7. Although the election poses some serious complications, it will eventually be necessary for the Karibaian government to reduce the size of the public sector so as to provide resources to both increase salaries of skilled staff and to increase the share of the recurrent budget going toward the funding of basic supplies.

## **Implementing the Strategy**

In the move to a more transparent and predictable system, there will be winners and losers. Ministries such as Health and Education typically have most to gain, for they often lack the political clout of ministries such as Defense in the struggle for scarce resources. Officials within central coordinating bodies, such as the Permanent Secretary for the Cabinet, will also tend to champion more transparent and predictable approaches. (As the designated gate-keepers, they

will enjoy increased authority and clout.) Conversely, those benefiting most from the status quo—which in this case would include the Ministries of Defense and Foreign Affairs and tertiary institutions such as the national university or major hospitals—will tend to resist the implementation of the task force’s recommendations on the assumption that they will do better under existing arrangements.

As budget director, Phillips would typically occupy a middle position. Under a cash budget, he could enjoy significant responsibility under some systems as the arbitrator of cash disbursements, which he could use to his advantage. (Other systems would designate this role to the accountant general.) However, this task could also be a thankless one, particularly in light of his subordinate status vis-à-vis the permanent secretaries and the fact that, under a system of tight fiscal constraints, he will inevitably have to disappoint many of them. He may therefore choose to regularize and systematize the process, not only because it is the “right” thing to do in terms of advancing technical efficiency, but because it provides some degree of protection against those senior officials who would inevitably accuse him of bias and favoritism in resource allocation decisions.

Should Phillips decide to push for implementing the task force recommendations, he should first cast about for strategic allies. A natural first step would be to gather support from those who have most to gain from revising the current system. He may also want to discretely use incidents—such as his predecessor’s dismissal over the decision to provide funding for the Ministry of Defense—as an argument for a more routinized approach to resource allocation issues.

In light of the multiplicity of problems to be addressed, Phillips and the task force must think carefully about relative priorities. The proposed action plan must have a critical path that will give some sense of how their goals might be achieved in a pragmatic manner. In this context, Phillips should place particu-

lar emphasis upon two factors:

- How can he score some quick successes that will build momentum for future change?
- What issues are so critical that he cannot afford to fail?

In the first category, he may wish to propose several measures that would make the actual process of disbursements more transparent. This could include promising line ministries that they could actually count on a certain percentage (say 60 percent) of their budgeted amounts. It may also include regularly circulating a record of actual disbursements to the line ministries or publishing a list of actual disbursements for the previous year in the annual budget approved by Parliament. In exchange for greater transparency, the Ministry of Finance could request that line ministries pursue more accurate and realistic costing of their programs and activities. These measures are within his scope of responsibility to implement, and they could serve as confidence-building measures that would lay the groundwork for improved collaboration between central and line agencies.

These measures would also help address the second set of issues—areas in which Phillips cannot afford to fail. It is clear that the current budget system is ineffective and lacks credibility among the major participants in the process, and efforts to restore its credibility must take top priority. This objective, in turn, requires that Phillips reduce the gap between the budget and actual disbursements as quickly and decisively as possible. This approach requires effort at two levels—a top-down approach, in which senior officials (ministers and permanent secretaries) are pressured to take the budget process seriously and ensure that resource allocation decisions reflect cabinet priorities, and a bottom-up process, in which the accuracy of budget estimates is improved so that they are no longer essentially arbitrary numbers but reflect the actual cost of delivering government programs.



In at least two ways, Phillips could influence Cabinet to take the budget process more seriously. The first is through collective pressure. As noted, many ministries would stand to gain from a more predictable and transparent budget process, and coalitions of these ministers could be formed to support the task force recommendations. The support of the Permanent Secretary to the Cabinet and the permanent secretaries for Health and Education could be critical in this regard.

The second approach would be to use informal accountability mechanisms. If there were concern about the amount of time senior officials spend in travel abroad, the Cabinet Office could keep a log of trips and total days abroad, and circulate it regularly among ministries and permanent secretaries.

Regarding the bottom-up reforms, Phillips and the task force members are in a much stronger position to ensure compliance. They can insist that their subordinates adopt new methods of budget preparation, such as standard cost or activity-based budgeting, that will integrate more realistic expenditure data into the budget. Phillips can use his office to reward ministries that pursue these innovations and punish those that do not.