Overview of the Budget Process – Government/Legislative Relations and the Role of Information

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Plan

- What is a budget?
- Budget Functions: Political, Economic, Legal
- Budget Politics
- Executive-Legislative Relations in the Budget Process
- Parliamentary Oversight and Information: Evidence from the field
- Concluding Thoughts
What is a Budget?

- Budget = development – Cambodian MP

- Historically, the word budget derives from the medieval English or French word bougette, diminutive of bouge, a leather bag.

- In English parliamentary terminology it meant the leather bag in which the Chancellor of the Exchequer brought proposals for national revenues and expenditures for the coming period to Parliament - and thus it is used for the plan of revenue and expenditure in a given period of time.
What is a Budget? - 2

- A national budget is a public finance management instrument reflecting government policy, priority, planning and implementation processes for the delivery of public goods and services;

- Budget deals with income and expenditure, thus combining public expenditure plans, revenue and tax legislation.
Budget Functions

- The development, deliberation and passage of a budget with both legislative and executive participation represents “one of the vital checks and balances of democracy”;

- It is by far the most important piece of legislation addressed by the legislative and executive branches because “all daily operations of any government are inextricably bound with budgeting”

- What is good for the health of the budgeting system is good for the health of the overall system of governance;
Budget Functions - 2

- It serves 4 basic functions:
  - Enables total income to be compared with total expenditure;
  - Allows expenditure to be classified, and its relative importance and urgency assessed;
  - Enables its effects on the economic situation and on any national plan to be determined; and
  - Facilitates or provides an opportunity for parliamentary oversight – also called ‘parliamentary control’;
Budget Functions - 3

- As a political tool, budget is value ridden signalling the government’s ideological commitment, political philosophy and policy platform;

- It is a political statement of government policy expressed in fiscal terms;

- Although budgets are expected to serve the public good, they differ on how public goods and services are generated and distributed.
As an Economic tool, it shapes economic priorities and accelerates economic growth (development);

- Influences the direction of investment;

- Promotes employment;

- Influences the redistribution of income (can be pro-poor or non-caring).
Budget Functions - 5

As an legal tool, the budget is prepared and adopted according to constitutional and legal provisions, shapes economic priorities and accelerates economic growth (development).
The budget is perhaps a government’s most political instrument insofar as it presents real choices between competing priorities. There is a natural tension between the budget as both a technical and a political instrument. How this plays out is crucial for accountability and sound spending.

Budgets are also political documents, resulting from a bargaining process that reflects the balance of power among different actors and interests within the government and in the country as a whole.
Budget Politics - 2

- Budgets often involve a compromise between “optimal technical solutions” and the reality of politics and interests within a country.

- The ritualistic nature of the budget formulation process serves the purpose of keeping taxpayers and donors happy, while during the budget execution phase the attention shifts to maintaining political support, for example through the payment of civil service salaries to the detriment of developmental expenditures.
To maximize political longevity, governments in Africa reward groups with strong political influence in budgeting while treating those with little political influence with indifference, at best.

Politicians are always self-interested, short-sighted, politically motivated individuals with little sympathy for technical analysis and fiscal prudence.

Budgets characterized by large deviations between estimates and actual spending, due more to leakages and less to policy failures.
Budget Politics - 4

THIS IS MAINLY BECAUSE, The budget process often suffers from a ‘democratic deficit’ due to the limited accountability provided by parliamentary scrutiny which is hindered by lack of CAPACITY/INFORMATION but also POLITICS. The process tends to be ‘hurried, superficial and partisan’
Exec-Leg Relations in the Budget Process

Planning

Public Accountability

Independent Audit/Evaluation

Financial Reporting

INTERNAL

Budgeting System

Accounting System

Cash/Debt Management System

CONTROLS

Budgeting Revenue & Expenditure

Internal Audit

Managerial Reporting
Exec-Leg Relations in the Budget Process -2

- The Budget process includes many parts of the governance system, including executive government leadership, the public service, civil society groups that provide input, and the institution of PARLIAMENT.

- Certain of the facets of this integrated system are mainly the responsibility of the executive and the public service, operating within the institutional structures of the national state.
For the overall budget cycle to work in an open, responsive and accountable way within the national economy, the various functions noted in the diagram outside the ongoing circle should interact significantly with civil society groups, businesses and the wider society.
Parliament should play a role in ensuring that this wider interaction takes place. Otherwise, consensus on important economic questions will be absent, transparency of the process will be missing, and economic actors in society will be operating without essential information.

This is where Parliament’s interaction with the Executive becomes crucial. It is well placed to serve as a bridge between the Executive and wider society.
Budget Scrutiny project in Ghana – Parliament/Auditor General Relations

Set up to enhance the working relationship between Parliament and the Executive, via the AG’s office

Goal is to improve the budgetary process and give Parliament an effective voice

Also liaison officers from the AG’s office and from the Ministry of Finance
Parliamentary Oversight and Information: Evidence from the field

- At what stage in the budget process should parliament get involved?
- Should parliament be both a player and an arbiter?
- How much time should be available to parliament to discuss the budget? Is it really a question of time?
- How much and what kind of information does parliament need - and at what stage - to be effective in budget review?
- Should parliament have powers to amend the budget? If yes, how much power?
- What is the role of the law on freedom and access to information?
At what stage in the budget process should parliament get involved?

- Budget generally a preserve of the executive…..it could be also argued that if MPs are involved in the first instance, there is likely to be consensus on the budget estimates, they will also be privy to important budgetary information for monitoring purposes.

- Successful budget reform processes show that a key component of the reforms had to do with a higher degree of political involvement at key stages of the budget cycle to ensure that political agreement and buy-in was the basis for basic budget decisions.
Parliamentary Oversight and Information: Evidence from the field

 SHOULD PARLIAMENT BE BOTH A PLAYER AND AN ARBITER?

• Key challenge that needs to be addressed
• Still no agreement on this issue
• But there is need to think carefully about entry points for Parliament/the nature of its role at the early stages of the process
• Its role/power could be compromised, particularly in situations when IT gets ‘captured’ by government departments
How much time should be available to parliament to discuss the budget? Is it really a question of time?

- Best practice indicates 3 months. Several countries making reforms – e.g. Tanzania, Uganda
- But capacity of Parliament/MPs an issue
- Lack of research capacity of parliament seriously undermines its ability to carry out informed debate on budget proposals
- A Parliamentary Budget Office can plug this gap. This is the view of MPs from Kenya, Ghana, Tanzania Rwanda, Zambia, and Liberia among others
What is the role of information in the Budget Process?

- Clear budget guidelines emanating from the Ministry of Finance gives information about the direction of economic management and sectoral ceilings.
- Information and knowledge of sectoral policies are essential for minimising duplication of programmes/projects/activities across sectors. It also allows for resource pooling across sectors and clearer definition of objectives and scope of crosssectoral activities.
- Price information is essential for accurate forecasting of budget estimates.
Parliamentary Oversight and Information: Evidence from the Field - 6

- How much and what kind of information does parliament need - and at what stage - to be effective in budget review?
  - Enough to allow disaggregation budget by sector to enable parliament assess the consistency of allocation with overall policy objectives stated in annual economic policy of government e.g. state of the nation’s address in Ghana (Legislative Stage of the process)
  - Detailed enough to identify the sources and type of tax revenue as these will enable analysis of the redistribution issues (legislative stage of the budget process)
  - Detailed enough to enable judgement on the consistency of the annualbudgetary information with the medium term planning objectives of government as stated in such planning documents if they exist (Legislative Stage of the process)
Parliamentary Oversight and Information: Evidence from the - 7

How much and what kind of information does parliament need - and at what stage - to be effective in budget review?

- Detailed enough to include information on the sources of funding the gap in the budget including the type of Aid available to government (Legislative stage of the budget)
- Detailed enough to identify key programmes and projects for review (oversight) during programme/project implementation. Parliament with the help of the Auditor General in monitoring public expenditure must have enough information to assess if programmes and activities have been undertaken with due regard to economy, efficiency and effectiveness in relation to the resources utilised and results achieved (Implementation Stage of the budget process)
- Detailed information to assess if expenditure outcomes are consistent with the budget estimates or forecasts (Audit Stage of the budget)
Should parliament have powers to amend the budget?
If yes, how much power?

- Unanimous agreement on issue

- Parliaments want unlimited powers to change budgets to reflect the will of citizens

- But political will lacking

- Only a few countries in Africa – e.g. Nigeria, Liberia – have amendment powers but budgetary process still not very effective in these countries
What is the role of the law on freedom and access to information?

- Agreement on the need for Laws on Freedom of Information to give full public access to state documents, except re privacy, security
- Economic/social data to be controlled by neutral, independent agency
- Separate Information Commissioner re this
- BUT, politics standing in the way
Concluding Thoughts

- Information is critical in the budget process

- Parliamentary Budget Offices can play a role in plugging gaps

- BUT the reality of the ‘political nature’ of the budget process needs to be recognized and managed effectively