ODI/CAPE WORKSHOP on AID, BUDGETS AND ACCOUNTABILITY

MANAGING EXTERNAL AND DOMESTIC PRESSURES WITHIN THE BUDGET PROCESS

4TH October 2005

*connectedthinking
Section 1: Background
Section 2: Best Practices in Management of Pressures
Section 3: Highlights of Emerging Contradictions
With over 45% of the national budget funded by donors, the main features of the budget process evolve around:

- Building consensus on hard fiscal choices, expenditure priorities and funding modalities, etc;
- Negotiation and lobbying for desired and obligatory shares of the national cake
- Balancing the compromises within the Budget or Medium Term Expenditure Framework.
Background (Contd)

Where are the pressure points in the Budget Process?

Development or Poverty Reduction Objectives

Mobilisation and allocation of resources

Transformation Mechanism

Desired outcomes, Results, targets and outputs

- Translation of objectives into interventions & smart targets
- Prioritisation

- Macroeconomic constraints
- Off-budgetary sources
- Alignment within MTEF

- Parallel programmes
- Equity
- Efficiency

- Where is the emphasis?
- Who owns them?
- Monitoring dilemma
Management of pressures within the budget process

Selected best practices include:

• Shared vision and commitment at all levels of leadership

• Generation of better understanding, adoption, sustained ownership and consistency at all levels

• Environment/arrangement for reinforcing equal engagement, transparency, consultations and cooperation

• Predictable rules and good practices for sound and trusting relationship and dealing with emerging issues
Management of pressures within the budget process (Contd)

Selected best practices include:

- Assurance services for efficiency and effectiveness
- Capacity building of Government rather than setting up parallel units
- Technical support in analytical work, studies and monitoring
- Capacity building of other stakeholders is equally important
- Review of compliance with agreed partnership principles.


Macroeconomic constraints of increased donor funding

- Evils of increased budget deficit are known which include appreciation of exchange rates, high and volatile interest rates.
- Increasing share of domestic interest bills within the budget
- Commercial Banks use project funds to purchase Treasury Bills.
- Debate on appropriate level of inflation, mix and application of sterilisation instruments
- Strategy to reduce fiscal deficit amidst urgent need to increase donor funding for critical programmes.
- Issue of predictability of donor inflows
Project Funding: An issue of equity, efficiency and sustainability

• Rationale & merits are recognised.

• But modality challenges budget credibility:
  
  • Alignment with national, sectoral and geographical priorities is a dilemma
  
  • Lack of comprehensive understanding of inflows
  
  • Undermines comprehensive budgeting and realistic MTEF

• Limited impact on ground for various reasons.

Highlights of the Contradictions

• A case of mobilisation of resources for HIV/AIDS
  - Global Fund
  - PEPFAR
  - World Bank funded MAP
  - UNICEF
  - Other Bilateral and Regional Funding Initiatives
Earmarked Budget Support, to some extent, undermines flexibility and rationalisation.

- PAF in Uganda demonstrates the merits of the preferred modality.
- However, in the absence of a comprehensive picture on expenditure priorities, earmarking leads to:
  - Lack of incentive for prioritisation in other critical expenditures
  - Small MTEF/budget within the overall MTEF/Budget
  - Rationalisation is difficult with over 50% tagged to PAF and Statutory expenditures.

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Harmonisation of Ratifications and Commitments

With increasing statutory expenditures, pressures in non-priority areas as well as undertakings with partners, additionality and rationalisation is a nightmare with no trade offs.
Harmonisation of Ratifications and Commitments: The undertaking to earmarking over 50% for UPE limits flexibility to adjust the composition of sector expenditures especially to cater for increasing demand in other sub sectors.
Beyond 2005: Linking Public Spending with Development Outcomes

THANK YOU