NATIONAL BUDGET PRACTICES
FOR A PROFESSIONAL GOVERNMENT
IMPROVING NATIONAL BUDGET PRACTICES

Solutions for a professional government

27th February 2020
Implementation

**Poor Delivery**
Failing to meet expectations

**Mismanagement**
Doing the unexpected
Poor Delivery

Failing to meet expectations
Failing to meet targets

Revenue is consistently under-performing

Gap in projected and actual revenue (in LKR billions and as a share of projected revenue)

Calculations based on Central Bank of Sri Lanka Annual Reports (multiple editions)
Failing to meet targets

Consistently missing and revising revenue targets

Projected and actual revenue levels (share of GDP)

Source: Ministry of Finance, Fiscal Management Reports (various years)
Failing to meet targets

Consistently missing and revising debt targets

Projected vs. actual debt (as a share of GDP)

Source: Ministry of Finance, Fiscal Management Reports (various years)
Failing to keep budget promises

Actual expenditure frequently falls short of budgeted expenditure

Source: Annual Report (various years), Central Bank of Sri Lanka
Failing to keep budget promises

Actual expenditure frequently falls short of budgeted expenditure

Agriculture & Irrigation

-12.9% → -8.7% → -18.8% → -25.2% → -25.4% → -40.0% → -33.3% → -9.8% → -18.2%


Source: Annual Report (various years), Central Bank of Sri Lanka
Failing to keep budget promises

Actual expenditure frequently falls short of budgeted expenditure

Source: Central Bank of Sri Lanka, Annual Report (various years),
Mismanagement

Doing the unexpected
The discretionary budget

Meant for unforeseen expenditure at short notice

6. (1) Any money allocated to Recurrent Expenditure or Capital Expenditure under the “Development Activities” Programme appearing under the Head “Department of National Budget” specified in the First Schedule, may be transferred subject to guidelines stipulated in printed Budget Estimates approved by Parliament for the relevant year, to any other Programme under any other Head in that Schedule, by Order of the Secretary to the Treasury or by Order either of a Deputy Secretary to the Treasury or the Director General of the National Budget Department, who may be authorized in that behalf by the Secretary to the Treasury. The money so transferred shall be deemed to be a supplementary allocation made to the particular Ministry, and a report containing the amount of money so transferred and the reasons for the transfer, shall be submitted to Parliament within two months of the date of the said transfer.

Source: Appropriation Acts (multiple years)
The discretionary budget

*The larger the share, the weaker the credibility*

Development Activities of Department of National Budget
(as a share of total estimated expenditure)

Source: Ministry of Finance, Approved and Draft Estimates
Budget speech proposals

Grand promises, poor implementation

New Expenditure Proposals Over LKR 1 Billion

2017

- Undisclosed: 11%
- Broken: 19%
- Poor: 16%
- Partial: 27%
- Substantial: 11%
- Fulfilled: 16%

2018

- Undisclosed: 26%
- Broken: 3%
- Poor: 5%
- Partial: 21%
- Substantial: 21%
- Fulfilled: 26%
Why Is Implementation Weak?

Poor formulation & weak controls
Revenue and expenditure proposals both suffer from three main problems:

- Insufficient research/data analysis
- Limited/No feasibility analysis
- No risk and scenario analysis
Poor Formulation

*Limited data/research leads to unrealistic revenue expectations*

*Source: Committee on Public Finance, Budget Report on Assessment of the Fiscal, Financial and Economic 2017 and Budget Estimates 2019*
**Poor Formulation**

*Limited data/research leads to unrealistic revenue expectations*

### Foreign interest payments (in LKR billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Realised Excess</th>
<th>Average excess over</th>
<th>Budgeted Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>51%</td>
<td>43%</td>
<td>60%</td>
</tr>
<tr>
<td>2013</td>
<td>19%</td>
<td></td>
<td>60%</td>
</tr>
<tr>
<td>2014</td>
<td>43%</td>
<td></td>
<td>60%</td>
</tr>
<tr>
<td>2015</td>
<td>52%</td>
<td></td>
<td>60%</td>
</tr>
<tr>
<td>2016</td>
<td>60%</td>
<td></td>
<td>60%</td>
</tr>
<tr>
<td>2017</td>
<td>34%</td>
<td></td>
<td>60%</td>
</tr>
</tbody>
</table>

*Source: Ministry of Finance (Annual Reports and Budget Estimates)*
### Progress of Development Projects 2017

<table>
<thead>
<tr>
<th>Required time extension (months)</th>
<th>No of Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 06</td>
<td>33</td>
</tr>
<tr>
<td>7 to 12</td>
<td>88</td>
</tr>
<tr>
<td>13 to 18</td>
<td>12</td>
</tr>
<tr>
<td>19 to 24</td>
<td>15</td>
</tr>
<tr>
<td>25 to 30</td>
<td>04</td>
</tr>
<tr>
<td>31 to 36</td>
<td>06</td>
</tr>
<tr>
<td>37 to 42</td>
<td>05</td>
</tr>
<tr>
<td>43 to 48</td>
<td>04</td>
</tr>
<tr>
<td>49 to 54</td>
<td>01</td>
</tr>
<tr>
<td>Over 55</td>
<td>08</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>176</strong></td>
</tr>
</tbody>
</table>

“8 projects required an extension of more than 6 additional years”  
(DPMM, 2017)

This situation calls for: realistic planning; proper feasibility studies and capacity development in project management and contract administration  
(DPMM, 2017)

Source: Department of Project Management & Monitoring (DPMM), Progress of development projects and programmes being implemented in 2017.
Poor Formulation

Lack of risk and scenario analysis prevents risk identification & mitigation

Total government revenue (in LKR trillions)

- 8% Nominal GDP growth
- 10% Nominal GDP growth
- 12% Nominal GDP growth
Sources of oversight are held back by different factors

<table>
<thead>
<tr>
<th>Institutional Oversight</th>
<th>Public Oversight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited Impact</td>
<td>Limited access to data and information</td>
</tr>
</tbody>
</table>
Institutional Oversight

Suffers from limited impact
Institutional & Public Oversight

Forms of oversight from both government and the public

Institutional oversight over budget

- Ministry of Finance
- Parliament
- National Audit Office

Public oversight

- Private Sector / Chambers
- Think Tanks / Academia
- Media
Internal controls
Weak implementation

Visit www.budgetpromises.org for more information
Large Unexplained Expenditure Deviations

Government Expenditure on Acquisition of Vehicles (in LKR billions)

Source: Ministry of Finance (Annual Reports and Budget Estimates)
What percentage of large deviations were unexplained?

- 50%
- 40%
- 30%
- 20%
- 10%
- 0%

Source: Ministry of Finance (Budget Estimates)
Misleading Proposals

Budget Speech Proposals

Revision of Annual Levy
- Annual levy for carrying on the business of gaming other than playing rujjino will be revised to Rs. 400 million
- Annual levy for carrying on the business of playing rujjino will be revised to Rs.1 million

Revision of Casino Entrance Levy
- Casino entrance levy will be revised to US $ 50 per person

Revision of Levy on Gross Collection
- Rate of the levy on gross collection will be revised to 15%

Status quo rate
- LKR 200 Mn
- USD 100

(italics emphasis added)
Public Oversight

Suffers from limited access to data and information
### Reporting Formats & Categorisations

**Incompatible across reports**

<table>
<thead>
<tr>
<th>Mid-Year Report</th>
<th>Annual Report</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recurrent Expenditure (Jan – Apr)</strong></td>
<td><strong>Recurrent Expenditure (Jan-Dec)</strong></td>
</tr>
<tr>
<td>Salaries</td>
<td>Salaries, wages and other employment benefits</td>
</tr>
<tr>
<td>Pensions</td>
<td>Other goods and services</td>
</tr>
<tr>
<td>Interest payments</td>
<td>Subsidies, grants and transfers</td>
</tr>
<tr>
<td>Other expenditure</td>
<td>Interest payments</td>
</tr>
<tr>
<td></td>
<td>Other recurrent expenditure</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance, mid-year fiscal position report and Annual reports (various years)
Information on budget implementation

Poor access to information

New Expenditure Proposals Over LKR 1 Billion

2017
- Closed: 11%
- Restricted: 27%
- Uncooperative: 11%
- Responsive: 16%
- Open: 35%

2018
- Closed: 13%
- Restricted: 26%
- Uncooperative: 0%
- Responsive: 44%
- Open: 18%
## Public Oversight

Is sufficient information disclosed for the public to hold the government accountable?

A firm listed on the CSE needs to make an immediate public disclosure in case of:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Acquisition or loss of a contract</td>
</tr>
<tr>
<td>2.</td>
<td>Change in capital investment plans</td>
</tr>
<tr>
<td>3.</td>
<td>Any material investment</td>
</tr>
<tr>
<td>4.</td>
<td>Any labour dispute with material impact</td>
</tr>
<tr>
<td>5.</td>
<td>Any licensing or franchising agreement</td>
</tr>
<tr>
<td>6.</td>
<td>Any transaction of over 5% of assets or 10% of equity</td>
</tr>
<tr>
<td>7.</td>
<td>Default on interest and/or principal payments</td>
</tr>
<tr>
<td>8.</td>
<td>Details of guarantees and sureties granted</td>
</tr>
<tr>
<td>9.</td>
<td>Any changes in the corporate purpose</td>
</tr>
<tr>
<td>10.</td>
<td>Any major transaction (Section 185 of the Companies Act)</td>
</tr>
</tbody>
</table>

Source: Open Budget Survey 2017
<table>
<thead>
<tr>
<th>Item</th>
<th>Uganda</th>
<th>Sri Lanka</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimates of expenditure arrears for at least the budget year</td>
<td>✔</td>
<td>✗</td>
</tr>
<tr>
<td>In-Year Fiscal Reports (issued quarterly or monthly)</td>
<td>✔</td>
<td>✗</td>
</tr>
<tr>
<td>The impact of different macroeconomic assumptions (i.e., sensitivity analysis) on the budget.</td>
<td>✔</td>
<td>✗</td>
</tr>
<tr>
<td>Citizen’s Budget</td>
<td>✔</td>
<td>✗</td>
</tr>
<tr>
<td>Estimates of sources of donor assistance, both financial and in-kind</td>
<td>✔</td>
<td>✗</td>
</tr>
</tbody>
</table>

Source: Open Budget Survey 2017
Sri Lanka falls behind

Greater public disclosure of information leads to an improved score

Open Budget Index Score for Sri Lanka and Uganda (out of 100)

Note: There was a substantial change in scoring methodology in 2015, which resulted in the standards becoming even more stringent.

Source: International Budget Partnership – Open Budget Survey (Various Years).
Solutions

What can be done?
A BUDGET THAT WORKS

Better Formulation

Better Implementation

Better Controls

Effective
- Delivery of promises

Efficient
- Utilisation of public funds

Credible and Professional Budget

Better Development Outcomes
1. Backing Proposals and Estimates with Analysis

All revenue/expenditure proposals and estimates should be backed up with the following information:

- Detailed estimates of the calculation
- Sensitivity and Scenario analysis of estimates
- Feasibility of the project
- Identifying risks and mitigation strategies
2. Enhancing Information Disclosure

Greater disclosure of information

Disclosure of information such as
- Estimates of expenditure arrears
- In-Year Reports
- Sensitivity analysis of macro assumptions

Proactive disclosure on progress of budget proposals

Information which is disclosed must be consistent and comprehensible

Consistent formats followed in disclosure

Significant deviations explained
3. Limiting the discretionary budget

Development Activities of Department of National Budget
(as a share of total estimated expenditure)

Establish a ‘negative list’ of items which cannot be included under discretionary spending. Eg: Vehicles, Budget Proposals

Implement a 2% limit on the discretionary budget
4. Extending Budget Timelines

- Extended time for preparation of estimates for the budget
  - Philippines – 7 months
  - Thailand – 5 months

- Extended time for approval and scrutiny of the budget in Parliament
  - Philippines – 5 months
  - Thailand - 5 months
5. Establishing a Parliamentary Budget Office (PBO)

<table>
<thead>
<tr>
<th>Functions</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Provision of technical, reliable and non-partisan analysis of budgetary reports to the public.</td>
<td>▪ A Kaizen (continuous improvement) approach in bringing public finance reforms</td>
</tr>
<tr>
<td>▪ Supports the Public Finance Committees and MPs in Parliament.</td>
<td>▪ Enhances credibility of the Budgets and Fiscal policies – by offering an independent expert opinion on fiscal policy</td>
</tr>
<tr>
<td></td>
<td>▪ Enhances the approval and oversight role of the Parliament</td>
</tr>
</tbody>
</table>
SOLUTIONS

1. Backing Proposals and Estimates with Analysis
2. Enhanced information disclosure
3. Limit Discretionary Budget
4. Extend budget timelines
5. Establishment of a Parliamentary Budget Office (PBO)
NATIONAL BUDGET PRACTICES FOR A PROFESSIONAL GOVERNMENT
RATIONALISING MINISTRY PORTFOLIOS

For a professional government

27th February 2020
being a critically important one. It would be recalled that, the Committee, in its Report No. 1, drew attention to the fact that “proliferation, over time of departments, ministries, authorities and enterprises within the administrative system constitutes a significant structural defect.” The Committee then recognised “the rationalization of the distribution of responsibilities and tasks

Cabinet

“Overall direction, co-ordination and supervision of the business of government”

Minister

“Analysis of sectoral policy and monitoring of programmes”

India
Pakistan
Bangladesh
Afghanistan
Nepal
Sri Lanka

Ratio of Ministries to Population

Source: VR calculations
Number of Ministries

Frequency of Changes

Mismatch of Subject Areas

Frequency of Changes in Ministries

Source: Department of Government Printing
Number of Ministries
Frequency of Changes
Mismatch of Subject Areas

Education
School Education
Higher Education
Vocational Training
Telecommunication
Foreign Employment
Sports
Fragmentation

Splitting related subjects

- Vocational Training
- School Education
- Higher Education

Misalignment

Combining unrelated subjects

- Telecommunication
- Foreign Employment
- Sports
MISALIGNMENT

Combining unrelated subjects
Adoption of measures to ensure supply of clean drinking water for all citizens

Management and development of State Universities under the administration of the University Grants Commission

Special cities and townships planning and development

Ministry of City Planning, Water Supply and Higher Education
Adoption of measures to ensure supply of clean drinking water for all citizens

Management and development of State Universities under the administration of the University Grants Commission

Special cities and townships planning and development
FRAGMENTATION

Splitting related subjects
Ministry of City Planning, Water Supply and Higher Education

- Special cities and townships planning and development
- Monitoring and implementing relevant construction activities based on national physical plans in the execution of urban development work

Ministry of Megapolis & Western Development

- Integrated and systematic promotion and regulation of economic, social and physical development of urban areas
- Technological city development project and related activities
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Ministry of City Planning, Water Supply and Higher Education

- Special cities and townships planning and development
- Monitoring and implementing relevant construction activities based on national physical plans in the execution of urban development work
HOW DOES THIS AFFECT THE EFFICIENCY AND EFFECTIVENESS OF GOVERNMENT?

- Costs: Up
- Time: Up
- Efficiency: Down
- Accountability: Down
NATIONAL BUDGET PRACTICES
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