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Basic enough budgets

What should you do when you can't do everything?

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Abstract

In order to manage revenue and expenditure, a state must have a budget of some kind. While there are numerous frameworks for what constitutes an ideal budget, relatively little consideration has been given to what might constitute a 'basic enough' budget for low-income and low-capacity states. This paper considers a number of leading frameworks, and reviews evidence from both historical and more recent examples that explain how budgets have operated in environments with limited capacity.

This paper concludes that a 'basic enough' budget process requires a focus on systems for basic fiscal management (clear input controls, functioning treasury systems that can execute and manage payments, accounting and reporting systems that capture overall expenditure patterns) and straightforward high-level allocation decisions. Other elements of budget best practice – for example strong internal and external audit, a focus on improving operational delivery and investments in the strategic phase of the budget – are less important. However, even such a 'basic enough' budget might be challenging to deliver in many low-income and low-capacity states.

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1 Introduction

1.1 Budgeting and the state

It is perhaps uncontroversial to say that effective states are necessary to deliver the kind of economic and social changes that improve citizens' lives (World Bank, 1997). A key element of state effectiveness – indeed, a marker of its existence at all – is the ability to raise and deploy financial resources in pursuit of its policy objectives, of which waging war has historically been an overriding driver in the European context (Tilly, 1992; Krause, 2013). A state that cannot undertake some elementary economic and financial management – that is, deliver a basic budget – is unlikely to be on the path to rapid economic and social development, and at the extreme may risk collapse.

There are a number of straightforward definitions in the literature as to what constitutes the nature of a budget. It can be described as plan for public expenditure lasting one year that is approved by a legitimate authority (Schick, 1998; Tommasi, 2009). The discussion in this paper will follow this approach and focus only on the *expenditure* aspect of national budgets, rather than the government's plan for revenue raising.

1.2 Why do we need a budget at all?

Budgets offer two main theoretical benefits compared to a system of fully discretionary and ad hoc spending: they can be a tool for increased efficiency, and a tool to generate a contract between funders and executors of the budget (Simson and Welham, 2014). Regarding efficiency, budgets increase the likelihood that government will deliver its aims by requiring competing priorities to be traded off against available resources and providing a mechanism to coordinate action among disbursed actors across the public sector. In terms of contracting, budgets represent a social contract setting out what governments will deliver in return for resources as a way of ensuring support (or at least acceptance) for the government's tax and spending plans. A 'perfect' budget would deliver both of these and in doing so be relevant and credible as a planning and contracting tool.

However, in a typical low-income and low-capability state, these two objectives are frequently in tension. Notably, the real intentions of the government proposing a budget (i.e. their use of the budget as an efficiency tool) may not be suitable for publication (therefore undermining the use of the budget as a contracting tool). Significant uncertainty in the world – particularly in low-income and low-capability states – may make national budgets particularly difficult to manage effectively regardless of intention (IMF and World Bank, 2011). Taken together, these work to undermine the relevance and usefulness of budgets, particularly in low-income and low-capability states. Nevertheless, the fact that formal budgets endure in all countries suggests that they have some advantages in delivering these twin objectives compared to having no system at all.

1.3 Why do we need basic *enough* budgets?

If the goal is to see states with at least some capacity to deliver social and economic development through raising and deploying resources, how can developing states, and their supporters, determine if they are operating budget processes to deliver a minimum degree of relevance and credibility? This question of what makes a basic enough budget is interesting for a number of reasons.

Firstly, low-income and low-capability developing country budgeting systems are widely thought to be weak, and – importantly – have been so for many years. Studies from decades ago (e.g. Caiden and Wildavsky, 1980), the more recent past, (e.g. Rakner et al., 2004) and from contemporary low-income and fragile environments (e.g. Fritz et al., 2012) continue to point to actual budget practice that continues to fall short of good practice. As a result, and given the long-standing problems many countries experience in this regard, there is merit in considering in more detail the nature of a national budget that explicitly aims to do just enough to deliver a relevant and credible budget.

Secondly, while there is a great deal of advice that conceptualises what an ideal budgeting system should look like, there is a gap in the discussion of what 'just enough' might look like. It can help budget managers in low-income and low-capacity environments, and their external supporters, to focus their attention on the most important of the core functions of budget management and therefore prioritise their scarce resources.

Thirdly, and related to the above, there has been a broad change in the academic approach in public financial management (PFM) and budgeting reform. The debate has moved away from recommending 'best practice' solutions, often based on replication of contemporary OECD-country institutions, and towards 'best fit' approaches that build iteratively on existing systems, however flawed they may be, over the long term (e.g. Andrews, 2013). This move follows a broader shift in governance thinking in development practice from the importance of delivering 'good governance' to fostering 'good *enough* governance' (Grindle, 2004) and avoiding the almost inevitable implementation failure that accompanies overly ambitious institutional reform (Schick, 1998; Pritchett et al., 2010; Allen, 2009; Andrews 2013). A basic enough budget discussion can usefully take this approach to governance reform and apply it to the budgeting context.

1.4 Approaching the question

Inevitably, this kind of exercise is partly subjective. The discussion accepts that there is no way of determining entirely objectively for all country contexts exactly what 'just enough' would be in terms of a national budget that is relevant and credible. Each country situation will be unique, and national budgeting, as a politically informed public management exercise, is arguably more an art than a science, reducing the possibility for clear objective criteria. This paper will therefore not attempt to outline an exact list of actions and/or processes that ministries of finance should take, but instead explore existing concepts, ideas and broad recommendations for what a basic enough budget would look like and situate them in an assumed low-income and low-capacity country context.

The first part of the paper will review existing literature on budgeting to identify areas of consensus as to what a budget is, what it's trying to achieve, and what existing ideas of 'basic' and/or 'basic enough' budgeting processes in these circumstances might be. The section will review existing textbooks and comprehensive guides to budgeting, previous academic discussion on this specific issue, and selected historical examples of how budgeting has actually evolved over time in certain countries.

The second part of the paper will consider some of the common political, institutional and bureaucratic conditions of low-income and low-capacity countries. It will then consider the emerging conclusions from the literature in light of this context. The aim is to clearly place the national budget process in a contested political and institutional situation. These conditions will be used to inform the boundaries of what is possible when considering what basic enough might look like for a national budget. The concluding part of this paper will then draw some of these conclusions together to put forward a tentative view of what the principles and key elements for a basic enough budget would be in a low-income and low-capacity environment.

The discussion will be taken forward from the point of view of a ministry of finance, rather than from the point of view of line ministries feeding into the budget process or Parliament contributing to shaping the budget. The ministry of finance is the lead actor with oversight of the end-to-end process. It is this institution that will likely determine what level of sophistication should be used. As a result, considering the implications of a basic enough budget from the ministry of finance perspective is most useful.

2 Basic enough budgets in the literature

This section will review some of the key literature on PFM and budgeting systems to determine the degree to which existing thinking on the nature and purpose of budgets can be used to inform what a basic enough budget might be. This section will first review literature related to the conceptual foundations of a budget to draw out overarching principles that might inform design of a basic budget. It will then review three streams within the literature (budgeting handbooks and frameworks; existing suggestions of what makes a basic budget; real-world case studies) that might provide a more specific guide in terms of principles to inform a basic enough budget.

2.1 Key concepts from theories of budgeting

2.1.1 The high level objectives of a budget

Within the two overall benefits of budgets discussed above (more efficient management; more effective contracting), a national budget is often seen as having three overall objectives (e.g. Schick, 2007; Musgrave and Musgrave, 1973):

- Fiscal control to support macroeconomic stability
- Allocative efficiency
- Operational efficiency

These are typically presented in a hierarchy of importance, with fiscal control being more important than allocative efficiency, which in turn takes precedence over operational efficiency. To a degree this ordering is perhaps logical. Only once overall fiscal control (the first objective) is established can there be a discussion about sustainably allocating resources to priorities (the second objective); and similarly there is questionable benefit in aiming for operational efficiency if the wrong priorities are being made maximally efficient (the third objective). Above all, even perfectly delivered operational and allocative efficiency will ultimately unravel if overall fiscal policy is unsustainable (Schick, 1966).

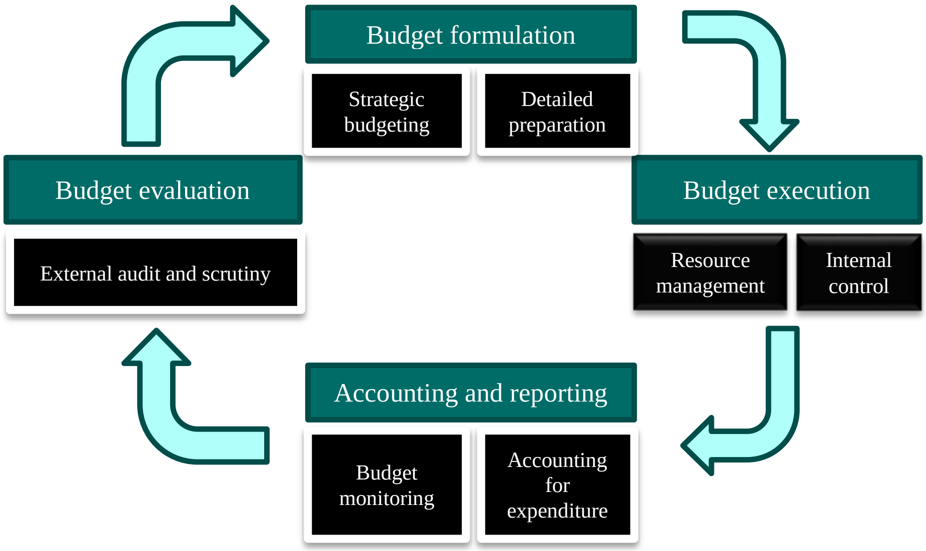
This suggests that basic enough budgets should therefore prioritise those systems and operations that will support fiscal control above systems that support the other two objectives. Putting in place the systems that can deliver fiscal control will be a significant step towards making the budget relevant and credible at a high level, even if not necessarily at an allocative/operational efficiency level. It suggests a secondary focus on basic allocative efficiency. Translating this into the context of a basic enough budget, it could usefully focus on the high-level allocative issues by economic category (e.g. debt; wages; recurrent; capital) that are common across government and relatively easy to aggregate, and perhaps on understanding of the key administrative divisions that government typically use to allocate broad types of expenditure (e.g. allocation to individual ministries). A basic approach would have less interest in some of the more complex forms of categorisation such as a cross-government functional allocation (i.e. aggregating expenditure by function across all different administrative units) or using programme-based approaches to allocation (e.g. aggregating expenditure across government based on a judgement as to which high-level government objective it relates to).

This suggests a lesser focus on the goal of operational efficiency. While this may be controversial, it is arguably sound for a number of reasons. Many sources suggest that operational efficiency is very difficult to achieve in difficult environments in any case. For example, provision of financing to public service delivery through the budget cannot address the key quality and motivation issues that determine real operational efficiency of service delivery (Williamson and Dom, 2011; Pritchett, 2013). Others have suggested that provision of finance at the right time and right place is *necessary* but not *sufficient* for efficient service delivery (Welham et al., 2013), and again that a large number of non-financial factors determine how and if services will be delivered. Overall, it suggests that even if a ministry of finance can provide important inputs for the right purposes at the right time, a whole host of other factors must also be in place if efficient services are be delivered (e.g. the right policies, the right workforce, the right motivational incentives). These are typically beyond the control of the ministry of finance, which would usually look to a sector ministry to lead on these 'softer' issues. If a basic enough budget requires prioritisation of activities, it is better for the finance ministry to focus on those things that are within its control, rather than things for which it lacks direct levers. This would suggest a focus on fiscal control and basic allocative efficiency, where the ministry of finance has real levers and instruments to determine outcomes, rather than assuming a large role in delivering operational efficiency.

2.1.2 The classic budget cycle

A national budget can be conceptualised as working through a well-recognised sequence of events. This cycle and typology can also help inform the nature of a basic enough budget. Typically, a budget cycle has a number of stages taking the process through from formulation to evaluation, the outcome of which will then feed into the next year's budget. Figure 1 sets out a simplified view of how the different stages of the budget cycle operate.

Figure 1: Simplified outline of the 'classic' budget cycle



Source: author's own representation

The presentations of such a framework do not automatically suggest any sense of prioritisation or where to focus scarce capacity. However, relating the above focus on fiscal control and basic allocative efficiency to the budget cycle suggests a clear emphasis on certain elements of the cycle. Most important, this would be (1) execution and controlling expenditure so as to not exceed certain key totals (supporting fiscal control), and (2) accounting and reporting so as to know the in-year and end-year fiscal position and broad allocations (to further support fiscal control and monitor basic allocation). Secondary emphasis might be (3) formulation, in terms of accurately forecasting what aggregate expenditures should be to maintain fiscal stability and allow for some basic form of allocation decisions. As a result, effective budget control systems (e.g. cash management systems, payment management systems, and other controls on inputs and commitments) accompanied by a sound understanding of the government's financial position in-year and at the end-of-year stage (through an effective accounting and reporting system), alongside basic allocation capability in budget preparation, should help deliver the core functions of a basic enough budget.

If this is accepted, it puts relatively less focus on other parts of the expenditure cycle. Regarding external audit and scrutiny, these final two stages of the budget may be particularly important for allocative and operational efficiency as they will provide information about the efficiency of how the funds have been handled and their correct usage. They may also be important in building, over time, public legitimacy and trust in the operation of the budget. While external scrutiny is arguably part of the broader question of social change, there is a need to develop the right political context that will support external scrutiny, rather than just assume external scrutiny is a technical issue that can be straightforwardly implemented. This is not to say that external audit and scrutiny are not important at all, but instead to put them in context of other priorities. If the focus is a basic enough budget, then the parts of the budget cycle that matter most are those that best support budget execution control, accounting and reporting and basic formulation: external audit and scrutiny is something for longer-term development and not something immediately under the control of ministry of finance budget managers.

With strategic budgeting – the first element of the expenditure cycle – the analysis similarly argues for relatively less emphasis in basic enough budget. As will be discussed in the next chapter, countries using a basic budget typically experience high uncertainty, both at a macroeconomic and political level. This reduces the usefulness of detailed strategic planning. Weak public administration systems across the board further reduce the chance that even well-designed detailed strategic plans will be implemented in any case. Budgeting is typically noted as an incremental process for a number of reasons (Davis et al., 1966; Schick, 1983; Caiden and Wildavsky, 1964), and given that strategic budgeting shifts are difficult to manage, such a task will be doubly challenging at lower levels of capability. Experience of multi-year national planning in developing countries is not encouraging in terms of countries' ability to link strategic plans to budget policy (e.g. Wilhelm and Krause, 2007; Simson, 2012). Again, this is not to suggest that strategic budgeting is entirely without value in this context; rather, in the context of limited capacity and competing priorities, investing significant ministry of finance capability in detailed strategic plans is not as valuable an activity as focusing on other parts of the budget process.

2.2 Existing frameworks for what constitutes a 'basic' budget

The discussion has so far identified key propositions as to the nature of a basic enough budget with reference to the fundamental objectives of budgeting and the budget cycle. Moving to the next level of detail, there is an existing literature that directly or indirectly addresses the issue of what a 'basic' budget might be. This can give a hint as to what a 'basic *enough*' budget might be.

This issue of a 'basic budget' has been discussed in several different ways. One approach to basic budgets comes from the development assistance and international technical advisory fields. This often takes the form of comprehensive advice provided in manuals and guidelines dealing with a whole range of PFM issues, of which budgeting is only one component. Another approach more directly relevant to the question comes from writers who have explicitly attempted to set out what a basic budget is and how the concept can be used to design PFM reforms. Finally, there is a literature on the actual experience of country budgeting systems. A number of case studies are reviewed to see how budgeting has actually worked in practice over time, and from this conclusions are drawn about what a basic enough budget might look like.

2.2.1 Comprehensive guides to PFM and budgeting in developing countries

A number of well-established PFM handbooks could provide a model for a basic enough budget (e.g. Potter and Diamond, 1999; Schiavo-Campo and Tommasi, 2001). These manuals set out what a 'correct' PFM system should be according to various criteria, including the expected features of a budget (e.g. 'annual', 'universal' and 'unified'). One approach could therefore be to take the budgeting models outlined in these documents and determine what a 'simple' version of each feature of the budget could be.

However, there are challenges in deriving practical actions from these manuals. Firstly, they typically cover the entire PFM cycle and do not particularly highlight priorities within the broader PFM arena, whereas the discussion above has highlighted the need for a focus on those aspects of PFM contributing to expenditure-related fiscal control and basic allocative efficiency. The arguments above would suggest that only some features of the models would be relevant.

Secondly, these guides set out very useful high-level specifications for what a correct budget process looks like, but they do not (and are not intended to) provide a guide as to what kind of prioritisation might help budget decision-makers manage a budget in difficult contexts. Indeed, the manuals are intended to be relevant to a wide range of countries of very different backgrounds and not simply low-income and low-capacity environments. As a result their recommendations for what constitutes the correct kind of budget are often 'neutral' as to the wider political and bureaucratic context, and do not specifically address the particular challenges of budgeting in low-income and low-capacity environments. Other than suggesting that 'everything be done but in a basic level' there is relatively little guidance on what the key aspects of a basic enough budgeting system should be and how a capacity-constrained ministry of finance could approach prioritising their actions.

2.2.2 Scoring and assessment metrics

A further option for deriving the basics of a basic enough budget would be to review leading PFM assessment frameworks. Their scoring methodologies can be interpreted as implicitly containing a 'good enough' standard of performance that could be used as the basis for the minimally acceptable. The Public Expenditure and Financial Accountability (PEFA) framework is the most widely used PFM diagnostic tool, with over 300 studies to date (PEFA, 2015). The PEFA secretariat has suggested informally that scoring a 'C' in the framework can be considered 'basic functionality' (pers. comm., 2014). Therefore, collating the functions and forms necessary to deliver a consistent set of 'C' scores – at least for the budget-relevant components of PEFA – might provide a guide as to what is basic *enough*.

In practice this is challenging to do. These guides cover the whole budget cycle, as expected, and therefore carry the same challenge as comprehensive budgeting textbooks in not giving a prioritised focus to activities. The revised scoring approach for PEFA covers 30 indicators, which each have up to four scoring dimensions, meaning that effectively country systems are scored on 89 different measures, and some of these dimensions include further consideration of 'basic' and 'additional' elements (PEFA, 2015). This is arguably simply too many indicators from which to derive a 'basic enough' standard of operation. The PEFA indicators also tackle a wide range of PFM systems and processes, whereas the discussion above has highlighted the need for a clear focus on issues relating to fiscal control and basic allocation. Even if a prioritised list of key 'C' indicator dimensions that focus on delivering fiscal control could be determined, in common with the manuals and guidelines above they are not immediately translatable into a practical set of activities and capabilities that might be of use to budget managers.

In practice, however, assessments of this kind carry other limitations. Many of PEFA's indicators measure the *existence of a system* rather than the actual effectiveness and impact of that system on PFM and budget performance (Andrews et al., 2014). This risks delivering a high score for a well-designed formal system that is ignored or subverted in informal practice, something that is especially likely in low-income and low-capability states (Pritchett et al., 2010). A system of basic enough budgeting in a low-capacity environment would put things the other way around: delivery of a certain outcome would be more important than the technical correctness of the system that produces it.

There is, perhaps, an important lesson to be learned from the PEFA framework regarding its priority indicators. The first four outcome indicators, which are seen as summary measures for the effectiveness of the other indicators, cover some very specific ground relating to aggregate fiscal control management and fiscal sustainability (Performance Indicators 1, 2 and 4) and allocative efficiency across the largest budget administrative classifications (Performance Indicator 3). There are no indicators particularly focused on operational efficiency. This hierarchy implicitly suggests that these two issues – fiscal control and basic allocation functionality – are the most important outcomes. This fits in with the argument above regarding the prioritisation of fiscal control and basic allocation control, and could be seen as tacit support within PEFA for the approach suggested here.

2.2.3 The 'basics first' and platform approaches

Some writers on PFM and budgeting have gone further and put forward an explicit list of what a 'basic' budget should be, of which Schick's discussion of 'basics first' is perhaps the most well-known (Schick, 1998). Starting from the common sense position that simple things should be done before moving to more complicated matters, Schick sets out ten principles of budgeting that put basics first. A basic enough budget might therefore be one that takes these principles and operationalises them into a workable format for budget managers.

Box 1: Allen Schick's 'basics first' approach to budgeting

- The government should foster an environment that supports and demands performance before introducing performance or outcome budgeting
- Control inputs before seeking to control outputs
- Account for cash before accounting for accruals
- Establish external controls before introducing internal control
- Establish internal control before introducing managerial accountability
- Operate a reliable accounting system before installing an integrated financial management system
- Budget for work to be done before budgeting for results to be achieved
- Enforce formal contracts in the market sector before introducing performance contracts in the public sector
- Have effective financial auditing before moving to performance auditing
- Adopt and implement predictable budgets before insisting that managers efficiently use the resources entrusted to them.

Source: Schick (1998)

Schick's 'basics first' approach is justified by reference to a brief discussion of informal and formal market and non-market sectors, and in part by reference to the historical experience of budgeting in today's developed countries (discussed in more detail below). Within the literature this list is frequently used as a starting point for further discussion on the issue of basic budgets and PFM.

Other writers have elaborated the list into a 'platform' approach for PFM (and budgeting) reform (Brooke, 2003). This takes the concept of 'basics first' but goes further to develop a methodology for PFM reform that aims to sequence complicated reforms upon successful delivery of basic ones. There is a tension, therefore, within the basics first and platform approaches, whereby the platform approach looks from the outset to move towards more complex budgeting systems and sub-systems where this can happen, whereas a 'basics first' approach suggests getting comprehensive basic systems in place across the board first before moving towards more complex systems. Writers in the platform field have suggested a detailed list of the entry-level 'basic' platforms upon which more complex reforms can be built (e.g. Tommasi, 2009) and recommendations on how to approach sequencing in general (Diamond, 2013). This thinking behind the platform approach is evident in the International Monetary Fund (IMF) Fiscal Transparency Code (IMF, 2014), which provides various levels of achievement against its criteria ('basic', 'good' and 'advanced').

These numerous lists of basics, platforms and core functions for budgeting all provide important material for considering what a basic budget might be. The 'basics first' approach provides useful arguments for the principle that starting simple and achieving basic functionality in at least most of the key areas of budgeting is a priority. The platform approach is useful in suggesting that adding complexity is justified once clear underlying standards are set, and the relevant literature sets out some ideas for what this kind of 'simple' looks like. However, there may be a tension between the two approaches regarding whether complexity should be added as soon as possible (platform approaches) or whether waiting for basic systems to bed-down across the board is more appropriate (some of the basic first literature). Certainly, the framing of the issue in terms of specific *functions* in some of this literature is also useful to inform basic enough budgets. It allows developing countries to avoid discussions of perfect form, and focus on getting systems that actually work – allowing more easily for a kind of 'problem driven' approach to improving systems.

While taking these useful steps in the debate, these kinds of 'basics first' approaches have also been criticised on a number of grounds. Within the debate, some have suggested that the 'basics first' concept is flawed, and in fact PFM development is not as linear as thought. This idea is implicit in the platform approach, which foresees that differential progress can be made in different parts of the budget reform process. In this view, relatively complicated reforms can and do succeed in some areas of budgeting, even where comparatively basic systems in other areas fail to deliver (e.g. Andrews, 2010). In a study of fragile states, examples were found of quite advanced PFM reforms being delivered in challenging areas (Fritz et al., 2012) – notably where such reforms tended to extend the control powers of the ministry of finance. There remains an ongoing risk, therefore, that an unrelenting focus on the 'basics' might unnecessarily restrict ambition in certain PFM areas where stronger performance is possible.

Aside from the debate about whether basic or more advanced reforms are possible, there may be more fundamental problems with both the platform and 'basics first' approaches. Firstly, the full list of requirements for what some writers consider to be the 'initial stage' of a core function could be considered too numerous, and in some cases too ambitious, with respect to capabilities in low-income and low-capacity contexts. For example, the proposed first layer of a sample platform approach (Tommasi, 2009) and the full range of 'basic' achievements in the IMF Fiscal Transparency Code would be very challenging to deliver for many low-income and low-capacity states. In addition, the full range of requirements set out by these frameworks is not always specific to the priorities in the PFM cycle identified above (i.e. expenditure control, some degree of allocation decisions in budget preparation and basic in-year reporting) and typically span the whole range of PFM functions. Secondly, the basis of a platform approach appears to suggest continuous improvement, in that once one level of capability is reached, the next step is to attain a further level of capability. However, applied to realities of low-income, low-capacity states, and combined with a recognition that institutional reform can take many years to be sustainably delivered, this focus on 'permanent revolution' may bring significant risks to the sustainability of basic enough budget systems. As some have suggested, it may be more sensible for those operating budgets in a low-income and low-capability context to aim for a 'plateau' of functionality rather than constantly aiming for the 'summit' of the next level of functioning (Peterson, 2011).

Nevertheless, some key points do emerge from this discussion that resonate with the analysis here. Broadly, 'basics first' is a sensible way to proceed in this discussion, supporting the overall proposition of a basic enough budget. The focus in Schick's discussion on the need for input control, basic accounting and basic reporting, rather than more advanced tools for management efficiency, support the idea discussed above of emphasising the execution control, accounting and reporting functions of the budget cycle.

2.2.4 Specific lists of key PFM functions

Other writers have put forward other ideas regarding what 'basic' budgets might look like through a discussion of the *core functions* PFM systems should enable (Andrews et al., 2014). This reflects concerns that many frequently recommended institutional reforms in developing countries (including those focused on PFM) risk creating *de jure* changes in *formal* procedure that do not lead to *de facto* changes in *informal* actual behaviour (Pritchett, 2010).

Box 2: Andrews et al. on core PFM functionality

(1) Prudent fiscal decisions

- Spending decisions are affordable (deficit, debt levels, debt payments are managed)
- Public debt is taken seriously (government knows what is owed, creditors are paid on time, debt payments are treated as a first (direct) charge)
- Deficits, debts, cash and obligations are at levels not threatening solvency or economic stability in the foreseeable future

(2) Credible budgets

- Comprehensive and regular budgets are formulated that give a binding expression to government public finance priorities and plans
- Actual revenue policies and collection performance reflect proposals and forecasts
- Actual spending reflects budgeted promises (in aggregate and in detailed allocations)

(3) Reliable and efficient resource flows and transactions

- Cash is provided to spending agencies when agreed, in agreed amounts
- Salaries are paid in a timely fashion; arrears are low or non-existent
- Goods and services are procured when planned, at appropriate quality and price
- Contracts are paid on time; penalties are low or non-existent
- Financing is available to capital projects when agreed and in agreed amounts
- Corruption, nonperformance losses (with salaries, contracts, etc.) are minimal

(4) Institutionalised accountability

- It is possible to track fund flows to service delivery units
- Financial reports are comprehensive, timely, allow comparison between actual spending and budget decisions; are accessible by political representatives, citizens
- There is an independent assurance (for instance, through audit) that funds are collected, managed and spent for intended purposes, in compliance with laws and regulations and with regard for value for money
- Concerns raised by independent assurance exercises are transparently discussed by citizens' representatives and receive timely follow-up and redress by the executive

Source: Andrews et al. (2014)

Interestingly, within this literature there is an implicit acceptance of the primacy of fiscal control. Although not explicitly presented as a hierarchy, the list put forward by Andrews et al. (2014) puts macroeconomic decision-making at the top, in line with earlier discussion of budgeting objectives that prioritise macroeconomic decision-making. It puts macro-fiscal control in item 1 as the first priority, followed by the outline of basic allocation in item 2, and effective actual movement of cash to where it should be in item 3. This supports the broad points made above that a capacity-constrained ministry of finance should focus its attention on basic fiscal control in terms of both fiscal policy planning and the ability to deliver it through execution capability, with some degree of awareness of allocative efficiency. It appears to put issues of institutionalised accountability last.

This approach certainly moves the debate forward by providing the next level of detail compared to what can be gleaned from PFM manuals and guidelines alone. The discussion seems to support the idea that basic issues should come before more complex ones, and a focus on function rather than form helps shape a debate to one based on practical action rather than technical perfection. The functions and tasks described as ‘basic’ seem to fit with a ‘basic enough’ approach that focuses on fiscal control and basic allocative efficiency, with less emphasis on operational efficiency and wider accountability and scrutiny functions. The debate also usefully highlights the fact that potentially quite advanced PFM reforms can be possible in even challenging contexts, particularly where they support the ability of the ministry of finance to oversee and control PFM systems; as noted, this paper considers the issue of basic enough budgets precisely from a ministry of finance point of view.

2.3 Historical examples and selected case study evidence

2.3.1 Historical evolution of budgets

Some studies make explicit reference to the historical experience of budgeting systems used by countries that are now developed. Reviewing the budget systems that were actually in use when these countries had levels of capability comparable to those of low-income states today can help to identify the possible components of a basic enough budget.

The literature on what budgets actually looked like in the past is limited compared to the one that suggests what PFM and budget systems should look like in the present and future. However, many of the manuals and guidelines referred to earlier provide a discussion (albeit a brief one) of historical experience in budgeting. Other literature summarising budgeting reform contains useful high-level comparisons between past and present budgeting institutions and practice (e.g. Allen, 2009; Schick 1966) and some literature provides case-study examples of the evolution of budgeting from both western (Krause, 2013) and non-western countries (Ma, 2009).

Some key conclusions emerge from the literature considering the evolution of budget systems. All currently developed countries made their gains in economic and social development without the kind of advanced budgetary institutions that are sometimes recommended to middle and low-income countries today, since these institutions only became widely popularised in the latter third of the twentieth century (Krause, 2009). Modern budgetary practices such as parliamentary approval of spending, presentation of comprehensive national budgets on a unified basis and the development of external audit institutions occurred only in the mid-to-late 19th century in many western countries – at a time when state capability was arguably more developed than in many low-income, and particularly fragile, states today. Line item and input-focused incrementally adjusted budgets that prioritised top-down adherence to correct procedure were the norm in many western countries until comparatively recently. In the western model, modern budgetary institutions have not developed in isolation but closely track the development of wider political institutions of accountability, particularly elected parliaments (Krause, 2013; Allen, 2009; Schick, 1998).

2.3.2 Specific examples of budgeting practice in low-income contexts

There is a wide literature detailing the actual experience of budgeting practice in low-income and low-capacity environments, and it is not possible to review it all. A large part of this literature relates to the detail of donor-supported PFM reform programmes operating at country level (of which there are many thousands of documents), but also includes specific studies into how budget systems deliver results on the ground. Attention will therefore be paid to the common themes emerging from a number of seminal studies of budgeting practice undertaken over several decades, particularly Caiden and Wildavsky (1980), Reinikka and Ablo (1999), Rakner et al. (2004) and Fritz et al. (2012).

Comparing actual planning and budgeting practice in poor countries to recommended best practice or the 'correct' way reveals a large gap. In this gap lies a number of informal budgeting and planning practices that constitute the reality of how national finances are managed. Most importantly, repetitive and continuous monthly or quarterly budgeting on a cash basis in the context of non-credible annual budgets and a 'wish-list' approach to national planning is the norm. The budget often lacks credibility in terms of guiding actual expenditure, and spending entities cannot always depend on the availability of funds, which are frequently determined on a rolling ad-hoc basis. All of this is heavily constrained by political interference in expenditure and a general lack of capacity and resources to manage the system. According to his typology, Schick would consider this a variant of 'cash-box' and 'repetitive' budgeting (Schick, 2007)

The implications for budget system reform towards a basic level of functionality were also relatively clear from this sample. Attempting basic reforms before more complex ones was typically correct. Furthermore, PFM reforms typically take many years to be successfully introduced and embedded – often longer than is envisaged in a typical externally supported PFM reform programme. The literature agrees that making budgets credible (actually guiding expenditure plans) and controllable (allowing the ministry of finance real power over expenditure decisions) was 'the heart of this basic level' (Fritz et al., 2012: 13). This supports an approach to reform based on supporting controls operated by the ministry of finance. Additionally, many of the studies explicitly link sub-optimal budgeting behaviours to the wider economic, bureaucratic and political context that exists in low-income and low-capacity countries (on which there is more discussion of this in the next section). This suggests that reform to budgeting institutions needs to be highly calibrated to the prevailing context.

This kind of real-world study of the practice of budgeting in poor countries provides a very informative set of recommendations for what a basic enough budget would need to look like. This empirical literature suggests strongly that what might be considered basic budgetary institutions – such as credible, universal and comprehensive line item input-based budgets that are incrementally adjusted and are managed in a top-down manner with a primary focus on following correct procedure – should be considered a *challenging goal to aim for*, rather than assumed as the basis to build on. It implies that – in common with the approach taken in this paper – the political and bureaucratic context is critical to understanding what can feasibly be delivered in terms of budget practice in low-income environments. In a developing country context, these studies paint a picture of ministries of finance dealing with a large number of problems with limited capacity. They therefore arguably reinforce the idea that finance ministries have to restrict their engagement with the budget process to key priorities, rather than try and tackle all sub-optimal systems. Finally, they suggest that non-credible published annual budgets undermined by cash-box budgeting – repetitive and continuous (re)budgeting via cash releases throughout the year – is a realistic point of departure for considering how budgeting works and therefore how basic budgeting might operate. This recognition of cash-box and repetitive budgeting can be seen as supporting the emerging ideas set out here – that there should be a focus on basic fiscal control systems related to input and payment control and effective accounting and reporting of expenditure, with a focus on basic allocation by economic category and administrative function, while avoiding complex performance management systems.

2.4 Conclusions

Several relevant conclusions for a discussion of basic enough budgets can be drawn from a review of the wider literature and historical case studies.

Firstly, the literature suggests there is little disagreement on what a theoretically 'correct' budget process should contain. There is also an emerging consensus on two relatively common sense positions: first, that some budget activities are more basic, and therefore more important, than others; and second that focusing on these basic issues before moving to more to complex ones is a sensible way to proceed. Furthermore, extrapolating from a review of high-level budgeting objectives suggests a focus on delivering fiscal control and some degree of allocative efficiency before concern about operational efficiency. Applying this to the classic budget cycle puts an emphasis on basic forecasting, execution control and reporting, and some straightforward budget allocation decisions in the preparation phase. Some guides to PFM thinking (e.g. PEFA, the 'This is PFM' functions list) appear to implicitly agree with this priority in the way they construct the outlines of a good system. However, some of the existing assessment and diagnostic tools contain descriptions of 'basic' functions that are arguably too ambitious for many low-income and low-capacity states given the reality of budget practice on the ground.

There is less agreement on what should be on the *list of basic activities*. Many writers put a firm emphasis on basic input controls and the need to foster administrative adherence to correct procedures before attempting more complicated reforms, whereas others do not specify an exact list but set out principles of how to approach reform (e.g. the platform approach). Recently a focus has emerged on the need for actual *functional* performance rather than the perfect *form* of what is intended to deliver it. Interestingly, some approaches suggest that relatively advanced PFM reforms *can* be attempted in low-capacity environments in the right circumstances, and other research nuances this to suggest it is most likely to happen where the reforms allow the finance ministry to exert greater control. Importantly, the areas identified in the literature as key to a basic budget (centralised authority, strong input controls; function over form) appear to match some of the historical experiences of developed countries as they moved through rapid economic and social transformation.

The realities of budget experience in case-study examples suggest a further critically important point relevant to the basics of budgeting: namely, that the political and bureaucratic context strongly shapes budgetary institutions and outcomes, particularly in low-income and low-capacity states (Fritz et al., 2012; Allen, 2009). Given the importance of this finding for basic budgets, emerging conclusions as to the nature of a basic enough budget will need to 'filtered' through this political and bureaucratic context.

3 The political and bureaucratic context for basic budgeting

This paper has so far highlighted some ideas from the literature on key features of a basic enough budget. One issue that is not so well-explored in the PFM and budget theory literature, but which comes out very strongly in the individual case-study literature, is the importance of the political and bureaucratic context in shaping what is feasible and possible to achieve in the field of public financial management and budgeting. This chapter will aim to review emerging ideas regarding the features of a basic enough budget with reference to the political and bureaucratic contexts typically prevailing in states where a basic enough budget might be needed.

The focus of this discussion is on low-income and low-capacity states – often called 'fragile' states in policy and academic discussion. While discussions on fragile states frequently paraphrase Tolstoy to note that 'each unhappy country is unhappy in its own way' (e.g. IMF, 2015), this section will outline some of the 'typical' political and institutional constraints that low-income and low-capacity states are likely to face in budgeting, noting that each context is different and not all features will apply to each country. By locating discussion of a basic enough budget firmly in a typical political and institutional context, these factors will act to filter and frame the possibilities for what a basic budget might be.

3.1 The assumed context

There is no single, comprehensive list of what political and bureaucratic contextualising features operate in the kind of low-income and low-capacity situation where a basic enough may be needed. There is clearly a risk, therefore, of specifying the wider context in a way that pre-defines a particular budget process and does not reflect the variation and variety of country experience. Bearing this qualification in mind, the summary literature on the political and institutional context of budgeting, particularly in low-income states (e.g. Schick, 1998; Allen, 2009; Rakner et al., 2004; Caiden and Wildavsky, 1980; Fritz et al., 2012) does suggest some common features of low-income and low-capacity countries. These specific institutional and bureaucratic circumstances of budgeting can be considered alongside the more general characteristics of 'natural states', particularly the 'fragile' variant suggested by North et al. (2009).

Taking these sources together allows the analysis to specify some contextual factors as things *likely* to be present in these environments and some as things that at the very least *cannot be assumed* to always occur in these contexts.

- High levels of uncertainty. Low-income states often have small, undiversified economies that are particularly vulnerable to sudden economic shocks. Unstable political environments mean that the leadership and direction of national development may change suddenly.

- Low levels of resources. Overall, the government does not possess, even working with maximum efficiency, the resources to meet all the basic demands of citizens.
- Limited human capacity and financial resources. Lack of skills, capability and low morale throughout the public sector leaves a large margin for error, mistake and apathy. Pockets of high capability exist, but they are stretched thin as they deal with multiple pressing issues. Even working with maximum efficiency, the public sector would not be able to deliver all the services expected of an effective state.
- Limited high-level political will for following due process and working in the broad public interest. Rules are frequently bent or ignored so that public resources can be diverted towards private patronage networks. It cannot be assumed that long-term evidence-based policy made in the wider national interest will predominate over short-term private interests in decision-making.
- There is likely to be particular political involvement in certain types or level of expenditure. Controversial and/or large value contracts, procurements and expenditures are likely to attract interest from political constituencies looking to access to public resources. This reduces the chances that the process for managing this expenditure will be done according to formal procedures and principles.
- There is some agreement among most of the elite on the need for short-term fiscal sustainability. However, it cannot be assumed that decision-makers will always consider the long-term fiscal consequences of short-term decisions.
- Adherence to centrally determined budget allocations and other high-level policy decisions cannot be assumed. Flagship policy statements such as Poverty Reduction Strategy Papers or other national development strategies cannot be automatically assumed to guide actual spending behaviour.
- A relatively strong executive and relatively weak parliament. Formal constitutional powers and informal political realities mean that the parliament cannot be assumed to play its expected role of constraining and scrutinising the executive. Opposition to, and constraints on, presidential (or other high-level executive) action frequently comes from other powerful elite actors and their supporting coalitions, and may not always operate from formal political institutions.
- The finance ministry has some interest in PFM reform at a technical level but cannot be assumed to support a comprehensive ‘textbook’ rules-based system. The finance ministry is not always a coherent actor and may operate with weak internal coordination. It has relatively more interest in PFM reforms that will increase its central control over expenditure, while its commitment to reforms that will increase external oversight and scrutiny of its actions cannot be assumed.

In addition to these high-level characteristics, some specific features of the government’s financial management will be assumed. Again, these key features of typical of most – but not all – low-income and low-capacity states according to the sources reviewed above.

- A cash-based budget. The government runs essentially a cash-based expenditure system, with very limited capacity to borrow from nonconcessional market lenders to smooth expenditure. The restrictions on borrowing may be market-based (e.g. no one will lend to government, or a very shallow market for debt) or they could be policy-based (e.g. the government has agreed to IMF programme restrictions on borrowing). Either way, expenditure allocations for each period must be done on the basis of more or less what is in central bank accounts at that time.

- Authority to pay and spend is centralised in the ministry of finance, which authorises expenditure through a systems of weekly, monthly or quarterly expenditures warrants. These allow ministries, departments and agencies to spend up to a certain level, after which payments are automatically blocked and cheques rejected. Ministries may be able to commit above this level in some circumstances, but actual payments are controlled by the finance ministry. The finance ministry may also have specific requirements for personal authorisation of any payment above a certain level.
- Donor involvement. The government has an incentive to (minimally) comply with the requirements of donors in order to assure the continued flow of funds but it cannot be assumed to share all the goals of its development partners.

Naturally, not all these conditions will necessarily be present at the same time and to the same degree in all low-income and low-capability states. For example, states with significant natural resource wealth and/or fast-growing economies will be less affected by the actions of the international community and will have greater scope for using these resources to maintain stable elite coalitions. The conditions are intended, however, to give a sense of the realistic political and bureaucratic context in which budget institutions and processes operate, and to which a basic enough budget must respond.

In terms of a basic enough budget, some key conclusions emerge. Notably, these structural conditions will typically act as a *constraint* on the level of ambition and complexity that can be assumed in a budget process, rather than *enablers* to allow the budget to become more sophisticated – except perhaps for the (often weak) positive effect of donor pressure for better systems and management. In these contexts, a relevant and credible basic budget may well be the exception rather than the rule.

Building on this, these conditions support Schick's ideas on 'basics first'. He proposes that complex performance management techniques that rely on quasi-contracting within the public sector are not appropriate given that formal and informal institutions to enforce contracts throughout the public and private sector are weak. Instead, given the prevailing lack of confidence in actors in the system, a focus on strict controls and compliance – perhaps resulting in relatively little freedom for budget actors – appears more appropriate. This would support the approach to basic enough budgeting outlined above that focuses on systems to support fiscal management such as effective treasury and payment controls, alongside basic accounting and reporting of expenditure.

The assumed context discussed above suggests other conclusions regarding budgeting that relate to the previous section's discussion. The list of conditions outlined here suggest there is some political incentive to support fiscal control, given that failure on this score might limit all actors' interests, but relatively few drivers for operational efficiency within the public sector. While this might allow for the finance ministry to have control over cash disbursement and transfers, it suggests that as a general principle adherence to financial management rules throughout the system is weak. A lack of political incentives for service delivery combined with uncertain respect for spending rules and procedures militates against operational effectiveness. It is therefore arguably not a good use of limited finance ministry time to attempt to grapple with this meta-issue. In addition, the conditions outlined above also support the idea that reforms to extend finance ministry control can succeed better than other reforms: they are incentive-compatible for a finance ministry trying to establish basic fiscal control and allocation decision-making.

4 Conclusions

What does this discussion tell us about what a basic enough budget could look like for a finance ministry in a low-income and low-capability country? This paper has aimed to review the question by setting out why a budget, and in particular a basic enough budget, might be useful. It has reviewed some of the literature that has addressed this issue, and identified some parts of the literature that put forward ideas as to what a basic enough budget might look like. It has filtered this through the typical institutional and political context of a low-income low-capability state, and in doing so identified significant tensions between trying to deliver a credible and relevant budget and the nature of the how such processes play out in these environments.

4.1 What does a basic enough budget look like?

Based on the review of literature, selected historical examples and the prevailing political and institutional context, some emerging features of a basic enough budget can be identified. The focus of such a budget should be on those systems that can enable effective fiscal management, notably: basic input controls; functioning treasury systems that can manage cash and payments; and effective accounting and reporting structures that give an accurate picture of the government's financial position and allow for monitoring of execution of spend. This can be supported by a basic awareness of allocation decisions across straightforward high-level categories.

For a finance ministry, external review of budget execution can be a useful auxiliary process, but is not part of the core basic budget argument presented here. External oversight arguably plays an important role in building legitimacy for the government in the long term and for identifying misspending (intentional or not) by line ministries, therefore allowing potential efficiency improvements in the future. However, institutionalised challenge functions are themselves likely to be weak in the assumed political context outlined above, and strong external scrutiny and control over financial management cannot be assumed. Importantly, external scrutiny occurs after the fact of expenditure, reducing its usefulness in maintaining fiscal control. PFM reforms that extend the control of the Ministry of Finance are identified in the literature as being incentive-compatible and most likely to succeed, suggesting further that a focus on operational efficiency – which involves issues beyond the control of the ministry of finance – is a less effective use of scarce capacity within that key institution.

The role of citizen and/or civil society oversight may represent a 'Catch 22' situation that is difficult to resolve in the short term. Lack of key information from the government side reduces civil society and citizen engagement and trust in government; and lack of engagement and trust from civil society and citizens causes government to respond by being more closed – all in the context of a weakly institutionalised social contract. Wider changes in the state-society relationship may improve the situation over time, but this basic framework attempts to support the building blocks of this process by making a budget credible and relevant first. This is perhaps a better basis for building civil society engagement over a longer period rather than trying to rapidly foster significant external engagement and interest in a published budget that is neither relevant nor credible.

The discussion puts centre stage the particular political and institutional contexts of countries where a basic enough budget is likely to be most relevant. It notes that the nature of these environments means delivery of basic systems is ambitious, and many underlying incentives and behaviours of key actors in the system are not conducive to effective budget management. The assumed contexts suggest that at focus on control of funds and compliance with rules is appropriate, and this would support the proposition on the primacy of fiscal control.

There are also more specific circumstances in which this approach may be less valid. One is its relevance to the many low-income countries that depend on large natural resource revenues. In this instance, the provisions of the basic enough budget would not have the capacity to address the inter-generational and other economic concerns that accompany resource windfalls. Another is the risk to national budget planning from off-budget funds and government-owned enterprises which receive public subsidy but operate through their own systems and/or an implicit taxpayer guarantee. Further thinking could also consider how basic enough budgets can incentivise better management of large multi-annual capital projects with lumpy expenditure requirements.

At a more fundamental level, there are some important challenges to this approach. Firstly, it could be argued that the proposition put forward here is simply too advanced and that in reality many countries would struggle to deliver even this level of functionality. If this is the case, then perhaps the main use of this discussion is in helping finance ministries to diagnose certain problems to be solved as part of the process towards achieving a basic enough budget. Secondly, any framework that says developing countries ‘should’ do something (i.e. focus on fiscal control and allocative efficiency) risks going against the realities of institutional reform in low-income countries (e.g. Andrews, 2013; Allen, 2009). Developing countries are not short of normative frameworks of what good practice in PFM looks like, but they usually enjoy limited success in delivering the recommendations. This basic enough budgeting proposition could therefore be seen as unhelpful as it doesn’t necessarily help finance ministries diagnose their own problems and respond in their own manner accordingly. Thirdly, the political and institutional context assumes some commitment to fiscal sustainability and a degree of willingness to restrain spending. This underpins any attempt to use technical systems to enforce expenditure control, either at an aggregate level (to support fiscal control) or at a sub-aggregate level (to support basic allocation decisions). This kind of political will cannot be assumed in all contexts, and there are contemporary examples of where political elites simply do not deliver this. In this context, the basic enough budgeting approach does not have an effective response. It may be the case that in this instance, a focus on building external accountability and political pressure on the government to adopt basic fiscal responsibility may be more worthwhile.

Overall, the framework has reviewed several strands of literature on budgeting to identify areas of consensus and commonality on what a basic budget might look like, both in theory and in practice. It has situated the results in the kind of political, institutional and bureaucratic context frequently seen in low-income and low-capacity states and used this to inform the nature and realism of the conclusions from the first section. Bringing these together, it tentatively puts forward some emerging principles for a basic enough budget that steer between the ideal – a predictable, economically sound annual, unified and comprehensive budget system – and the reality of budgeting in the real world so as to focus on the need for systems that will allow for basic fiscal management and execution control systems, supported by straightforward allocation decisions. In short, to support a focus on getting the basics right when you cannot do everything.

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