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Budget reform at sector level: All bark and no bite?

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'Existing approaches to budget reform at sector level are too concerned with cosmetic changes to budget processes.'

A growing number of reports evaluating public expenditure systems underline the difficulties that sectors such as health, education, agriculture or infrastructure face in translating their budgets into better service delivery. Budget reform at sector level remains a problem, not only in countries that have just begun to change their public expenditure management systems, but also in countries where reforms are quite far advanced. Why is budget reform at the sector level not leading to better results? Is our approach to reforming sector budgets all wrong? I believe it is at least half wrong.

There is little doubt that trying to improve budgetary performance at the sector level is difficult. Improvements in sector outputs and outcomes are dependent on the implementation of public sector reforms over which the sector itself has little control. Some reforms, such as decentralisation, drastically change the way in which a sector is managed. However, setting aside this dependency on external factors, far more could be done to improve the way in which budget reform is implemented within sector agencies.

Typically, reform processes run out of steam by the time they reach sector level. Most reforms aimed at improving the management of public expenditure try to achieve the same core objectives: better fiscal discipline, resource allocation based on government strategic priorities and the promotion of more efficient service delivery. Although the exact sequencing varies across countries, most reform processes try to address these objectives one after the other.

This has a certain logic. There is no point in making elaborate links between plans and budgets if, for instance, fiscal conditions cannot guarantee a basic degree of predictability in government resources. It is right to try to instil discipline in the use of public resources before worrying about how to distribute public resources across ministries and agencies. However, this has an important drawback. Energy for reform needs to be sustained well beyond this point to ensure that the efficiency of service delivery gets the attention it deserves.

Existing approaches to budget reform at the sector level are too concerned with cosmetic changes to budget processes. Not enough attention is paid to linking resources to results. Experience suggests that when sector budget reforms are added on top of existing sector public expenditure management systems, they remain unabsorbed. Budgets continue to be prepared on incremental bases and actual expenditure continues to bear little resemblance to initial budgets. In some countries, this 'split personality' in sector budgets has been formalised with sectors permitted to operate parallel budgeting systems with input-based systems used for internal sector planning and output-based programmatic systems used as a basis for negotiations with central finance ministries.

This approach has serious implications for service delivery. With no systematic efforts to enable the sector to make efficiency gains in key cost drivers, the mismatch between underlying cost bases and available revenues manifests itself through cuts to discretionary expenditure lines and/or higher levels of unauthorised expenditure. Results-based budgeting systems run into trouble as uncontrolled expenditure on recurrent activities, such as paying salaries and utility bills, squeezes expenditure originally allocated to sector priorities.

This is particularly true for social sectors such as health and education. In these sectors a large part of the budget is earmarked for wages and other staff costs, leaving little space for expenditure on programme activities, which may have a greater impact on results. Studies of the performance of health and education expenditure in Africa have found that even countries which spent more on education and health did not produce better education and health outcomes, because large parts of these budgets were spent on salaries for teachers and health workers. Such expenditure is usually not

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within the sector's control. Decisions on these items carry great political weight. Limiting wage increases, cleaning up 'ghost workers' from the system or making more efficient use of public sector workers (such as more pupils per teacher) are generally difficult political decisions. In such situations, sectors face both rising salary bills and stricter budget ceilings imposed by finance ministries committed to fiscal discipline. As a result, the squeeze is put on those items within sector budgets, which are likely to have the greatest impact on the quality of public sector services.

It is vital for sectors to manage their recurrent costs in ways that permit both expanded services and better delivery. Management processes must allow a rigorous understanding of sector financing issues, including an identification of all sources of revenue (including donor resources) and key cost drivers of the sector. This analysis will permit the sector accurately to predict its spending trajectory and calculate the resources needed to carry out additional priority activities. Such a process should make explicit the key policy options and trade-offs facing the sector and should communicate these deliberately to internal and external stakeholders. A detailed understanding of where sector financing is headed, given different policy options, would make it easier for the sector to link strategic policy making processes and budget preparation.

If it then becomes clear that sector finances are unsustainable, deliberate policy choices will need to be made to create more space within sector budgets to allow a linking of resources and results. Some of these hard choices will be within the sector's control. Others will need political support, and have to be managed more carefully. Decisions, such as those regarding wages and salaries, are dependent on the particular political configuration of the countries in which reform is taking place. However, having information on the unsustainability of sector finances can help.

By making explicit the damage that can be done by imbalances in sector financing either to fiscal discipline or to sector results – each of which carries its own political costs – there may be more pressure on politicians to resolve sector-financing issues. This is especially true when the sector is in the middle of introducing a new policy that enjoys particular political visibility (such as introduction of free education). For example, in Namibia, information on education sector finances highlighted the extent to which actual resources being absorbed by teacher salaries was compromising sector performance. This triggered various policy responses including scrapping already agreed teacher salary increases despite the presence of a strong teachers union. [1]

Getting sector budgets right is very important in order to improve the delivery of service outputs and outcomes at the sector level. This demands an approach that not only tries to build up incentives for the sector to reform, through stronger domestic and external accountability mechanisms, but one which addresses messy sector finances head-on. Only by resolving fundamental problems in the way a sector is financed can changes to results-based budgeting systems have any impact on sector outcomes.

Endnotes

1. Kizilbash Agha, Z. (2006). *Improving Sector Efficiency in an Era of Public Expenditure Reform. Paper presented at United Nations Economic Commission for Africa (UNECA) conference on Public Expenditure and Service Delivery in Africa: Managing Public Expenditure to Improve Service Quality and Access*. Lusaka 9th-11th October, 2006

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