

DEVELOPMENT FINANCE NETWORK

ANNUAL ASSEMBLY

Budgetary execution for infrastructure projects

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Scope

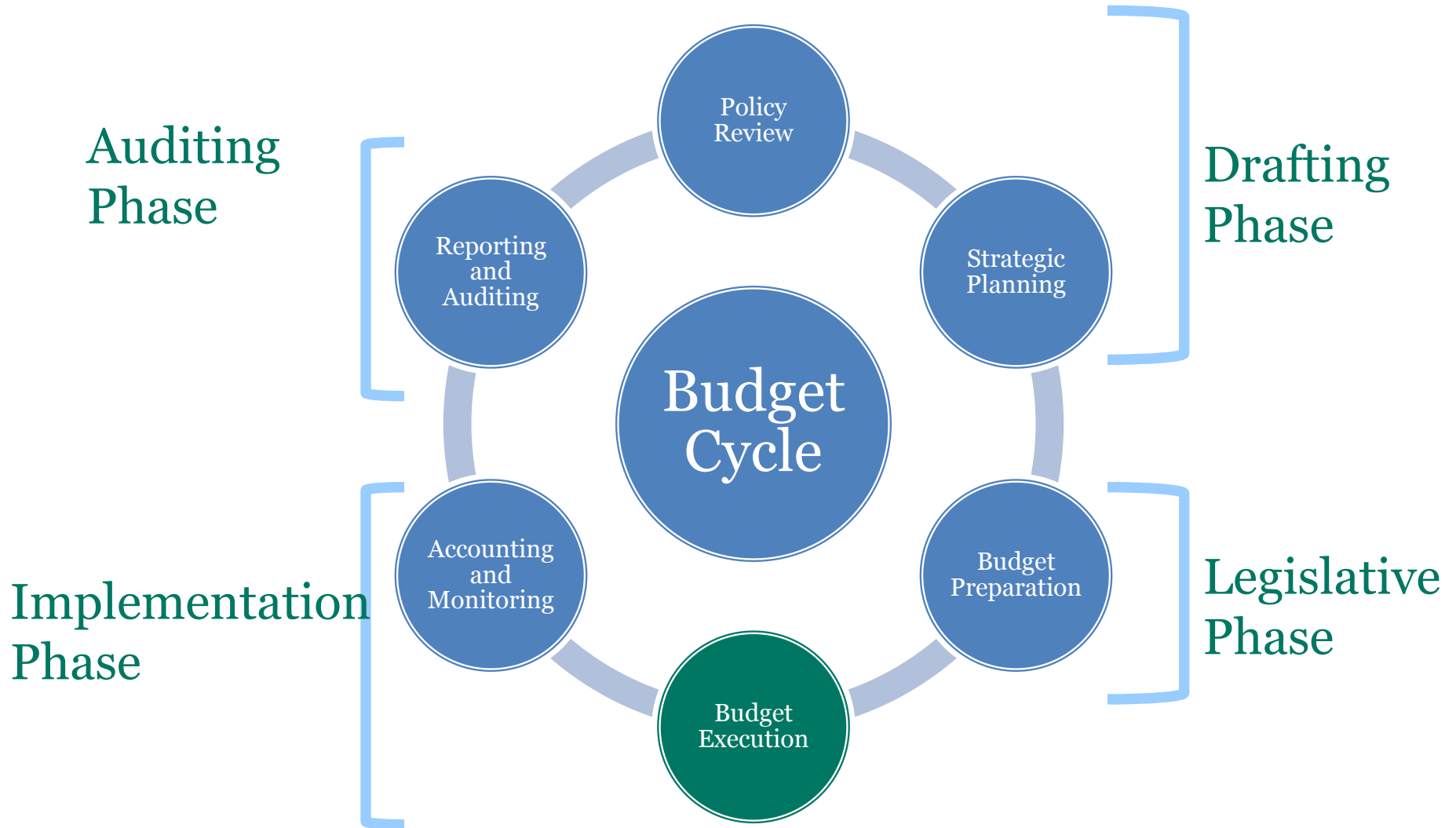
- What do we understand by budgetary execution?
- How budgetary institutions differ across OECD and Latin America?
- How budgetary execution affects infrastructure?
- What is the role of donors in budgetary execution?

What do we understand by budgetary execution?

Defining the National Budget

- A government's **central instrument for economic management**, reflecting the values and strategies of the country
- Successful economic management depends in large part on the efficiency, integrity and effectiveness with which the **state raises, manages and expends public resources**.
- The national budget is both a technical/administrative and political process
- The national budget has three main functions:
 - The allocation of public goods and services
 - The distribution of income and wealth
 - The promotion of economic growth and stability

What do we understand by budgetary execution?



What do we understand by budgetary execution?

- Budget preparation and budget execution are closely linked
- Budget execution aims to:
 - Ensure that the budget is implemented in conformity with national legislation (financial and policy aspects)
 - adapt to significant changes in the macro environment
 - Resolve problems during implementation
 - Manage purchase and use of resources efficiently and effectively
- Key Players
 - Ministry of Finance
 - Line Ministries
 - Central Departments

What do we understand by budgetary execution?

Allocation of appropriations

- Apportionment
- Allotment

Commitment

- Obligation to pay incurred

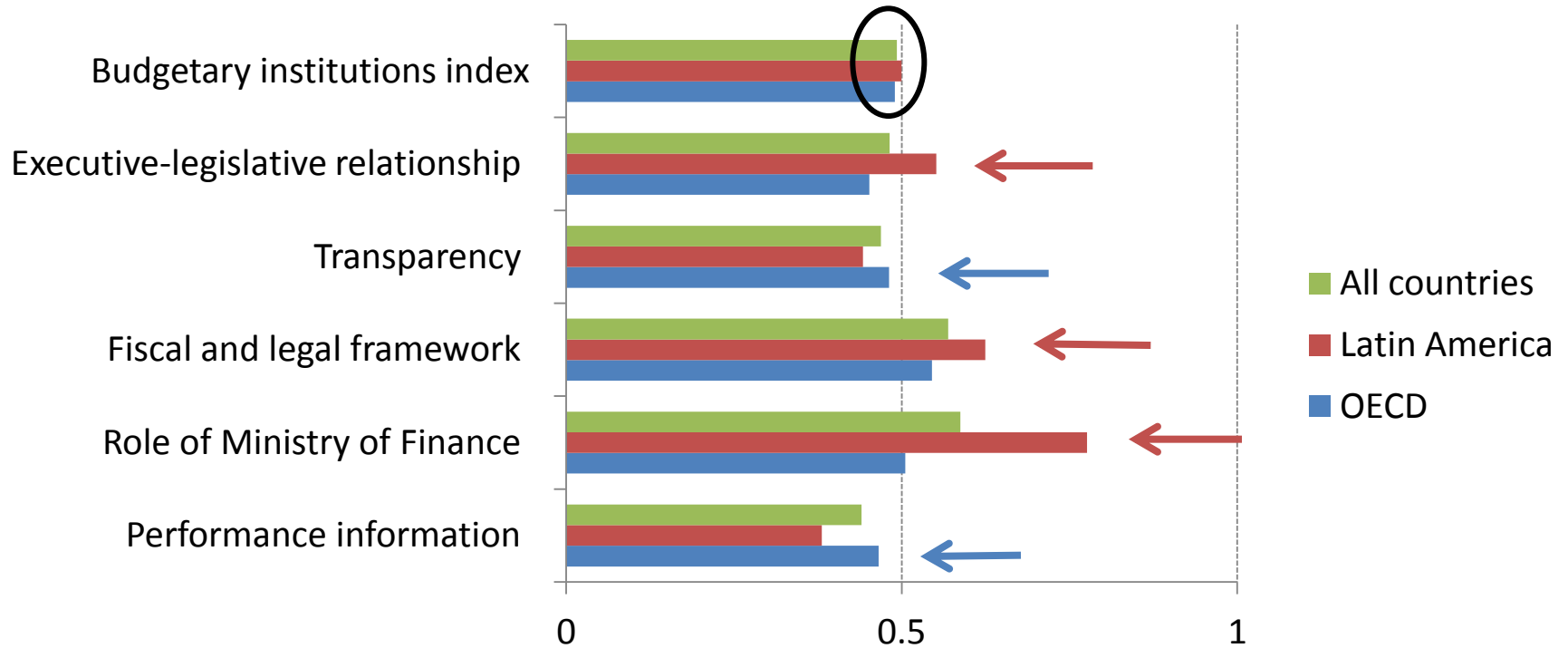
Acquisition/Verification

- goods are delivered and services are rendered
- Assets and liabilities of the government are increased and recorded

Payment

- Through cheques, deduction from taxes, electronic transfers, debt instruments, cash vouchers etc.

How budgetary institutions differ across OECD and Latin America?



Rules and procedures are (relatively)

- Rigid and hierarchical in Latin America; flexible and collegial in OECD
- Slightly more transparent and using performance information in OECDc

How budgetary institutions differ across OECD and Latin America?

BUDGETARY INSTITUTIONS	FISCAL OUTCOMES			
	OECD		Latin America	
	Debt to GDP	Primary balance to GDP	Debt to GDP	Primary balance to GDP
	-	0	-	+
Executive-legislative relationship	+	-	0	0
Legal framework	+	0	-	0
Role of Ministry of Finance	-	0	0	+
Transparency	0	0	0	+
Performance information	+	0	0	0

Note: 0 stands for non significant , +/- for significant at least at the 10 % and with a positive/negative sign.

Better fiscal performance is correlated with budgetary institutions that are:

- More rigid and hierarchical in Latin America
- More flexible and collegial in OECD

How budgetary execution affects infrastructure?

- Infrastructure programs in developing and emerging countries suffer from:
 - **Over spending**.. too little regulation
 - **Under spending**.. too much regulation!
- Over and under spending in infrastructure programs in non-OECD countries are related to **budget unpredictability** with the dependence on
 - Natural resources
 - Donor funds
- Hierarchical and rigid budgetary institutions lead to under spending
- Having multi-year commitments for projects and allowing funds to be carried over into the next year can soften under spending...

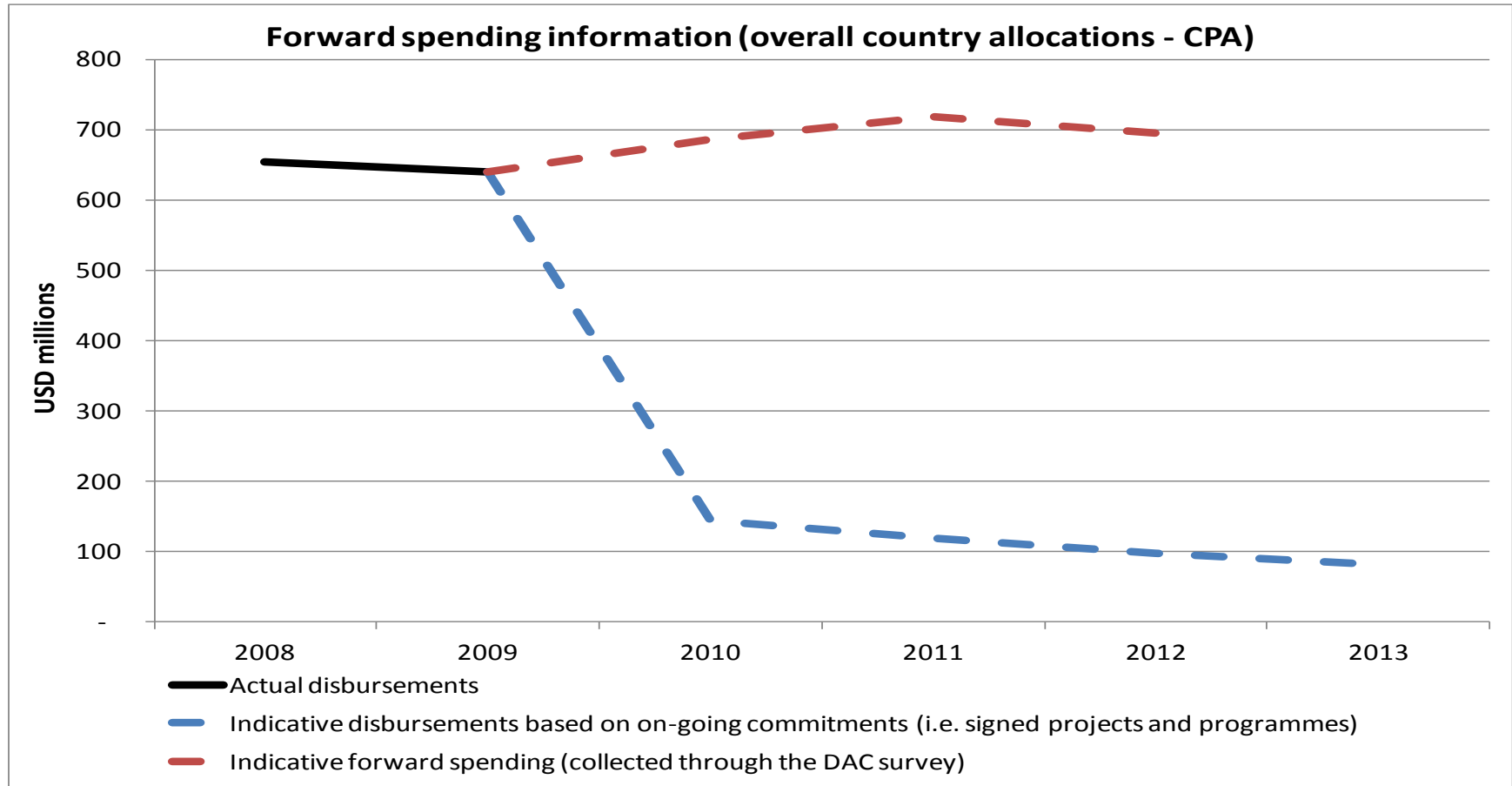
What is the role of donors in budgetary execution?

- Infrastructure is back on the **economic policy agenda of donors**
- Lack of access to basic infrastructure services **constraint to social welfare and growth**
- **common dilemma (OECD and non-OECD)**: how to meet the large and sustained costs associated with providing and maintaining infrastructure networks?
- **Non-OECD countries** face further challenges in infrastructure finance
- Foreign Aid plays a significant part in **creating fiscal space for infrastructure**
- Aid continues to be an **important resource in many countries' budgets**
- But this **aid needs to be effective** and support a country's budget execution processes

Impact of ineffective aid on budget execution

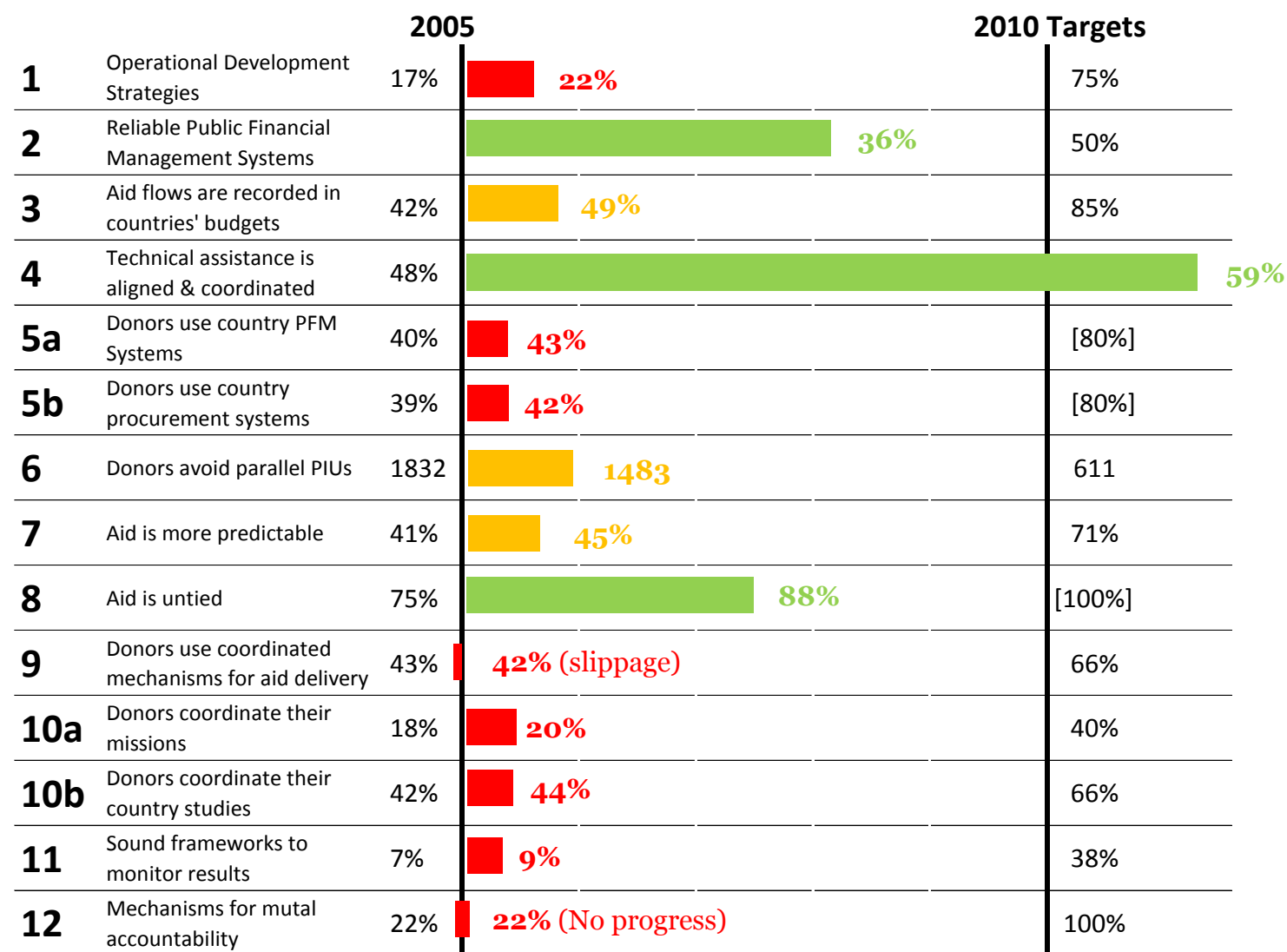
- Paris Declaration on Aid Effectiveness (2005)
Ownership, Alignment, Harmonisation, Mutual Accountability, Managing for Development Results
- Commitments to strengthen budget execution
 - Predictability and transparency of funding
 - Putting aid ‘on budget’
 - Stronger Public Finance systems (including Procurement).

Predictability: What Rwanda expected & what it received



When aid is not predictable it undermines a country's budget execution process...

Impact of ineffective aid on budget execution



Using budget execution systems **strengthens a country's own systems** for sustainable development and **increases accountability and transparency of resources**

Main Conclusions

- Budget execution is an important element of infrastructure development- and in non-OECD countries, external resources including donor funding remain critical
- Unpredictability of resources is particularly harmful in Infrastructure where long-term investments are the norm
- Large-scale infrastructure projects demand significantly more partner country capacity in budget execution which are adapted to local economic and political context
- Ensuring financing is provided by donors in an effective way is critical to sustainability of infrastructure development

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