

Introduction: African Experience with Budget Reform

by
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The nine countries represented in the 2004 post-seminar resource book are at the forefront of the African budget reform experience. This introductory article draws on these case studies to view the milestones achieved and some of the lessons learnt, both on the content of reforms and on how they could be sequenced and managed. It also draws on the proceedings of the three-day seminar on budget reform in Africa held in December 2004 that not only offer a wider experience base, but also provide a summary of the more significant lessons learnt from the combined experience. These lessons are the core of this article: they are presented as ten key budget reform principles which emerged from the seminar discussions, and are highlighted with examples from the case studies and further discussion of key seminar concepts.

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Introduction

State effectiveness is both an imperative and a challenge for many African countries. The challenges of deep poverty and few domestic resources to assist citizens are often coupled with low human resources capacity in the state and with inadequate systems to ensure that the available resources are used to their maximum effect. Therefore, it is not surprising that reforms to budget management systems have been a priority for African governments and their development partners.

It is significant that several countries in Africa have made marked progress in establishing effective systems of economic governance and public financial management, signalled by growing economies in a context of improved macro-fiscal stability, improved fiscal transparency and, in some, positive changes in public sector related social indicators such as access to education and educational attainment of the population, improved access to health care and reductions in infant and maternal mortality rates, and reduced income poverty. Even in countries where there were initial setbacks to reforms, further programmes have taken the lessons learnt on board and are bringing about improvements in macro-fiscal and public expenditure management.

African reformers also pioneered several successful innovations in developing country public sector planning and budgeting systems that are now being applied elsewhere. Poverty Reduction Strategy Papers (PRSPs) and participatory poverty assessments have their origin in Uganda's poverty eradication action plan and participatory poverty assessment. Sector working groups, as an integration and transparency mechanism between stakeholders in strategic budgeting, first made their appearance in different forms in several African countries, including Uganda, Tanzania and South Africa. Public expenditure tracking surveys are a product of the Ugandan understanding of why higher financial allocations to health and education did not materialise in commensurate improvements in outcomes. Botswana offers a long-standing example of disciplined medium-term planning and budgeting. Aid management and donor harmonisation modalities are also the result of learning how to co-ordinate massive country support programmes, such as in Mozambique. The African experience in sector-wide approaches has informed similar efforts elsewhere.

These innovations are not the only lessons to be learnt from Africa. Insights can be gained from countries like Mauritius and Namibia, where the first efforts at reforms were successful, having been triggered less by economic or fiscal crises than by the desire to bring about improvements in functioning systems, into what the minimum conditions are for implementing specific budgeting instruments, such as Medium-term Expenditure Frameworks (MTEFs) and integrated financial management systems. This is true, particularly when contrasted with the reform paths of other African reformers, such as Malawi, which provide valuable experience on the advantages of a holistic approach when attempting reforms, and on how to manage longer reform programmes.

The country case studies and seminar presentations not only offer a wider experience base, but also provide a summary of the more significant lessons learnt from the combined experience. It is these lessons that are at the core of this article. They are presented as ten key budget reform principles, which emerged from the seminar discussions, and are highlighted with examples from the case studies and further discussion of key seminar concepts.

The objectives of reform efforts across all of these countries are shared – the common language of the reform discourse is that of affordability, alignment with policy priorities and value for money. There is wide agreement on what characteristics a budgeting system should have to deliver on these objectives systematically, such as budget credibility, comprehensiveness, discipline, predictability, transparency, accountability and a focus on performance. The seminar countries' combined experience of how to achieve a system that displays the required characteristics and produces the desired results is of great consequence, particularly from starting positions that often included such complex budgeting problems as persistent mismatches between spending and stated priorities and between actual spending and budgeted spending, unpredictable revenue flows coupled with high expenditure rigidity, fragmented budgets, poor information on spending and achievements, and long-standing patterns of non-compliance with existing budgeting rules.

Budget reform is about doing the right things right, in order to achieve the desired change. What the right things are is not independent from specific country circumstances. Nonetheless, generic principles can be formulated on the basis of African experience.

Principle 1: Effective budget reform requires a systemic approach

A working budgeting system requires that all its parts function properly, from effective and politically anchored mechanisms to decide on and fund priorities, through effective cash management and allocation, to accounting for funds used and reporting on the results achieved. As the Malawi case study

illustrates, implementing a sophisticated activity-based budget planning system will not produce better results from spending in an environment of high resource uncertainty, if it is not accompanied by mechanisms to mitigate the uncertainty (such as sound revenue estimates, a cash management system that smoothes cash flow to expenditure agencies against revenue flow volatility and a transparent cash allocation system) and to account for spending timeously.

If a change in policy is to result in changes in the overall effect of government spending (for example, a focus on improving domestic transport systems resulting in more kilometres of tarred road and, say, slower spending on foreign missions) there are a few critical “building blocks” that ought to be in place. To some degree, the experience of the countries represented at the seminar illustrates that while improvements to each building block of a budgeting system may be necessary, it is unlikely that any single reform will be sufficient to bring about systemic turn-around.

The first building block is **technical budget credibility**. Simply put, there is not much use in having sophisticated systems to ensure budgets reflect funding for new priority activities, if there is little chance that actual spending will shift to reflect the plans. A credible budget means that if an activity is funded in the budget as approved it will happen, and if it is not, it will not. Thus, a country has a credible budget if the budget out-turn regularly, and with little deviation, matches the budget as approved. This is the technical aspect of budget credibility, which requires what is often referred to as “budgeting basics” to be in place – realistic revenue projections, a credible plan against likely increases in the cost of existing activities, and systems that ensure sound cash management and discipline in implementation, such as those providing reliable, timely information on resource use and routine sanctioning of unjustifiable deviation from authorised expenditure.

Second, **an effective link between policy and budgeting** is necessary. Having a budget that is implemented as planned will not result in policy effectiveness if budget plans do not reflect priorities. This budgeting failure occurs when there are weak linkages between budgeting and policy making, such as when they are conducted in separate institutions, or separate structures in the same institution, or are not linked in time. Different countries implement different systems to ensure this linkage. Some, like South Africa, largely make policy through the budget process. Others, like most of the PRSP countries, have separate framework policy processes, which are then funded through the MTEF and budget process, and are linked through a range of mechanisms, including budget policy papers, the involvement of sector working groups in the budget process, and public expenditure reviews. An effective link between policy and budgeting improves budget credibility from a governance perspective.

Box 1. Seminar discussion: The central importance of budget credibility

Budget credibility is at the core of a good budgeting system. There are two dimensions. From a technical perspective, a credible budget is a budget that is implemented as planned and is comprehensive, affordable and sustainable. From a governance perspective, a credible budget is one that accurately reflects a nation's priorities. Together, these two dimensions encompass the objectives of budget reform.

There are several features that a budgeting system requires to deliver on these aspects of a credible budget. On the technical side are prudent macro-fiscal frameworks and realistic revenue projections; credible assessments of the existing cost of government and the cost of new initiatives; a transparent and disciplined budget planning process; robust systems of budget classification, execution, financial management and accountability; and the availability of good information on spending and service delivery.

On the governance side, access to quality information internally and externally throughout the budget process and clear mechanisms for political oversight, including that of Parliament, are key for managing the tension between competing priorities and to prevent narrowly focused interests from dominating the budget process.

Seminar participants emphasised the role of the budget as an agreed plan that balances different priorities and pressures; and the budget process as the means towards a plan, the implementation of which has the support of most stakeholders.

Participants also noted that credible budgets crucially depend on having predictable rules and processes in place for budget formulation and implementation, including how to deal with changing circumstances. Overall budget credibility entails more than ensuring that the numbers contained in the budget document are correct and based on a realistic macroeconomic foundation. It involves broad ownership of the priorities, predictable budget rules and processes and systems that ensure discipline in implementation.

The third crucial building block is **an effective link between the budget as planned and approved and service delivery**. While some of the technical requirements for improved links between the budget and service delivery rest with budget management (such as multi-dimensional budget classification systems that link programme-based allocations to administrative classification), other core public sector systems come into play, for example the underlying public service management rules and human resources management. However, within budgeting systems, experience across the

represented countries has shown that improved budget planning on its own is not sufficient – it must be accompanied by systems that ensure disciplined use of resources and improved incentives for delivery.

The building blocks are interdependent. The question that faces budget reformers is not so much what technical reform will address a shortfall in any one of these building blocks, but how shortfalls within the blocks are linked across blocks, how these could be addressed holistically and which entry point would suit a country's particular circumstances best. The Mozambique case study provides an example: the basic budgeting systems, such as accounting and budget classification, were addressed first to allow clearer linkages between budgets and service delivery, before budget planning reforms like an MTEF were introduced. This is not the same sequence as in countries like Malawi, Uganda and South Africa, where budget planning deficiencies were addressed in early reforms. The Mozambique route means that any further reforms aimed at better strategic prioritisation within and across sectors have an enhanced likelihood of succeeding, given a sound information base and a credible budget.

Principle 2: Be clear on objectives and principles, rather than instrumentalist

Different countries need different solutions to achieve such universal reform objectives as allocative and technical efficiency. What might be right on average across countries may be completely inappropriate for a particular country.

While the practical examples of budgeting instruments – such as how budget preparation can be more strategic if an activity-based classification is added (Zambia), or cash flow managed better through a quarterly commitment system (Uganda) – are useful, blindly transplanting mechanisms and instruments from one country to another can be ineffective or even leave the target country worse off than before, if only on account of disillusionment with reform. For example, in Malawi, where macro-fiscal stability was not a given, implementing an MTEF approach to sector budgeting may have been premature; the efforts of spending ministries to develop costed, medium-term spending plans linked to priorities went without the expected reward of funding when revenue shortfalls forced in-year re-budgeting. In certain circumstances, specific instruments may be undesirable even if they work well elsewhere.

Ministries of Finance should set their budget reform aim not on the implementation of specific instruments, such as MTEFs, financial management information systems or public expenditure reviews, but rather on what it is they seek to achieve through those instruments. That would offer a better chance of aligning reforms to country-specific circumstances, not

only at the start of reforms but as they begin to take effect (or not) and need to be adapted. To illustrate: publishing a budget framework paper three-quarters of the way through the budget proposals preparation process may seem like a useful means to improve budget transparency; however, it may not result in any real improvement in budget transparency or in participation and accountability for policy decisions. A Ministry of Finance that is focused on the instrument, rather than the objective, would deem the reform successfully completed by the publication the budget framework paper. A ministry of finance that is focused on achieving budget transparency, in order to improve the results of spending, would be dissatisfied and would supplement the better budget documentation with other measures, such as extensive radio coverage.

No system has unlimited reform capital. For example, if an MTEF is unlikely to succeed because there is little domestic political will to move towards a disciplined budget process, its implementation should be deferred and efforts focused on placing better information on key trade-offs on the table, or improving the comprehensiveness of the budget framework outside of a full, technical MTEF. Forging ahead with new MTEF-type budgeting rules despite a lack of appetite for it and just because it is the instrument of the day will not substantially change how resource use is decided and will probably prejudice later attempts at improving budget planning.

Principle 3: Effective budget reforms change behaviour

An instrumentalist approach to budget reform can easily result in expensive reform programmes with few tangible results. This is particularly true of the introduction of technical reforms that have little or no effect on behaviour in the system. Good budget reforms change the behaviour of budgetary actors. Budgetary actors are individuals in the system, such as civil servants preparing policy options and making spending decisions, political actors making political choices, development partners providing funding, or parliamentarians and civil society members reviewing budget allocations and achievements. Often, reforms result in compliance but not in any substantive changes in behaviour. For example, where performance budgeting mechanisms are still limited to setting indicators and targets without making these targets count, the result is the creation of the required documentation by spending agencies without any meaningful processes and without any impact on budgetary outcomes.

In order to change behaviour, the combined impact of all institutional mechanisms – the rules, roles, structures and systems that govern budgeting and the information that is available in the process – matter. Behaviour in the budgeting system is a function of the incentives that individuals face; for

example, an education manager is unlikely to ensure that qualified teachers are progressively distributed more equitably across regions, even when this is an explicit policy decision, if he or she is not required to report on that distribution regularly.

Incentives are about consequences, both good and bad, and good budget reforms ensure that the incentives for individuals across the system are compatible with the desired outcomes. As another example, piloting a sector-level MTEF (or a system-wide MTEF) will not produce better sector planning if the old budget system coexists and is the real system for resource allocation. Completing the processes for the new MTEF system would then be mere compliance, with sector managers saving their efforts for where the real decisions are made. Equally, the weight of national MTEF strategic processes in the budget system is determined by how they are linked to allocations made in the annual budget process for parliamentary approval. If these allocations are made with scant reference to the MTEF process – in countries where these processes are separated – then the MTEF process becomes aimed at producing a document, rather than the document reflecting a meaningful process.

The budget process determines incentives. The countries where the reform path has been smoother (for example, South Africa, Uganda and Tanzania) have put considerable effort into developing a well-sequenced and transparent budget process with clear and enforced rules. In the case of Kenya, a recent MTEF review emphasised the importance of having the right incentives in the process, and this has led to better Cabinet involvement and improved documentation.

Paying attention to institutions and incentives means that budget reforms require interventions that enforce compliance with (new) formal budget rules governing both the budget preparation process and budget execution. This includes ensuring that the legal foundation is in line with the envisaged system. Countries differ in how they legislate. In some, like Mozambique, the legal framework was put in place as a first step on the reform path. In others, like South Africa and Namibia, modernising the legislative framework governing budgeting and financial management came after many of the provisions were already in place in practice. The approach may be determined by the strength of the existing framework, and legislative practice in the country concerned.

A relevant legal foundation is necessary to ensure compliance, but is not sufficient. Strong budget transparency and accountability systems are also required to ensure that the informal institutions (the rules, roles and practices that govern budgeting practice) match the formal, stated rules and roles. The incentives people face in the public sector are largely determined by how much they have to disclose about their decisions and activities, and how much

that information is used to hold them accountable in the monitoring, evaluation and oversight systems. Roles and responsibilities need to be clear for accountability to be operational. Even if good information is available, and even assuming good systems to monitor, evaluate and sanction, accountability will not ensue unless responsibility can be determined.

A strong direction in current budget reform is the allocation of responsibility between different institutions and actors. This can be done formally, as in the South African case, where the financial management legislation sets out the key responsibilities and assigns them, or more informally, like in Uganda and Tanzania, where sector-level reviews and the allocation of priorities are assigned to sector working groups in the budget process.

Overall, having the basics of budget execution in place can be seen as a necessary building block to getting incentives right. In a system where basic budgeting controls and record keeping are inadequate, it is unlikely that good information will be available or accountability operational. The Botswana case study is a good example of a functional basic budgeting system, producing perhaps better budgetary outcomes than many countries worldwide with sophisticated budget reform processes.

Principle 4: Budget reforms should support democratic public accountability

If budget reforms are to be successful, particularly in environments where there are institutional difficulties, the will to improve the system of central institutions like the Ministry of Finance should be backed by better economic management and service delivery from outside the executive.

Discussions at the seminar emphasised the wider economic governance context of budget reforms. It was felt that, while managerial accountability within the public sector was an important element in getting the incentives right for better budget management, any formal performance management rules were likely to be ineffective unless supported by public accountability. The role of a credible budget as a contract between citizens and government was also stressed, as was the significance of institutionalising mechanisms in the budget system that strengthen this role.

Several of the case studies illustrated such mechanisms. In Uganda and Tanzania, sector working groups that include representation by non-state actors play an instrumental role in the budget process. In Uganda, improvements in budget transparency (for example, through making budget allocations to local-level institutions public) are aimed at enabling the accountability of institutions on the ground to the publics they serve. In Tanzania, annual public expenditure reviews are conducted in a participatory manner, facilitating a more open debate on key expenditure issues.

Principle 5: Political involvement in budgeting is crucial

Mechanisms that allow for optimal political involvement enhance the budget process. Ultimately, if wider public accountability for decisions is to be enabled, decisions on what is affordable, and what to fund to what degree, are political matters, even if supported by rigorous technical advice. Also, the mechanisms of the budget process should ensure that the role of political decision makers is constructive and contributes to more effective spending, rather than detracting from it through *ad hoc* spending decisions taken outside of the context of competing spending needs and scarce resources.

All of the case studies pay some attention to this aspect. In cases where budget process reforms have improved the strategic relevance of spending, earlier rather than later involvement by Cabinet in setting priorities and finally deciding on spending was institutionalised. A continuous role for Cabinet, stitched into the budget process, is a critical feature of the reformed process in South Africa and Uganda. This supports budget credibility, in terms of both economic governance and spending discipline. Peer pressure amongst Cabinet members not to introduce new policies outside of the budget process, which absorb funds at the cost of ongoing policies, contributes to policy predictability and budget credibility. In countries where this is not the case, such as Mozambique, lack of Cabinet involvement and continuing fragmentation of strategic decisions have been highlighted as future challenges. Another successful mechanism is specialisation at Cabinet level, where a sub-committee of Cabinet engages with the budget and fiscal and spending issues in more depth, and makes recommendations to the full Cabinet.

Principle 6: The macro-fiscal context is important

Experience with budget reforms in Africa has taught that getting the macro-fiscal context right should be a priority. A shared feature of the more problematic reform efforts is the disruptive effect of macroeconomic and fiscal crises on budget reforms, whether they are on account of exogenous factors, such as falling commodity prices, or budget system factors, such as high overspending. Second waves of reform then include mechanisms to prevent and insulate the budgeting system from these crises.

Seminar participants agreed that transparent and technically sound macroeconomic forecasts, coupled with accurate revenue forecasts, were essential to smooth budget management. Revenue uncertainty discourages good budget preparation and disrupts implementation when budgets are remade during the year. One buffer against uncertainty is offered by caution in revenue estimation. In Uganda, where a significant percentage of revenue was from donor sources, a critical feature of improving budget certainty – and, consequently, fiscal discipline and allocative efficiency – was the

implementation of decision rules that deliberately adjusted estimates of donor revenue downwards, and included only the donor revenue that Uganda could be relatively sure of receiving.

However, despite upfront mechanisms to improve certainty, the vulnerability of many of the represented economies still leaves budget management exposed to disruption. Of the countries in the case study sample, South Africa, Namibia, Mauritius and Botswana operate systems where cash flow to spending ministries happens automatically on the back of approved budgets, with short-term revenue shortfalls absorbed by the Ministries of Finance. In all the other countries, in order to maintain fiscal discipline in the face of revenue shortfalls, Ministries of Finance operate “cash budgeting” systems, where only available cash is distributed on a monthly or weekly basis to spending ministries.

In its initial and crudest form, this caused repetitive budgeting and skewed distribution of available cash, with the most powerful ministries, rather than those with the highest priority, being funded first. Spending ministries were also unable to plan their activities beyond the current available cash horizon, because they had no certainty about future funds. In the absence of proper commitment controls, ministries continued to spend against approvals, rather than available cash, resulting in a serious build-up of arrears.

The country case studies provide clear examples of how to manage this better: Uganda operates a system of cash management where cash flow is smoothed over a year to provide a steady stream of funding, together with a quarterly cash allocation system that provides more certainty, and a proper commitment control system to prevent arrears. Malawi is moving towards managing in-year revenue uncertainty better, with transparent cash management (rather than the current cash rationing) one of the objectives of the second reform wave.

It could be argued that cash rationing points to an underlying budgeting failure, namely unreliable or overoptimistic forecasts of economic growth and revenue; cash rationing in response to unpredictability of revenue can amount to treating the symptom while deviating attention from the reform that is really necessary.

Principle 7: MTEF-type reforms are necessary to improve budgetary outcomes

MTEFs offer a reliable planning instrument to manage uncertainty. Seminar participants were in consensus that a forward planning horizon and a budgeting framework were both necessary elements of an effective budgeting system. Together they enable shifts in expenditure to new priorities in the face of short-term expenditure rigidities; make trade-offs explicit

between expenditure and tax instruments, between different spending objectives and over time; provide greater predictability of policy and of funding; and are essential to ensure that budgets are affordable. There was agreement that the MTEF approach to budgeting is a powerful way to achieve these objectives.

However, this agreement on the desirability of MTEFs came with a few provisos. First, while the MTEF approach may be useful and even necessary, it is not the answer to all budgeting ills. It is important for a country to be realistic about what it can achieve, and what other interventions are necessary. Second, a functional MTEF is dependent on critical preconditions, such as fiscal stability and the political will to implement budget planning and execution discipline. Third, an effective MTEF is contingent on getting the design and implementation right. In too many countries, the MTEF is seen as being all about the outputs of the approach – a framework document and the resulting forward fiscal framework and expenditure estimates. In countries such as South Africa, Tanzania and Uganda, where there is greater emphasis on designing the approach, the process and the budget rules that go with it, the MTEF has had a real impact on the budgeting system. In order to get the design right, it is important to pay attention to the incentives that result. For example, what is the nature of the forward ceilings? If they are adjusted each year with little reference to previous years, proper forward planning is disincentivised. However, if spending agencies are forced to live within their own projections, there is a higher likelihood that the quality of information on the forward projections will be better.

MTEF implementation works better if it is not piloted in individual ministries. It also works better if the initial reforms are at the centre, and pay attention to the macro-fiscal framework, before detailed work is done at ministry level. In Namibia, for example, the MTEF was first implemented as a fiscal and aggregate expenditure framework, in order to give effect to fiscal policy choices. In South Africa, Uganda and Mauritius, the expenditure framework was made applicable to all of government, at once. It is only now that the centre of the MTEF is institutionalised and successful that Namibia is moving towards developing sector-level expenditure strategies coupled to the MTEF. In Mozambique, the MTEF is still largely a fiscal framework, but as such it fulfils a vital role in managing revenue complexity, given the role of donors. In Uganda, one of the earliest implementers of an MTEF system, its initial role in making the macro-fiscal implications of spending clear to all stakeholders was critical.

MTEFs may be of particular importance in Africa, given the role of development partner resources. The integration of development budget spending (often funded mostly by donors and often unpredictable and vulnerable to revenue fluctuations) with recurrent budget spending is

recognised as a critical precondition for better development outcomes from public expenditure. Several countries have struggled with the problem of how to integrate these two types of expenditure, while their funding and spending dynamics are so different. The Kenyan case study offers a good review of how different reforms tried to address the shortcomings of the system in this regard. Where MTEFs are more mature, such as in Tanzania and Uganda, the potential to co-ordinate development and recurrent budget revenue and spending into a coherent MTEF framework, through mechanisms such as sector working groups, public expenditure reviews and sector-wide approaches, is becoming clearer. Botswana offers an example of where solutions have been found on similar principles of fiscal framework and forward predictability.

Principle 8: Balancing predictability, rigidity and flexibility

The net impact of the institutional arrangements for budgeting should be to balance predictability of funding and policy with flexibility, in order to respond to the changing environment within the spending rigidities of an ongoing public service.

Predictability of policy and funding is necessary for a good planning environment and to enable stable service delivery. Budget reforms such as an MTEF and transparent cash management systems enable predictability of policy and funding. However, the system needs to allow for uncertainty and for policy change. If funding is entirely predictable, the incentives for effectiveness and efficiency at line ministry level are fewer.

The seminar included discussion on the types of mechanism that could balance these competing budget reform objectives. The nature of the forward ceilings and the budgeting rules that govern them, the use of contingency reserves as a budgeting device in an MTEF, and forced savings to allow for flexibility on the margin to allocate to new policies were discussed. The common principle behind these mechanisms is that budgeting will always take place in an unpredictable environment – what is important is that there are predictable rules to deal with that unpredictability. In the absence of predictable rules, *ad hoc* decisions are taken that do not support good budget outcomes.

Principle 9: Introduce a performance orientation

A performance orientation in budgeting is indispensable in determining the appropriate incentives for service delivery. Different countries have completely different models and are experiencing different problems. In the case of Mauritius, line ministries are developing their performance frameworks within an emerging MTEF environment, but problems of

co-ordination at the centre remain. In Namibia, a centrally determined performance framework exists, and is linked to the budgeting system, but line ministry buy-in is problematic. In Botswana, a sophisticated indicator-driven system is being implemented, but there is doubt as to whether the cost of developing the system will merit the potential benefits. In South Africa, performance indicators and targets form part of the budget documentation, but limited further progress has been made in changing behaviour and improving service delivery. In Malawi, the performance orientation is an integral part of the activity-based planning and budgeting model, but the centre does not have the capacity to make meaningful use of the overload of information that results. In Tanzania and Uganda (and recently in Kenya), contextualised review mechanisms, made operational through the sector working group system, allow for regular performance reviews through the budgeting system. In Tanzania, these reviews follow the public expenditure review model and are very effective in bringing better information to the budgeting table. In Uganda, public expenditure tracking surveys have similarly been very effective in reviewing the use of funds in specific sectors, and facilitating remedial measures.

Despite this variety of measures, core lessons are emerging. Progress towards better service delivery using a modern, performance-oriented budgeting system is necessarily slow. Most countries are learning by doing. Not only does it require a change of skills, approaches and behaviour on the ground, it requires a fundamental change in approach to managing the public service. The impact of changes in the budgeting system is also affected by the extent to which people perform. However, the budgeting system does play a significant role, and there are several important principles in this regard.

First, a mechanistic collection of performance information is rarely effective. What is more important is how the information is used constructively to improve budgeting and budget outcomes, and to enable accountability. Second, the performance management system should not be separate from core budgeting decisions, but should be integrated into the budget process as a basis for dialogue between the line and centre, and between the state and non-state stakeholders. Third, there are technical requirements to be met before this can happen. Throughout the budget cycle, the classification system should tie allocations to policies and to performance (through a meaningful, programmatic and functional classification), enable accountability to be assigned clearly (an administrative classification) and enable clear information on the economic impact of spending (through an economic classification). Some of the represented countries have made progress with identifying poverty-related expenditures through coding these and using devices such as Uganda's poverty action fund (a virtual fund in the budget that combines poverty alleviation expenditures and provides an indication of the

likely strategic impact of state spending on poverty). Others, like Zambia, have refined the programmatic classification to include an activity classification (tied to budget controls), making much more explicit what funds are likely to be used for, and changing the nature of the budget debate.

Principle 10: Get implementation right

The sequencing of budget reforms is important. The case studies show that countries with fiscal instability that did not first address revenue unpredictability and poor spending discipline found their earlier reform efforts to improve the strategic allocation of expenditure ineffective. Similarly, improving the link between plans and budgets requires better underlying budgetary controls to be in place; poor budget execution controls detract from the incentives for proper planning. A performance orientation in budgeting is contingent on fiscal stability and sound budget planning systems. African budget reform experience, therefore, points to the value of assessing the whole system for weaknesses before attempting reforms, and of paying serious attention to sequencing.

The phasing of reforms is critical. Ministries of Finance, development partners and consultants have to be realistic about not trying to do too much with too little, particularly too little capacity in the system to manage and absorb reforms. Successful reforms are not created in a vacuum; equally, they are not created by budget officials or the consultants who assist them. Successful reforms are co-created by all the people in the system, who must be taken along on the reform path. This requires clear communication of goals to all stakeholders, why specific steps would lead to those goals, and what the roles of individuals and their institutions are in those steps. In addition, individual and institutional capacity must be built to fulfil these roles, as in South Africa, where full implementation of public financial management and classification reform has taken several years as institutions and individuals pass through capacity-building programmes.

Incentives are important if reforms are to be effective. Good reformers deserve to be rewarded, while poor compliance with reforms should be sanctioned. For example, spending ministries that show efficiency gains on the back of a sector MTEF process may not only be allowed to retain their gains for implementing new spending activities, but could also be rewarded with additional funds. Namibia provides a good example of a disincentive to breaking a reform budgeting rule – the allocations to ministries that do not stick to their MTEF ceilings in their medium-term plan submissions are reduced.

However, if rules like these are made, it should be clear that they will be enforced. Reform implementation is a learning process for all actors in the system. It may be necessary for a ministry to enforce a new rule only once for

it to be taken seriously thereafter. On the other hand, it may also take a rule not being enforced just once for spending agencies to doubt reformers' intent.

Similarly, care should be exercised in setting up institutions and assigning roles. Budget reform often goes hand in hand with a proliferation of institutions and mechanisms and the assignment of new roles to existing institutions. Only institutions that will be used meaningfully – and which do not duplicate the purpose of existing, but ineffective institutions – should be put in place. Only roles that will be made to count should be assigned. This generates the necessary demand for capacity building and, over time, it builds trust in budget reform programmes.

Conclusion

The African budget reform experience teaches that successful reforms are driven by the political will to make a change. This will is created in specific circumstances, which may be existing or looming macro-fiscal crises, democratic and constitutional transitions, or growing dissatisfaction with public service delivery. While maximum use should be made of the window of opportunity that such a situation creates, the momentum can run out, often paradoxically, on account of first reform successes dulling the edge of circumstance or just because of inertia in the system. The gains made in earlier successful reforms may begin to erode. Equally, not all reformers can rely on circumstances sufficiently compelling to overcome resistance to change from institutions and individuals in the system. Implementing budget improvement programmes in such cases, and sustaining improvements over long periods of time, takes strong leadership and vision. It also takes being mindful about what actions are likely to be the most effective at any particular time.

Reform programmes should not be understood as being carved in stone. Nor can their introduction be seen as a task completed. Successfully improving budgeting requires frequent appraisal and evaluation of the budgeting system, and of efforts to improve it, against the core objectives of affordability, responsiveness to policy priorities and value for money. In this, and in developing remedies for shortcomings, senior budget officials should assume the leading role.