

Working Group Report on Budget Execution

Executive summary

The key indicators in the area of Budget Execution have been met. In 2005 spending in priority sectors reached 67% of total expenditure, excluding interest and financial operations, of which 55% in Health and Education (based on preliminary figures in the Budget Execution Report– in 2004 these preliminary figures were very close to the final figures in the Conta Geral do Estado). A study on off-budgets in Health was completed. Results of this study were used in the 2006 budget cycle and for the follow-up of the work a task force on off-budgets was created. Other indicators relevant for budget execution (such as on tax and SISTAFE) will be dealt with in other working group reports.

Due to the late approval of the budget and the delays in execution caused by the introduction in the middle of the year of Sistafe the percentage of execution was relatively lower than in previous years, with 90.2% for the recurrent costs and 66.3% for the investment budget (low rate partly due to lack of reporting on projects funded with external resources and partly due to delays in procurement and disbursements for some projects). In spite of this lower execution rate the financial programming improved, most sectors reporting that the flow of funds was more regular and predictable than in the past. The presentation of a treasury plan in December was a further step forward in 2005, because it allowed budget support donors for a better planning of their disbursements in 2006. Compared to previous years disbursements of budget support already were much better in 2005 in terms of timing and predictability.

Main weak point in 2005 and main challenge for 2006 and subsequent years remained the external component of the investment budget, characterized by low rates of execution, shortage in reporting and many problems in reconciling numbers between different actors. Moreover, the level of off-budgets remained high and there is a need to have a strategy to address the consequences for sectors and provinces of channelling additional resources on budget and on treasury. Two other weaknesses that need to be tackled are: (i) the lack of detailed information according to functional classification of expenditures, due to suspension of the application of the functional classifier and (ii) the area of the financial operations, which is in need of more detailed information in order to increase transparency and contribute to further dialogue on what should be in the budget and the execution reports and what can be remain outside.

Evaluation of performance in 2005

- Contrary to 2004, the PAF indicators on spending in priority sectors of the PARPA were met with 67.2% of total expenditures excluding interests and financial operations, of which 55% in Education and Health. These are preliminary numbers from the Budget Execution Report (BER) and will only be finalized in the Conta Geral do Estado (CGE). It is good to note however that comparison of both documents on the 2004 budget cycle showed only few differences, with priority spending at 62.9% in the BER and at 63.0% in the CGE (see report on PFM general)
- The agreed study on off-budgets in health was finalized and the results were used in the new budget cycle. In 2005 the level of external funds in the budget increased, mainly

because some of the sector funds went on-budget. Execution rates for the external component of investment through grants went up from 50% to 70%, however those through credits it decreased from 85% to 52%, for an overall execution of 62.4% in 2005. The budget 2006 process succeeded in getting more off-budgets funds on-budget thanks to improving coordination between MoF, sectors and donors. In the first quarter of 2006 a second round of inscriptions of external funds into the budget was organized in order to capture more funds and to certify that the numbers included in the budget are the correct ones. However, the challenge remains enormous. Priorities are to tackle the problem of not-reporting; to get more funds to run through e-Sistafe (on-CUT and thus automatically on-account) and to develop a balanced view on consequences for sectoral ceilings (and provinces) when off-budgets move on-budget. MoF and sectors will try to reconcile numbers on 2005 in the framework of finalizing the CGE. The preparation for the budget process 2007 has started earlier and DNO gave a presentation on the budget cycle at the start of the Joint Review.

- Total level of execution of the expenditure side of the budget was higher in 2004 at 98.2% for recurrent expenditure and 71.8% for investment expenditures (QBER figures; CGE figures respectively 95.1% and 77.9%). The figures for 2005 were 90.2% for recurrent and 66.3% for investment. Main explanation for lower execution rates is the late approval of the budget due to elections. Budget execution during the first five months of the year was done on basis of the 2004 allocations, as legally required as long as the new budget has not been approved yet. Another factor was the introduction in the middle of the year of e-SISTAFE, which should have lead to huge improvements in budget execution, but in 2005 initially caused delays because of start up problems and the need of training people to work with the new system. Apparently later in the year the indirect budget execution speeded up execution, as was confirmed during the provincial visit. However, the real level of execution of the investment budget is unknown because many projects do not report on their spending to DNCP in such a way that these spendings can be captured in the QBER. On the revenue side execution improved compared to 2004: 94.2% in 2005 vs 92.5% in 2004. The 2004 final numbers in the CGE were even lower at 89.7%.
- Most of the recommendations for 2005 and 2006 in both the Aide Memoires 2005 were followed-up. (i) The financial programming improved. Execution of the budget in roads, education, health and other sectors was more regular than before, though flow of funds in the water sector remained problematic, also in view of the outstanding debts in that sector. Education noted an acceleration in execution after the introduction of e-Sistafe in that sector, which is a promising message for other sectors that will move on-Sistafe in 2006. (ii) planning improved through more regular contact and dialogue between key sectors and the Ministries of Finance and Planning&Development, having a trimestral meeting to discuss issues on budget execution. (iii) The quality of the BER improved in line with improved presentation of the budget with a new table on the budget equilibrium and, more important, budget execution in the BER is now compared with the original budget instead of the revised budget. Also there is more information on budget execution at decentralized levels of the public administration. However, the distribution of the documents is still weak and no electronic version of the approved budget is available on the internet. (iv) A treasury cash flow plan was presented in December and used as main input for scheduling disbursements of budget support. Disbursements were more predictable and timely in 2005 already, thus helping GoM make less use of expensive internal lending in order to finance the gaps in the cash flow, as it happened in the final quarter of 2004. (v) Budget coverage increased. More own revenues were registered and for the first time they were

part of the regular budget and not put in an annex. (vi) The PAF-indicators for measuring budget performance were revised and included in the PAF 2006, but will be revised again as part of the discussion on the PARPA II matrix.

- Some recommendations are still open. (i) There is not yet an elaborated Medium Term Fiscal Framework (MTFF), but good progress has been made; it is crucial to include in this instrument a quantification of the costs of policies, (ii) Information on the financial operations of government, including the profits from participation in private enterprises and the pay back of lending operations, needs to be improved in order to increase transparency, also taking into account the questions raised by the Tribunal Administrativo. It has been agreed that donors and government will meet soon after the Joint Review to discuss this issue in more detail. (iii) More in general, the follow-up of recommendations of the TA needs to be better documented and explained. (iv) It has not been possible to show a more complete picture of multi-sectoral and cross cutting expenditures such as in HIV/AIDS and gender, as was requested in the Aide Memoire of the JR 2005. In fact, the level of detail in information on actual spending has decreased because the functional classifier was abolished temporarily with the introduction of e-SISTAFE. The classifier should be reintroduced in the OE 2007 and the minimum requirements for its application in e-SISTAFE should be analysed. On the other hand, given an impossibility of a full use of the classifier in e-SISTAFE, parallel systems can be used to assure that the quality of information is maintained or improved. In that way it should be possible to have more systemic information on cross cutting issues, such as expenditures for HIV/aids. However, it must be kept in mind that for certain cross cutting issues it will remain difficult to compile such information, because they are more in the domain of policies than in the domain of budget execution. This is the case for example for gender. (iv) The harmonization between the BdPES and the BER has not made important progress in 2005. Only a synchronisation of the calendars of the production of these two documents will facilitate the use of the same set of data for both documents.
- On PAP performance related to budget execution. Three positive developments can be seen in 2005. (i) Improved predictability and timeliness of budget support. (ii) Start of a professional database for overall commitments and disbursements, now capturing over 1 billion dollars for both 2005 and 2006 - the challenge here is to link the database to the GoM systems and in particular to the OE (iii) More sector funds moved on budget. The perspective for 2007 is that commitments will come in at the same time as the commitments for general budget support, within four weeks after the Joint Review. The main weakness in this area of PAP performance is that (i) the overall portfolio hardly changes; (ii) projects still are far from aligned with the budget cycle, (iii) many funds remain off-budget and (iv) reporting on the execution of the investment budget is far from complete.

Key lessons with bearing on 2006/7

- On-going efforts to improve budget execution need to be sustained and where possible accelerated.
- Main priority, with a responsibility for GoM and PAPs jointly, is to improve the budget cycle for the external component of the investment budget. More off-budgets need to move on-budget, for which the EU database is a useful instrument especially once it is linked to the OE. More on-budget funds need to move on-report: sector ministries,

institutions and donors should strictly adhere to the obligation to report timely and correctly to DNCP on the execution of investment. And finally, a general move is necessary from off-CUT to on-CUT. This would contribute to the real success of the SISTAFE reform and would improve the quality of the budget execution.

- Level of execution of the component 'goods and services' and execution at the decentralized level of the public administration need to increase, as will be monitored by the new agreed 2006 PAF indicators.
- Further improvements in timeliness and predictability of cash flow to sectors and decentral level of the public administration depend strongly on the roll out and effective installation of e-SISTAFE. One of the bigger positive effects will be the end of the use of Operações de Tesouraria for the execution of the budget.
- In the OE 2007 the functional classifiers should be reintroduced and technicians should be trained at all levels on how to correctly use this classifiers.
- Deconcentration of more spending to the district level is a good initiative in the OE 2006 which has to be sustained and improved. In this respect it is fundamental to prioritize investments in development of capacities in the districts as well as the definition of objective criteria for allocation of funds to the districts.
- The comprehensiveness of the budget needs to increase by including more own revenues from more sectors and institutions. The OE 2007 should include more information on own revenues.
- Further dialogue is needed on more transparency in the budget on the issue of financial operations (see report on PFM general)
- The budget cycle can benefit substantially from a well elaborated MTEF which sets guidelines for sector allocations, based on costing and on available funds. There is a need for more dialogue between PAPs and GoM on what will be the effects on sector (and provinces) ceilings in the MTEF if funds now off-budgets move on-budget and/or if new earmarked funds come in (scaling-up).

Agreement of the PAF-indicators 2007-2009

- The strategic PARPA matrix and its relationship to the future PAF will be discussed in detail after the Joint Review.