Strengthening Public Financial Management in Africa: Linking planning, budgeting and results for Sustainable Development

Concept Note

Background

Since the adoption of the Sustainable Development Goals, much of the literature on Financing for Development has centered on domestic resource mobilization and the role of private finance. In Africa the cost of meeting the SDGs has been estimated at between $614 - $638 billion a year between 2015-2030, with a significant proportion required for infrastructure, raising the quality of public services for education and health, job creation and climate change action (Schmidt-Traub, G., 2015). These amounts are staggering but also eclipse the real day-to-day challenges governments face in meeting their financial obligations whilst providing additional investments to stimulate economic transformation. The pressure is evident as the number of African countries with debt ratios of 60 - 75 percent of GDP rose from two in 2012 to 10 in 2017, increasing Africa’s public debt to 59 per cent of GDP (ECA, 2019). Unfortunately, the growing potential for interest rates spikes and local currency depreciations could see this figure rise quite rapidly in the short term (DESA, 2019).

Considering the high investment-savings gap and low tax revenue ratios, it is clear that the current fiscal performance is insufficient to raise the US$638 billion needed to meet the SDGs. In addition, hopes that private channels of finance will be adequately mobilized to meet the shortfall appears overly optimistic. Blended finance, the term used when public-sector development funds are used to encourage private investments in poorer countries, was found to mobilise out of every dollar just $0.37 of private finance in LICs and just $0.75 in all developing countries. For example, during the period 2012 to 2015 just 1 percent of private finance mobilised by the UK government was mobilised in the poorest countries, many of these in Africa (ODI, 2019).

These indicators, understandably, raise concerns on how to improve the overall efficiency of national financing strategies for African countries, especially with the urgency of Agenda 2030. Therefore, the identification of best practices and reforms that can: i) enable countries to strengthen the management of existing and future flows towards development priorities; ii) optimise and harness efficiency gains in the expenditure of public and private funds; and iii) strengthen the results-planning feedback loop to improve the efficacy of public sector management, is of paramount importance. With an estimated 40 per cent of the potential public investment value lost to inefficiencies in low-income countries, there are significant gains to be made in improving the effectiveness of public sector management overall (AfDB, 2018). It is to this end that this study is primarily concerned.
Rationale

In the last 20-25 years, many African countries have embraced development planning as means to prioritize public interventions and to rally partners to promote growth and development. As of 2018, at least 50 African countries had a medium-term development plan or strategy and 42 had a longer-term vision. With the advent of Agenda 2030 for Sustainable Development and Agenda 2063: The Africa We Want, African countries are grappling with their alignment and harmonized adoption into the national development plans and mobilizing resources for their implementation. Such alignment of development plans with international and regional development frameworks also needs to take into account the resource requirements (financial and technical capacity) for their implementation.

In order to successfully reach their development objectives, countries need to establish systems that allow the government and other actors to link the allocations of resources with performance and policy objectives. If effective, such systems should enable governments to measure shifts in the allocation of public resources across the various goals, and the impact of such allocation on development outcomes in the short to long-term (UNDESA, 2019). Public financial management (PFM) is the framework that ties these systems together through facilitating the prioritization, accountability and efficiency in the management of public resources and delivery of services. It typically includes the account of government funds, allocation of resources to specific goals and objectives, expenditure and accountability measures. Effective PFM is an indispensable tool for African countries by providing the policy and institutional frameworks to identify, fund and implement programmes in a climate of competing needs and scarce resources.

The state of PFM across Africa is generally considered in need of reform, although many experts recognize this process is difficult even for the most advanced economies. Nonetheless, as result of improvements undertaken there are dimensions of PFM that are performing better on average, such as taxpayer management, fiscal forecasting, central budget planning and credibility. In some countries, progress has also been observed in sector planning practices, internal financial reporting and the timely submission of audit reports to parliament. However, linkages between public sector planning, expenditure and measurement of results remain weak despite the level of investment made in these areas (Cole, N., 2018). For example, capturing the timing and volume of varying national financial flows in the planning to expenditure process is often riddled with challenges. Particularly for flows that are unpredictable or better suited to specific development objectives despite political agendas.

On the sector level, the gaps between planning and budgeting (pre-expenditure) in African countries are quite common among developing countries. These include poor sequencing, a lack of capacity considerations, overriding focus on development partner-oriented plans, and weaknesses in analyzing and costing policies and priorities (For examples see World Bank, 2013, 2012; and ESCAP, 2018). These factors can delay or prevent the mobilization and allocation of adequate resources for development programmes and can lead to budgeting which fails to reflect planned priorities within constrained macroeconomic conditions; lack management controls; and are often not well elaborated into medium-term expenditure frameworks. Such factors can work together to adversely impact budget credibility/absorption, and successful programme implementation.
Objectives and Expected Outcomes

The overall objective of this Study is to help improve resource allocation and the efficiency of public expenditure towards sustainable development in Africa. The Study will achieve this objective through improving the capacity of African countries to adopt complementary planning and budgeting processes; and strengthen public financial policy frameworks which are responsive to national priorities and produce measurable results. The Study aims to fulfil this objective through addressing the following questions:

(i) What is the theoretical relationship between national planning and budgeting; and why is this relationship critical to achieving national development objectives?

(ii) What is the normative approach to the ‘Planning to Budget’ cycle? [such as performance-budgeting, results-based budgeting, accrual accounting, gender-responsible budgeting etc]. Conceptually, how should this cycle link to domestic revenue flows?

(iii) To what extent are these approaches practiced in African countries [Please support with examples in terms of sequencing, alignment, systems, transparency etc]; are the approaches/practices observed in the region ad hoc or systematic; and are the drivers internal or external?

(iv) How do observed approaches/practices impact the formulation and integrity of the budget; and its effectiveness towards defined development objectives? How central are the SDGs/Agenda 2063 targets in the planning to budget cycle?

(v) Conceptually, what is the optimal way to link budgets to results and what policy changes (if any) to processes/systems/practices could be made to strengthen this instrument of governance in the region?

Scope and Methodology

- The Study will investigate the relationship between planning and budgeting processes; and how current practices impact resource allocation and expenditure results. The Study will conclude with recommendations on how these processes could be better integrated/harmonized, which will form the basis of a short Guidance Note.

- The proposed methodology is comprised of: desk-based research combined with qualitative analysis to investigate the state of planning and budgeting processes in African countries. Data sources include national/sectoral plans, Parliamentary documentation, budget announcements, and participatory consultation with stakeholders.

- Target case studies on Benin, Cameroon and Egypt including sectoral focus where possible (education, health, infrastructure etc) and high-level quantitative analysis to gain insight on budget credibility and linkages with results. Data sources include national budgets, sectoral policies and implementation plans and Treasury reports (See matrix below for comprehensive list) to analyze allocation, expenditure and results. It is envisaged that select targets from regional and global frameworks will be used as proxies for this analysis.

- Collation of best practices and results from reform experiences to develop into a short Guidance Note.
Outline of Report

Background

Section 1: Planning and budgeting for sustainable development (Focus: Research questions 1 and 2; Drafter: DPS)

This section will provide a theoretical overview of the relationship between national planning and budgeting, from the national/macroeconomic and sector perspectives, and its importance in the achievement of development goals such as the SDGs and Agenda 2063. The chapter will provide a literature review on the policies guiding normative approaches to the planning to budget cycle; linkages/reflection of domestic revenue flows; and conclude with issues and constraints to implementation in African countries.

Section 2: Potential barriers to effective budgeting – Observations from Benin, Cameroon and Egypt (Focus: Research questions 3 and 4; Drafter: EGPFS)

This section will build on the previous section by providing an in-depth assessment of the process of planning-budget-results cycle in practice across Africa; and assess how current approaches impact budget allocation and results, using evidence from Benin, Cameroon and Egypt. The section will attempt to conduct high-level analysis on PFM processes and budget credibility at the sector level for the education, health and infrastructure sectors (depending on data availability) in these countries - one sector per country. The chapter will conclude with the findings in the context of the SDGs/Agenda 2063.

Section 3: Strengthening the planning to results process for sustainable development (Focus: Research question 5; Drafters: EGPFS/DPS)

The final chapter aims to bring together both the theoretical expositions from Section 1 and the empirical evidence from Section 2 to prescribe an optimal approach to linking planning to budgets, and budgets to results, and define what changes (if any) to processes/systems/practices could be made to strengthen the planning-budget cycle in the region? The chapter will conclude with best practices/recommendations.

Annex 1: A guide to integrated planning and budgeting processes for improved resource allocation and public expenditure efficiency. This guidance tool will provide countries with key strategies/tools/guidelines to help practitioners identify and address country-specific issues and options for improving priority areas.

Annex 2: Documents and stakeholders. List of documents used in preparing the Study and names and positions of stakeholders consulted (at their discretion).
## References

### Data collection matrix

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Data Sources (not limited to)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter 1 – Planning and budgeting for sustainable development</td>
<td>The National Vision, National Development Plan, sectoral plans and implementation plans, Parliamentary documentation, budget announcements, medium-term expenditure &amp; budget frameworks, Committee reports, economic reports, interviews with relevant stakeholders.</td>
</tr>
<tr>
<td>Chapter 2 – Budgeting to Results: potential barriers to effective budgeting</td>
<td>Sectoral policies and implementation plans, detailed annual budget allocations and expenditure for pre-specified years (national and sector level), medium-term expenditure &amp; budget frameworks, documents on estimates, Committee reports, sectoral surveys, economic reports, Treasury reports, public accounts, Ministry reports and accounts. Sustainable Development Goals and associated targets for selected sector</td>
</tr>
</tbody>
</table>
| Benin – health sector  
Egypt – education  
Cameroon – infrastructure | Budget report, economic report, Treasury report, Ministry stakeholder, planning departments of Ministries/ Planning Ministry reports and/or interviews and accounts. |
| Chapter 3 – Measuring outcomes and reinforcing the ‘results to planning’ feedback loop | |

### Interview Guidelines/questions [to be attached]

**Implementation approach – team**

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References


