



## BUDGET MONITORING, EXPENDITURE TRACKING AND ADVOCACY

### A FACILITATOR'S GUIDE ON BUDGET ANALYSIS

#### LEARNING AREA 9: BUDGET ANALYSIS

##### Objectives of the Session

1. The participants will be introduced to basic budget analysis techniques, and will understand how these techniques work.
2. Using the national/sub-national budgets, the participants will be able to develop clear advocacy messages emanating from budget analyses.

The trainer will take the participants through an informal presentation of factors one could use in budget analysis, as *5 different starting points for budget analysis*. So budget analysis can be conducted by:

1. Sector: e.g. health, welfare, education, security
2. Population group: e.g. people with disabilities, pregnant women, people living with HIV and AIDS, girl children
3. Government programme: e.g. early childhood development, child support grant, school nutrition
4. Issue: e.g. water, malnutrition, HIV and AIDS, sexual abuse of children
5. Using policy documents as a benchmark: e.g. National Strategic Plan for Food Security, Poverty Reduction Strategy Papers, National Health Insurance policy.

Participants will need to work with their governmental policy documents, plans and/or budgets to assist in understanding budget and policy priorities.

There are different uses of budget analysis which would help answer budget related questions. Budget analysis would help answer the following questions:

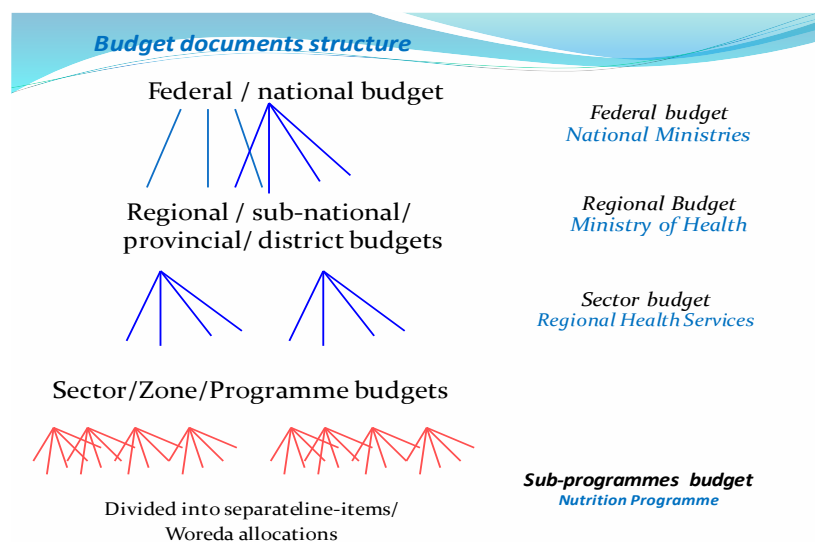
1. *Adequacy: How much is budgeted?*
  - Nominal terms can tell us if the allocation is enough (compare to cost of intervention).
  - Real terms tell us if the allocation is keeping up with inflation.
2. *Priority: How does the budget for this purpose compare to resources spent in other areas?*
  - To determine what government's priorities are as stated in budget.
  - To ask if stated policy priorities match priorities in budget.
  - To determine if government is keeping its promises (policy commitments).
3. *Progress/ Trend: Is government's response on this issue improving?*

- To monitor government commitment.
- 4. *Equity: Are resources being allocated fairly?*
  - Per capita spending across geographic regions.
- 5. *Efficiency: Is the money being spent?*
  - Allocated vs. actual expenditure.
  - Comparing funding channels or mechanisms.
- 6. *Effectiveness: Is the money being spent on the right things?*
  - Are the funded interventions the most appropriate and cost effective?

## Collecting information for budget analysis

### Where to look for information?

Government budgets are presented in different ways depending on the country's budget structure. However, ideally, government budgets should provide some form of structure that would make it possible for everyone to understand the allocation and flow of funds to different policy priorities. An ideal budget structure is as follows:



In addition, each department has its own budget (or 'Vote' once approved in Parliament), which should have:

**Overview:** core functions, vision, mission, main services, constitutional / legal framework and external events impacting on budget decisions of the department.

**Review of the previous financial year:** should summarise the major achievements (for example distilled from Annual Report).

**Outlook for the year:** implications of challenges, policies and strategies on the departmental budget.

**Budget allocations:** actual budget figures presented in the documents.

Additional structural questions on a budget include:

- How are programmes organised/ divided?
  - For example, does each region's welfare department have the same five programmes?
- What is the level of disaggregation of financial information on the budget?
- Does each region and department provide the same level of detail in their budgets?
- Is it understandable??
  - Is there text describing program, aims, past achievements, next year's plans, explanations for any major changes, etc.?
- How many years of data are given, for easy calculation of progress or trends over the years?

### **Exercise 16: Determinants of the budget**

The facilitator will facilitate a small group discussion on the determinants of the budget. Participants should brainstorm what they think are the factors considered in formulating a budget.

Some of the feedback from the participants may include the following:

- Previous budget
- Policy priorities (political)
- Constitutional obligations/legal framework
- Rights/moral choices
- Need (e.g. prevalence rates)
- Cost of programs
- Cost effectiveness research
- Equity
- Capacity to spend
- Available resources



## **Conducting Budget Analysis**

This session is aimed at giving participants practical learning on conducting actual budget calculations.

### **Exercise 17: Why conduct budget analysis?**

Participants need to answer the question of why we conduct budget analysis. A plenary brainstorming activity will be facilitated by the trainer, followed by a presentation of the following as examples of why budget analysis is important to civil society groups.

#### **What are we analysing the budget for?**

- Percentage share of the budget (priority)
- Nominal growth in the budget (progress)
- Adjusting for inflation (real budget figures)
- Real growth in the budget (progress in real terms)
- Annual average growth (summary)
- Per capita budgets (equity & adequacy)
- Percentage difference from average (equity)
- Real growth in per capita budgets (progress after adjusting for inflation and population growth)
- Comparing budgets to expenditure (expenditure as % of the budget - efficiency)

Thus, participants will be expected to:

- Become familiar with finding information in budget documents
- Learn to calculate:
  - Percentage of total budget
  - Share of total budget, showing whether it is increasing or decreasing
  - Converting from nominal to real budget amounts
  - Growth rates (nominal or real)
  - Average nominal/real growth rate over the medium term
- Become familiar with different levels of disaggregation in budgets
- Practice!

The table below presents the Water budget to be used in conducting budget analysis in this session.

### WASH Sub-programs in the 2019 National Budget

\$' Million nominal	2018/19 Final outcome	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Water Purification Services	120	136	144	152
Urban Sanitation Project	150	186	191	195
Rural Water Services	1,230	1,531	2,001	2,102
<b>TOTAL</b>	<b>1,500</b>	<b>1,853</b>	<b>2,336</b>	<b>2,449</b>

### Calculating percent shares/ ratios

- The term used to describe the status of the figures provided.
- The term *share* refers to the size of a slice of the pie in relation to the entire pie. We express it in terms of a percent of the total.
- *For example, if the total Food Security budget for 2020/21 is \$2,3 billion, and \$191 million is spent on Nutrition, we say the Nutrition share is 8.3%.*

**Formula** (Section/Total = Share)

$$= \frac{191}{2,336} \times 100$$

$$= 8.3\%$$

- We use percentages to measure how much government **prioritizes** a certain item in the budget.
- We often use percent to express:
  - one national department as a share of the country's budget
  - one program as a share of the total department budget
  - one sub-program as a share of the total program budget

### Converting an allocation from nominal to real terms (accounting for inflation)

We want to convert everything to 2018/19 Dollar so we make 2018/19 the base year. The deflator for the base year is = 1. The base year is the year we are comparing the prices against. Usually the base year is the last (previous) year with actual expenditure figures. Deflators are usually calculated by economists or they are made available by the government treasury departments. University economics departments and individuals can also generate these deflators. We divide each allocation by the deflator for that year to get a real amount. The deflator represents the Consumer Price Index (CPIX) that tells us the real prices of goods and services.

Nominal Amount				
\$' million	2018/19 Final outcome	2019/20	2020/21	2021/22
Water Purification Services	120	136	144	152
Urban Sanitation Project	150	186	191	195
Rural Water Services	1,230	1,531	2,001	2,102
<b>TOTAL</b>	<b>1,500</b>	<b>1,853</b>	<b>2,336</b>	<b>2,449</b>

Deflators (supplied by government) %	1	1.0510	1.0591	1.104601
--------------------------------------	---	--------	--------	----------

**Formula** =  $\frac{\text{Nominal amount for the year}}{\text{Deflator for the year}}$   
 = Real amount

#### Exercise 18: Calculating Real Values

Participants to be divided into small groups to calculate real amounts using the deflators provided. Participants will convert nominal amounts to real amounts for 2018/19 to 2021/22 and explain what changes to the allocations they observe when they are changed into real terms. Then they will be asked to develop advocacy messages based on the analysis conducted.

<b>Real Amount</b>				
\$' million	<b>2018/19 Final outcome</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
Water Purification Services				
Urban Sanitation Project				
Rural Water Services				
<b>TOTAL</b>				

### Calculating real growth and nominal growth rates

The growth rate describes how much the size of an allocation changes from one year to the next. It is expressed as a percentage of the original allocation and is called *the annual growth rate* or *year-to-year change*.

**Formula:** 
$$\text{growth rate} = \frac{(\text{amount in year 2} - \text{amount in year 1})}{\text{Amount in year 1}} \times 100$$

You can use the same formula to have a **nominal** growth rate or a **real** growth rate.

Participants to calculate nominal growth rates and real growth rates for the Total Water budget from 2004/5 to 2007/8. What is the difference in the growth rates between nominal and real figures? What can you deduct from your findings?

<b>Real Growth Rates</b>			
%	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>
Water Purification Services			
Urban Sanitation Project			
Rural Water Services			
<b>TOTAL</b>			

### Calculating annual average real growth rate

Annual Average Growth Rate (Nominal or Real) gives a big-picture view of what is happening over the medium term. The annual average real growth rate is more indicative of commitment and budget sustainability over the medium term (multi-year budget system).

**Water Purification Services** (2019/20 – 2021/22) average annual real growth rate = average of the 3 annual real growth rates. So we use the growth rates for 2019/20 to 2021/22

$$= \frac{Y1\% (2019/20) + Y2\% (2020/21) + Y3\% (2021/22)}{3}$$

= .....%

### Per capita spending

- It is also important to adjust budget data on a per-person or per-capita basis to allow comparisons between countries or between states.
- Per-capita spending is obtained with the 'population' and 'amount-spent' variables. The equation is as follow:

$$= \frac{\text{Spending or budget}}{\text{Population size}}$$

$$= \text{Per Capita Spending}$$

Example: Rhodesian Island spent \$2,3 billion on Nutrition in 2020/21 and there are about 12 million citizens in the country, how much did each person get for nutrition support in this country?

$$= \frac{\$2\,300\,000\,000}{12\,000\,000}$$

$$= \$\text{.....}$$

**Finally, to demonstrate that the understanding of the budget process and how to conduct budget analysis, the facilitator may ask participants to do this exercise in small groups:**

### *Exercise 19: Budgeting at the government level*

#### **Assumptions:**

- Three social sector ministries (Education, Welfare, Health) are competing for a limited social sector budget for their nutrition programmes.
- The Finance Minister has given them a budget ceiling for nutrition of \$300,000.00 for 2020/21, \$350,000.00 for 2021/22 and \$380,000.00 for 2022/23 to be shared by all three departments.
- Each department has to prepare its draft budget to be debated at the Social Sector Budget Forum.
- All three departments are competing for the financial resources indicated by the Finance Minister.
- Each department has to indicate other sources of finance they will use for their nutrition programmes.
- Health failed to spend all its nutrition monies allocated in 2019/20.
- Welfare overspent on its nutrition budget by 5%, due to increased amounts of social worker salaries.
- Education failed to report its school nutrition spending, until quite recently.
- From the minister's budget, allocate what you think is sufficient to implement your departmental nutrition for 2019 – 2023.
- Calculate growth rates for your department from 2020/21 to 2022/23.
- Calculate the percent share of your departmental budget from the total nutrition budget for each of the years.

**Time:** 1 hour

**Presentation:** 10 minutes

### *Exercise 20: More practice!*

1. Identify the department or office in your district/zone/region/woreda/upzilla responsible for nutrition services. Pull out all relevant budget and policy documents to scrutinize.
2. Make a chart showing nominal amounts of nutrition spending in a three year period - the medium term (using the latest information available).
3. Calculate nutrition as a share of total budget for each year.
4. Say what is happening in words. Is the real amount increasing or decreasing? Is the percentage share increasing or decreasing?
5. Convert total nutrition allocation to real terms for the years available.  
Is the allocation keeping up with inflation?
6. Calculate real growth rate for the nutrition programme for each year.
7. When you consider inflation, is the allocation actually increasing or decreasing?
8. Calculate average annual real growth rate for the programme over medium term.
9. Generally speaking, what is happening to the nutrition budget over the medium term?