



BUDGET ANALYSIS GUIDE



The overall goal of IBIS' work on budget analysis and resource tracking is to strengthen advocacy to achieve changes in relation to democracy, rights and economic justice.

Budget analysis is an important tool for advocacy efforts to hold government accountable and promote pro-poor changes.

A government budget directly or indirectly affects all citizens – in particular the poorest and most vulnerable groups.

Even when funds are allocated to pro-poor policies, money does not always reach the beneficiaries on account of for example lack of transparency, lack of capacity, poor management and/or corruption.

KEY BUDGET TERMS:

BUDGET BALANCE, DEFICIT AND SURPLUS: A balanced budget is when a government's total revenue equals its total expenditure for a given fiscal year. When the budget is not in balance, it is either in deficit or surplus. A budget deficit has a negative balance between budget expenditure and budget revenue – i.e. when the government spends more money than it actually has. A budget surplus is a positive balance between budget expenditure and budget revenue i.e. when the government has more funds than it plans to spend.

BUDGET INPUTS: The allocation of money to a particular use in the budget for particular services – e.g. schools.

BUDGET OUTCOMES: The impact on the broader society or economy of budget allocations to a particular programme or sector. For example, the ultimate objective of a school nutrition programme would be to improve children's nutritional status, and thereby their ability to learn in school. Thus, the budget outcome would be changes in children's nutrition status and learning capability.

BUDGET OUTPUTS: Public services provided by government through budget inputs. For example the number of children who received teaching and learning materials during the calendar or financial year.

CAPITAL EXPENDITURE/SPENDING: Spending on an asset that lasts for more than one year is classified as capital expenditure. This includes equipment, land, buildings and legal expenses and other transfer costs associated with property. For capital projects (e.g. building of schools), all associated expenses are considered as capital spending.

CITIZENS BUDGET: A citizens budget is a simplified budget to demonstrate a government's commitment to citizens engagement for involving residence in decisions-making.

CONSUMER PRICE INDEX (CPI): This reflects the price of a representative basket of consumer goods and services.

CURRENT EXPENDITURE/SPENDING: Recurrent expenditure on goods and services that are not transfer payments or capital assets. It includes salaries, rentals, office requirements, the operating expenses of government industries and services, interest and maintenance of capital.

DEBT: Private debt refers to sums that must be repaid by individuals and companies. Interest is normally payable on private debt. National debt is the money owed by the state in its corporate capacity.

DEBT SERVICE COSTS: The interest payable on debt. This excludes the repayment of the amount originally borrowed.

DEFLATOR: A statistical tool used to convert current currency into inflation-adjusted currency, in order to compare prices over time after factoring out the overall effects of inflation.

DIRECT TAXES: Taxes charged on the taxable income of individuals and legal entities.

ECONOMIC GROWTH: Economic growth refers to the increase in the total value of final goods and services produced in a country. Economic growth can be measured by changes in Gross Domestic Product.

EXPENDITURE: Government spending of money, or the amount of money spent.

FISCAL POLICY: Refers to efforts by the government to stimulate the economy directly, through spending or adjusting tax rates.

FISCAL YEAR: The government budgets year. In some countries, the fiscal year is longer than 12 months.

GROSS DOMESTIC PRODUCT (GDP): Total value of final goods and services produced in the country during a calendar year. GDP per person is the simplest overall measure of income in a country.

GROSS NATIONAL PRODUCT (GNP): The GDP plus the total net income from abroad for citizens of that country.

INFLATION: The rate of increase in prices.

INTEREST RATE: The cost of borrowing funds. The interest rate is a percentage of a loan that the lender charges the borrower until the debt is repaid.

MACROECONOMIC POLICY: A broad government policy to ensure economic stability. It includes monetary and fiscal policy, as well as the government's priorities in allocating resources.

MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF): The three-year revenue and expenditure plans of national and state governments. Each year the legislature votes on the projections of the first year. The two outer years are retained as a basis for future planning, while a new third year is added.

MONETARY POLICY: The regulation by a central bank of the money supply and interest rates to control inflation and stabilise currency. By regulating the value of currency, the central bank can affect the amount of money spent by consumers and businesses.

NOMINAL TERMS: Actual monetary value in terms of its purchasing power at current prices. Nominal terms do not take into account the effect of inflation on the real value of money. Government budgets are set in nominal terms and do not adjust totals for inflation.

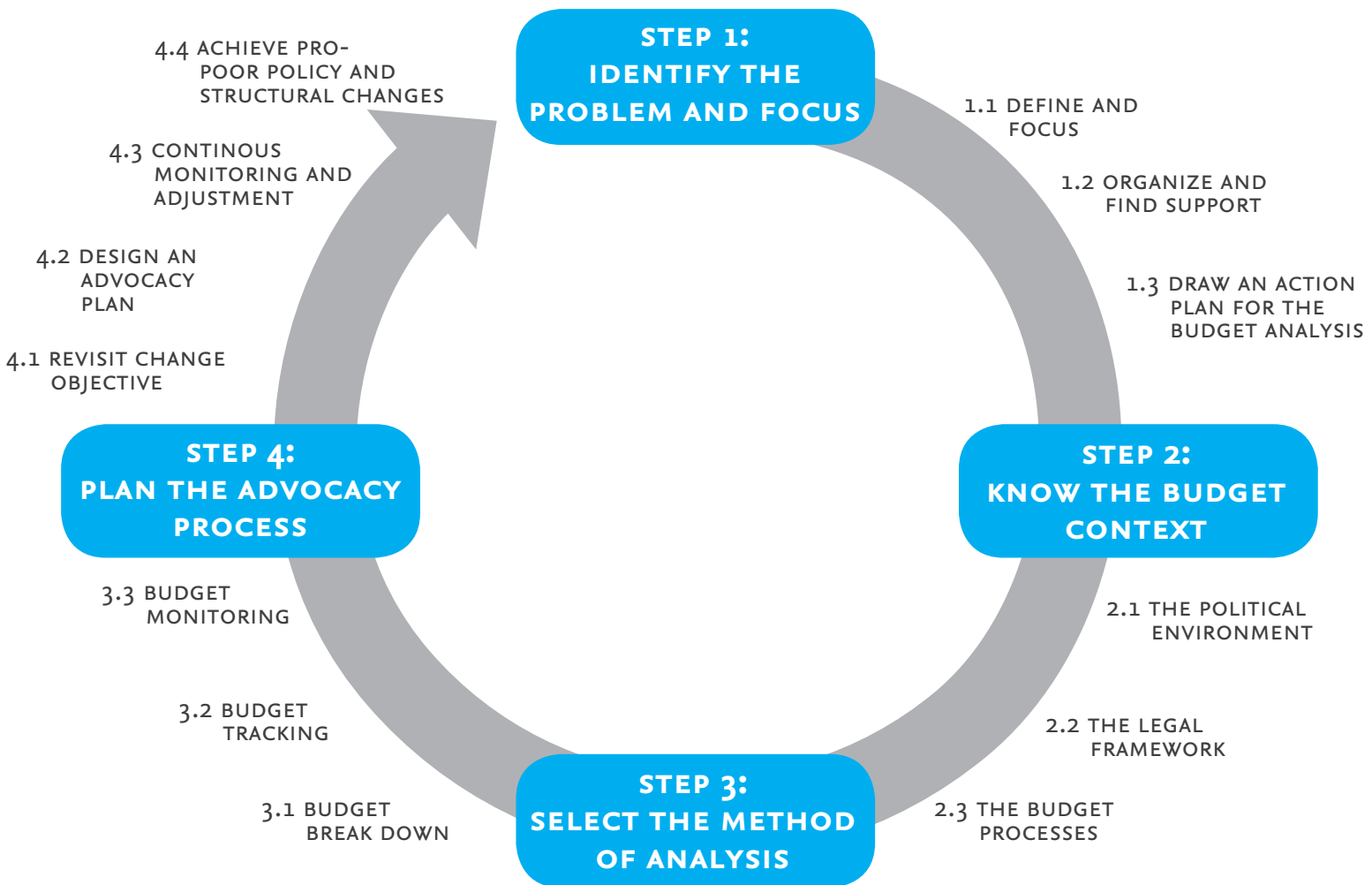
REAL TERMS: Value measured in terms of the purchasing power of money at a particular time.

REVENUE: The government's annual income collected from taxes on salaries, profits, etc.

BUDGET ANALYSIS GUIDE: STEP 1 - STEP 4

This Budget Analysis Guide (BAG), is intended for IBIS staff as well as civil society practitioners and activists. It is developed as a tool for monitoring, tracking and analysing budgets, with the perspective of developing skills and a common understanding across IBIS countries and programs.

The BAG has 4 Steps to lead you through a complete **Budget Analysis** and **Advocacy Planning Process**.



STEP 1

IDENTIFY THE PROBLEM AND FOCUS

INTRODUCTION

Budget analysis is useful to create clarity about government social and economic policy priorities. Budget analysis can provide evidence for a wide range of advocacy initiatives e.g.: Increasing the education sectors' share of the national budget, promoting a fair pro-poor distribution of gas or oil revenues, monitoring of funds and tangible goods (such as schoolbooks, medicine etc.) transferred from central to local levels, tracking the schoolbooks or medicine that never arrived to the children in school or the people at the health post. In all cases, the success of a budget analysis depends on:

1. The right problem definition and focus: **What** is the problem you want to address and solve?
2. The organization and support: **Who** are the actors you must ally with to do it?
3. The planning of the work process: **How** should you go about making the change happen?

1.1 DEFINE AND FOCUS

Start your budget analysis process by defining the nature of the problem, the changes you expect to achieve and the related budget focus by answering the three questions below:

- **Problem Definition:** Decide which concrete problem will be addressed
- **Change Objective/Advocacy Target:** Formulate a clear and realistic change objective/Advocacy Target. This is crucial to ensure clear communication, strong ownership and commitment to the process from all parties involved (e.g. support from the population, attention from media and engagement of decision makers).
- **Budget Focus:** Make an initial judgment of which part and level of the budget you need to analyse. This decision shall support the focus of the analysis of budget context and key stakeholders as outlined in STEP 2.

WHY BUDGET WORK?

The budget is the government's most important economic policy instrument and should reflect the nation's needs and priorities.

Budget work is one way of ensuring that the vulnerable groups get a fair share of public budgets. Civil society organisations can monitor government compliance with human, economic, social, and cultural rights.

1.2 ORGANIZE AND FIND SUPPORT

Establish a coordination group including participants from partner organisations and other allies. It is important to assess the existing in-house technical and organisational capacity, and look for support when necessary. Depending on the specific budget focus, consider seeking support from CSOs, NGOs or INGOs, research institutions, economists, media, and universities at national or local level. The group and its support must be strong enough to carry through the analysis, which may be complex and time consuming. You can always take in new capacity if needed.

EXAMPLE: GIRLS RIGHT TO FREE SECONDARY EDUCATION IN SIERRA LEONE

Problem: Government Decree: Girls with high score by end of primary education are entitled to free secondary education, but the grants never materialise.

Change Objective/Advocacy Target: Decree followed by school authorities about girls' secondary education grant paid by the education sector.

Budget Focus: Three levels to watch: 18 secondary school budgets, the district education budget, the budget of the ministry's department for secondary schooling.

Expected Results: A well planned advocacy campaign including several stakeholders results in more transparent procedures for female secondary school grant transfers from the ministry to the local level. The grants are paid out to the beneficiaries.

1.3 DRAW AN ACTION PLAN FOR THE BUDGET ANALYSIS

The coordination group formulates an Action Plan for the Budget Analysis Process covering the type of activities required, such as research, data collection etc., the timing of activities as well as the roles and responsibilities of each member. The Action Plan is an agreement on how to proceed, ensuring ownership and commitment to the process from all members. A more formal MoU might be needed between important stakeholders to guide the collaboration. See *Toolbox* p. 7

STEP 2

KNOW THE BUDGET CONTEXT

INTRODUCTION

To initiate the budget analysis with your selected budget focus, it is important to understand the political and economic context in which it exists: How are the political and administrative processes? Who are the key actors and decision-makers? Which legal frameworks outline the rights of civil society to participate and to have access to budgetary information?

2.1 THE POLITICAL ENVIRONMENT

The political environment includes government policies and priorities, the structure of administrative and fiscal systems, the allocation of resources, and the roles and power of main actors involved. At local level, key persons, such as local Chiefs or Indigenous Elders Councils, may have influence on the budget even without formal power. With a budget analysis and a power analysis you can expose:

- Available resources for your chosen budget focus area, e.g. for basic services such as education, health and infrastructure.
- Main actors and their roles and opinion regarding these issues (power analysis).
- Exclusion or continued discrimination against certain groups: Women, youth, children, ethnic minorities, indigenous people etc.
- The policy environment: Inefficiency or systemic abuse (leaks/corruption).

2.2 THE LEGAL FRAMEWORK

It is important to be aware of the comprehensive legal framework that is essential to a budget system. It ensures a clear division of roles for the legislature (governing bodies and elected representatives) and for independent auditing institutions, guarding against abuse of the budget system by the executive. A country legal framework includes the national constitutions, the laws, by-laws, national acts and strategic plans, but also international conventions such as e.g. the UN Convention on the Rights of the Child, which states the governments obligation to provide free primary education. These legal frameworks should be publicly available through the following institutions:

- National sector ministries and state government institutions.
- Lower tiers government institutions such as Regional, Province, County and District offices (state administration and sector representation).
- Government institutes of statistical information.
- Ombudsman or other independent regulatory authority.

Developing a thorough knowledge of the parts of the legal framework, relevant to your change objective, is essential for executing a quality budget analysis.

2.3 THE BUDGET PROCESSES

Analysing Government budget processes allows you to see how money is raised, planned for, distributed and spent, and to determine the level of transparency and availability of budget data. With this knowledge the national and local budget cycles and the flow of money between the different levels of government institutions can be followed and monitored. Budget related information that should be available to the public includes:

- National and local budget cycles and phases, and entry points for civil society participation.
- Timing for the 5 main budget phases: Planning, budget formulation, approval, execution and monitoring & audit.
- National and local budget calendars for the fiscal year.
- Budgetary monitoring documents, including pre-budget statement, budget proposals, reviews, reports and audits, and in some countries simplified Citizens' Budgets.

In many countries civil society has several entry points for participation in the different budget phases.

BUDGET ANALYSIS INTENDS TO:

- 1) Challenge policies and budgets
- 2) Advocate for increased and efficient use of resources
- 3) Improve transparency and accountability in systems
- 4) Influence decision making processes and expenditure

STEP 3

SELECT THE METHOD OF ANALYSIS

INTRODUCTION

When the decision on the budget focus is taken and the knowledge of the budget context established, the next step is to select the appropriate method for budget analysis. There are 3 main methods for budget analysis: budget breakdown, budget tracking and budget monitoring incl. social audit and citizen monitoring. Each method is designed for a specific focus of analysis, and you must select the one that suits your problem and focus best. Each method has a series of tools (available in the Toolbox) to help gather the necessary information.

3.1 BUDGET BREAKDOWN

To analyse the fairness of budgets and influence policy priorities.

Is useful to analyse priorities from one year to another and within the budget year in order to influence/change political priorities. It provides key information on governments' plans for raising and spending public resources. It can be conducted at all levels from national to local and for sectors and programs. Budget breakdown can be applied at any phase of the budget cycle: Planning, formulation, approval, execution and audit. A budget breakdown can be used to:

- Determine the priorities between sectors e.g. education in relation to other sectors such as health or defence.
- Assess if the budget is adequate and justifiable in relation to government policy.
- Assess if the budget is reflecting civil society needs/priorities.
- Assess if it adheres to the legal obligations of the state (as identified in the context analysis Step 2), e.g. providing free textbooks for primary school pupils.

3.2 BUDGET TRACKING

To track disbursement down to the service provider and influence money flows.

Is useful to follow transfers/disbursements down to the individual service provider and detect leaks and/or abuse in order to influence transparency and accountability and increase fiscal decentralization.

Budget tracking serves to find out whether the Government keeps the promises it has made through allocation of funds in the budget. Tracking means selecting a particular budget item and follow the journey the money has taken. The money travels from one level of government to the next, such as:

- National sector ministry to regional or district government.
- Regional or district government to local government structures.
- National, Regional or Local government to service providers.
- Service provider to destination.

The tool most commonly used in budget tracking is Public Expenditure Tracking Survey, PETS, which traces the amount of money (earmarked to a sector or to a purchase of specific items or construction of infrastructure) originally allocated through the levels of government. *See Toolbox p. 15*

3.3 BUDGET MONITORING

To observe and control budget implementation and influence execution

The focus of budget monitoring is whether disbursements are timely transferred and spent as planned, or if there are lacks or leakages. It can be conducted at national level, provincial, district, local, program and sector levels. It also serves to assess whether the service is of the agreed quality and adequate in relation to the planned results. Monitoring a budget will help you to:

- Gather information about the execution of a specific service or facility (such as the delivery of books, or hospital equipment, or construction of a school or a road).
- Understand how stakeholders (e.g. community members or providers themselves) evaluate/grade a performance or service.
- Measure and hold the responsible/executer to account in order to improve and influence performance.
- Influence process, service and delivery problems.

The main tools for budget monitoring are scorecards, social audits and citizen auditing. *See Toolbox p. 16*

STEP 4

PLAN THE ADVOCACY PROCESS

INTRODUCTION

Similar to the establishment of the Budget Analysis Group in STEP 1, it is important to organise and find support for the planning and implementation of the Advocacy Process. An Advocacy Process Coordination Group shall be established as an extension of the Budget Analysis Coordination Group, including partner organisations and other allies e.g. representative of the media. As a first activity the group must develop and agree upon an Advocacy Plan.

The findings from the budget analysis will serve as key evidence for the advocacy process. Findings can be irregularities, corruption or a lack of transparency and accountability. Often, crucial information is not available, because data are either not collected or published as it should. Any of these kinds of findings will enable you to strategically adjust the change objective/advocacy target and plan the advocacy process.

4.1 REVISIT CHANGE OBJECTIVE/ADVOCACY TARGET IF RELEVANT

Revisiting the original change objective/advocacy target serves to ensure that it corresponds with the findings of the budget analysis. Three issues are important to consider:

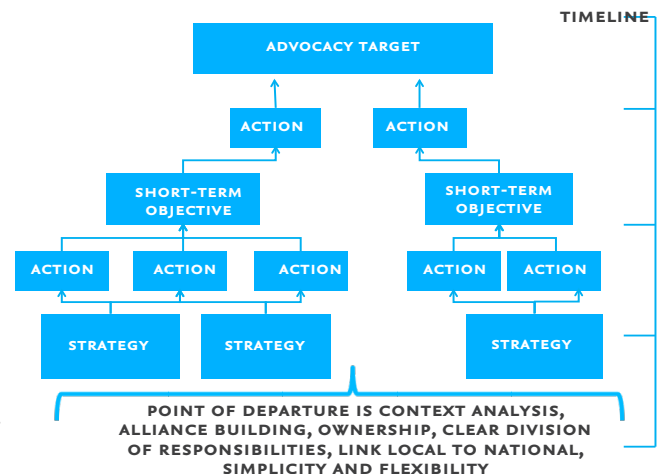
- Based on the information and findings from the budget analysis, ensure that the change objective/advocacy target is offering a realistic and clear alternative or solution to the identified problem.
- If relevant, extend the coordination group and coalition with additional stakeholders in order to stand as strong as possible in the advocacy process, implementing the Advocacy Plan.
- Make sure that the coordination group participates and takes ownership to the advocacy plan and agrees on the issues that are non-negotiable when or if negotiating with decision makers.

4.2 DESIGN AN ADVOCACY PLAN¹

The Advocacy Plan should include issues, such as:

- A timeline.
- The distribution of roles and responsibilities.
- Different/Key influencing strategies.
- Short-term objectives, indicators and a realistic and clear Change Objective/Advocacy Target.

In the template, the bottom line of analysis, feeding into the Advocacy Plan, corresponds to the findings of the budget analysis. Consequently the Advocacy Target at the top might be a revised change objective from what was initially defined. See *Toolbox p. 19*.



4.3 CONTINUOUS MONITORING AND ADJUSTMENT

During the implementing of the Advocacy Plan, the coordination group must continuously monitor strategies and plans against changing contexts and make necessary adjustments. It is important that there is an on-going and institutionalised communication between members of the coordination group and with their constituencies. The aim of the advocacy processes is to achieve the planned change objective. In this process communication is key, both through more traditional media such as television, radio and newspapers, and through the new social medias (web and cell-phones).

4.4 ACHIEVE PRO-POOR POLICY AND STRUCTURAL CHANGES

Efforts to provide quality evidence and to carry out successful advocacy work for achieving pro-poor policy and structural changes require support to and focus on alliance building and networking from the grass-root level to the national/global level. It is therefore vital to the advocacy process to develop horizontal alliances across sectors as well as vertical links between community based organizations and stronger CSOs and think tanks at national, regional and global level.

¹Consult IBIS' "The Advocacy Cycle" for more details.

KEY REFERENCES²:

PUBLICATIONS

ActionAid Governance Publications: Under the common title 'ActionAid Just and Democratic Local Governance', the following series focuses on key challenge areas identified in ActionAid's governance work:

- Democracy – Justice and Accountability at the Local Level: <http://www.actionaid.org/publications/democracy-justice-and-accountability-local-level--hrba-governance-resources>
- Accountability – Quality and Equity in Public Service Provision: <http://www.actionaid.org/publications/accountability-quality-and-equity-public-service-provision-hrba-governance-resources-o>
- Voice – Representation and Peoples' Democracy: <http://www.actionaid.org/publications/voice-representation-and-people's-democracy---hrba-governance-resources>
- Power – Elite Capture and Hidden Influence: <http://www.actionaid.org/publications/power-elite-capture-and-hidden-influence---hrba-governance-resources>
- Budgets – Revenues and Financing in Public Service Provision: <http://www.actionaid.org/publications/budgets-revenues-and-financing-public-service-provision-hrba-governance-resources>
- Using Evidence to Establish Accountability: A Sourcebook on democratic accountability for development practitioners and learning facilitators: <http://www.actionaid.org/publications/using-evidence-establish-accountability-sourcebook-democratic-accountability-developmen>

Monitoring Government Policies: <http://www.commddev.org/monitoring-government-policies-toolkit-civil-society-organisations-africa>

Social Accountability Source Book: Chp. 3 Methods and Tools: http://www.worldbank.org/socialaccountability_sourcebook/backgroundDocs/printversions.html

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Following the Money: Do Public Expenditure Tracking Surveys matter? <http://www.cmi.no/publications/file/3195-following-the-money.pdf>

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UNDP: A Guide to Civil Society Organizations working on Democratic Governance: http://www.undp.org/content/dam/aplaws/publication/en/publications/democratic-governance/oslo-governance-center/civic-engagement/a-guide-to-civil-society-organizations-working-on-democratic-governance-/3665%20Booklet_heleWEB_.pdf

Open Budget Survey 2012: <http://internationalbudget.org/what-we-do/open-budget-survey/>

Our Money, Our Responsibility: A Citizens Guide to Monitoring Government Expenditures: <http://internationalbudget.org/publications/our-money-our-responsibility-a-citizens-guide-to-monitoring-government-expenditures/>

A Guide to Tax work for NGOs: <http://internationalbudget.org/wp-content/uploads/A-Guide-to-Tax-Work-for-NGOs.pdf>

Follow the Money: A Guide to Monitoring Budgets and Oil and Gas Revenues: <http://internationalbudget.org/wp-content/uploads/Follow-the-Money-A-Guide-to-Monitoring-Budgets-and-Oil-and-Gas-Revenues.pdf>

Making the Budget Work for Education: http://internationalbudget.org/wp-content/uploads/2011/01/Making_the_Budget_Work_for_Education.pdf

Public Expenditure Tracking Surveys (PETS) and Quantitative Service Delivery Survey (QSDS) Guidebook Bernard Gauthier and Zafar Ahmed: http://www.google.dk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&ved=0CCcQFjAB&url=http%3A%2F%2Fpets.prognoz.com%2Fprod%2FGetGuidelinesDocFile.ashx%3Fdata%3D1&ei=vXiaVfakDoWssAHGk4_IBQ&usg=AFQjCNFEQ23jW4SyPUhOk_3nnZuhjNe9Q&bvm=bv.96952980,d.bGg

FILMS

PETS film: <http://youtu.be/X4shDrmICBY>

Score Cards film: <http://youtu.be/XjiR5KJuOYI>

Accounts and Accountability. Right to Information Movement in Rajasthan. This film is produced for UNESCO by the Public Service Broadcasting Trust (PSBT): http://www.unesco.org/archives/multimedia/index.php?s=films_details&id_page=33&id_film=1990

Participatory Budgeting Video: Real Money, Real Power – Participatory Budgeting: <http://www.participatorybudgeting.org/resources/videos/>

² From IBIS Budget Analysis and Budget Tracking Course 2014