



Topics

**1 Budgeting for Sustainable Growth:
Some Basics**

**2 What can we learn from PEFA
Assessments?**

**3 Medium-term Policy-based Budgeting:
Establishing & Maintaining Quality of
Spending**

- ❑ **Medium-term / Long-term focus**
- ❑ **Realism in resource estimates**
- ❑ **Costed plans clearly linked to the budget, and publicly available**
- ❑ **Decision-makers willing to spend time:**
 - ✓ learning about needs in all service areas,
 - ✓ to understand their inter-relationships, and
 - ✓ making tough choices about strategies/objectives to achieve sustainable growth

- ❑ PEFA = Public Expenditure and Financial Accountability
- ❑ **Management tool** to assess strengths and weaknesses of PFM systems
- ❑ **Developed by:** IMF, WB, EC, UK, France, Norway, Switzerland
- ❑ **Global, standard** set of **high-level** indicators to measure current status of PFM
- ❑ Based on international **best practice**
- ❑ Focus is on **PFM systems**, **not budget policy or quality of spending**

Comprises:

- standard set of **high level indicators** for measuring current status of PFM (baseline)
- **accompanying report** to provide explanation of indicator scores and draw a summary from the analysis

High level measures related to **6 key dimensions of PFM performance**

What are the 6 key dimensions of PFM?

Budget Credibility:
Is the budget realistic, and implemented as intended?

Accountability & External Scrutiny: Are effective external financial accountability and transparency arrangements in place?

Comprehensiveness and Transparency:

(i) Does the budget capture all relevant fiscal transactions; (ii) are fiscal risks monitored/managed; (iii) is budget information available to the public?

Six key PFM dimensions for evaluation

Accounting, recording, reporting:

Is adequate fiscal, revenue and expenditure information produced and disseminated to meet decision-making and management purposes?

Policy-based Budgeting:
Is the budget prepared with due regard to government policy?

Predictability/control in budget execution:

Is effective control and stewardship exercised in the use of public funds?

PEFA Indicators Most Relevant to Medium-term Planning-Budgeting Integration

Average PIC PEFA Ratings (Feb, 2015)

		D	C	B	A
PI-2-1	Extent of the variance in expenditure composition during the last three years, excluding contingency items.				X
PI-12-1	Multi-year fiscal forecasts and functional allocations	X			
PI-12-2	Scope and frequency of debt sustainability analysis (DSA)				X
PI-12-3	Existence of costed sector strategies	X			
PI-12-4	Linkages between investment budgets and forward expenditure estimates	X			

Budget allocations do not reflect government priorities

Plans are inadequate to inform budget development

Plans are adequate, but not reflected in budgets

Plans are not prepared, or do not provide a realistic basis for prioritizing resources

Administrative problems impede integration of planning and budgeting

There is insufficient flexibility in the budget to give effect to plans

Practices Diminishing Spending Quality	Solutions to Improve Spending Quality
Notions that planning/budgeting are separable	Integrate processes, documents & staff
Separation of recurrent and development budgets	“
Undisciplined Cabinet procedures: Approving policy changes throughout the year without fiscal reviews or prioritization in the context of long-run priorities	Require MOF Fiscal Reviews of all proposed cabinet policy actions before adopted- look at both: <ul style="list-style-type: none">✓ Long-term cost of the proposal✓ Effect on the medium-term surplus/deficit
Inadequate time for Cabnt/Parlmnt debate on budget, underlying policy objectives, and long-term impact	Start budget process earlier so that more attention can be given to longer-term objectives
Multi-year focus not taken seriously by Cabinets/Parliament	All decisions reviewed relative to longer-term consequences for priority national goals

Practices Diminishing Spending Quality	Solutions to Improve Spending Quality
Numerous supplemental budgets for non-emergency matters and consequent reallocations	Final action on all non-emergency proposals delayed until annual budget preparation so they can be properly weighed and prioritized in the context of: <ul style="list-style-type: none">✓ Longer range plans to <u>Develop & Maintain Critical Infrastructure</u> and <u>Growth-Enhancing Public Services</u>✓ Other already adopted policies with “built-in” cost increases✓ All other newly proposed policies that have arisen during the year
Diversion of appropriations for other purposes than originally intended	Careful monitoring to limit reallocations that may jeopardize achieving longer-term goals
Lack of proper commitment controls forces reallocation during the year to cover costs incurred by violators	Most FMISs today have commitment control capabilities, but often not used

- Medium to long-range planning for the use of revenues from all resources is essential for development and sustainability of **quality spending**, much of which will require many years to develop
- Most PICs have 5+ year “Strategic Development Plans”. In view of this, why has medium-term financial planning not been taken more seriously?

Does not require:

- ✓ “hard” appropriations for out-years. Only realistic planning estimates.
- ✓ that every last \$ be allocated - leaving “fiscal space” is ok

Does require:

- ✓ Being as realistic as possible regarding econ outlook and revenue forecasts
- ✓ Recognizing future requirements for budget changes due to **decisions already made (including adopted sector plans)** in past and funding **changes driven by demographic flows**
- ✓ Anticipating inflation
- ✓ Thinking about the **right size for various “reserve accounts or Buffers”**

○Real natural disasters

○Debt service

○Asset repair or replacement

○Effects of other events beyond country's control

- ✓ For decisions on **projects/policy changes not yet made, but highly likely**, creating fiscal space for their future implementation
- ✓ Using the last set of out-year estimates as a starting point for the next budget and explaining differences if any
- ✓ *Continually reminding policy-makers during the year when they may be tempted to approve more projects or policy changes of the future costs of items already approved-through a disciplined “fiscal note” process that shows new costs in context of already approved costs*

❑ **Publicly available documentation is essential to strengthen accountability for sustainable quality spending**

❑ Two essential documents/reports required for regular Cabinet/Parliament/Public review:

- Medium-term “Fund balance” statement covering all sources of revenue and recording estimates of cost-tails on past policy decisions, other cost drivers, and providing reminders of costs of high priority projects or policy changes not yet formally made.
- Comprehensive all-funds Policy-focused Medium-term budget with program-level detail

Corrective Actions: Documentation Improvements

- Medium-term “Fund balance” statement, **regularly updated**, showing:
 - ✓ Ultimate annual cost tails on previously approved projects/policies,
 - ✓ cost implications of demographic flows for important public services to Children or the Aged
 - ✓ inflation estimates,
 - ✓ additional costs of “Likely to be approved” projects/policy changes,
 - ✓ reasonable estimates of various buffers:

○Real natural disasters

○Debt service

○Asset repair or replacement

○Effects of other events beyond country's control

Staying on course: Multi-year fiscal planning- Basic Fund Balance Information Expenditure Program Level

	Yr Y	Planning Estimates: Year Y+1						Est.: Year Y + 2					
	B u d	(1)	(2)	(3)	(4)	(5)	(6)	1	2	3	4	5	6
		Base	Estimatd Inflation	Changes due to Client Numbers	Changes due to Past Decisions	Changes for Highly Likely Future Decisions	Total	B a s e	I n f l a t i o n	C l i e n t n u m b e r s	P a s t e s t i m a t e s	F u t u r e e s t i m a t e s	T o t a l

Expenditure: Program-Elementary/Secondary Education

Base/ Inflatn/ Demography	10	10	.1	.5			10.6	.	.	.		.	.
<u>Pst</u> Decsn 1	All teachers to have BA degrees by 2018				1		1				.	.	.
<u>Pst</u> Decsn n	Compulsory secondary educ. by 2019				4		4				.	.	.
<u>Fut</u> Decsn 1	Operation of new proposed donor-built elem school					7	7					.	.
Subtotal	10	10	.1	.5	5	7	22.6	.	.	.	.	.	.



Expenditure: Program n

Base/ Inflatn/ Demography	20	20	.2	0			20.2	.	.	.	.	.	.
<u>Pst</u> Decsn 1	Begin take-over of donor-started NCD program				2		2	.	.	.	.	.	.
<u>Fut</u> Decsn 1	Operation of new proposed donor-built hospital					3	3	.	.	.	.	.	.
Subtotal	20	20	.2	0	2	3	25.2	.	.	.	.	.	.
<u>Total Spend.</u>	30	30	.3	.5	7	10	44.8	.	.	.	.	.	.

Staying on course: Multi-year fiscal planning- Basic Fund Balance Information Big Picture Summary Level

	Yr Y	Planning Estimates: Year Y+1						Est.: Year Y + 2					
		(1)	(2)	(3)	(4)	(5)	(6)	1	2	3	4	5	6
	B u d	B a s e	Estimtd Inflatn	Changes due to Client Numbers	Changes due to Past Decisns	Changes for Highly Likely Future Decisions	Totl	B a s e	I n f l a t i o n	C l i e n t C h	P a s t D e c	F u t u r e	T o t a l
Strt. Balnc	3						4						Y
Totl. Rev	41	?	?		?	?	42	.	.		.	.	.
Totl Spend.	30	30	.3	.5	7	10	44.8	.	.	.	.	.	.
<u>Reserves:</u>													
Debt Servc	5	5					5	.	.	.	.	.	.
Asset Repair -Replcmnt	2	2					2	.	.	.	.	.	.
Nat.Disastrs	2	2					2	.	.	.	.	.	.
Othr Emerg	1	1					1	.	.	.	.	.	.
<u>Ending Availbl Balance</u>	4						-12.8						Z

Corrective Actions: Documentation Improvements

- Detailed Policy Focused Medium-term Budget
 - one annual integrated policy-focused medium-term budget per ministry combining recurrent & development at the program level. Production should be a team effort with:
 - MOF providing guidance on format,
 - line ministry leading on policy/strategy/issue content, and
 - MOF enforcing the fiscal reality and ensuring the LMs live within the resources available
 - elimination of separate un-connected documents: “corporate plans”, “annual plans”, “sector plans”, or “ministry roadmaps”.

Corrective Actions: Documentation Improvements

- Detailed Policy-focused Medium-term budgets should:
 - Not be thought of as another “separate” document.
 - Should be built into the main document(s) distributed to Parliament and Public
 - Should reflect out-year estimates at the program/output level to remind decision-makers of the costs of their decisions/choices
 - Should include narrative high-lighting:
 - ✓ main results,
 - ✓ reasons for budget changes,
 - ✓ past decisions that may require additional future spending,
 - ✓ demographic pressures on spending, and
 - ✓ emerging issues.

Narrative can be an important basis to establish accountability for results.

DETAILS OF EXPENDITURE

	Actual 2013	Revised		Estimate 2015	Planned Change	
		Estimate 2014	Change		2016	2017
Head No. 21- MINISTRY OF EDUCATION, HERITAGE AND ARTS						
Programme 2 - Primary Education						
ACTIVITY 1- General Administration						
				\$000		
1. Established Staff	3,167.2	3,626.2	339.4	3,965.6	0.0	0.0
2. Government Wage Earners	125.3	97.8	1.6	99.4	0.0	0.0
3. Travel and Communications	118.8	104.0	0.0	104.0	0.0	0.0
4. Maintenance and Operations	94.2	72.9	(0.5)	72.4	0.0	0.0
5. Purchase of Goods and Services	308.7	20.5	3,639.5	3,660.0	0.0	0.0
6. Operating Grants and Transfers	10,625.5	37,280.5	2,419.5	39,700.0	0.0	0.0
7. Special Expenditures	67.2	0.0	0.0	0.0	0.0	0.0
8. Capital Construction.....	0.0	400.0	(250.0)	150.0	0.0	0.0
9. Capital Purchase.....	123.2	880.0	0.0	880.0	(30.0)	(30.0)
10. Capital Grants and Transfers	133.8	150.0	0.0	150.0	0.0	0.0
13. Value Added Tax	79.8	221.6	508.4	730.0	(4.5)	(4.5)
	<u>14,843.7</u>	<u>42,853.5</u>	<u>6,657.9</u>	<u>49,511.4</u>	<u>(34.5)</u>	<u>(34.5)</u>

Programme 2 - Primary Education **ACTIVITY 2 - Government Primary Schools**

				\$000		
1. Established Staff	814.6	986.9	43.2	1,030.1	0.0	0.0
2. Government Wage Earners	95.0	70.7	1.3	72.0	0.0	0.0
3. Travel and Communications	2.2	3.1	(0.1)	3.0	0.0	0.0
4. Maintenance and Operations	0.0	0.0	0.0	0.0	0.0	0.0
5. Purchase of Goods and Services	6.0	10.0	0.0	10.0	0.0	0.0
6. Operating Grants and Transfers	0.0	0.0	0.0	0.0	0.0	0.0
7. Special Expenditures	0.0	0.0	0.0	0.0	0.0	0.0
8. Capital Construction	0.0	0.0	0.0	0.0	0.0	0.0
9. Capital Purchase	0.0	0.0	0.0	0.0	0.0	0.0
10. Capital Grants and Transfers	0.0	0.0	0.0	0.0	0.0	0.0
13. Value Added Tax	1.4	2.0	0.0	2.0	0.0	0.0
	<u>919.1</u>	<u>1,072.8</u>	<u>44.4</u>	<u>1,117.2</u>	<u>0.0</u>	<u>0.0</u>

Programme 2: Primary Education

ACTIVITY 1: General Administration

The primary years are critical for a child's development. Not only do primary schools teach students the basics of math and reading, they also lay the foundation for physical, emotional and moral development. The General Administration supports the Primary Education Department, which looks after Fiji's 739 primary schools and manages a number of important programs.

The General Administration is provided with **\$49.5 million**, an increase of \$6.7 million above the 2014 level. **\$35 million** of this will go towards Government's free tuition initiative for primary school, Year 1 to Year 8. Government has allocated an additional \$1 million to this program to cater for the nationwide rise in enrollment in 2014, from 134,748 to 138,521. And **\$1.4 million** will go towards Government's new initiative to extend the free tuition program to pre-school. From Term 2 of 2015, free education will now be available one year before admission to primary school at recognized and accredited pre-schools.

Another new initiative in 2015 is the Free Milk Program, which is funded with an allocation of **\$3.5 million**. Starting Term 1 of 2015, Government will provide 250ml of free milk to all students enrolled in Year 1 to promote good health and nutrition.

Government's "One Laptop Per Child" program has been re-named the "One Learning Device Per Child" program to reflect recent changes in technology. Digital literacy is an essential part of education in the 21st century and so this program will continue in 2015 with a budget of **\$800,000**. Since its inception in 2013, the program has allowed the Ministry to purchase more than 2,000 learning devices for students at 71 schools around Fiji.

The Ministry also recognizes the urgent need for water tanks at primary schools to provide a reliable source of clean water. That is why it is launching a multi-year project to purchase and install water tanks for all schools that require them. In 2015, Government has allocated **\$80,000** to this initiative, which will allow the Ministry to assist 94 schools across the country. An additional \$50,000 will be budgeted in 2016 to continue this work.

Programme 2: Primary Education

ACTIVITY 2: Government Primary Schools

\$1.1 million is provided to fund the operations of the two Government Primary Schools: Delainamasi Primary School and Nataubun Primary School.

Government is committed to improving the student-teacher ratio for primary schools. To support this, Government has allocated \$25,000 to the Ministry to hire one teacher aide per school, to assist the 43 existing teachers.

	Estimated Children: Ages 5-14			Estimated Children: Ages 5-18		
<i>From SPC Estimates</i>	2015	2018	% Chng	2015	2018	% Chng
Cook Islands	2,892	2,845	-1.6%	4,009	3,975	-0.9%
Fiji	162,019	163,668	1.0%	223,145	223,945	0.4%
FSM	22,014	21,065	-4.3%	31,502	29,805	-5.4%
Kiribati	24,567	26,980	9.8%	34,190	35,722	4.5%
Nauru	2,583	2,951	14.3%	3,392	3,791	11.8%
Niue	257	236	-7.9%	342	326	-4.6%
Palau	2,369	2,334	-1.5%	3,286	3,293	0.2%
PNG	1,924,179	2,023,288	5.2%	2,593,061	2,731,917	5.4%
RMI	14,345	14,666	2.2%	19,242	19,879	3.3%
Solomon Islands	159,522	166,756	4.5%	213,801	225,324	5.4%
Samoa	47,216	49,240	4.3%	63,835	66,086	3.5%
Tokelau	237	216	-9.1%	344	308	-10.6%
Tonga	25,540	25,713	0.7%	34,718	35,178	1.3%
Tuvalu	2,357	2,487	5.5%	3,199	3,350	4.7%
Vanuatu	63,855	68,462	7.2%	86,203	91,722	6.4%
Regional Total	2,453,952	2,570,909	4.8%	3,314,270	3,474,621	4.8%

<i>From UNFPA population projections, 2014</i>	Population 60 Years & Older				
	2015	2020	2025	% Change: 2015- 2020	% Change: 2015- 2025
Cook Islands	2,112	2,391	2,794	13.2%	32.3%
Fiji	80,626	97,280	115,647	20.7%	43.4%
FSM	7,378	9,554	11,569	29.5%	56.8%
Kiribati	6,583	7,976	10,039	21.2%	52.5%
Nauru	405	579	787	43.0%	94.3%
Niue	301	343	364	14.0%	20.9%
Palau	2,236	2,778	3,461	24.2%	54.8%
PNG	352,255	440,210	557,328	25.0%	58.2%
RMI	2,814	3,755	4,735	33.4%	68.3%
Solomon Islands	35,847	42,837	53,135	19.5%	48.2%
Samoa	14,748	17,535	20,719	18.9%	40.5%
Tokelau	151	170	185	12.6%	22.5%
Tonga	8,989	9,654	10,677	7.4%	18.8%
Tuvalu	1,055	1,329	1,583	26.0%	50.0%
Vanuatu	17,069	20,619	25,925	20.8%	51.9%
Regional Total	532,568	657,011	818,948	23.4%	53.8%