

MODULE:
INTRODUCTION TO BUDGET PROCESS, BUDGET DOCUMENTS AND
BUDGET ANALYSIS

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I. WHY CSOs, WORKING IN THE AREA OF HARM REDUCTION, ENGAGEMENT IN THE BUDGET PROCESS IS IMPORTANT?

In most of the countries in the world the budget process is not open to citizens. In most of the countries there are no formal mechanisms that ensure citizens/CSOs engagement in the budget preparation or budget decision making process, as well as mechanisms for citizens engagement in monitoring and evaluation of the budget execution. The national budget process is usually secret and exclusively bureaucratic exercise. The esoteric language and presentation style of the budget documents prevents the public from understanding the real content of the documents. Even the legislators, who are supposed to influence the budget, do not possess the skills and information that would enable them to engage in a critical discourse of the matter. As a result, the Executives act as the sole decision maker.¹

Such positioning of the state and budget system will continue to exist until citizens/civil society organizations become interested in it. **The governments will continue be the ultimate decision maker and will continue to avoid citizens involvement in the decision making process until citizens and civil society do not have capacities or interest to pursue involvement in the process.**

When CSOs can combine an in-depth knowledge of a policy issue, such as health, with a solid knowledge of budgets and an effective advocacy strategy they can positively influence policy decisions. Strengthening civil society's ability to analyze budgets and participate effectively can play an integral role not only in policies and service delivery but also in constructing a more open and participatory democratic society.

By engaging in the budget process from formulation through implementation and audit, civil society can²:

- provide information on the public's needs and priorities that can lead to stronger policy choices;
- involve more people into the debate by collecting budget information and summarizing these in to easily understandable formats;
- train members of the public to understand and analyze government budgets themselves;
- supplement government's capacity to budget effectively by providing technical support;
- give an independent opinion on budget proposals and implementation;
- hold public officials accountable for using public resources efficiently and effectively to achieve desired outcomes; and
- develop important new allies in government, including program managers in government agencies, legislators, and auditors.

¹ Citizens participation in budget making process of the State of Odisha (India): Opportunities, Learnings and Challenges, Pravas Ranjan Mishra, <https://factsreports.revues.org/3474>

² International Budget Partnership, <http://www.internationalbudget.org/why-budget-work/role-of-civil-society-budget-work/>

II. BUDGET PROCESS AND BUDGET DOCUMENTS

The process of development of the public budget is a technical and political process that involves and is influenced by different actors. Public budget process is *technical* because involves lot of calculations important to quantify expected revenues, costing of the activities foreseen to be realized during the calendar year and estimate the planned expenditures. Additionally, the public budget process is seen as *political* process because priorities and balances are made. *The budget process involves lot of actors such as: political parties, business sector, civil society organizations, government, international organizations and citizens.*

The public budget process is regulated by the national constitution, public finance policies, budget laws, budget by laws and international standards. These regulations, regulates the basic principles of the budget process, the period of implementation of the budget process, as well as the responsibilities and obligations of the actors involved in its implementation.

The public budget process is in parallel conducted on different levels of the government, such as state level, regional level and local level.

The budget process starts in January and ends in December each calendar year. During the current calendar year the government develops and enacts the budget for the next year and executes the budget for the current year.

In general the budget process has four stages: *First stage: Formulation of the budget; Second stage: Adoption/Enactment of the budget; Third stage: Implementation of the budget; and Fourth stage: Oversight or Monitoring and evaluation of the budget.*

- **First stage: Formulation of the budget**

The government draft its budget and make the expenditures priorities. The executive branch of government is responsible for formulating the budget. Typically, the budget office in the ministry of finance coordinates the process, requesting information from individual ministries and proposing the trade-offs necessary to fit competing government priorities into the budget's revenue and expenditure totals. Formulation can last from a few weeks to several months, depending on the level of involvement by each ministry and the amount of negotiation that occurs. In general, budget formulation is an incremental process in which each year's new budget builds on the previous year's budget. Changes from the earlier year reflect new policy priorities (particularly when a new government comes into office) as well as the effects of inflation on the cost of government activities. The budget estimates are formulated in line with detailed macroeconomic forecasts on future growth, inflation and external sector (import) trends.

- **Second stage: Adoption/Enactment of the budget**

The government priorities and expenditures are approved by responsible bodies. In the second stage of the budget cycle, the executive's budget is presented to the legislature for consideration (which may include hearings in various committees) and eventual adoption. A country's legal framework will determine the types of changes the legislature can make. Typically, both the public and civil society focuses their greatest attention on the budget during this stage because it offers the most access to citizen input.

- **Third stage: Implementation of the budget**

The approved expenditures and policies are executed. Budget execution begins when the government initiates expenditures authorized by the budget law. In practice, however, budgets are not always implemented in the exact form in which they were approved: funding levels are not always adhered to, and authorized funds are not always spent for the purposes for which they were authorized. As explained in more detail below, these deviations can reflect a number of factors,

ranging from changing conditions to public corruption. When the gap between authorized and actual expenditures is large, civil society should demand an explanation

- ***Fourth stage: Oversight or Monitoring and evaluation of the budget***

The last stage in the budget cycle includes a number of activities that aim to measure whether public resources have been used effectively and efficiently. Ideally, the executive branch should report on its fiscal activities to the legislature and the public. Expenditures should also be subjected to regular review by an independent and professional body, such as an audit institution or a country's auditor general. The findings of the audit body should be submitted to the legislature, which is responsible for holding the executive accountable for its budget execution practices. Evaluation and auditing enable the legislature to determine not only whether the government has followed the budget law, but also whether public resources are being used in the best possible way. For that reason, modern budgeting reforms place heavy emphasis on providing public entities with information on budget performance in order to improve their operations.

During the budget process the government prepares and produces different budget documents, such as:

- **Pre Budget Statement:** provide considerable information on the government's perspective on how fiscal policy will relate to the broader economy and how budget priorities will be shaped in the coming years. However, the statement is not the budget: it should provide a general sense of the government's budget priorities and policies, but without the considerable detail that ultimately will be embedded in the budget itself. Moreover, the Pre-Budget Statement reflects the government's initial thinking about the budget for the coming year, with the understanding that the final budget will be different, taking account of both new developments that emerge during the period when the budget is being formulated and the feedback that the Pre-Budget Statement itself will provoke from the cabinet, the legislature, civil society, and the public at large. As per the OECD's Best Practices for Budget Transparency, the Pre-Budget Statement should be published at least one month before the publication of the Executive's Budget Proposal.

- **Executive's Budget Proposal:** this document contains information regarding the revenues, expenditures and debt projected by the government. More precisely this document shows: how much citizen's pay in taxes, how government resources are then distributed among citizens and how much of the cost of government is borne by current or future generations. As per the OECD's Best Practices for Budget Transparency, the Executive's Budget Proposal should be published at least three months before the start of the budget year.

- **Enacted Budget:** is a law for the government. This document reconciles and explains all significant deviations between the Executive's Budget Proposal and the Enacted Budget. Additionally this document presents the following: overall balance and gross debt of the general government, or their accrual equivalents, which should be provided as a set of standard summary indicators of the government's fiscal position; updated economic and fiscal forecast for the current year and the budget year; brief discussion of the impact of the Enacted Budget on the government's financial assets and liabilities, nonfinancial assets, employee pension obligations, and contingent liabilities. The Enacted Budget should be published as soon as it is approved by the legislature and no later than three months after approval.

- **In Year Reports:** provide a snapshot of the budget's implementation during the budget year. These reports could be monthly or quarterly reports on the budget execution. As per the OECD's Best Practices for Budget Transparency, the In-Year Reports should be published within at least one month of the end of the period they cover (for example, the monthly report for the month of June should be published before the end of July).

- **Mid Year Review:** is an analysis of the budget's effects provided about halfway through the budget year. As per the OECD's Best Practices for Budget Transparency, the Mid-Year Review should be published within at least six weeks of the end of the period it covers (for example, if the midpoint of the budget year falls in June, the Mid-Year Review should be published before 15 August).
- **Supplementary Budget:** during the fiscal year, based on budget performance presented in the mid-year review, governments propose and the parliaments adopt changes in the enacted budget document. After the adoption of the changes (supplementary budget) the enacted budget is no longer the main budget document. The government can propose changes if based on the midyear review: collect more or less revenues than the amount planned in with the enacted budget; if some of the expenditures will not be realized; if there are some urgent needs in some sectors which should be immediately covered by funds from other sectors; etc. Be aware that each change made in the enacted budget, must have an effect on realization of the services (ex. health care, education, etc.) and enjoyment of the basic human rights. The supplementary budget should be published immediately after its adoption.
- **Year End Report:** the government's discussion of the performance of the budget as executed relative to its original budget and any supplementary budget that may have been issued during the course of the year. It covers what was actually spent and collected relative to what was budgeted. As per the OECD's Best Practices for Budget Transparency, the Year-End Report should be published within at least six months of the end of the period it covers (for example, if the budget year ends in December, the Year-End Report should be published before 30 June of the following year).
- **Audit Report:** provide the public with an independent and authoritative account of whether the government's reporting of how it raised taxes and spent public funds during the previous year is accurate. The Audit Report also indicates whether the government has complied with financial management laws and regulations during the budget year. In some countries, the Audit Report will also comment on the accuracy of information in the financial statements on assets and liabilities and may also comment on the efficiency and effectiveness of government spending. The OECD considers it best practice to publish the Audit Report within six months after the end of the budget year.

Important notice: What documents you will use in your analysis is mostly dependent on the type of analysis you are conducting and the aim on the analysis. For beginners in this field we recommend to concentrate your analysis on the following documents: executive budget proposal, enacted budget, mid – year review and year-end report.

III. BUDGET ANALYSIS

Budget analysis help CSOs to understand where public funds are coming from, how they are spent, and what costs are covered by the budget, whatever level of state administration CSOs are dealing with. This will enable CSOs to see how resources are allocated across the health sector and whether they are being used appropriately, effectively and equitably. The research questions will determine how you analyze the budget information.

CSOs might want to:

- compare how much is allocated and spent on one program, one disease, or one geographical area (as a share of the total health budget);
- compare allocations with actual expenditure;
- track budget allocations from national level to local level;
- track expenditure trends over time.

Comparing allocations by sector, program or area: Comparing the amount of resources allocated to health versus other sectors (eg, other social sectors such as education, or non-social sectors such as infrastructure or defense) can help you determine how much priority is being given to health. You might want to focus on how the overall health budget has been spent over a number of years, or look closely at a specific program such as harm reduction, maternal and child health over a period of time.

Comparing allocations with actual expenditure: Tracking disbursements (when funds are released) at particular points in the system, and comparing this with the budget allocations and schedule of disbursements, can tell you whether the funds are released regularly and spent as planned, or if there are any leakages. ‘Leakages’ refers to resources that are being disbursed but not spent as intended, or resources that were disbursed but were not received and cannot be traced. You can even trace expenditure by each health facility – for example, checking that funds allocated to training or infrastructures were spent as stipulated in the budget. This may involve examining district-level health budgets to see how facilities are funded and if resources are appropriately allocated according to each facility’s needs.

Tracking budget allocations from national to local level: Tracking budget disbursements through the health system from the national budget to local government and through to each community health facility can tell you whether resources that were allocated have been spent according to the plan. This will enable you to identify inefficiencies, bottlenecks or discrepancies. Tracking disbursements through the system can also help you to identify mismanagement and corruption, giving evidence you can use in your advocacy work around greater transparency and a commitment to a more open budget system.

Tracking trends over time: Comparing allocation and expenditure patterns over time can help you identify trends. This can be particularly useful when you are advocating for the government to fulfill any commitments it has made (for example reaching the Abuja target of allocating 15% of the national budget to health in Africa). Looking at trends can tell you how quickly the government is moving towards a specific target.

The budget analysis should be conducted by using simple mathematical formulas which will help CSOs to assess the government budget performance. Some of the ***formulas for calculation which can be used for budget analysis are the following: level of execution; nominal or real expenditures growth; shares; per capita spending; cost per unit; etc.*** The calculation will give you a clear picture what is really happening in the country and should give you opportunities for finding additional arguments which will support and ensure your active engagement with the government.

Formulas for calculations:

- **Level of execution** = (executed expenditures/estimated expenditures) x 100
- **Nominal expenditures growth** = ((current year expenditures – previous year expenditures)/previous year expenditures) x 100
- **Calculation of share** = (amount of funds for specific purpose/total amount of funds) x 100
- **Per capita spending** = amount of funds/population
- **Cost per unit** = total expenditures/number of units

INPUT (PPT PRESENTATION)

Slide 1



**INTRODUCTION TO BUDGET PROCESS,
BUDGET DOCUMENTS AND BUDGET
ANALYSIS**

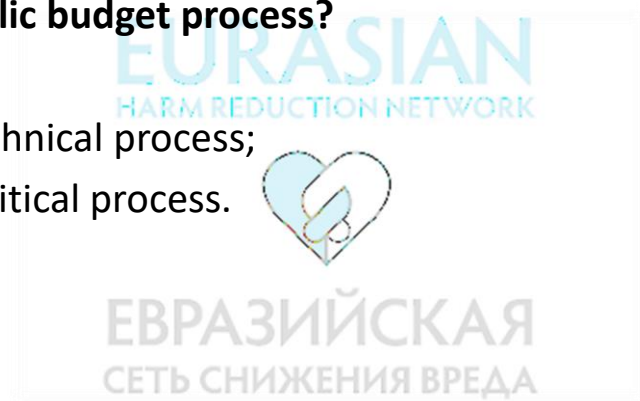
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Slide 2

**What are the main characteristics of the
public budget process?**

- Technical process;
- Political process.



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Slide 3

What are the main policies and laws in the country which regulates the budgets process?

- national constitution;
- public finance policies;
- budget laws;
- budget by laws and manuals; and
- international fiscal/budget standards.

Slide 4

What is the period of the budget process?

The budget process starts in January and ends in December each calendar year. During the current calendar year the government develops and enacts the budget for the next year and executes the budget for the current year.

Slide 5

WHY CSOs, WORKING IN THE AREA OF HARM REDUCTION, ENGAGEMENT IN THE BUDGET PROCESS IS IMPORTANT?

By engaging in the budget process from formulation through implementation and audit, civil society can:

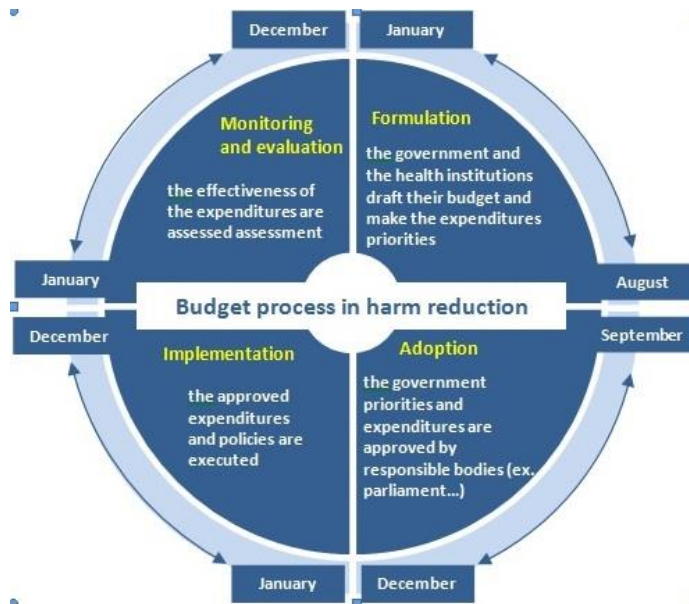
- provide information on the public's needs and priorities that can lead to stronger policy choices;
- involve more people into the debate by collecting budget information and summarizing these in to easily understandable formats;
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- hold public officials accountable for using public resources efficiently and effectively to achieve desired outcomes; and
- develop important new allies in government, including program managers in government agencies, legislators, and auditors.

Slide 6

What are the stages of the budget process?

- **First stage:** Formulation of the budget;
- **Second stage:** Adoption/Enactment of the budget;
- **Third stage:** Implementation of the budget; and
- **Fourth stage:** Oversight or Monitoring and evaluation of the budget.

Slide 6



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Slide7

What are the key budget document prepared and produced by the government during the budget process?

- Pre Budget Statement
- Executive's Budget Proposal
- Enacted Budget
- In Year Reports
- Mid Year Review
- Year End Report
- Audit Report
- Citizens Budget (in some countries)

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Slide 8

Budget analysis help CSOs to understand where public funds are coming from, how they are spent, and what costs are covered by the budget, whatever level of state administration CSOs are dealing with.

CSOs might want to:

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- compare allocations with actual expenditure;
- track budget allocations from national level to local level;
- track expenditure trends over time.

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Slide 9

Formulas for calculations:

- **Level of execution** = (executed expenditures/estimated expenditures) x 100
- **Nominal expenditures growth** = ((current year expenditures – previous year expenditures)/ previous year expenditures) x 100
- **Calculation of share** = (amount of funds for specific purpose/total amount of funds) x 100
- **Per capita spending** = amount of funds/population
- **Cost per unit** = total expenditures/number of units

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Exercise: Mapping and Analysis of the National Budget Process and Documents

As outlined in the previous sections, it is important Civil Society Organizations to understand and map the national budget process and budget documents, as well as to understand: what are the actors involved in each of the budget stages; what are the main responsibilities and obligations of the actors involved in the budget process; what are the activities government implements in each of the budget stages; what is the timeline of each of the budget stages; and what are the budget documents available in the county and what are the information they contain.

The mapping and analysis of the national budget process and documents exercise is consisted of three parts:

- **the first part** will help you to map the budget process and become more familiar with the institutions involved in each of the stages of the budget process, their responsibilities and obligations, period of implementation of each of the stages, budget document prepared in each of the stages and the information presented in the developed budget documents;
- **the second part** will help you to map the national harm reduction programs and responsible institutions;
- **the third part** will help you to assess the trend and the changes in the funds aimed for harm reduction.

For this purpose you will need to read your national Law on budget and identify and read the budget documents available usually of the Ministry of finance web site.

I. Fist part

Budget stages and sub activities	Actors involved in realization of the budget stage	Responsibilities and obligations of the actors involved in realization of the budget stage	Period of implementation (starting and ending date)	Budget documents developed and published during the budget stage	Main information presented in the developed and published documents
First stage: <i>Formulation of the budget</i>					
<i>Ex. Preparation of budget circular</i>	<i>Ex. Ministry of Finance.</i>	<i>Ex. Ministry of finance prepares the budget circular.</i>	<i>Ex. May, 30 – June, 15</i>	<i>Ex. Budget circular</i>	<i>Ex. maximum available funds for each of the budget users, guidelines how the funds should be allocated, etc.</i>
<i>Ex. Submission of budget circular</i>	<i>Ex. Ministry of Finance.</i>	<i>Ex. Ministry of finance sends the budget circular to the budget users.</i>	<i>Ex. June, 15</i>	<i>Ex. Budget circular</i>	<i>Ex. maximum available funds for each of the budget users, guidelines how the funds should be allocated, etc.</i>
Second stage: <i>Adoption/Enactment of the budget</i>					
Third stage: <i>Implementation of the budget</i>					
Fourth stage: <i>Oversight or Monitoring and evaluation of the budget</i>					

* Important: Under each of the budget stages headings insert the names of each of the sub activities realized and add as much row as you need.

II. Second part

Additionally, it's important for Civil Society Organization working in the area of harm reduction to map, analyze and follow the changes in the harm reduction program budgets (this table should be prepared for the past three fiscal years separately).

Item	Budget document	Total county budget	Title of the programs in the national budget aimed for harm reduction	Budget User (public institution) responsible for realization of the program budget	Total budget of the budget user responsible for implementation of the HR programs	Total budget of the program	Total amount of funds in the program budget aimed for harm reduction
1.	<i>Executive Budget Proposal</i>						
1.1.							
1.2.							
2.	<i>Enacted budget</i>						
2.1.							
2.2.							
3.	<i>Mid Year Review</i>						
3.1.							
3.2.							
4.	<i>Year End Report</i>	<i>Ex. .100.000.000</i>	<i>Ex. Program for HIV protection</i>	<i>Ex. Ministry of health</i>	<i>Ex. 5.000.000 Euros</i>	<i>Ex. 100.000 Euros</i>	<i>Ex. 45.000 Euros</i>
4.1.							
4.2.							

* Important: Under each of the budget documents headings insert the names of each of the sub documents used and add as much row as you need.

III. Third part

Based on the amounts presented in the under part last three columns in the tables developed under part two of this exercise fills the following table:

Item	Description of the calculations	Year 1	Year 2	Year 3
1.	Level of execution of the programs for harm reduction			
1.1.	Execution of the Ministry of Health Budget	<i>Calculation: (item 4 from part II, column 5 from the table for the first year/ item 4 from part II, column 3 from the same table)*100</i> <i>Ex. (5.000.000/100.000.000)*100 = 5%</i>		
1.2.	Execution of the budget of the Program contain activities for harm reduction 1			
1.3.	Execution of the budget of the Program contain activities for harm reduction 2			
2.	Nominal expenditures growth			
2.1.	Growth in the Ministry of Health Budget	<i>Calculate the growth in this year in comparison to the previous year</i>		
2.2.	Growth in the budget of the Program contain activities for harm reduction 1	<i>Calculate the growth in this year in comparison to the previous year</i>		
2.3.	Growth in the budget of the Program contain activities for harm reduction 2	<i>Calculate the growth in this year in comparison to the previous year</i>		
3.	Calculation of share			
3.1.	Ministry of Health budget as share of the total state budget			
3.2.	Program 1 budget as share of the total Ministry of Health budget			
3.3.	Program 2 budget as share of the total Ministry of Health budget			
4.	Per capita spending			
4.1.	Total number of drug users in the country			
4.2.	Ministry of Health expenditures per drug user			
4.3.	Program 1 expenditures per drug user			
4.4.	Program 2 expenditures per drug user			
5.	Cost per unit			
5.1.	Total number of centers for harm reduction			

5.2.	Program 1 expenditures per center			
5.3.	Program 2 expenditures per center			

* Important: Under each of the headings add as much row as you need.

RESOURCE LIST

- 1. Our Money, Our responsibility, Citizens Guide to Monitoring Government Expenditures -**
<http://www.internationalbudget.org/wp-content/uploads/Our-Money-Our-Responsibility-A-Citizens-Guide-to-Monitoring-Government-Expenditures-English.pdf>
- 2. Save the Children, Advocacy and Campaigning, 12 Budget analysis and tracking -**
https://www.google.de/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0ahUKEwjPn7mwqpPSAhXE0hoKHZM1Bt4QFgghMAA&url=http%3A%2F%2Fwww.open.edu%2Fopenlearn/create%2Fmod%2Fresource%2Fview.php%3Fid%3D80858&usg=AFQjCNFGUUp_RKITXz2_3JixVbsZrdp5nA
- 3. Save the Children, Health Sector Budget Advocacy -**
<https://www.savethechildren.org.uk/sites/default/files/docs/Health-Sector-Budget-Advocacy-low-res.pdf>
- 4. Guide to Transparency in Government Budget Reports: Why are Budget Reports Important, and What Should They Include?, International Budget Partnership -**
<http://www.internationalbudget.org/wp-content/uploads/Guide-to-Transparency-in-Government-Budget-Reports-Why-are-Budget-Reports-Important-and-What-Should-They-Include-English.pdf>