Budget Credibility and Integrated National Financing Frameworks (INFF)

Version: January 2024

Comments and feedback:
rgulrajani@unicef.org and ogoni@unicef.org

Budget Credibility and Integrated National Financing Frameworks (INFF)

About integrated national finance frameworks

Integrated national financing frameworks (INFFs) are a planning and delivery tool to help countries implement the Addis Ababa Action Agenda at the country level. INFFs lay out the full range of financing sources – domestic and international sources of both public and private finance – and guide countries in developing a strategy to increase investment, manage risks and achieve sustainable development priorities, as identified in national sustainable development strategies.

To help build cohesion and encourage knowledge exchange between countries implementing INFFs around the world, the United Nations and the European Union, in cooperation with a growing network of partners, are developing joint approaches to bring together expertise, tools and relationships in support of country-led processes. For more information about INFFs, visit www.inff.org.

Acknowledgements

This guidance note on Budget Credibility and Integrated National Financing Frameworks was developed under the leadership of UNICEF (Jennifer Asman, Nikhil Mandalia, and Rohan Gulrajani at UNICEF Headquarters) based on research and drafting by Esther Schneider, Hema Bhatt and Bastian Zaini (Oxford Policy Management (OPM)).

The conceptualization and review of this product benefited from guidance from the Inter Agency Task Force on Financing for Development and the International Budget Partnership. The following technical experts made important contributions as part of the reference group for this project: Sally Torbert (International Budget Partnership), Yanis Burgsdorff and Oliver Schwank (United Nations Department of Economic and Social Affairs), and Nohman Ishtiaq (United Nations Development Programme).

In addition, valuable inputs were received from Claire Schouten and Anjali Garg (International Budget Partnership), Tim Strawson and Cecilia Caio (United Nations Development Programme), Meihui Li (United Nations Department of Economic and Social Affairs), Francisco Pereira Fontes (Food and Agriculture Organization of the United Nations), Hisham Taha (United Nations Economic and Social Commission for Western Asia) and Natalia Winder Rossi and Orria Goni Delzangles (UNICEF Headquarters).

Special thanks to Jecob Nyamadzawo (UNICEF Namibia), Kenanao Keemenao Motlhoiwa (UNICEF Zambia), Kelvin Tapiwa Mutambirwa (UNICEF Malawi), Robert Simiyu and Patrick Chege (UNICEF Kenya), Kwesi Asante and Robert Osei-Tutu (UNICEF Ghana), and Samuel Atiku (International Budget Partnership) for providing valuable insights and technical review of the country case studies featured in this guidance note.

The development of this guidance note was made possible with the financial support of the Bill & Melinda Gates Foundation, under the *Strengthening Budget Credibility for Service Delivery project,* implemented in collaboration with the International Budget Partnership.

Contents

Figures, tables and boxes

Figures

Tables

Boxes

Abbreviations and acronyms

AAAA	Addis Ababa Action Agenda
BB	Building Block
CoA	charts of accounts
CSO	civil society organization
DFA	Development Finance Assessment
FDI	foreign direct investment
FfD	financing for development
FSAP	financial stability assessments
FSDR	Financing for Sustainable Development Report
GoM	Government of Malawi
HIC	high-income country
HLG	high-level group
IATF	Interagency Taskforce on Financing for Development
IBP	International Budget Partnership
IMF	International Monetary Fund
INFF	Integrated National Financing Framework
LGU	local government units
LIC	low-income countries
M&E	monitoring and evaluation
MDA	ministries, departments and agencies
MoHP	Ministry of Health and Population
MoHSS	Ministry of Health and Social Services
MWK	Malawian kwacha
NDS	National Development Strategy
NLGFC	National Local Government Financing Committee
NPR	Nepalese rupee
ODA	official development assistance
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PFM	public financial management
SAI	supreme audit institutions

SDG	Sustainable Development Goals
SMART	specific, measurable, achievable, relevant and time-bound indicators
SuTRA	Subnational Treasury Regulatory Application
MTEF	medium-term expenditure framework
MTFF	medium-term fiscal framework
NDS	National Development Strategy
OBI	Open Budget Index
OBS	Open Budget Survey
SCoA	Standard Chart of Accounts
UNDESA	United Nations Department of Economic and Social Affairs
UNICEF	United Nations Children's Fund
UNDP	United Nations Development Programme

1. Introduction

Public budgets are at the centre of countries' efforts to finance and implement national development priorities that are aligned with the Sustainable Development Goals (SDGs). Credible budgets are built on reliable revenue and execution forecasts as well as their accurate and consistent implementation. They are a key prerequisite to ensure the transparent and effective use of resources in line with their planned service delivery and investment targets. This guidance document provides practical advice on i) how to use Integrated National Financing Frameworks (INFFs) to address low budget credibility and ii) how the consideration of budget credibility, can strengthen INFFs at different stages and, as such, contribute to macro-economic stability, mobilize investments, and ensure sustainable fiscal policies deliver the SDGs.

Ensuring budgets are credible is closely linked to all stages of the Public Financial Management (PFM) cycle and interacts with other types of public and private finance. It proves to be particularly challenging for those countries and sectors with the highest development needs. The Public Expenditure and Financial Accountability (PEFA) 2020 Report[1] finds that out of 80 countries that applied the 2016 PEFA methodology, "more than two-thirds of governments struggle to maintain the planned composition of their expenditure throughout the fiscal year, with significant (10 per cent or more) variance in expenditure composition by both function and economic type". Social sectors have even lower performances, especially at the level of expenditures.[2] This means that countries may be successful in spending their aggregate budget, but that funds are often not spent on the programmes and budget items most likely to advance the SDGs and build human capital to which they were initially allocated.

INFFs, as a comprehensive process to incorporate financing into national planning and strengthen coherence between resource flows, can ***make a critical contribution*** to maintaining momentum around budget credibility and critical measures to improve it. This requires that the political and administrative focus, as well as the additional spending required for budget-credibility-related reforms that target underlying PFM issues, are integrated into annual and multi-annual planning and budget frameworks. The INFF methodology provides incentives and an enabling context to conduct the necessary additional analysis of underlying causes, strengthen coherence across the spectrum of public and private resources that impact budget deviations, and enhance deep-dive policy dialogues to address identified bottlenecks.

1 PEFA (2022), Global Report on Public Financial Management 2022, Chapter on Budget Reliability; See Subsection 3.1.2 for relevant indicators and guidance to a light assessment.
2 International Budget Partnership (2022), Connecting Budget Credibility and the Sustainable Development Goals: Results from 13 Country Investigations.

Credible budgets, in turn, are at the centre of a coherent approach to closing the SDG financing gaps. Examining the level of revenue and expenditure reliability – both for domestic and for international public finance – provides a unique lens to analyse the state of play of financing policies to develop a coherent, sustainable and risk informed financing strategy. During operationalization, an INFF that is built around the national budget and a robust participatory framework for actors concerned with budget credibility, can maintain ongoing momentum to align all public and private finance to a strengthened budget process.

This guidance note provides an overview of key causes and challenges of low-budget credibility across the PFM cycle to reinforce the impact of INFFs and of national budgets. Its "How to" section offers a variety of concrete, nuanced policy options for each INFF Building Block which government officials, policymakers, civil society organizations and other stakeholders involved can apply to their specific country contexts. To illustrate good practice and policy options, the guidance focuses on country case studies, which are included under each INFF Building Block and in Annex 2.

Box 1: Who is this guidance note for?

This guidance note is designed for government officials interested in adopting INFFs or already implementing them – whatever the scope or focus, as well as all stakeholders, including UN agencies and development partners, supporting government officials in the process. They can use this note to ensure that approved budgets are reliable, generate trust into the overall quality of PFM systems to external parties and are translated into practical actions that maximize the implementation of sustainable development priorities.

This note is also intended for civil society and human rights advocates who wish to engage in an INFF process. They can use it to gain a better understanding of how they may contribute to enhance the credibility of public budgets and overall coherence of financing policy making in their national contexts, and to hold other actors (such as governments and development partners) to account.

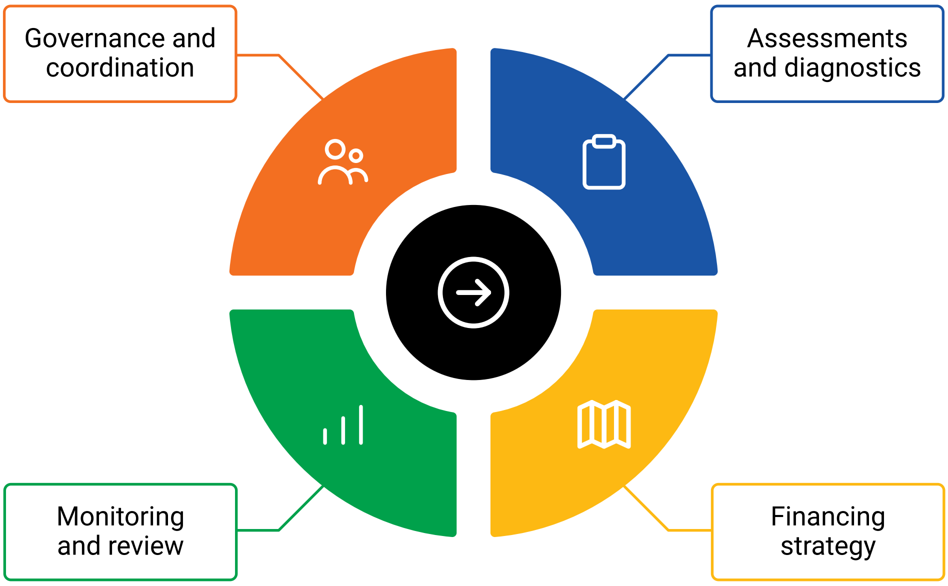
Box 2: What is an integrated national financing framework (INFF)?

Integrated national financing frameworks (INFFs) help countries finance their national sustainable development objectives and the Sustainable Development Goals (SDGs).

Through INFFs, countries develop a strategy to mobilize and align financing with all dimensions of sustainability, broaden participation in the design, delivery and monitoring of financing policies, and manage risk.

INFFs are voluntary and country-led. They are embedded within plans and financing structures, enabling gradual improvements, and driving innovation in policies, tools and instruments across domestic, international, public and private finance.

Figure 1: Four Building Blocks can support governments in putting an INFF into practice



1. **Assessment and diagnostics** (to provide the basis for decision making on financing – i.e. what are the needs, what financing is already available and how it is being used, what are the risks, and what are the underlying obstacles/binding constraints).
2. **Financing strategy** (to guide the design of financing policies and reforms that can mobilize financing in line with national priorities and all dimensions of sustainability).
3. **Monitoring and review** (to bring together all relevant data and information to track progress and facilitate transparency, accountability and learning on all things financing).
4. **Governance and coordination** (to ensure institutions and processes required for the formulation and implementation of coherent financing policies are in place and functional).

Provider: © UNICEF/UNI480184/Isci

2. Budget credibility: An overview of impact, causes and potential solutions

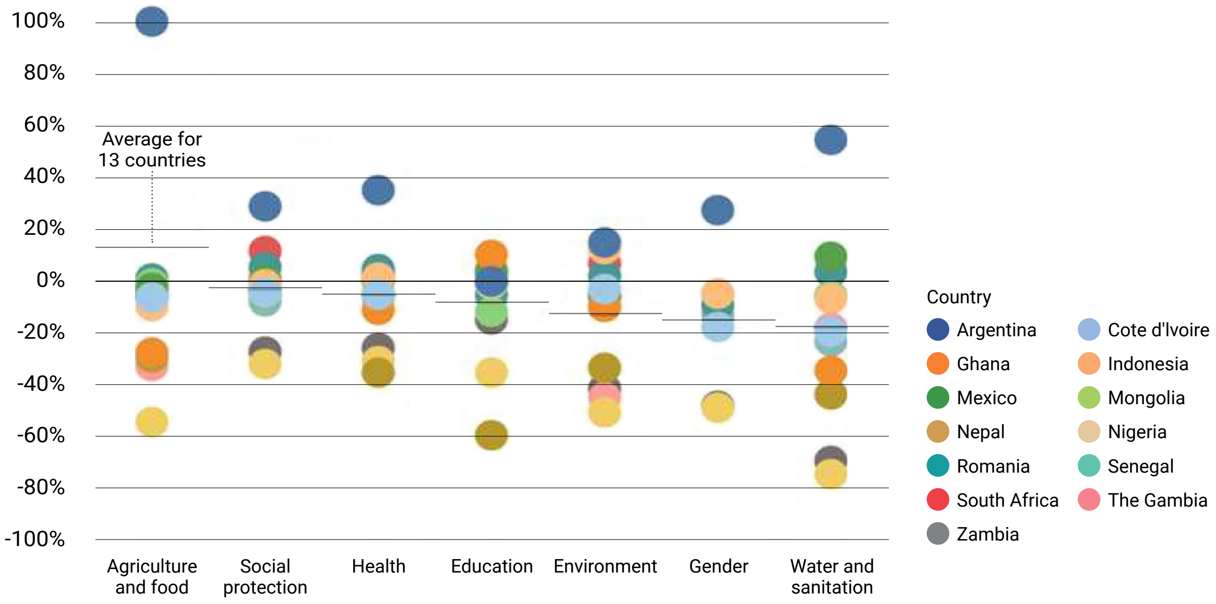
Budget credibility – also known as budget reliability – can be simply understood as **the ability of governments to meet the expenditure and revenue targets set out in their budgets accurately and consistently**. Shortcomings around budget credibility affect government agencies at both the central and subnational levels. They can undermine evidence-based spending decisions, divert funds from originally agreed upon priorities and levels, and weaken parliaments' capacities to hold budget execution agencies accountable. They are also closely linked to a country's overall economic performance, macro-economic stability, and creditworthiness.[3]

Aggregate budget credibility can hide significant deviations at the disaggregated – sectoral or government -level. Governments can depart from their budget targets for a variety of reasons. This can include the aggregate level – of total income and expenditures – and the compositional level – when spending more ("overspending") or less ("underspending") than intended through ministries, sectors or programmes. This is confirmed by PEFA 2022 data,[4] and is particularly relevant for social sectors that are crucial for the achievement of the SDGs, as the International Budget Partnership (IBP) finds in a 2022 analysis of official data from 13 countries (Figure 2).[5] Recent research in 21 countries in the Asia Pacific region confirmed the relevance of budget credibility challenges in the COVID-19 context, with many countries experiencing challenges executing their increased health budget allocations, as well as persistent challenges in credibility of education spending.[6]

This section demonstrates why budget credibility is important to mobilize finance towards the SDGs (2.1), but needs to be examined in view of a diverse range of underlying causes (2.2) and its interactions with other types of public and private finance (2.3). It also presents methodologies and assessment tools available to support this analysis (2.4).

3 IMF (2022), Trust what you hear. Policy Communication, Expectations and Fiscal Credibility.
4 PEFA, Global Report on Public Financial Management 2022 (2022), Chapter on Budget Reliability.
5 International Budget Partnership (2022), Connecting Budget Credibility and the Sustainable Development Goals: Results from 13 Country Investigations.
6 UNICEF East Asia and Pacific Regional Office (2023), Where is the Fiscal Space for Children? Review of the social sector budgets in selected countries in South Asia, East Asia and the Pacific Islands, Bangkok.

Figure 2: Average budget deviations by social sector from 2018–2022



Source: IBP (2022), op.cit., p.11 ; N.B. Grey bars show average deviation per country.

2.1 The scope and importance of budget credibility to mobilize finance for the SDGs

A coherent approach to closing the SDG financing gap implies that available resources are spent in line with national development priorities to supply SDG-compatible infrastructure, services and policies and to ensure no one is left behind. It also requires the mobilization of additional public and private investments whose impact, in turn, relies on the human and institutional capacity to plan, budget and deliver the relevant targets. Open, inclusive and accountable budgets are key to enhance mutual trust, increase domestic tax revenue and leverage additional investments.[7]

The credibility of a budget is linked to a country's overall political economy, the level of fiscal transparency[8] and accountability, and to the quality of PFM systems. Budget deviations are the key measure to quantify budget credibility. Table 1 illustrates how chronic underfunding of social sectors and SDGs, lack of trust, macro-economic factors, and other risks relate to budget credibility and the extent of deviations. The underlying causes and specific linkages with the PFM cycle will be further explained in Section 2.2.

Budget deviations reflect the availability of fiscal resources and implementation delays both at the level of revenue collection and of public spending (see Table 1). **On the revenue side, over-collected or under-collected revenue** can lead to further budget deviation due to the inability to estimate the fiscal resources available for spending, which can lead to sub-optimal expenditure planning. **Budgets that are overspent** can lead to inefficient and wasteful spending and indicate a lack of effective budgetary controls. In addition, overspending without a corresponding match in revenues can lead to severe deficits and debt crises. **Underspent budgets and changes between ministries, sectors or programmes**,

7 As illustrated in Figure 6, Section 3.4.
8 IBP (2020), Governments that budget transparently are more likely to spend as they promise: Based on a review of PEFA data from 94 countries, finds "a positive and statistically significant relationship between fiscal transparency and budget credibility at the aggregate level" as well as at sectoral level.

hamper the delivery of crucial services resulting in under performance of service delivery and development targets. Similarly, underspending on investment projects can lead to delays in execution and increase project costs. This chronic underfunding and de-prioritization of certain sectors can ultimately undermine trust and legitimacy in governments.

Table 1: Impact of over- and underspending on the delivery of the SDGs

Budget deviation	Over-collection/overspending	Under-collection/underspending
Revenue	Inability to spend on national and SDG priorities	Lost opportunity to spend on national and SDG priorities
Expenditure	Inefficient and wasteful spending	Hamper delivery of crucial services
	Lack of effective budgetary controls	Under performance of service delivery and development targets
	Increased deficits and potential debt distress	Execution delays and increase in project costs
		Chronic underfunding and de-prioritization

Source: Authors' own elaboration.

It is important to note that governments tend to underspend most on sectors, such as health, education and agriculture. This is more pronounced in low-income countries, where deviations in budget composition at a disaggregated level are usually higher than at the aggregate level for the overall budget.[9] This means that actual spending may not be directed towards those sectors that have the highest potential to realize the SDGs and leave no one behind, but to other activities that may not have been prioritized in the original budget or national development plan.

In practice, there is need for flexibility. No budget has zero deviation after its execution. A budget is credible if the government amends the budget transparently, using due processes set out in the relevant financial laws, and accounts for adjustments and reallocations in front of parliament or relevant legislative bodies. Even in countries with advanced budget systems, the best-designed budgets depart from the original plan to some extent. Sometimes, justified variances – which are transparent and approved by legislature – produce better results than budgets that are strictly followed without any modifications. This flexibility allows for more adaptive and responsive management, accommodating unforeseen changes and opportunities.

It should be noted that there is no consensus for an 'acceptable deviation' within a budget. PEFA sets standards of basic, good, and best practice on deviations[10] at 15, 10, and 5 per cent respectively for both aggregate and compositional level budget credibility, and a slightly different measurement for revenue (see Box 5 for more details).[11] Nevertheless, – as the recent COVID-19 pandemic has illustrated – there may be reasons for greater deviations in some contexts and situations. Many countries have passed laws that limit the executive's power to shift funds between administrative units, spend excess revenue or reduce spending below enacted levels without authorization from the legislature.[12] However, research shows that few governments publish detailed explanations for their budget deviations in their budget

9 For examples see: International Budget Partnerships (2019), Budget Credibility Across Countries: How Deviations are Affecting Spending on Social Priorities.

10 Budget deviations should be measured against the original budget approved by the parliament, but not the revised budget and actual expenditure.

11 For details see: PEFA (2018), PEFA Handbook Volume II: PEFA Assessment Field Guide, Second Edition.

12 This is assessed through questions 115, 116 and 117 of the Open Budget Survey, see: International Budget Partnership (2021), Guide to the Open Budget Questionnaire: An explanation of the questions and the response options.

reports and other public documents. Those providing an explanation for the deviation were often generic with no obvious causal mechanism prescribed for poor credibility and for some of the unexplained variations. Instead of effectively explaining budget variations, governments often put more efforts into limiting them.[13]

To ensure sustainable financing of the SDGs and attract additional investments to relevant national development priorities, it is critical to analyse the underlying causes of larger, persistent, and unexplained deviations and address them in a transparent and accountable manner.

Table 2: Underlying factors and impact of low budget credibility

Governance: Political economy, fiscal transparency and accountability and quality of public financial management system

	Quality of planning	Quality of execution	Quality of reporting, monitoring and oversight
Underlying factors across PFM cycle	• Realistic development target and setting up SMART indicators • Revenue and expenditure forecasts • Realistic assumptions, accurately costed implementation plan and consistency of process • Ability to consider future uncertainties – risk planning • Flexibility to adjust plan • Mechanisms to update plans based on previous year's performance • Use of appropriate budget classification and chart of accounts • Setting legally acceptable level of deviation and monitor	• Approval of submitted budget and budget cuts • Authorization to use approved budget and maintain cash flow • Recording expense per appropriate budget classification and chart of accounts as used in planning • Realistic commitment to ensure resource availability • Transparent and account-able adjustment to plan • Timely release of funds, payments and smooth procurement processes • Minimize principle agent problem	• Monitoring of performance against plans and targets • Report using appropriate budget classification and chart of accounts • Recording and reporting on indicators including explanation and justification for budget deviation • Budget reviews in-year, mid-year and end of year • Internal audit and external scrutiny including legislative, social/public and third party monitoring

	Budget deviations
Initial impact	Lack of effective budgetary control
	Inefficient and wasteful spending
	De-prioritization of spending on social sectors/agencies with budget credibility challenges
	Fiduciary risks
	Deficits
	Failure to deliver on government programmes and commitments
	Decline in credit worthiness and increased borrowing rates

Risk and consequences	Chronic underfunding of social sectors	Backsliding on SDGs	Undermine trust and legitimacy of government	Loss of macro-economic stability	Credit risk and debt crises

Source: Authors; N.B. Please see Section 2.2 for details on underlying causes across the PFM cycle.

13 IBP (2019), Explain that to us: How governments report on and justify budget deviations.

2.2 Underlying factors influencing budget credibility across the PFM cycle

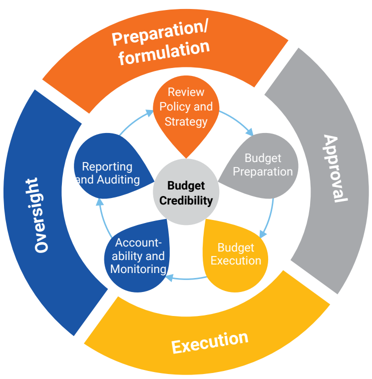
Practical measures to address budget credibility issues need to rely on a sound analysis of underlying PFM and governance blockages, which equally holds true for fragile states.[14] Reform practitioners often argue that budget credibility should be viewed as an outcome of governance. Budgets as political tools do not operate in isolation and reflect the weaknesses of the political system in which they are ted. Problem-solving approaches should provide sufficient time for the analysis and consensus building around underlying factors (see Table 2) and feasible reforms to address the identified deviations across the PFM cycle (see Figure 3).

2.2.1 Planning factors influencing budget credibility

Accurate revenue and expenditure forecasting at the formulation or planning stage plays an important role in budget credibility because they are the basis for establishing budget allocations. Good planning starts with setting realistic development targets using reliable indicators and sound methodologies. It needs to understand the context and consider uncertainties of the future by providing best estimates based on available evidence to set realistic development targets and SMART indicators.[15] A credible budget at this stage is a combination of sound planning, as well as the flexibility to adjust plans and budgets when required by changing circumstances.

Revenue and expenditure planning needs to build on realistic assumptions, accurately costed implementation plans[16] and follow a consistent process.[17] **Revenue planning/forecasting provides** a realistic estimate of fiscal resources available for revenue collection, both domestically and internationally. **Expenditure planning/forecasting** estimates the budget needed to meet the priorities and development targets both centrally and sub nationally, in line with the available fiscal resources from revenue planning/forecasting. In most cases the executive power generates budgets based on these forecasts, but the attributions of parliament and the role of legislative debate and approval need to be considered. In some countries legislatures have the authority to alter the budget and can add in unvetted project proposals.[18] Such alterations can disrupt and reduce the reliability of expenditure forecasts.

Figure 3: Simplified PFM cycle



Multi-year budget estimates or ceilings through detailed expenditure plans can enable the annual budget processes to be linked to broader fiscal policy and development objectives, for instance through medium-term expenditure frameworks (MTEFs). When countries face difficulties establishing realistic forecasts beyond the first year, it can help to enhance the credibility and predictability of annual budgets, closely monitor the implementation of multi-year budgets and ensure active coordination among line ministries and subnational governments.

Source: Authors; N.B. Budget credibility is influenced by all elements of the budget cycle and an indicator of the overall quality of the PFM system.

14 Better PFM quality is linked to more reliable budgets in terms of expenditure composition in fragile states when other credibility factors are controlled for, but not overall budget credibility. Mustapha, Shakira. (2019). 'Budget Credibility, Fiscal Outcomes, and PFM Performance in Fragile and Nonfragile Countries.' Chapter 4 in PEFA, Public Financial Management, and Good Governance. Working Paper No. 135051. Washington, DC: World Bank.

15 SMART: Specific, Measurable, Achievable, Reliable and Time bound.

16 Where implementation plans are not accurately costed, programmes are often delayed or significantly overspent.

17 Consistency of process means that the government follows a legitimate planning process, where every sector reflects development priorities consistently. For example, it asks if there is a standard regulated process followed while sharing the budget envelop across sectors or an arbitrary 10 per cent markup every year.

18 As an example, see : IBP (2019), The contours of budget credibility in Nigeria.

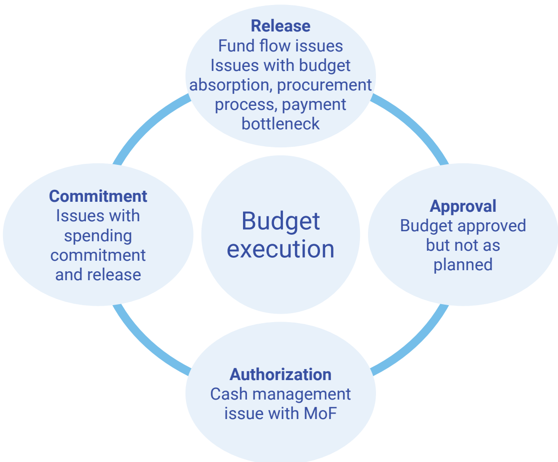
2.2.2 Execution factors influencing budget credibility

Effective budget execution involves different steps of the revenue and expenditure execution process and is measured through quantitative indicators on revenue and expenditure execution. Bottlenecks at these stages with an impact on budget credibility can be driven by both technical and non-technical, such as political and behavioural issues.

Revenue execution quantifies how much is collected during a financial year compared to the revenue collection target, and by considering the flexibility to adapt to changes in the fiscal year. On the other end, **expenditure execution** assesses how much is realized by considering the reasonable justification of spending deviations from the committed expenditure.

Figure 4 highlights how variances at different steps of expenditure execution can point to specific problems.

Figure 4: Key issues during expenditure execution



For example:

- Lower levels of budget approval than planned can point to an act of active de-prioritization while higher levels of budget approval than planned may be misaligned with actual spending due to limited government capacity.
- Lower authorizations for spending than approval including delays in the release to spending units can suggest cash management issues in the ministries of finance.
- Execution issues that occur between spending commitments and release can suggest issues in identifying potential resources and collection, procurement processes, payment bottlenecks, and fund flow issues etc.

Ministries of finance and line ministries should ensure that the budget execution process is transparent and information on any budget adjustments is provided with justifications.

On a broader scale, compliance by agents engaged in budget execution (revenue collection units, spending units, cost centres and other stakeholders) is key but can be impaired by information asymmetry, intentional misrepresentation, piggybacking on policy loopholes, slippages in execution rules and weak internal control.[19] Another important bottleneck is a lack of information available to decision makers and programme implementers and coordination mechanisms on the amount, timing of funds,[20] and potential revenue shortfalls during the fiscal years. Such deviations can represent serious bottlenecks to implement SDG-aligned expenditures. In a similar light, subnational budget credibility largely relies on the timely and reliable fiscal transfers from the central government.

19 Simson/Welham (2014), Incredible Budgets, ODI.

20 Criticality of this issue is evident in sectors with inherent seasonality, such as Agriculture. For example, advisory service expenditures often peak in accordance with the crop calendar. However, certain governments release funds in equal tranches, neglecting seasonal needs. Consequently, funds released during off-peak periods may be underutilized. A notable example is detailed in Uganda's Agriculture Public Expenditure Review (2010).

2.2.3 Monitoring and external oversight factors influencing budget credibility

Monitoring and external oversight are crucial for ensuring fiscal discipline and measuring budget credibility in terms of deviation from commitments. The way budgets are classified, recorded, and reported – including with a justification of necessary deviations – provides a good picture of budget implementation at the monitoring and oversight stages. In addition to the yearly, half yearly, and quarterly budget and expenditure **reviews are important to keep track of *where* and *how* a budget is spent**. To identify challenges and ensure implementation plans are up to date, these reviews should be made available to programme managers, and to the broader public.

The reliability of monitoring and oversight reports can suffer when politicians and bureaucrats use discretional power to produce evidence that legitimizes unnecessary spending or when public hearing processes are only a "ticking the box" exercise. **Meaningful public participation** plays an important role throughout all stages of the budget process, especially to ensure that expenditures are delivering the planned targets. Engaging citizens through social or participatory audit can be particularly useful to assess and address accountability and, in turn, enhance fiscal discipline and citizen ownership in spending (see Section 3.4).[21] Additionally, **internal audits and external scrutiny**[22] (parliament, supreme audit institutions, and third parties such as through civil society organizations) allow checks of the legality and accuracy of spending per the rules and regulations as well as the quality of accounted records.

Targeted reforms on budget credibility or the overall PFM cycle to address the issues highlighted in Subsections 2.2.1–2.2.3 vary for each country in line with its reform priorities and diagnosis of bottlenecks. Common measures include strengthening accountability structures with clearly defined roles and responsibilities, improving the revenue forecasting capacity of government, improving cash planning and management, strengthening procurement processes, improving/aligning the budget classification including the chart of accounts, enhancing public investment management processes/ systems by linking them to multi-year frameworks, ensuring improved mechanisms for coordination and data sharing, improving internal control through regular monitoring and reporting of both financial and nonfinancial performance, and external scrutiny including public/social audit (see Subsection 3.2.1 on how to consider them in an INFF financing strategy).

However, in many cases budget reforms solely targeting the technical aspects of PFM and missing on the wider view of PFM as a part of a governance system/framework[23] have not been very successful in improving budget credibility issues.[24] Constraints in relation to policy, systems, processes, and capacity at multiple stages in the PFM cycle, but also the political economy and interactions among technicians (economists, accountants, and auditors) and policy makers (cabinet members, parliamentarians, and advisers) need to be addressed simultaneously and adequately. Across government ministries and at different levels of government, these factors influence how reforms/improvements should be conducted and established to link resources with planned targets and results. This makes it additionally important to appreciate the complexity of the PFM problem at both technical and political level, ensure consensus building around underlying factors (see Table 2) and iterate reform solutions over time.[25]

21 Opportunities for public participation are assessed in IBP's Open Budget Survey. The Global Initiative for Fiscal Transparency has published a compendium of case studies on public participation in practice.
22 UNDESA, IBP (2023), Strengthening Budget Credibility through external audits, A handbook for auditors.
23 Governance system/framework refers to the political process of budget making that entails politicians allocating scarce resources to competing priorities.
24 Kristensen, Jens Kromann, Martin Bowen, Cathal Long, Shakira Mustapha, and Urška Zrinski, eds. 2019 PEFA, Public Financial Management, and Good Governance. International Development in Focus. Washington, DC: World Bank, 2019, p.37-38.
25 UNICEF (2023), Engaging with public financial management challenges in the health sector: A resource guide for a problem-driven approach for UNICEF country offices.

2.3 Interactions with different types of public and private finance

Budget credibility not only allows for a better linkage between available resources to sustainable national development priorities, it also interacts with different types of public and private finance and can be both a lever and a deterrent to additional public and private investments. It is also a dimension of a countries' PFM system that is easily impacted by the lack of a consolidated approach to financing, especially when the full range of available and committed resources are not clearly identified.

On the one hand, budget credibility has an impact on **domestic public finance as a key resource for financing the SDGs and can contribute to an increase in tax revenue**. If a budget is transparent, subject to participatory and social accountability mechanisms, and provides a positive signal on the capacity to deliver investments and services as planned, this can strengthen trust and tax morale of citizens and companies.[26]

In a similar light, the credibility of a budget provides a reflection of the quality of related PFM systems to external parties and signals both the willingness and the capacity of governments to achieve their set targets. Information and variables that describe the performance of past revenue and spending policies influence on the overall macro-economic context, can convince potential new partners and investors of the effectiveness of a country's future fiscal policy or enhance its creditworthiness. A 2022 IMF study finds that fiscal credibility is enhanced when governments are transparent around their budgets and fiscal objectives.[27] Higher fiscal credibility means that the government can attract other sources of financing, both from the public and private sectors.[28]

On the other hand, **external financing streams can also have an impact on the credibility of budgets**, for instance when disbursements of development partners are delayed or not captured on national budgets.[29] When government agencies and development partners are engaged on joint actions or when official development assistance (ODA) supported activities are required for later government spending, this can significantly impact the credibility of public funds and spending decisions. A 2019 study from IBP finds that immunization programmes, an area with a particularly high share of donor funds, faced higher rates of underspending when funded by donor funds than when funded with internal resources only. For 9 countries[30] that received about 50 per cent of their budget through external funds, datasets available on the BOOST portal (see Section 2.4) suggest that external funds were underspent by 73 per cent while average underspending for domestic funds stood at 11 per cent. The research did not have sufficient data to establish whether the shortcomings around external funds were linked to actual underspending or to reporting issues due to the fact that donor-funding is often not at all or not properly recorded on budgets. Similarly, in the context of sub-Saharan African countries, a 2021 study by FAO focusing on the Agricultural sector highlighted a significant discrepancy in the execution rates of donor versus domestic public budgets.[31] The study found that, on average, execution rates for donor-financed expenditures were only 61 per cent, compared to a much higher rate of 91 per cent for expenditures funded domestically.

26 IMF (2022), Trust what you hear. Policy Communication, Expectations and Fiscal Credibility.
27 Ibid. Defined as « the extent to which economic agents expect the government to try and fulfil its fiscal policy commitments.»
28 IMF (2021), When it comes to public finance credibility is key.
29 Indicator 6 of the GPEDC Monitoring Dashboard can provide an initial reference about the share of international public funds recorded in the national budget, but further data sources highly depend on national statistics and are hardly captured in international assessments. In many cases, data gaps will have to be addressed through reforms included in the financing strategy (Section 3.2).
30 The study analysed a total of 22 available datasets. For 18 countries data on external and internal could be singled out. 9 countries funded their immunization budget internally and 9 other countries (quoted above) received about 50 per cent of their budget through external funds. See Cho, C., Lakin, J., Griffiths, U., (2019), Underspent immunization Budgets, A budget credibility analysis of 22 countries, IBP and UNICEF, p.6.
31 Food and Agriculture Organization of the United Nations. (2021). Public Expenditure on Food and Agriculture in sub-Saharan Africa. FAO.

2.4 Most important assessment tools to measure budget deviations

There are different methodologies and assessment tools available that can be used to indicate the extent of budget implementation deviations. Tools are either part of government systems/processes (national or subnational); or developed externally by organizations or development agencies. Some of these tools may allow for disaggregation by sector, or can be applied to specific sectors. These methodologies can provide complementary information, especially for INFF Building Block 1 "Assessments and diagnostics", to determine the extent to which budget credibility should be considered when operationalizing an INFF.

The first point of reference should always be official government data, namely in the form of in-year, mid-year[32] and end-of-year budget execution reports that are developed by each country. This data is mainstreamed into each country's PFM cycle and may follow certain international guidelines. It provides reports with insights into budget implementation that can be used for monitoring and evaluation, as well as inputs to the next budgeting cycle. In addition to these data and reports, other important tools are audit/performance audit reports, programme evaluations, budget analysis/budget briefs, as well as government reporting against national/subnational plans to verify the delivery of services and other expenditures. It should be noted that some of these reports will only become available after a certain period, for instance for audit reports, the minimum best practice standard is 18 months compared to 12 months for annual budget execution reports and 3 months for quarterly reports.

Moreover, third party data or citizen-generated data from social audits and other social accountability reporting tools at country level[33] can complement this data to crosscheck the actual provision of goods and services from the budget implementation.

Where official government data is unavailable or incomplete, several internationally developed evaluation tools can provide complementary measurements of budget credibility (see Figure 5). These tools can serve as alternatives when the official reports or data are unavailable, or they can be used to crosscheck the results. The Public Expenditure and Financial Accountability (PEFA) programme and IMF's Fiscal Transparency Code and Fiscal Transparency Evaluations (FTE) provide the most complete databases that also allow for international comparison. Other common assessment tools are and their relevancy for different categories of Building Block 1 assessments linked to budget credibility are listed in Table 3. Section 3.1 offers concrete steps on "how to" use them in the INFF process.

32 In-year reports (quarterly, monthly) usually show actual expenditures as compared to the approved budget; mid-year reviews usually are focused on revised forecasts on the remainder of the fiscal year.
33 For different approaches see TAP Network (2018), SDG Accountability Handbook: A practical Guide for Civil Society and case study below from Kenya on the country's Social Intelligence Reporting System (Box 12).

Figure 5: Identifying relevant data to assess budget credibility

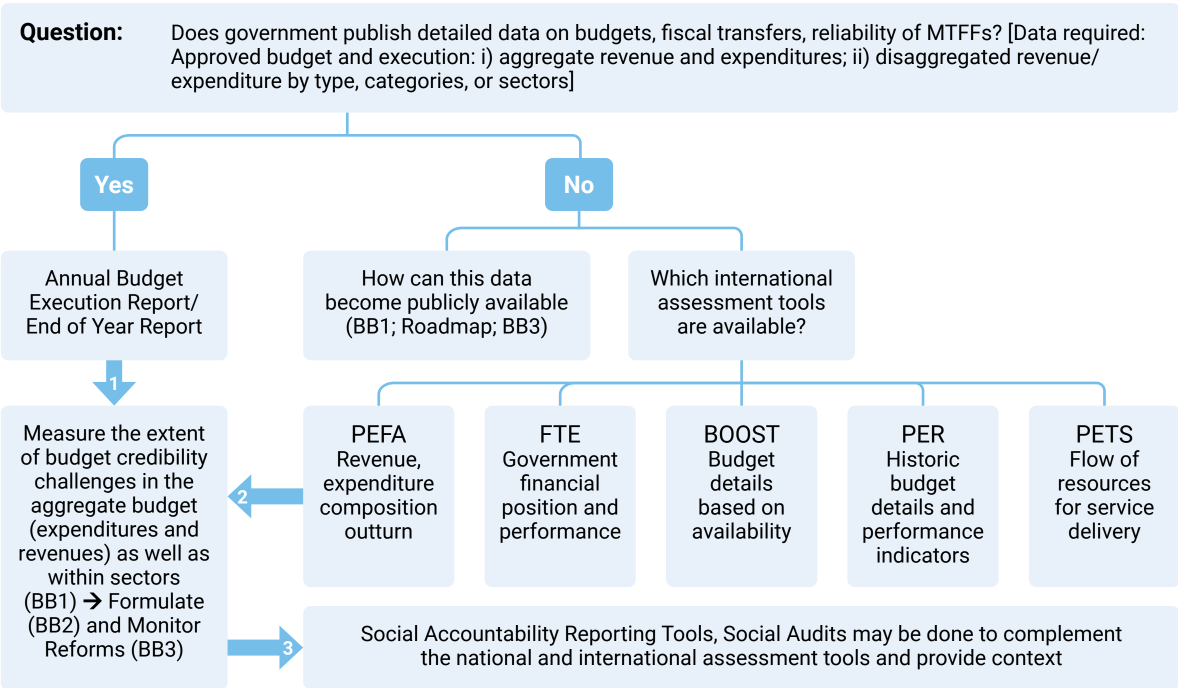


Table 3: Mapping of most common assessment tools on budget credibility

Tool	Purpose	Key budget credibility related information available	Relevancy to INFF assessments and diagnostics
National tools			
Costing and costeffective-ness analysis	Costings use different methodologies to identify the cost of interventions or programmes; the cost of increasing coverage; or the cost of incorporating design changes of an existing service. (For more details and references see Subsection 3.1.1). Cost-effectiveness analysis compares scenarios to achieve a policy goal by comparing costs and potential impacts through different types of programmes or interventions. (Example: WHO CHOICE).	Customized to meet the costing structure of each country, costings and cost effectiveness analyses can be used to develop a range of scenarios that allows government to assess trade-offs and convert policies into realistic, costed plans.	Financing needs assessment
Budget Execution Report/End of Year Report	Budget Execution Reports provide an overview of budget execution in the respective fiscal year. Data is generated through each country's PFM cycle and may follow certain international guidelines. This tool will provide insights into budget implementation that can be used for monitoring and evaluation as well as inputs to the next budgeting cycle. Reports should be made available through finance ministries.	Budget information with limited details. Depending on the country, it covers – to different extents – budget allocation and realization, budget composition based on economic and sectoral classification. Ideally, it should also include a narrative and explanations of deviations that occurred during the budget year.	Financing landscape

Table 3 (continued)

Tool	Purpose	Key budget credibility related information available	Relevancy to INFF assessments and diagnostics
Evaluation reports and data portals; Performance audits	Evaluation reports and data portals on service delivery in specific sectors can provide information on final outcomes and spending for certain sectors, which can be analysed in line with official budget allocations. Performance audits assess how governments utilize their resources to deliver policy goals and achieve impact. They are often used to examine the implementation of one or several policies.	Types of reports and available information will vary in line with the country or sectoral context but are useful to be taken into account. Where data is missing, it can be completed by data from IMF Article IV reviews.	Financing landscape Analysis of expenditure deviations
Budget briefs[34]	Budget briefs provide a summary of budget analysis in the form of short documents for monitoring budget allocations and execution, reporting, or advocacy. It provides information about budget and implications for policy goals.	Overview of budget execution, composition, and recommendations to improve quality of spending, budget credibility and execution, and data quality.	Financing landscape
International standardized methodologies			
Public Expenditure and Financial Account-ability (PEFA)	PEFA is a methodology for assessing overall public financial management performance through seven pillars of PFM practices, including budget credibility (termed "budget reliability" in PEFA) as the first pillar. Currently PEFA assessment frameworks are available for national assessment, subnational governments (with draft module on service delivery), gender, and climate. Data for 80 countries based on the 2016 PEFA framework is available.	Three specific indicators (PI-1, PI-2, PI-3) measure deviation of aggregate revenue, expenditures, and composition of expenditures. The deviation is the difference between planned and actual revenue/spending /spending composition measured over one budget year for the previous three years. Other PEFA indicators may provide additional information/insights on specific aspects of the PFM cycle that contribute to budget credibility. Annex tables with detailed data to calculate scores can be a good source in the absence of other official reports. Compositional data is usually adjusted to be the deviation from the overall implementation rate of the entire budget and may differ from official figures reported in budget reports.	Financing landscape Analysis of expenditure deviations
Fiscal Transparency Evaluation (FTE)	Fiscal Transparency Evaluations are an IMF methodology providing a comprehensive assessment of country practices against the transparency standards of the IMF Fiscal Transparency Code. They define fiscal transparency as "the comprehensiveness, clarity, reliability and timeliness of public reporting on the state of public finances […] critical to effective fiscal management and accountability" (IMF 2023).	Pillar 1 on fiscal reporting provides information on the government financial position and performance, namely through indicators 1.4.1 ("Statistical Integrity"), 1.4.2 ("External audit"); 1.4.3 ("Comparability of Fiscal Data")	Financing landscape Analysis of expenditure deviations

34 Detailed description and links to online repositories is available in UNICEF (2021), Public Finance Toolkit.

Table 3 (continued)

Tool	Purpose	Key budget credibility related information available	Relevancy to INFF assessments and diagnostics
BOOST Open Budget Portal	BOOST provides a compilation of disaggregated budget data to support improved budgetary decision making, analysis, transparency and accountability for a series of countries. Data quality is dependent on the country.	BOOST provides detailed budget data of countries that can be used for: • Supporting expenditure analysis • Advancing fiscal transparency • Improving PFM processes Compositional data can differ from official reports. The BOOST web portal also provides a list of guidance to conduct budget analysis, public expenditure reviews, and sectoral analytical guidelines.	Financing landscape
Public Expenditure Reviews (PER)[35]	Public Expenditure Reviews provide an analysis on the quantity and quality of public spending against policy goals over a specific timeframe. The scope of the PER may vary from national level, regional or subnational level, or specific sectors/themes (i.e. education PERs, Health PERs, Child Wellbeing PERs, Agriculture PERs, Climate Public Expenditure and Institutional Review (CPEIR)). The scope of the PERs can also cover institutional analysis, PFM system, and political economy analysis, among others.	Summary information such as public expenditure per capita, by region or as a proportion of GDP, with current and historical spending and trends. Detailed breakdown of budget based on national, subnational, or sectoral over specific timeframe.	Financing landscape Analysis of expenditure deviations
Public Expenditure Tracking Survey (PETS)[36]	Public Expenditure Tracking Surveys track resource flows through the entire chain from government to service facilities to determine the share of the originally allocated resources that reach each level of government. They also include data on the delays and the final utilization of resources. PETSs help identify leakages, resource capture or spending bottlenecks, and develops recommendations for more efficient public spending and improved services.	A PETS is particularly useful for analysing the quality, equity and opportunities for improvement of spending.	Analysis of expenditure deviations

35 Ibid.
36 Ibid.

Table 3 (continued)

Tool	Purpose	Key budget credibility related information available	Relevancy to INFF assessments and diagnostics
Open Budget Survey	Open Budget Surveys are independent and carried out by the International Budget Partnership in partnership with local civil society organizations. They compare aspects of governance and accountability across countries. They are based on objective methodology and undergoes an independent peer review. Both a global report and country summaries are available.	The survey is based on 228 questions that covers: participation, oversight, and budget transparency. The budget transparency score is also known as Open Budget Index. It provides information on the public availability of government budget execution reports and where these documents can be found online.	Analysis of expenditure deviations Assessment of reasons for deviation
Community Score Cards[37]	Community Score Cards are a social accountability tool that combines quantitative survey and focus group discussions that – amongst others – tracks inputs or expenditures, monitors the quality of services/ projects and performance in resource allocation and budget decisions.	Its existence is an important entry point of CSO/community engagement around budget credibility. Enables the monitoring of actual disaggregated budget implementation and allows for the identification of service delivery challenges at disaggregate level.	Analysis of expenditure deviations Assessment of reasons for deviation
Integrated Budget Intelligence Toolkit (i-BIT)	The Integrated Budget Intelligence Toolkit (iBIT) uses advanced supervised machine learning to enhance its public financial management and align budget spending with strategic objectives. Developed by the United Nations Economic and Social Commission for Western Asia (UNESCWA), the i-BIT analyzes government spending in detail, enabling policymakers to identify specific budget lines that directly and indirectly contribute to the performance in relation to the 17 SDGs. This helps improve public spending efficiency and supports the transition to SDG-centric budgeting.	The iBIT analysis enables policymakers to identify detailed COFOG budget lines -beyond aggregations- that consistently contribute, both directly and indirectly, to the progression of more than 100 measurable national indicators across the 17 SDGs prioritized in national contexts in several economies in the Middle East, North African and West Asia. Policymakers can assess how budget allocations contribute to SDG progress, but also how deviations from planned budgets impact the efficacy of these contributions.	Financing landscape Analysis of expenditure deviations Monitoring and Evaluation

37 Ibid.

© UNICEF/UNI480185/Isci

3. “How to”: Considering budget credibility via the INFF Building Blocks

The INFF global guidance presents specific recommendations on how to improve budgetary processes and PFM procedures through the different components of the INFF Building Blocks, at the heart of which sits the INFF financing strategy. Closely linked to all stages of the PFM cycle, budget credibility provides a unique lens to analyse and strengthen the impact of revenue, expenditure and monitoring policies that are considered through the different components of the INFF Building Blocks. Its assessment as a standard exercise, especially under Building Block 1 “Assessments and diagnostics”, can allow for the identification of critical bottlenecks and underlying constraints (see Table 2 in Section 2.1) that, otherwise, would not have been addressed. As a result, this process can strengthen the PFM systems on which the operationalization of Building Block 2 “Financing strategy”, Building Block 3 “Monitoring and review”, as well as Building Block 4 “Governance and coordination” will highly depend.

This section presents a “step-by-step” approach, on how to consider and enhance budget credibility across the implementation of the four INFF Building Blocks. It does so by taking into account specific aspects through which more reliable budgets and the roll out of an INFF can mutually reinforce each other. This will strongly benefit from the INFF guiding principles to i) build on existing capacities/ systems, ii) prioritize policies, and iii) consider a phased approach:

Build on existing systems/capacities: To build on the existing policies and institutional arrangements that countries have in place, INFFs should closely align their processes to existing PFM systems and the national budget cycle. Taking into account existing systems and capacities should avoid creating any additional burdens, especially when systems are less robust or staff is under supported.
The implementation of financing strategies and related tools needs to ensure coherence across different reform areas and address risks.

Prioritize policies: Policy solutions to achieve such an integration will vary in line with the country context. While LICs usually face greater challenges to strengthen core PFM processes, many cutting-edge PFM environments still need to strengthen their costing or build in sustainability checks to address risks, binding constraints and ensure coherence between different policies.

Phased approach: Taking into account the maturity of the systems in place and the level of ambition, INFFs can help establish or strengthen systems and approaches that can support gradual improvements or rapid, far-reaching changes. In some contexts, incremental changes may be needed to ensure the maturity of systems and procedures before a new more complex process is adopted (e.g. consolidate collaboration between the Ministry of Finance and line ministries around annual plans before focusing on a medium-term expenditure framework).

Table 4 summarizes how key recommendations can be considered during the different phases of the INFF inception, development and operationalization. More specifically, during the INFF inception and development phase, existing budgetary procedures and PFM analytical tools can provide crucial information to develop a coherent, sustainable and risk-informed financing strategy. During its operationalization, the INFF's multi-year cycle should draw from the budget process and support PFM reforms to integrate public and private finance into a strengthened PFM and budget cycle.

Table 4: Key interactions between the INFF Building Blocks and budget credibility

Inception phase

First opportunity to scope available data on budgets, revenue and expenditure, including relevant legislation, budget acts as well as execution and performance reviews.

Identification of INFF institutional home: Oversight Committee should include central, sectoral, subnational institutions that share authority to improve public budgets; It is also an opportunity to enhance public participation in line with the political economy of a country (see BB4).

INFF Roadmap provides opportunity to further deepen assessments that explore strengths and weaknesses of the national budget process.

INFF development

BB1 Assessments and diagnostics should use **national budget process** as a starting point and source of information.

↓

BB1 Assessments and diagnostics map and analyse data and documentation available to assess the scope of (aggregate and disaggregated) budget deviations in relationship to revenue and expenditure.

↓

BB4 Governance and coordination financing dialogues identify policy objectives and budget credibility related reforms for BB2 Financing Strategy.

↓

BB2 Financing strategy aligns BB3 Monitoring and Review/BB4 Governance and Coordination to existing PFM and budget processes.

INFF ongoing operation-alization

INFF's multi-year cycle draws from the budget process and supports PFM reforms to gradually integrate planning and financing policies. Close alignment to the annual budget process facilitates higher budget credibility and strengthens the INFF momentum for other financing sources:

INFF related country priorities feed into Annual Budget Planning, budget policy statements and multi-annual frameworks (e.g. MTEF, if functional).

↓

Additional spending for budget credibility related reforms is integrated into budget frameworks.

↓

BB2 Financing Strategy and its action plan rolls out:

a) additional assessments on budget credibility
b) immediate priorities on policies and reforms to strengthen budget credibility across the budget cycle (Planning; Implementation; Monitoring), including steps towards further recording of other financing streams on budget
c) Spending for budget credibility related reforms is on-budget.

↓

BB3 Monitoring and review/BB4 Governance and coordination builds on Annual Budget Monitoring, Reporting and Audit reports as their primary source around implementation outcomes and budget credibility.

↓

BB3 Monitoring and review complements available data on off-budget international and private resources.

BB4 Governance and coordination adopt **problem solving dialogues on identified bottlenecks** and provide the governance structures and mechanisms that underpin implementation/tracking of policy reforms.

Box 3: INFF inception phase

During the INFF inception phase, countries establish a baseline around existing data, processes and financing or capacity gaps ("scoping"), determine INFF working structures and its institutional home ("Institutionalization"), and an INFF Set-Up-Plan ("INFF Roadmap").

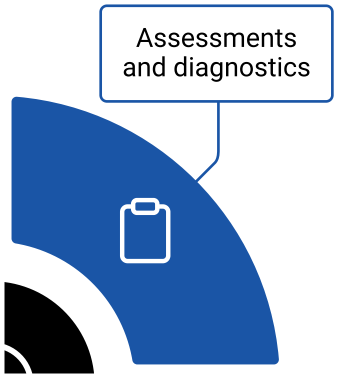
The scoping phase is the first opportunity **to map the availability of data on budgets, revenue and expenditure**. Working with national and subnational authorities to compile relevant legislation, recent budget acts, as well as execution and performance reviews can be a valid entry point to the analytical work of the INFF and should set the collaboration with relevant departments. In some country contexts, data will not be readily or publicly available. This will lay the foundation of the financing landscape assessment (Subsection 3.1.2).

During the **institutionalization of INFF working structures**, an institutional and stakeholder mapping identifies relevant institutions and platforms that are part of the Oversight body and/or need to be engaged to carry the process forward. The Development Finance Assessment Guidebook (p.74) provides an overview of most common stakeholders. Country data on public participation can be obtained from the Open Budget Survey or the GPEDC Monitoring Indicator 2.

Selection of stakeholders should always build on an understanding of the current political economy context of the country (for instance assessed through a "Political Economy Analysis of the Budget process"). From a budget credibility perspective it is important to engage the Ministry of Finance's departments in charge of macroeconomic forecasts, budget planning and financial administration. At the level of line ministries, involving representatives from units responsible for planning and budgeting, both at national and subnational levels, facilitates a thoughtful reflection of policies and operational approaches that govern the implementation of the budget. Non-government actors should involve civil society organizations (CSOs) and research institutions that have a sound understanding of budgetary procedures and are recognized for their engagement around financing, transparency and broader development planning. Further details can be found under Building Block 4 (Section 3.4).

To conclude the inception phase, **the INFF roadmap** – which should be consolidated based on inclusive, participatory and accountable stakeholder engagement (see Section 3.4 on BB4) – lays out clear steps for setting up and implementing the INFF in the country. Independently of whether a full-fledged assessment has already been conducted, the data compiled around the national budget and its reliability points to important strengths and weaknesses that should be considered in the development of the INFF roadmap.

3.1 Assessment and diagnostics



Building Block 1 "Assessments and diagnostics" undertaken as part of an INFF, aims at establishing a precise picture of a country's financing needs as well as the trends, challenges, risks and opportunities of its different public and private finance resources. Depending on their specific context and needs, countries may undertake a Development Finance Assessment (DFA) as part of this phase. In addition, countries can consider additional tools and assessment methodologies developed by international partners where they add value to the process (see Table 3, Section 2.4). To orient the INFF roadmap and its financing strategy, a thorough assessment of data and studies on the different aspects of budget credibility, can provide crucial evidence on implementation bottlenecks related to i) accurate estimates of financing needs; ii) revenues across the financing landscape; iii) expenditure deviations; and iv) the underlying reasons of these deviations.

3.1.1 Financing needs assessment

Credible planning is a crucial foundation for preparation of public budgets. Development priorities can only become part of a sound and effective budget process if they are translated into accurately costed implementation plans. Budgets that do not reflect the priorities and implementation costs of the national development plans are key bottlenecks for budget credibility and the achievement of the SDGs.

The INFF process puts a strong focus on financing needs assessments that put sustainable national development priorities at the core of the political discussions and negotiations for the prioritization of public resources through the national budget. The INFF BB1.1 dedicated guidance presents several costing methodologies in line with country specific needs and capacities. These should be an integral part of the financing policy cycle reflected in multi-year and annual budgets. Nevertheless, national efforts to achieve the SDGs need to go beyond "business as usual" by ensuring additional investments are financed and factored into the budget. To establish accurate and nationally owned costings, the financing needs assessment should trigger collaboration of central, sectoral and sub-national departments, identify gaps and refine existing cost estimates.

INFF financing needs assessments can build on an analysis of expenditure composition outturns to complement formal costing tools that are used by budget departments of central and line ministries. Building on existing practices, a dialogue approach among key stakeholders may identify how current budget practices can be enhanced to better address areas where costings by sectors/departments and subsequent expenditure forecasts through ministries of finance appear to be inaccurate. Information on expenditure credibility – both at aggregate and compositional level – provides a measure of the coherence between existing forecasts, allocations and actual expenditures. Analyses of underlying constraints and of cost effectiveness (see Table 3, Section 2.4) can help to establish the extent to which these deviations are linked to challenges in existing costing methodologies. Both assessments are recommended to understand the quality of public expenditure under the financing landscape assessments (for a step-by-step guide see Subsection 3.2.1), but can also provide substantial information during the financing needs assessment stage.

In many countries, addressing these gaps will require a close collaboration between the units of ministries, departments and agencies that are in charge of budgeting and of spending, to enhance

38 Further examples of sector level costing processes that involve ministries of finance and social sector ministries can be found here: UNICEF (2023), Estimating Government Spending on Early Childhood Development, A Methodological Guide; UNICEF (2021) The UNICEF Public Finance Toolkit. Tool 7 – Costing.

bottom-up approaches to costing and ownership of the resulting estimates (Box 4: Case Study Malawi).[38] An interdisciplinary costing team (central/line ministries; economists/statisticians/policy officers, etc.) with good knowledge of methods used by budget departments can allow to overcome silos and establish new standards that reinforce accountability mechanisms of the budget process. Table 5 provides guidance on key questions for scoping.

Table 5: Impact of over- and underspending on the delivery of the SDGs

Key scoping questions
→ **Build on existing systems/capacities** • Which methodologies/internal processes are used to cost the annual budget? • Does the NDS have an accurately costed implementation plan? Is it reflected in the budget? • In which sectors/programmes are expenditure deviations particularly high? To which extent do these deviations point to gaps in existing costing methodologies?
→ **Prioritize/Sustainability checks** • What are different options to better address these gaps? What are their benefits, costs and risks for current practices and priorities?
→ **Phased approach** • How can an interdisciplinary team develop the new approach? What are intermediary steps?
Key references
IATF (2020) INFF BB1.1 Financing needs assessment; UNDP (2020), Budgeting for the Sustainable Development Goals, Aligning domestic budgets with the SDGs, Guidebook; UNDP (2023), SDG Costing: An Internal Guidance Note (unpublished); UNDP (2020), DFA Guidebook

Box 4: Malawi – Using disaggregated data analysis to identify and understand budget credibility challenges

The Government of Malawi has made significant strides in improving its aggregate expenditure credibility, as evidenced by improving Public Expenditure and Financial Accountability (PEFA) scores. However, snapshots of fiscal realities at the sectoral and local levels reveal a different perspective on budget credibility and there remains a gap between the credibility of budget execution at the aggregate level, and the actual expenditure outturns, which have hampered service delivery at the sectoral and local levels.* Disaggregated budget credibility analysis, looking at spending at the subnational level or across different sectors or programmes, can identify underlying challenges that reduce budget credibility and obstruct social sector service delivery. Identification of specific challenges enable targeted problem solving and tailored reforms to effectively address the root issues. At the subnational level, the identification of these challenges and the assessments of actual costs has helped guide reforms to address challenges affecting spending and service delivery at the local level.

Various reforms – from the transition to programme-based budgeting (PBB) since 2015/16 to a fiscal decentralization reform – are underway. Amongst others, they aim to improve the resourcing, engagement and discretion of local councils in the budget process. To enhance local level impacts on service delivery, the fiscal decentralization reform initiated by the National Local Government Financing Committee (NLGFC) includes the introduction of costed minimum service targets, for which a baseline was established between 2021 and 2023.

* GoM/WB/GFF (2020), Malawi Public Expenditure Review (PER) 2020, Strengthening Expenditure for Human Capital.

Box 4 (continued)

As a first step, the costing required triangulation and consensus building around the actual minimum service package that should be costed in line with existing practices. Large scale consultations and several workshops reached an agreement on the minimum service delivery packages that were to be costed.

Following the standardization of prices across all sectors, the study found that minimum service delivery packages would require five-times the currently allocated transfers and highlighted the important to move from a supply-based allocation on the grounds of monthly cash flow forecasts to a bottom-up approach that engages local authorities in the costing of their planned activities. While it is unlikely to have such a significant increase of nationally funded intergovernmental fiscal transfers in the short-to-medium term, the example highlights the importance of identifying and targeting specific needs based on a close involvement of the concerned authorities. At the subnational level this often requires a substantive reform process that combines the strengthening of revenue generation with broader decentralized governance reforms.

Please see Annex 2 for sources and additional details

3.1.2 Financing landscape

Credible revenue estimates and projections, as well as the efficient spending of available resources on agreed national sustainable development priorities, are assessed in the INFF BB1.2 – Financing landscape assessment. Many INFF countries have chosen to conduct this assessment through UNDP's methodology on Development Finance Assessments (DFA), which provides for a comprehensive analysis of financing trends and policies for all public and private resources that can contribute to country-led implementation of the SDGs. Therefore, DFAs often include an initial scoping of budgetary processes and PFM procedures across the national financing policy cycle.[39]

To go one step further, a targeted analysis of budget deviations and the root causes of overspending and underspending along the national budget cycle can be of significant added value to identify funding gaps and implementation bottlenecks.[40] For some countries this may require additional assessments to address data gaps and identify reasons for low service delivery in specific areas. As far as possible, the assessment should disaggregate data for sectors, programmes, different levels of government, but also for different financing streams. As highlighted in Section 2.3, variances can be particularly high for external resources and point to causes and constraints that differ from those related to domestic public revenue.

A step-by-step approach that considers the availability of data, the credibility of revenue forecasting and actual expenditure should be a standard exercise of this part of the INFF phase. If data is not readily available a light analysis can be conducted based on relevant PEFA indicators (Box 5):

39 See, for example: Union of Comoros (2021), Development Finance Assessment report; Sierra Leone (2021), Development Finance Assessment Report.

40 In addition, as highlighted in Subsection 3.1.1. the identified gaps – especially around expenditure outturns – can also provide substantial information for the financing needs assessment stage of an INFF.

Step 1: Mapping of available data

As highlighted in Section 2.4, official government data (e.g. in-year/mid-year/end-of-year execution/performance reports, audits, etc.) to measure the extent of budget deviations should be the starting point.

To appraise if **budget reports are available and accurately** reflect the revenue and expenditure outturn per the national budget, IBP's Open Budget Survey can be a useful entry point. Country results are available online and include succinct sections on "Public availability of budget documents" and "How comprehensive is the content of key budget documents".

If needed, national data and budget briefs **can be complemented through international indices and assessments** (e.g. PEFA, FTE, BOOST, PER, PETS, etc.) (see Table 3, Section 2.4).

If official government data is not available, **the development of statistical and reporting capacities should be included as a priority** into the INFF Roadmap and Building Block 2 "Financing strategy".

Step 2: Accurate revenue forecasts

The PEFA 2022 Global Report assesses 80 countries based on 2016 PEFA framework at the national level. On average, participating countries perform better at aggregate revenue outturn compared to revenue composition outturn.[41]

If official government data on revenue estimates and actual outturn is not available, **PEFA indicators PI- can provide the main indicators for revenue credibility. PEFA indicators PI-14, PI-19, HLG-1[42] and other country assessments** can provide additional insights and information on revenue credibility (see Section 2.4).

The **analysis of revenue deviations over several years** will help to identify how widespread the challenge is. The financing landscape assessment should also capture whether issues are more prominent for specific tax/non-tax revenue flows both at central and sub-national level.

Step 3: Analysis of expenditure deviations[43]

According to the 2022 PEFA Global Report, compliance at the aggregate level of planned spending is better compared to the composition of approved spending. 56 per cent of participating countries had less than 10 per cent deviation at aggregate level, while more than 66 per cent of governments had variances of more than 10 per cent in their spending composition outturn.

If government official data on expenditure estimates and actual outturn is not available, **PEFA indicators PI-1, PI-2 can provide the main indicators on expenditure credibility. PEFA indicators PI-4, PI-16, PI-22, HLG-2,[44] UNICEF social sector budget briefs and other country assessments**, may offer additional insight and information on expenditure credibility (see Section 2.4).

The **analysis of expenditure deviations over several years** helps to identify how widespread the challenge is. A financing landscape assessment should also capture if issues are concentrated in specific sectors (see Figure 2 above, Section 2) or across the budget (see Figure 3 above, Section 2). Therefore, the analysis should include **aggregate, sectoral and subnational data**.

41 Aggregate level, 48 per cent of countries scored C or lower (revenue outturn < 94 per cent or >112 per cent); Revenue composition outturn: 65 per cent of scored C or lower (> 10 per cent variance).

42 The main indicator for revenue credibility is PI-3: Revenue Outturn. Other PEFA indicators such as PI-14: Macroeconomic and Fiscal Forecasting; PI-19: Revenue Administration can provide additional information and insights to support the main indicator. For subnational government HLG-1 on Transfers from Higher Level of Governments can provide additional insight.

43 As highlighted in Subsection 3.1.1, analysis of expenditure outturns can also feed into INFF financing needs assessments.

44 The main indicators for expenditure credibility are PI-1: Aggregate Expenditure Outturn and PI-2: Expenditure Composition Outturn. Other PEFA indicators such as PI-4 : Budget Classification PI-16: Medium-term Perspective in Expenditure Budgeting PI-22: Expenditure Arrears can provide additional and insight to support the two main indicators. For subnational government HLG-2 on Fiscal Rules and Monitoring of Fiscal Position can provide additional insight.

In some countries, different levels of government use separate expenditure tools, which makes it difficult to obtain comprehensive expenditure information for sectors where the responsibility is shared, or multi-sectoral initiatives. Here, additional problem-solving initiatives to fill the gap through coherent data, such as Nepal's health sector annual budget analysis (Box 6), may have to be included into Building Block 2 "Financing strategy".

Step 4: Assess reasons of deviations

Finally, the assessment should consider that a credible budget can deviate from initially approved revenue and expenditure, but that these deviations need to be explained and justified in line with the available data on both aggregate and composite outturns at the national and subnational level
(Box 4: Case Study Malawi).

Explanations or justifications may be available in government end-of-year reports and/or performance reports from line ministries. If not, **measures to improve the quality of reporting on budget deviations**[45] in official reports/budget documents should be raised in the financing dialogues and become part of the Building Block 2 "Financing strategy". **Deviations without immediate explanations** may be linked to technical issues, but they could also point to a broader set of governance-related factors. They should become part of a more substantive analysis of financing needs, risks, or binding constraints. It should also be noted that **specific financing streams**, e.g. state-owned enterprises, public borrowing and public private partnerships, **can have a particular impact on budget deviations** or be infringed by them.

Box 5: Light assessment of budget credibility based on PEFA indicators

Table 3 above provides a list of methodologies both national and international tools which cover aspects of budget credibility. In the absence of these tools, governments may not have the time to conduct extensive assessments and opt to do a quick assessment on the budget credibility in the framework of their INFF. The quick assessment can use the methodology for PI-1, PI-2, PI-3 of the PEFA assessment. These indicators cover:

PI-1: Aggregate expenditure outturn
PI-2: Expenditure composition outturn
PI-3: Aggregate revenue outturn

PEFA scores	Realization rate expenditure (PI-1, PI-2)	Realization rate revenue (PI-3)
A ("best practice")	95%–105%	97%–106%
B ("good")	90%–110%	94%–112%
C ("basic")	85%–115%	91%–118%
D ("less than basic")	<85% or >115%	<91% or >118%

This light assessment can be done in a short amount of time, independently, and based on budget data from the three latest fiscal years. The templates for performance indicators PI-1, PI-2 and PI-2.3 as well as for revenue composition outturn PI-3.2 are available on the PEFA website. As highlighted above (Table 3, Section 2; Section 3.1) many other PEFA indicators can provide insights on specific aspects of the PFM cycle that are relevant to budget credibility at national or subnational level, but would require a more detailed assessment.

45 For a framework of assessment of the quality of these reasons, see: IBP (2019), How Governments Report on and Justify Budget Deviation: Examples from 23 Countries.

3.1.3 Risk assessment

If budget deviations are not kept at the necessary minimum,[46] these represent significant risks for the implementation of the INFF financing strategy and the delivery of public services and investments that have been prioritized by the national budget. Budget credibility related risks are essentially related to the PFM or broader governance related causes[47] that are laid out in Section 2.2 and its Table 2 and, as such, need to be assessed in line with the specific country context.

In line with the INFF rationale, it is **crucial to adopt a risk-informed perspective on the budget cycle** by assessing the range of risks that can cause or result from low budget credibility. Table 6 provides a non–exhaustive overview of the most common types of risks related to budget credibility that should be considered in INFF risk assessments. These risks can be related to the spheres of governance/accountability, operational PFM issues or to financing risks. They are both factors **that can cause low budget credibility**. For instance, when budget execution is low, projects will remain incomplete and this situation is reflected through low levels of budget credibility, which is also as an indicator that there are underlying causes that need to be addressed. In other cases, **low budget credibility can also lead to further risks** by diminishing governments' capacities to mobilize additional finance, undermining the allocation of resources in a timely manner and further enhancing fiscal risks. In all cases these risks can slow down the execution of the INFF and of national sustainable development priorities.

Tools like the IMF Fiscal Affairs Department (FAD) Fiscal Risk Handbook, the IMF Fiscal Transparency Evaluation (FTE) (Chapter 4), the IMF-World Bank Public Private Partnerships Fiscal Risk Assessment Module (PFRAM) or PEFA's fiscal risk reporting incorporate risks assessments of the budget process[48] and can provide a picture of the specific risks that have been identified so far.

The INFF BB1.3 Risk Assessments Guidance recommends a step-by-step approach which includes both analytical and broader dialogue elements. This approach facilitates: 1) understanding the risk landscape, 2) assessment of the potential impact and 3) identification of possible policy solutions.

Table 6: Indicative list of budget credibility related risks to be considered in an INFF

Type of risk	Factors that may lead to low budget credibility	Results from low budget credibility
Governance and accountability	• Reprioritization without legislative oversight • Discretionary power of officials, i.e., lack of sufficient legislative oversight during budget implementation → corruption, tax waste, etc.	• Reputational risks for governments may limit the capacity to mobilize additional finance from local taxpayers or external parties → Slower implementation of the INFF and national sustainable development priorities.
Implementation and operational	• Misaligned use of resources • Running arrears → increased costs • Low execution → incomplete projects	• Missed windows of opportunity for sectors that need specific inputs at specific times of the year, e.g. immunization, agriculture, capital works → Slower implementation of the INFF and NDP.
Financing risks	• Fiscal risks (e.g., Macroeconomic/Debt, PPPs, SOEs, etc.) → lower than planned revenue and execution	• Lower access to finance → Growing fiscal risks (e.g., macroeconomic/debt, PPPs, SOEs, etc.) → Slower implementation of the INFF and NDP

46 As per in Section 2.1, some deviations may be justified, e.g. in the case of natural disasters, pandemics, etc.
47 Governance system/framework refers to the political process of budget making that entails politicians allocating scarce resources to competing priorities.
48 For a full list of tools see INFF BB1.3 Risk assessments guidance, p.21ff. These risk assessment tools differ from Table 3 above (Section 2.4) which maps tools that allow to identify the scope of budget deviations.

3.1.4 Binding constraints

To remove the biggest constraints to the mobilization and alignment of additional resources, the INFF methodology, through its BB1.4 Binding Constraints Guide, proposes to analyse economic, institutional, capacity and policy constraints at an early stage during the assessment and diagnostics phase. As highlighted under 3.1.2, **underlying constraints** (see Table 2 and Section 2.2 for an analysis of most common underlying constraints) **for revenue and/or expenditure deviations should be captured** as part of the literature review and initial discussions with key stakeholders.

Deviations that are not explained or justifiable can be identified in the inception phase, e.g. in the framework of a Development Finance Assessment and **become part of the INFF roadmap** as a point where further assessment is needed. The adoption of the INFF roadmap (Box 3) with an inclusive and participatory approach will help identify the type of diagnostics required to address bottlenecks along the budget execution cycle (Figure 3; Section 2.2.). Budget classification and reporting systems may deserve particular attention as they can play a pivotal role and relate to both technical and political constraints. Where complex issues cannot be agreed upon prior to the adoption of the financing strategy, they should be identified by the strategy as an area where solutions need further problem-solving dialogues as part of the INFF operationalization phase. Table 7 provides examples of key scoping questions to be asked in the inception and assessment phase of an INFF.

Table 7: Building Blocks 1.2–1.4: "How to" – Credible budgets and financing landscape assessments, risks and binding constraints

Key scoping questions
→ Build on existing systems/capacities • What (a) domestic; (b) international data exists to measure the extent of budget deviations? • What are the trends on revenue and expenditure credibility at both aggregate and compositional level? • What are the trends for other financing streams? • What are the underlying reasons for identified deviations? How easily can they be addressed?
→ Prioritize/Sustainability checks • What are the highest risks that can cause or result from existing deviations? • Are there important technical, institutional and political reasons for underlying constraints that cannot be easily addressed?
→ Phased approach • Do any of the identified underlying reasons and/or binding constraints require further assessment/problem solving dialogues? • Which deviations can be directly addressed through the financing strategy?
Key references
IATF (2020) INFF BB1.2 Financing landscape; IATF (2023), INFF BB1.3 Risk assessments guidance; IATF (2020), BB1.4 Binding constraints, UNDP (2020), DFA Guidebook.

Box 6: Nepal – Health sector budget analysis to strengthening PFM systems at subnational level

Budget credibility in Nepal remains persistently low, characterized by consistent underspending of the approved budget* and frequent downward revisions. Between 2018 and 2020, the reported average aggregate deviation varied significantly across sectors. In social protection, it was as low as 5 percent, while in education it reached as high as 60 percent. For the health sector, the deviation was reported at 35 percent.**

Despite these deviations, government reports fail to provide clear explanations for these issues or analyse budget credibility at a disaggregated level. The diverse Financial Management Information Systems (FMIS) used for planning and expenditure tracking across various levels of government are a key bottleneck. These systems are limited to generating information based on economic classifications, and their lack of compatibility and interoperability impedes data consolidation.*** To address this challenge, the Ministry of Health and Population (MoHP) undertakes the demanding task of conducting budget analysis for the health sector at both the federal and subnational levels and works towards the institutionalization of standardized and comprehensive budget analysis guidelines that harmonize practices across all levels of government.

The analysis regularly enables further insights into the underlying constraints of low budget credibility. These include the de-prioritization of the health sector compared to others, the inability to appropriately forecast internal revenue generated and receipt of fiscal transfer, delays in the procurement of services, delays in the release of funds and a lack of programme implementation guidelines.

To strengthen the public financial management (PFM) capacity in the health sector at the subnational level, the Nepal Health Sector Support Programme provides support to the Provincial MoHP, the Ministry of Social Development and the federal MoHP. This support included the development of comprehensive health sector budget analysis guidelines in the late 2020, which encompassed key elements of PFM, offering step-by-step guidance for conducting budget analysis.

By translating these guidelines into a structured three-day training programme, health managers and account officers from 38 project municipalities spanning three provinces were sensitized to essential aspects of the PFM cycle, including planning, budgeting, expenditure tracking, reporting, and auditing requirements. Specifically, participants received orientation on the features of the 'chart of activities' available in the local-level Financial Management Information System (FMIS). This helped them gain a comprehensive understanding of their responsibilities in calculating national and international indicators.

Future endeavours to enhance the assessment of subnational budget credibility will require a comprehensive and multi-sectoral approach, acknowledging the interconnectedness of factors and sectors influencing financial management and governance.

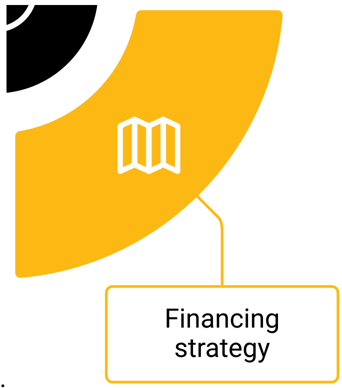
Please see Annex 2 for sources and additional details

* UNICEF (2022), Budget Brief: Overview of the budget – FY 2022/23

** IBP (2023), Nepal-Budget-Credibility-and-the-Sustainable-Development-Goals.pdf (internationalbudget.org), p 9

*** Ibid, p.13

3.2 Financing strategy



The financing strategy sits at the heart of the INFF, outlining reform and strategic actions to mobilize and align all public and private sources with sustainable national development priorities. This includes the strengthening of PFM capacities, policies and procedures in line with existing reform processes and programmes. As highlighted above, effective reforms to address budget credibility issues require a sound analysis of both technical and governance related constraints, but also need sufficient political commitment to address them. Therefore, some reforms may require an iterative approach where further analysis and consensus building around potential solutions becomes part of the financing strategy and BB4 initiatives around "governance and coordination". In view of the significant role of domestic public finance for budget credibility, this guidance document includes the approaches to all other financing streams under Subsection 3.2.2. As for all reforms – budget credibility related measures bear costs and benefits which should be assessed ex-ante and in consideration of existing capacities.

3.2.1 Policies for domestic public finance

Alongside the analysis of expenditure and revenue deviations, risks and constraints under Building Block 1 (Section 3.1), the development of a financing strategy is key to agree on reforms and strategic actions to enhance the reliability of budgets in line with the national budget cycle. As highlighted in Section 2.2, attention must be given to balance between the technical and the political aspects of each reform, as they can both facilitate or hinder efforts to improve budget credibility.

In many country contexts policies for public finance may contain regulatory or implementation gaps that prevent an integrated approach to planning and financing. Budget deviations are an important indicator that there are budget credibility shortcomings and the analysis conducted under Building Block 1 should therefore guide the **delineation of the scope and objectives of the financing strategy**. Depending on the country context, targeted reforms can address data gaps, technical PFM bottlenecks, but may also need to address administrative and governance issues. In line with the sample of targeted reforms listed in Section 2.2, Table 8 recalls some of the common pathways/mechanisms for improving financial management and accountability.

While these reforms are mainly targeting technical aspects, their actual implementation and positive contribution to a more credible budget, will highly depend on the successful interactions between technical experts and policy makers that have the power to lift bottlenecks in respect of the political economy of a particular country. As such, maintaining and abiding financial discipline will be crucial for all stakeholders involved in budget planning, implementation monitoring/oversight and the delivery of services. This makes it additionally important to build the INFF financing strategy on effective and inclusive financing dialogues. In addition, Building Blocks 3 ("Monitoring and review") and 4 ("Governance and coordination") are designed to institutionalize problem solving dialogues that address the identified challenges through strengthened planning, budgeting and tracking systems (Section 3.3 and 3.4).

The series of inclusive financing dialogues conducted to develop the financing strategy **provide a unique opportunity for targeted multi-stakeholder dialogues** on the identified deviations and implementation constraints. They should include different levels and sectors within government to identify areas where consensus on underlying issues and related reform solutions is yet to be established. Namibia's health procurement reform illustrates the importance of a structured process of enquiry and problem solving[49] that mobilizes responsible stakeholders from central and line ministries around common problems and solutions (Box 7: Case Study Namibia). To ensure national ownership and commitment to reform, it is crucial to carry out inclusive financing dialogues within existing national dialogue structures (Section 3.4) and monitor whether additional awareness-building is needed to ensure technical tools provide for the planned improvements.

The final financing strategy should include available data and information on **how the resolution of budget credibility issues can help to address identified financing needs** and **lay out the agreed key reforms and strategic actions** to address systemic challenges, increase PFM capacities, and enhance transparency, accountability and participation throughout the budget cycle (for an illustration of the budget cycle see Figure 3, Section 2.2). It can also promote the importance of improved budget credibility by demonstrating how this focus opens avenues for problem-solving dialogues and enhanced coordination across ministries. This, in turn, offers practical potential to improve service delivery and the achievement of national development goals.

Table 8: Common reform pathways

- Given that sufficient political and technical commitments are prerequisites for the success of all reforms, the following areas could be considered for strengthening: Accountability structures with clear roles and responsibilities.
- Revenue forecasting (both domestic and external), improving cash planning and management.
- Procurement processes.
- Establishment and alignment of budget classification, including the chart of accounts.
- Cash planning and management, along with appropriation release processes to provide greater planning and implementation certainty. Meeting the five criteria for good cash management i) a realistic budget, ii) clear procedures for the release of appropriations, iii) strict observance of the budget execution rules, iv) experienced and skilled staff to prepare and monitor the cash plans, and v) clear borrowing rules.
- Linkages of public investment management with multi-year frameworks.
- Mechanisms for better coordination and data sharing. Regular monitoring and reporting of both financial and nonfinancial performance for internal control.
- Subjecting financial processes to parliamentary or external scrutiny, including public/social audits.
- Timely, reliable, accurate and transparent availability of data and evidence on budget execution, including alignment of regular government monitoring and reporting tools with INFF tools, such as Voluntary National Reviews, budget tagging to enable reporting by SDG, etc.
- Financial controls and processes for adjusting in-year expenditure.
- Short and long-term capacity building plans to address limited institutional and technical capacities.

3.2.2 Policies for international public and private finance sources

While domestic public finance remains the main resource to finance national sustainable development priorities, considerable shares are financed by international, private and innovative financing sources. The Interagency Taskforce on Financing for Development (IATF) 2023 report highlights that ODA stood at US$185.9 billion in 2021, thus 0.33 per cent of donor countries' gross national income (GNI). The global foreign direct investment (FDI) momentum decreased in 2022 and an annual average of US$48.6 billion of private finance was mobilized through ODA funds between 2018 and 2020. The report highlights that this "makes it even more important [that] public policies support private investment in many areas of public need" (p.61).[50]

49 Based on the methodology of a problem-driven iterative approach (PDIA): UNICEF (2022). Engaging with public financial management challenges in the health sector: A resource guide for a problem-driven approach for UNICEF country offices.
50 IATF (2023), Financing for Sustainable Development Report 2023.

As presented above (Section 2.3) enhanced budget credibility can strengthen the mobilization of international and private finance. In turn, the reliability of these external resources has a significant impact on the credibility of the national budget.

Where budget deviations have been identified in relation to development partner funds, the financing dialogues can seek agreement on how to address their root causes. This can include reforms that address weaknesses in national PFM systems, incentivize the systematic recording of development partner funds in national budget documents, as well as around procurement, financial reporting and auditing systems. Where data is insufficient to allow for a thorough analysis under Building Block 2, identified data gaps and the strengthening or expansion of aid tracking systems that are compatible with national PFM processes **will have to be addressed as a preliminary step** through reforms included in the financing strategy.

Countries that rely on private investments should make sure that the adequate reporting of sovereign borrowing and public-private partnerships on budget and in annual reviews is part of the reforms that align private sector finance with national sustainable development priorities. This is a first step towards transparency, and is necessary to ensure that integrated monitoring and review systems can provide a clear picture of the development impact of all financing sources. For many countries, forecasts on private finance are still incomplete and significant efforts are needed to track the reliability of timeframes and promised amounts. Over the long term, the INFF can enhance the capacity to accurately forecast revenues and financing from different sources, with several countries exploring the use of integrated financing dashboards that are anchored in national data systems to bring together different types of finance. Table 9 provides examples of key scoping questions to consider budget credibility in the development of an INFF financing strategy.

Table 9: Building Block 2.4: "How to" – Credible budgets and the financing strategy

Key scoping questions
→ Build on existing systems/capacities • Does available data allow for a thorough analysis of all financing streams, or is there a need to include reforms that address data and transparency gaps in the financing strategy? • Does available data provide details on aggregate and sectoral budget, at national and subnational level? • Are there existing PFM reform processes/initiatives that may have an impact on budget credibility? • Which reforms are needed to ensure international public and private finance is included in the government's budget?
→ Prioritize/Sustainability checks • How can the resolution of budget credibility issues help to address identified financing needs? • What are the benefits, costs and risks of the respective reforms envisaged to minimize budget deviations and enhance the efficiency of spending? (3.2.1 and 3.2.2)?
→ Phased approach • Which reforms can be carried out directly? Which ones need more dialogue/a phased approach?
Key references
IATF (2021), Building Block 2, Financing Strategy

Box 7: Namibia – Strengthening health procurement to improve the impact of health investments

The Government of Namibia has led a comprehensive and consultative reform process to identify and address constraints in health procurement that were impacting on the efficient and effective implementation of it is close to US$500 million* annual health ministry budget. The focus of this process was mainly on pharmaceuticals and clinical supplies, which accounts for 17 per cent of the total Ministry of Health and Social Services (MoHSS) budget. Based on a comprehensive bottleneck analysis and problem-solving dialogue approach, key stakeholders in the Ministry of Finance and Public Enterprises (MoFPE) and MoHSS engaged in a dynamic inter-ministerial exchange and reform process, with facilitation and support from partners such as UNICEF, USAID, and UNDP. Existing evidence and past reform initiatives were reviewed and consolidated to build joint-ministry consensus on root causes and a suitable action plan towards the strengthening of health procurement.

This process, based on the principles of Problem Driven Iterative Adaptation (PDIA), enabled the building of consensus on eleven (11) public finance and procurement bottlenecks that impacted on health outcomes, as well as on the co-creation of a joint roadmap. While many of the root causes and bottlenecks were known, previous diagnostic studies and reform recommendations developed within only one of the two ministries had not been able to get traction, partly because the ministries had diverging responsibilities and understanding of the causes, challenges and remedial approaches.

The iterative and consultative process was driven by a Reference Group/Technical Committee initiated at the beginning of the study. It is co-chaired by the Deputy Executive Directors of the MoFPE and the MoHSS. This group provides a platform for structured technical and strategic dialogue between mid-level managers from the relevant units dealing with MoHSS procurements in both ministries. Technical work is carried out through already existing working groups in the area, an approach that has generated additional buy-in. The involvement of subject matter expert technical staff from both ministries has been essential to identify solutions that consider and balance the sometimes-competing needs of financial control/ budget optimization and efficient and effective service delivery.

Furthermore, the engagement of a dedicated project coordinator/manager with project management, leadership, administrations and pharmaceutical (technical) skills to provide technical backstopping support to the Inter-Ministerial Committee, proved pivotal to the success of the approach.

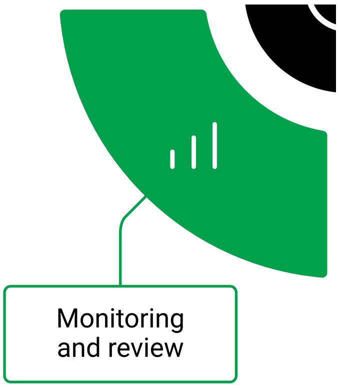
* Budget of the Ministry of Health and Social Services (MoHSS) in 2020/21: N$ 8 billion, Source: UNICEF (2022/23), Health, Namibia Budget Brief; (Exchange rate: US$1=N$16.46 in 2020, Source: WB Data Bank).

Box 7 (continued)

While it is still too early to quantitatively assess whether the spending of health procurement resources has been optimized, the reform process is showing promising progress. The Public Procurement Act of 2015 was amended and enacted in September 2022 to allow for framework agreements and pooled procurement. Furthermore, progress in the planning pillars of the action plan has addressed several of the identified root causes. The introduction of framework agreements and pooled procurement in the policy framework is a key determinant towards addressing procedural and transactional inefficiencies in public procurement. It also introduces economies of scale in strategic sourcing decisions. Some planned reforms will take more time – with a human resource capacity audit, and measures to link different IT systems for procurement and financial management underway. The strong government ownership across both ministries at senior leadership and technical level is critical for maintaining this momentum. It is considered crucial to continue to engage the responsible officials in the consensus building and iterative problem solving that is central to the PDIA process. As such, a balance between financial control/budget optimization and service delivery should be maintained over the coming years.

Please see Annex 2 for sources and additional details

3.3 Monitoring and review



The INFF Building Block 3 on "Monitoring and review" builds on existing planning, budgeting and tracking systems in order to link them to results. To ensure it does not "replace or duplicate these systems [,] […] it acts as an 'integrator' by streamlining efforts and providing access to policy-relevant information across multiple financing policy areas […]".[51]

Many countries are confronted with high levels of fragmentation of monitoring and reporting across central ministries (finance, planning), line ministries and decentralized institutions. The integration of international public finance into national planning and monitoring cycles has been a longstanding challenge.[52] With a growing diversity of SDG financing flows, this fragmentation puts consolidated development results at even higher risk and needs to be monitored closely.

In line with the premise of all Building Blocks, existing PFM and budget monitoring systems are the main anchor point for the INFF. Existing PFM information systems, monitoring of revenue collection, and reviews [budget execution reports, (performance) audit reports, and evaluations] of central and line ministries must be mapped and gradually improved in order to allow for interconnection or integration of systems that monitor other financing flows. These integrated systems can also consider insights from external monitoring such as social accountability initiatives and CSO engagements.

51 INFF (2021), Building Block 3 Monitoring and Review, p.3.
52 Indicators 1, 6 and 9b of the GPEDC Monitoring Dashboard provide an overall picture.

The budget credibility lens provides crucial information alongside the two steps of setting up or strengthening an integrated monitoring and review framework:

- Establishing a baseline on buy-in, roles and responsibilities, data systems and capacity:[53] The analysis of budget credibility related data under Building Block 1 should allow for the identification of existing reports and data systems, including PFM capacity bottlenecks. It can also provide data on which domestic public financing flows are already part of existing monitoring and review. The analysis of binding constraints (BB1.4) and financing dialogues are important steps to deepen this information. To consider governance structures and responsibilities, it should also be linked to the institutional and stakeholder mapping of the inception phase (Box 3), which is complemented under Building Block 3.4.

- Building on the baseline to fill gaps across four areas (Box 8): Gradual improvement, and "good enough" data in line with different levels of country capacities and existing data sources should be promoted.

Box 8: Four areas to fill gaps on INFF monitoring and review

I) Institutionalize INFF monitoring and review

II) Integrate existing systems

III) Link the process to ongoing or planned data/statistical reform processes, and make use of needs-based IT solutions

IV) Leverage insight and lessons from peers and regional/global knowledge-sharing platforms

Source: INFF, Building Block 3, p.4.

The budget classification system used, and public availability of data are important parameters to enhance the robustness of reporting. One common challenge regarding budget planning, execution and reporting data, when available, is that it often does not clearly indicate allocation and/or spending by programmes or goals. The increased visibility of programme goals and targets can be incorporated into the budgetary system through reforms to charts of accounts or programme budgeting (Box 9: Case Study Ghana). It should be noted that the introduction of budget tagging systems such as SDGs, gender or climate budget tagging can represent a risk for PFM systems when it leads to parallel systems of reporting, creates double-counting or other burdens. This particularly affects less robust systems or under-supported staff.[54] Countries considering the use of this tool as part of their INFF should avoid introducing parallel systems or reports, and ensure the basic requirements for monitoring and managing existing classification systems are already in place. Any plan that introduces additional classifications/changes to existing systems should have buy-in at political and technical levels and consider all elements for long-term sustainability of the exercise.[55]

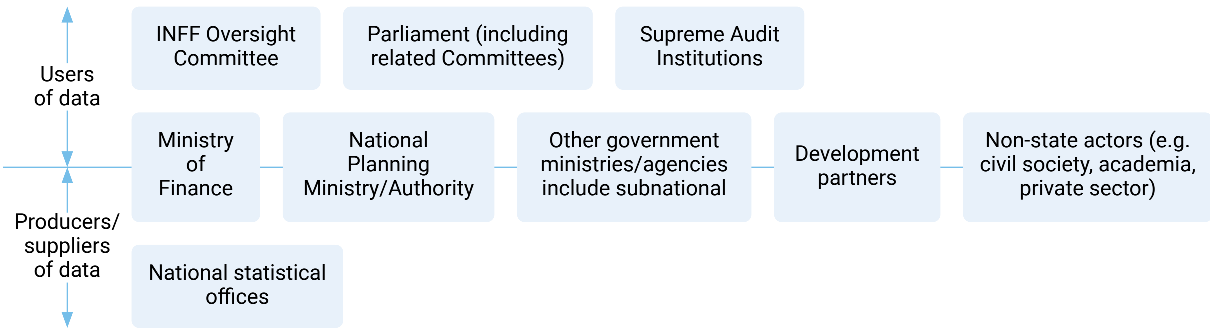
Transparency and oversight are crucial. An IBP paper from 2020 reviewed data from PEFA reports from 94 countries, and found "a positive and statistically significant relationship between fiscal transparency and budget credibility at the aggregate level" as well as at the sectoral level.

53 For guiding questions see: INFF, Building Block 3 (op.cit.), Annex 1.
54 Such institutional capacities can be assessed under INFF Building Block 1, as part of a DFA.
55 See Section 5.2 of the IATF (2021), Building Block 3 (op.cit) for a list of common success factors.

Supreme audit institutions (SAIs) can include budget deviations and justifications into their external audits. A compilation of examples indicating how SAI's have included budget credibility issues in their work can be found in a paper from IBP. A joint IBP/UNDESA handbook with practical guidance on how to promote independent external audits on the issue is available here. The handbook features a recent SAI report in the Philippines, which identified important underspending and implementation delays, triggered the strengthening of quality spending indicators and performance evaluations (see Box 10). Another example from the Audit Board of the Republic of Indonesia on promoting and assessing budget credibility (and the SDGs) through the audit process can be found here (minute 62). Similarly, Kyrgyzstan has identified the importance of including SAIs in PFM reforms to leverage the opportunity to use results-based audits to identify and strengthen budget credibility challenges to service delivery. The country is working to strengthen guidelines, capacity and engagement with the Chamber of Accounts, starting with the education sector.

Figure 6 illustrates typical stakeholders that are involved in the INFF monitoring and review. In view of the central roles of government agencies, an increasingly credible public budget should be a key indicator around their effective collaboration that unites critical stakeholders around a targeted dialogue. As such, it is important that the financing strategy includes reforms that engage all levels of government, as well as parliament and CSOs to the national budget cycle. Section 3.4 on BB4 illustrates the contribution from parliaments and CSOs can make across different stages of the budget cycle to achieve more credible budgets.

Figure 6: Typical roles and responsibilities in INFF monitoring and review



Source: Author's adaptation from INFF BB3 Guidance note p.13; *N.B. Amended to highlight the role of civil society, particularly important to enhance budget credibility, and other actors*.

Table 10: Building Block 3: "How to" – Credible budgets and monitoring and review

Key scoping questions
→ **Build on existing systems/capacities** • What budget credibility monitoring is currently in place at national and subnational level? Do existing systems allow to measure revenue/expenditure deviations (→BB1.2)? How can they be incorporated into INFF monitoring? • How robust are systems and what are the institutional capacities to further develop the system? • Are any multiannual frameworks in place (e.g. MTFF, MTEF)? Are forecasts realistic/reflected in budget? • What other monitoring and tracking processes/systems exist for the NDS and other financing flows? • What data is publicly available? How can system/transparency challenges be addressed? • Do Supreme Audit Institutions (SAI) include budget deviations and justifications into their audits? How can existing SAI findings be used to close SDG Financing and budget credibility gaps? • oes parliament have sufficient capacity to monitor the budget execution and organize public hearings?

Table 10 (continued)

Key scoping questions
→ **Prioritize/Sustainability checks** • What are the benefits, costs and risks of the respective reforms/initiatives envisaged to enhance the budget/M&E system, further integrate planning and financing policies, and align them to the SDGs?
→ **Phased approach** • How can existing systems be gradually improved and integrated (→Reforms to be integrated into BB2 Financing Strategy and its action plans)? • What can be considered "good enough data" in line with institutional capacities and existing sources.
Key references
IATF (2021), Building Block 3, Monitoring and Review

Box 9: Ghana – Budget tracking to enhance budget credibility for social programmes

Ghana's aggregate budget credibility has improved since the introduction of its 2016 Public Financial Management Act (PFMA), but significant variances persist at the disaggregated level. Low levels of sectoral budget credibility indicate a strong disconnect between the planned budget and its actual implementation. Social sector allocations are often delayed or not fully disbursed. Systematic monitoring of SDG-related expenditure and targeted advocacy help safeguard crucial social expenditures in the context of growing fiscal pressure.

At the central level, significant efforts have been made to enhance robust and institutionalized monitoring and reporting mechanisms of all SDG-related expenditure. In this sense, the Ministry of Finance (MoF) has conducted a holistic review of its Chart of Accounts (CoA) that allows for tracking of SDG related expenditures across the budget cycle. The CoA has been updated to support advanced reporting for ministries, departments, and agencies at national and municipal level. The systems are fully integrated into the national budget cycle and avoids the risk of a parallel reporting system that may overburden budget departments in the spending agencies. Overall, it has enhanced transparency and monitoring mechanisms, strengthened budget execution capacities across ministries and improved resource mobilization through a demonstrated commitment to achieving the SDGs.

To go beyond the tagging of budget allocations and avoid a fragmentation of reporting mechanisms, a consolidated budget tracking tool has been developed. Additionally financial systems have been enhanced to allow the extraction of budget data across all government levels. Regular SDG Budget and Expenditure Reports are produced and the government is moving move from a mechanism of simple prioritization of the SDGs in the national budget to a comprehensive monitoring of their actual implementation.

Please see Annex 2 for sources and additional details

Box 10: Examples from the SAI Philippines – Budget execution: Findings, recommendations, and impacts of PFM audits

Findings:

- Underspending: Fund releases under the Department of Budget and Management (DBM) administered financial assistance (FA) to local government units (LGUs) and assistance to cities (AC) were only 46.3 per cent and 5.7 per cent, respectively, of the total appropriations for fiscal year (FY) 2018; resulting in missed opportunities to provide the services intended for the public under these funds.

- Delays of 2 to 132 working days were noted in the processing of Special Allotment Release Orders (SAROs) under the Local Government Support Fund (LGSF) for FY 2018, thereby hindering the timely implementation of priority projects and programmes financed by the fund.

Recommendations:

- For FAs to LGUs: Assign the DBM Regional Offices the tasks of providing technical assistance to LGUs, conducting an initial review of LGUs' requests and of the completeness of their documentary requirements, and forwarding the compliant requests to the central officer (CO) for evaluation.

- For ACs: Consider providing technical assistance to LGUs that do not have the financial capacity to hire consultants to conceptualize the design of complex projects. Also, increase the number of seminars and workshops conducted to inform the city officials concerned with the compliance of documentary requirements.

- For management: Require the local government and Regional Coordination Bureau (LGRCB) to ensure that all requests/endorsements from LGUs/Department of Interior and local government are processed and approved within 15 working days as committed to in their Office Performance Commitment and Review (OPCR).

Impacts:

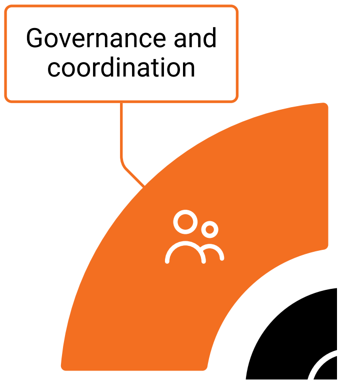
- The DBM has improved its management of LGSF in CY 2019 and subsequent years. The Bureau of the Treasury (BTr) managed to properly monitor their budget vis-à-vis actual expenditures and improve reporting in the statement of budget and actual amounts through compliance with the audit recommendations.

- The government has developed a framework on definitions and indicators of quality spending.

- The government has improved the budget execution performance indicator as well as performance evaluation

Source: UNDESA- IBP (2023), Strengthening Budget Credibility through External Audits, A Handbook for Auditors, p.108.

3.4 Governance and coordination



Governance and coordination mechanisms guide the entire process of the INFF – from assessments and diagnostics to policy formulation, implementation, and monitoring and review. The INFF Building Block 4 on Governance and Coordination provides screening tools and coherence checks for mainstreaming inter-ministerial coordination. The growing inclusion of different financing flows into the national development finance architecture needs to be supervised through inclusive, participatory and accountable stakeholder engagement and oversight.

Many countries face challenges to set up institutional coordination mechanisms around a unified action plan. The lack of a robust participatory framework can lead to the proliferation of smaller coordination platforms without the capacity of institutional members to hold each other mutually accountable. While the national budget process remains a legitimate space for political negotiations and spending prioritization, it is often disconnected from these platforms, lacks public participation,[56] and does not sufficiently reflect national sustainable development priorities. The INFF – built around the national budget process and its multi-annual planning tools – has a mandate to address these challenges, including through the set-up or strengthening of a high-level Oversight Committee supported by a technical working group or secretariat. Traditionally, many of the central, sectoral and sub-national institutions that share the authority to improve public budgets and the coherence of other financing policies are part of the Oversight Committee's membership. Budget credibility, and the variety of related topics presented in this guidance note, can be a key consideration to trigger substantive problem-solving dialogues across the budget cycle.

Existing intra-governmental coordination mechanisms, as well as checks and balances around the national budget process are crucial to promote budget credibility for the implementation of national development plans. To build on existing M&E laws and structures (Section 3.3), their identification should be the starting point along with the setup of effective and coherent INFF governance and coordination:[57]

- Identifying and assessing existing governance arrangements: A stakeholder mapping of existing institutional and coordination tools can start with Question 2 (BB4 Guidance, p.37) "What mechanisms are in place to encourage intra-governmental collaboration and coordination" before looking into broader coordination mechanisms (Question 3 and following).

- Enhancing coherence of existing governance arrangements and closing gaps: In line with the overall INFF approach, existing institutions and processes should be strengthened over a long-term horizon. In countries without a formal structure that brings together different ministries and non-state actors around financing issues, the INFF can trigger the necessary momentum to set up such an Oversight Committee.

56 Opportunities for public participation are assessed here: IBP's Open Budget Survey. The Global Initiative for Fiscal Transparency has published a compendium of case studies on public participation in practice.
57 For Further Information, see IATF (2021), BB4 on Governance and Coordination, p.9 and p.36 for guiding questions.

Inclusive, participatory and accountable stakeholder engagement **can hold important benefits for budget reliability and the financing of the SDGs.** Building on the initial stakeholder mapping in the inception phase of the INFF (Box 3) it can enhance trust and, eventually, the mobilization of additional finance (Figure 7). As such:

- **Local authorities** play a crucial role in the delivery of services (Box 11: Case Study Nigeria). In many countries decentralization reforms are increasing their responsibility to implement programmes, but are not always matched with adequate financing arrangements, nor with planning, budgeting or procurement responsibilities. Often, inter-governmental fiscal transfers are the major source of finance for local authorities and, due to fiduciary risks, little donor funding is available. The complexity of local level funding through own resources (due to low ability to generate revenue and competing priorities across sectors), timely release of intergovernmental fiscal transfers or donor funds as planned can substantially deteriorate budget credibility (see Box 4: Case Study Malawi).[58] Local level budgeting processes are not always sufficiently harmonized with national processes, and authorities are often less aware of how their contribution fits into the larger SDG financing landscape. The representation of these actors in the INFF Oversight Committee and their participation in the wider INFF discussion from the angle of budget credibility can address crucial bottlenecks.

- **Parliaments** are crucial across all stages of the budget cycle. They should ensure there is sufficient capacity to improve transparency and participation in the budget approval process, monitor the execution and organize public hearings on the budget implementation and its development impact. The role of legislators during the implementation of the national budget can both reduce and increase the risk of budget deviations. Risks are limited when their ex-ante approval of changes through the executive is required. Yet, when the national legislation allows for ex-post parliamentary approval of budget adjustments or for amendments from parliament to add in additional projects without assessment of feasibility or confirmation of available financing, this represents an important risk for budget credibility.[59]

- **Civil society** plays an important role to generate data around the actual development impact and flag inconsistencies in public spending (see Box 11: Case Study Nigeria). They are also critical to provide inputs on budget proposals as part of an inclusive and bottom-up approach. There are different formats of social audits and other social accountability reporting tools at the country level. For instance, in Kenya a social intelligence reporting system allows local communities to directly share their observations around budget execution with a central platform (see Box 12: Case Study Kenya). CSO representatives should be nominated in line with local practices and existing CSO working structures. If there are no well-established working structures, a broad invitation to CSOs can be launched for the INFF financing dialogues (BB2) to develop a targeted discussion around the nomination of civil society and other non-governmental stakeholder representatives in INFF oversight and working structures.

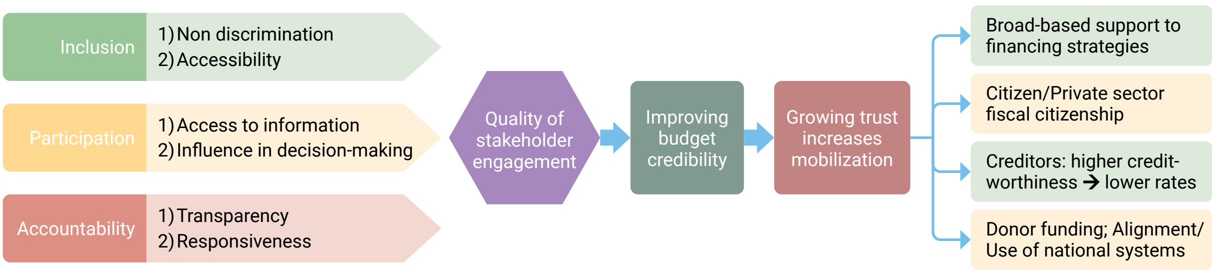
- **Development partners** are often part of dedicated coordination structures, but with varying degrees of government leadership or even participation. The integration of the INFF coordination structure (comprising the Oversight Committee and technical aspects) with established PFM development partner working groups and a focus on budget credibility, can help sustain the drive to enhance both domestic and international public finance throughout the operationalization phase of the financing strategy.

58 When available, PEFA subnational government assessments (especially around indicators HLG-1 on Transfers from Higher Level of Government) can provide information. (See Section 3.1).

59 Examples can be found in Nigeria, where legislative amendment powers have led to significant expenditure overestimations, and in Brazil (see: UNDESA/iBP, SAI Handbook, p.74), where an audit of individual parliamentary amendments in 2014–2017 showed that, due to limited capacity at subnational level, only R$4.5 billion out of a planned R$8.15 billion where spent.

Whether INFF institutional structures are newly set up or broaden the mandate of an existing platform, it is crucial to go beyond a temporary mechanism. The technical working group or secretariat, anchored in national entities responsible for planning of PFM reforms, plays a crucial role to link the process to the national budget and other existing processes and progress towards an ongoing, substantive and transparent policy dialogue around budget credibility and other reforms identified by the INFF Financing Strategy.

Figure 7: How social accountability can strengthen trust and mobilization of additional finance



Source: Authors' adaptation from Diagram 1 of UNDP/UNDESA (2020), what is a good practice?

Table 11: Building Block 4: "How to" – Integrated governance and coordination and credible budgets

Key scoping questions
→ Build on existing systems/capacities • What mechanisms are in place to encourage intra-governmental collaboration and coordination? • Are there any multi-stakeholder platforms around the NDS and PFM/budget credibility issues? • Do they allow for inclusive, participatory and accountable stakeholder engagement? • Does the analysis of existing budget credibility challenges help identify coordination problems that would challenge the execution of an INFF Financing Strategy?
→ Prioritize/Sustainability checks • What are the benefits, costs and risks of the respective reforms/initiatives envisaged to ensure an interconnected participatory framework with clear roles and responsibilities for all constituencies?
→ Phased approach • Do non-state actors have nomination processes in place to send a recognized representative? • How can the platform selected for INFF implementation gradually become more inclusive, participatory and accountable? • How can it feed into existing intra-governmental and multi-stakeholder coordination processes?
Key references
IATF (2021), BB4 on Governance and Coordination, For detailed guiding questions see p.9 and p.36.

Box 11: Nigeria – Contribution of subnational governments and civil society to increase the reliability of health budgets

Nigeria's health sector is confronted with significant budget deviations due to both under-collection of revenue and under-spending of expenditure targets. Stakeholders at the subnational level – who are at the frontline of service delivery – and civil society organizations have played an active role in analysing the underlying causes and advocating for enhanced budget reliability in Nigeria. States with high health care budget allocations often stand out for their low service delivery. In contrast, Oyo State and Anambra State have the lowest funds available but a relatively high service provision (see Figure A2.9 Full Case Study, Annex 2).

To address persistent challenges in health service delivery, the 2014 National Health Act provides for a basket fund and Primary Health Care Boards (PHC Boards) who oversee business plans developed through local PHC facilities and their Ward Development Committees (WDC). In Oyo State, the PHC Board has been in place since 2017. As a technically driven and independent board, it works to budget counterpart funds and enhance transparency and accountability mechanisms. This has increased the state health budget and better allocated funds – which are managed in line with joint business plans – and are spent in accordance with the actual needs of serviced communities.

In Anambra State, a network of community-based civil society associations, has identified that the primary bottlenecks to the delivery of better-quality healthcare services was not only a lack of revenue, but also gaps in the procurement process, lack of personnel and equipment and delays in the release of funds. A targeted advocacy strategy and strategic coalition building with local authorities, community leaders and frontline health workers addressed underlying causes of service gaps. This has led to a 6.4 per cent increase of health budget allocations in the 2020 state health budget and launched renovations in 15 out of the 21 PHC facilities that were focused on by the campaign.

Box 12: Kenya – Enhancing budget credibility through a multi-pronged approach to strengthen PFM systems and social accountability processes in Kenya

In Kenya, national and county governments carry shared responsibilities for transparency and social services (Fourth Schedule of the 2010 Constitution). Service delivery has been challenged by budget credibility issues for social ministries and counties. Over the past decade, sectors in which devolution was initiated and with high shares of official development assistance in their resource envelope [e.g. sectors like water (-16 per cent in 2021), and agriculture (-22 per cent in 2021)], faced particular challenges. In 2021, the average underperformance for the Kenyan health sector was estimated at -13 per cent (up from -24 per cent in 2020), and at -11 per cent in the area of social protection (up from -15 per cent in 2020).* At the local level, almost half of the counties showed a more than 15 per cent deviation in their execution rate. Kenyan counties have observed an overall low budget credibility (80 per cent) and worse when it comes to capital spending (less than 60 per cent, on average).** To address these challenges, the government has adopted a multi-pronged approach that combines the strengthening of PFM systems (e.g. the Standard Chart of Accounts at the National Treasury; National and County Integrated M&E systems) with initiatives that aim to enhance transparency and social accountability.

While PFM reforms can require time to work with existing governance structures, civil society can be more nimble and responsive. In the case of Kenya, UNICEF's partnership with local think tanks and administrations produces regular budget briefs and knowledge products for all counties. This has contributed to higher levels of budget transparency at the county level, as shown in a recent IBP county transparency survey. Access to information is combined with the training of "champions of budget" – community leaders who have the capacity to analyse and monitor budget implementation at the local level and who are key to ensure the participation of their communities in the budget process.

In parallel, National Treasury and Planning under the Social Governance Department has been running an innovative social intelligence reporting system together with county governments. Digitized in 2016, the system has had a low utilization rate due to lack of awareness among communities about the existence of the system and its potential for feedback mechanisms. Revised guidelines were launched in 2022 to guide officers who train communities. With this system, any citizen with access to a smart mobile phone can send pictures showing the progress of capital projects to a toll-free number. Further democratization of the system should increase opportunities for public participation as a lever to enhance budget credibility throughout the budget process.

Please see Annex 2 for sources and additional details

* Republic of Kenya/UNICEF/KIPPRA (2023), Kenya 2022 National Budget Brief, p.10; International Budget Partnership (IBP) (2019), Budget Credibility in Kenya's Counties

** IBP (2023), Budget Credibility for Health and Immunization Spending in Kenya: Case Studies on Nakuru and Kakamega Counties; IBP (2019), Budget Credibility in Kenya's Counties

Annex 1
Summary of scoping questions to identify budget credibility issues and reforms per Building Block

Building Block 1.1: “How to” – Credible budgets and financing needs

Key scoping questions

→ **Build on existing systems/capacities**
- Which methodologies/internal processes are used to cost the annual budget?
- Does the NDS have an accurately costed implementation plan? Is it reflected in the budget?
- In which sectors/programmes are expenditure deviations particularly high? To which extent do these deviations point to gaps in existing costing methodologies?

→ **Prioritize/Sustainability checks**
- What are different options to better address these gaps? What are their benefits, costs and risks for current practices and priorities?

→ **Phased approach**
- How can an interdisciplinary team develop the new approach? What are intermediary steps?

Key references

IATF (2020) INFF BB1.1 Financing needs assessment; UNDP (2020), Budgeting for the Sustainable Development Goals, Aligning domestic budgets with the SDGs, Guidebook;
UNDP (2023), SDG Costing: An Internal Guidance Note (unpublished); UNDP (2020), DFA Guidebook

Building Block 1.2 – 1.4: “How to” – Credible budgets and financing landscape assessments, risks and binding constraints

Key scoping questions

→ **Build on existing systems/capacities**
- What a) domestic; b) international data exists to measure the extent of budget deviations?
- What are the trends on revenue and expenditure credibility at both aggregate and compositional level?
- What are the trends for other financing streams?
- What are the underlying reasons for identified deviations? How easily can they be addressed?

→ **Prioritize/Sustainability checks**
- What are the highest risks that can cause or result from existing deviations?
- Are there important technical, institutional and political reasons for underlying constraints that cannot be easily addressed?

→ **Phased approach**
- Do any of the identified underlying reasons and/or binding constraints require further assessment/problem solving dialogues?
- Which deviations can be directly addressed through the financing strategy?

Building Block 1.2 – 1.4 (continued)

Key references

IATF (2020) INFF BB1.2 Financing landscape; IATF (2023), INFF BB1.3 Risk assessments guidance; IATF (2020), BB1.4 Binding constraints, UNDP (2020), DFA Guidebook

Building Block 2.4: "How to" – Credible budgets and the financing strategy

Key scoping questions

→ Build on existing systems/capacities

- Does available data allow for a thorough analysis of all financing streams, or is there need to include reforms that address data and transparency gaps in the financing strategy?
- Does available data provide details on aggregate and sectoral budget, at national and subnational level? Are there existing PFM reform processes/initiatives that may have an impact on budget credibility?
- Which reforms are needed to ensure international public and private finance is included in the government's budget?

→ Prioritize/Sustainability checks

- How can the resolution of budget credibility issues help to address identified financing needs?
- What are the benefits, costs and risks of the respective reforms envisaged to minimize budget deviations and enhance the efficiency of spending? (3.2.1 and 3.2.2)?

→ Phased approach

- Which reforms can be carried out directly? Which ones need more dialogue/a phased approach?

Key references

IATF (2021), Building Block 2, Financing Strategy

Building Block 3: "How to" – Credible budgets and monitoring and review

Key scoping questions

→ Build on existing systems/capacities

- What budget credibility monitoring is currently in place at national and subnational level? Do existing systems allow to measure revenue/expenditure deviations (→BB1.2)? How can they be incorporated into INFF monitoring?
- How robust are systems and what are the institutional capacities to further develop the system?
- Are any multiannual frameworks in place (e.g. MTFF, MTEF)? Are forecasts realistic/reflected in budget?
- What other monitoring and tracking processes/systems exist for the NDS and other financing flows?
- What data is publicly available? How can system/transparency challenges be addressed?
- Do Supreme Audit Institutions (SAI) include budget deviations and justifications into their audits? How can existing SAI findings be used to close SDG Financing and budget credibility gaps?
- Does Parliament have sufficient capacity to monitor the budget execution and organize public hearings?

→ Prioritize/Sustainability checks

- What are the benefits, costs and risks of the respective reforms/initiatives envisaged to enhance the budget/M&E system, further integrate planning and financing policies and align them to the SDGs?

→ Phased approach

- How can existing systems be gradually improved and integrated (→Reforms to be integrated into BB2 financing strategy and its action plans)?
- What can be considered "good enough data" in line with institutional capacities and existing sources?

Key references

IATF (2021), Building Block 3, Monitoring and Review

Building Block 4: "How to" – Integrated governance and coordination and credible budgets

Key scoping questions

→ Build on existing systems/capacities

- What mechanisms are in place to encourage intra-governmental collaboration and coordination?
- Are there any multi-stakeholder platforms around the NDS and PFM/budget credibility issues?
- Do they allow for inclusive, participatory and accountable stakeholder engagement?
- Does the analysis of existing budget credibility challenges help identify coordination problems that would challenge the execution of an INFF financing strategy?

→ Prioritize/Sustainability checks

- What are the benefits, costs and risks of the respective reforms/initiatives envisaged to ensure an interconnected participatory framework with clear roles and responsibilities for all constituencies?

→ Phased approach

- Do non-state actors have nomination processes in place to send a recognized representative?
- How can the platform selected for INFF implementation gradually become more inclusive, participatory and accountable?
- How can it feed into existing intra-governmental and multi-stakeholder coordination processes?

Key references

IATF (2021), BB4 on Governance and Coordination, For detailed guiding questions see p.9 and p.36.

Annex 2
Case Studies

Malawi – Using disaggregated data analysis to identify and understand budget credibility challenges

The Government of Malawi has made significant strides in improving its aggregate expenditure credibility, as evidenced by improving Public Expenditure and Financial Accountability (PEFA) scores (Table A2.1). However, snapshots of fiscal realities at the sectoral and local levels reveal a different perspective on budget credibility, and there remains a gap between the credibility of budget execution at the aggregate level, and the actual expenditure outturns, which have hampered service delivery at the sectoral and local levels.[60]

Table A2.1: PEFA budget credibility indicators, Malawi

	2008	2011	2018
P3.1 Aggregate revenue outturn	A	D	A
P3.2 Revenue composition outturn	N.A.	N.A.	D
P1 Aggregate expenditure outturn	A	B	A
P2 Expenditure composition outturn	D	C+	D+
P7 Transfer to subnational government	B+*	B+*	C

Source: PEFA report for Malawi 2008, 2011, 2018; N.B. * Measured under "P8" in the 2011 methodology.

Disaggregated budget credibility analysis, looking at spending at the subnational level or across different sectors or programmes, can identify underlying challenges that reduce budget credibility and obstruct social sector service delivery. Identification of specific challenges enable targeted problem-solving and tailored reforms to effectively address root issues. At the subnational level, the identification of these challenges and the assessments of actual costs has helped guide fiscal decentralization reforms to address challenges affecting spending and service delivery at the local level.

60 GoM/WB/GFF (2020), Malawi Public Expenditure Review (PER) 2020, Strengthening Expenditure for Human Capital, p.35.

Table A2.2: Trends in aggregate revenue and expenditure performance in MWK billions, Malawi

		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Revenue	Approved	978	1,128	1,249	1,575	1,435	1,271	1,956
	Actual	971	988	1,121	1,279	1,507	1,240	2,036
Expenditure	Approved	1,149	1,323	1,455	1,737	2,190	1,990	2,839
	Actual	1,125	1,289	1,451	1,781	2,229	2,064	3,317

Source: Author's compilation based on UNICEF Budget Briefs 2020/21, 2021/22, and 2023/24; GoM, Budget Statement 2021/22 and 2022/23; N.B. 2021/22 fiscal year is shifted to April-Dec (9 months).

In Malawi, aggregate spending deviations between initial forecasts and actual expenditures has exceeded 5 per cent in 2021/22 (-7 per cent) and 2022/23 (+16 per cent).[61] The 2018 PEFA assessment reports that the aggregate expenditure outturn deviated less than 5 per cent from the approved budget in two of the three years studied. For the years 2014/15, 2015/16, and 2016/17, the outturns were 103.4 per cent, 97.0 per cent, and 97.9 per cent respectively. This qualified for an "A" grade score in the 2018 PEFA assessment.

Aggregate revenue credibility has improved over time. In the past three years, revenue collection has kept up with government projections with a strong tax revenue performance. Nevertheless, it is still affected by high deviations due to higher receipts from grants and lower non-tax revenue collection from low-performance dividends from state-owned enterprises.[62] The Government of Malawi's prioritization of social sector spending faced a bigger challenge with a decline in allocation. Between 2016/17 to 2020/21, on average 34 per cent of budget allocations went to social sector spending despite a growing fiscal deficit.[63] In 2023/24, the allocation to key social sectors declined to 29 per cent, a five-year low. Moreover, budget execution data at sectoral and local levels tell another story, with budget credibility challenges in most social sector programmes, particularly in development projects.

At the local level, councils are facing challenges due to funding gaps. There is a mismatch between the growing number of service delivery responsibilities, which have not been matched with planning, budgeting, and procurement responsibilities, or available funds. Disbursements of intergovernmental fiscal transfers are insufficient and often delayed. This makes it additionally important to identify and understand budget credibility challenges from a disaggregated angle to better target specific needs.

61 UNICEF (2023), Malawi: National Budget Brief 2023/24, p.7.
62 Ibid.
63 Ibid.

Identifying and interpreting budget credibility challenges – insights from disaggregated data

Disaggregated data can highlight where specific budget credibility challenges occur. In the case of Malawi, challenges were identified across social sectors for both domestic and external financing, as well as in local councils' revenue generation and spending. During the period 2016/17 to 2019/20, average annual execution for health sector total expenditures at the national level stood at 96 per cent, but execution for health sector capital projects stood at only 46 per cent.[64] Similarly, execution of the recurrent education budget stood at 100 per cent in 2019, while the capital budget for education was only utilized at 48 per cent.[65] Local authorities – namely district, city and municipal councils – carry significant responsibilities for providing service delivery,[66] but district councils, especially in rural areas largely depend on transfers from the central government and development partner funding. Similarly, high deviations among sectoral budgets can be found at the local council level.

With regard to revenue collection, the 1998 National Decentralization Policy, part of the country's Local Government Act, foresees locally-generated revenues and central government transfers as the two primary sources of revenue for local government authorities. While local governments have the mandate to generate their own revenues, in practice, their capacity to do so is limited. Factors such as having a narrow tax base, administrative challenges, and lack of enforcement mechanisms hinders revenue collection. Locally generated revenues have been overestimated both at the budgeted and outcome levels, especially for rural (district) councils.[67]

On the expenditure side, recent assessments of health financing at the local level shows different levels of deviations across expenditure categories. Social sector spending includes both domestic and external resources, with the social services budget receiving considerable development partner support. In 2022/23, the on-budget contribution of development partners stood at 37 per cent for the total health budget (88 per cent of on-budget capital projects), at 6.9 per cent for education (67 per cent of capital projects) and at 92 per cent for social protection programmes.[68] The execution rate for development projects with foreign contribution (DI) stood at 63 per cent in 2021/22 and 125 per cent in 2022/23.[69]

While on-budget development partner support is a significant contribution to key social services, it is only part of the external financing picture. Since the discovery of a case of financial irregularity in Malawi's Government Administration in 2013, development partner funding was moved off-budget and remains largely off-budget and off-treasury to date. By 2017/2018, 74 per cent of development partners funding for health was off-budget.[70] Local authorities have little influence over off-budget funds, and this fragmentation of financing adds additional challenges to budget execution and service delivery, given the risks of uncoordinated planning and decision-making, including parallel or duplicative sectors and district processes across different levels of government.[71]

To better understand and address any bottlenecks, decentralization policy and fiscal decentralization systems are an important pathway.

64 UNICEF (2023), Malawi: Health Budget Brief 2023/24, p.7.

65 GoM/WB/GFF (2020), Malawi PER 2020, Strengthening Expenditure for Human Capital, p.36.

66 This includes planning, budgeting, procurement and implementation of basic service delivery and infrastructure projects that are within LGAs mandate and operational expenditures of devolved services. For more information, see UNICEF (2022), Expenditure Assignments for Basic Service Delivery: Reform discussion note, p.9.

67 NLGFC 2022), Fiscal Decentralization in Malawi, Situational Analysis, p.14–16, p.61.

68 Data from: UNICEF (2023), Health Budget Brief 2022/23, p.4; UNICEF (2023), Education Budget Brief 2022/23, p.8; UNICEF (2023), Social Protection Budget Brief 2022/23, p.3; Aggregate spending of grants stood at 84 per cent in 2018/19 and at 73 per cent in 2019/20 (Source: UNICEF (2021), National Budget Brief 2020/21) and execution rate for development projects with foreign contribution (D1) is 63 per cent (2021/22) and 125 per cent (2022/23) (source: UNICEF (2023), Malawi: National Budget Brief 2023/24, p.7.

69 For instance, in the education sector, the execution rate for development projects with foreign contribution capital spending (18 per cent of the total budget) stood at 45 per cent (averages 2014/15–2018/19), personnel spending stood at 100 per cent (Source: GoM/WB/GFF (2020), Malawi Public Expenditure Review 2020).

70 GoM/WB/GFF (2020), Malawi PER 2020, Strengthening Expenditure for Human Capital, p.10.

71 World Bank (2022), Malawi Economic Monitor, p.11.

Decentralization reforms – aligning financial resources, responsibilities and capacities

In recent years, Malawi has aimed to bolster its financial systems and alleviate the bottlenecks, which contribute to budget credibility issues at various administrative levels. The National Local Government Financing Committee (NLGFC) has pioneered various initiatives aimed at redefining and strengthening fiscal decentralization, including the Financing and Fiscal Decentralization Strategy (FFDS) that is currently being drafted. The aim is to not only decentralize fiscal responsibilities, but to also ensure that these reforms translate into tangible benefits for local communities. Since decentralization reforms began in 1998, "finance has not followed functions", and local councils have grappled with new responsibilities without always receiving the necessary resources or training to manage them effectively. Local councils are tasked with providing a range of services to their communities, but their service delivery responsibilities have not been matched with planning, budgeting or procurement responsibilities. In addition, allocated funds often fall short of what is needed, leading to under-provision or compromised quality of services.

The reliance of local councils on transfers from the central government introduces significant uncertainties, recurrent delays and reductions. Transfers in Malawi have often proven to be inadequate, unpredictable, and not disbursed in a timely manner, causing significant challenges to deliver the devolved services.[72] In addition, transfers mostly remain below the minimum thresholds established by the National Decentralization Policy, and local councils tend to mirror national budget priorities rather than local costs and priorities. Budget allocations to district-levels are not always based on objective needs-based formulas, resulting in high variances between budget allocations and estimated resource requirements.[73]

In the fiscal year 2020/21, Malawi's local councils were allocated MWK 303 billion from the country's net national revenue (NNR), equating to roughly 25 per cent. Most of these funds, specifically 21 per cent of the NNR, went towards personnel emoluments. However, when it comes to Intergovernmental Fiscal Transfers (IGFT), meant for service delivery and development, the allocation was just 4.5 per cent of the NNR, notably below the below the 5 per cent benchmark indicated in the National Decentralization Policy.[74] When adjusted for inflation and population growth, transfers in real per capita terms have seen a significant decrease of nearly 40 per cent from MWK4000 per capita in the 2009/2010 fiscal year to MWK2500 per capita in 2021/22.[75] While a substantial portion of other recurrent transfers (ORT) is allocated to education (32 per cent in 2021/22) and health sectors (28 per cent in 2020/21), these amounts still fall short of providing a minimum standard of services.

Strengthening local social services has been a central goal of Malawi's decentralization reform, with public financial management and fiscal decentralization constituting an essential part of the PFM reform process and the recent 2023–2028 PFM Strategy. In line with the Public Finance Management Act 2022, fiscal decentralization reforms are intended to improve management systems, transparency and oversight, giving local councils the capacity to effectively manage their funds and ensure social service delivery. Programme-based budgeting (PBB) has been introduced at the local council level since 2017/18 to improve expenditure prioritization and enhance links between planning and budgeting. This has enabled the allocation of budgets to programmes based on previously agreed upon activities and objectives[76] to strengthen the visibility of budget lines related to children and improve expenditure reporting. As a next step, the Government of Malawi foresees devolving additional

72 World Bank (2020), Malawi Public Expenditure Review. p.6.
73 NLGFC (2022), Fiscal Decentralization in Malawi, Situational Analysis, p.24 and p.28.
74 Malawi (2021), National Budget Brief 2020/21, p.14 and 15.
75 NLGFC (2022), Fiscal Decentralization in Malawi, Situational Analysis, p.22.
76 UNICEF (2023), Costing of social service delivery at local level in Malawi, p.14.

functions through review and upgrade of sector devolution plans and resources to local councils to explore the application of direct facility funding, and to strengthen district PBB in alignment with the national development strategy, sectoral plans and district development plans.

These reforms may facilitate the integration of current and planned development partner funds into the IGFT system, thus strengthening systems and reducing fragmentation by providing greater confidence to development partners. Additionally, the adequacy of fiscal transfers is addressed through a mix of measures as part of Malawi's coordinated fiscal decentralization reforms.[77] A key piece of evidence to inform this process is a bottom-up costing of devolved functions based on agreed actual service delivery targets.

Decentralization reform – Assessing the actual costs of social service delivery at the local level

The cost analyses of the minimum service delivery packages for social services at the local level is an essential input to future reforms of IGFTs. As such, the process required extensive consultation across different sectors and levels of government to achieve consensus on the methodology, data sources and results.

Between 2021 and 2023, an initial costing of ORT needs was carried out for seven devolved sectors – namely basic education, primary healthcare, water, gender and social welfare, agriculture and nutrition across all local government authorities (LGAs). Under the guidance of the National Local Government Finance Committee (NLGFC), and with the support of UNICEF, 115 officers from relevant sector ministries and local councils were consulted between April and May 2021 to identify the functions and activities currently performed by local councils. A preliminary list of these functions was then reviewed and validated with the central government and local stakeholders for each sector. Criteria for inclusion in the minimum service package were set, and only functions that aligned with the sector's devolution plan at the local council level and had consensus from both central and local authorities were considered. Through this process, a consensus on the benchmarks for 'minimum service delivery' was achieved.[78]

Table A2.3: Average sectoral funding gaps in MKW millions, 2017–21, Malawi

Sector	Average funding (MWK million)	Average requirement (MWK million)	Average gap (MWK million)	Funding gap (%)
Health	9,243	36,771	-27,528	-75%
Education	9,206	35,778	-26,572	-74%
Agriculture	1,674	18,683	-17,009	-91%
Gender and social welfare	394	9,521	-9,128	-96%
Water	2,324	4,263	-1,939	-45%

Source: UNICEF (2023), Malawi: National Budget Brief 2023/24, p.9.

77 A "Financing and Fiscal Decentralization Strategy" is currently under development; "NLGFC (2022), Intergovernmental Fiscal Transfer for Improved Local Governance and Service Delivery, Reform Discussion Note" proposes the following reforms: 1) Determining the size of fiscal transfers based on costing of devolved functions, 2) Establishing share of national revenue for LGAs; 3) Gradual restoration of previous levels of funding for elements of IGFT where funds have been effectively reduced in the past; 4) Devolution of existing GoM funding for local service delivery (MDA capital and recurrent budgets) where feasible; 5) Integration of current and planned DP funding into the IGFT system.

78 UNICEF (2023), Costing of social service delivery at local level in Malawi, pp.17.

The initiative found that minimum service delivery packages would require five times the currently-practiced ORT transfers (Table A2.3). Current global transfer proportions align with the funding priorities of the education and health sectors. These sectors consistently have the highest funding needs and consistently receive top allocations of budgets. However, for other sectors, the budgetary prioritization does not align with the minimum service delivery costs identified by the respective institutions.[79]

To ensure the sustained use and effectiveness of the newly developed costing tool and approach, training sessions were conducted for personnel from various entities, including line ministries, the Ministry of Local Government and Rural Development (MLGRD), the Ministry of Finance (MoF), and the NLGFC. Along with this hands-on training, participants were also equipped with a user-friendly manual to facilitate their understanding and future applications of the tool.

Lessons learned and next steps

While Malawi's budget execution is strong at the aggregate level, challenges remain at the sectoral and local levels, where many services remain underfunded and depend on unreliable fiscal transfers. Sources of financing are fragmented, given that substantial development partner support remains off-budget and coordination with local councils in planning and decision-making are limited. The discretion of local councils around budget allocations and their execution contrast with their significant service delivery responsibilities.

Malawi's approach to enhance fiscal devolution and the engagement of local authorities in the costing of devolved services, illustrates a series of emerging lessons towards enhanced budget credibility:

- Building credible budgets demands a thorough assessment of underlying causes, combined with the capacity of stakeholders to address them. At the subnational level, this often requires a broader reform process to strengthen decentralized governance, and generate revenue and decision-making power for those stakeholders in charge of delivering services locally.

- Credible budgets rely on the capacity to plan and budget based on actual implementation costs. Development and service delivery priorities can only become part of an effective planning and budgeting process if they are accurately costed.

- Continuous efforts are essential to identify costs, involving the establishment of consensus on both priorities and their associated price tags. Different institutions have their own understandings of priorities and the associated prices. As such, it is crucial to develop a bottom-up approach to costing that builds on existing practices and involves an interdisciplinary costing team with good knowledge of methods used by responsible central, local and sectoral institutions.

- Overlaps and fragmentation of different financing streams undermine the ability to implement budget targets as planned. Financial management, transfer and monitoring systems need to provide a coherent picture of current and planned domestic and development partner funds.

79 NLGCF/UNICEF (2023), Costing of social service delivery at local level in Malawi, p.36.

Nepal – Health sector budget analysis to strengthen PFM systems at the subnational level

Budget credibility in Nepal remains persistently low, characterized by consistent underspending of the approved budget[80] and frequent downward revisions. Between 2018 and 2020, the average aggregate deviation across sectors was reported to be as low as 5 per cent in social protection and as high as 60 per cent in education, with health sector deviation reported at 35 per cent.[81]

Despite these discrepancies, government reports fail to provide clear explanations for these issues. Analysing budget credibility at a disaggregated level, especially for sectors like health and considering subnational variations, presents additional complexity. The primary challenge lies in the diverse Financial Management Information Systems (FMIS) used for planning and expenditure tracking across various levels of government.[82] These systems are limited to generating information based on economic classifications, and their lack of compatibility and interoperability impedes data consolidation.[83] Consequently, producing meaningful insights regarding budget deviations, including reporting on national (NHSS indicators) and international indicators such as the SDGs, becomes challenging. The absence of comprehensive information regarding these deviations complicates the identification of underlying causes and potential solutions across the public financial management (PFM) cycle.

To address this challenge, the Ministry of Health and Population (MoHP) undertakes the demanding task of conducting budget analysis for the health sector at both the federal and subnational levels, and works towards the institutionalization of standardized and comprehensive budget analysis guidelines that harmonize practices across all levels of government.

Health budgeting and expenditure tracking issues at the federal and subnational levels

The introduction of federalism in 2017 expanded funding options for subnational governments (SNGs). Fiscal transfers and revenue sharing[84] continue to be primary sources of subnational funding, with conditional grants emerging as a major financing mechanism for the social sector, including health. Historically, despite commitment to allocate 10 per cent of the national budget to health, the health sector has received low priority.[85] Following health decentralization, it has become crucial to evaluate how SNGs prioritize the health sector. This involves assessing their contributions from internal revenue and other grant sources, as well as their capacity to effectively utilize conditional grants.[86]

While aggregated health expenditure data is available, it is constrained by several limitations. This data primarily covers the federal and provincial level macro information with minimal disaggregation, and is often untimely.[87] Furthermore, quarterly reviews in the health sector primarily focused on assessing

80 UNICEF (2022), Budget Brief: Overview of the budget – FY 2022/23.
81 IBP (2023), Nepal-Budget-Credibility-and-the-Sustainable-Development-Goals.pdf (internationalbudget.org), p 9.
82 Line Ministry Budget Information System (LMBIS) and Provincial Line Ministry Budget Information System (PLMBIS) is used for budgeting at the federal and provincial level whereas Computerized Government Accounting System (CGAS) is used to track expenditure at the federal and provincial level. Subnational Treasury Regulatory Application (SuTRA) is the budgeting and expenditure tool used at the local level. For more information see FMoHP and BEK/NHSSP (2022), Final Budget Analysis of Health Sector-Five Years of Federalism.pdf, p.8.
83 IBP (2023) Nepal-Budget-Credibility-and-the-Sustainable-Development-Goals.pdf (internationalbudget.org), p.13.
84 Fiscal transfers are constituting of conditional grants, equalization grants, special grants, and matching grants which is earmarked to be spend in programme. In addition to this, federal government provides share of revenue generated nationally in the form of revenue sharing to subnational government mainly to cover the administrative cost. Subnational government also generate their own internal revenue through taxes. SNGs mandatorily implement conditional grant funded health programmes and some also implement health programmes funded from various other sources and internal revenue.
85 FMoHP and BEK/NHSSP (2022). Final Budget Analysis of Health Sector-Five Years of Federalism.pdf, p.12.
86 FMoHP and BEK/NHSSP (2022). Final Budget Analysis of Health Sector-Five Years of Federalism.pdf, p.2.
87 For example, the consolidated financial statement produced by the Financial Comptroller General Office considers only the revenue and expenditure accumulated in the consolidated fund and treats fiscal transfers to the province and local government as expenditure. It takes almost nine months to a year for these reports to be published. For more information: Ministry of Finance (2022), Consolidated Financial Statements, 2021/22, Accounting Policy, p.3.

physical progress, often overlooking critical issues related to budget credibility. Frequently, there exists a discrepancy between the reported conditional grant budget and the actual funds received at the subnational level. This discrepancy arises from the omission2 of activities, or from an inaccurate establishment of linkages between sub-activities funded by a conditional grant. Additionally, the use of a separate FMIS for budgeting and expenditure tracking complicates the consolidation of information when needed.

The existing systems,[88] both for budgeting and expenditure tracking, are limited to providing data only at the economic classification level. Unfortunately, they cannot produce aggregated data at the programme level, which is essential for reporting on national and international indicators, including SDGs. Interestingly, the FMIS at the local level faces additional challenges in terms of disaggregating budgets and expenditure information by specific social sectors such as health, education, and agriculture. Moreover, the systems lack essential reporting variables such as "initial budget" and "virement," which are crucial for assessing budget credibility.

This deficiency in detailed information led to a lack of ownership and accountability within the health sector, as it hindered the ability to precisely allocate resources to critical programmes and effectively monitor their utilization. To bridge this gap, the federal MoHP annually undertakes a manual budget analysis of the health sector.[89] This process involves collecting, collating, and organizing information scattered across various platforms and government levels into a unified database.[90] The goal is to provide valuable insights into budgets and expenditure, including budget credibility. The MoHP recognized the need for a more systematic approach to health sector budget analysis and therefore developed guidelines and structured training for SNGs.

Findings from the health sector budget analysis in the first five years of federalism

In 2022, the MoHP conducted a health sector budget analysis for the first five years of federalism with support from UKAID. The findings below reflect this analytical report[91] and standalone health budget analysis from three provinces[92] and 38 selected municipalities.

Figure A2.1 presents the breakdown of health sector expenditure by its funding sources: federal spending, fiscal transfers to SNGs, and the internal revenue of SNGs. There are positive trends in the increasing share of SNGs' internal revenue in health expenditure. Conditional grants constitute a significant portion of health expenditure, accounting for approximately 77 per cent of the average health expenditure at the local level, whereas they make up for only 21 per cent at the provincial level. In the initial five years following health decentralization, the federal government, on average, has contributed 58 per cent of the total health budget, with local level spending accounting for 28 per cent, and provincial government spending at 4 per cent.[93] This distribution highlights the role of shifting major responsibility in health care delivery from federal government to the SNGs.

88 Except for SuTRA. For detail please see footnote 6.

89 Nepal Health Sector Support Programme from UKAID is a technical assistance programme to MoHP which supported to conduct the annual health sector budget analysis. NHSSP was working in 3 provinces and 38 local level.

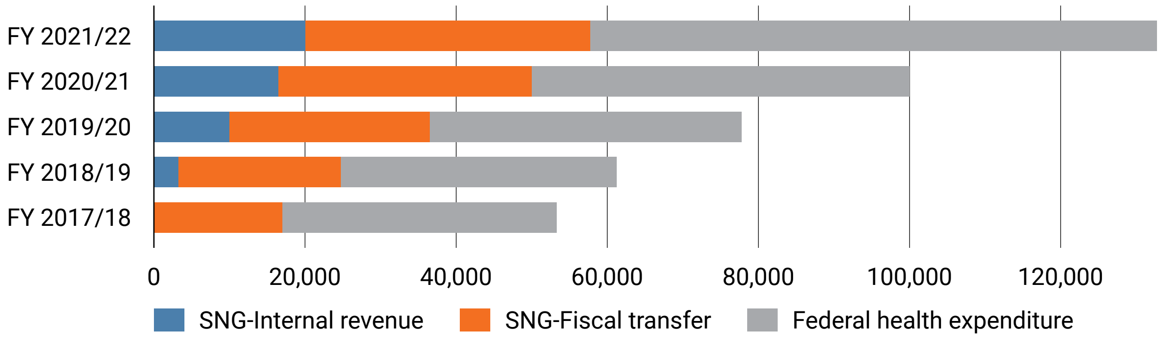
90 FMoHP and BEK/NHSSP (2022). Health Sector Budget Analysis: First Five Years of Federalism. Federal Ministry of Health and Population and British Embassy Kathmandu/Nepal Health Sector Support Programme, Final Budget Analysis of Health Sector-Five Years of Federalism.pdf, p.2, p.3.

91 FMoHP and BEK/NHSSP (2022). Final Budget Analysis of Health Sector-Five Years of Federalism.pdf, (op.cit.)

92 MoHP and BEK/NHSSP (2022). Health Sector Budget Analysis of Sudurpaschim Province and Local Levels. Ministry of Health and Population and BEK/Nepal Health Sector Support Programme. Kathmandu, July 2022.

93 FMoHP and BEK/NHSSP (2022). Final Budget Analysis of Health Sector-Five Years of Federalism.pdf, (op.cit.) p.9..

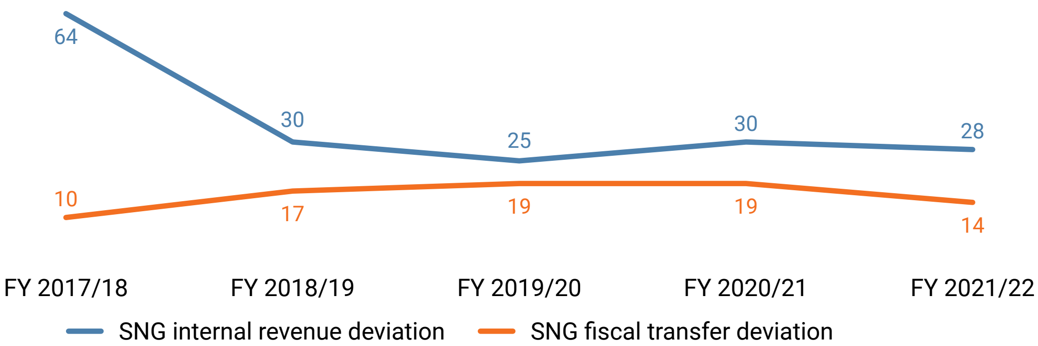
Figure A2.1: Composition of health sector expenditure in NPR millions, Nepal



Source: Reproduced from FMoHP and BEK/NHSSP (2022). Health Sector Budget Analysis First Five Years of Federalism.

Figure A2.2 illustrates the variance in subnational health budget deviation sourced through internal revenue and fiscal transfers. On average, the aggregate deviation for health budgets funded by fiscal transfers is relatively low at 15 per cent compared to a higher deviation of 35 per cent for budgets sourced from internal revenue. The observed range of deviations for health budgets financed through internal revenue was quite substantial, reaching as high as 64 per cent in FY 2017/18, and as low as 25 per cent in FY 2019/20.[94] The deviation has increased to 30 per cent in FY2020/21, which could be attributed to COVID-19.

Figure A2.2: Health sector budget deviation at the SNG



Source: Reproduced from FMoHP and BEK/NHSSP (2022). Health Sector Budget Analysis First Five Years of Federalism.

The most common reasons reported for deviation of the budget sourced through internal revenue[95] are the de-prioritization of the health sector, inability to appropriately forecast internal revenue generated, receipt of fiscal transfer, delays in the procurement of services, delays in the release of funds, and lastly a lack of programme implementation guidelines. Another significant factor contributing to budget deviations is the comprehensive nature of fully-loaded conditional grant activities, which often leaves limited space for the implementation of locally-planned programmes funded through internal sources, and their ability to carry over the unspent budget to the next financial year. Programme activities, such as the procurement of medicines/equipment, training/workshops, and those involving incentivizing beneficiaries through cash or support, are more likely to be fully utilized. In contrast, activities such as health camps, interaction programmes with target populations, and microplanning-related activities, face challenges in budget execution. This disparity in the utilization of funds between different types of activities further influences the observed budget deviations.

94 FMoHP and BEK/NHSSP (2022). Final Budget Analysis of Health Sector-Five Years of Federalism.pdf, p.9.

95 These findings were discussed during the group work conduct in budget analysis training and also while preparing the budget analysis report for the municipality. Nepal Health Sector Support Programme III – 2017 to 2022. PD – R52, Quarterly Report January –March 2022, Kathmandu, Nepal.

Table A2.4: Detail of programme expenditure at local level, Nepal

Programme detail	Percentage expenditure FY 2021/22
HR and Office Management	54.75
RMNCAH and Nutrition	10.42
FCHV and Community Health	6.35
Infectious Disease and Epidemic Control	1.19
NCDs and Human Organ Transplant	0.19
Eye and Other Health Services	0.24
Social Health Protection	0.91
Diagnostic Services (Lab and Imaging)	0.44
Health Education and Disinformation	1.17
Ayurveda and Alternative Medicines	0.71
Drug Regulation, Purchase, and Supply Chain Management	7.13
Health Research and Surveys	0.00
Physical Infrastructure Development and Improvement	8.50
COVID-19 Response	8.01

Source: Table recreated from FMOHP and BEK/NHSSP (2022).Health sector budget analysis first fiver years of federalism.

Table A2.4 provides expenditure information by programme at the local level in FY 2021/22, compiled using the chart of activities. It indicates that the top three expenditure drivers at the local level are human resources and office management (more than half of the majority), followed by Reproductive Maternal Neonatal Adolescent and Child Health (RMNACH) and nutrition (10 per cent), and physical infrastructure and development (8.5 per cent). This data suggests that at the local level, there is a shortfall in spending on preventive and supportive healthcare activities, despite their mandate to provide basic health services. Thus, there may be a need to reevaluate budget priorities and resource allocation strategies at the local level. It should also be noted that the chart of activities (CoA)[96] can help to further analyse conditional grant activities and activities funded by internal revenue at the subnational level. Grouping into appropriate programme headings produces information beyond economic classification. Currently, this feature is available in SuTRA, however the local levels are not aware of this, and activities are coded only up to the level of economic classification.[97]

96 Chart of activity is a guidance that helps to aggregate line-item health activity by programme level. The analysed information from chart of activities could then be consolidated at indicator level of local, national (NHSS indicators) and international interest. MoHP with the support from NHSSP in 2015 developed and was used in the Transaction Budget and Account Control System (TABUCS) (FMIS in MoHP) (For more information, see: https://www.nhssp.org.np/NHSSP_Archives/pulse/TABUCS_pulse_june2013.pdf). The source code of chart of activities from TABUCS was given to SuTRA. This feature in SuTRA is not being used currently and activities are only coded up to economic classification level. Other FMIS don't have this feature inbuilt.

97 As highlighted above data and analysis for this section is sourced from FMoHP and BEK/NHSSP (2022). Final Budget Analysis of Health Sector-Five Years of Federalism.pdf, MoHP and BEK/NHSSP (2022). Health Sector Budget Analysis of Sudurpaschim Province and Local Levels. Ministry of Health and Population and BEK/Nepal Health Sector Support Programme. Kathmandu, July 2022 and MoHP (2019), Description on Health chart of activities (in Nepalese).

Ensuring comprehensive budget analysis through budget analysis guidelines and trainings at the subnational level

To strengthen public financial management capacity in the health sector at the subnational level, the Nepal Health Sector Support Programme provided support to the Provincial MoHP/Ministry of Social Development, along with the federal MoHP. A significant initial step[98] was the development of a comprehensive health sector budget analysis framework in late 2020. This framework encompassed key elements of PFM, offering step-by-step guidance for conducting budget analysis. Subsequently, the guidelines were translated into a structured three-day training programme. In early 2021, health managers and account officers from 38 project municipalities spanning three provinces underwent this training, which has since been institutionalized at the provincial health training centre.

The training aimed to sensitize participants to essential aspects of the PFM cycle, including planning, budgeting, expenditure tracking, reporting, and auditing requirements. Specifically, participants were oriented towards the available features of charts of activities in the local-level FMIS ("SuTRA", see Footnote 3).[99] They gained a comprehensive understanding of their responsibilities in achieving national and international indicators.[100] The training also imparted practical knowledge and skills necessary for entering sub-activities under the appropriate sectors, including the use of charts of activities in health during budgeting, and expenditure tracking. This practical knowledge also equipped participants to extract vital information pertaining to the health sector, thereby strengthening their capacity for effective financial management and reporting. For example, financial progress started being discussed in quarterly reviews, including on issues related to budget credibility.[101]

This was an important initial step in providing health managers and account officers with foundational knowledge and skills in health PFM. It helped foster collaboration among officers responsible for planning and expenditure. As part of the training, budget credibility has been recognized as an integral part of the health budget cycle. The successful use of the chart of activities in tracking health, population, nutrition, and SDGs-related indicators highlights their importance to deepen the analysis of further conditional grant activities. Extending the chart of activities to sectors such as education, WASH and agriculture would also bolster the ability of all levels of government in monitoring multi-sectoral indicators related to health. It is advisable to further update and mandate the use of charts of activities during budget preparation and expenditure recording. This would contribute to better alignment of budgeting and spending with health and related indicators, facilitating evidence-based decision-making, and fostering accountability. Future endeavours to enhance the assessment of subnational budget credibility will require a more comprehensive and multi-sectoral approach, acknowledging the interconnectedness of factors and sectors influencing financial management and governance.

98 Other project interventions were the development of Financial Management Improvement Plan and Procurement improvement plan at the province level, the development of technical specification banks, shipping and inspection guidelines and an electronic government procurement training. See: FMoHP and BEK/NHSSP (2022). Health Sector Budget Analysis Framework for Federal, Provincial and Local Level.

99 SuTRA has the feature to provide information by chart of activities. Use of chart of activity during data entry helps to track budget and expenditure by programme level. If this process is properly followed during the budgeting stage than the data could be easily obtained, and analysis could be performed without the need of recoding of activities.

100 With SDG localization every subnational government is responsible to achieve their localized targets towards realizing the national indicato.

101 Nepal Health Sector Support Programme III – 2017 to 2022. PD – R52, Quarterly Report January –March 2022, Kathmandu, Nepal.

Lessons learned and next steps

Nepal's efforts to conduct a comprehensive annual health sector budget analysis has identified key budget credibility challenges, as well as areas for improvement. These areas include the strengthening of revenue forecasting capacities, the resolution of fund flow challenges, enhancement of procurement processes, and the expansion of monitoring of budgets and expenditures beyond economic classifications. It also illustrates a series of lessons learned towards enhanced budget credibility:

- To effectively address identified budget credibility bottlenecks across the entire spectrum of planning/budgeting, execution, and monitoring, a systematic and sustained effort that includes all responsible stakeholders at different levels of government is required.

- A comprehensive budget analysis requires knowledge of budget allocations and expenditures beyond their economic classification but should also identify funded programmes. This information is crucial to allow managers to take ownership and accountability for planning, budgeting, and expenditure tracking.

- Before bringing in new systems to fill data gaps (e.g., on disaggregated data), governments and development partners should always assess whether there are unused features in existing national FMIS.

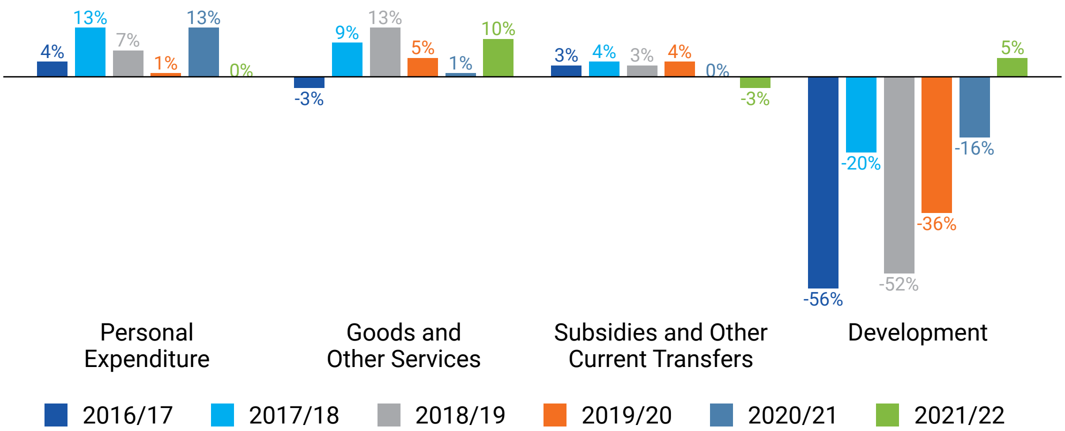
- For activity-based budgeting, the use of a chart of activities can be one way to go beyond economic classification and link disaggregated health programme activities across governments and sectors. Including this feature into financial management systems can be a significant step towards getting meaningful disaggregated information, going beyond manual analysis, and producing meaningful analysis to report on SDG indicators (national and subnational), including gender-specific budgeting and Health Management Information System indicators.

Namibia – Strengthening health procurement to improve the impact of health investments

The Government of Namibia have led a comprehensive and consultative reform process to identify and address challenges in procurement processes that were constraining the efficient and effective implementation of the pharmaceutical and clinical supplies budget, which accounts for 17 per cent of the nearly US$500 million annual health ministry budget.[102] The process utilized a comprehensive bottleneck analysis and problem-solving dialogue approach based on the principles of *Problem Driven Iterative Adaptation* (PDIA).[103] Under this process, key government experts from both the Ministry of Finance and Public Enterprises (MoFPE) and Ministry of Health and Social Services (MoHSS) were brought together to review existing analysis, evidence and reforms in the area of health procurement, build consensus on root causes, agree on an action plan of practical and achievable short-term solutions, and initiate a process for managing and monitoring reforms.

Challenges in health sector procurement were identified as a key constraint to efficient and effective health service delivery at the outset of the process in 2020. Almost 50 per cent of expenditure for Namibia's MoHSS requires a procurement process.[104] However, health procurement was experiencing significant delays, low budget execution and overspending. Open tenders were not issued, supply was mostly from local trading companies and pooled procurement was rarely utilized. There were high numbers of emergency procurements with low-cost efficiency. As a result – despite overspending of the health sector's public procurement budget – health facilities were experiencing low service delivery levels and frequent stock-outs.

Figure A2.3: Trends in budget execution for the MoHSS, Namibia



In 2015, the adoption of a new Public Procurement Act[105] centralized several processes with the aim to improve institutional oversight and transparency.[106] However, at the Ministry of Health and Social Services (MoHSS), it had an unintended impact on already declining health service levels[107] and the newly created Central Procurement Board of Namibia (CPBN) had difficulties awarding any pharmaceutical tender.[108] Previously, between 2004/05 and 2015, the Tender Board of Namibia used to grant annual tender

102 Budget of the Ministry of Health and Social Services (MoHSS) in 2020/21: N$ 8 billion, Source: UNICEF (2022/23), Health, Namibia Budget Brief; Exchange rate: US$1=N$16.46 in 2020, Source: WB Data Bank.

103 For more information, see: UNICEF (2022), Engaging with public financial management challenges in the health sector, A resource guide for a problem-driven approach for UNICEF country offices.

104 Data for 2020; Source: MoF (2022), Strengthening Health Procurement for Impact, Final Report, p.9.

105 Effectively came into effect on 1 April 2017, replacing the 1996 Tender Board of Namibia Act.

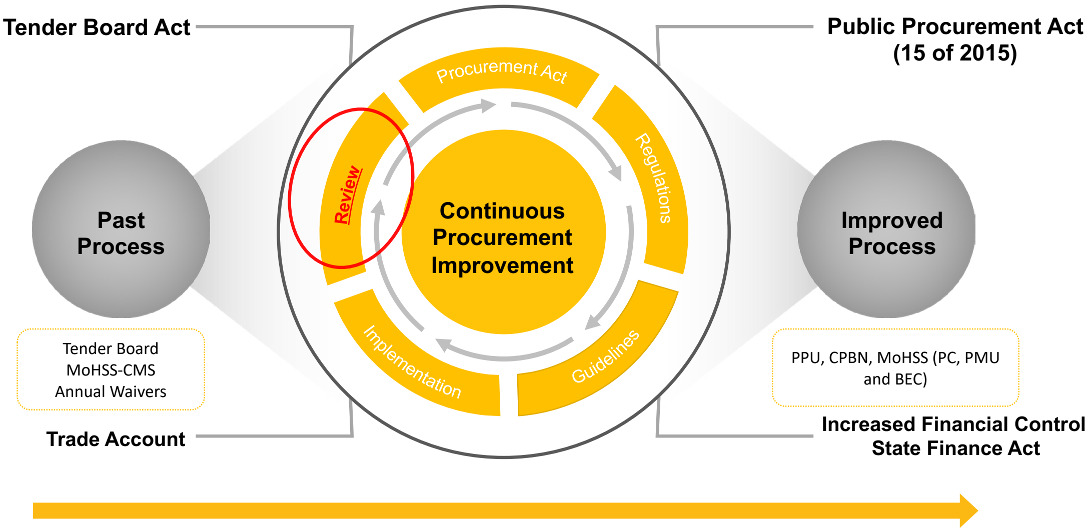
106 MoFPE (2022), Strengthening Health Procurement for Impact, Final Report, p.15.

107 MAccording MoF (2022), Strengthening Health Procurement for Impact, Final Report, p.26. 20 years ago the average satisfaction of patients from services was still high at more than 90 per cent (PETS Survey (2004), p.82), whereas in 2019 the Health Sector PER (2019) reports that "access is low and unequal, [with] raising concerns about productivity and idle capacity" (p.vii).

108 World Bank (2019), Health Sector PER (2019), p.vii.

exemptions to the MoHSS. This allowed the Central Medical Store (CMS) tender committee in the MoHSS to manage procurement in the highly specialized pharmaceutical and clinical sectors. While there were signs of inefficiencies and overcharging in some of these procurements, the processes were faster and allowed for more competitive prices, especially through the strengthened use of multi-year contracts with suppliers. Following the adoption of the Public Procurement Act of 2015, in 2017, there was limited clarity on specialized structural arrangements between the MoHSS and the CPBN, which prevented the CMS, as a specialized procurement agency, to conduct regular tenders above N$25 million (US$1.5 million). The MoHSS considered this threshold too low for the annual value of pharmaceutical and clinical supply procurements of N$1 billion (US$60 million) and resulted in high numbers of small procurements[109] (Figure A2.4).

Figure A2.4: Changes with the 2015 Public Procurement Act



Following the Public Procurement Act of 2015, reforms had been pursued, but had not led to significant improvements. Technical bottlenecks impacting health procurement were identified, but there was limited buy-in and coordination between the MoFPE and the MoHSS on resolving such. Both ministries had divergent views of the root causes, challenges, and remedial approaches. As a result, there was no joint implementation of the recommendations from technical studies.

Agreements on the underlying causes of inefficient procurement and resulting budget deviations

To be successful, any technical recommendations for procurement reform needed to have joint ownership and agreement on the underlying challenges and the necessary steps to address them in both the MoFPE and the MoHSS. The Government of Namibia worked with UNICEF,[110] UNDP and USAID to conduct an interactive analysis of the root causes of procurement problems observed in the health sector and facilitate a consensus building process to agree on the underlying issues, solutions and required steps for reform between the two ministries. A key element of consensus building was to ensure a balance between the needs for financial control/budget optimization and service delivery over the long-term (Figure A2.5).

109 MoFPE (2022), Strengthening Health Procurement for Impact, Final Report, p.21, p.26.

110 Since 2020, UNICEF has actively facilitated reform in procurement practices in the health sector of Namibia, led the study and continues to support the implementation of the action plan through a dedicated project manager. UNDP and USAID respectively contributed to technical support and funding of the study. They also participated in the reference group and some of the working groups that drive specific reform.

Figure A2.5: Consensus building principle, Namibia

The process involved the development of an analytic framework drawing from best practices of public procurement and public financial management. Using this framework, a review of more than 120 documents and consultation of 36 key informants was conducted, with results categorized around a customized set of good practice benchmarks for discussion and validation with experts from both ministries. To agree on key issues around public financial management and public procurement of pharmaceutical and clinical supplies, there were three main co-creation sessions held – within the government, among development partners groups, as well as a joint workshop. This achieved consensus on eleven root causes of inefficient health procurement practices (Figure A2.6).[111]

While the technical analysis was important to frame discussions, the coordination and facilitation of a process for the two government ministries to validate and agree on common root causes was critical. It allowed the identification and subsequent implementation of practical short-term solutions with clear timelines, responsibilities and accountability.

Figure A2.6: Consensus on root causes of health procurement bottlenecks, Namibia

C1) Regulatory Framework – address gaps and ensure implementation	C2) Governance and oversight structures	C3) Human resource capabilities	C4) Interlinkages/Use of IT infrastructure
C5) Procurement planning and financial management	C6) Financial resources and management	C7) Thresholds and multi-year contracts	C8) Competitive/ Pooled procurement limitations
C9) Transparency/ E-procurement gaps	C10) Refinements of M&E framework	C11) Communication, accountability and oversight – limited engagement and dialogue	

Source: Authors based on MoF (2022), Strengthening Health Procurement for Impact Final Report.

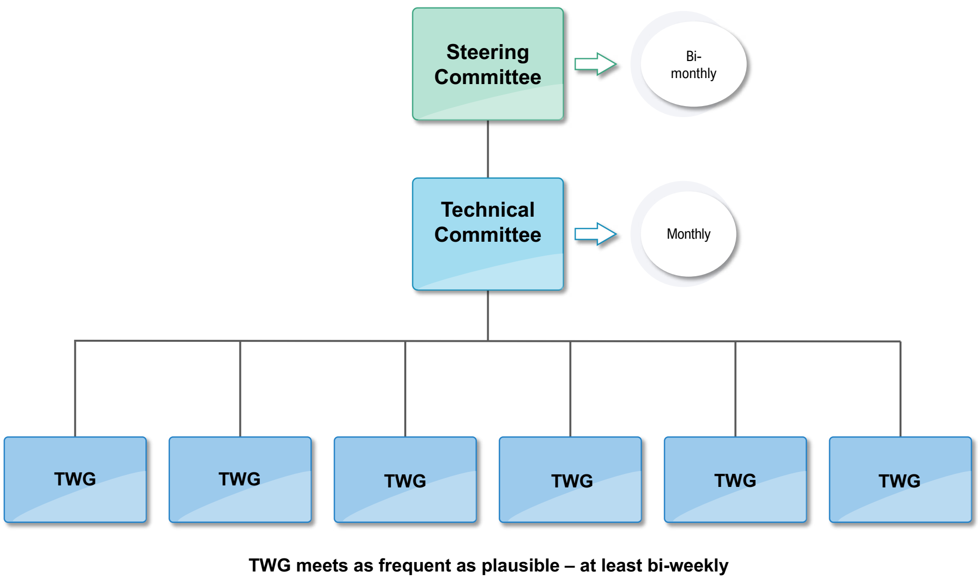
111 UNICEF Namibia (2022), Example of consensus building on procurement reforms in Namibia; MoF (2022), Strengthening Health Procurement for Impact Final Report.

Building consensus on solutions through a structured process of enquiry and problem-solving

During the dialogue phase, a Reference Group co-chaired by the Deputy Executive Directors of the MoFPE and the MoHSS provided a platform for structured technical and strategic dialogue between mid-level managers from the relevant units dealing with MoHSS procurements in both ministries. The leadership and profile of this Reference Group, anchored by the full-time project manager/coordinator, has been critical to the success of the process. Technical work has mostly been carried out by existing working groups in the topic areas, an approach that has strengthened buy-in and engagement. However, in some cases this was supplemented by the creation of new working groups to allow a further analysis of a specific matter of interest (e.g. Transition Working Group). The involvement of subject matter expert technical staff from both ministries has been essential to identify solutions that consider and balance the sometimes-competing needs of financial control/budget optimization and efficient and effective service delivery.

With improvements in inter-ministerial communication, and the agreement on an action plan[112] to resolve identified root causes, the Reference Group was sustained as a permanent Technical Committee to maintain ongoing dialogue and consensus building during the process of iterative and adaptive reforms. It meets on a bi-monthly basis and reports to a ministerial level Steering Committee. A project manager (with technical, leadership and coordination skills) has been employed to maintain technical progress on the action plan, support the already active PFM and Procurement-related working groups[113] who meet at least bi-weekly, and report to the Co-Chairs of the Technical Committee (former "Reference Group"). Alignment with existing structures has ensured coherence between different processes and made it easier to engage other development partners (Figure A2.7).

Figure A2.7: Implementation arrangements, Namibia



Source: Project Status, February 2023.

112 The action plan identified 10 thematic areas: 1. Amendment to the Public Procurement Act; 2. Human Resources for Health Procurement 3. Strengthening; Syspro and IFMS linkages; 4. Multiyear procurement planning (three-year procurement planning, framework agreements, financial certificates); 5. CMS turnaround; 6. Facility Order Control; 7. Financial Management; 8. Strategies to attract international suppliers; 9. Develop a comprehensive M&E framework for the PPU unit, 10. Performance and Compliance Audit.

113 Working groups have members of both national institutions – namely officials from MoF, the Procurement Policy Unit (PPU), MoHSS, CMS, CPBN – and development partners.

The Co-Chairs of the Technical Committee (former "Reference Group") have taken strong ownership of the process and ensure bi-monthly ministerial level briefings on health procurement. This has allowed for significant progress around the regulatory framework and procurement planning aspects of the roadmap. Specifically, the Public Procurement Act of 2015 has been amended and enacted for framework agreements and pooled procurement as of September 2022.[114] The introduction of framework agreements and pooled procurement in the policy framework is a key determinant towards addressing procedural and transactional inefficiencies in public procurement and introduce economies of scale in strategic sourcing decisions. Regulations and Standard Operating Procedures (SOPs) have been adopted and pilots of the SOPs are under preparation. In addition, a three-year procurement forecast was conducted, several audits were completed and a joint training plan for all involved government institutions was developed. Some planned reforms will take more time – with a human resource capacity audit, and measures to link different IT systems for procurement and financial management both underway.

Lessons learned and next steps

Namibia has one of the highest shares of health spending in the South African Development Community (SADC) region. In 2022/2023, 16.6 per cent of its total budget and average per capita spending of US$407 were dedicated to the health sector. This exceeds the African Union member states commitment of allocating at least 15 per cent of their budgets on the health sector.[115] Procurement reforms therefore offer an opportunity for the Government of Namibia to better leverage the impact of its health investments by addressing barriers to implementation and improving the efficiency and effectiveness of health spending through the procurement process.

While it is still too early to quantitatively assess whether the spending of health procurement resources has been optimized, the regulatory reforms[116] and technical support[117] have addressed several of the identified root causes of procurement bottlenecks (see Figure A2.6). Strong government ownership across both ministries at senior leadership and technical levels is considered a critical requirement for maintaining this momentum. It is considered crucial to continue to engage the responsible officials in the consensus building and iterative problem-solving that is central to the PDIA process. A balance between financial control/budget optimization and service delivery should be maintained over the coming years (see Figure A2.5 above).

As such, Namibia's comprehensive and consultative health procurement reform process illustrates a series of emerging lessons towards enhanced budget credibility:

- Engagement of a dedicated project coordinator/manager with the right skills, experience and competencies is pivotal to drive complex reforms such as in procurement. Successful convening requires fulltime support in coordination meetings, minutes, logistics, provide technical backstopping and support develop reports and presentations, including at the ministerial level.

114 A review of the Public Procurement Act had been initiated since 2020, but was paused to ensure that the outcomes of this dialogue process were taken into account. The existing review provided an entry point and audience to enable key recommendations from the dialogue process to be taken forward promptly.

115 UNICEF (2022/23), Namibia Health Budget Brief.

116 As highlighted above, the Public Procurement Act was amended in 2022, namely around the powers of the Central Procurement Board and to facilitate framework agreements, pooled procurement, and a multiple currency approach. Related regulations and the alignment of the Public Financial Management Reform Bill are under preparation.

117 Through the project « Strengthening Health Procurements for Impact » supported by UNICEF.

- To address larger, persistent and unexplained budget deviations, accurate identification of underlying PFM and governance blockages is essential to develop practical and implementable reforms.

- Sophisticated analysis that does not align with stakeholder conceptualizations of root causes and solutions is unlikely to influence policy making or reforms. Government insights and leadership throughout the analysis, consensus building, reform and monitoring process is essential.

- In line with their primary mandates – especially in relationship to budget optimization and accountability vs. service delivery – different ministries often have diverging perceptions of the priority bottlenecks. Creating quality space for joint analysis and reform conversations is crucial.

- The Problem Driven Iterative Approach (PDIA) can help governments create space for reform conversations and establish a concrete process of change based on clear timelines, responsibility and accountability.

Ghana – Budget tracking to enhance credibility for social programmes

To sustain the prioritization of social spending in line with allocated budgets in a context of growing fiscal pressures, the Republic of Ghana has worked to enhance its budget transparency and tracking tools. In the past decade, Ghana's economic growth trajectory has declined, constraining progress on poverty reduction[118] and making investments in social protection and other social services more critical. In the framework of its 2016 Ghana Beyond Aid Strategy, the Government of Ghana significantly increased domestic investments in social services, financing much of its education (78 per cent) and social protection (99 per cent) budgets, including fully financing cash transfers under its flagship programme "Livelihoods, Empowerment Against Poverty" (LEAP).

While Ghana's macro-economic context has suffered from global economic shocks, from the impact of the COVID-19 crisis and the invasion of Ukraine,[119] the 2022/23 National Budget maintains a positive trajectory for social expenditure and foresees cuts in high-level public salaries.[120] Despite strong government commitment, concerns remain about the prioritization and execution of social service-related budgets and the low levels of sectoral budget credibility. Delays in disbursement or failures to fully implement allocations is a particular concern for social service delivery and progress against the Sustainable Development Goals (SDGs). In response to identified discrepancies between planned and actual expenditures, the Government of Ghana has undertaken reforms to bolster fiscal reporting, tracking, and transparency to enable routine monitoring of budget credibility and identify factors which constrain spending in attainment of the SDGs.

Budget credibility challenges in Ghana

Ghana has made significant progress in improving aggregate budget credibility since the introduction of its 2016 Public Financial Management Act (PFMA), but variances persist at the disaggregated level. Despite an improvement in aggregate expenditure outturns, with aggregate underspending falling to 2 per cent from 2018–2020, there are still significant deviations in expenditure outturns in specific sectors (e.g. 35 per cent in water and sanitation; 28 per cent in food and agriculture).[121] Most sectors exceeded the PEFA benchmark of a 10 per cent acceptable variance, and 25 ministries, departments and agencies (MDAs) spent less than their initial budgets.[122]

118 According to UNICEF (2020), Ghana: Defending social sector expenditure in the face of worsening fiscal pressure: "Between 1991 and 1998, a 1 per cent increase in GDP per capita was associated with a reduction in poverty of 1.2 per cent, as opposed to only 0.1 per cent between 2012 and 2016".

119 In 2020 the fiscal deficit stood at 3.5 per cent (Source: Financing Social Protection in Ghana, A Fiscal space analysis, p.90), but rose to 9.4 per cent in 2021 (Website of the MoF), and 9.9 per cent in 2022 (Website of the WB). More than 50 per cent of government expenditure was dedicated to interest payments in 2020 (Source: Fiscal Space analysis, op.cit.)

120 Citizen Budget, p.17.

121 International Budget Partnership (2022), Ghana: Budget Credibility and the SDGs, Annex 1; N.B. The recent improvement becomes evident when comparing these statistics to available PEFA data i) on revenue outturns: "A" (2006), "B" (2011), "C" (2013) and "D+" (2018); ii) on aggregate expenditure outturns "B" (2006), "C" (2011 and 2013). In 2018 data was incomplete for scoring ("D*"); Source: PEFA website https://www.pefa.org/country/ghana

122 Republic of Ghana/UNICEF (2023), Social Sector Summary Budget Brief.

Table A2.5: Variances between budgeted and actual expenditure, Ghana

Sector	Percentage Gov't/Donor of total budget (2022)	Percentage of Gov't expenditure in 2019	Outturns 2015	Outturns 2016	Outturns 2017	Outturns 2018	Outturns 2019	Outturns 2020	Average variance
Education	78%; 4%	15.5% (↘)	-53%	-73%	-28%	101%	2,431%	97%	412%
Health	12%; 61%	8.1% (peak)	-5%	-23%	-14%	-12%	8%	-10%	-10%
Social protection	99%; 1%	0.93% (↘)	-12%	-33%	-8%	255%	23%	10%	57%
WASH (MoSWR)	8%; 73%	1.3% (↗)			-96%	-57%	216%	257%	104%

Source: Republic of Ghana/UNICEF (2023), Budget Briefs for Social Protection, Health, Education, WASH.

Table A2.5 illustrates the major variances for several key social sectors between 2015 and 2020. Further analysis of sector variances indicates some of the specific challenges. For example, the relatively low deviation in the total health sector is a result of overspending in the category "compensation" (17 per cent) and significant underspending in the categories of "goods and services" (more than 41 per cent) and in "social benefits" (more than 70 per cent). This detailed analysis can highlight some of the potential root causes of budget credibility challenges. Deviations may indicate challenges in planning, budgeting and costing.[123] Other contributory factors could include gaps in accounting and reporting, inconsistent inclusion of some programmes, and the impacts of unpredictable donor funding on some programmes.[124]

To address these challenges, the Ministry of Finance works to improve PFM systems for tracking and monitoring of SDG-related expenditures. At the level of line ministries, the Ministry of Gender, Children and Social Protection (MoGSCP), with the support of UNICEF and other development partners,[125] civil society and community leaders, have continued to advocate for the prioritization of crucial social spending in national budgets.

Improvement of tracking and monitoring of SDG-related expenditures

Ghana's 2016 PFM Act marked a significant step forward in bolstering fiscal discipline, reporting and transparency for available funds. Reforms have strengthened planning and budgeting processes, enhanced accounting and payroll/revenue/debt management, as well as ensured tracking and monitoring through Ghana's Integrated Financial Management Information System (GIFMIS) platform. This included the introduction of a requirement for legislative approval of shifts or reductions of budget allocations, and the reporting of both internally generated and development partner funds in budget execution reports.[126]

123 Republic of Ghana/UNICEF (2023), Wash Budget Brief, p.2.
124 Republic of Ghana/UNICEF (2023), Social Protection Budget Brief and Health Budget Briefs.
125 Namely World Bank, SECO, FCDO, USAID, JICA, KOICA.
126 PEFA (2018), Government of Ghana, PEFA Performance Assessment Report, p.27.

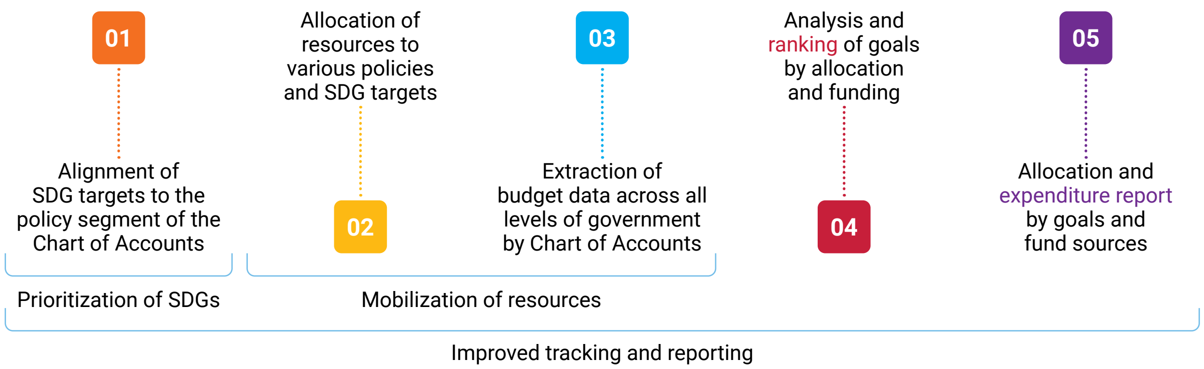
To further address data gaps in relation to actual expenditures for social programmes for the Ministry of Finance (MoF) works to further strengthen its comprehensive and institutionalized monitoring and reporting mechanisms to enable monitoring of expenditure as well as allocations. A prominent feature of this work is a holistic review of the MoF's Chart of Accounts (CoA) to enable tracking of SDG-related expenditures across the budget cycle. To ensure consistency and accuracy of this reform, it was critically important to conduct strategic and iterative problem-solving dialogues between all relevant stakeholders and to accommodate diverging views.

The development and integration of mechanisms to monitor SDG spending is part of this broader CoA reform, led by the MoF's Budget Technical Assistance and Support Unit, and with support from UNICEF. These reforms aim to align the CoA with policy objectives, and to strengthen its function as the primary mechanism for budget execution tracking and reporting. The CoA policy objective segment has been enhanced to integrate national SDG targets, through alignment with National Medium-Term Framework policies and primary focus areas.[127] In 2023 this enabled additional codes to capture gender and children related expenditures that will be included into the GIFMIS and to generate dedicated reports. By integrating reforms into the CoA, monitoring and reporting can be integrated into the national budget cycle, avoiding the risk of creating parallel data management or reporting requirements that may overburden budget departments in spending agencies. The reform provides a mechanism to strengthen transparency and monitoring, which can assist in early identification and management of budget credibility challenges affecting core social spending and priority focus areas related to achieving the SDGs.[128]

The system was developed to address identified gaps in the actual monitoring of allocations and expenditures, but also to avoid a fragmentation of monitoring mechanisms. A consolidated budget tracking tool enables the retrieval of allocation and execution data at both the aggregate and disaggregated level (by sector and programme) from financial systems across all levels of government. This enables the Government of Ghana to produce reports on spending against the SDGs, moving from a process of prioritizing SDGs in the budget allocation process, to being able to monitor and assess spending and progress towards implementation (see Figure A2.8).

Based on this data, the Ministry of Finance has been publishing regular SDG Budget and Expenditure Reports since 2018 to reflect Ghana's alignment of financial priorities with SDG targets. These reports have enabled the government to engage strategically with development partners and the private

Figure A2.8: SDG budget tagging – Allocation and expenditure, Ghana



Source: 2023 Financing for Development Side Event – Making Budgets Credible: Country lessons and Approaches.

127 Government of Ghana, 2022 SDG Budget Report.
128 Presentation of M. Minta Bontwe, Head of Budget Technical Assistance and Support Unit, Ministry of Finance Ghana at 2023 Financing for Development Side event – Making Budgets Credible: Country lessons and Approaches.

sector to prioritize goal areas or MDAs which would benefit most from additional financial or technical support. Expanding this report to cover the government's expenditure on the SDGs further benefits the government to identify bottlenecks which constrain spending, implement processes to ensure resources are spent effectively, and consider spending challenges in planning and budget allocations for continual improvement. The 2022 SDG Budget Report is a significant achievement, aligning with the transition to the 2022-2025 Medium-Term National Development Policy Framework (MTNDPF) as a roadmap for national progress and attainment of the targets of the SDGs.

Budget transparency, advocacy and civic engagement

Efforts to increase budget transparency and civic awareness about social expenditures are part of a broader programme that investigates spending patterns and underlying obstacles. UNICEF partners with social sector ministries[129] to produce regular annual budget briefs and longer budget analyses to highlight particular bottlenecks and identify feasible solutions as well as targeted advocacy. Examples of how successful advocacy can address budget credibility challenges and enhance transparency include recent disbursement delays in Ghana's "Livelihoods Empowerment against Poverty" (LEAP) programme and a "Budget Innovation Challenge in 2021".

Disbursement delays to Ghana's LEAP programme were a particular challenge during the COVID-19 crisis, where the disbursement of the 2021 budget allocations to this programme were delayed. The programme had grown rapidly since its initiation in 2008 and by 2019, and about 1.4 million individuals were entitled to receive bi-monthly cash transfers through the MoGSCP. Evaluations of the programme have highlighted positive impacts on marginalized households. While the overall budget for the programme had grown and was almost exclusively financed by domestic resources, the programme suffered from budget credibility issues with repeated payment delays.[130] With the involvement of multiple actors, the successful process of advocacy and budget engagement ensured disbursements from the National Treasury to MoGSCP. Civil society groups were able to alert the MoSGSCP about disbursement delays. The MoGSCP, with the support of UNICEF and the World Bank, advocated with the Treasury to prioritize these releases by demonstrating the evidence case of the direct impact on LEAP programme subscribers and the long-term social risks of disbursement delays. Advocacy was conducted both internally and externally by generating media attention, following which the payments have been released by the National Treasury.[131]

Citizen budget advocacy is also a key tool to track local level expenditures. The Ministry of Finance and the Ministry of Local Governance and Rural Development (MoLGRD), with support from UNICEF and the Ghana Anti-Corruption Coalition, are seeking to leverage the use of digital solutions to further support citizen participation and engagement on the budget. A "Budget Innovation Challenge" was hosted in 2021, with selected innovation teams participating in a four-week incubation period to develop and test the digital product prototypes and train teams in budget formulation, analysis and advocacy. The complementary co-winning solutions both focused on access for communities with low literacy and/or internet connectivity through mobile-based access to budget information and a community-centred network, where each household received information from the district budget through regular meetings with community chiefs and religious leaders. In addition, the second solution also proposes a mobile application as a secondary solution for urban citizens. The two initiatives will be piloted in alignment with ongoing government initiatives on the automation of budget processes at the district level.[132]

129 Namely the ministries in charge of education, health, sanitation and water resources, and gender, children and social protection.
130 Republic of Ghana/UNICEF (2020), A fiscal space analysis (op.cit.), p.23.
131 UNICEF (2020), Ghana: Defending social sector expenditure in the face of worsening fiscal pressure.
132 MoF/MoLGRD, GACC, UNICEF (2021), My Local Budget Innovation Challenge.

Lessons learned and next steps

Over the past years, Ghana has enhanced its budget monitoring and reporting mechanisms to enable more effective use of resources. This includes reforms to central public finance systems to improve the availability of data to monitor and report spending, as well as prioritize transparency and citizen engagement. Ghana was able to identify and address a budget credibility challenge affecting a priority social programme during the pandemic, averting the risk of negative impacts on vulnerable groups and on social developments. Some of the key emerging lessons towards enhanced budget credibility include:

- Problems around budget credibility can only be resolved if they are documented. A credible budget requires tracking, reporting and justifying shifts of funding between spending priorities.

- A credible budget depends on robust monitoring and reporting mechanisms. Government reporting mechanisms need to provide visibility of disaggregated expenditure in a way that enables linking of priorities and budget allocations together with actual spending and results.

- Budget transparency and accountability requires inclusive and participatory engagement of citizens and stakeholders. This includes ensuring transparent and timely availability of relevant data and providing opportunities for genuine participation and engagement so that data, evidence, and insights can achieve policy and programme responses. Such mechanisms need to consider institutional structures and systems, and the broader political economy of the reform environment to enable effective advocacy, and ensure spending decisions to prioritize longer-term development benefits.

Nigeria – Contribution of subnational governments and civil society to increase the reliability of health budgets

Nigeria has experienced significant budget deviations, namely due to under-collection of revenue and under-spending of expenditure targets. At the aggregate level, average spending between 2009 and 2016 was 15 per cent lower than budget estimates, with peaks of up to 23 per cent (2010) and 29 per cent (2016).[133] Between 2018 and 2020, the average deviation of the federal budget stood at 32 per cent (Table A2.6).[134] Underspending results in low levels of public services, but also an extremely low implementation of public investments, where large priority projects are often not completed or even prioritized for implementation. For example, in several cases hospitals have failed to be equipped after construction.[135] Table A2.7 summarizes the most common drivers of deviations across sectors. Stakeholders at the subnational level – who are at the frontline of service delivery – and civil society organizations have played an active role in analysing the underlying causes and advocating for enhanced budget reliability.

Table A2.6: Average deviations in seven key sectors 2018–2020, Nigeria

Sector	Share of total spending	Budget deviation
Agriculture and food	2.00%	-55.00%
Education	6.00%	-36.00%
Environment	0.30%	-51.00%
Gender	0.07%	-49.00%
Health	4.00%	-31.00%
Social protection	4.00%	-32.00%
Water and sanitation	1.00%	-75.00%

Table A2.7: Most common underlying reasons for budget deviations, Nigeria

	Drivers
Revenue	• Higher than achievable revenue targets to drive collection • Underperformance of customs and "independent" (fees and service) revenue • Poor oil revenue projections due to poor production (rather than price) forecasts
Expenditure	• Ambitious projections, including due to legislator power to add (non-priority) projects • Funds for capital projects not released to MDAs (major) • Implementation challenges once funds are released, incl. procurement, systems, human resources.

133 IBP (2019), The contours of budget credibility in Nigeria, p.3.
134 IBP (2022), Nigeria: Budget credibility and the SDGs, p.9 and 20.
135 IBP (2019), The contours of budget credibility in Nigeria, p.4 and 5. The report indicates that more than 1/3 or public investment projects in 2006/2007 were never started; Later statistics are not available but the problem seems to persist and, especially when civil servants have low levels of management autonomies.

Nigeria's state governments play an important role in the delivery of social services. Under the Constitution of 1999, they have autonomy over the health, education and agricultural sectors and manage their own budgets. In the health sector, Nigeria's federal budget accounts for N593 billion (approximately US$1.4 billion) compared to N823 billion (approximately US$2 billion) of total state health budgets in 2022.[136] The 2014 National Health Act foresees that no less than one per cent (1 per cent) of consolidated federal revenue should be channelled to a basket fund, the "Basic Healthcare Provision Fund" (BHCPF), which states can access if they provide counterpart funds (25 per cent of state funding is matched with 75 per cent of federal funds).[137] The Act also introduced state level Primary Health Care Boards (PHC Boards) to mobilize these resources and coordinate stakeholder engagement in the health system. PHC Boards aim to ensure coherent planning, budgeting, monitoring and evaluation for all primary health care (PHC) facilities operating in their state. This includes resource mobilization, facilitation and supervision of service delivery, as well as community involvement and multi-disciplinary collaboration with other states.[138] In recent years, additional states have successfully established the institutional structures needed to operationalize these provisions.

In Oyo State, Nigeria's state with the lowest per capita health budget in the country,[139] the PHC Board has been in place since 2017. As a technically driven and independent board, it has been working to enhance budgetary provisions for health services, namely by budgeting counterpart funds and strengthening the transparency and accountability mechanisms that are required to allow PHC facilities to directly access BHCPF disbursements. To ensure targeted funding, PHC facilities develop their business plans which are vetted and monitored by the PHC Board, a system that considerably limits the possibility to spend funds on intervention that differs from the planned expenditure. To ensure transparency and local accountability, communities have Ward Development Committees (WDC)[140] that work directly with the leadership of the PHC facility to identify community needs and authorize expenditures. This allows for a more robust health funding system with sufficient checks and balances to align funds with actual needs.[141]

Especially in the health sector, states with high health care budget allocations often stand out for their low service delivery. In contrast, Oyo State and Anambra State have the lowest funds available but a relatively high service provision (Figure A2.9). Both states have increased their health allocations between 2020/2021 and 2021/2022, but remain far below the target of the 2001 Abuja Declaration to allocate 15 per cent of the annual budget to the improvement of the health sector (Oyo at around 7 per cent; Anambra at around 9 per cent in 2020–2022).[142] Further investigation is needed to establish links and causalities, but this indicates the importance of setting credible and realistic budgets, for which governments have the capacity to translate them efficiently and effectively into quality services.

136 ONE (2023), Post-Pandemic Health Financing by State Governments in Nigeria (2022–2023), p.7. US$ calculated by the author of this illustrative example based on an exchange rate of US$1 = N423.
137 Data from: BHCPF (2020), Guideline for the administration, disbursement and monitoring of the basic healthcare provision fund, p.19 and p.39.
138 Oyo State, Primary Health Care Board (website) (Last access: 20.06.2023).
139 The allocated health budget per head stood at N1 560 per head in 2020–2022. Source: ONE (2023), Post-Pandemic Health Financing by State Governments in Nigeria (2022–2023), p.9.
140 Nigeria is organized in a Ward Health System (WHS) where each political ward should have ≥1 functional PHC facility; For a recent assessment of the state of play and the capacity to use BHCPF disbursements in Oyo State (p.149) and others, see: ONE Campaign/NA4H/NHW/PPDC (2022), The State of Primary Healthcare Service Delivery in Nigeria, 2019–2021. (last access: 20.06.23).
141 Presentation of Dr. Olatunji, Executive Secretary of the Oyo State Primary Health Care Board at FfD2023 Side event – Making Budgets Credible,: Country lessons and Approaches.
142 ONE(2023), Post-Pandemic Health Financing by State Governments in Nigeria (2022–2023), p.8, 13, 18.

Figure A2.9: Budget per person vs. health delivery score, Nigeria

Source: ONE (2023), Post-Pandemic Health Financing by state Governments in Nigeria (2022–2023).

Civil society and community-based organizations also play a crucial role, especially to fill the significant data gaps around the reliability of health budgets, and to bring federal and state budgets closer to citizens. In Anambra State, COMEN, a network of community-based civil-society associations, has identified that the primary bottlenecks to the delivery of better-quality healthcare services was not only the lack of revenue, but also due to gaps in the procurement process, lack of personnel and equipment and delays in the release of funds. Together with its technical partners,[143] COMEN developed a targeted advocacy strategy that considered budget analysis, the local political economy, as well as a stakeholder mapping to fully understand how budget decisions in the primary healthcare sector were taken. To sustain the analytical work over time, COMEN enabled existing town unions[144] to interpret and monitor budgets. Based on this analysis, COMEN members built relationships with local authorities, community leaders, and frontline health workers to overcome a persistent lack of trust, deepen the analysis of service gaps and develop clearly structured Community Charters of Demand. These charters included the repair of PHC facilities and access to clean water and basic sanitation, which had previously been identified as a top priority.[145]

143 IBP, JDPC and Centre LSD.
144 Town unions exist in several communities as a space for exchange between community members and local officials around local needs.
145 International Budget Partnership (2021) COMEN: Communities achieve much needed investments in primary healthcare.

The demands were submitted to the Anambra State Government's Ministry of Economic Planning, Budget and Development. In addition, public awareness raising campaigns on local radio and TV channels have created external pressure and key demands linked to a national health budget campaign and presented to oversight institutions (e.g. National Assembly health committee, Anambra State legislators) and development partners. The campaign coincided with the spread of the COVID-19 pandemic, a time where the state government was particularly receptive to improve its image as a "champion of good health".[146] Eventually, the advocacy and coalition building efforts have led to a 6.4 per cent increase of health budget allocations in the 2020 state health budget. They also provided for new arrangements that encouraged local authorities to budget and disburse counterpart funds for the BHCPF, making Anambra one of the first states to access these funds. Allocations for PHC facilities were supervised by the agency responsible for their repair and launched renovations in 15 out of the 21 focus facilities of the campaign. Overall, 175 out of 325 PHC facilities have received a first disbursement.[147]

In a similar light, coalitions in other states have successfully advocated for increases of the number of PHC facilities, prevented budget cuts in the federal agricultural budget and achieved more transparent data on public infrastructure projects through a "geotagging" requirement in the 2022 federal budget circular.[148] By ensuring that all government agencies identify where projects above N150 million (US$355,000)[149] are localized, CSOs can more easily monitor whether budgets are spent as planned.

Lessons learned and next steps

In Nigeria, progress to fund primary healthcare investments and build more reliable health budgets depends largely on the role of subnational stakeholders. While the 2014 National Health Act provides the legal basis to improve the funding of basic healthcare provisions, its implementation builds on the construction of institutional structures at the state level and the capacity of CSOs to engage all relevant stakeholders around the delivery and improvement of budgeted services.

As such, Nigeria's experience to operationalize provisions around the BHCPF illustrates a series of emerging lessons towards enhanced budget credibility:

- Subnational governments are at the forefront of social service delivery. Engaging their responsibility to mobilize and allocate funds better addresses actual priorities and spending capacities.

- Budget credibility is not only an administrative issue. Addressing bottlenecks across the PFM cycle that cause low budget credibility highly depends on a common understanding of underlying issues between local authorities, communities and frontline workers that are responsible for the final service delivery.

- CSOs with a strong presence at the community-level are well placed to strengthen consensus and coalitions to effectively address bottlenecks that result in low budget credibility. Such dialogue processes are most effective when they build on existing formal structures (e.g. ward development committees, town unions, etc.) and enable all constituencies to fully understand and take part in data analysis and consensus building efforts.

146 Ibid, p.6.
147 Ibid.
148 IBP, Nigeria (website); IBP, Budget Credibility/About Budget credibility/Key successes (last access: 20.06.23).
149 IBP (2022), Annual Report, p.7.

Kenya – Enhancing budget credibility through a multi-pronged approach to strengthen PFM systems and social accountability processes

In Kenya, national and county governments have shared responsibilities for social services and subsequent transparency (Fourth Schedule of the 2010 Constitution), but service delivery has been challenged by budget credibility issues for social ministries and counties. Over the past decade, sectors in which devolution was initiated and with high shares of official development assistance in their resource envelope [e.g. sectors like water (16 per cent in 2021), and agriculture (22 per cent in 2021)][150] faced particular challenges.[151] In 2021, the average underperformance for the Kenyan health sector was estimated at 13 per cent (up from 24 per cent in 2020), at 11 per cent in the area of social protection (up from 15 per cent in 2020).[152, 153] At the local level, almost half of the counties showed more than a 15 per cent deviation in their execution rate.[154] Kenyan counties have observed an overall low budget credibility (80 per cent) and even worse when it comes to capital spending (less than 60 per cent, on average).[155] The reasons for these issues are often complex, but some of them have been well documented across the Kenyan PFM cycle (see Table A2.8). To address these challenges, the government has adopted a multi-pronged approach that combines the strengthening of PFM systems and processes at the national and subnational levels with initiatives to improve transparency and social accountability.

Table A2.8: Most common underlying reasons for budget credibility issues, Kenya

Budget Formulation/Approval	Budget implementation	Budget monitoring
Weaknesses in planning and budgeting practices – ***Work plans developed after the budget***	Delays in inter-governmental transfers	Use of different financial management systems producing non coherent reports
	Under performance of own source revenue; cash flow planning and management	Insufficient documentation and reporting of expenditure and its use
Delays in the approval of national and county policies – ***Division of Revenue bills and Allocation of grant bills***	Inefficient and ineffective procurement processes-; procurement plans not aligned with cash flow plans	Use of appropriate budget classification systems
	Multiple supplementary budgets; Budget revision crossing more than 10% of approved budget	Lack of coordination and separate reporting mechanisms between domestic and external financing sources

Source: Authors based on UNICEF (2023), ECD budget credibility, The case of Kenya, PPT; IBP (2023), Budget Credibility for Health and Immunization Spending in Kenya; IBP (2019) Budget Credibility in Kenya's Counties.

150 Republic of Kenya/UNICEF/KIPPRA (2023), Kenya 2022 National Budget Brief, p.10.
151 International Budget Partnership (IBP) (2019), Budget Credibility in Kenya's Counties.
152 Republic of Kenya/UNICEF/KIPPRA (2023), Kenya 2022 National Budget Brief, p.10.
153 A summary of Kenya's 2022 PEFA assessment is available here.
154 IBP (2023), Budget Credibility for Health and Immunization Spending in Kenya: Case Studies on Nakuru and Kakamega Counties.
155 IBP (2019), Budget Credibility in Kenya's Counties.

Transparency and the availability of budget information for enhanced decision-making during the budget process depends largely on the capacities of PFM systems and processes to produce and utilize quality data. Since 2019, the National Treasury – with the support of UNICEF Kenya, World Bank, the International Monetary Fund and the European Union – has dedicated substantial efforts to update its Standard Chart of Accounts (SCoA) based on a workable roadmap. The reform aims to address key PFM bottlenecks (see Box A2.1) and introduced sector-specific budget codes to improve recording and granular reporting of sector-specific expenditure. This included the harmonization of programmes and sub-programmes, as well as the introduction of codes for subnational governments. In addition, the introduction of indicators into programme-based budgeting also forms the basis for monitoring of SDG-related targets.

Box A2.1: Key PFM needs addressed by the SCoA reforms, Kenya

- Support programme-based budgeting.
- Migrate to accrual basis of accounting.
- Revise SCoA user manual.
- Upgrade SCoA to GFSM 2014.
- Assess ICT capability to fully exploit the revised SCoA.
- Address disharmony between budget and financial reports.
- Address lack of clarity of expenditure classifications.
- Revamp the SCoA governance structure.
- Address other matters related to SCoA.

The process has now entered a second phase, which requires the configuration of other systems, including the Integrated Financial Management Information System (IFMIS),[156] to respond to it. Political commitment from the cabinet will be critical to ensure sufficient political buy-in and actual implementation of the updated system.

Simultaneously, the Kenyan Government has worked to strengthen other systems, such as the automation of the budget reporting system for the Office of the Controller of Budget and National and County Integrated Monitoring and Evaluation (M&E) systems. The county-integrated M&E systems are at different stages of implementation in Kenya's 47 county governments to connect monitoring efforts of the 5-year County Integrated Development Plan. Their target is to strengthen transparency, as well as the capacity to generate evidence and operationalize inclusive citizen engagement and accountability. Data for both the national and the county M&E systems are collected through dedicated officers in National Ministries, Departments, Agencies (MDAs) and the respective county government departments.

156 To include the SCoA into the IFMIS, the Kenyan government is choosing between two options: A simple "vertical change" that focuses on changes of the granular components of an existing SCoA segment; A "horizontal" reconfiguration of the system that introduces new segments and comprises an overhaul of the SCoA.

Citizen engagement to document challenges in budget implementation at the county level

While PFM reforms can require time to work with existing governance structures, civil society can be more efficient and responsive. In the case of Kenya, civil society and community-based organizations have been actively engaged in synthesizing complex budget information and creating straightforward, user-friendly, knowledgeable resources for communities to improve oversight in the budget process. UNICEF's partnership with local think tanks and administrations produces regular budget briefs and knowledge products for all counties. Data is collected through county budget facilitators and "champions for data collection" from local CSOs. To consolidate data, these facilitators and champions are organized into regional hubs that will cover all counties by the beginning of 2024.

Moreover, Kenya is producing county level budget transparency surveys together with IBP biannually. The budget briefs are widely disseminated and combined with the training of "champions of budget" – community leaders who have the capacity to analyse and monitor budget implementation at local level. Examples of success include the re-launch of stalled health laboratory investments in Busia County, after a group of citizens approached local authorities about the non-execution of a KES2 million (approximately US$17,000)[157] allocation. The group also successfully advocated for the provision of equipment for a health centre, which is now operational.

Budget transparency is key to enhance public trust and allow citizens to fully take part in the budget process. A recent study on county budget transparency in Kenya[158] reports positive outcomes in terms of counties' willingness to improve their level of budget transparency by making budget information publicly available. In 2022, 33 out of 47 counties improved their transparency scores and the average score of information comprehensiveness is 41 out of 100 points (35/100 in 2021). Improvements come from across Kenya and suggest potential for addressing low credibility over time. However, significant efforts remain to be made when it comes to the publication of budget execution reports, which are crucial to allow for monitoring of the actual implementation of budget targets.[159] Meanwhile, access to official budget documents at the central government level has stagnated at 50/100 since 2010.[160]

To enhance transparency at the national level, the Budget Department at the National Treasury and State Department for Economic Planning with UNICEF support has started to develop a budget portal with comprehensive public expenditure information for all national MDAs and counties. The portal will include a public interface and will support customized analysis through its end-users. Identified bottlenecks around oversight, accountability and transparency will also be addressed through the 2023 – 2028 PFM Reform Strategy, which is currently under preparation at the National Treasury with UNICEF support.

157 Based on the 2022 Average Exchange rate of US$1=KES118, Source: World Bank Data Bank.
158 IBP (2023), The Kenya County Budget Transparency Survey 2022.
159 Ibid.
160 IBP (2021), Open Budget Survey Kenya, p.3.

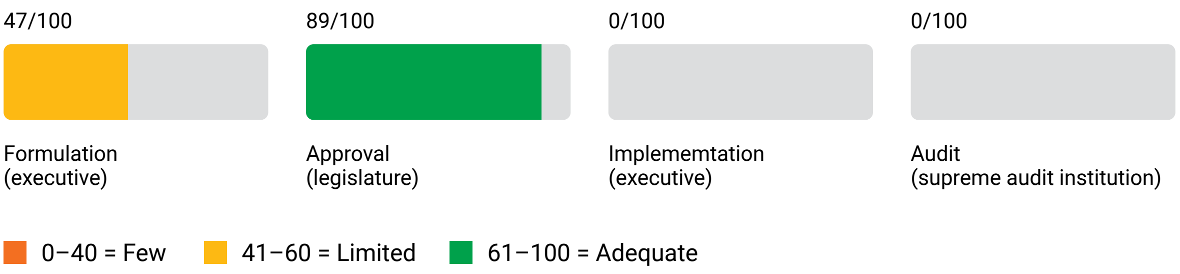
Leveraging community participation in national budget processes through social budgeting and social intelligence reporting

Kenya's National Treasury and State Department for Economic Planning have been introducing participatory budget and monitoring approaches since 2005, in parallel with county reforms. In collaboration with county governments, Social Budgeting (SB) and Social Intelligence Reporting (SIR) Systems run at the central level aim at enabling citizens' participation in social development and fostering effective communication between citizens and the national and county governments on service delivery. They have been formalized through a policy guidance in 2010, but faced challenges around paper-based reports, poor peer learning and the slow implementation of action plans or corrective measures resulting from communication delays with the responsible agencies. A digitization of the system in 2016 did not manage to resolve these issues, as awareness among communities remained low.

In order to guide officers who train communities, revised guidelines were launched in 2022 and the SIR continues to be considered as an important tool to monitor the delivery status of public social services in Kenya, including primary education, health service delivery, social protection and nutrition standards.[161] With the new system, any citizen who has access to a smart mobile phone can send pictures and a comment concerning the progress of development projects to a toll-free number. Demands are treated by a team in the Social Governance Department of the National Treasury and Planning, and transferred to the responsible government agency. The agency is responsible for follow-up action/feedback to the community. This feedback is channelled and monitored through the social governance department. Further democratization of the system should increase opportunities for public participation as a lever to enhance budget credibility throughout the budget process (see Figure A2.10).

While the scheme has strong potential, the results are yet to be seen at the aggregate level. Public participation in Kenya's budget process is a constitutional requirement. It is implemented through different policy and budget processes – at the level of Treasury when formulating the national budget, at the county executive level when formulating county budgets, at the parliament and county assembly levels when interrogating budgets and laws, and at the Office of the Controller of Budget when releasing funds to spending units at the national and county levels. The latest data of the Open budget survey reflects that public participation is above the global average (31 in Kenya compared to a global average of 14), but still insufficient. While there is some public participation in budget formulation and adequate public participation in budget approval, almost no participation takes place at the stages of budget implementation, monitoring and audit (see Figure A2.10).[162]

Figure A2.10: Extent of opportunities for public participation in the budgetary process, Kenya



Source: IBP: Open Budget Survey Kenya.

161 National Treasury and Economic Planning (2022), Launching of the Revised Social Budgeting and Social Intelligence Reporting Guidelines.
162 See IBP (2021), Open Budget Survey Kenya, p.3.

Lessons learned and next steps

Over the past decade, Kenya has consolidated its devolution process through systems and governance reforms at national and county levels. Kenya's approach to enhance delivery of public investments and social services by combining the strengthening of PFM systems with increased participation of citizens across the budget cycle, illustrates a series of emerging lessons regarding enhanced budget credibility:

- A credible budget depends on the capacities of PFM systems and processes to produce and utilize quality data. This requires a systematic approach that generates political buy-in across government. Understanding and leveraging a country's overall political economy is important, otherwise, the wider political and institutional environment can represent bottlenecks that are more difficult to overcome than the weak performance of systems.

- Citizen engagement and budget transparency are mutually reinforcing. The willingness of governments to publish their budget documents is a key prerequisite to enhance public trust. In turn, the level of publications tends to be higher when there is a clear demand from citizens to fully take part in the budget process.[163]

- Budgets become more reliable when there are participatory mechanisms to monitor them. The accessibility, simplicity and responsiveness of these mechanisms will affect the willingness of citizens to use them.

163 Also confirmed by IBP (2023), The Kenya County Budget Transparency Survey 2022, p.9.

References

Cho, C., Lakin, J., Griffiths, U., (2019), Underspent immunization Budgets, A budget credibility analysis of 22 countries, IBP and UNICEF

FAO (2014), Local Economy-wide Impact Evaluation (LEWIE) of Ghana's Livelihood Empowerment Against Poverty (LEAP) programme.

FMoHP and BEK/NHSSP (2022). Health Sector Budget Analysis: First Five Years of Federalism. Federal Ministry of Health and Population and British Embassy Kathmandu/Nepal Health Sector Support Programme.

IATF (2019–2023), Financing for Sustainable Development Reports.

Integrated National Financing Frameworks (website) – Relevant country reports.

International Budget Partnerships (2018), Making and Keeping Promises: Why Budget Credibility Matters.

International Budget Partnerships (2019a), How Governments Report on and Justify Budget Deviations: Examples from 23 Countries.

International Budget Partnerships (2019b), Indonesia: Maternal and Child Nutrition. Explaining Budget Deviation. A Budget Credibility Snapshot.

International Budget Partnerships (2019c), Budget Credibility Across Countries: How Deviations are Affecting Spending on Social Priorities.

International Budget Partnerships (2019e), How Governments Report on and Justify Budget Deviation: Examples from 23 Countries

International Budget Partnerships (2020a), Strengthening Budget Credibility for Service Delivery Project Overview.

International Budget Partnership (2020b), A new social contract for a post-pandemic world (blog)

International Budget Partnership (2021), Guide to the Open Budget Questionnaire: An explanation of the questions and the response options

International Budget Partnership (2022a), Connecting Budget Credibility and the Sustainable Development Goals: Results from 13 Country Investigations.

International Budget Partnership (2022b), Ghana: Budget Credibility and the Sustainable Development Goals.

IMF (2023), How Does The IMF Encourage Fiscal Transparency

IMF (2022), Trust what you hear. Policy Communication, Expectations and Fiscal Credibility

IMF (2021), When it comes to public finance credibility is key

IMF (2019), Fiscal Transparency code.

Khagram, S., Renzio de, P., Fung, A., (2016) Overview and Synthesis: The Political Economy of Fiscal Transparency, Participation, and Accountability around the World, Brookings.

PEFA (2016), Framework for assessing public financial management.

PEFA (2022), Guidance for Subnational Government PEFA Assessments.

PEFA (website), Relevant country reports.

Piatti-Fünfkirchen, Fedja Pivodic, Margin (2021), Budget-Execution-in-Health-Concepts-Trends-and-Policy-Issues, World Bank

Schick, A. (2011) 'Repairing the Budget Contract between Citizens and the State', OECD Journal on Budgeting, Vol.11/3.

Schouten, C., Hendra, J. (2017), Open budgeting and monitoring for the Sustainable Development Goals: A country-level perspective in Financing the UN Development System, Pathways to Reposition for
Agenda 2030, p.150–153.

Simson/Welham (2014), Incredible Budgets, ODI.

UNICEF, Resources for public finance analyses (website)

UNICEF (2023a), Costing of Social Service Delivery at Local Level in Malawi.

UNICEF (2023b), Social Sector Summary Budget Brief.

UNICEF (2019), Public Finance for Children Strategy (Malawi Country Office).

UNICEF (2017), WASH Guidelines developed with Social Policy.

UNICEF East Asia and Pacific (2022), POLICY WORKING PAPER, Social Sectors' Allocations for Countries in South and Southeast Asia and Pacific, Regional Budget Report (Draft version).

UNDESA/UNDP (2020), What is a "Good Practice"?, A framework to analyse the Quality of Stakeholder Engagement in implementation and follow-up of the 2030 Agenda.

Wildavsky, A. (1984), The politics of the budgetary process, Boston.

World Bank, BOOST Open Budget Portal (website)

unicef
for every child

INFF Integrated National Financing Frameworks

For more information:
www.inff.org

Comments and feedback:
rgulrajani@unicef.org and ogoni@unicef.org