



# **NATIONAL BUDGET PRACTICES FOR A PROFESSIONAL GOVERNMENT**



# IMPROVING NATIONAL BUDGET PRACTICES

*Solutions for a professional government*

27<sup>th</sup> February 2020

The background of the slide is a close-up, slightly blurred image of several coins of different denominations and colors, including silver, gold, and copper. The coins are scattered across the frame, with some showing intricate designs and text.

# OUTLINE

Implementation

Formulation

Controls

Solutions

# Implementation

The background of the slide is a collage of various coins. In the center, there is a large silver coin with the text 'SRI LANKA' and 'ශ්‍රී ලංකා' visible. To its right, there are several gold coins, some with intricate designs. Other silver coins are scattered around, some showing the Lion Capital of Ashoka. The coins are overlapping and create a textured, metallic background.

**Poor Delivery**

Failing to meet  
expectations

**Mismanagement**

Doing the unexpected



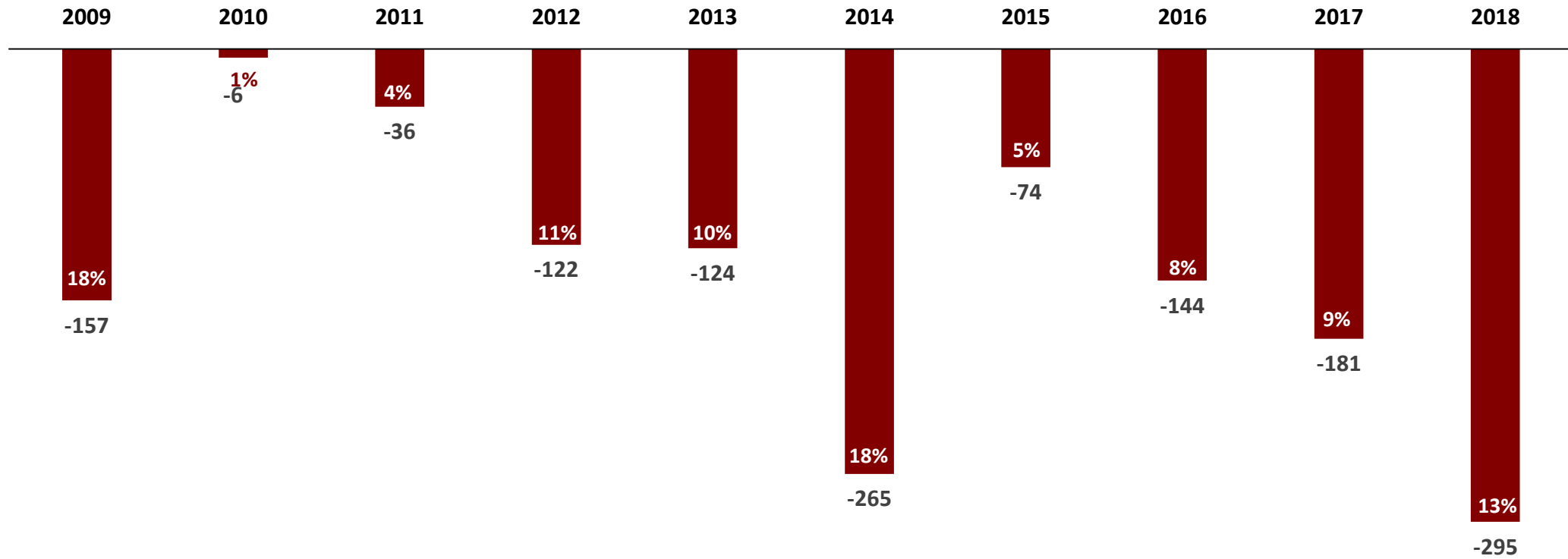
# Poor Delivery

*Failing to meet expectations*

# Failing to meet targets

*Revenue is consistently under-performing*

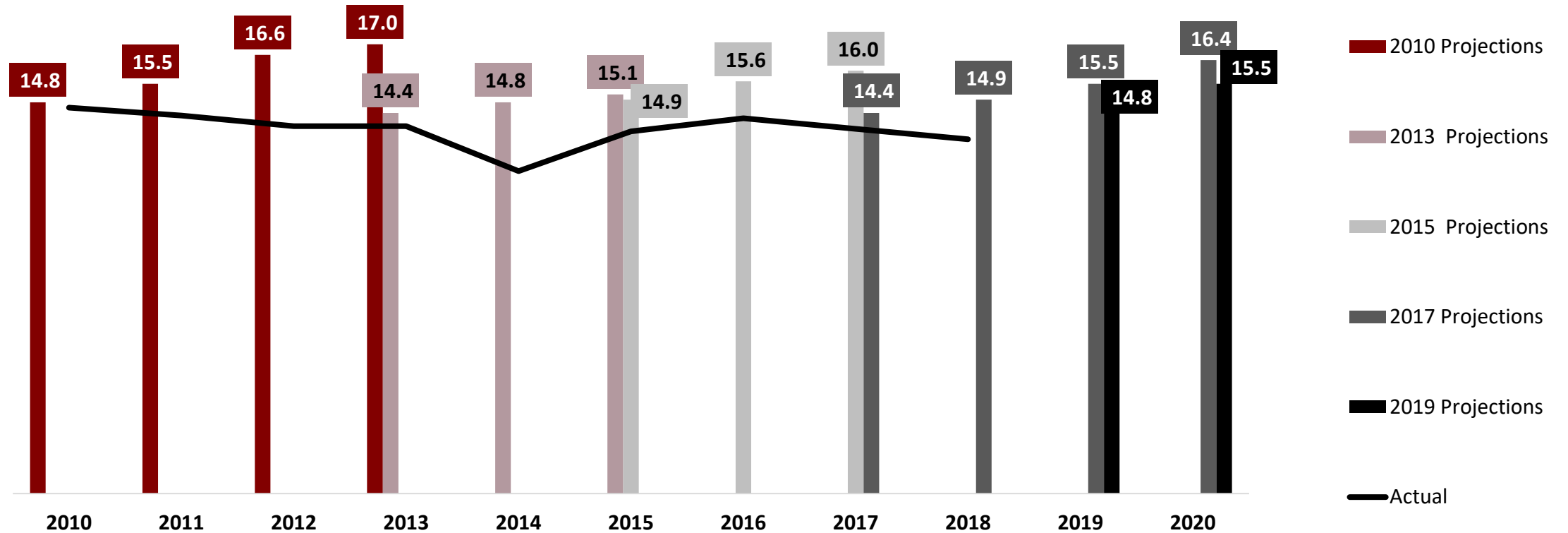
Gap in projected and actual revenue (in LKR billions and as a share of projected revenue)



# Failing to meet targets

*Consistently missing and revising revenue targets*

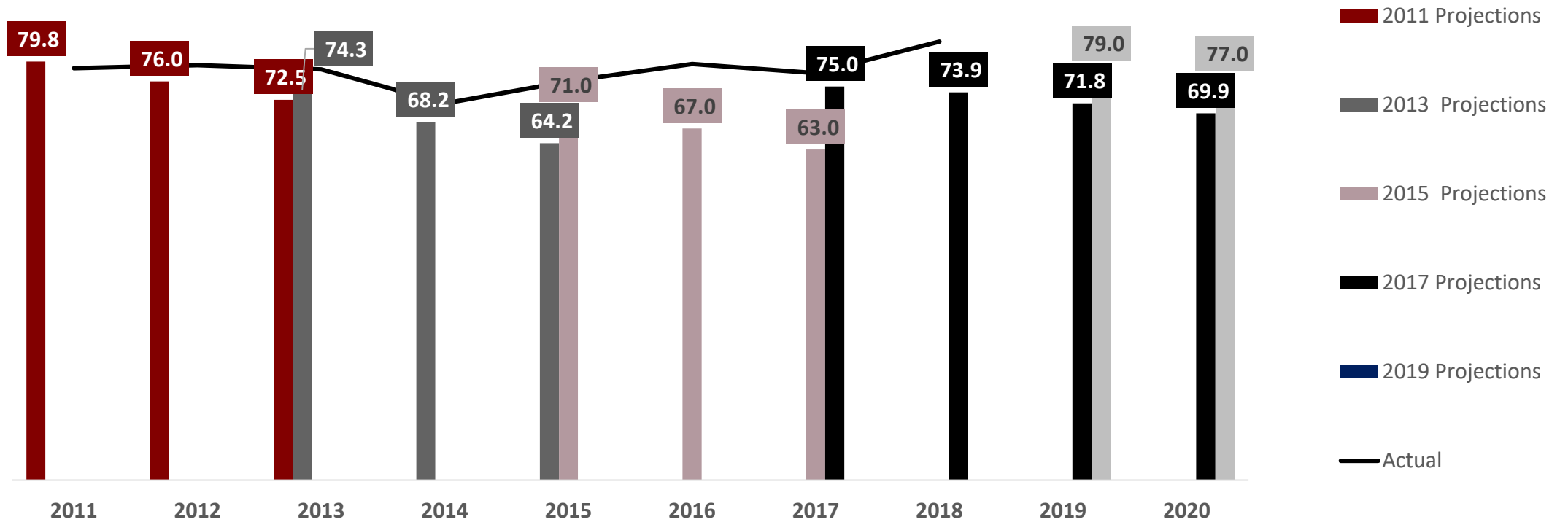
Projected and actual revenue levels (share of GDP)



# Failing to meet targets

*Consistently missing and revising debt targets*

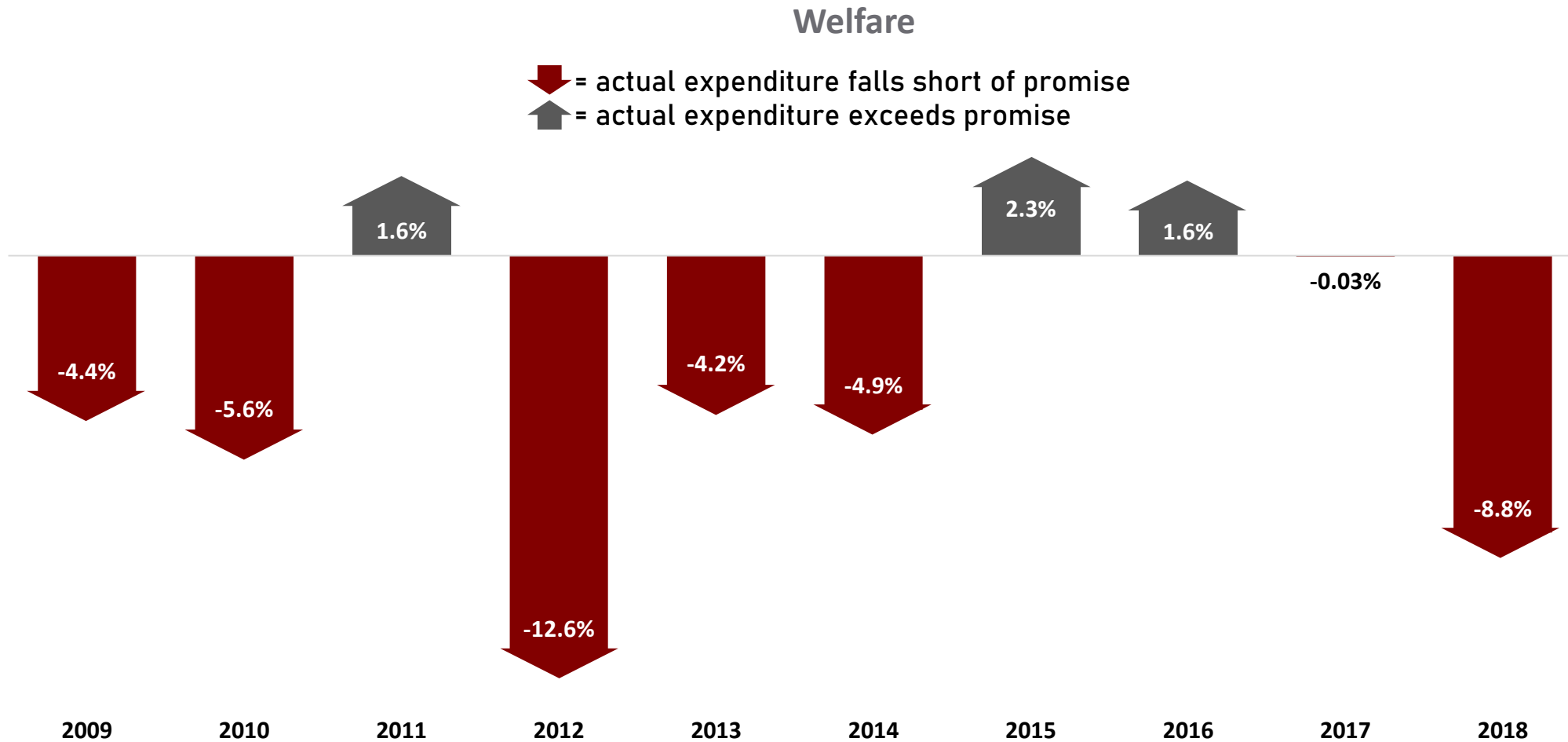
Projected vs. actual debt (as a share of GDP)





# Failing to keep budget promises

*Actual expenditure frequently falls short of budgeted expenditure*

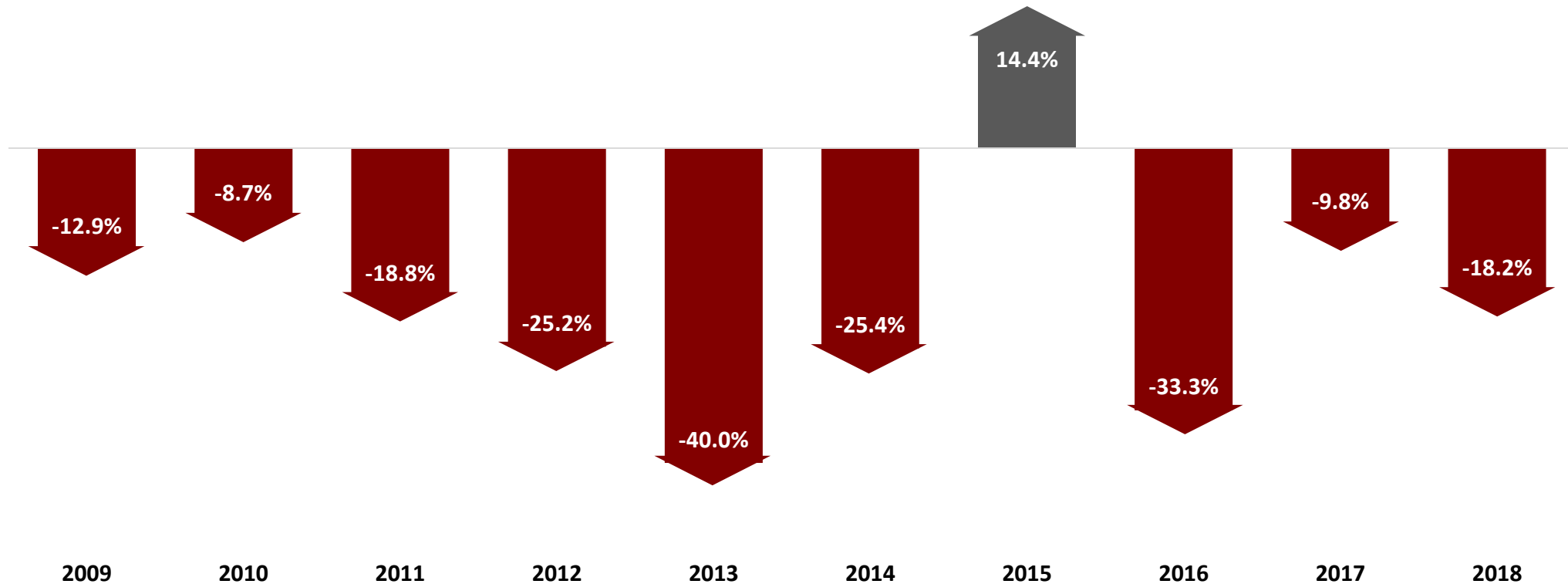


# Failing to keep budget promises

*Actual expenditure frequently falls short of budgeted expenditure*

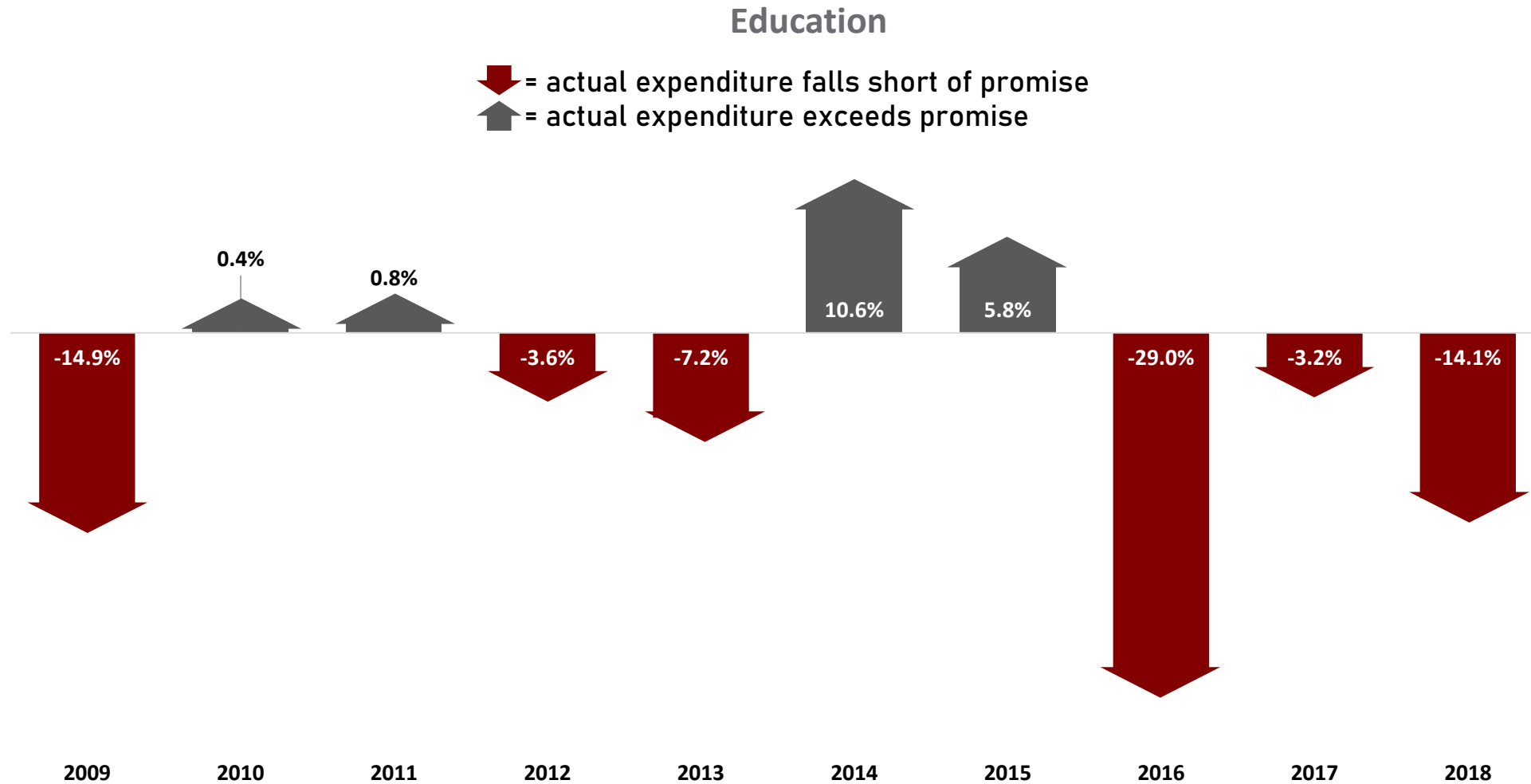
## Agriculture & Irrigation

↓ = actual expenditure falls short of promise  
↑ = actual expenditure exceeds promise



# Failing to keep budget promises

*Actual expenditure frequently falls short of budgeted expenditure*





# Mismanagement

*Doing the unexpected*

# The discretionary budget

*Meant for unforeseen expenditure at short notice*

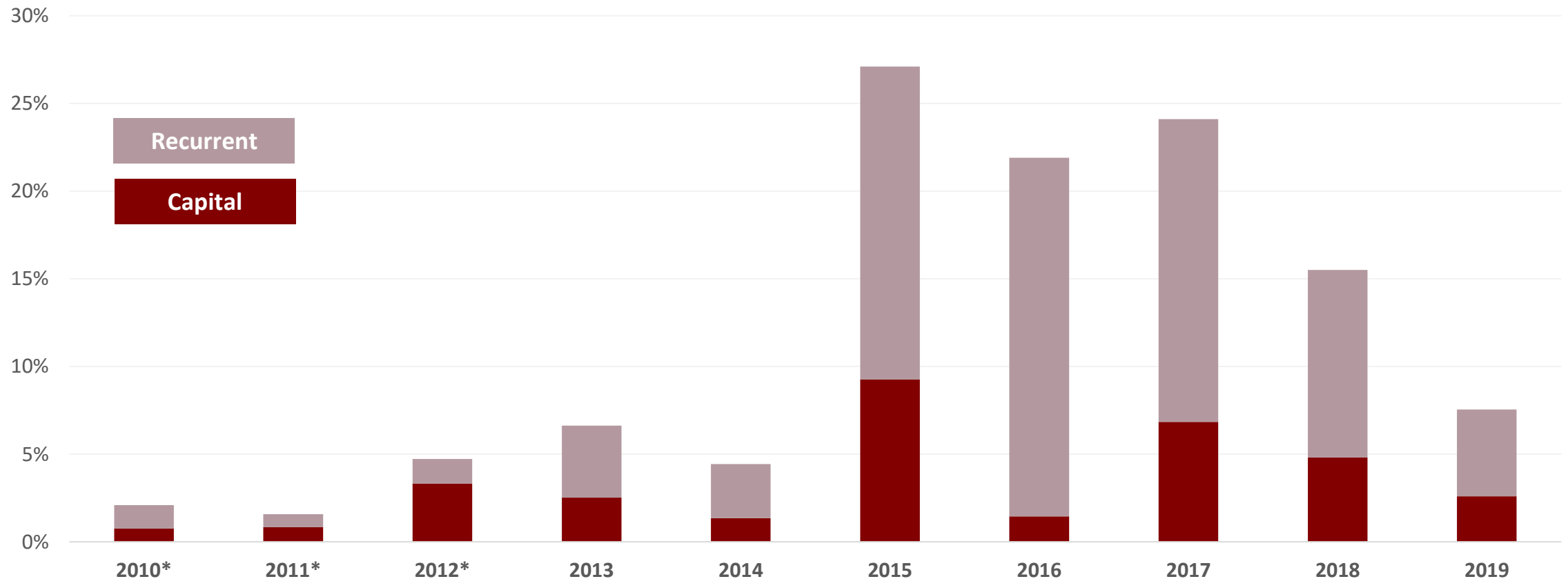
6. (1) Any money allocated to Recurrent Expenditure or Capital Expenditure under the “Development Activities” Programme appearing under the Head “Department of National Budget” specified in the First Schedule, may be transferred subject to guidelines stipulated in printed Budget Estimates approved by Parliament for the relevant year, to any other Programme under any other Head in that Schedule, by Order of the Secretary to the Treasury or by Order either of a Deputy Secretary to the Treasury or the Director General of the National Budget Department, who may be authorized in that behalf by the Secretary to the Treasury. The money so transferred shall be deemed to be a supplementary allocation made to the particular Ministry, and a report containing the amount of money so transferred and the reasons for the transfer, shall be submitted to Parliament within two months of the date of the said transfer.

Money allocated to the “Development Activities” Programme may be transferred to any other Programme under any other Head.

# The discretionary budget

*The larger the share, the weaker the credibility*

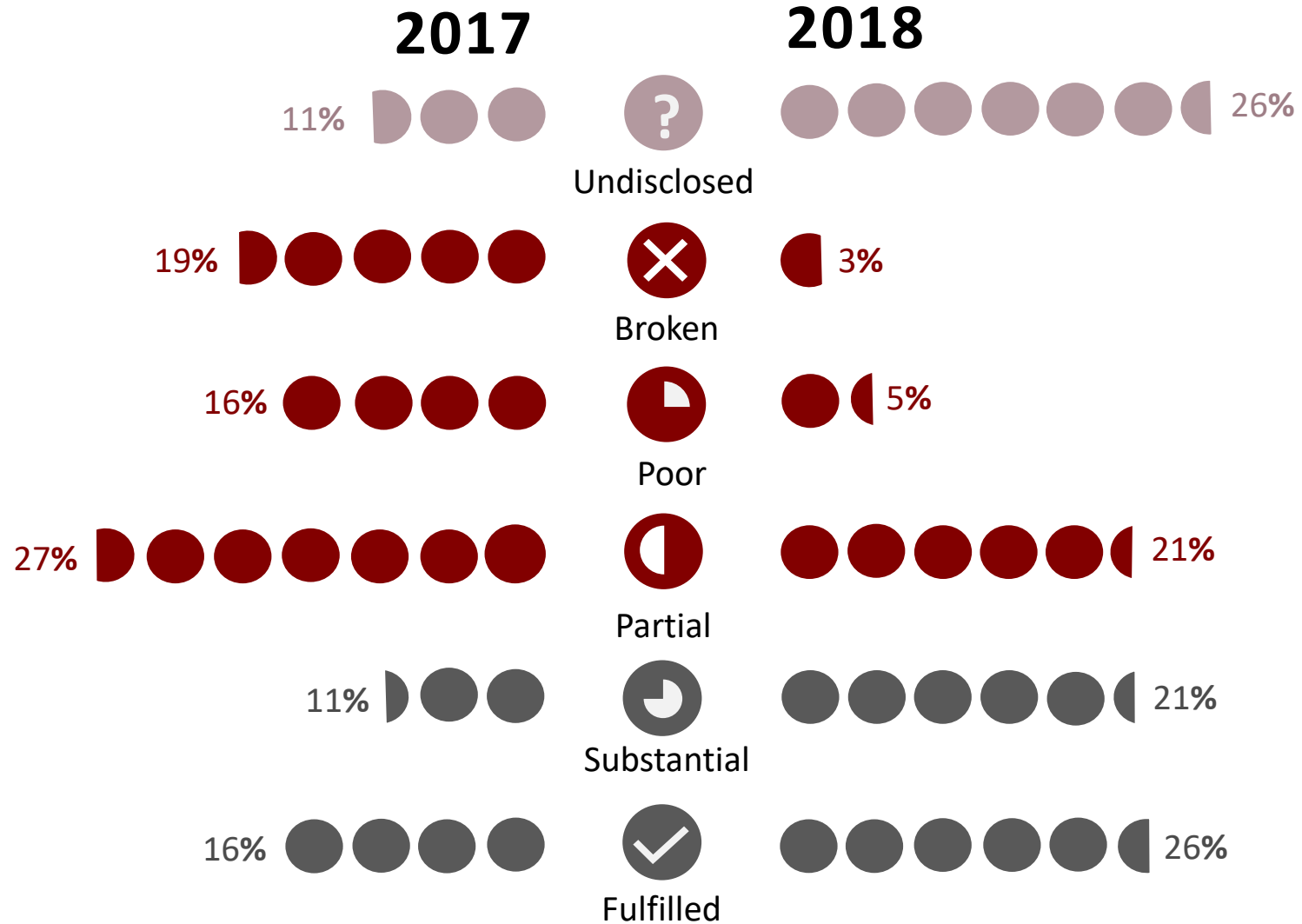
Development Activities of Department of National Budget  
(as a share of total estimated expenditure)



# Budget speech proposals

*Grand promises, poor implementation*

## New Expenditure Proposals Over LKR 1 Billion





# Why Is Implementation Weak?

*Poor formulation  
& weak controls*



# Formulation

**Revenue and expenditure proposals both suffer from three main problems**

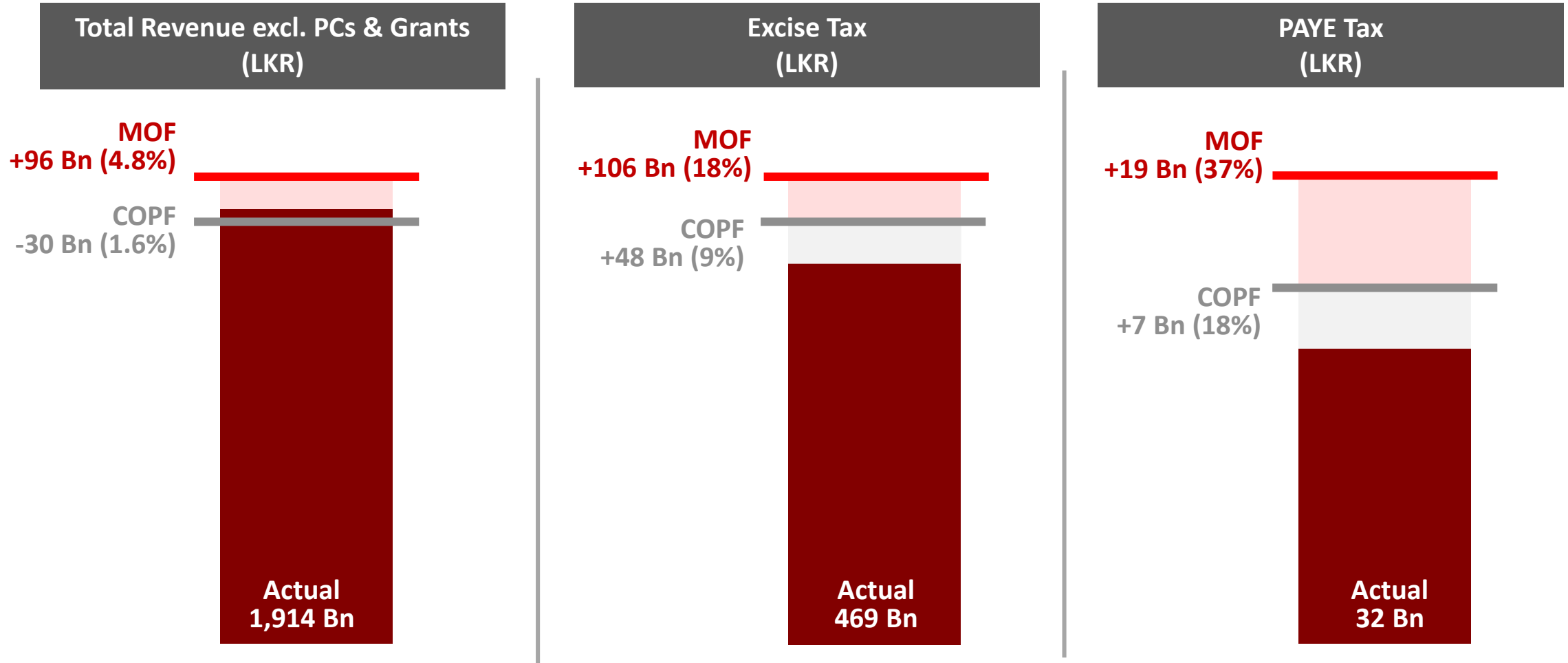
**Insufficient  
research/data  
analysis**

**Limited/No  
feasibility analysis**

**No risk and  
scenario analysis**

# Poor Formulation

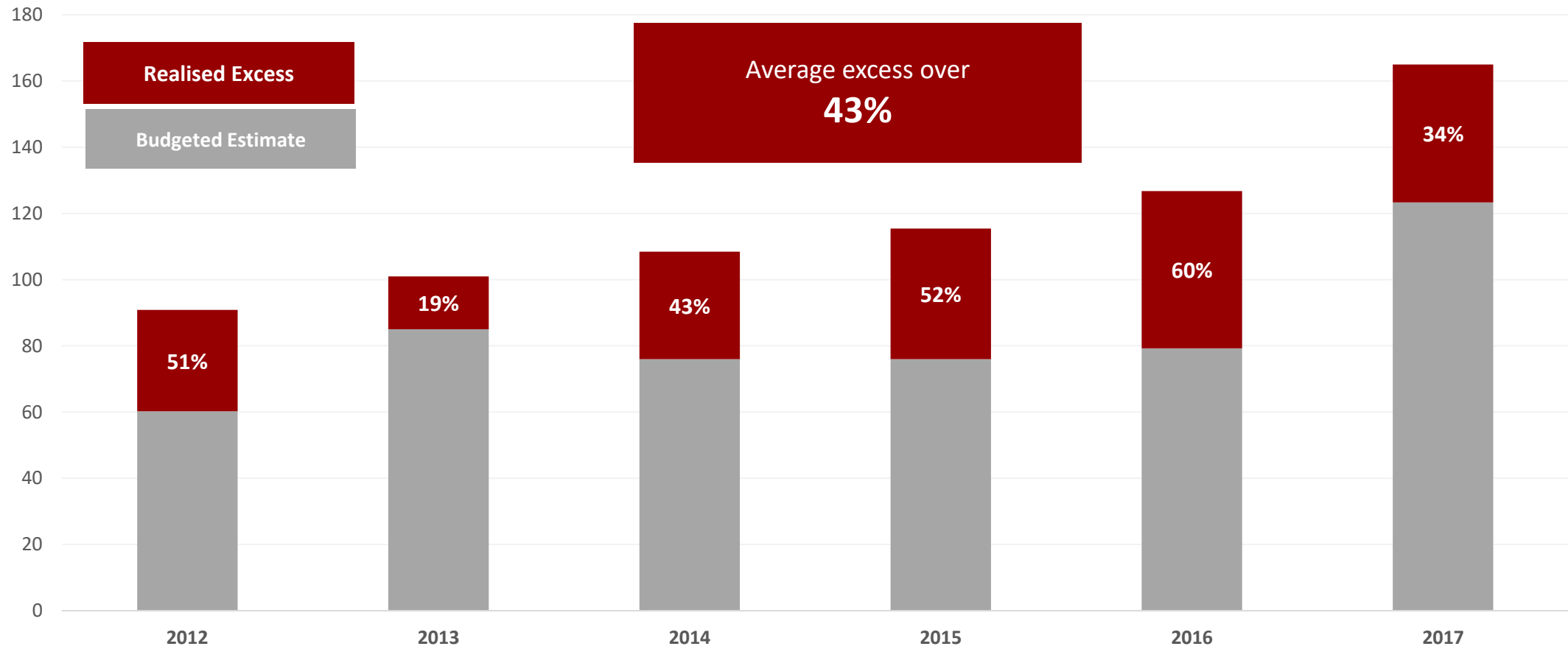
*Limited data/research leads to unrealistic revenue expectations*



# Poor Formulation

*Limited data/research leads to unrealistic revenue expectations*

Foreign interest payments (in LKR billions)



# Poor Formulation

*Lack of feasibility studies leads to unrealistic projections & poor delivery*

## Progress of Development Projects 2017

Required time extension (months)	No of Projects
0 to 06	33
7 to 12	88
13 to 18	12
19 to 24	15
25 to 30	04
31 to 36	06
37 to 42	05
43 to 48	04
49 to 54	01
Over 55	08
<b>Total</b>	<b>176</b>

**“8 projects**  
required an extension of  
**more than 6 additional years”**

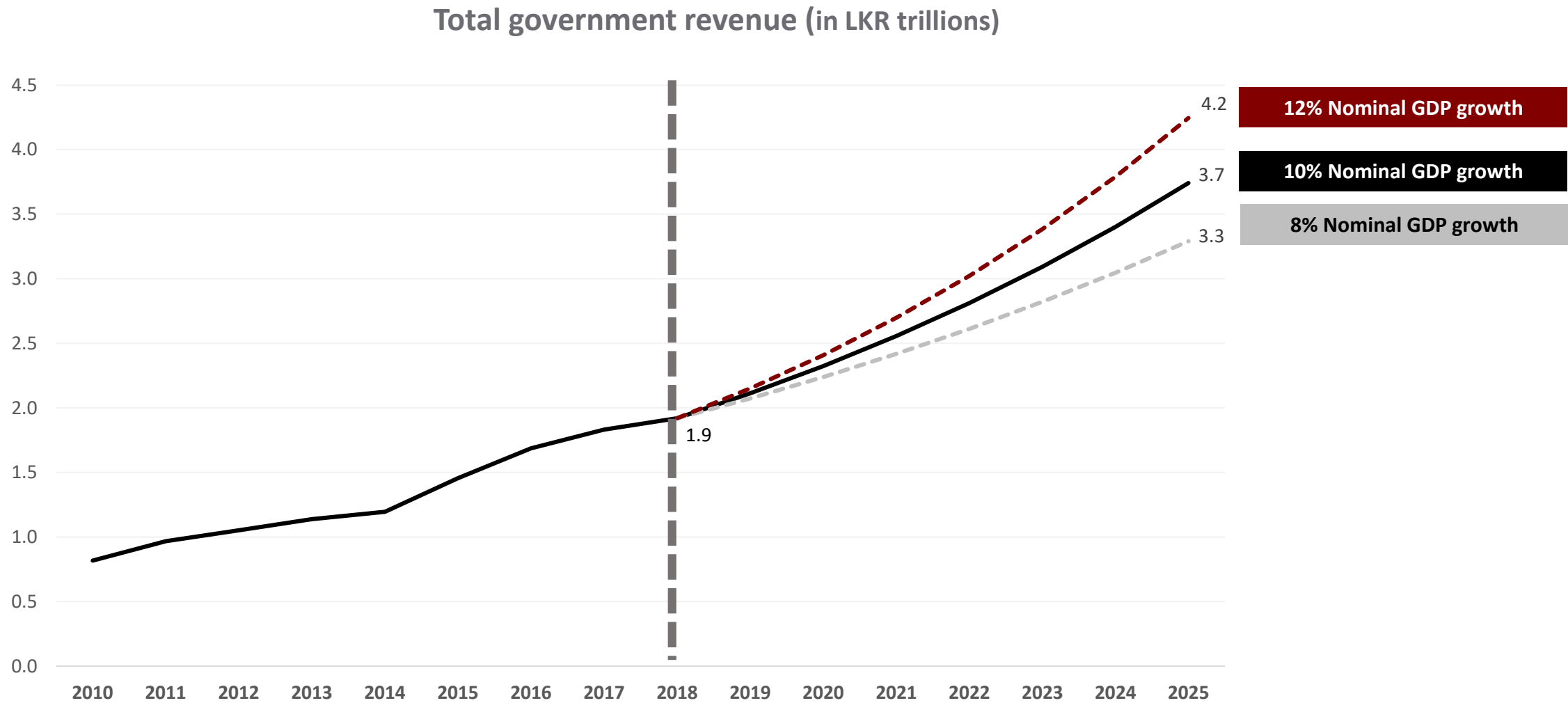
(DPMM, 2017)

- *This situation calls for: realistic planning; proper feasibility studies and capacity development in project management and contract administration*

(DPMM, 2017)

# Poor Formulation

*Lack of risk and scenario analysis prevents risk identification & mitigation*



The background of the slide is a collage of various coins from different countries, including the United States, the Philippines, and the United Kingdom. The coins are shown in various orientations and colors, including silver, gold, and copper. The word "Controls" is overlaid on the left side of the image.

# Controls

*Weak Institutional  
& Public Oversight*

# Controls

Sources of oversight are held back by different factors

**Institutional  
Oversight**

Limited Impact

**Public  
Oversight**

Limited access to data  
and information



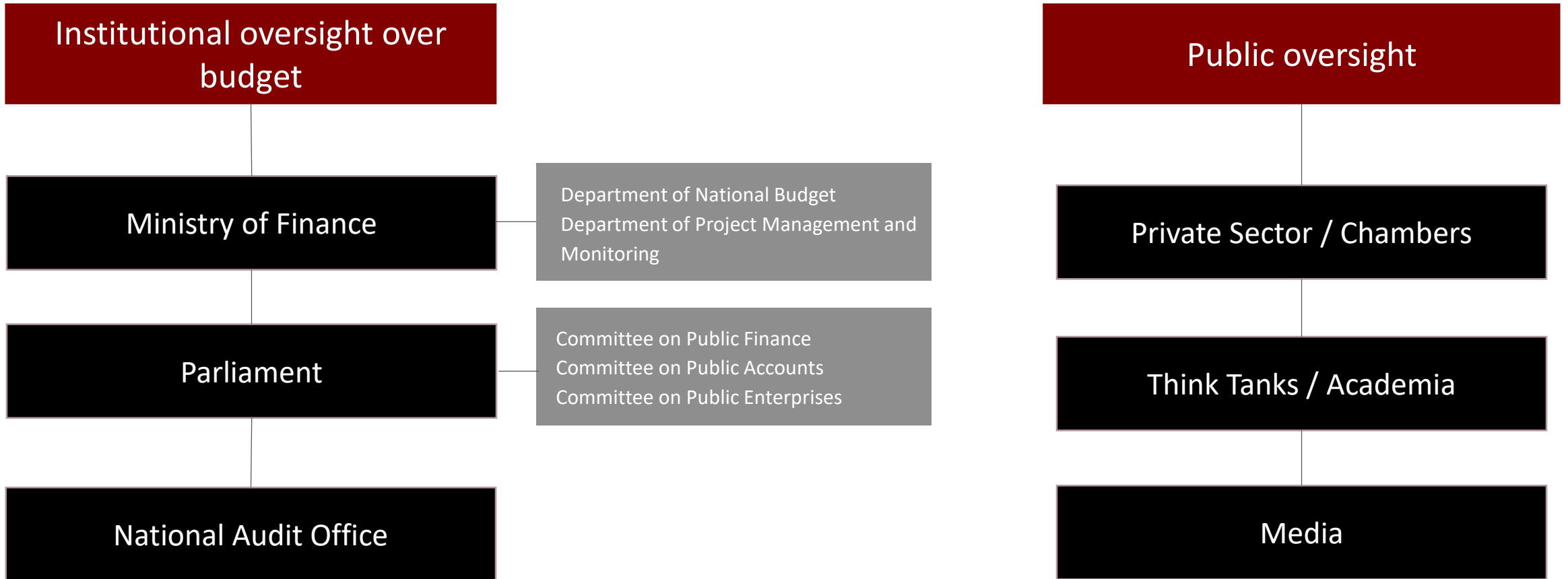
# Institutional Oversight

*Suffers from limited impact*



# Institutional & Public Oversight

*Forms of oversight from both government and the public*



# Internal controls

## Weak implementation



**මුදල් හා ජනමාධ්‍ය අමාත්‍යාංශය**  
**நிதி மற்றும் வெகுசன ஊடக அமைச்சு**  
**MINISTRY OF FINANCE AND MASS MEDIA**

මහලයා - මුදල් (+94)-11-2484500  
 අග්‍රයාය - නිති (+94)-11-2484600  
 Office - Finance (+94) 11 2484700

මහලයා - මාධ්‍ය (+94)-11-2513459  
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 වෙබ් අඩවිය } www.media.gov.lk

මගේ අංකය } BD/MU/02/02  
 ඔබේ අංකය }  
 My No. } Your No. }  
 දිනය } 05.03.2018  
 Date }

## National Budget Circular No. (I)/01/2017

Plans		Frequency	Mode of Delivery	Deadline
1)	Action plan for expenditure proposals	Annually	Online	31 <sup>st</sup> December of the previous year
2)	Disbursement plan for expenditure proposals	Annually	Online	31 <sup>st</sup> December of the previous year
3)	Strategic plan for policy proposals	Annually	Online	31 <sup>st</sup> January of the current year
Reports				
1)	Physical progress	Monthly	Online	10 <sup>th</sup> working day of every Succeeding month
2)	Financial progress	Monthly	Online	10 <sup>th</sup> working day of every Succeeding month

National Budget Circular No: (I)/01/2017

All Secretaries to the Ministries,  
Chairman, Finance Commission,  
Heads of Departments,

### Monitoring the utilizing of Budgetary Provisions

Your attention is drawn to the NBD Circular 01/2017 dated 13.01.2017 on the above matter.

02. Revisions were made on the mode of submission of formats introduced by the 4th paragraph of said circular.

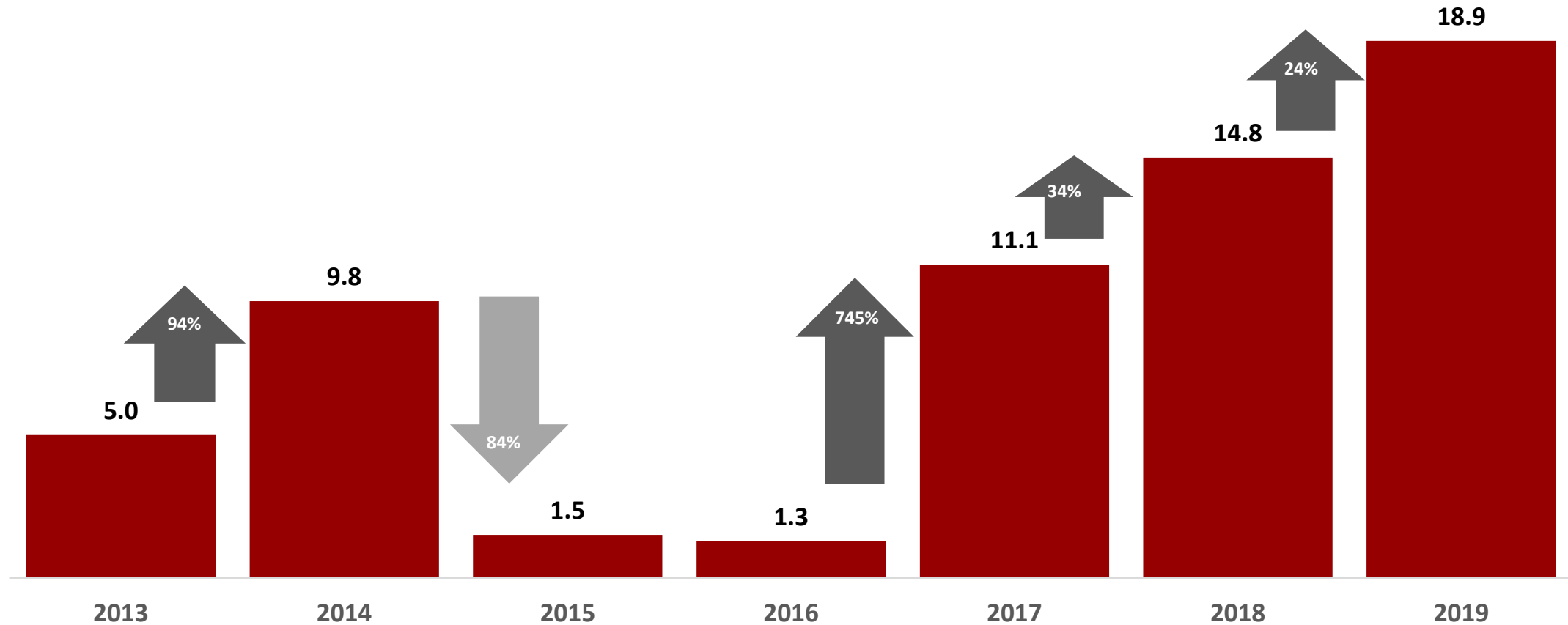
04. The Secretaries of Ministries, Heads of Departments and Agencies are requested to **upload** information according to the formats available in the <https://eservices.budgetdept.gov.lk> to reach on or before due date stipulated in following table.

#### a. Budget Proposals

Plans	Frequency	Mode of Delivery	Deadline
1) Action plan for expenditure proposals	Annually	Online	31 <sup>st</sup> December of the previous year
2) Disbursement plan for expenditure proposals	Annually	Online	31 <sup>st</sup> December of the previous year
3) Strategic plan for policy proposals	Annually	Online	31 <sup>st</sup> January of the current year
Reports			
1) Physical progress	Monthly	Online	10 <sup>th</sup> working day of every Succeeding month
2) Financial progress	Monthly	Online	10 <sup>th</sup> working day of every Succeeding month

# Large Unexplained Expenditure Deviations

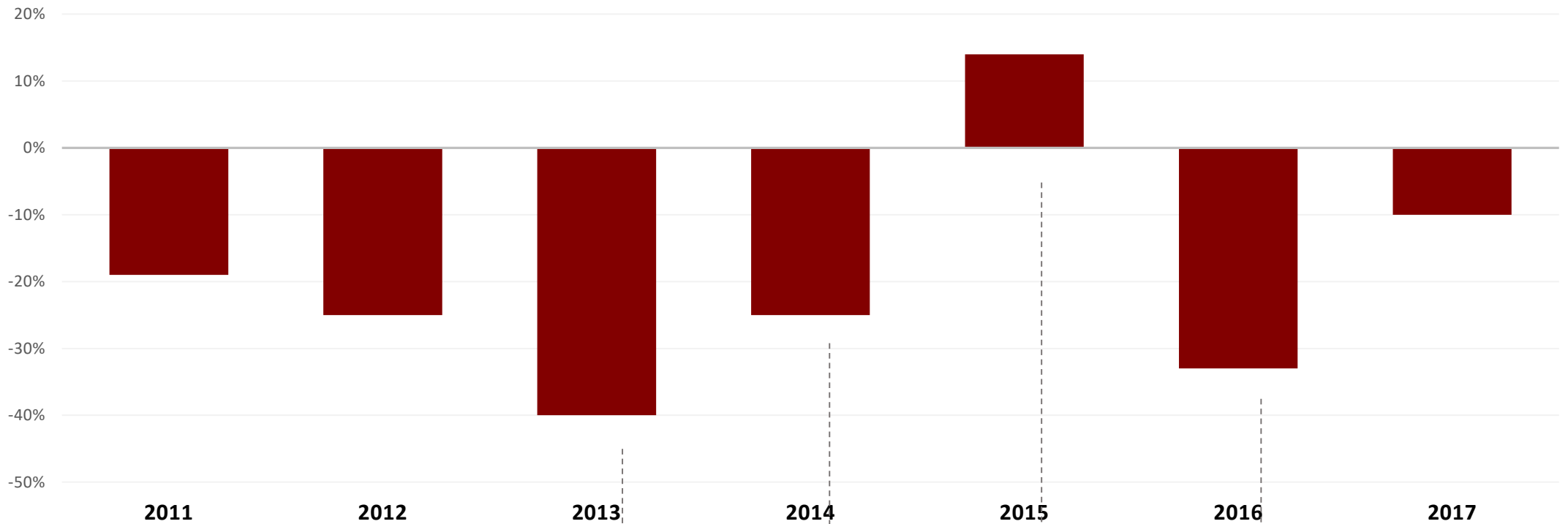
Government Expenditure on Acquisition of Vehicles (in LKR billions)



# Large Unexplained Expenditure Deviations



Agriculture sector - Deviation of actual expenditure from estimated expenditure (%)



What percentage of large deviations were unexplained?

94%

95%

97%

92%

# Misleading Proposals

	Budget Speech Proposals	Status quo rate
	<b>Revision of Annual Levy</b>	
↑	▪ Annual levy for carrying on the business of gaming other than playing rudjino will be <i>revised</i> to Rs. 400 million	
↓	▪ Annual levy for carrying on the business of playing rudjino will be <i>revised</i> to Rs.1 million	<b>LKR 200 Mn</b>
↓	<b>Revision of Casino Entrance Levy</b>	
	▪ Casino entrance levy will be <i>revised</i> to US \$ 50 per person	<b>USD 100</b>
↑	<b>Revision of Levy on Gross Collection</b>	
	▪ Rate of the levy on gross collection will be <i>revised</i> to 15%	

*(italics emphasis added)*



# Public Oversight

*Suffers from limited access to data  
and information*

# Reporting Formats & Categorisations

*Incompatible across reports*

## Mid-Year Report

<b>Recurrent Expenditure (Jan – Apr)</b>
Salaries
Pensions
Interest payments
Other expenditure

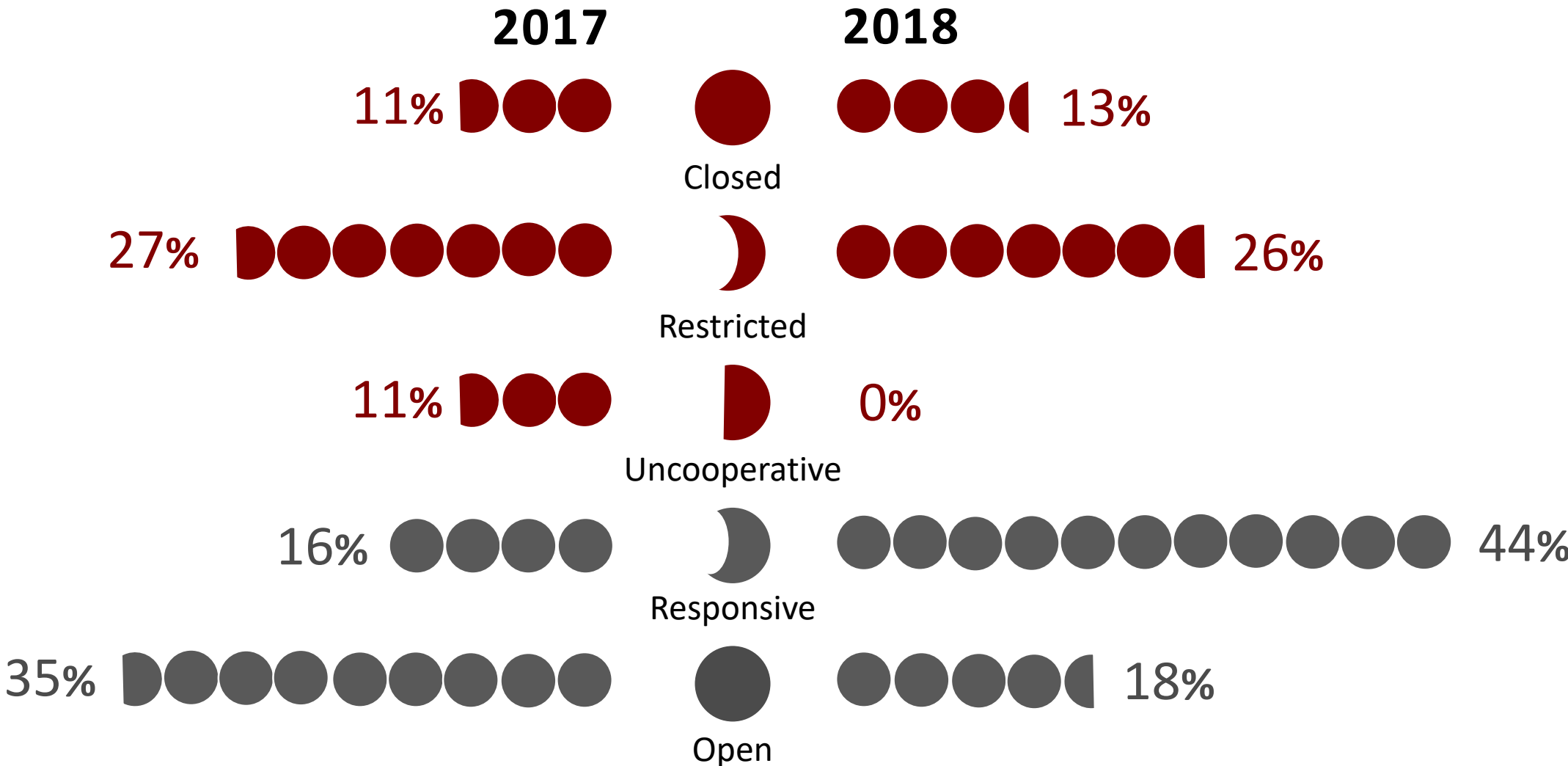
## Annual Report

<b>Recurrent Expenditure (Jan-Dec)</b>
Salaries, wages and other employment benefits
Other goods and services
Subsidies, grants and transfers
Interest payments
Other recurrent expenditure

# Information on budget implementation

Poor access to information

## New Expenditure Proposals Over LKR 1 Billion





# Public Oversight

*Is sufficient information disclosed for the public to hold the government accountable?*

A firm listed on the CSE needs to make an immediate public disclosure in case of

**1.**

Acquisition or loss of a contract

**2.**

Change in capital investment plans

**3.**

Any material investment

**4.**

Any labour dispute with material impact

**5.**

Any licensing or franchising agreement

**6.**

Any transaction of over 5% of assets or 10% of equity

**7.**

Default on interest and/or principal payments

**8.**

Details of guarantees and sureties granted

**9.**

Any changes in the corporate purpose

**10.**

Any major transaction (Section 185 of the Companies Act)

# Public Oversight
















*Is sufficient information disclosed for the public to hold the government accountable?*



Uganda



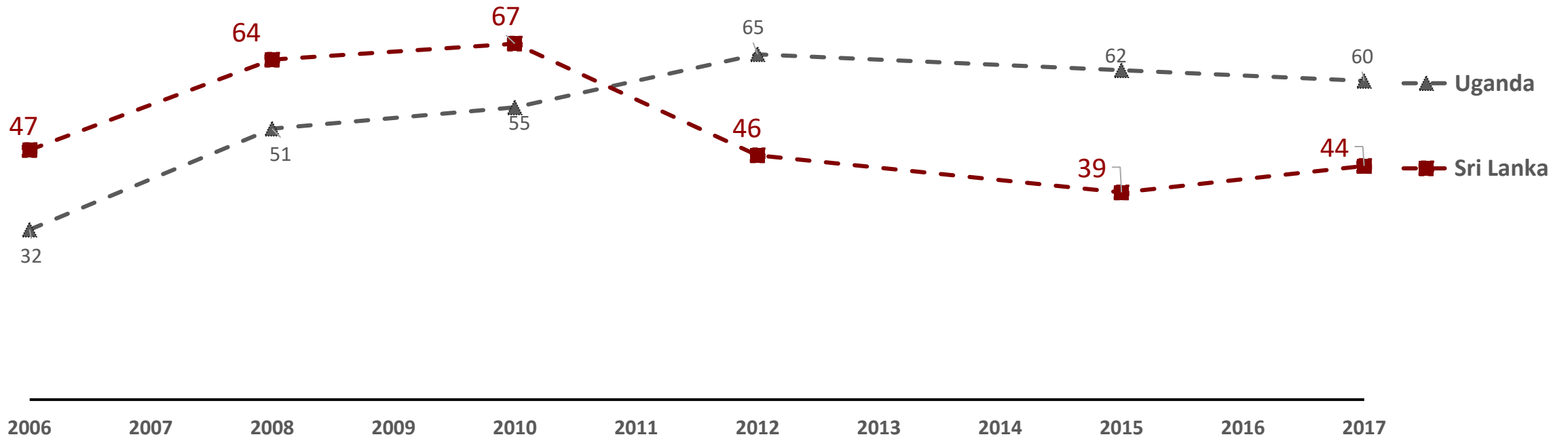
Sri Lanka

	Estimates of expenditure arrears for at least the budget year		
	In-Year Fiscal Reports (issued quarterly or monthly)		
	The impact of different macroeconomic assumptions (i.e., sensitivity analysis) on the budget.		
	Citizen's Budget		
	Estimates of sources of donor assistance, both financial and in-kind		

# Sri Lanka falls behind

*Greater public disclosure of information leads to an improved score*

Open Budget Index Score for Sri Lanka and Uganda (out of 100)



Note: There was a substantial change in scoring methodology in 2015, which resulted in the standards becoming even more stringent.

Source: International Budget Partnership – Open Budget Survey (Various Years).



# Solutions

*What can be done?*

# A BUDGET THAT WORKS

Better Formulation

Better Controls

Better Implementation

Effective

Efficient

Delivery of promises

Utilisation of public funds

Credible and Professional Budget

Better Development Outcomes

# 1. Backing Proposals and Estimates with Analysis

All revenue/expenditure proposals and estimates should be backed up with the following information



Detailed estimates of  
the calculation



Sensitivity and Scenario  
analysis of estimates

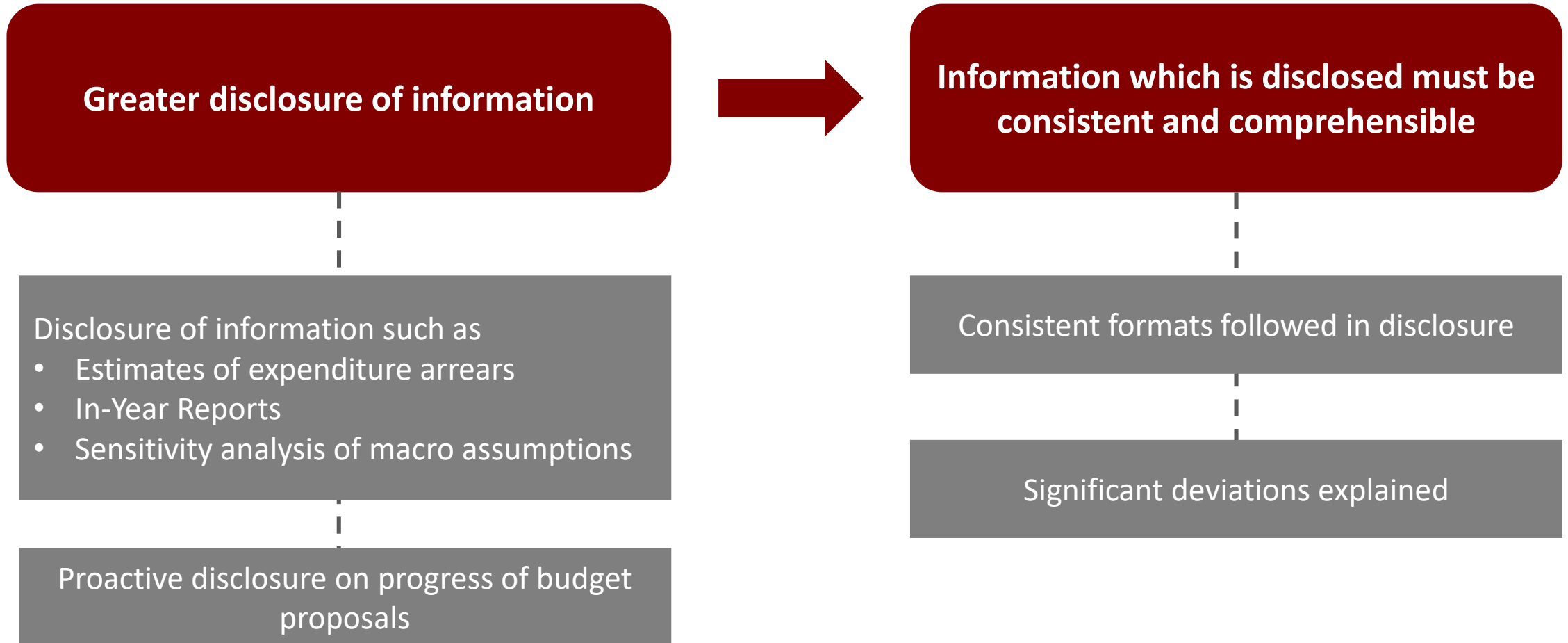


Feasibility of the  
project



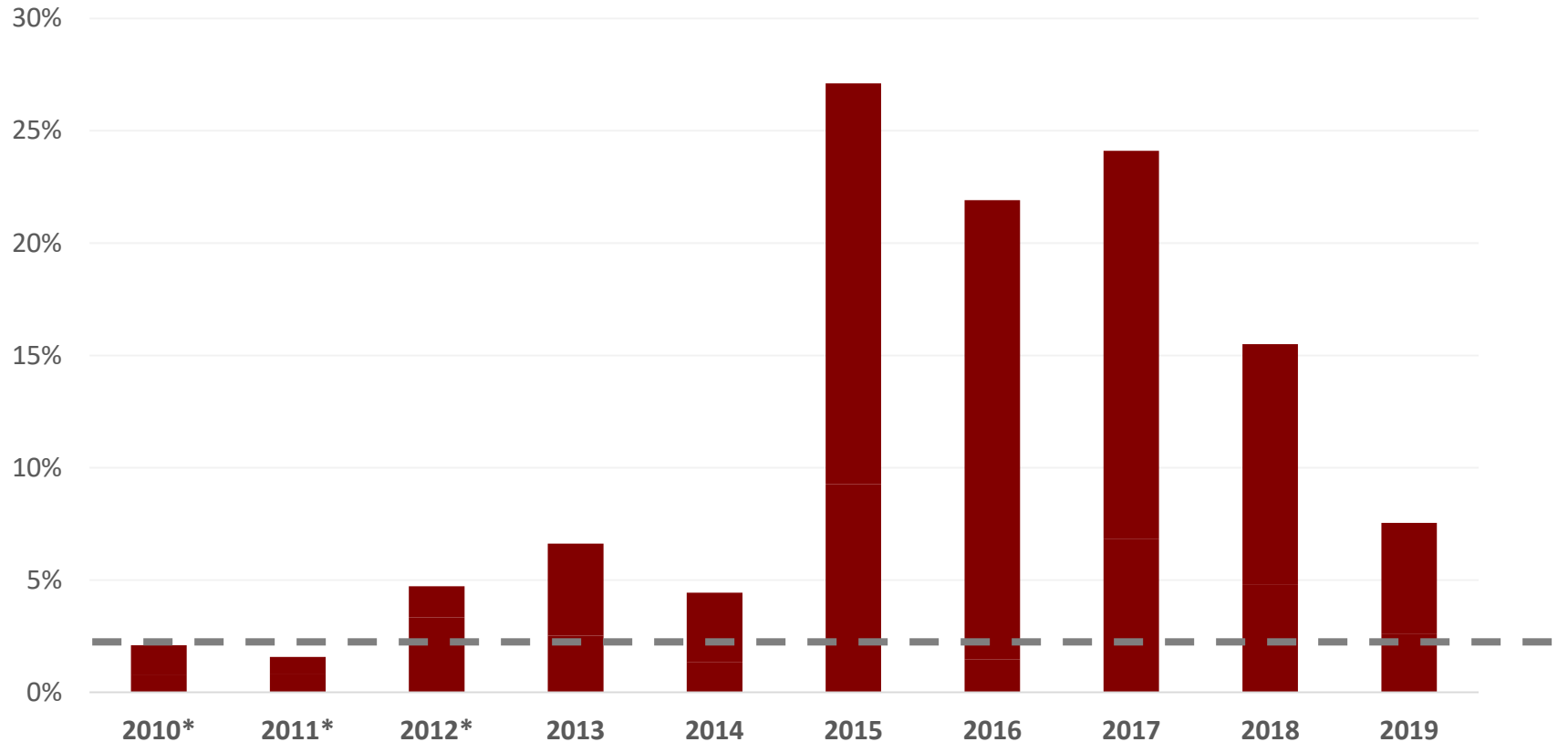
Identifying risks and  
mitigation strategies

## 2. Enhancing Information Disclosure



### 3. Limiting the discretionary budget

Development Activities of Department of National Budget  
(as a share of total estimated expenditure)



**Establish a 'negative list'** of items which cannot be included under discretionary spending. Eg: Vehicles, Budget Proposals

**Implement a 2% limit** on the discretionary budget



## 4. Extending Budget Timelines



**Extended time for preparation of estimates for the budget**

Philippines – 7 months  
Thailand – 5 months



**Extended time for approval and scrutiny of the budget in Parliament**

Philippines – 5 months  
Thailand - 5 months

# 5. Establishing a Parliamentary Budget Office (PBO)



**Parliamentary  
Budget Office**

## Functions

- Provision of technical, reliable and non-partisan analysis of budgetary reports to the public.
- Supports the Public Finance Committees and MPs in Parliament.

## Benefits

- A Kaizen (continuous improvement) approach in bringing public finance reforms
- Enhances credibility of the Budgets and Fiscal policies – by offering an independent expert opinion on fiscal policy
- Enhances the approval and oversight role of the Parliament

# SOLUTIONS

**1. Backing Proposals and Estimates with Analysis**

**2. Enhanced information disclosure**

**3. Limit Discretionary Budget**

**4. Extend budget timelines**

**5. Establishment of a Parliamentary Budget Office (PBO)**



# **NATIONAL BUDGET PRACTICES FOR A PROFESSIONAL GOVERNMENT**

# RATIONALISING MINISTRY PORTFOLIOS

*For a professional government*

27<sup>th</sup> February 2020

1988

being a critically important one. It would be recalled that, the Committee, in its Report No. 1, drew attention to the fact that “proliferation, over time of departments, ministries, authorities and enterprises within the administrative system constitutes a significant structural defect.”<sup>1</sup> The Committee then recognised “the rationalization of the distribution of responsibilities and tasks

Source: ‘Report No. 7 of the Administrative Reforms Committee’ (1988), Sessional Paper No. II – 1988

2010



2015



**Ministry of Industry & Commerce,  
Resettlement of Protracted Displaced Persons,  
Cooperative Development and  
Vocational Training & Skills Development**



## Cabinet

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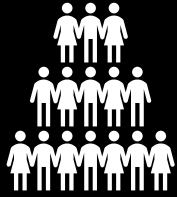
*“Overall direction, co-ordination and supervision of the business of government”*

## Minister

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*“Analysis of sectoral policy and monitoring of programmes”*

## Number of Ministries



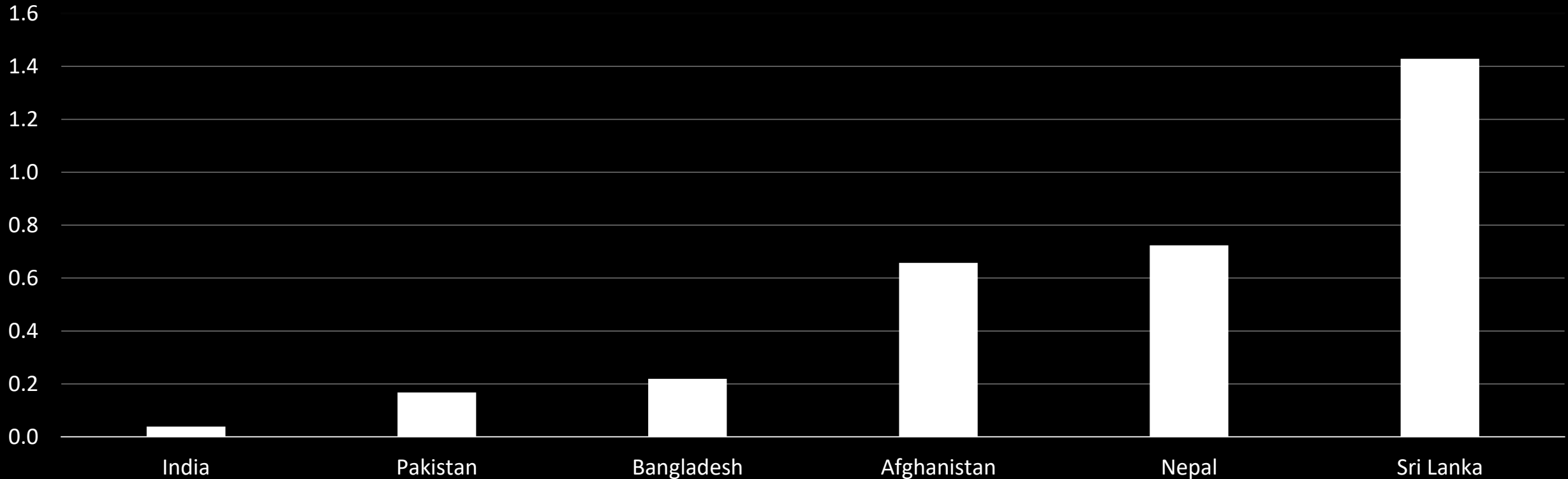
## Frequency of Changes



## Mismatch of Subject Areas



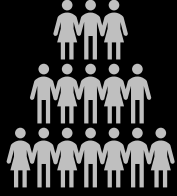
## Ratio of Ministries to Population



Source: VR calculations



Number of Ministries



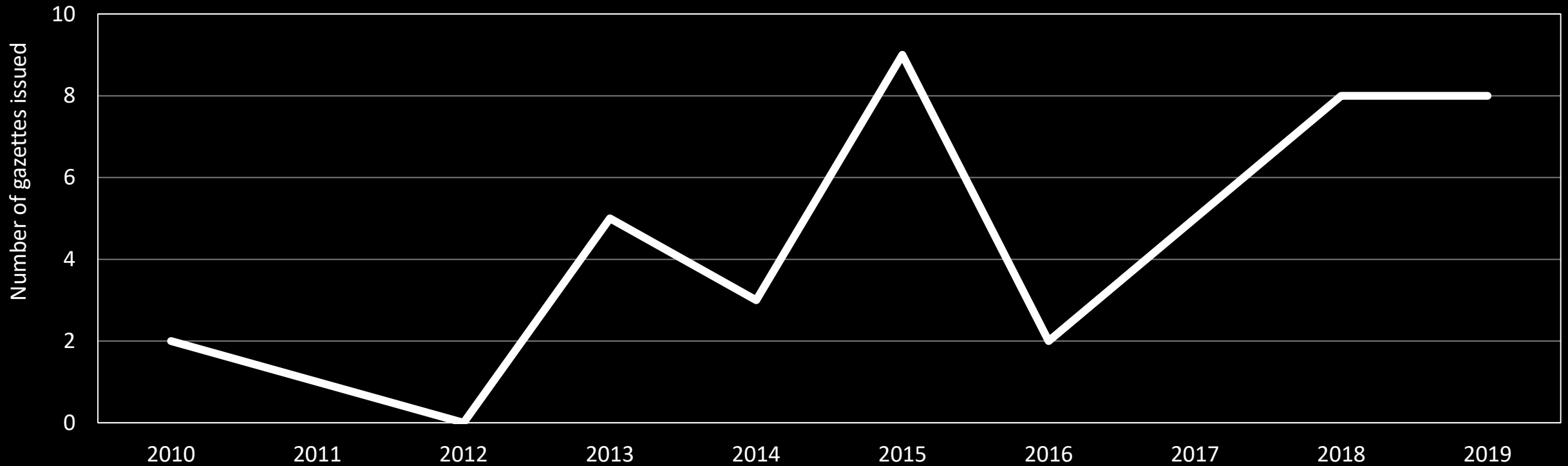
Frequency of Changes



Mismatch of Subject Areas

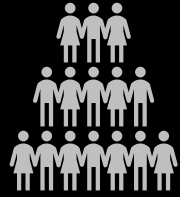


Frequency of Changes in Ministries



Source: Department of Government Printing

Number of Ministries



Frequency of Changes



Mismatch of Subject Areas



Telecommunication

Schedule Education

Foreign Employment

Sports

## Fragmentation

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*Splitting related subjects*

Vocational Training

School Education

Higher Education

## Misalignment

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*Combining unrelated subjects*

Telecommunication

Foreign Employment

Sports

A close-up photograph of a stone wall. The wall is composed of several layers of stones. The top and bottom layers consist of large, irregular, light-colored stones. The middle section is a band of smaller, reddish-brown bricks. The bricks in this band are not perfectly aligned with the stones above and below them, creating a visual dissonance. The text 'MISALIGNMENT' is overlaid on the left side of the brick band.

# MISALIGNMENT

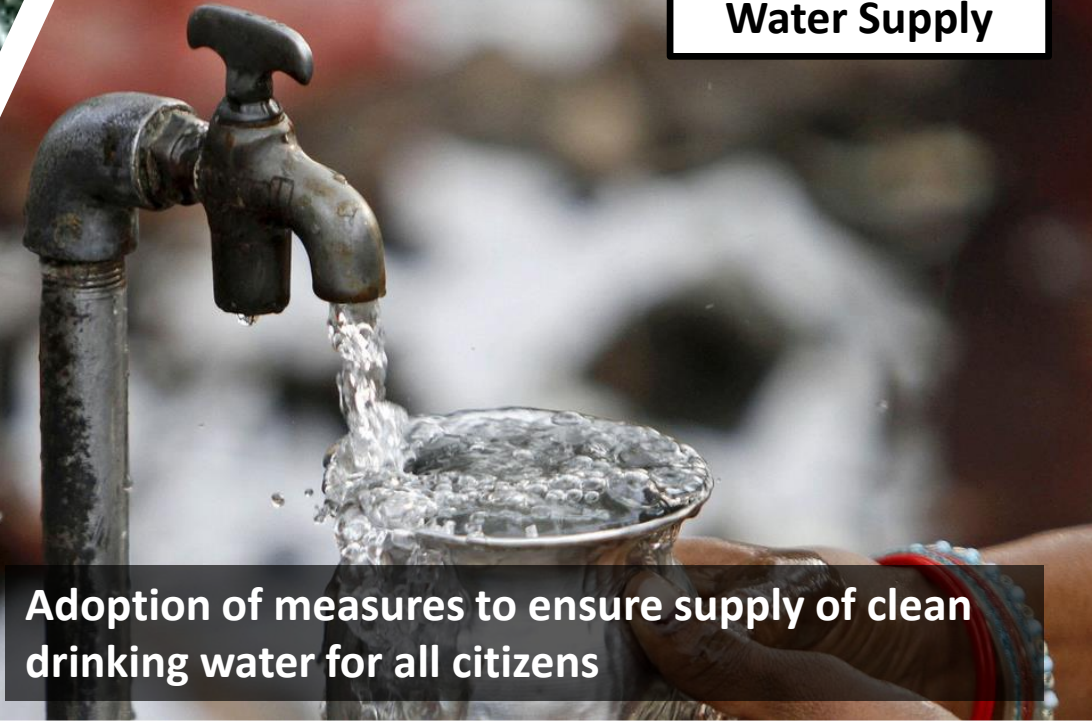
*Combining unrelated subjects*

**Higher Education**



**Management and development of State Universities under the administration of the University Grants Commission**

**Water Supply**



**Adoption of measures to ensure supply of clean drinking water for all citizens**

**Ministry of City Planning, Water Supply and Higher Education**

**City Planning**



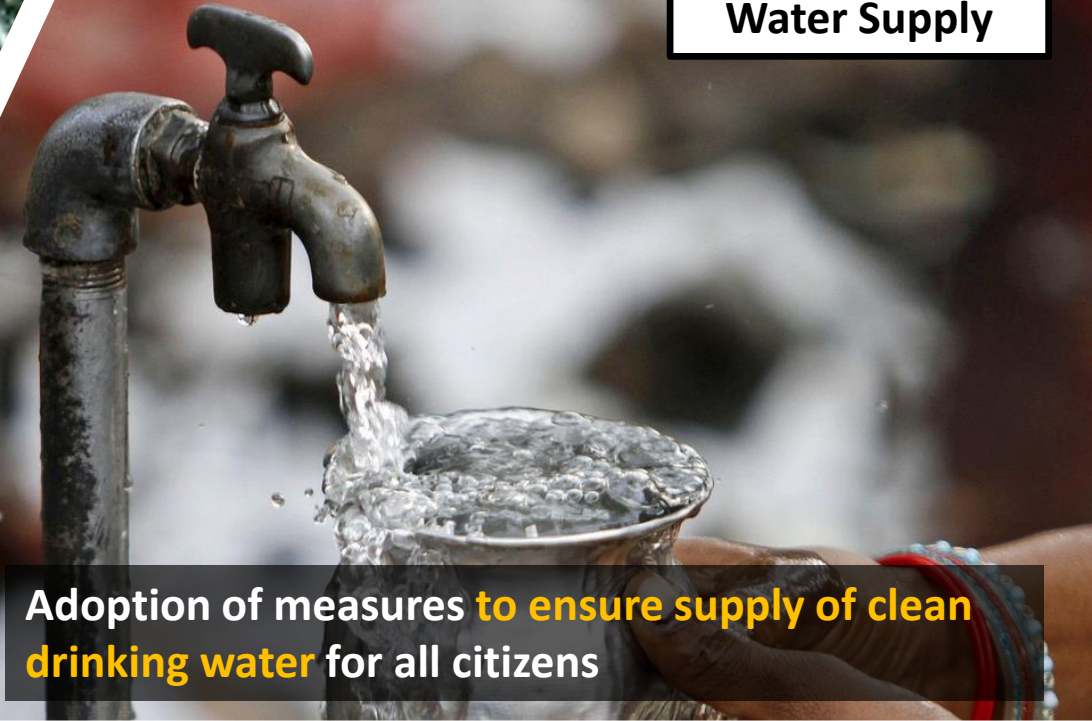
**Special cities and townships planning and development**

Higher Education



Management and development of State Universities under the administration of the University Grants Commission

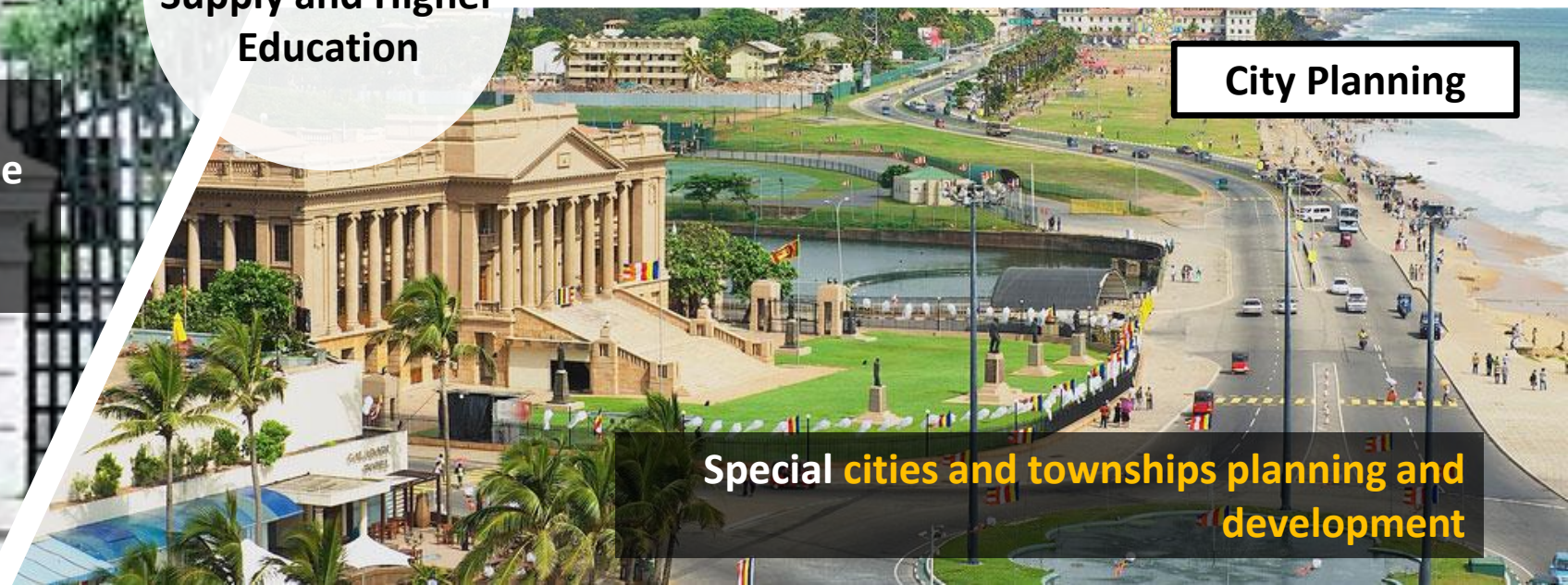
Water Supply



Adoption of measures to ensure supply of clean drinking water for all citizens

Ministry of City Planning, Water Supply and Higher Education

City Planning



Special cities and townships planning and development



# FRAGMENTATION

*Splitting related subjects*



## Ministry of Megapolis & Western Development

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- Integrated and systematic promotion and regulation of economic, social and physical development of urban areas
- Technological city development project and related activities

## Ministry of City Planning, Water Supply and Higher Education

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- Special cities and townships planning and development
- Monitoring and implementing relevant construction activities based on national physical plans in the execution of urban development work





## Ministry of Megapolis & Western Development

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- Integrated and systematic promotion and regulation of **economic, social and physical development of urban areas**
- Technological **city development** project and related activities

## Ministry of City Planning, Water Supply and Higher Education

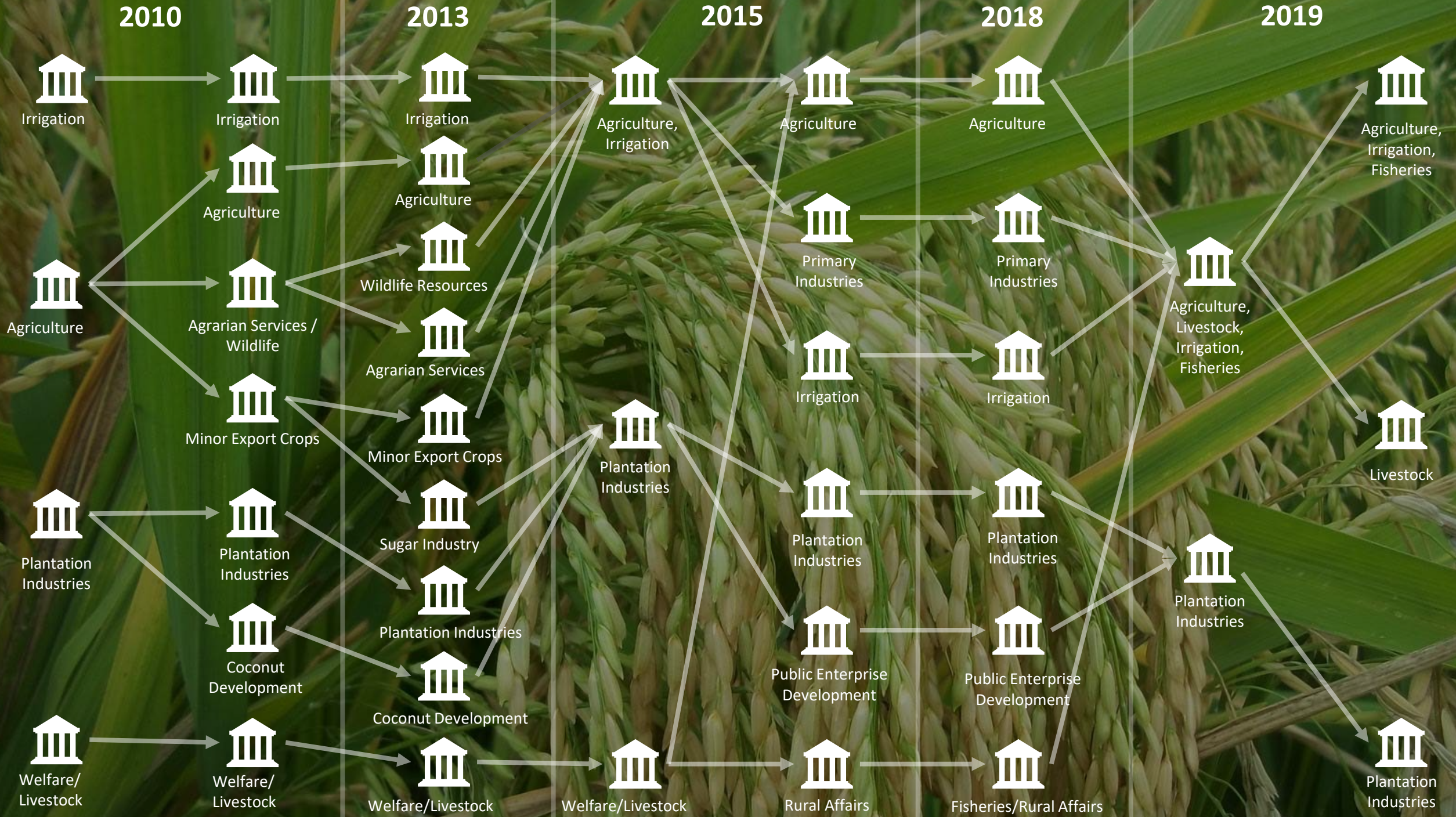
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- Special **cities and townships planning and development**
- Monitoring and **implementing relevant construction activities** based on national physical plans in the execution of urban development work

A close-up photograph of a rice panicle, showing numerous small, light-brown grains hanging from a central stalk. The background is filled with green rice leaves, some of which are in sharp focus, creating a layered, natural setting. The lighting is soft, highlighting the texture of the grains and the sheen of the leaves.

# AGRICULTURE

*A Case Study*



# HOW DOES THIS AFFECT THE EFFICIENCY AND EFFECTIVENESS OF GOVERNMENT?



**COSTS**



**TIME**



**EFFICIENCY**



**ACCOUNTABILITY**





# **NATIONAL BUDGET PRACTICES FOR A PROFESSIONAL GOVERNMENT**