

Addressing Budget Credibility Fact Sheet

In 2018, the International Budget Partnership (IBP) began to examine the extent, causes, justifications for, and consequences of deviations from approved government budgets. Our work on this topic is ongoing in many countries and from several angles, with a special focus on the impact on vulnerable populations.

WHAT DO WE MEAN BY “BUDGET CREDIBILITY”?

IBP defines budget credibility by a government’s ability to meet its revenue and expenditure targets during the fiscal year. When actual spending deviates from the approved budget, we describe it as either:

- **Underspent:** if actual spending is less than what was allocated in the budget, or
- **Overspent:** if actual spending is greater than what was allocated in the budget.

A national budget may be underspent or overspent overall, within a specific area of the budget, or both.

Examples of budget credibility challenges in select countries and in critical areas:

Argentina: According to a 2013 survey, only a third of children had access to early childhood services. A program designed to close this gap has been consistently underspent, including by nearly 60% in 2016.

Nigeria: Despite high occurrences of out-of-school children, the Ministry of Education consistently underspent its budget, with deviations ranging from 12% to 37% between 2013 and 2017.

Sri Lanka: The agricultural sector employs 26% of the country’s labor force but suffers from declining productivity. Regardless, the government budget for agriculture and irrigation was underspent from 10 to 40% annually from 2011 to 2017, with the exception of 2015, an election year.

Immunization: A sample of 22 countries points to average underspending of roughly 30% of the immunization-related budget. Global data from WHO and UNICEF suggest that funding or procurement delays can affect the availability of vaccines, which may in turn lead to service interruptions.

WHY IS BUDGET CREDIBILITY IMPORTANT?

Once approved, citizens expect a government’s budget to function as a roadmap, guiding spending toward effective delivery of public services and progress on sustainable development. If governments veer off course, society questions why this happened and becomes concerned about related impacts. Repeated deviations erode people’s confidence in the ability of their government to make realistic plans and adhere to commitments.

WHAT DOES OUR RESEARCH TELL US?

Underspending is a problem:

- **On average, national budgets in aggregate are underspent by almost 10%.** Further, these aggregate figures often belie large shifts in spending between sectors and programs. Some sectors face relative cuts while others receive increases during execution.
- **Overall underspending is worse in low-income countries, on average 14%,** where resources are scarcer and where the public budget could have a greater impact on the most vulnerable populations. Levels of underspending are also higher in critical sectors, such as agriculture and health.
- **Underspending is especially large on planned capital projects** that have been targeted for socioeconomic development, such as investments in irrigation, construction of schools and hospitals, waste and wastewater management, and housing development and water supply.
- **External financing from donors accounts for nearly 40% of the reported underspending,** which may be a result of the unpredictability and poor reporting of donor aid flows.

Multiple factors drive low budget credibility:

- **Underspending can occur when revenue collections are lower than anticipated.** Revenue collections may be lower due to unrealistic revenue projections that are politically motivated or based on faulty forecasting models, delays in receipt of revenues, and unpredictable revenue flows.
- **Weaknesses in public finance management (PFM) systems can hinder budget execution.** An absence of transparent budgets, and poor accounting and reporting systems, can limit direct and timely control of how public resources are being used.
- **Ineffective procurement systems and inflexible procurement rules can make it difficult to execute the budget,** creating obstacles to efficient spending. These rules are designed in part to control misuse of funds. When budgets are formulated, governments often do not incorporate these rules into estimates of how much spending can be realistically executed.
- **Legislators sometimes exacerbate low credibility** by inserting infeasible projects into the budget.

Governments do a poor job of explaining budget deviations:

- Changes in spending, or budget deviations, are sometimes unavoidable. But **governments often do an inadequate job of providing detailed explanations for deviations,** including reporting on the related impact on specific priorities such as agriculture and health. This makes it difficult to assess when deviations are justified, and what the root causes of low budget credibility are.

WHAT CAN BE DONE?

Appropriate responses will inevitably be context-specific but are likely to include reforms such as:

- **Strengthening governments' revenue planning and forecasting** by addressing gaps in technical capacities and removing political incentives to inflate revenue projections.
- **Improving PFM systems,** including accounting and reporting systems; managing public investment; budget execution (including procurement systems and rules for in-year budget adjustments that control the shifting of budgets after they are approved by the legislature); and external auditing.
- **Enhancing fiscal transparency practices,** such as adopting measures to report whether budgets have been executed as planned, or whether there have been deviations along with clear explanations for the reasons for deviations.

While governments bear the greatest share of responsibility for managing public resources in ways that promote better budget credibility, others play an important role, too.

- **Oversight bodies** — legislatures and audit institutions — could monitor budget execution more closely and hold leaders/the executive body to account for any deviations; legislatures can avoid introducing infeasible projects when they approve budgets.
- **Donors** could provide more predictable funding, improve the integration of their reporting systems with governments, and support capacity building initiatives within recipient governments.
- **Civil society and the media** could follow the implementation of priority public services and programs and ensure that governments deliver them fully and effectively and demand explanations when governments fall short.

For more information, contact Sally Torbert at storbert@internationalbudget.org, or visit internationalbudget.org/analysis-insights/budget-credibility .