

Budget Credibility: What Can We Learn from Budget Execution Reports? | July 2018

BACKGROUND

Budget execution reports are meant to provide a detailed report to citizens about how their government collected revenue, spent money, and incurred debt within a given time period.¹ One important means to convey this information is the provision of detailed budget data, such as expenditure and revenue actuals against the original budgeted and forecasted amounts. This comparison allows one to understand whether the budget was implemented as planned or if there were unforeseen deviations from forecasted revenue or appropriated expenditure. To this end, this paper investigates whether the execution rate data is consistently reported, in what classification format, at what level of detail, and at what level of disaggregation for the Year-end Report (YER), the Mid-Year Review (MYR), and the In-Year Reports (IYR) for a sample set of countries. Furthermore, it seeks to document which countries provided a meaningful analysis of the deviations in expenditure as presented in these budget reports.

SITUATING BUDGET CREDIBILITY WITHIN BUDGET EXECUTION REPORTS

Budget execution reports vary in scope, level of detail, and quality. While there are no universally accepted standards about the format of these reports, the International Budget Partnership (IBP) released a helpful set of guidelines in 2011 for the YER, MYR, and IYR among other budget documents.² These guidelines (see Annex 1) advocate for comprehensive budget credibility data with the following recommendations summarized below:

- The amount of revenue and expenditure (either year-to-date or year-end) should be presented;
- A comparison should be made with the forecast amounts of revenue and expenditures for the same period;

¹ This report was drafted by Zac Mills and edited by IBP.

² Ramkumar and Shapiro (2011), "Guide to Transparency in Government Budget Reports: Why are Budget Reports Important, and What Should They Include?", available at <https://www.internationalbudget.org/publications/guide-to-transparency-in-government-budget-reports-why-are-budget-reports-important-and-what-should-they-include/>

- In-year adjustments to the original forecast should be shown separately;
- If a significant divergence between actual and forecast amounts occurs, an explanation should be made, ideally showing the degree to which these changes are due to policy, problems in implementation, or changes in underlying economic conditions; and,
- Expenditures should be classified by major administrative units (e.g., ministries, departments, and agencies), and by economic and functional categories.

These recommendations emphasize the importance of presenting planned vs. actual budget data and explaining the factors behind significant deviations. This information is important to inform citizens about the use and impact of their resources. An informed citizenry is better able to hold government accountable for their actions. Therefore, simply presenting comparisons to expenditure and revenue outturns in previous years in budget execution reports would not suffice.

METHODOLOGICAL APPROACH

The sample set of countries was derived from the list of 55 countries provided by IBP, whose budget execution reports were available online and uploaded to IBP’s online budget document library.³ This list was further narrowed down to the 24 countries whose reports were written in either English, French, or Spanish (see Table 1).

TABLE 1. LIST OF COUNTRIES

English	French	Spanish
Afghanistan	France	Argentina
Jordan		Bolivia
Kenya		Chile
New Zealand		Colombia
Nigeria		Costa Rica
Philippines		Dominican Republic
South Africa		Ecuador
Uganda		El Salvador
United Kingdom		Guatemala
United States		Honduras
		Mexico

³ The author recognizes that the appropriate budget document may not have been uploaded to IBP’s portal. Furthermore, the relevant information may be contained in other reports, such as departmental or ministry level reports, which are outside the scope of this study. IBP’s online budget document library, the Open Budget Survey Data Explorer, can be found at <https://www.internationalbudget.org/open-budget-survey/data-documents/>

		Nicaragua
		Peru

Within this sample of countries, the YER, the MYR, and IYR reports from the latest available year were analyzed for two key criteria:

- **Budget credibility data:** whether the budget approved, budget outturn, and execution rates were consistently provided within documents; the type of classification (such as economic, administrative, functional, program, and territorial for local governments); and at what level of disaggregation.
- **Meaningful analysis:** whether there was a useful narrative that explains the factors contributing to significant deviations in revenue forecasts and expenditure outturns from the planned amounts.

WHICH COUNTRIES PROVIDE BUDGET CREDIBILITY DATA AND EXPLANATIONS?

As a first step, the YER, MYR, and IYR documents were scanned and coded for whether (1 any budget credibility data was provided and (2 if there were any explanations for deviations to planned revenue and expenditure.⁴ More details are provided below, but the summary results (Figure 1) illustrate that the majority of countries do provide budget credibility data – 18 of 22 for YERs, 8 of 15 for MYRs, and 15 of 23 for IYRs.⁵ However, many countries did not provide this data. Seven countries provided “limited” analysis and only one country (the UK) provided “meaningful” analysis. These findings are discussed more in detail below.

⁴ See Annex 3 for the complete list of budget documents used in the analysis.

⁵ The grey colored cells indicate that the relevant document was not uploaded to the IBP portal.

FIGURE 1. BUDGET CREDIBILITY SUMMARY TABLE (LATEST AVAILABLE YEAR IN IBP PORTAL)

Country	Annual Report	Mid-Year Review	In-Year Report
Afghanistan	Red	Grey	Grey
Argentina	Orange	Grey	Orange
Bolivia	Red	Grey	Red
Chile	Yellow	Orange	Orange
Colombia	Orange	Grey	Orange
Costa Rica	Yellow	Grey	Red
Dominican Republic	Orange	Orange	Orange
Ecuador	Orange	Orange	Orange
El Salvador	Orange	Grey	Orange
France	Red	Grey	Red
Guatemala	Orange	Grey	Red
Honduras	Orange	Red	Orange
Jordan	Grey	Yellow	Orange
Kenya	Orange	Orange	Orange
Mexico	Orange	Grey	Red
New Zealand	Orange	Red	Yellow
Nicaragua	Grey	Yellow	Grey
Nigeria	Orange	Grey	Orange
Peru	Orange	Grey	Orange
Philippines	Yellow	Yellow	Orange
South Africa	Orange	Orange	Orange
Uganda	Orange	Orange	Red
United Kingdom	Green	Red	Red
United States	Red	Red	Orange
Classification System			
Grey	Not uploaded to IBP portal		
Red	No budget outturn vs. approved data provided		
Orange	Data provided but no explanations		
Yellow	Data provided with limited analysis		
Green	Data provided with meaningful analysis		

WHAT LEVEL OF BUDGET CREDIBILITY DATA IS PROVIDED?

The budget credibility data from the YER, MYR, and IYR documents were further categorized (Figure 2) into whether this data was provided in economic classification (ECON), functional classification (FUNC), at the level of ministries, departments, and agencies (MDAs), program classification (PROG), at the subnational level of government (SUBN), and finally whether project-level capital budget data was provided (CAP).

The results show that nearly all countries provided budget credibility data in economic classification.⁶ MDA classification was the next most popular type of classification, provided just over half of the time. Functional classification was next, followed by capital expenditure, though this one appeared significantly less in the IYR. Budget credibility in program classification and at the subnational level were not regularly reported.

The Dominican Republic and Ecuador provided the most types of budget credibility data across the three budget execution reports, only missing subnational data. Kenya was a close second. Nicaragua is also notable because it provided 100 percent of the budget credibility data in the MYR, its lone budget execution report uploaded to the IBP portal.

The following countries are noteworthy for providing extra detailed budget credibility data (green highlighted cells in Figure 2), defined as budget credibility data that is at least one level more disaggregated than the standard high-level budget classification data⁷:

- **Colombia:** The YER contains annexes that provide disaggregated economic classification with the approved and executed amounts for each item (such as personnel wages, transfers, capital expenditure, etc.) in every MDA, plus the opposite configuration whereby, for example, there is a table for total personnel wages with the contribution of each MDA listed.
- **Ecuador:** The YER and MYR provide disaggregated economic classification data at a level similar to Colombia. In addition, they provide the approved and executed amounts for each program under every sector.
- **Guatemala:** The YER provides disaggregated economic classification data for each main revenue item, which is decomposed into disaggregated revenue streams with the forecasted and actual amounts. It also disaggregates recurrent and capital expenditure into their line item components.
- **Honduras:** The YER provides disaggregated economic and functional classification data at the line item level with approved and outturn amounts. Revenue data is provided at the same level of detail.
- **Nicaragua:** The MYR provides disaggregated data on revenue with the forecasted and actual amounts listed for the components of each major revenue item. It also provides the execution of every capital

⁶ The lone exception was the YER in South Africa, but the title of this document was “Consolidated Financial Statements 2015,” so this may not have been the appropriate YER.

⁷ For example, this may include the approved and actual budget data by (i) sub-economic classification where the individual items are shown for each main category; (ii) sub-functions; (iii) sub-units within MDAs; (iv) municipal or tertiary level transfers to subnational governments; (v) individual capital projects, or (vi) individual government programs.

project in each MDA, 40 data pages in the annex with the approved and outturn data on poverty reduction programs by each MDA, and intergovernmental transfers at the municipal level (one level below the state level).⁸

- **Nigeria:** The YER provides detailed reporting on selected capital projects in key sectors, including the execution to date, “the financial commitment of the selected projects and programmes, their status of implementation, the socio-economic impact on the immediate communities and challenges hindering the prompt delivery of the projects.” This information covers 71 of the 119 pages in the YER.
- **Uganda:** The YER and MYR (1,064 pages in length) provide a “Detailed Sector Financial and Physical Performance” of approximately 15-20 pages for each MDA. The information includes the amounts for the approved, released, and spent budget for (i) the recurrent budget (wage and non-wage) and the development budget (government vs. external financing), (ii) itemized expenditure according to the budget classification for the MDA, and (iii) every program with an itemized expenditure breakdown, key output indicators, and a description of the performance achieved. Furthermore, arrears are also provided.

⁸ Nicaragua has 15 states (also known as departments) and two autonomous regions.

FIGURE 2. BUDGET CREDIBILITY DATA BY CLASSIFICATION

Country	YER						MYR						IYR					
	ECON	FUNC	MDA	PROG	SUBN	CAP	ECON	FUNC	MDA	PROG	SUBN	CAP	ECON	FUNC	MDA	PROG	SUBN	CAP
Afghanistan													1	0	1	0	1	0
Argentina	1	1	1	0	0	1							1	0	0	0	0	0
Bolivia																		
Chile	1	0	1 ^t	0	0	0	1	0	0	0	0	0	1	0	0	0	0	0
Colombia	1	1	1	1	0	1							1	1	1	1	0	0
Costa Rica	1	1	1	1	0	0												
Dominican Republic	1	1	1	1	0	1	1	1	1	1	0	1	1	1	1	1	0	1
Ecuador	1	1	1	1	0	1	1	1	1	1	0	1	1	1	1	1	0	1
El Salvador	1	0	0	0	0	1							1	0	1	0	0	0
France																		
Guatemala	1	0	1	1	0	1												
Honduras	1	0	1	1	0	1							1	0	1	1	1	1
Jordan							1	1	1 ^y	1 ^y	0	1	1	0	0	0	0	0
Kenya	1	0	1	0	1	1	1	0	1	1	1	1	1	0	1	1	1	1
Mexico	1	1	0	0	1	1												
New Zealand	1	1	0	0	0	0							1	1	0	0	0	0
Nicaragua							1	1	1	1	1	1						
Nigeria	1	0	1 ^x	0	0	1							1	0	0	0	0	0
Peru	1	1	0	0	1	0							1	1	0	0	1	0
Philippines	1	0	0	0	0	0	1	0	1	0	0	0	1	0	1	0	0	0
South Africa	0	0	1	0	0	0	1	0	1	1	0	0	1	0	1	0	1	0
Uganda	1	0	1	1	0	1	1	0	1	1	0	1						
United Kingdom	1 ^z	0	0	0	0	0												
United States													0	0	1	0	0	0
Classification System	Not uploaded to IBP portal																	
	No budget credibility data provided																	
	1 - budget credibility classification provided / 0 - not provided																	
	Disaggregated budget credibility data provided																	

t - only 5 largest ministries

x - only capital expenditure

y - only education and health

z - own economic categorization

WHAT MEANINGFUL ANALYSIS IS PROVIDED?

The concept of “meaningful” analysis focuses on the issue of root causes to explain deviations in revenue forecasts and planned expenditure. The word “meaningful” is used to denote that explanations must contain information that go beyond simply repeating what is in the budget tables. For example, stating that tax revenue fell because income tax fell would not qualify as a meaningful explanation. Instead, stating revenue collection was lower due to the global economic crisis could constitute a limited explanation, whereas a meaningful explanation would go into more detail about the pathways through which the economic crisis affected the local economy.

Three categories were used to code meaningful analysis within the budget execution reports:

- **None:** no explanations that go beyond repeating what is in the tables.
- **Limited:** partial explanations for selected or isolated deviations, without a detailed breakdown of the contribution by economic factors, forecasting errors, or policy changes.
- **Meaningful:** all major deviations are explained, efforts are made to decompose the deviations into economic factors, fiscal forecasting errors, and policy changes and some attempt is made to identify the pathways through which these factors affected outcomes.

The following examples illustrate where countries provided **limited** explanations (bold and italics added for emphasis):

- **Afghanistan:** In the IYR, economic classification data is presented with the budgeted amount and year to date expenditure. On the right-hand side of the table are “Notes”, which provide explanations of selective deviations, such as “On year to date, collections from fixed taxes, other taxes and property taxes have fallen as a result of **reduced business activity during the year**...Collection from Sales taxes have increase reflecting **an improvement in retail activity from the low base last year**...Similarly, taxes on International Trade has increased **as imports tend to recover from last year’s fall, with more contribution from Afghani depreciation.**”
- **Chile:** In the YER, it states the following example of a revenue deviation explanation (English translation is presented, original text is in the Annex) “In relation to the Budget Law approved for 2015, the key reasons for the decreases [in revenues forecasted] are related to the income of the Gross Copper and the private mining, **which were strongly affected by the fall in the price of the metal, which was not foreseen at the time of the preparation of the draft Budget Law.** Additionally, it can be mentioned that during the first

quarter of 2014 the capitalization of US \$ 200 million of Codelco's own profits was authorized, which was made during the same year. In contrast, in 2015, the capitalization of US \$ 225 million of own profits was authorized, ***which did not materialize due to the lack of utilities of the state company.***” As an example of an expenditure deviation explanation, “For its part, personnel expenses increased 6.1% in real annual terms, partly as a result of the ***Public Sector Remuneration Readjustment Act (approved in December 2014) which considered an improvement that exceeded the resources provided for in the 2015 Budget Law.***”

- ***Costa Rica:*** In the YER, the following explanations (translated and summarized) were provided for the under-execution of resources in the Ministry of Education: (i) the under-execution of remuneration was because ***the application within the INTEGRA-2 Payment System did not become operational in 2015;*** (ii) the inability to fill budgeted positions was due to ***the lack of authorization from the Ministry of Finance;*** and (iii) in many cases ***suppliers did not participate in the ministry’s public procurement announcements since the amounts were too small and there were other procurement challenges.***
- ***Nicaragua:*** In the MYR, the following explanations (translated and summarized) are provided for the increase in income tax revenues beyond original estimates: (i) ***the favorable macroeconomic context in 2015-2016, the full application of the measures incorporated in the new tax law and improvements in tax administration.***
- ***Jordan:*** In the MYR, the Government provided the following explanation, “The current expenditure decreased until end of June 2016 by 4.8%, compared with estimates of the general budget for the same period, ***largely due to the government to take some measures to reduce expenses.*** Actual capital expenditure fell even half of the current year by 40%, compared with the budget estimates for the same period, ***largely due to that payment to contractors at intervals and depending on the actual verification of projects where they are paying dues by achievement and is usually payment at the end of the year.***”
- ***New Zealand:*** The IYR explained that the “Core Crown expenses at \$25.3b were close to forecast. Major variances included: (i) \$184m was ***due to treaty settlements forecast but not yet initialed. These are now expected to occur later in the financial year;*** (ii) Expenses were \$144m lower than forecast largely ***due to a timing difference in relation to the write-off of Sovereign receivables. The timing of write-offs is difficult to forecast as they do not follow historic patterns;*** and (iii) \$81m mainly related to ***timing differences funding Canterbury anchor project expenditure.***”
- ***Philippines:*** In the YER, the following explanation was provided, “Infrastructure and other capital outlays fell short of the program by P86.3 billion or 20.0 percent, explaining the bulk, or 26.3 percent of the total

underperformance for 2015. Most of the implementing agencies encountered delays in obligating their allotments at the earlier part of the year, resulting in backlogs in the implementation of some capital projects that led to low disbursements since payments could only be made upon completion or delivery of contracted goods or services... Summarized below [Table 2] are the major reasons cited for underspending and sample of the affected programs or projects as reported by line agencies:”

While the listed reasons are helpful, they do not provide sufficient detail to be considered as *meaningful*. Furthermore, this level of analysis was only provided for overall capital spending, and not much, if any, analysis is provided on deviations for individual ministries.

TABLE 2. PHILIPPINES MAJOR REASONS CITED FOR DEVIATIONS⁹

Reasons	Agencies/Programs/Projects
<p>1. Billing or payment issues:</p> <ul style="list-style-type: none"> • Non-submission or incomplete submission of documentary requirements • Poor liquidation of cash advances • Delays in submission of progress billings • Delays in the processing of payments by the central office from the various operating units 	<ul style="list-style-type: none"> • DSWD (Cash for work, emergency shelter assistance) • DILG (BUB programs) • DepEd (school MOOE) • NIA (Irrigation projects) • NHA (housing programs)
<p>2. Low obligations:</p> <ul style="list-style-type: none"> • Procurement difficulties due to problems in procurement scheduling, delays in bidding, and incorrect technical specifications and costings • Difficulties in hiring • Shift in academic calendar of some SUCs due to K to 12 Program • Non- or partial compliance with requirements under the GAA special provision 	<ul style="list-style-type: none"> • DOH (Provision of medicines, Health Facilities Enhancement Program, doctors and nurses to the barrios) • DepEd (Nationwide computerization project) • Department of Science and Technology - Information and Communication Technology Office (DOST-ICTO) (Free Wi-Fi project) • DND (AFP Modernization Program) DOST- Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA) (Acquisition of weather forecasting equipment) • Commission on Higher Education (CHED) and DOST-Science Education Institute (SEI) (scholarship programs) • DILG (housing for Informal Settlers program)

⁹ Taken from page 24 of the Philippines YER.

<p>3. Other Reasons:</p> <ul style="list-style-type: none"> • Legal challenges • Land acquisition and Right-of-Way issues • Delays in the approval of agreements, issuance of clearances 	<ul style="list-style-type: none"> • Commission on Elections (COMELEC) (Automated Election System) • Department of Agrarian Reform (DAR) (Acquisition of private agricultural lands) • National Irrigation Administration (NIA) (Irrigation projects) • National Housing Authority (NHA) (housing programs) • DOTC (transport infrastructure projects)
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The following examples illustrate *meaningful* explanations:

- **United Kingdom:** The Office of Budget Responsibility (an independent fiscal watchdog) provides an annual report that contains an entire section that investigates revenue and expenditure deviation outcomes against initial plans, and decomposes deviations into economic factors, fiscal forecasting errors, and policy changes. For example, the following explanation accompanies the VAT forecast errors (Table 3), “Despite weaker growth in household consumption, VAT receipts in 2015-16 have outperformed both our March 2014 and March 2015 forecasts. **Part of the error can be explained by the composition of household spending. Both forecasts assumed a flat or falling share of consumption in goods that are standard rated, i.e. subject to the 20 per cent rate of VAT. In fact, that share increased in 2015-16, with spending on durable goods – which are mostly standard rated – rising from 8.9 to 9.4 per cent of household consumption.**”

TABLE 3. UNITED KINGDOM’S 2015-16 VAT FORECAST ERRORS

	£ billion					
	Forecast	Outturn	Error	Of Which:		
				Economic factors	Fiscal forecasting errors	Policy changes
March 2014 forecast	115.0	116.4	1.4	-1.9	3.8	-0.4
March 2015 forecast	114.3	116.4	2.1	-0.7	2.8	0.0

For expenditure, only broad categories of department expenditure limits; locally financed current expenditure; welfare cap and other welfare spending; debt interest; EU contributions; and another spending category (including pensions, capital spending, and depreciation) are provided. While the broad categorization can be considered less *meaningful* than the revenue explanations, there is still an attempt to decompose the expenditure deviations into economic factors, fiscal forecasting errors, policy changes, and classifications. The explanation of deviations in welfare cap and welfare spending is shown in Box 1.

BOX 1. THE UNITED KINGDOM'S EXPLANATION FOR DEVIATIONS IN WELFARE SPENDING¹⁰

Spending subject to the welfare cap was slightly above the March 2014 forecast and slightly below the March 2015 forecast. Common errors relative to both forecasts were the slower- than-expected migration of incapacity cases to employment and support allowance (ESA) and of working-age disability cases from disability living allowance (DLA) to the new personal independence payment (PIP), contributing to fiscal forecasting errors of around £3 billion compared to March 2014 and over £1 billion compared to March 2015. Lower spending on pension credit – reflecting higher- than-expected mortality rates – and lower spending on tax credits partly offset these increases compared to March 2014 and more than offset them compared to March 2015.

Lower tax credits spending partly reflects caseloads being lower than expected, but we have not yet been able to get to the bottom of these errors. This remains an important forecast issue as we look ahead to our November forecast, so we will continue to work with HMRC forecasters to better understand the latest trends in spending and what they imply for spending over the forecast period.

Outside the welfare cap, spending was lower than predicted compared to both March 2014 and March 2015. Spending on unemployment-related benefits has been lower than expected, reflecting the faster-than-expected fall in unemployment (particularly relative to our March 2014 forecast). Spending on the state pension has also been lower than expected, reflecting the higher mortality rates mentioned above. A number of policy and classification changes broadly offset, with the only notable exception being the £0.8 billion reduction in spending compared to March 2014, largely reflecting a classification change which moved war pensions spending from AME to Ministry of Defence RDEL.

	£ billion						
	Forecast	Outturn	Error	<i>Of Which:</i>			
				Economic factors	Fiscal forecasting errors	Policy changes	Classification changes
March 2014							
Welfare spending	218.7	216.1	-2.6	-1.8	0.4	-0.4	-0.8
<i>Of which</i>							
Welfare cap	119.6	120.0	0.4	-0.1	0.8	-0.4	0.0
Non-welfare cap	99.1	96.1	-3.0	-1.7	-0.4	0.0	-0.8

¹⁰Extracted from page 60 of the YER.

March 2015

Welfare spending	216.9	216.1	-0.7	0.3	-0.8	-0.3	0.0
<i>Of which</i>							
Welfare cap	120.7	120.0	-0.7	0.2	-0.5	-0.3	0.0
Non-welfare cap	96.2	96.1	-0.1	0.2	-0.2	0.0	0.0

DISCUSSION

The analysis has shown that many countries do provide budget credibility data, but that there is significant scope for more data to be provided, including in OECD countries. Furthermore, very few countries provide any meaningful explanations about the root causes of deviations in revenue and expenditure. The bulk of explanations compare the outturn in the current time period to the most recent time period, which is not an assessment of budget credibility. Moreover, only two of seven countries (Colombia and Nicaragua) provided disaggregated budget credibility data and limited, but not meaningful, analysis. The best example of meaningful analysis is from the United Kingdom, but it is performed by an independent agency, not the Treasury. Furthermore, this meaningful analysis was limited to the YER. The Philippines, the only other example, does not provide the same extent of explanations, but it is presented by the Development Budget Coordination Committee and the depth of explanations are consistent throughout the YER and MYR.

This data variability and explanation shortcomings warrants further thought on what should be expected and at what level of detail. One idea worth considering is to develop a set of accepted budget credibility standards. For example, these standards could be developed from IBP's *Guide to Transparency in Government Budget Reports*, which remains extremely relevant. These new standards could propose that, at a minimum, governments provide consistent and detailed budget credibility data in economic, functional, MDA, and capital classifications across the three budget execution reports. Program and subnational classification could be provided where appropriate. A standardized approach would allow for better comparisons within countries over time and across countries.

The new standards should also be forthcoming on the need for meaningful analysis that goes beyond simple descriptions of numbers in a table. All governments need to explain major deviations in revenue and expenditure. One idea would be to push for the inclusion of a budget credibility section in each report, similar to what was

provided in the United Kingdom's YER. This section would explicitly discuss whether the major categories of revenue forecasts and planned expenditure were accurate and if not, what were the causes of deviations with regards to policy, problems in implementation, or changes in underlying economic conditions. Furthermore, it would be important to push governments to acknowledge persistent problems of under or over executions in revenue or expenditure.

The adherence to this new standard could be monitored more closely by IBP and reported on a regularly basis either through the Open Budget Survey, or a new initiative.

It is also important to acknowledge the role of MDA or sector reports in providing meaningful analysis of budget deviations in addition to those found in YERs, MYRs, and IYRs. While the Ministry of Finance (or central finance agency) should explain high-level deviations, the MDAs should provide more detailed explanations of deviations. To understand if this is already the case, it will be important to know how many governments produce this type of analysis in their MDA reports.

For example, the 2016-17 annual report from the Department of Health in South Africa does contain **limited** analysis of deviations in expenditure. The overall execution rate was 99.7 percent and the reports states that *“underspending was mainly on Goods and Services as budget earmarked for GP Contracting and Department of International Relations and Co-operation (DIRCO) was not fully utilised by the end of the year, and condoms were ordered but not delivered due to the specification requested. Underspending also occurred under Compensation of Employees due to vacant positions in Port Health Services not filled during the financial year. With regard to transfers and subsidies, payments to non-profit organisations (NPOs) were not made due to SLAs not concluded before the financial year end.”* This report also contains the following budget credibility data: (i) the appropriations and actuals by program and (ii) disaggregated economic classification appropriations and actuals by individual program. Further analysis across countries would be useful to understand if the South African example is common or an exception.

ANNEX 1. GUIDELINES ON KEY BUDGET DOCUMENTS

WHAT INFORMATION SHOULD BE INCLUDED IN THE MYR?

In its statement on *Best Practices for Budget Transparency*, the OECD notes that the Mid-Year Review should provide a “comprehensive update on the implementation of the budget, including an updated forecast of the budget outcome for the *current* fiscal year and, at least, the following two fiscal years.” The OECD also suggests that the “economic assumptions underlying the budget should be reviewed and the impact of any changes on the budget disclosed;” the “mid-year review should contain a comprehensive discussion of the government’s financial assets and liabilities, non-financial assets, employee pension obligations and contingent liabilities;” and “the impact of any other government decisions, or other circumstances, that may have a material effect on the budget should be disclosed.”

This summary statement highlights the importance and the extent of the material that should be provided in a Mid-Year Review. First, the Mid-Year Review allows the government to present its current perspective on the budget outlook and explain what factors might be responsible for those changes observed since the budget was enacted, such as changes in the prices of natural resources. In particular, the Mid-Year Review should indicate any revisions to the economic assumptions that underlie the original budget and make appropriate adjustments to the aggregate estimates for revenue, expenditures, and public borrowing. The connection between these assumptions and revenue levels is self-evident, but certain expenditures, such as unemployment-related outlays, also are highly sensitive to underlying economic conditions. Any revisions should also extend to forward budget estimates that would be sensitive to changes in major economic parameters.

Second, the Mid-Year Review should assess whether the aggregate fiscal strategy continues to be appropriate in the context of the current economic environment, and whether there might be scope to adjust the fiscal policy stance in light of prevailing economic conditions. Thus the Mid-Year Review provides another opportunity for the government to clarify its perspective on domestic and international economic conditions and the impact that these might have on the budget.

Third, the Mid-Year Review should indicate the state of implementation at mid-year (ideally with six months of data on the outturn) of the different elements of the budget, both by ministry or department and by such non-ministerial line items as debt service, social insurance transfers, and fiscal-federal grants or loans. This would include specifics on current outlays and investment by sector and information on the different elements of expenditure on a functional and economic classification basis. On the revenue side, it would include mid-year estimates of revenue collections by specific tax and revenue items. Ideally, the discussion in the accompanying text would explain the factors underlying deviations in the mid-year outturn relative to the original budget estimates —

in particular, the degree to which these changes are due to policy, problems in implementation, or changes in underlying economic conditions.

Fourth, the Mid-Year Review should provide detail on policy decisions taken since the presentation of the budget that have affected revenues, operating expenditures, and capital budget estimates, with estimates on the magnitude of the impact. For many countries, this might include a discussion of whether there is a need for a supplementary budget, and the specific elements that it would include. In other countries, such as the United States, where budgetary decisions essentially reflect the response of the Congress to the President's Budget, the Mid-Session review provides an analysis of the pace of budgetary spending and revenue outturns, the state of play in terms of budget authorizations, and the budget balance (surplus or deficit) at the midpoint of the budget year. It also reports on any new budget initiatives of the president since the issuance of the original budget (but with no expectation of a formal supplementary budget).

Finally, some countries, such as Australia, use the Mid-Year Review to highlight specific policy developments. For example, in 2007-08 Australia's Mid-Year Review examined the state of personal income tax reform, including data on tax expenditures. In 2008-09 it discussed the government's fiscal policy response to the global economic downturn.

WHAT INFORMATION SHOULD BE INCLUDED IN THE IYR?

In-Year Reports can be published on a monthly or quarterly basis, though best practice requires that these documents be published with information on the overall aggregated budget on a monthly basis.

In 2002 the OECD published *Best Practices for Budget Transparency* as a reference tool to increase the degree of budget transparency in member countries. These Practices are also relevant for non- OECD countries. With respect to In-Year Reports, the OECD *Practices* state:

- In-Year Reports should show progress in implementing the budget.
- They should contain the amount of revenue and expenditure in each month and year-to-date. A comparison should be made with the forecast amounts of monthly revenue and expenditures for the same period. Any in-year adjustments to the original forecast should be shown separately.
- A brief commentary should accompany the numerical data. If a significant divergence between actual and forecast amounts occurs, an explanation should be made.
- Expenditures should be classified by major administrative units (e.g., ministries, departments, and agencies). Supplementary information classifying expenditures by economic and functional categories should also be presented.

- The reports, or related documents, also should contain information on the government's borrowing activity.

The OECD *Practices* are consistent with the IMF's 2007 *Code of Good Practices on Fiscal Transparency*, which state, in part [emphasis in italics added]:

- There should be clear procedures for budget execution, monitoring, and reporting.
- The accounting system should provide a reliable basis for tracking revenues, commitments, payments, arrears, liabilities, and assets.
- A timely mid-year report on budget developments should be presented to the legislature. *More frequent updates, which should be at least quarterly, should be published.*
- Supplementary revenue and expenditure proposals during the fiscal year should be presented to the legislature in a manner consistent with the original budget presentation.

As to the appropriate level of detail, to ensure that administrative units are held accountable for their expenditures, In-Year Reports should show actual expenditures by administrative unit. In some countries, some administrative units issue In-Year Reports individually, while in other countries the information is consolidated into a single In-Year Report, which is typically issued by the Treasury. The latter approach is preferable, because it facilitates comparisons and provides a fuller picture. But the most important purpose of any In-Year Report is to disclose expenditures to the public. If all administrative units were not able to report actual expenditure in a timely manner, the value of the In-Year Report would be limited.

ANNEX 2. ORIGINAL TEXT OF LIMITED ANALYSIS (BEFORE TRANSLATION)

Chile: En relación con la Ley de Presupuestos aprobada para 2015, las principales diferencias a la baja provienen de los ingresos del Cobre Bruto y la minería privada, que fueron fuertemente afectados por la caída del precio del metal, la cual no fue prevista al momento de la elaboración del proyecto de la Ley de Presupuestos.

Adicionalmente, se puede mencionar que durante el primer trimestre de 2014 se autorizó la capitalización de US\$200 millones de utilidades propias de Codelco, lo cual fue realizado durante el mismo año. En cambio, en 2015, se autorizó la capitalización de US\$225 millones de utilidades propias, que no se materializó debido a la falta de utilidades de la empresa estatal. Por su parte, los gastos en personal aumentaron 6,1% real anual, en parte como consecuencia de la Ley de Reajuste de remuneraciones del Sector Público (aprobada en diciembre de 2014) que consideró un mejoramiento que superó los recursos provisionados en la Ley de Presupuestos 2015, además de las asignaciones variables de desempeño que se suplementaron durante el año.”

Costa Rica: Entre las explicaciones que presenta el Ministerio de Educación para la no ejecución de los recursos están las siguientes:

- Recursos presupuestados en la partida de remuneraciones para el pago de diferencias salariales por resolución administrativa que no fueron ejecutados, en razón de que la aplicación desarrollada dentro del Sistema de Pagos INTEGRA-2 para ese propósito no entró en producción en el 2015, no pudiendo efectuar la ejecución correspondiente por la partida de remuneraciones.
- No utilización de plazas de carácter administrativo presupuestadas por no contar con la autorización de la Autoridad Presupuestaria
- El Ministerio de Educación Pública realiza grandes volúmenes de compras, las cuales se tramitan por medio de nueve programas presupuestarios y en muchas ocasiones los proveedores no participan, ya que los montos son muy pequeños y en otras ocasiones son tantas las solicitudes de compras gestionadas, que no hay respuesta por parte de las empresas proveedoras, adicionalmente se presentaron reclamos y apelaciones en los procesos licitatorios que resultaron en contrataciones infructuosas así como diferencias de precios entre lo presupuestado y lo cotizado.
- La entrada en vigencia del leasing del equipo de cómputo disminuyó los requerimientos de activos por parte de varias dependencias.

- Solicitudes de pedido atendidos por medio de convenios marco, que resulta más económicos, lo que genera que se devuelva una gran cantidad de recursos al disponible.
- Las fechas de programación para presentar solicitudes muchas veces limitan el accionar, ya que desde medio año se cierra la posibilidad de colocar solicitudes de prioridad que no son de convenio marco y esto hace que ya no se pueda utilizar al máximo los recursos.

Nicaragua: Impuesto sobre la Renta (IR). Continúa el ritmo de buen desempeño y crecimiento dinámico, alcanzando recaudación de C\$14,712.9 millones, que equivale a 62.7% del presupuesto anual de C\$23,463.5 millones, lo que en comparación con lo percibido en Enero/Junio 2015 presenta incremento de 21.9%, ligeramente superior a la tasa de tendencia que a Junio se ubica en 21.5%. El ritmo de crecimiento del IR se encuentra por encima de la tasa interanual presupuestada y la registrada en el mismo período 2015 en relación a 2014, evolución que se explica por el contexto macroeconómico favorable 2015-2016, la plena aplicación de las medidas incorporadas en la LCT relacionadas con este impuesto y mejora en la gestión de la administración tributaria.