



Sentao Kenya

A Simplified Guide on Budget Analysis

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What is Budget Analysis?

Budget Analysis focuses on “critically evaluating the budgetary allocations made in the beginning of the fiscal year and tracking expenditure undertaken on the basis of these allocations to determine the extent to which the policy translates into outcomes” (Aiyar & Behar, 2005, p.108).

- Budget Analysis entails analyzing and assessing the budget from the perspective of the poor and the marginalized sections of society.
- It is looking at the budget from the lens of the poor, women, children, People living with Disability (PLWDs) with the objective of prioritization of public expenditures and the collection of revenues in ways that are socially equitable.

Source: Centre for Budget and Governance Accountability (2012)

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- Budget analysis is all about carrying out analysis of;
 - budget allocations and declared policy priorities,
 - trends in budget allocations over time (this helps illustrate the government’s commitment to address the issues in a given sector),
 - allocations to different groups, regions, sectors
 - Budget analysis generates the evidence required to engage effectively with policy and budget makers
 - The primary objective of budget analysis is to ascertain progress, challenges and opportunities for improving the quality and quantity of public spending

Objectives of Budget Analysis

- Helps in the analysis of budget allocations and declared policy priorities: Often budget allocations do not match declared government priorities.
- Helps to inform citizens on the impact of budget allocations on their daily lives and to mobilize public opinion to pressure for greater equity in budget allocations
- Improve information sharing and public understanding of the budget
- Initiate debates on sector specific implications of budget allocations: Budget Analysis can help improve effectiveness and efficiency of public spending by making trade-offs thus helping to optimize the use of scarce public resources
- Informing revenue policies: By analyzing the impact of taxes and tax reform on different groups in society, budget analysis can help ensure greater equity in revenue collection
- Influencing budget allocations: by identifying the funding gaps, budget analysis stimulates the need to advocate for increased budgetary provisions for a sector or greater equity in budget allocations.
- Enhancing targeting of funds for disadvantaged groups, including women, children and the youth: budget analysis can help empower vulnerable groups by giving voice to their concerns and ensuring that funds address their needs more closely
- Wider information sharing and public understanding of the budget: budget analysis helps to make citizens aware how budget allocations impact their daily lives. It unpacks the technicalities of budgets, increases their accessibility, thereby increasing transparency in the budgetary process.
- Initiating debates on sector specific implications of budget allocations: A thorough analysis of budget allocations can contribute to public debates on budget issues and what the governments need to deliver with the use of scarce public resources.

What can we learn by looking at the budget?

1. **Adequacy:** How much is budgeted? Is the current allocation (towards a particular sector) adequate to meet policy objectives? The demands of a particular sector towards addressing the needs of certain disadvantaged groups might outweigh the money that is available to meet those demands. An analysis of the allocations helps us determine whether the government is taking adequate steps to meet these demands.
 - In nominal terms: If allocation is enough (comparing it to the cost of intervention)?
 - In real terms: If allocation is keeping up with the inflation?
2. **Priority:** How does the amount allocated towards a particular sector/ welfare of a social group compare with resources allocated towards other areas?
 - To determine what government's priorities are as stated in the budget
 - To ask if stated policy priorities match priorities in the budget
 - To determine if the government is keeping its promises and thereby holding it accountable to the electorate
3. **Progress:** Is the government's response to this issue improving?
To monitor government commitment
4. **Equity: Are resources being allocated fairly?**
 - Per capita spending across geographic regions
 - Are resources being spent efficiently?
 - Are resources being spent effectively?

Some of the approaches to Budget Analysis (can be carried out by using any one or more of these approaches)

Analysing Budget Policies

- This involves assessing the implications of the budget.
- This would include a thorough scrutiny of the fiscal and economic assumptions on which the budget proposals of the government are based.
- The process helps understand how the budget expected to affect the government's deficit targets, as well as such economic outcomes as inflation, growth, and employment

Sectoral Analysis

- This is the most common type of budget analysis.
- The analyses can review a sector in relation to other sectors, the entire economy, or its historic levels of support.
- It focuses on a particular sector of the government eg health, water, agriculture and education. The assessment usually involves evaluation of the inadequacy of the allocations made towards the particular sector.
- Involves a comparison of allocations made for that sector with investments in other sectors.

Analysis of trends in budget allocations over time

- This helps in assessing the evolution of government's commitment to solving the problems of a particular sector/section of population

Revenue Analysis

- This involves assessing the way government acquires its revenue realising that it can have significant effect on distribution of income; (The analysis assesses the distributional effects of a tax system - Would proposed tax reforms be of more help to the rich or the poor? Does the tax system take a larger share of the income of low-income people or of high-income people? that is, is the system regressive or progressive?)
- It assess whether revenue projections made by the government are realistic, sufficient to ensure the delivery of services promised by the government, whether all revenue sources find a mention in the budget or if there are important sources of revenue which are not mentioned in the budget and are therefore not subject to any kind of scrutiny.
- It also covers digging out the extent of revenue loss due to tax evasion practices.

Undertaking Budget Analysis

Figure 1: Budget Analysis Guide (Steps)



Source: Adapted from IBIS Budget Analysis and Budget Tracking Course (2014)

Steps in Budget Analysis

Steps	Details
Decide on scope and scale of the analysis	<ul style="list-style-type: none"> The first step is to decide on the overall scope and scale of the proposed budget analysis. For example, one may choose to do budget analysis that focuses on a thematic sector such as education, or a specific component of it such as early childhood education. Alternatively, a budget analysis exercise can focus on a range of rights issues such as education, health and leisure.
Develop objectives	<p>The next step is to develop the specific objectives of the proposed budget analysis. Examples of budget analysis objectives include:</p> <ul style="list-style-type: none"> To ascertain how the medium term expenditure framework, fiscal policies and other related macro-economic policies impact on the implementation of children's rights. To analyse trends in budgetary allocations and public spending on specific child rights with the aim of identifying progress and gaps. To assess levels of transparency, participation and accountability in public spending on children. To ascertain any structural, equity, reach, value chain and other challenges that may compromise efficiency and effectiveness in public spending on children.
Decide on specific parameters/indicators to be analyzed	<p>It is at this stage that the indicators to be analyzed are determine. For in instance, in a Child Budget Analysis, the key indicators to be tracked include:</p> <ul style="list-style-type: none"> Child-friendliness of national development and fiscal policies; Fiscal space available to invest in children; Adequacy of budgetary allocations to specific child rights issues; Efficiency and effectiveness of spending; openness of the budgeting process; and Level of participation of citizens and children in budgeting processes.

Decide on research methodology

- The next step is to decide on sampling strategy, data collection methods, research instruments, risks and ethical considerations, and data analysis and presentation.
- The research methodology should also articulate how the affected constituency will be involved in the entire process.
- Budget analysis studies generally employ quantitative research designs with a few qualitative elements. Data is usually presented in tables, graphs, pie charts, histograms, etc. Qualitative data collection methods are used to measure elements that are more subjective, such as transparency, accountability and participation. It is good research practice to consider a post-study validation workshop

Conduct the budget analysis study

- This can be undertaken internally or through outsourcing the services of external consultants
- Data triangulation is strongly encouraged to avoid bias. At the very least, a budget analysis study should ensure that official data and government positions on emerging themes are captured wherever possible (Streak 2008). Researchers should use the latest data.
- A good budget analysis also finds ways of capturing views and perspectives from concerned constituency (eg PLWDs).
- The findings from budget analysis should be interpreted in order to generate recommendations to government and to other stakeholders. Always remember that the primary objective of a budget analysis study is to influence policies and budgets.

Note: The more commonly carried out budget analysis focuses on social sector expenditures.

In undertaking Sector Budget Analysis, the following are some of the possible starting points for setting the research agenda:

1. **By population group:** e.g. by geographic area or gender
2. **By government programme:** e.g. early childhood programmes, non-formal education
3. **By issue:** e.g. HIV and AIDS
4. **By policy:** e.g. identifying areas of weakness in the education sector
5. **By using policy documents as a benchmark:** e.g. PRSPs, various rights conventions

What one decides eventually depends upon the information available:

For example if information is available on budget allocation and expenditure priorities, we can:

1. Measure a government's commitment to specific policy areas
2. Determine the trends in spending
3. Determine the cost implications of various budgetary proposals
4. Analyse the impact of budgetary choices on specific groups, such as children, disabled

Key Guiding Questions in Undertaking Budget Analysis

The following Questions are key in undertaking analysis of the Government Budget.

Question	Notes
Are the government's priorities at program and sub-program level CLEAR?	This is a basic transparency question regarding the budget presentation. Is it possible to understand the priorities or not?
Are the program priorities JUSTIFIED?	We need to decide whether the narrative information and our own knowledge of the country's/ (county's) needs can justify the decisions that appear to be made to focus on particular areas or not.
What alternative priorities might the government have focused on and WHY?	In case we are not convinced that the country's/ (county's) choices are justified, what do we recommend as focus areas at program and sub-program level in the budget?
Do the indicators and targets appear to capture the most important ACTIVITIES of government or are there key activities missing?	What gets measured gets done. We want to make sure that if we think government should be doing certain things, that these are captured in an indicator or set of indicators.
Are the TARGETS realistic given what we know about current performance?	We can only link budget to performance if we have realistic targets, otherwise we will never meet them and never know whether this is because we did not spend well or because they were impossible targets to meet. We should use available resources to question the targets before they are approved.
Are the ALLOCATIONS realistic given past budget performance?	One would ideally want to look at past implementation reports to know whether the various departments and programs have actually been able to spend what they were allocated before increasing their funding. This requires us to look at Controller of Budget reports (or National/County Budget implementation reports if available) to see which departments have been able to spend and which have not. Those that have not spent should not be given increments unless they have shown that they have addressed their implementation challenges.

Adapted from IBP Kenya (2016)

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NOTES

A series of horizontal dotted lines for taking notes.



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