

# DEVELOPMENT FINANCE NETWORK

## ANNUAL ASSEMBLY

### Budgetary execution for infrastructure projects

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# Scope

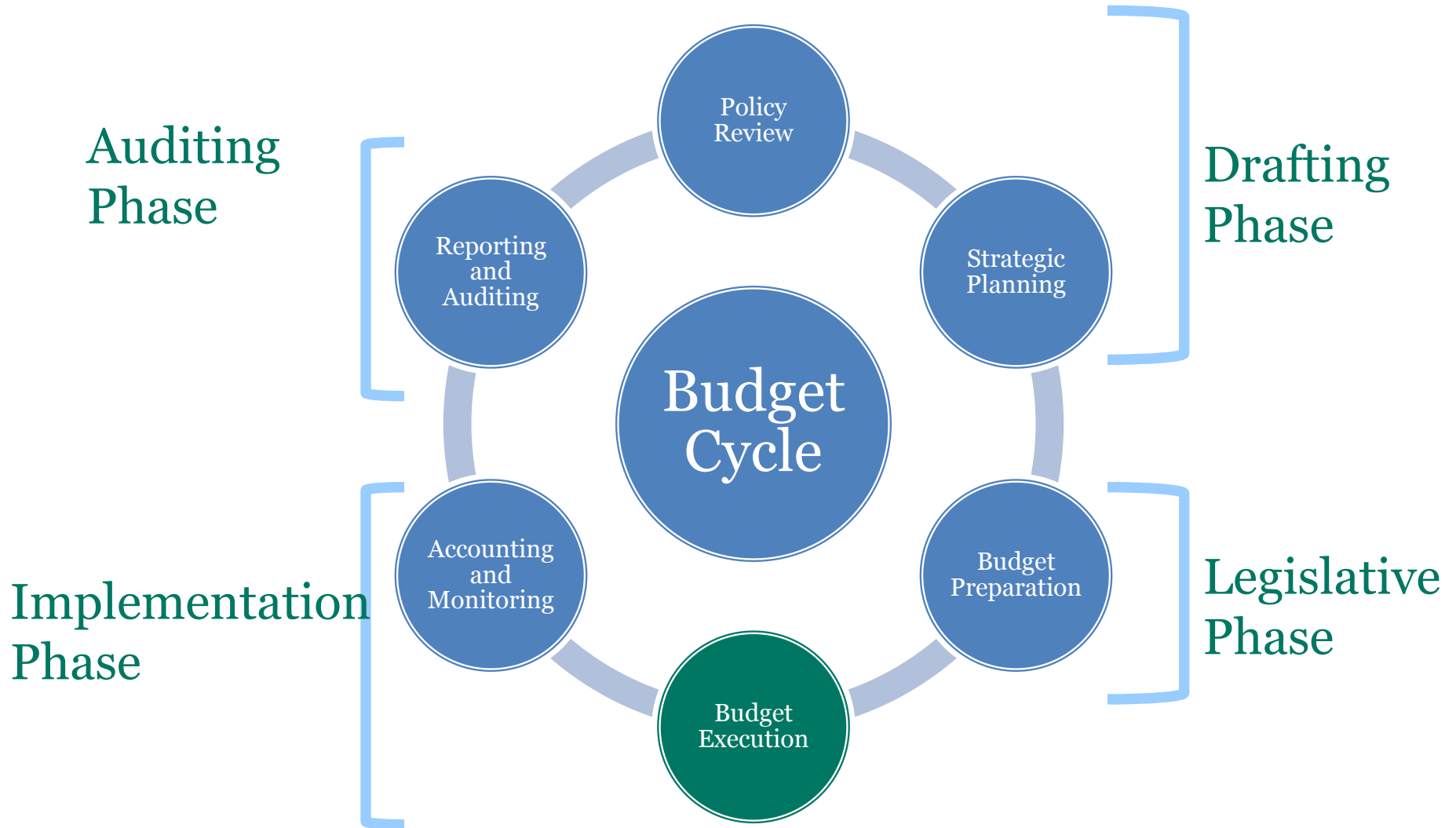
- What do we understand by budgetary execution?
- How budgetary institutions differ across OECD and Latin America?
- How budgetary execution affects infrastructure?
- What is the role of donors in budgetary execution?

# What do we understand by budgetary execution?

## Defining the National Budget

- A government's **central instrument for economic management**, reflecting the values and strategies of the country
- Successful economic management depends in large part on the efficiency, integrity and effectiveness with which the **state raises, manages and expends public resources**.
- The national budget is both a technical/administrative and political process
- The national budget has three main functions:
  - The allocation of public goods and services
  - The distribution of income and wealth
  - The promotion of economic growth and stability

# What do we understand by budgetary execution?



# What do we understand by budgetary execution?

- Budget preparation and budget execution are closely linked
- Budget execution aims to:
  - Ensure that the budget is implemented in conformity with national legislation (financial and policy aspects)
  - adapt to significant changes in the macro environment
  - Resolve problems during implementation
  - Manage purchase and use of resources efficiently and effectively
- Key Players
  - Ministry of Finance
  - Line Ministries
  - Central Departments

# What do we understand by budgetary execution?

## Allocation of appropriations

- Apportionment
- Allotment

## Commitment

- Obligation to pay incurred

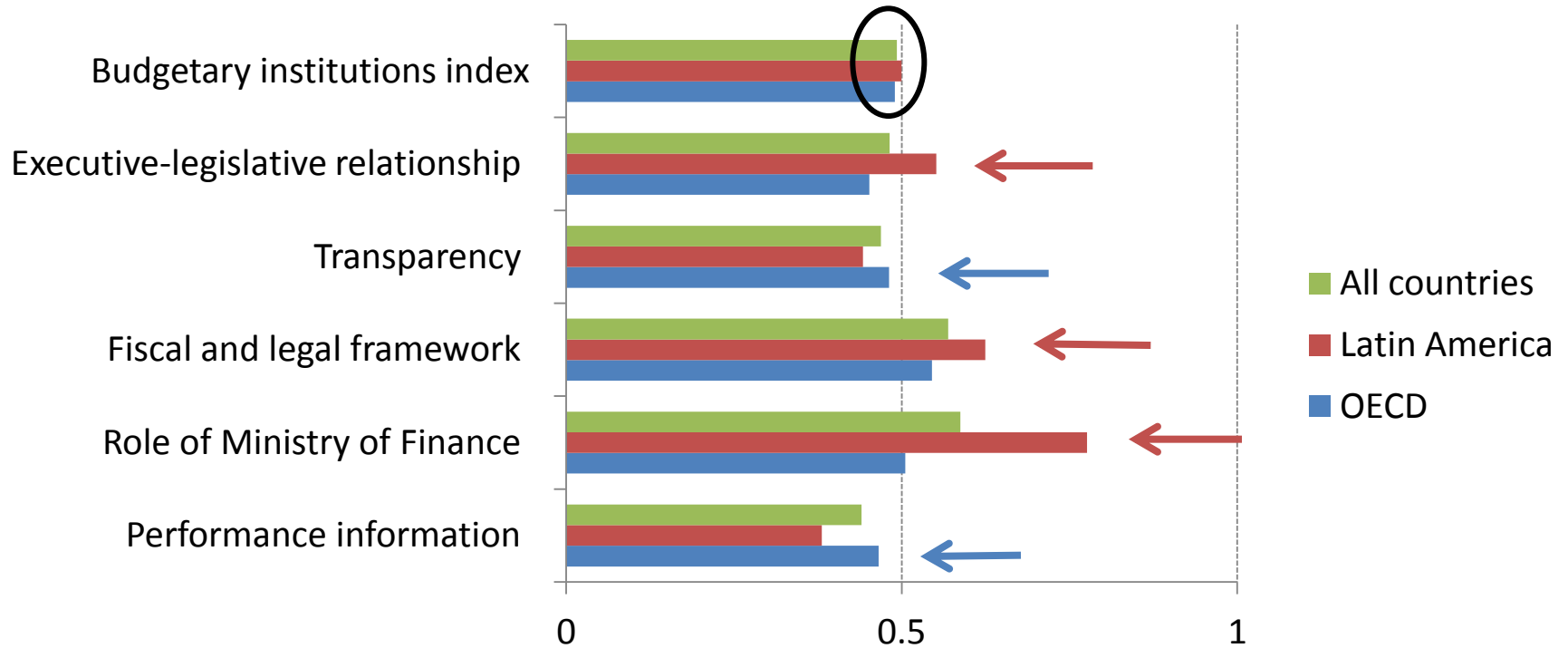
## Acquisition/Verification

- goods are delivered and services are rendered
- Assets and liabilities of the government are increased and recorded

## Payment

- Through cheques, deduction from taxes, electronic transfers, debt instruments, cash vouchers etc.

# How budgetary institutions differ across OECD and Latin America?



Rules and procedures are (relatively)

- Rigid and hierarchical in Latin America; flexible and collegial in OECD
- Slightly more transparent and using performance information in OECDc

# How budgetary institutions differ across OECD and Latin America?

BUDGETARY INSTITUTIONS	FISCAL OUTCOMES			
	OECD		Latin America	
	Debt to GDP	Primary balance to GDP	Debt to GDP	Primary balance to GDP
	-	0	-	+
Executive-legislative relationship	+	-	0	0
Legal framework	+	0	-	0
Role of Ministry of Finance	-	0	0	+
Transparency	0	0	0	+
Performance information	+	0	0	0

Note: 0 stands for non significant , +/- for significant at least at the 10 % and with a positive/negative sign.

Better fiscal performance is correlated with budgetary institutions that are:

- More rigid and hierarchical in Latin America
- More flexible and collegial in OECD



# How budgetary execution affects infrastructure?

- Infrastructure programs in developing and emerging countries suffer from:
  - **Over spending**.. too little regulation
  - **Under spending**.. too much regulation!
- Over and under spending in infrastructure programs in non-OECD countries are related to **budget unpredictability** with the dependence on
  - Natural resources
  - Donor funds
- Hierarchical and rigid budgetary institutions lead to under spending
- Having multi-year commitments for projects and allowing funds to be carried over into the next year can soften under spending...

# What is the role of donors in budgetary execution?

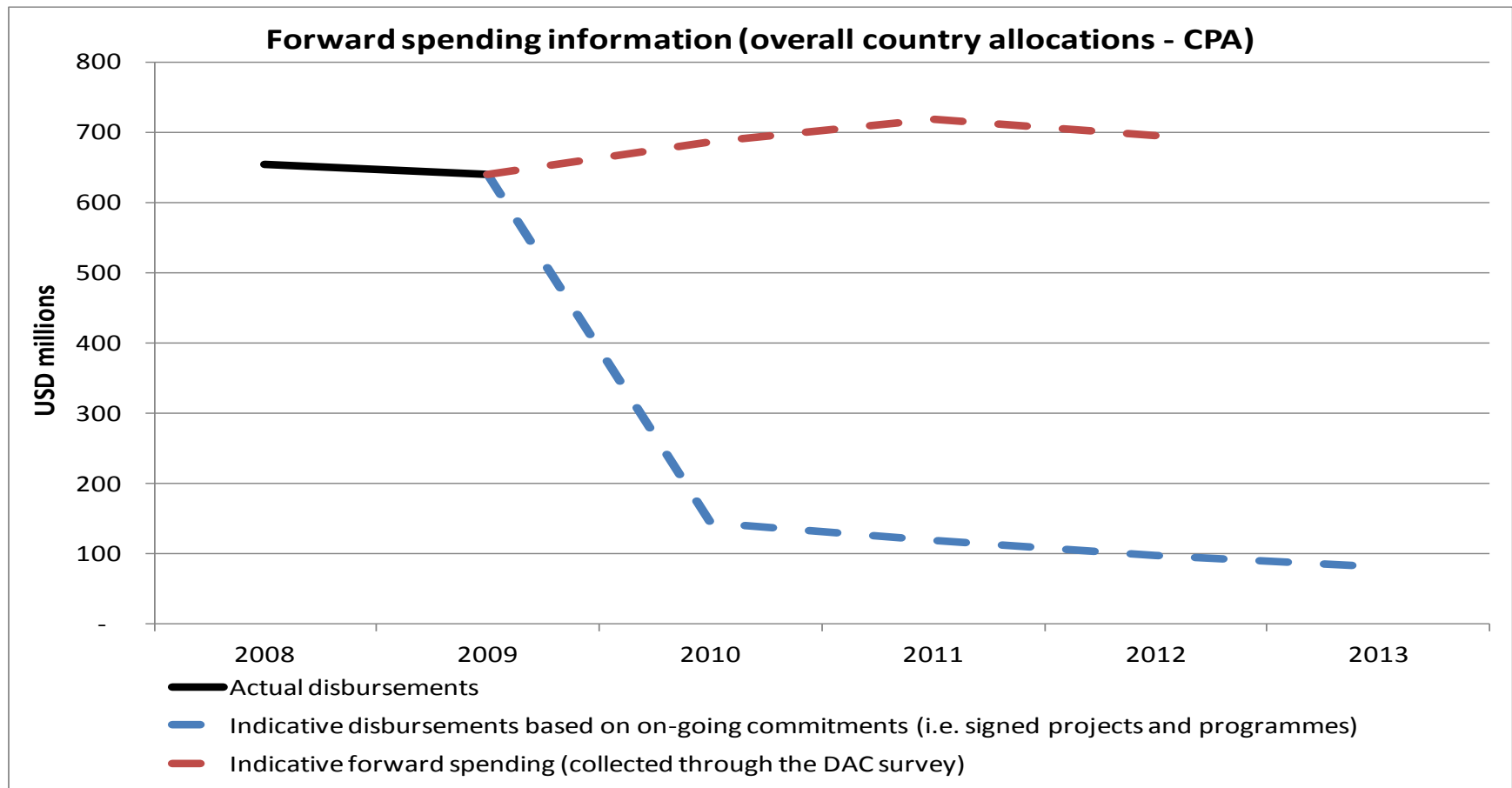
- Infrastructure is back on the **economic policy agenda of donors**
- Lack of access to basic infrastructure services **constraint to social welfare and growth**
- **common dilemma (OECD and non-OECD)**: how to meet the large and sustained costs associated with providing and maintaining infrastructure networks?
- **Non-OECD countries** face further challenges in infrastructure finance
- Foreign Aid plays a significant part in **creating fiscal space for infrastructure**
- Aid continues to be an **important resource in many countries' budgets**
- But this **aid needs to be effective** and support a country's budget execution processes

## Impact of ineffective aid on budget execution

- Paris Declaration on Aid Effectiveness (2005)  
Ownership, Alignment, Harmonisation, Mutual Accountability, Managing for Development Results
- Commitments to strengthen budget execution
  - Predictability and transparency of funding
  - Putting aid ‘on budget’
  - Stronger Public Finance systems (including Procurement).

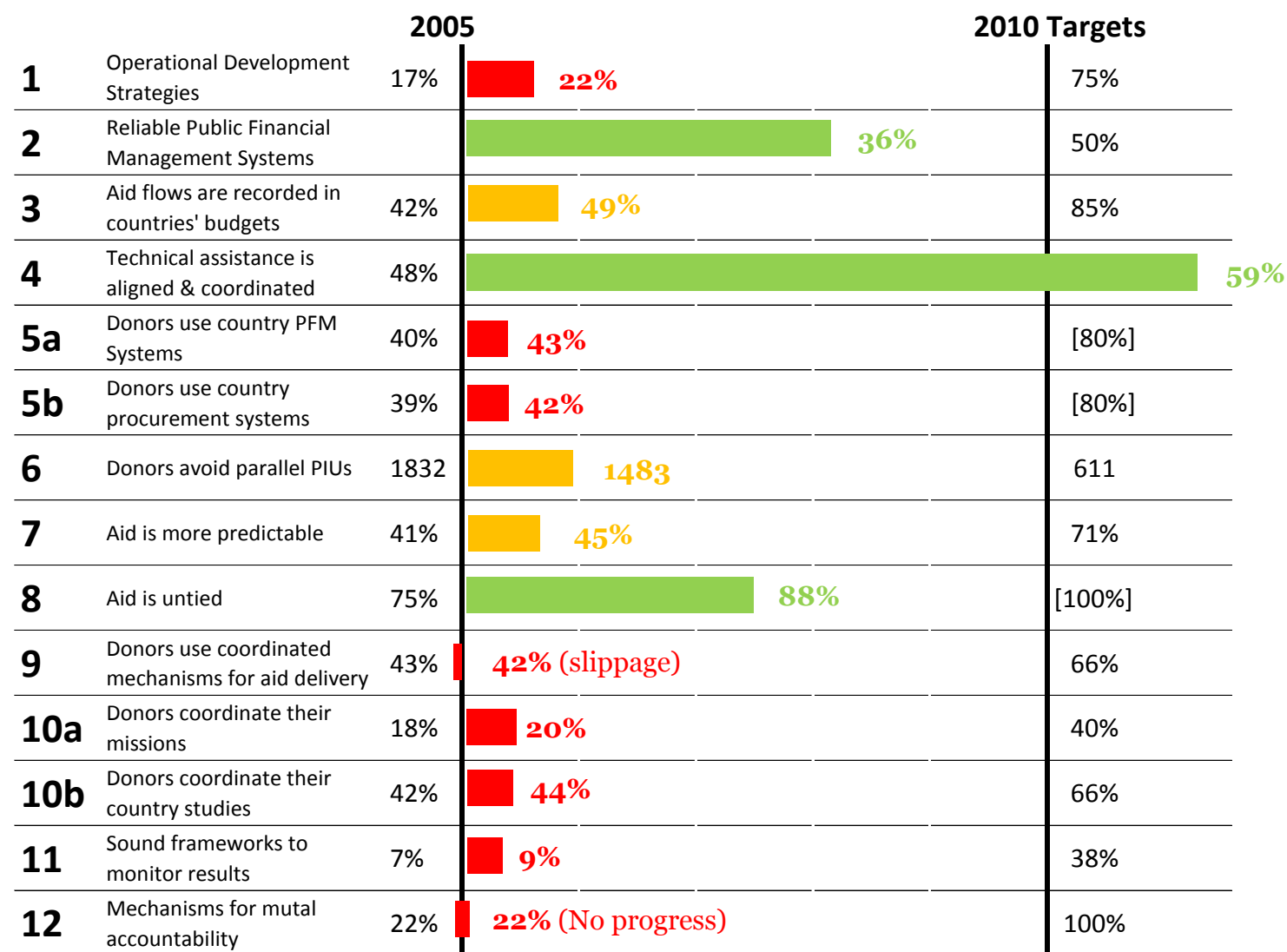
# Impact of ineffective aid on budget execution

## Predictability: What Rwanda expected & what it received



When aid is not predictable it undermines a country's budget execution process...

# Impact of ineffective aid on budget execution



Using budget execution systems **strengthens a country's own systems** for sustainable development and **increases accountability and transparency of resources**

## Main Conclusions

- Budget execution is an important element of infrastructure development- and in non-OECD countries, external resources including donor funding remain critical
- Unpredictability of resources is particularly harmful in Infrastructure where long-term investments are the norm
- Large-scale infrastructure projects demand significantly more partner country capacity in budget execution which are adapted to local economic and political context
- Ensuring financing is provided by donors in an effective way is critical to sustainability of infrastructure development

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