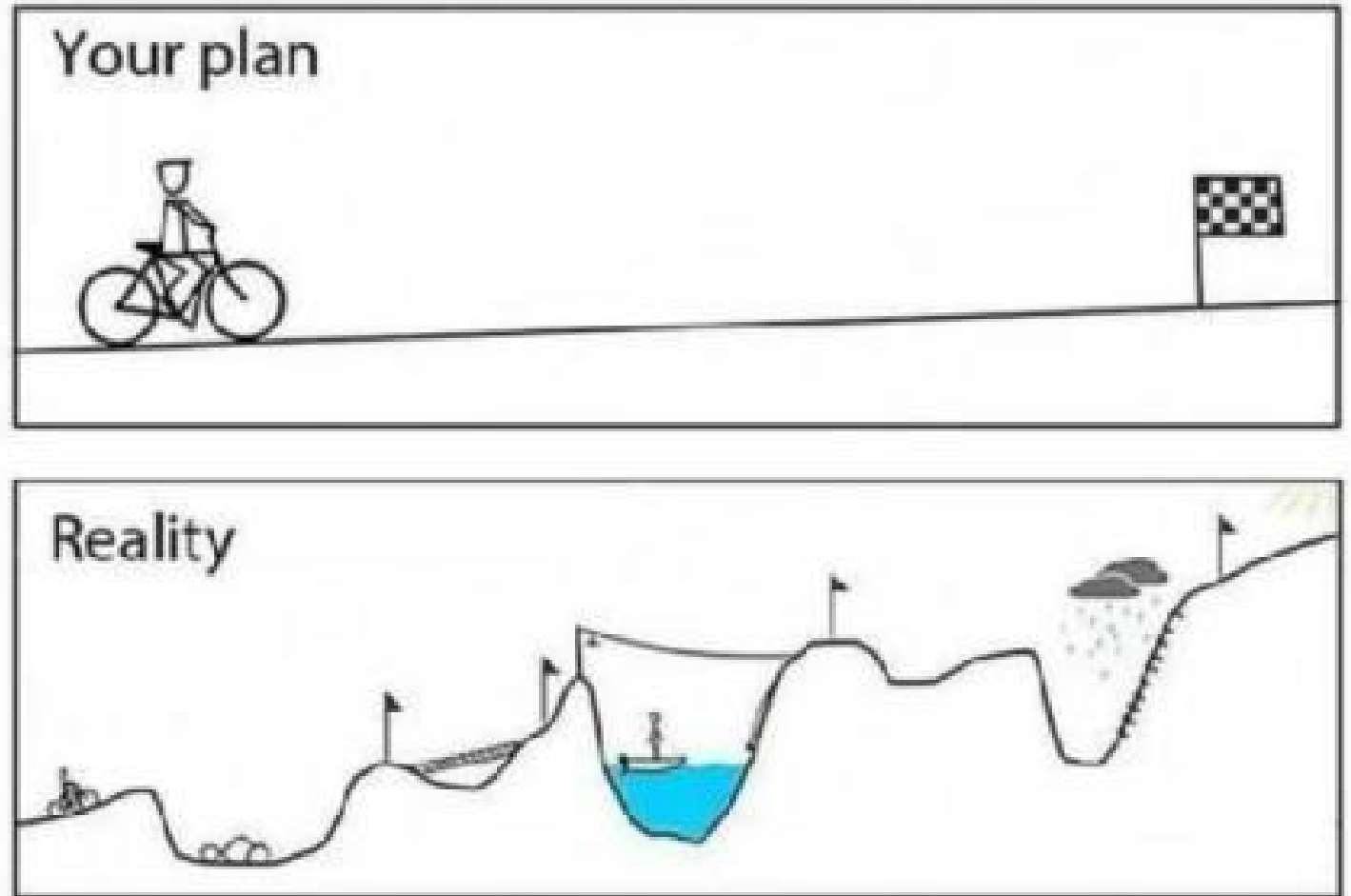


Linking strategic planning and budgeting

Ivor Beazley



Evolution of strategic planning?

- Government defines objectives, strategic planning identifies the policy changes, activities, investments and other resources required to reach them within a defined timeframe.
- Strategic planning dates to the mid-20th century, following the models developed by the Soviet Union and France, and is now practiced in some form by most countries.
- Interest in strategic planning has waxed and waned over the years. Large development budgets (internal or external), especially for infrastructure, are linked to interest in strategic planning (e.g. EU structural funds).
- Current resurgence of interest in strategic plan (incl. industrial strategy), motivated by multiple crises, conflict, COVID, climate crisis and conflict.
- Interest in “strategic foresight”, what may be just around the corner?



Evolution of budgeting?

- Modern budgeting evolved in the 19th century. As government revenues grew and constitutional government emerged, there was a need to regularize the process of allocating revenue and accounting for expenditure.
- In the late 20th century budgeting evolved into the concept of public expenditure management (PEM). (Ref. A contemporary approach to Public Expenditure Management (Allen Schick, 1998))
- The objectives of PEM became more ambitious and more strategic, with a longer-term perspective, supporting macro fiscal policy (MTFF), aligning the budget with policy goals (MTEF and PPB) and promoting efficiency in public spending /value for money (e.g. SRs).



Planning vs.
budgeting-


Contrasting
perspectives

Strategic planning and budgeting could be described as chalk and cheese, or oil and water. They don't mix well naturally.

Strategic planning is long-term, aspirational, and unconstrained.

Budgeting, in contrast, is the ultimate exercise in realism and pragmatism, saying "no".

To illustrate the dichotomy at international level, the 17 UN SDGs do not discuss or explain where the resources will come from to achieve them



What have governments done so far?



Some governments align their strategic plans timeframes with MTFE and MTEF



Medium term fiscal frameworks link the availability of budget resources to the governments economic development plans and policies on revenue, expenditure and debt.



Medium term expenditure frameworks link expenditure allocations to strategic objectives at the sector level, and sometimes down to the level of individual programs.



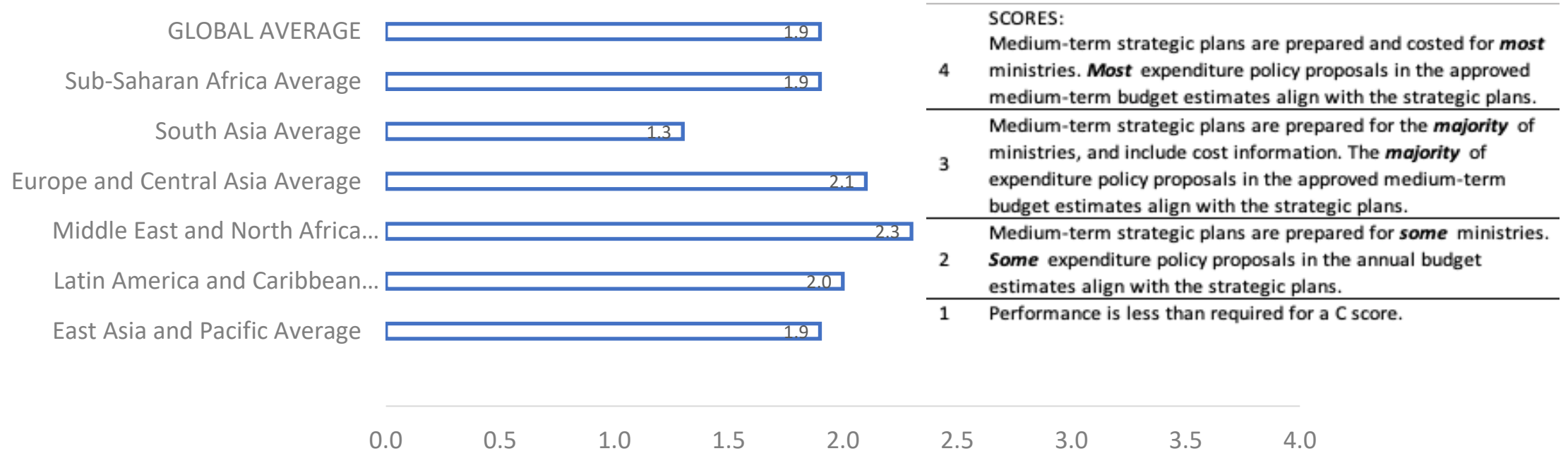
Public Investment Plans help governments align capital expenditure with long term economic development goals



Program structures within the budget, and related performance indicators help align spending with governments' planned objectives

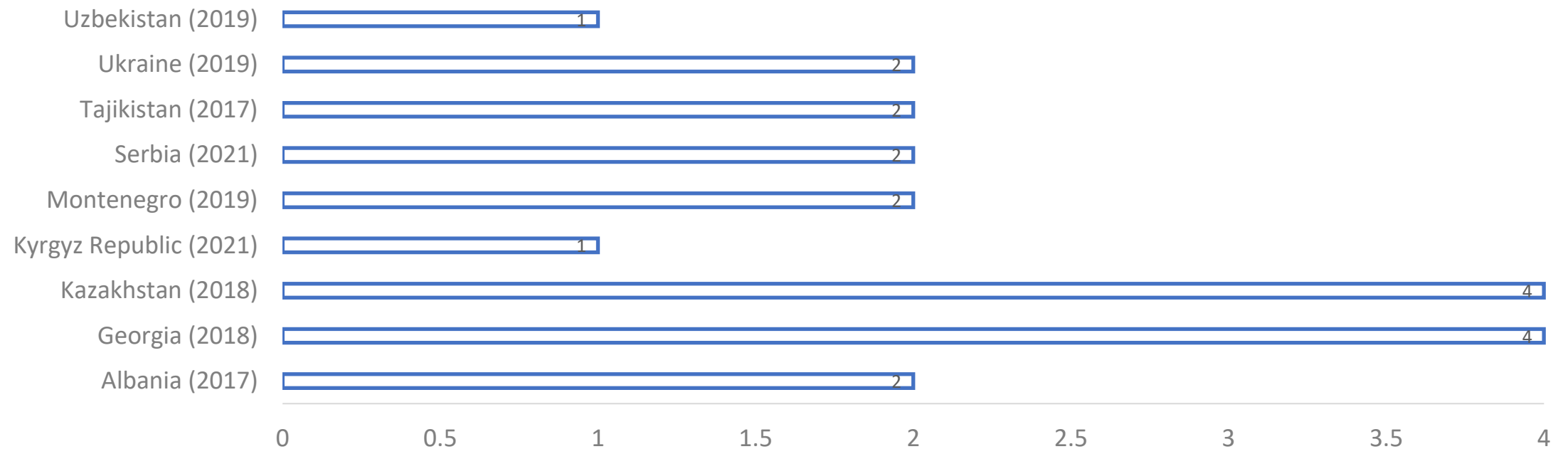
How successful have they been?

Regional Average Score for Most Recent Assessments of PEFA Indicator on *Alignment of Strategic Plans and Mid-term Budgets*

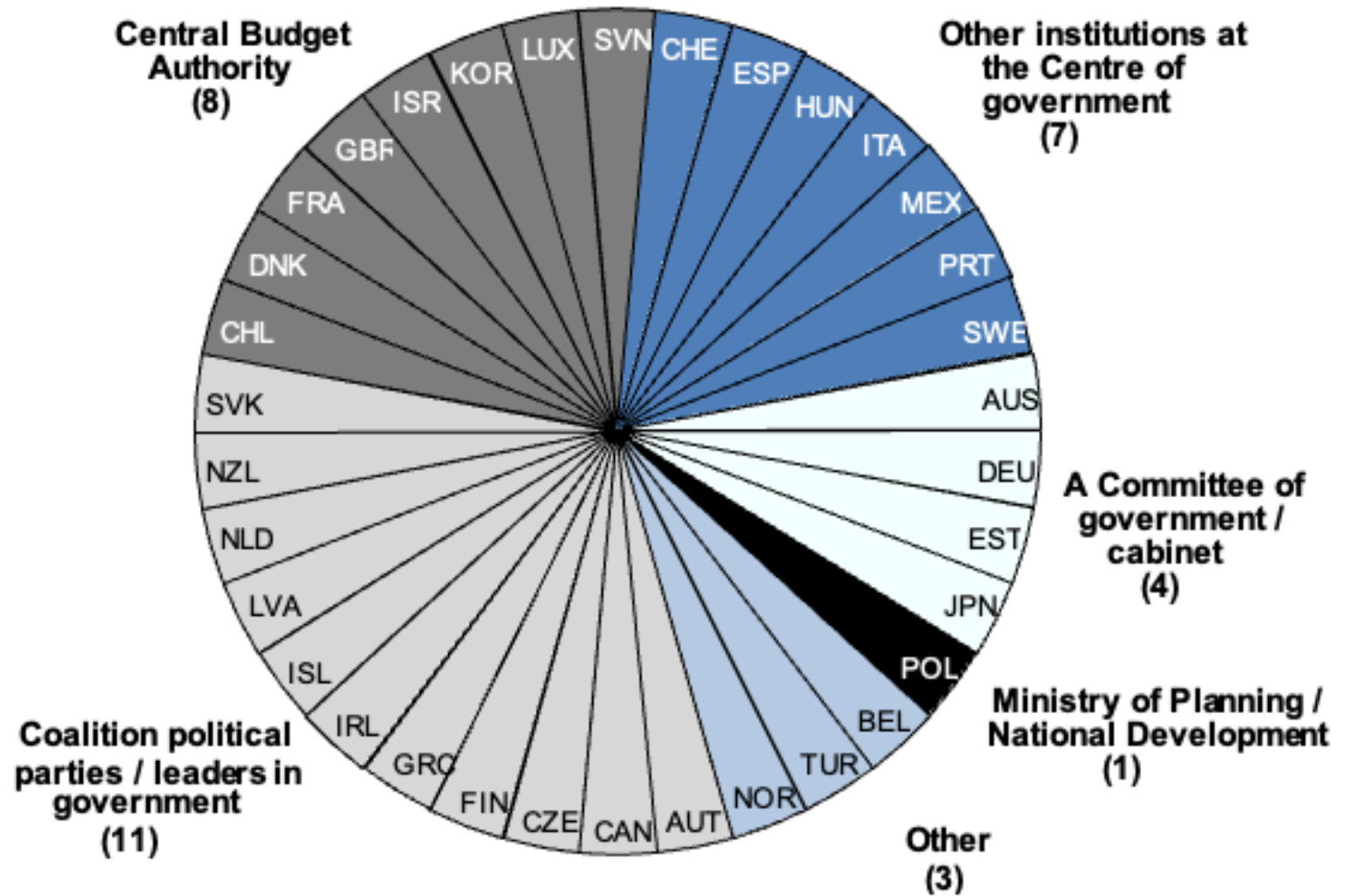


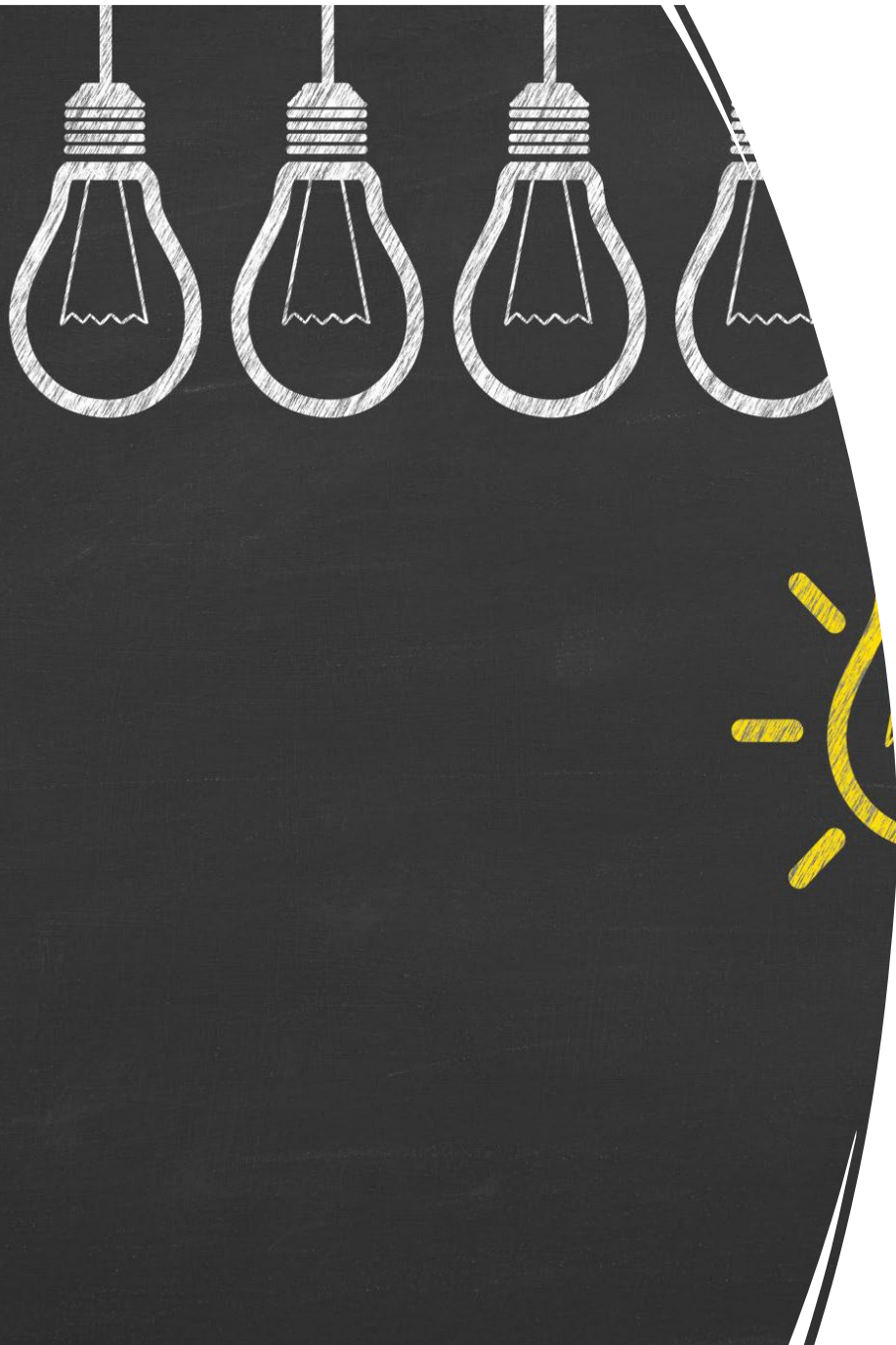
PEFA scores for PEMPAL countries

**PEMPAL Countries' Score for Most Recent Assessments of PEFA Indicator on
*Alignment of Strategic Plans and Mid-term Budgets***



Institutional responsibility for strategic planning





How far should finance ministries get involved in strategic planning?

- **Core role** – Fiscal planning - ensuring fiscal sustainability, effective resource mobilization and allocation of budget in line with government objectives.
- **Expanded core role** – some finance ministries are also responsible for economic development and planning
- **Enabling role** - Source of expertise within government on value for money, financial viability and sustainability of new policy initiatives and investments (MoF finance function leadership role).
- **Coordination role** – to support financing for cross government priorities (e.g. national infrastructure, climate, digitalization etc.) working closely with Center of Government.

Toward good practice

Existing guidance – high level

OECD Principles of Budgetary Governance

- Strong medium-term perspective in the budget
- Structure the budget allocations in a way that corresponds with national objectives
- MTEF has real force is setting boundaries for the development of budget
- Close working relationships between MoF, centre of government (e.g. prime minister's office, cabinet office or planning ministry)
- Processes for reviewing existing expenditure policies, including tax expenditures

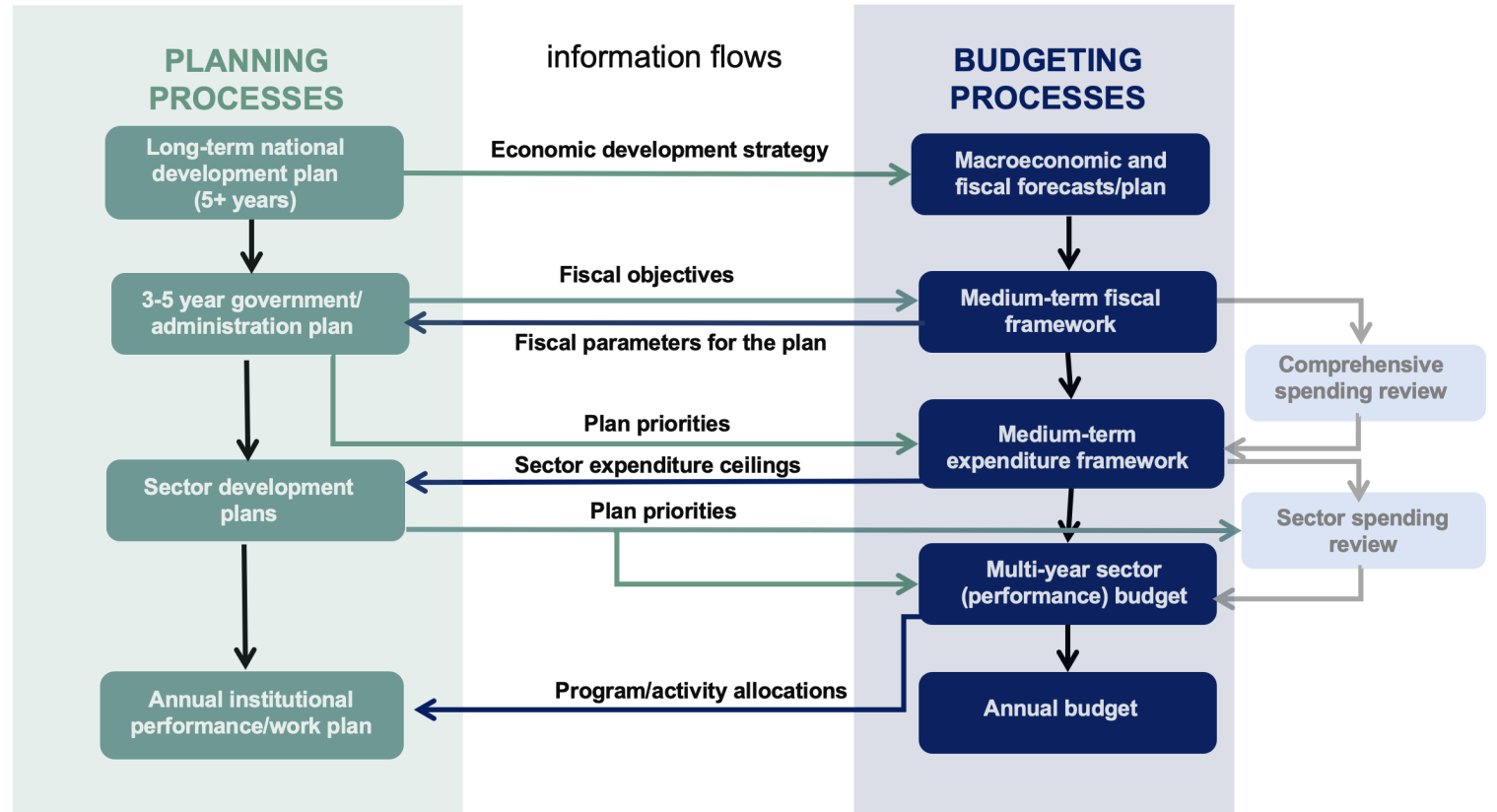
PEFA (PI 16)

- Strategic plans identify resources required to achieve medium- to long-term objectives and planned outputs and outcomes.
- The plans identify the cost implications of current policy commitments, including any funding gaps, and prioritize new expenditure policy proposals consistent with government policy objectives.

OECD Good Practices for Performance Budgeting

- Budget proposals are systematically linked to relevant development plans, government program commitments and other statements of strategic direction and priority.

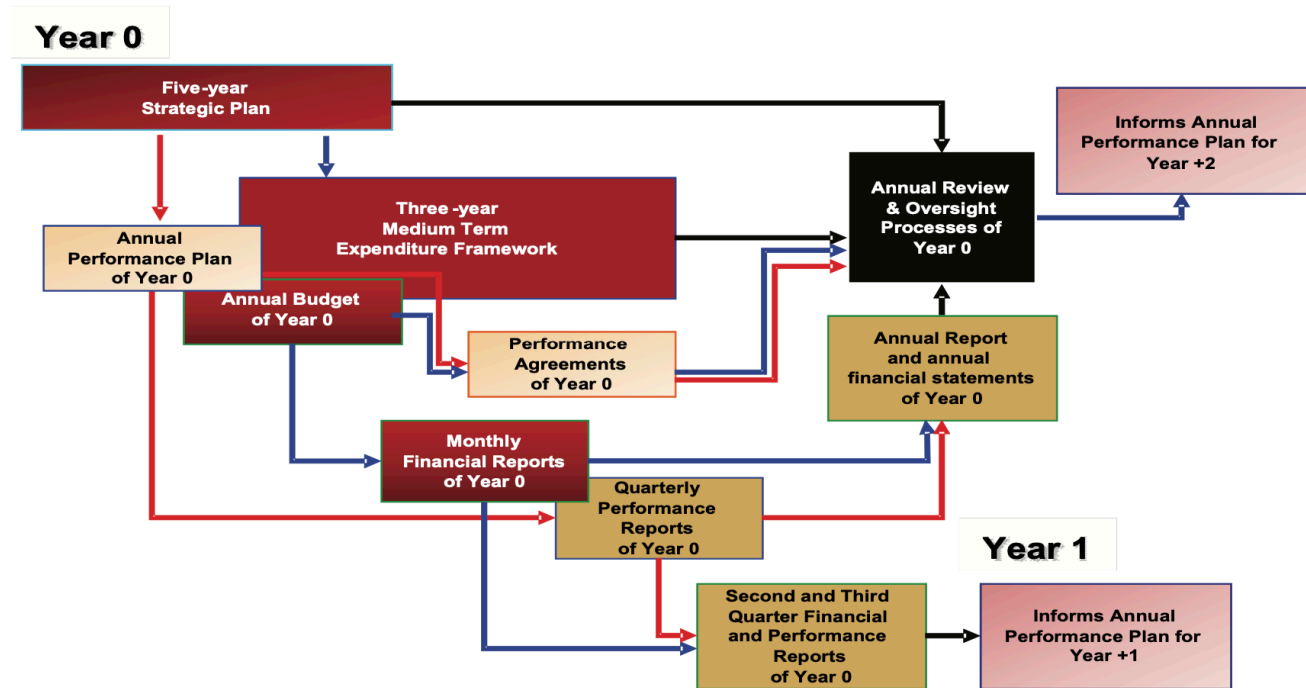
Conceptual Framework - alignment of strategic plan and budget processes



Framework and Guidance: Example South Africa

Framework content

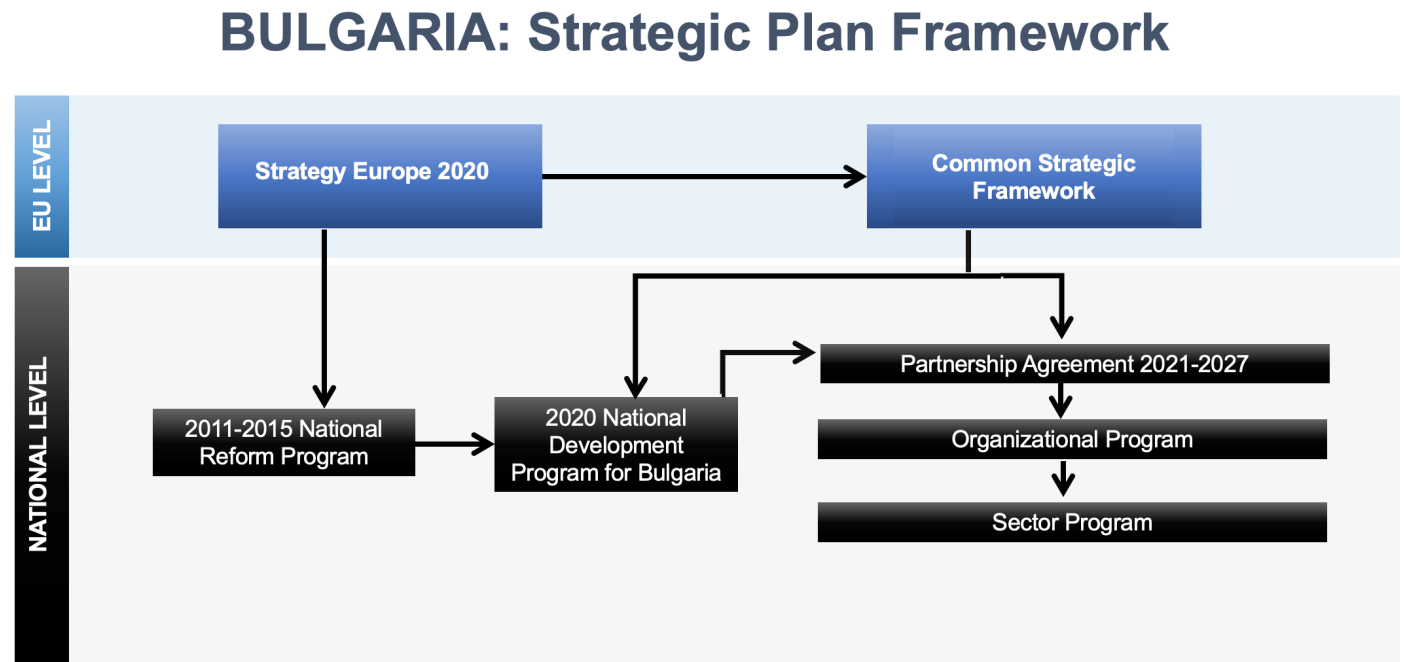
- The location of the framework within the constitutional, legal and political arrangements that govern planning and budgeting.
- Description of the key strategic documents of the planning and budgeting cycles, information flows and critical inter-relationships.
- Provide standard formats, content descriptions and timelines for preparation of the key documents
- Define consultation processes (e.g. cabinet committee), including institutional roles and responsibilities, information flows and stakeholders, to ensure effective consultation and information exchange.
- Define an overall timetable for strategic planning and budgeting that allows for the necessary exchanges to take place.



Source: National Treasury South Africa

Budgets
reference a
limited and
uniform set of
strategic plans

Source: Ministry of
Finance, Bulgaria



Medium-term Fiscal Framework - alignment

National development strategy is co-terminus with the medium-term fiscal framework, matching the period of office of the government (3-5 years). E.g in Ireland the government's fiscal plans are tied to the Programme for Partnership Government which is the government's policy program for its period of office.

MTFF provides the fiscal strategy that underpins the governments policy objectives, taking into account macro-economic outlook and respecting established fiscal rules.

Medium-term plans at national and sectoral are developed within the fiscal parameters provided by the MTFF. Plans are costed and financing sources identified. May include base case/high/low funding scenarios based on different possible fiscal outcomes in outer years.

Medium-term Expenditure Framework - alignment

MTEF systematically refers to national strategic priorities as set out in the NDP/policy program of the government as the primary justification for discretionary changes in expenditure allocations.

MTEF allocations discussed in a joint committee of stakeholders (chaired by CoG or CBA, and including any separate planning agency and sector ministries).

Allocations in the MTEF provide key financial parameters for the development of sector level multi-year strategic plans.

Spending reviews - alignment

Comprehensive spending review process – feeds into new government’s program – to identify savings and reprioritize in line with government’s objectives. Examples, Ireland and UK

Thematic reviews are an alternative – again linked to incoming government program, dependent on government strategic policy priorities, e.g. digital innovation or climate.

Following either approach, spending review outputs inform the development of the MTEF, providing detail needed to make impactful changes to budget allocations.

Depending on the fiscal situation and government objectives the spending review may also allow ministries to make limited use of savings for reinvestment consistent with strategic priorities. (example Canada)

Capital Investment - alignment

Standardized evaluation and filtering process that includes strategic alignment with government priorities, contribution towards achievement of measurable results (KPIs) and cost-benefit (value for money), leading to a ranking within a consolidated list or PIP. (e.g. Chile)

PIP includes ongoing projects and new projects to align with MTEF and respects capital allocation within MTEF.

Ministry project selection/PIP timetable aligned with the timetable for general budget preparation. Recurrent cost implications (operations, maintenance, staffing etc.) need to be reconciled with/ incorporated into recurrent budget.

Include a list of capital investments and funding sources in sector plan and budget (or combined budget strategy).

Budget program alignment

Budget program alignment with strategic plans or policy program – all priority objectives should be traceable to spending programs. term of the administration.

Program goals and performance indicators in the performance budget should be consistent with the NDP/policy program, although target values may differ according to the budget resources available.

The addition of missions, policy/performance areas etc. and similar groupings within the program structures can provide a bridging mechanism between strategic objectives and spending programs, sub-programs etc. at the ministry level.

Cross cutting programs that are mirrored in the program structures of line ministries and lead agency also help to align budgets with complex high priority strategic objectives such as mitigation of climate change, social inclusion, digitalization etc.

Implementation considerations

- A large menu of options and tools has been presented. Not all of them will be relevant so important to pick and chose.
- Institutional arrangements for planning vary greatly. MoF will need to assess its responsibilities and freedom of action.
- The system is a strong as its weakest link. Countries may need to work on the quality of individual processes and quality of data, information systems and skills of government officials.
- These broader capacity issues are beyond the scope of this study and should be considered on case-by-case basis.

