

## Worksheet G

### VIII. Public spending

**Background:** Resource abundance provides an opportunity to fund significant advances in infrastructure and public services. Unfortunately, countries often squander this opportunity. Even when the government manages savings and investment rates well, public agencies still struggle to spend resource revenues in a way that results in economic development.

The impact of public spending depends critically on its efficiency and the benefits of improving efficiency are stark: countries with the most efficient public investment have significantly more economic growth per investment dollar compared with the least efficient. Political parties have an important role to play in guiding public spending and ensuring that it is managed as efficiently as possible. Strong party positions on spending processes can protect against populist tendencies to spend on visible but less impactful projects.

Ghana's Convention People's Party, for example, included several commitments to 'ensure that revenue from the extractive sector is invested in a manner consistent with the development plan and policy objectives of the people of Ghana.' This included commitments reduce over-dependence on extractive revenues, review royalties paid to local authorities and ensure generational equity by saving half of all revenues.

When developing policy stances in this area, a party should consider allocative efficiency (the reflection of government priorities in the allocation and spending of public resources), distribution of revenues (with a particular focus on the risks of off-budget spending), budget execution and operational efficiency (the ability to manage budgeted public resources efficiently in delivering public services and value for money) and how to ensure accountability in all of these processes.<sup>184</sup>

#### Costs and trade-offs

When developing policy stances related to *spending in line with national plans* it is particularly important to consider:

- The appropriate balance between spending that is justified by a long-term strategy and the need to be flexible to current needs



<sup>184</sup> The questions in the table here follow the Public Expenditure and Accountability (PEFA) framework, with issues pertinent to resource-dependent countries given greater prominence.



- The financial and time costs associated with strengthening the current budget formulation process (e.g., greater participation from other ministries) balanced against the risks of a weak process (e.g., overspending, underspending and waste)

*When developing policy stances related to **off-budget spending** it is particularly important to consider:*

- The financial, economic and political costs of off-budget spending and veracity of the justifications for any off-budget spending

*When developing policy stances related to **subnational revenue sharing**\* it is particularly important to consider:*

- The current political and economic relationship between resource-rich local governments and the national government, and whether there are expectations of local ownership or fiscal independence
- The fiscal responsibilities of local governments related to extraction
- The capacity of local governments to spend money efficiently and effectively and to respond to the unique revenue management challenges of resource wealth

\* These questions are also included in Worksheet G.V. on Local Impacts section above and should be covered here only if that issue area is not selected for discussion.

For more information on these policy issues, please refer to Precept 9 in the Charter Benchmarking Framework and the NRGi primers on the resource curse, fiscal rules and natural resource funds, revenue management and distribution, and transparency mechanisms and movements.<sup>185</sup>

<sup>185</sup> The Resource Curse primer is available at <<http://www.resourcegovernance.org/analysis-tools/publications/primer-resource-curse>>; the Fiscal Rules and Natural Resource Funds primer is available at <<https://resourcegovernance.org/analysis-tools/publications/primer-fiscal-rules-and-natural-resource-funds>>; the Revenue Management and Distribution primer is available at <<https://resourcegovernance.org/analysis-tools/publications/primer-revenue-management-and-distribution>>; and the Transparency Mechanisms and Movements primer is available at <<http://www.resourcegovernance.org/analysis-tools/publications/primer-transparency-mechanisms-and-movements>>.

Guiding questions	Current orientation
<ul style="list-style-type: none"> <li>Does the party already have a stance (formal or informal, public or internal) on how revenues should be accounted for and reported? If so, what is that stance?</li> </ul>	
<ul style="list-style-type: none"> <li>Does the party already have a stance (formal or informal, public or internal) on under what circumstances some revenues should be allowed to be off-budget? If so, what is that stance?</li> </ul>	
<ul style="list-style-type: none"> <li>What do the party base and its core constituencies think about how resource revenues should be spent? What does the wider population think?</li> </ul>	
Guiding questions	Current framework
<ul style="list-style-type: none"> <li>Does public spending align with national plans? Are revenues spent as intended?</li> </ul>	
<ul style="list-style-type: none"> <li>Are revenues spent in a transparent and accountable way? What oversight mechanisms exist? Is spending subject to independent auditing?<sup>186</sup></li> </ul>	
<ul style="list-style-type: none"> <li>Does the government allow off-budget transfers (e.g., by SOEs, savings funds or development banks)? If so, under what conditions and how are they accounted for?</li> </ul>	
Policy options	Stances
<p><b>What should the government do to ensure that public spending aligns with national plans?</b></p> <ul style="list-style-type: none"> <li>Should national and sector plans be formally integrated into the budgeting exercise?</li> <li>Should public investment projects be designed and appraised based on national and sector plans?</li> </ul>	<p><i>Example stance:</i> The party believes that the spending of natural resource revenues should be in line with national plans. We therefore commit to integrating the resource sector strategy into the national development plan.</p>
<p><b>What should the government do to ensure that revenues are distributed in an accountable and transparent manner, and avoid off-budget transfers and spending?</b></p> <ul style="list-style-type: none"> <li>Should all government spending from resource revenues be appropriated through the national budget?</li> <li>Should state-owned enterprises, savings funds or development banks be allowed to receive revenues off-budget? If so, what is the justification? What should be done to ensure that such revenues are managed in a transparent, accountable and efficient manner?</li> </ul>	<p><i>Example stance:</i> The party believes that natural resource revenue should be distributed in a transparent and accountable way. We therefore commit to spending all resource revenues through the central government account, brought directly into the national budget.</p>
<p><b>What should the government do to ensure that public revenues are spent as intended?</b></p> <ul style="list-style-type: none"> <li>What spending controls and commitment plans should be put in place?</li> <li>What should be done to ensure that public investment projects are implemented as planned?</li> <li>What should be done to ensure that public procurement is predictable and subject to a process of open and competitive tendering?</li> </ul>	<p><i>Example stance:</i> The party believes that any natural resource-funded projects should be executed transparently and accountably. We therefore commit to putting spending controls and commitment plans in place around any such projects.</p>

<sup>186</sup> Information on the current framework may be available in the RGI data under questions 2.1.4a-2.1.4d.

Policy options	Stances
<p><b>What should the government do to better account for and report on revenues and public spending and to ensure that there is strong oversight of public expenditure?</b></p> <ul style="list-style-type: none"> <li>• How should public spending (including any off-budget spending of resource revenues) be fully accounted for and reported?</li> <li>• What should be done to ensure that budget and off-budget recurrent spending is subject to independent audit and oversight?</li> <li>• How should public investment projects be accounted for and reported on?</li> <li>• Should there be independent audits and evaluations of public investment projects?</li> </ul>	<p><i>Example stance:</i> The party believes that all natural resource revenues and related spending should be managed according to the highest accounting and reporting standards. We therefore commit to subjecting all spending to regular, thorough and independent audits.</p>
<p><b>Should revenues be allocated to subnational governments?*</b></p> <ul style="list-style-type: none"> <li>• If so, what type of revenues and to which subnational authorities? How should they be shared and what should be done to ensure such transfers are based on a well-articulated set of objectives, and that these are correct and timely?</li> </ul>	<p><i>Example stance:</i> The party believes that a small portion of the royalties from the extraction of natural resources should be shared with the state governments where extraction takes place. We therefore commit to establishing a transparent and accountable mechanisms for subnational transfers.</p>
<p>* These questions are also included in Worksheet G.V. on Local Impacts section above and should be covered here only if that issue area is not selected for discussion.</p>	