

A Political Economy Analysis of the Budgetary Process in Trinidad and Tobago

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Outline of Presentation

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Introduction

- Government budgets are often conditioned by the incentives and constraints facing political agents and by the country's political institutions :
 - The principal-agent problem and cooperation problem can lead to sub-optimal budgetary outcomes (Schick 1998, Spiller et al 2003 and Spiller and Tommasi 2003) .
- A deeper understanding of the budgetary process is therefore needed in order to improve fiscal outcomes and, by extension, growth and development.

Objective

- The objective of this paper is to get a deeper understanding about, and to make recommendations to improve, the budgetary process in Trinidad and Tobago by studying the institutional framework that informs budget preparation, approval, implementation and control, and identifying the main agents involved at each stage of the process, the incentives they face and the interactions among them.

Data and Methodology

- The study takes the form of a political economy analysis.
- Data are obtained primarily through the conduct of interviews with senior public servants and key politicians involved in the process.
- This is supported by macroeconomic and energy data obtained from official sources like the Central Statistical Office, the Central Bank of Trinidad and Tobago and the Energy Intelligence Agency.

The Budgetary Framework: Preparation

- Budgets are crafted within the framework of a National Development Policy Plan.
- Request for expenditure inputs are made via a Call Circular.
- Organizations representing private sector and civil society interests may submit budget proposals.

The Budgetary Framework Cont'd: Preparation

- Revenue and expenditure estimates are done by the Ministry of Finance:
 - They establish various macroeconomic forecasts to arrive at aggregate figures.
- Rationalization of expenditure requests and allocation are approved by the Minister followed by the Cabinet and is not governed by formal rules:

The Budgetary Framework Cont'd:

Approval

- A draft budget is prepared by the Budget Division in collaboration with other units within the Ministry of Finance and the Ministry of Planning and has to be approved by the Minister of Finance.
- All expenditure items must first be submitted to and approved by Cabinet.
- The budget is laid in Parliament as part of the Appropriation Bill and must be approved by Parliament.

The Budgetary Framework Cont'd: Implementation

- The implementation of the budget is governed mainly by the Exchequer and Audit Act and the Financial Regulations and Financial Instructions 1965 Act.
- The Accounting Unit (within the Budget Division) is responsible for processing the release of funds.
- The Auditor General ensures that the funds authorized are in accordance with the provisions of the Appropriation Act.

The Budgetary Framework Cont'd: Control

- According to Section 116 of the Constitution, Ministries and departments must submit appropriation accounts to the Auditor General within four months of the close of the financial year.
- Proper record of funds issued and spent are required to be maintained at all stages.
 - Items kept include: vouchers, Schedule of Accounts, Vote Books, Expenditure Notification and Abstract of Payments.
- The Treasury Division is required to submit national accounts showing the financial position of the country as at September 30th to the Auditor General.

Idiosyncrasies in the Budgetary Process

- This study finds that while guidelines focus on prioritizing expenditure based on national development objectives and an established medium-term policy framework budgetary outcomes are highly dependent on the personalities, leadership style and technical capabilities of persons involved.

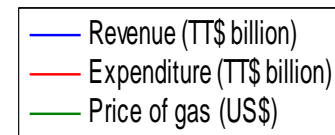
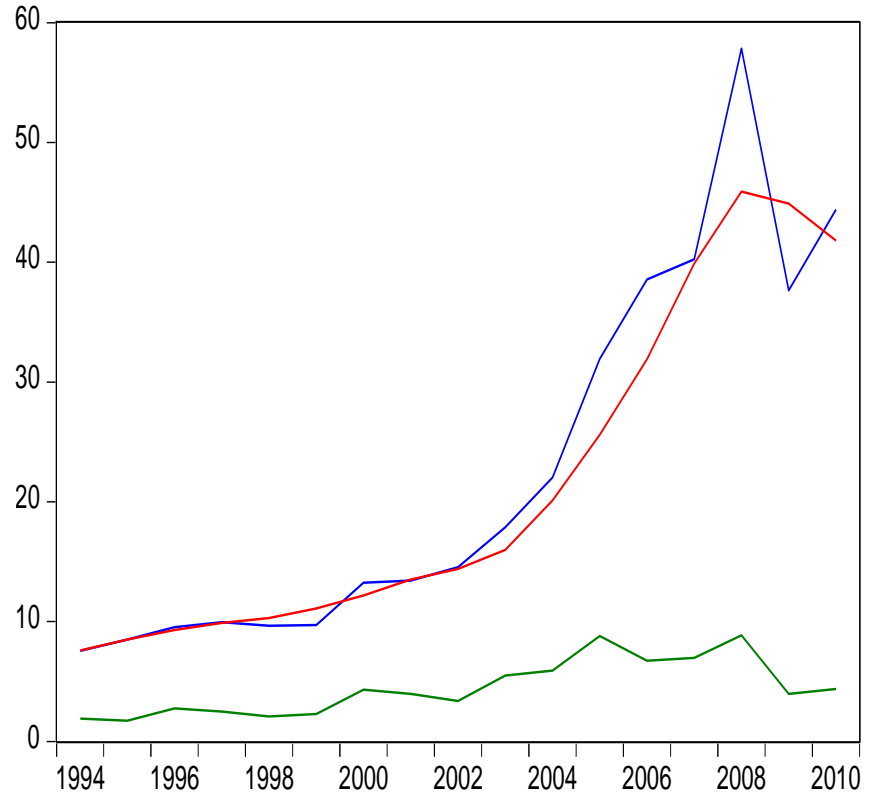
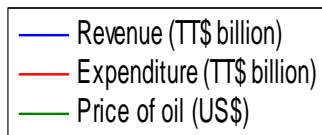
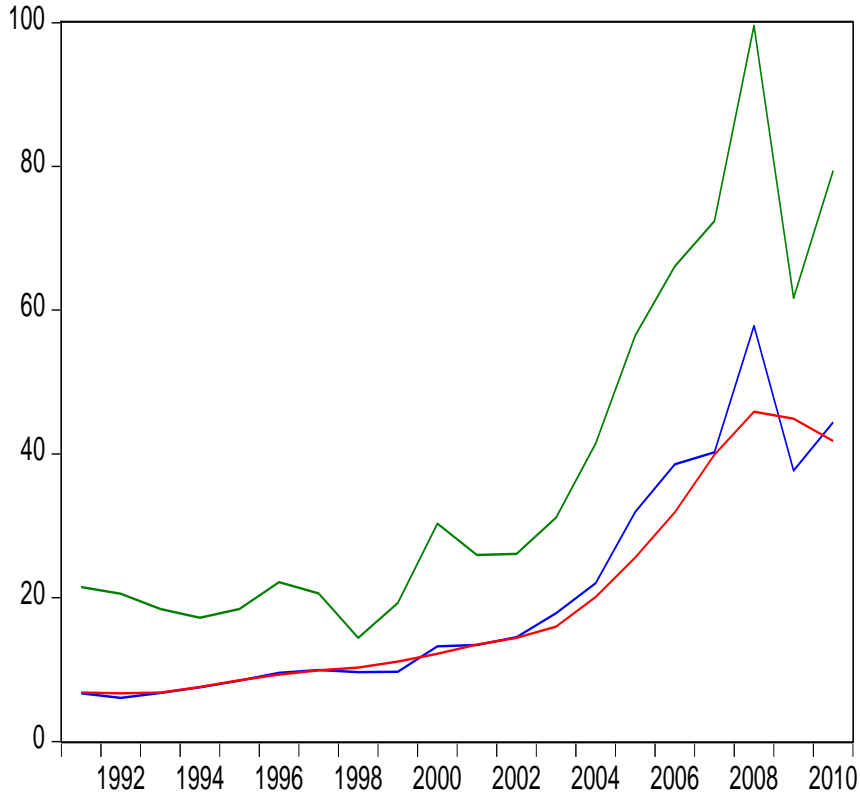
Idiosyncrasies in the Budgetary Process Cont'd

- The Prime Minister and Minister of Planning often play a role in the budgetary process.
- Stakeholders (civil society, the business community) identified as playing a key role sometimes have little influence.
- Ministers do not base requests following the established guidelines but often submit a “wish list”.

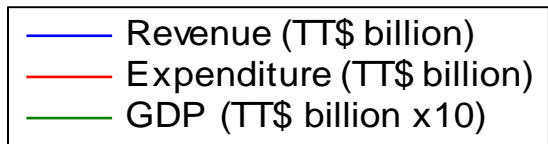
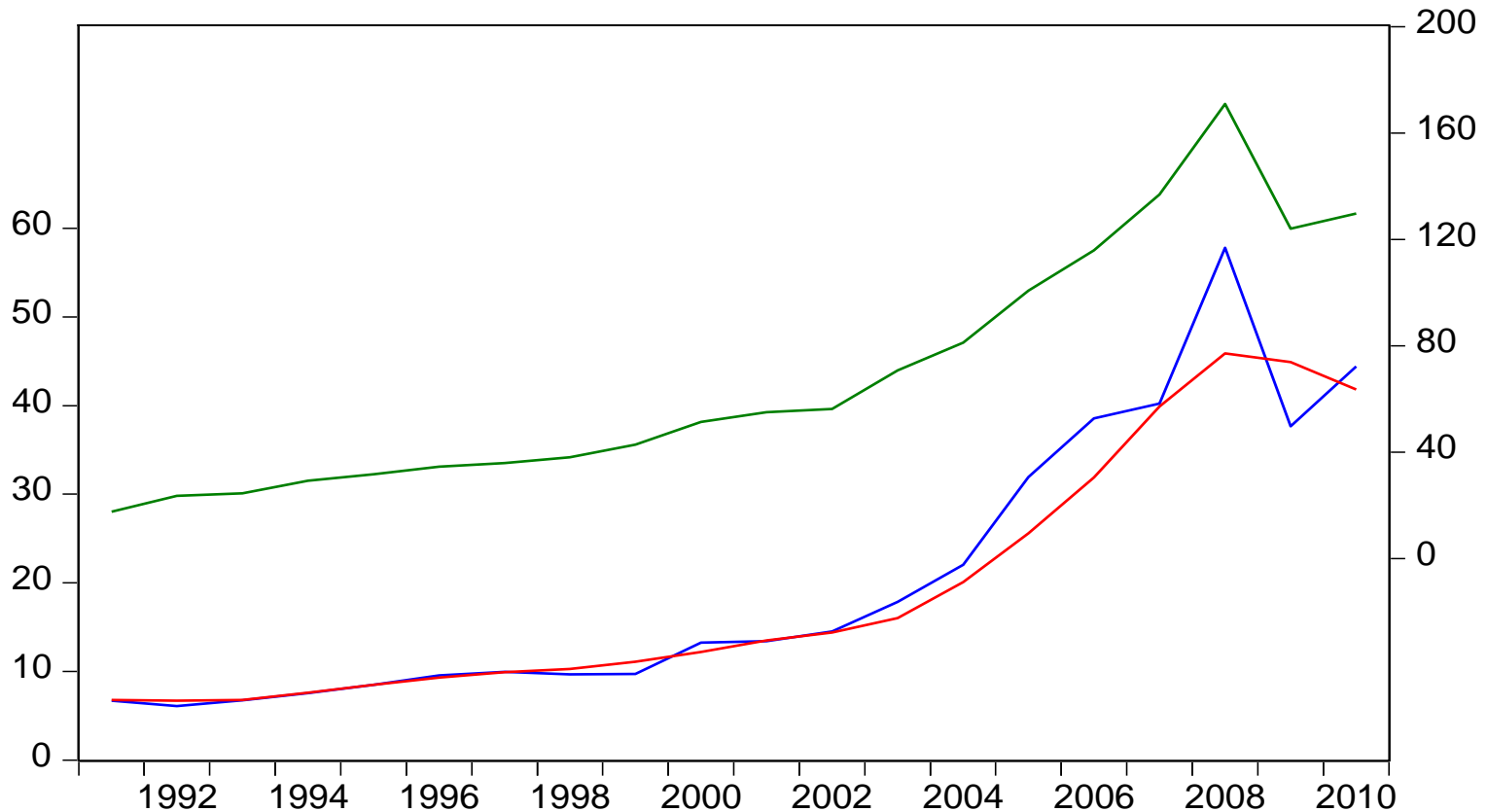
The Budget and the Wider Economy

- Budgetary outcomes are also influenced by prevailing economic conditions.
- Government revenue and expenditure are highly related to oil price (West Texas Intermediate) and gas price (Henry hub).
- Also, as GDP increase the government is pressured to spend more.

Government Revenue, Expenditure and Oil and Gas Prices



Government Revenue, Expenditure and GDP



Recommendations

- Ministries should be provided with sectoral budget ceilings.
- The Government should give serious consideration to having a biennial budget rather than the current annual budget.
- More formality should be built into the budgetary process and a sub-committee of Cabinet should be appointed.

Recommendations Cont'd

- The Ministry of Planning should engage in continuous research that feeds into the medium term plans and the Public Sector Investment Program (PSIP) should be aligned to those plans.
- Ministries must account for the use of funds with greater regularity and punctuality.
- The office of the Auditor General must report on the budgetary process within four months of the end of the financial year.

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