**Factsheet Budget Cycle** - **Description of process steps (key actors in blue)**

*Policy:* The preparation of the budget is based on overarching policies - the legislative objectives. These are drawn up by the government (executive) and confirmed by parliament (legislature). In addition, there are coordinated sectoral plans for all relevant policy areas.

The political parties influence the overarching policies or legislative objectives (for example by forming coalitions), but also civil society or academia through social debates.

*Budget Formulation:* The budget formulation process is typically managed by the budget office at the Ministry of Finance, which also coordinates elaboration of the budget plan by requesting information from line ministries and other State Agencies. The government defines the budget parameters (e.g., ceilings, timetable of budget formulation process), outlines revenue generation strategies, and determines how the resources will be allocated. The Ministry of Finance then elaborates a draft budget. After the budget is formulated, the executive submits it to parliament for approval.

*Budget Approval:* During the budget approval phase, the government submits its budget proposal to the parliament for debate, amendment, and final approval. Key issues are typically identified when the parliament reviews the proposal; yet, legal and political constraints may limit their influence. Ideally, the parliament has the authority, resources, and time to thoroughly scrutinize and modify the proposal. In many countries, the parliament and its committees engage in this process by holding hearings, forming special committees, and conducting public debates. The process concludes when the parliament adopts the budget, whether intact, amended, or replaced by its own proposal.

*Budget Execution:* During the budget execution phase, the approved budget is implemented through spending (both obligations and actual cash transfers) and procurement by various government ministries and agencies. This phase is entirely the responsibility of the executive branch, with the government ensuring that budgetary allocations are carried out efficiently. The Ministry of Finance oversees the process, while procurement boards manage and monitor the awarding of contracts to guarantee competitive bidding and regulatory compliance. Additionally, internal audit—an independent review function—continuously checks adherence to policies and procedures, detects irregularities, and promotes accountability and transparency. Together, these mechanisms ensure that the budget's objectives are effectively and transparently achieved.

*Accounting:* In the accounting phase of the budget cycle, all financial transactions are systematically recorded and documented. Accountants and finance departments are responsible for accurately capturing all revenues and expenditures in accordance with national regulation and/or international standards ([IPSAS](https://www.ipsasb.org/)). Internal auditors review the accounting data to ensure compliance with regulations and guidelines. The management uses the financial reports generated in this phase to monitor financial performance and make informed decisions. This phase is crucial for maintaining transparency and accountability in public financial management.

*External Audit:* External Audit encompasses a range of activities designed to ensure that public resources are used appropriately, effectively, and efficiently. At the end of the fiscal year, the executive branch must report its financial activities to both the legislature and the public. Independent audits are conducted by the national Supreme Audit Institution to verify the legality of financial transactions and assess the efficiency and effectiveness of public spending through performance audits. The audit findings and recommendations are then submitted to the legislative committee responsible for oversight, which holds hearings to discuss major issues and urges the executive to implement corrective measures. Finally, the Audit Report is released to the public in a timely manner, promoting transparency and accountability. The International Organization of Supreme Audit Institutions ([INTOSAI](https://www.intosai.org/)) operates as an umbrella organization for the external government audit community and sets international standards.

**Public Financial Management (PFM) in general – How and why?**

**Why is PFM important?**

A strong PFM system is essential for an effective state because it contributes to an efficient and equitable delivery of public services, which is closely linked to poverty reduction and economic growth. Countries with robust, transparent, and accountable PFM systems tend to foster trust, promote innovation, and create an environment for sustainable development. Additionally, strong PFM minimizes waste, fraud, and mismanagement of public funds, reinforcing the legitimacy and credibility of government institutions.

**What are the objectives of the PFM system?**

The objectives of a PFM system include (i) maintaining fiscal discipline by keeping tax collection and spending in balance, (ii) ensuring allocative efficiency by directing resources toward strategic priorities, (iii) achieving operational efficiency to deliver maximum value for money, and (iv) promoting accountability and transparency through due process and democratic checks. These objectives work together to create a holistic financial management framework that supports sustainable fiscal policies and ensures that public resources are used effectively to meet the needs of citizens.

**How do we know whether a PFM system is performing adequately or not?**

PFM performance is ideally measured by assessing the achievement of its four objectives. In practice, this involves examining the institutions, rules, and procedures that support these outcomes. Frameworks like the Public Expenditure and Financial Accountability ([PEFA](http://www.pefa.org/)), which use standardized indicators, are widely used to evaluate and compare the performance of PFM systems internationally, allowing governments and external donors to identify areas of strength and weakness and guiding reforms to improve overall financial governance.

**Role of civil society**

Civil society can significantly shape the budget cycle by contributing independent analyses and evidence-based recommendations that influence fiscal priorities. They play a pivotal role in organizing public consultations and community forums, ensuring that citizens’ real needs are effectively communicated to policymakers. In doing so, they help to refine budget proposals so that they better reflect local realities. Moreover, by continuously monitoring government spending and advocating for transparency, civil society holds decision-makers accountable and promotes more efficient and equitable resource allocation.

**Annual budget and multi-year financial plan**

In many governments fiscal planning systems, the annual budget is a key component of a broader multi-year program and financial plan, commonly referred to as a Medium-Term Budget Framework (MTBF). The MTBF outlines strategic priorities, fiscal targets, and projected revenues and expenditures over a period of several years, usually three to five on a rolling basis. The annual budget provides the detailed financial allocations for the current year, ensuring that short-term fiscal decisions align with the long-term objectives set out in the MTBF. This integration supports fiscal discipline, transparency, and sustainable resource management.

**Comments graph:**

* Turn graph so that Policy Framework is on top right
* Replace the text in the arrows with more substantial explanation that refer to relevant actors.
* Replace the lines with arrows
* Policy: The government defines the policy objectives for the coming year and sets the framework conditions for the budget including key fiscal targets (e.g. level of budget deficit).
* Arrow policy – budget formulation: **Civil society organisations** including political parties and lobby groups try to influence the government’s policy objectives and framework conditions.
* Budget formulation: I would delete the Executive Board and simply name the MoF. I would add: Based on the regulatory framework, the MoF coordinates the budget formulation process. This includes provision of budget ceilings, budget calendar with deadlines, and budget templates.
* Budget formulation: Government Agencies provide draft budget to MoF for consolidation.
* Arrow budget formulation – approval: Parliamentary Committees discuss draft budget. Civil Society Organisations lobby for their interests.
* Budget execution: Government submits request for budget revision to the legislature for consideration and approval. Parliament (dis)approves proposed budget revisions.