CHAPTER 4

BUDGET CLASSIFICATION, PRESENTATION AND PROGRAMMING

This chapter deals with the basic requirements for expenditure classification and the presentation of the expenditures in the budget, which are an essential element in budget and policy formulation. Beyond these basic requirements, the chapter reviews various "programmatic" approaches in budgeting. It also examines whether the so-called “New Public Management” reforms recently undertaken in some OECD countries, challenging the common organisational model of the government, fit the context of transition countries.

A. Expenditure Classification

1. The importance of a classification system

Classifying expenditures is important for policy formulation and measuring the allocation of resources among sectors; for ensuring compliance with the legislative authorisations; for policy review and performance analysis; and for day-to-day administration of the budget. An expenditure classification system provides a normative framework for both policy decision-making and accountability.

Approaches in budgeting often determine the organisation of the expenditure classification system. Thus, compliance budgeting focuses on the uses of resources and, therefore, on the classification of inputs and administrative units. Policy formulation and concerns about the efficient allocation of resources are the basis of a classification of expenditure by function and programme. A classification of expenditure programmes by activity or output is appropriate if the focus is on operational performance. Aggregate fiscal control requires an economic classification based on clear concepts (e.g. separating borrowing from receipts), as in the standard Government Finance Statistics (GFS) classification established by the IMF.1

Expenditures may need to be classified in different ways for different purposes, such as: the preparation of reports that match the needs of report users (policy decision makers, the general public, budget managers); the administration of the budget and budgetary accounting; and the presentation of the budget to the parliament. Expenditures should also be reported according to the international standard classification, defined in the GFS. However, it should be noted that the GFS provides guidelines on classification for reporting purpose only. It is not intended as a budget or accounting classification. Moreover, the GFS focuses only on economic and functional reporting, while budget classification needs to be an instrument of policy formulation, administration of the budget and accounting.2

According to the different needs for policy formulation, reporting and budget management, public expenditures are generally classified according to the following categories:
• Function, for historical analysis and policy analysis.

• Organisation, for accountability and administering the budget.

• Fund, for administering the budget.

• Economic categories, for statistical reporting and aggregate fiscal control.

• Line-item (or object), for compliance controls, and internal management.

• Programme, for policy formulation and performance accountability.

2. The UN Classification of the Functions of Government (COFOG)

A “functional” classification organises government activities according to their purposes (e.g. education, social security, housing, etc.). It is independent of the government organisational structure. A functional classification is important to analyse the allocation of resources among sectors. A stable functional classification is required to produce historical surveys and analyses of government spending and to compare data from different fiscal years.

The “Classification of the Functions of Government” (COFOG) established by the United Nations is presented in the GFS manual. The main objective of COFOG is to give a standard classification for international comparisons. The COFOG is also used to prepare the national accounts according to the System of National Accounts (SNA) methodology established in 1993, which identifies government expenditures that benefit individual households. To calculate actual final consumption of households, these expenditures are deducted from the final consumption expenditure of the government and included in the actual final consumption of households.

COFOG can be applied to government expenditures, as well as to the consumption of fixed capital and financial transactions for policy purposes, (e.g. loans granted to public enterprises). The COFOG methodology was revised in 1999, in order to take into account issues such as environmental accounting and SNA93 methodology, as well as ESA95. COFOG has three levels of detail: Division (1 to 10), Group and Class. Box 4.1 contains a presentation of these divisions and groups, based on United Nations (2000), Classifications of Expenditure According to Purpose.

In countries that have not already developed their own functional classification, adopting COFOG instead of a customised classification presents some advantages. Such an approach is already established and well documented in the GFS manual. It facilitates international comparisons. Many countries may decide, however, to reorganise the COFOG system to accommodate their actual programme structures and deal with specific policy issues. This is recognised in the GFS. In any case, a mapping table between COFOG and the functional (and programme) classification used in a particular country, or between that country’s organisational classification and COFOG, should be established in order to make reports that may be required using the COFOG system.

Public reports showing expenditures according to functional categories should be prepared. They do not need to be excessively detailed, but should show at least government expenditures, on the basis of the ten divisions recommended by COFOG and the groups that are most important in relation to government policy objectives (e.g. distinguishing the different divisions of the group “education”).
### Box 4.1. COFOG: BREAKDOWN BY DIVISION AND GROUP

<table>
<thead>
<tr>
<th>Division</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>01. GENERAL PUBLIC SERVICES</strong></td>
<td></td>
</tr>
<tr>
<td>01.1 Executive and legislative organs, financial and fiscal affairs, external affairs</td>
<td>06. HOUSING AND COMMUNITY AMENITIES</td>
</tr>
<tr>
<td>01.2 Foreign economic aid</td>
<td>06.1 Housing development</td>
</tr>
<tr>
<td>01.3 General services</td>
<td>06.2 Community development</td>
</tr>
<tr>
<td>01.4 Basic research</td>
<td>06.3 Water supply</td>
</tr>
<tr>
<td>01.5 R&amp;D general public services</td>
<td>06.4 Street lighting</td>
</tr>
<tr>
<td>01.6 Other general public services</td>
<td>06.5 R&amp;D housing and community amenities</td>
</tr>
<tr>
<td>01.7 Public debt transactions</td>
<td>06.6 Other</td>
</tr>
<tr>
<td>01.8 Transfers of a general character between different levels of government</td>
<td></td>
</tr>
<tr>
<td><strong>02. DEFENCE</strong></td>
<td></td>
</tr>
<tr>
<td>02.1 Military defence</td>
<td>07. HEALTH</td>
</tr>
<tr>
<td>02.2 Civil defence</td>
<td>07.1 Medical products, appliances and equipment</td>
</tr>
<tr>
<td>02.3 Foreign military aid</td>
<td>07.2 Out-patient services</td>
</tr>
<tr>
<td>02.4 R&amp;D defence</td>
<td>07.3 Hospital services</td>
</tr>
<tr>
<td>02.5 Other</td>
<td>07.4 Public health services</td>
</tr>
<tr>
<td></td>
<td>07.5 R&amp;D health</td>
</tr>
<tr>
<td></td>
<td>07.6 Other</td>
</tr>
<tr>
<td><strong>03. PUBLIC ORDER AND SAFETY</strong></td>
<td></td>
</tr>
<tr>
<td>03.1 Police services</td>
<td>08. RECREATION, CULTURE AND RELIGION</td>
</tr>
<tr>
<td>03.2 Fire-protection services</td>
<td>08.1 Recreational and sporting services</td>
</tr>
<tr>
<td>03.3 Law courts</td>
<td>08.2 Cultural services</td>
</tr>
<tr>
<td>03.4 Prisons</td>
<td>08.3 Broadcasting and publishing services</td>
</tr>
<tr>
<td>03.5 R&amp;D public order and safety</td>
<td>08.4 Religious and other community services</td>
</tr>
<tr>
<td>03.6 Other</td>
<td>08.5 R&amp;D recreation, culture and religion</td>
</tr>
<tr>
<td></td>
<td>08.6 Other</td>
</tr>
<tr>
<td><strong>04. ECONOMIC AFFAIRS</strong></td>
<td></td>
</tr>
<tr>
<td>04.1 General economic, commercial and labour affairs</td>
<td>09. EDUCATION</td>
</tr>
<tr>
<td>04.2 Agriculture, forestry, fishing and hunting</td>
<td>09.1 Pre-primary and primary education</td>
</tr>
<tr>
<td>04.3 Fuel and energy</td>
<td>09.2 Secondary education</td>
</tr>
<tr>
<td>04.4 Mining, manufacturing and construction</td>
<td>09.3 Post-secondary non-tertiary education</td>
</tr>
<tr>
<td>04.5 Transport</td>
<td>09.4 Tertiary education</td>
</tr>
<tr>
<td>04.6 Communication</td>
<td>09.5 Education not definable by level</td>
</tr>
<tr>
<td>04.7 Other industries</td>
<td>09.6 Subsidiary services to education</td>
</tr>
<tr>
<td>04.8 R&amp;D economic affairs</td>
<td>09.7 R&amp;D education</td>
</tr>
<tr>
<td>04.9 Other</td>
<td>09.8 Other</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>05. ENVIRONMENTAL PROTECTION</strong></td>
<td>10. SOCIAL PROTECTION</td>
</tr>
<tr>
<td>05.1 Waste management</td>
<td>10.1 Sickness and disability</td>
</tr>
<tr>
<td>05.2 Waste water management</td>
<td>10.2 Old age</td>
</tr>
<tr>
<td>05.3 Pollution abatement</td>
<td>10.3 Survivors</td>
</tr>
<tr>
<td>05.4 Protection of biodiversity and landscape</td>
<td>10.4 Family and children</td>
</tr>
<tr>
<td>05.5 R&amp;D environmental protection</td>
<td>10.5 Unemployment</td>
</tr>
<tr>
<td>05.6 Other</td>
<td>10.6 Housing</td>
</tr>
<tr>
<td></td>
<td>10.7 Social exclusion</td>
</tr>
<tr>
<td></td>
<td>10.8 R&amp;D social protection</td>
</tr>
<tr>
<td></td>
<td>10.9 Other</td>
</tr>
</tbody>
</table>

*Source: United Nations (2000).*
3. The GFS economic classification

An economic classification of expenditures is required for analysing the budget and defining the macro-fiscal policy position. For example, the share of wages in government expenditures and the value of transfers to public enterprises are important measures of the impact of fiscal policy. For the purposes of fiscal and economic analysis, it is important to distinguish a) interest payments, which are expense transactions, from the repayment of loans, which are financing transactions, and b) current expenditures from capital expenditures. The minimum requirement for the economic classification is to be consistent with the GFS economic classification of government expenditures.

The 1986 version of the GFS is on a cash basis, while the national accounts standards (SNA93 and ESA95) are on an accrual basis. GFS 2000 is on an accrual basis with a view to creating a greater statistical comparability between fiscal reports and national accounts. However, with the exception of the consumption of fixed capital, the line-items in the economic classification of government operations, as presented in GFS 2000, apply to the cash and the accrual bases equally (see Table 4.1 below).

In a number of cases, the standard GFS tables include net items. Net items can be sufficient for the purpose of macroeconomic analysis, but not for budget formulation and management. In the government accounts, gross flows must be registered. Thus, from the policy formulation point of view, the acquisition of financial assets for new policy purposes (e.g. lending to public enterprise) should be separated from the repayments of loans, which are the result of previous policy decisions.

The cross-classification of expenditure and/or expenses by economic character and function is a very useful tool for analysing the budget. Data from such an analysis reveal the means by which the government

| Table 4.1. FUNCTIONAL AND ECONOMIC CLASSIFICATION OF EXPENSES/EXPENDITURES |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Economic classification          | Compensation of employees | Use of goods and services | Consumption of fixed capital (1) | Interest | Other property expenses | Subsidies | Grants | Social benefits |
| Functional classification        | General public services | Defence | Public order and safety | Economic affairs | Environmental protection | Housing and community amenities | Health | Recreation, culture and religion | Education | Social Protection | Capital transfers and other expenses | Acquisition of fixed capital | Net acquisition of financial assets for policy purposes |
| (1) Under accrual accounting only | Compensations of employees | Use of goods and services | Consumption of fixed capital (1) | Interest | Other property expenses | Subsidies | Grants | Social benefits |

Managing Public Expenditure - A Reference Book for Transition Countries
performs the functions it undertakes. Table 4.1 shows an example of the cross-classification of expenditures and/or expenses.

4. **Line-item (or object) classification**

For the purpose of budget management, traditional budgets include a line-item (or object) classification. This classification groups purchases according to categories used for budgetary control and monitoring, such as different categories of personnel expenditures, travel expenses, costs of printing, renting property, etc. For goods and services, the line-item classification is an input classification.

The line-item classification is broadly equivalent to an economic classification, but in a number of countries, should be revised or reorganised to be compatible with the GFS economic classification. Often, for goods and services, this can be done by re-organising the line-item classification to make the objects a subcategory of the GFS economic categories. For transfers and other items, it may be necessary to provide a breakdown of objects into homogenous categories that fit the GFS classification. Capital expenditures should be defined strictly according to the SNA93 and ESA95 standards.

The line-item classification is (or was) often associated with an approach to budget formulation that focused mainly on inputs and rigid appropriation management rules. However, in any efficient internal management system, close monitoring of inputs is required. The ministry of finance does not need to review the allocation of resources between expenditures for, say, paper and other supplies, but the managers of the spending units need to do so. Accurate monitoring of expenditure items for which there are risks of arrears generation (such as the consumption of gas, electricity and services of other public utilities) is desirable and this requires an input classification that is properly designed. In some cases, rules for either capping or protecting some line-items may be needed. However, this does not necessarily require a very detailed input classification.

5. **Administrative classification**

An administrative classification of expenditure (by governmental organisation) is needed to identify responsibilities for the main blocks of public expenditure and for day-to-day administration of the budget. Expenditures should be divided into separate sections for each ministry, department or agency. The administrative classification should be organised according to the different levels of responsibility and accountability in budget management (e.g. the administrative units in line ministries that deal with the ministry of finance in preparing the budget, and the unit(s) that submit financial reports to the parliament). It needs also to be tailored to the organisational arrangements for budget administration (e.g. the hierarchical levels within a line ministry that deal directly with the treasury for payment processing).

In some countries, statistical information on expenditures is presented by organisation, but not always at the same level of aggregation or in a consistent manner. For example, personnel expenditures may be presented at the level of the ministry, while other current expenditures are presented by lower level government entities (e.g. departments or subordinated agencies). This could be suitable for administration and control, but makes it difficult to carry out assessments of the operating costs of different ministries and agencies.

A project is a single, non-divisible activity with a fixed time schedule and a dedicated budget. Some projects are managed through special organisational arrangements, and have for example their own accounts. In such cases, the project can be seen as a subdivision of the spending unit responsible for its
management, and, therefore, is the lowest level of the administrative classification. Projects can be also regarded as a level within a programme and activity classification.

6. Programme classification

A programme is a set of activities that meets the same set of specific objectives (e.g. the development of crop production). In contrast to COFOG, a classification by programme takes into account the government’s policy objectives and how these policies will be implemented.

A programme consists generally of several activities and/or projects. Within a budget system, the notion of programme can be used either for some special activities, or as an element of the expenditure classification system. When the programme is a category of the budget classification system and all expenditures are classified into programmes, they may or may not have a definite time schedule.

A programme has a clearly defined budget, and can be distinguished from a policy, which is a set of activities that may differ in type and may have different direct beneficiaries. Policies are directed towards common general objectives and goals. A policy is generally not restricted in terms of budget and time schedule. It consists often of a mix of actual or intended expenditure programmes, tax measures, and regulations. In terms of expenditure classification, an activity is a subdivision of a programme into homogenous categories (e.g. the vaccination activity within a disease prevention programme, which encompasses several activities).

The hierarchy of “broad function” or “strategic area”, “programme”, and “activity”, is comparable to that of the government structure (“ministry”, “directorates”, and “divisions”). In theory, there is no systematic relationship between a functional and programme structure and the organisational structure of government, but it is important for both accountability and management purposes to establish the programme structure according to organisational responsibilities. Figure 4.1 below shows the relationship between programme/activity categories and other classifications. In this figure, the activities carried out by a given organisation ensure the necessary link between the programme structure and the organisational structure.

Classifying expenditures by programme can serve two purposes: (i) identifying and clarifying objectives and policies; and (ii) monitoring operational performance through performance indicators, which may relate to the inputs, outputs or outcomes of a particular programme. A classification by programme can contribute to improved transparency and accountability. However, programme classification is not an end in itself and should not be allowed to divert attention from more important matters, e.g. proper analysis of the underlying policy issues.

7. Other classifications

Other classifications may be needed: for example, for the management of EU pre-accession funds. Expenditures should be classified by the source of financing and counterpart funds used for recording external loans and grants. EBFs or treasury special accounts also need to be identified. Other special classifications may be needed for managing the budget. For example, parliaments often make requests to the government for information on expenditures by region. An information system for budget management should be sufficiently flexible to integrate classification requirements that were not expected when it was designed.
8. Implementation issues

a. Expenditure classification and budget management

From the budget management point of view, the most important issues related to expenditure classification are the following:

- For tracking uses of appropriations ("budgetary accounting"), making bookkeeping entries, coding transactions, etc., it is necessary to define an expenditure classification that includes, at a minimum, the relevant administrative categories (i.e. spending units) and possibly an additional subdivision of spending unit by activity, funding and financing sources, and the economic-object classification.

- For presenting the budget to the legislature, it is necessary to define the "appropriation", i.e. what is binding for the executive (the budget of a ministry, a programme within a ministry, individual objects, etc.).

- For managing the budget, it is necessary to determine at which level rules for transfers between budget items, controls, etc. are established (i.e. at the level of line-items, economic categories, programmes, etc.). Sometimes, a "rationalisation" of the object code has lead to increased ex ante controls, because additional line-items have been introduced. A change in budget classification should include a review of appropriation management rules and of the impact of any proposed changes on the administration of the budget.

b. Administrative and institutional issues

Classifying expenditure requires first an identification of the technical and institutional constraints on reforming the system. Attention must be paid to the organisation of the books and the information systems. For example, when interest payments are mixed with amortisation (repayment of capital), there is an obvious need to separate them, but even more important is the scrutiny of how the debt management office keeps its books. In addition, badly designed or documented information systems can be an obstacle to reforming expenditure classification systems. Therefore, a review of current applications and software is generally required before undertaking such a reform. Software and application developments should not only be compatible with the existing classification but also allow for further developments of the system.

Reforming expenditure classification systems cannot resolve deficiencies in reporting caused by unsatisfactory institutional arrangements. For example, a powerful extra-budgetary fund may resist the introduction of a more "transparent" classification system. In such cases, the institutional issues must be addressed properly; it should not be expected that a budget classification reform can substitute for administrative reform.

c. Reporting and coding

When reforming an expenditure classification system, changes in the organisation of the accounting systems should focus on what is required to identify transactions properly. Often, a reform of the budget classification system attempts to include in the hierarchical nomenclature or the codes used in day-to-day administration, the codes of all categories needed for reporting (functions, programmes, etc.). Consequently, the coding system used to register the transactions becomes cumbersome and difficult to
manage, particularly if budget execution is not fully computerised. This has contributed to halting or delaying the reform of the expenditure classification system in several countries.

Such cumbersome structures can be avoided. For example, countries that have a detailed administrative classification do not need to change the format of the accounts and coding systems in order to report under COFOG. The SNA93 and the GFS manuals make a similar suggestion. For example, if a report on payments uses a classification by “division/project” and if “divisions/projects” are categorised according to the COFOG system, it is possible to present the payments consistently with COFOG by simply linking the report on payments and the table which classifies organisations according to COFOG categories. This can be done easily with a personal computer and a spreadsheet. In a few special cases, where several functions are assigned to a spending unit, it is necessary to classify the activities of the relevant organisations according to COFOG, but this does not require a major change in the classification structure. A small addition to the administrative code is sufficient to identify the relevant activity. A similar approach can be adopted in the case of a programme classification.

Figure 4.1. ILLUSTRATIVE RELATIONSHIPS BETWEEN EXPENDITURE CLASSIFICATIONS

ADMINISTRATIVE

- Line Ministry
  - Ministry of Agriculture and Forestry

- Subordinate Agency/Directorate
  - General Directorate for Agriculture

- Division
  - Land Reclamation Division

PROGRAMME

- Broad Programme Strategic Areas
  - Agriculture

- Programme Support to Farmers

- Activity
  - Irrigation

COFOG

- COFOG Division
  - Economic Affairs

- COFOG Group
  - Agriculture, Forestry, Fishing and Hunting

- COFOG Class
  - Agriculture

OBJECT (Line-item)

OTHER CLASSIFICATIONS

- Financing source, Fund,...

ECONOMIC CLASSIFICATION

GFS, SNA 93, ESA 95
Figure 4.1 shows the different expenditure classification subsystems and the relationships between them. Combining the division (or in a few cases, the activity), the line-item and the financing source (or the fund) generally gives a “common denominator” to the expenditure classification subsystem. The coding system used in day-to-day administration of the budget must identify this common denominator, but does not need to describe all the other attributes of the expenditure item.

Generally within a single category of the classification system (e.g. the administrative category), a decimal or hierarchical coding is needed (e.g. to show the hierarchy of line ministry, general directorate, division). In a number of countries, this hierarchical approach is also adopted in the budget nomenclature used for day-to-day management. The nomenclature is, for example, organised as follows: line ministry -> directorate -> spending unit -> line-item/object -> budget code (including the administrative and line-item/object codes).

Establishing such a hierarchy is important for defining the presentation of the outlays in the budget, or the appropriation management rules. A hierarchical, or decimal, coding is also useful within a financial management environment that is largely based on manual (as opposed to computerised) procedures, but it should be kept as simple as possible. Within a computerised environment and when the budget transactions are recorded in a “relational database”, a hierarchical coding system is less useful. A relational budget database consists of tables linked by certain rules and definitions. Each table should correspond to only one category of the budget classification system, and the codes are defined table by table, and category by category (organisation, function, line-item/object, etc.). For reporting or implementing automated controls, various combinations of these elementary categories and codes are possible.

B. Presentation of Expenditures in the Budget

1. Major requirements

The budget submitted to the legislature should include all elements needed to assess budgetary and fiscal policy. It should also present the appropriations according to the needs of parliament to carry out its scrutiny activities. Information on revenues, expenditures, government borrowing and other fiscal data should be presented together.

The desirable number of appropriations depends on various elements, such as the rules governing transfers among these appropriations, the organisational structure of the government, and the distribution of powers in budgeting between the legislature and the executive. A large number of appropriations tends to rigidify budget execution, but the appropriations must be sufficiently detailed to show the major policy commitments of the government, and allow parliament to debate them.

In some non-European countries, the number of appropriations is limited to about 20 or even less. A detailed annual expenditure plan by organisation, programme, and economic category, is prepared but is essentially an internal management document for the use of the executive. In such cases, the powers of parliament in budgeting tend to be very limited and, if so, do not satisfy the essential criteria of good governance.

The budget appropriations may or not include subitems for information only. Some countries present thousands of such line-items in the budget, others a much more restricted number. Thousands of line-items can make analysis of the budget difficult and requires summaries to make the material readable.
It is very important to clearly identify in the budget which organisation within the government is responsible for managing each major item or programme of expenditure. Outlays should therefore be presented by line ministry and their major subdivisions, as shown in Box 4.2 below.

If a classification by programme is established, the programmes can be either integrated into the presentation of the outlays according to which organisation is responsible for managing them, or presented separately. The latter approach can offer more flexibility in organising the programme structure, and its relationships with the administrative structure. For example, when within a line ministry some programmes are attached to a general directorate, while other programmes are attached to a department or division, it is difficult to show such information in a single presentation. Relational database management systems allow various presentations of the outlays in the budget, which can either be detailed or summarised.

The outlays presented should be compared with the outlays of the previous year.

Box 4.2. BUDGET OUTLAYS CLASSIFIED BY RESPONSIBILITY

<table>
<thead>
<tr>
<th>Line ministry (or agency)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directorate (or other major administrative subdivision)</td>
</tr>
<tr>
<td>Programme and project (where appropriate)</td>
</tr>
<tr>
<td>Current expenditures</td>
</tr>
<tr>
<td>Domestic resources (General Fund)</td>
</tr>
<tr>
<td>Line-item</td>
</tr>
<tr>
<td>Other funds <em>(if any)</em></td>
</tr>
<tr>
<td>Line-item</td>
</tr>
<tr>
<td>External resources</td>
</tr>
<tr>
<td>Line-item</td>
</tr>
<tr>
<td>Capital expenditures (domestic/external resources)</td>
</tr>
<tr>
<td>Domestic resources (General Fund)</td>
</tr>
<tr>
<td>Line-item</td>
</tr>
<tr>
<td>Other funds <em>(if any)</em></td>
</tr>
<tr>
<td>Line-item</td>
</tr>
<tr>
<td>External resources</td>
</tr>
<tr>
<td>Line-item</td>
</tr>
</tbody>
</table>

2. Annexed budgets

In a number of countries, the budget is presented in several separate sections or documents, so-called “annexed budgets”, such as the “current budget”; the “development budget”; the “administrative equipment budget”; and the “social security budget”. Annexed budgets may be required because of legal or administrative arrangements. They are seen in some countries as necessary to grant autonomy to some certain bodies (universities, courts of justice, etc.). However, to limit the problems of such a fragmented presentation of the budget, it is desirable to show explicitly the whole budget of each line ministry (including memo items for the relevant annexed budgets). Expenditures of the annexed budgets should be classified according to the principles discussed earlier.
3. Other presentations of the budget

a. Presentation by function and programme

A presentation of the budget by function should show past developments of expenditures over several years. Comparisons by function are more relevant than comparisons by organisation, or even programme, since the administrative and programme structures tend to be less stable than the functional structure. Such a presentation should also include, at an appropriate level of detail, narrative statements, including explanations of goals and expected results, presented according to major sectoral policy objective and function (and by programme and activity, if a detailed classification is implemented). As indicated earlier, the programmes, if any, may be either integrated into the presentation by organisation or recorded separately.

If prepared in a consistent manner, multi-year estimates can be annexed to the budget.

b. Presentation of capital expenditures

A number of countries present capital expenditures and current expenditures in separate documents or in two distinct parts of the budget, rather than as an integrated structure. This makes the analysis of line ministries’ budgets difficult and should be strongly discouraged. Nevertheless, a clear distinction between current and capital expenditures is necessary, for the purposes of analysis and efficient policy decision-making. Showing separately (in an annex to the budget, or in summaries), the capital expenditures components of the budget and the forward costs of budgeted projects helps analysis of the budget. If such information is prepared, the authorisations of forward commitments should also be presented in the budget, preferably with an indicative schedule of forward payments. In countries that prepare a public investment programme that is distinct from the budget, it is desirable to compare the budget and the investment programme in the budget documents (for example, in budget annexes or in memorandum items).

c. Aid-financed projects

Aid-financed projects often include both capital and current expenditures. In a number of transition countries, it is difficult to identify the projects financed by external sources in the budget, because their capital component and current component are presented in separate sections of the budget of the relevant line ministry. This complies with the recommendations made above to classify expenditures according to their economic category. Nevertheless, for purposes both of good management and transparency, aid-financed projects should be clearly identified in the budget, especially when they are of significant size. Therefore, it can be desirable, in countries that benefit from aid-financing, to present in a budget annex the list of externally financed projects, with their domestic counterpart financing. In such cases, the list of project-loans and grants should be included in the budgetary documents. Such a presentation of aid financed projects, however, should not be seen as a substitute for presenting these projects in the budgets of line ministries.

C. Programmatic Approaches

1. Performance and programme budgeting: past experiences.

In several centrally planned countries (e.g. those of the former Soviet Union), the budget was traditionally presented by programme. This was consistent with the central planning approach and the
preparation of budget allocations on the basis of norms, a tradition that lingers on in many of these countries. In many other countries, what could be considered as the “traditional” budget is the “line-item budget” presented by organisational and economic category (line-item/object). As long as it is comprehensive and includes an appropriate classification system, a line-item budget fits well the requirements of expenditure control both at the lowest organisational level and at the aggregate level. It allows responsibilities in budget management to be clearly identified. Its strengths lie in its simplicity and lack of ambiguity for controlling the use of resources. Line-item budgets were (and in a number of countries still are) associated with an “input-oriented” budget preparation and rigid and detailed ex ante controls. However, approaches differ from country by country. In a number of countries, the main aim of the control system is to avoid making transfers between personnel expenditure and other items, and detailed line-items may be included in the budget for information only.

Nevertheless, a major criticism of the line-item budget is that it does not deal with key objectives of government policy; their links to the budget; and the search for the most efficient combination of inputs to deliver the services provided by the government. In order to address these issues many industrialised and developing countries have attempted, over the last 50 years, to implement performance or programme budgeting systems. Such budget systems are designed to assess the efficiency and effectiveness of government activities. Within a performance or programme budget, expenditures are classified by programme and activity, the operational aims of each programme are identified, and performance indicators are set up for every programme and activity. Historically, performance and programme budgets were intended to replace the line-item budget and become the main instrument of resource allocation.

The first experience with performance budgeting on a wide-scale was launched in 1949 in the United States, following the recommendations of the Hoover Commission. Emphasis was put on full cost measurement, evaluation of workload and reducing unit costs. The focus was on the work to be done, not on the usefulness of the objectives themselves. Performance budgeting was aimed at increasing operational efficiency rather than allocative efficiency. From 1951, the US budget included listings of the programmes or activities by budget account and narrative statements describing programmes and performance, some of them presenting workload and cost information, calculated on an accrual basis. Despite the substantial amount of performance information and analysis that was produced, the experiment was not deemed to have been a success. In addition to technical difficulties in areas such as cost measurement, concerns were raised that the budget did not adequately link policies with programmes.

The search for a method of budgeting that would also take into account the effectiveness of expenditure led to programme budgeting. (In the literature on budget reforms, programme budgeting is either considered as a form of performance budgeting or treated as a distinctive approach.9) The Planning Programming Budgeting System (PPBS) was implemented throughout the US government in 1965. PPBS was designed as an instrument for allocating resources among programmes. PPBS processes consisted essentially of three phases. In the planning phase, systems analysis was used to establish the objectives and identify related solutions. At the programming stage, means were reviewed and compared to the solutions identified at the planning stage. Sets of activities were grouped into multi-year programmes, which were appraised and compared. Cost-benefit and cost-effectiveness analyses were then used to compare the various programmes and activities as competing means of achieving a given objective. Finally, the budgeting phase translated these programmes into the annual budget.

After six years of effort and discouraging results, the PPBS was abandoned. Indeed, it seems that the goal of reaching a perfect and indisputable rational organisation of government objectives and activities is illusory. A fundamental problem with PPBS was that it neglected the political aspects of the decision-making process. The fact that government objectives and activities are political choices that reflect trade-
offs between different value judgements was not sufficiently recognised. PPBS attempted to overcome administrative compartmentalisation by making programmes independent of organisational affiliation. Such a technocratic approach broke an important link between the programme structure and the administrative structure and thus met resistance from managers. Moreover, the usefulness and applicability of economic analysis in this field were exaggerated. PPBS increased the volume of work significantly, since officials were charged with preparing both the regular annual budget and the programme budget. PPBS required highly trained administrators to conduct the various analyses and studies, and they were in short supply. Moreover, the imposition of the system from above was an unlikely basis of success.

In the late 1970s, another experiment — Zero Based Budgeting (ZBB) — was attempted in the US. Literally interpreted, ZBB consists of evaluating all programmes each year and preparing the budget from scratch, instead of concentrating on budgetary changes at the margin. In practice, the ZBB system did not go so far. Agencies were asked to rank the programmes within predetermined funding limits. The main features of the system consisted of: (i) formulating objectives for each agency; (ii) identifying alternative approaches to achieving the agency objectives; (iii) identifying alternative funding levels, including a “minimum” level normally below current funding; (iv) preparing “decision packages”, including budget and performance information; and (v) ranking the decision packages against each other. In practice, some agencies did not identify minimum levels below current funding, and many identified these levels as an arbitrary percentage of current funding, generally in the range 75-90% (GAO, 1997a). Moreover, ZBB was excessively time-consuming and proved to be short-lived. The ZBB approach is useful for occasional expenditure reviews (and has been applied as such in the UK and other countries), but in practice it is impossible to undertake ZBB each year for the preparation of the annual budget.

In addition to the US, programme budgeting has been attempted in many countries, but in most cases these experiments did not survive long. None proved to be successful in becoming an effective instrument for central resource allocation. For example, in the context of Latin America, Petrei (1998) notes: “In theory, several countries in the region have programme budgeting, and in some cases this includes quantitative goals. But they play no role in budget discussions, nor are they used to monitor the use of program funds.”

Despite these disappointing results, past experiments with programme budgeting were not without some lasting benefit. For example, PPBS contributed to the development of economic analysis within government and the development of functional classifications of expenditure as a tool of policy prioritisation and assessment. The analytical methods underlying PPBS are still used today, but on a case-to-case basis rather than as generalised instruments for resource allocation among sectors. As Lacasse (1996) comments: “the need for budget comprehensiveness; the preoccupation with specifying ends-means relationships in policy formulation and evaluation; the concerns with cross-impacts and substitutability of programmes; the insistence on forecasting and comparative assessment of new policy initiatives; all these were not born with PPBS, but did at that time receive their basic formulation, which is still largely in use today”.

2. Recent approaches to budget programming in OECD countries

Some OECD countries are currently developing a programmatic approach consisting of clarifying the objectives of each agency and programmes; preparing strategic plans and performance plans; and programme evaluation. The features of these approaches to budgeting vary from country to country.

These reforms meet many of the concerns that led to the disappointing outcome of many early experiments in performance and programme budgeting. Instruments such as performance and cost
measurement are regaining attention. As a result of the development of information technology systems, such procedures are nowadays easier to implement than in the 1950s, although a number of difficulties remain. Compared to the PPBS experience, the more recent approaches do not attempt to replace normal administrative arrangements with a programme budgeting approach. On the contrary, an emphasis is put on the key role of spending agencies. In a few countries, “resource agreements” between the centre (e.g. ministry of finance) and spending agencies may subject a certain portion of expenditures to performance agreements (for example, funds may be provided for investment on the condition that staff savings will result). But, in most cases there is no direct link between performance and the allocation of resources among programmes.

3. Possible approaches to budget programming in transition countries

a. Intersectoral resource allocation

Clarifying the objectives of the government and preparing sectoral budgets that match the government’s policy objectives is always required. This requires mechanisms for policy co-ordination and for building hard constraints into the budget process, since defining objectives or preparing sector programmes without an effective control of fiscal aggregates often leads to the enunciation of generalised and poorly defined policy objectives, and the preparation of wish-lists by line ministers. Specifically, in the context of most transition countries, increasing the capacity of the ministry of finance to co-ordinate the preparation of the budget, and clarifying the role of each participant in the budget process are necessary (though not sufficient) conditions to develop a programmatic approach.

Developing a programmatic approach can be undertaken in different ways, such as preparing sector strategic plans and performance plans, strategy papers and sector reviews. Some transition countries have recently launched, or are in the process of developing, the preparation of programme budgets. Presenting expenditures by programme may help to focus thinking about public expenditure in terms of its objectives and outputs, provided that the budget formulation process encourages spending agencies to prioritise their programmes properly.

Programmes are generally described through programme profile forms. These forms include a narrative statement, indicators of past and expected performance, and cost projections. Box 4.3 shows an example of a programme profile form.

When the main purpose of developing a programmatic approach is to strengthen analysis of the budget and help in the intersectoral allocation of resources, the programme can be relatively wide in scope and correspond to a broad objective or function of the line ministry, or a strategic policy area (e.g. primary education). In such cases, the “programme” will be defined as a grouping of pre-existing budget items, provided that the functional and administrative classifications have been correctly set up. It can correspond, for example, to a grouping of the categories of COFOG. The COFOG system may need, however, to be adapted to deal with policy issues specific to the country concerned. Alternatively, the programme can be defined as a directorate within a line ministry; or a group of administrative divisions that perform a similar function.

Such approaches to defining “programmes” are empirical, while the logic of a systemic programme budgeting approach would suggest starting with the definition of policy goals and objectives before making a definition of programmes. An empirical approach is nevertheless more cost-effective. It would be difficult, and somewhat illusory, to define an organisation’s objectives independently from its structure and pre-defined functions.
Indicators and narrative statements should be presented with the programmes. But at this level of aggregation, indicators serve basically to illustrate the major policy issues, and provide feedback to policy decision-makers, rather than to monitor operational performance. A few countries such as the UK have nevertheless, in some areas, set up both a system of higher level indicators and specific indicators aimed at monitoring the operational performance of government agencies. Of course, it would be unreasonable to allocate budgetary resources on the basis of programme performance alone. Poor performance in priority sectors often calls for increased resources, not decreased resources. Sometimes,
a budget detailing programmes and activities may include hundreds of pages of narrative statements and indicators. Such budgets can be very difficult to analyse and, as a result, sufficient attention may not be paid to them. A presentation of the budget by programme should focus first on strategic areas (or main programmes/functions) and on the strategic policy objectives of the government.

Disappointments arising from past experiments with programme budgeting suggest avoiding complex expenditure re-classification exercises and keeping the classification by programme simple. When developing a programmatic approach, efforts should be devoted to describing the objectives of the government, not to engaging in elaborate expenditure re-classifications. Indeed, presenting expenditures by programme may facilitate analysis of the budget, but only if the programmes are defined in a clear and simple manner.

b. Programming expenditures within agencies

At the agency level, programmes should be defined in the most convenient manner for internal management. The programme structure should be appropriately detailed, and programmes should generally be divided into activities. The activity corresponds, in principle, to a limited number of outputs. Performance indicators are set up by activity, and monitoring procedures provide feedback to programme managers, which is useful in allocating resources among activities. For example, the fact that an AIDS prevention programme has led to unsatisfactory results, should encourage the ministry of health to redefine the activities carried out under this programme. In addition to providing feedback to operational decision-makers, performance monitoring can be also used in results-oriented management systems (e.g. where part of the pay of managers is related to performance). However, as discussed in Chapter 15, caution is required in this area.

A standard functional classification such as COFOG does not necessarily meet the requirements of a system for monitoring the performance of detailed programmes. Line ministries are responsible for operational performance in their sectors, and therefore for defining and designing appropriate monitoring instruments. Similarly, the classification of expenditure by programme or activity should be prepared by the line ministries and agencies concerned, within a methodological framework established by the ministry of finance.

A wide and detailed programme budgeting exercise is not required in order to implement a system of performance indicators. For example, if the main outputs of a healthcare centre are medical visits and vaccinations, measuring the performance of that organisation does not require preparing programme budgets for such activities. The indicators can be based directly on the budget of the healthcare centre. Moreover, programmes and activities for supporting operational management can be established by spending agencies for internal management purposes only, and do not call for a government-wide programme budgeting exercise. For example, to achieve the objective of increasing the proficiency of students in the English language, the ministry of education may want, for internal management purposes, to set up an “English study programme”, and plan and monitor various activities such as buying books, training teachers and preparing a new curriculum. However, this does not require dividing the budget into categories such as an “English study programme budget”, a “mathematics study programme budget”, and so on.

c. Accountability and management issues

A programme classification of expenditures should not be seen as a substitute for an administrative classification, which is an essential foundation of an effective system of public management and public accountability. Transition countries have largely abandoned their previous budgeting methods based on programmes and norms. However, many of them have yet to achieve efficient and transparent input
budgeting, with appropriations linked to the entities that will actually spend the money, rather than to Soviet “spheres” of activity, or to programmes. Transition countries would be mistaken to regard the development of a programme classification of the budget as a reason for reinstating these old practices. For example, it is recommended in this book that the ministry of finance should establish, with the agreement of the council of ministers, initial expenditure ceilings at the start of the budget preparation process, and notify these ceilings to line ministries. In most cases, such ceilings will be based on the budget of an organisational entity (i.e. a line ministry or major spending agency), rather than a programme budget, even when the ministry’s budget is based on a programme classification.

Programme budgeting may create delays in preparing the budget, especially if the programme structure is very different from the administrative structure. “Mapping” programmes and organisations responsible for their implementation can be done with the aid of a computer, but conducting budgetary negotiations in terms of both programmes and organisations needs time. Expenditures classified by programme must be easily comparable with expenditures classified according to the budget classification used to administer the budget. If the budget is managed or monitored by programme, the programme structure must match the arrangements for preparing the accounts. When the budget preparation process is open-ended, line ministries may sometimes propose an arbitrary increase in the number of their activities in order to justify increased budget requests. Of course, the ministry of finance must be wary of such tactical devices.

It can be desirable to establish interministerial programmes for expenditures that have an impact on more than one policy area, and more than one ministry (e.g. a nuclear energy programme may impose environmental costs on society; a regional development programme often raises policy issues affecting several ministries). However, this should not prevent presenting the different components of a programme in the budget of the ministry or agency that is primarily responsible for its management. A table annexed to the budget showing which activities are covered by interministerial programmes should be sufficient for the purpose of decision-making and the monitoring and control of programme implementation.

d. Concluding remarks

In theory, programme and performance budgeting are aimed at improving both policy decision-making and operational performance. A cost-effective approach can consist of:

- For documenting resource allocation and sector policies: preparing descriptions of broad programmes or functions, including narrative statements supported by relevant performance indicators. Such a description of the main programmes can document the budgetary requests from line ministries and be presented with the budget in order to facilitate the scrutiny procedures carried out by the parliament.

- For programme management: implementing appropriate instruments tailored to the specific characteristics of a sector and the main policy issues for which it is responsible. Preparing internal multi-year programme budgets for programming and monitoring specific activities is highly desirable in sectors directly involved in public service delivery. However, such activities do not require a government-wide reclassification of all expenditures.

- Developing, progressively, feedback mechanisms such as programme evaluation (see Chapter 15).

The ministry of finance can encourage agencies to develop an internal programmatic approach by specifying requirements, in the annual budget circular, for line ministries’ budget submissions. However, excessive expectations should not be placed on the capacity of such technocratic procedures to contribute
to central resource allocation decisions. “Where the budget system and processes are performance oriented it is because the institutional framework both encourages and demands performance, rather than because specific techniques and instruments are implemented” (World Bank, 1998). Moreover, as an OECD (1997e) study notes: “Inputs are still important as a budgetary guideline; the link between performance and the budget is indirect and often inferential rather than direct and automatic; and budgetary pressure moves the use of performance indicators more to the ex post evaluation [phase].”

D. Managerialism

1. What is “Managerialism”?

When developing a performance oriented approach in budgeting, some OECD countries are putting a special emphasis on the role of the agency and on the development of market-type mechanisms. These approaches challenge the public management models that are commonly used. Public administration has been based traditionally on a hierarchical model and a chain of command in which there is strict adherence to orders and instructions from higher to lower levels, and where a high degree of job security and strong internal discipline is prevalent, based on compliance with pre-set rules and regulations.

A concern for strengthening the performance of public administration, during a period when resources devoted to the public sector are tightening, has resulted in a search for systemic approaches to improving operational efficiency. To this end, two broad approaches can be considered.

The first approach is aimed at empowering managers by increasing their degree of operational freedom whilst also increasing their accountability. The array of management tools that have been proposed to achieve this result include planning and evaluation, devolution and flexibility in using resources, targeting and measuring performance, and corporate planning and regular evaluation using benchmarking criteria. This approach builds on existing management systems and organisational structures.

The second, generally more radical approach, often described as “managerialism”, consists of applying or simulating market behaviour in government agencies, and is one of the key elements of what has been called the New Public Management (NPM) model.\(^{11}\) The broad aim of introducing managerialism in government is to make public managers manage on terms similar to the private sector. It incorporates recent elements of the theory of the firm, which explore the relationship between the person (the principal) who engages another person (the agent) in order to undertake specified actions. The functions of the agent and the principal are clearly separated. The relationship between the agent and the principal takes the form of explicit or implicit contracts, which provide incentives to ensure that the actions of the agent are on the desired lines, and can avoid bureaucratic “capture” and distortions of the principal’s objectives.

An important feature of the NPM paradigm is the role of the agency. In countries such as the UK and New Zealand a large number of separate entities or agencies has been created to perform operational activities. By drawing a boundary around operational functions and giving the task to a separate entity, it is assumed that the responsibilities of staff and managers can be clearly specified, performance measures developed, and staff and managers made directly accountable for their performance. Moreover, the traditional accountability for financial compliance is extended to accountability for efficiency and economy in operations and, in some cases, for outcomes. Agencies have their own accounts, on a quasi-commercial basis, are set financial targets and produce annual financial statements that disclose their financial performance, assets and liabilities. The development of accrual accounting and budgeting systems is another aspect of this enhanced focus on outputs and results.
“Output-budgeting”, which has been adopted in New Zealand is the most comprehensive application of the NPM principles and doctrines. The ministers are seen as “principals” and the “chief executives” of the executive agencies as their “agents”. Contracts between the ministers and chief executives are based on outputs, not on outcomes since the outcomes are affected by many variables beyond the control of the agents. “For example, the police commissioner contracts with the minister of police to provide a certain level of policing services, patrols, community security programmes, road safety commercials, etc. The commissioner does not contract to lower the crime rate. The crime rate is affected by many variables beyond the control of the commissioner.” (Bale and Dale, 1998). Budgetary appropriations for outputs are on an accrual basis and defined by class of output. At present, the costs of outputs are determined on the basis of the costs of inputs. Therefore, in fact, the budgeting processes are not yet fully output-oriented.

2. Relevance of the managerialism model for transition countries

Should transition countries consider adopting the managerialism approach? Scientific methods are required in order to evaluate the effects of some NPM experiments on the behaviour of public servants and the efficiency and effectiveness with which public services are delivered. Insufficient evidence has been collected to date. Too little time has elapsed to assess whether the experiment has been a complete or partial success. This fact alone should be warning to transition countries not to proceed down this road without considerable caution. Schick (1998) makes several powerful arguments about the dangers of replicating the New Zealand approach in countries that have still to build up the basics of a budget system and other essential pre-conditions.

Many of the contracts into which governments enter under the reformed New Zealand model are not real contracts in the commercial sense, that is, they are not governed by arms-length relationships and do not allow the “buyer” of services to terminate the contract and seek redress through the courts if the “seller” fails to deliver. Contracts where the “buyer” of services is a minister and the “seller” is an official in the ministry or agency concerned are particularly unreal in this sense. In any case, not all activities can be easily contracted. Only activities that are easily quantifiable and predictable, low on political sensitivity and the need for discretion can be well specified under contracts.

The idea that it is possible to write complete purchaser-provider agreements that define clear and unambiguous incentives and performance standards for most government has to be dealt with very carefully. In Western countries, extensive use of such contracts may weaken the traditional values of public service, personal responsibility and professionalism, and information and feedback mechanisms between policy and delivery. An element of informality is an essential lubricant to oil the wheels of a public administration machine in which formal procedures and rules govern all significant government activities. Reducing informal communications and interchange can leave both sides impoverished. This was well recognised by the New Zealand Department of Labour, which resisted separation of policy and service delivery for some years.

In transition countries, such use of contracts may make it more difficult to build a modern system of public administration that incorporates the essential qualities and ethical standards consisting of the traditional values of public service in western democracies. Where rules to govern public administration are lacking, the costs of informality will be high. Time and resources will be spent in beating the system, without paying real attention to the results of programmes. In a financially and politically uncertain context, funds voted to a contractor are likely to be related to the amount of leverage the agent can exert over the contracting principal, and to the amount of ignorance of the principal about what the service costs.
Process standards — competitive recruitment and promotion, ethnic and gender fairness, honesty and transparency, impartiality in the use of control rights conferred by regulatory power, exercising the State’s monopoly of coercion with restraint and decency — are an important part of what governments should deliver. Reducing this complexity to a line-item — in both financial and service terms — can open government activity to abuse and corruption and leave the public vulnerable.

Negotiating and enforcing contracts entails substantial transaction costs. Capacity constraints are also likely to be important. Managing contracts requires defining performance ex ante, measuring it ex post, calibrating rewards accordingly and in ways perceived to be fair. It is difficult and potentially risky to apply a contract management approach in countries that have traditionally functioned on the basis of command rather than collaborative and consultative behaviour.

Creating separate agencies for public service delivery can improve operational efficiency, and can be desirable in transition countries for certain functions. Nevertheless, caution is required. In a number of transition countries, the “separate entity” can easily in practice degrade into “extra-budgetary fund” with consequences that have already been discussed in this book. It is also questionable whether an organisational reform is really needed to clarify mandates (e.g. compared to appropriate delegations of authority). Moreover, in many countries, decoupling policy advice from service delivery, without giving increased resources to the central departments responsible for policy advice, tends to result in fragmentation and inconsistency in the formulation of sector policies, since in effect these policies end up being formulated by the entities responsible for delivering the services. The typical outcome is a different variant of “capture”. The ministry of finance deals directly with the service delivery entities when preparing the budget whilst the line ministries are little involved. For example, in transition countries, the budget of the transport sector is often negotiated between the ministry of finance and the relevant agencies, with weak co-ordination at the sectoral level.

Accountability requires developing proper accounting and financial reporting systems. However, it must be stressed, that for purposes of policy formulation and implementation, it is the line ministry that represents the hub of operations. Transition economies should not make financial reporting a substitute for efficient budget implementation and fragment political responsibilities, as could happen if subordinate agencies become the entities that report to parliament and the general public. As Premchand (1998) noted, the focus on agencies or reporting entities could contribute to avoidable fragmentation.

In reality, some of the early enthusiasm for the NPM model of separating policy and delivery, purchasers and providers, and writing contracts between them, has been moderated by experience. This experience includes the discovery that the government would not be exonerated by the electorate for responsibility for outcomes because it had written a contract and had put an activity at arm’s length. Indeed, governments could get the worst of both worlds in the sense that they lose immediate control over outcomes while still being held responsible in the public eye for failures to deliver their policy pledges and loss of fiscal control. The UK government recently questioned the extent to which it had placed the great bulk of government activity under agency contracts.

There seem to be difficulties for countries that try to apply New Zealand type reforms in an environment that does not share similar legal and cultural characteristics. Some continental European countries have faced serious difficulties in attempting to import NPM solutions, and partly for that reason, such reforms have seldom been pushed very far. In general, countries in transition should be cautious in moving towards NPM solutions without ensuring that certain pre-conditions are in place, e.g. strong central cash management and control mechanisms.
INDEX


2. See detailed explanations on the differences between the requirements of a budget/accounting classification and the GFS reporting classification in Allan (1998).

3. Both the term “depreciation” used in business accounting and the SNA concept of “consumption of fixed capital” refer to the allocation of the costs of fixed assets over accounting periods. However, the value of the consumption of fixed assets estimated in the national accounts may deviate considerably from depreciation as recorded in business accounting or as allowed for tax purposes, especially where there is inflation. According to the SNA methodology, the consumption of fixed assets is calculated using the prices prevailing at the time production takes place, not at the time the assets were originally acquired.

4. In discussing the GFS, the IMF (1986) notes: “There is a great deal of latitude for decisions as to the functions to be isolated and the way in which they should be grouped. Decisions made are never final but need to be reviewed periodically [to determine] whether public demand and government priorities should be reflected in a changed classification. For example, the present concern (in the early 1980s) with energy supply and conservation was the main motivation for creating a major category for fuel and energy. On the other hand, the classification does not yet contain a category relating to the protection of the environment since at the present time it does not seem possible to define and measure such a group”.

5. In addition to the term “current expenditure” as defined in the glossary (i.e. all expenditure other than that for capital projects and capital transfers), this book uses two other related concepts. “Recurrent costs” are the forward costs (capital and current) generated by investment projects; “operating expenditures” or “running costs” are the administrative expenditures incurred by ministries and agencies in managing their operations, i.e. salary and non-salary personnel costs, furniture and equipment, heating and lighting, office rent, routine maintenance, etc.

6. “For most other outlays [other than transfers and lending minus than repayment], it will generally not be possible to use transactions as units of classification. Instead, COFOG codes will have to be assigned to agencies, programme units, bureaus and similar units within government departments”, IMF (1986), page 143. A similar recommendation is made in Chapter 2 of United Nations (2000).

7. Some countries that have not traditionally made a clear separation between capital and current expenditure in the presentation of the budget are discussing the possibility of creating a separate “capital account”. For the US, see GAO (1993); for Canada, see Auld (1985).

8. This includes, in the context of the European Union, candidate countries that benefit from flows of EU pre-accession aid for agriculture, regional development, etc.


12. The New Zealand budget distinguishes the following categories of appropriation: (i) output classes, e.g. policy advice, management of contracts, policing, custodial services, etc.; (ii) benefits, e.g. unemployment, domestic purposes, scholarships; (iii) borrowing expenses, e.g. interest expenses, premiums, borrowing, other finance costs; (iv) other expenses (e.g. restructuring costs, litigation costs, loss on sale of fixed assets, overseas development aid); (v) capital contributions, increase in investment in a department or SOE to increase its output capacity or improve its efficiency; (vi) purchase and development e.g. state highways, national parks, Parliament Buildings of capital assets and; (vii) repayment of debt e.g. foreign currency debt repayment. Benefits and capital contributions to departments are appropriated on a cash basis. (New Zealand, The Treasury, 1996).

13. “More consideration is given to line-items in preparing and reviewing budgets than is commonly thought to be the case. Certain outputs, such as policy advice, are budgeted in input terms, and managers indicated in interviews that their departmental budgets often are examined by Treasury Vote analysts in these terms... Moving from input to output prices would require major improvements in cost accounting, allocation and analysis” (Schick, 1996).