Program Based Budgeting Manual

Iraq

Working Draft Only

November 2012

Acronyms

CoA	:	Chart of Account
BOPA	:	Budget Outlook Paper
BPG	:	Budget Procedures Group
BSP	:	Budget Strategy Paper
BSC	:	Budget Steering Committee
CoFoG	:	Classifications of Functions of Government
GDP	:	Gross Domestic Product
GFS	:	Government Financial Statistics
GoI	:	Government of Iraq
GRB		Gender Responsive Budgeting
IFMIS	:	Integrated Financial Management System
IPSAS	:	International Public Sector Accounting Standards
MIS	:	Management Information System
MoF		Ministry of Finance
MPER	:	Ministerial Public Expenditure Review
MTEF	:	Medium Term Expenditure Framework
MTBF	:	Medium Term Budget Framework
MTFF	:	Medium Term Fiscal Framework
MWG	:	Macroeconomic Working Group
NGO	:	Non-Government Organization
PBB	:	Program-Based Budgeting
SCOA	:	Standard Chart of Accounts

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I. NOTE ON THE MANUAL

A. What is this Manual?

1. **This manual is intended to serve as a guide in the full development over the coming years of the Iraq system of program-based budgeting (PBB).** The manual contains an introduction to program-based budgeting, a brief discussion of types of budgets, a detailed discussion of PBB, and practical guidance on how to proceed. This manual supplement all other budget manuals applicable for the Government of Iraq, as in the first years of implementation the PBB format should not replace but be an explanatory attachment to the budget.

B. Who should use this manual?

2. **This manual guides Budget Users throughout the whole process of preparing budgets using PBB methodology for all levels of government.** The various parts of the manual serve the familiarisation and better understanding of budget preparation, execution and control of each government official involved in the process.

C. How should this manual be used?

3. **The manual serves as a baseline tool to assist the Government to implement necessary fiscal management reforms.** These guidelines have been developed with the aim of serving both as desk references for government officials already trained in the respective fiscal competency as well as training tools for structured capacity-strengthening programs.

D. What this manual is intended to do?

4. **This manual should assist officers involved in budget preparation and execution to understand public sector budgeting by placing the PBB methodology in the context of some of the budgeting reforms that have been successful internationally.** This manual is intended to assist line ministry officials and budget agencies in their understanding as to how a program-based budget is to be developed and submitted to the Ministry of Finance.

II. MODERNIZING THE BUDGET

This chapter on program-based budgeting aims at assisting the readers…

- To understand the broad concepts of a line-item budgeting, zero-base budgeting and program-based budgeting (PBB),
- To understand the basic distinction between the traditional and program-based budget. And,
- To understand basic program-based budgeting terminology.

By the end of this chapter, you should be able to…

- Be able to discuss the basic objectives of a program-based budget,
- Discuss the compatibility of a program-based budget with budgetary line-items which are less detailed than those found in a traditional budget.

A. Introduction

5. **Program-based budgeting aims to achieve two principle goals.** The first is to improve the prioritization of expenditure in the budget – that is, to help allocate limited government resources to those programs which are of greatest benefit to the community. The second is to encourage spending ministries to improve the efficiency and effectiveness of service delivery. In achieving these goals, a program-based budget also becomes an effective tool to help citizens understand the reasons behind policy decisions.

6. **Traditionally, line item budgets have been the predominate method of presenting government budgets.** As explained below, line item budgets allocate funds to types of inputs, usually based on a quite detailed classification. While there are advantages to the line-item budget, modern budget techniques include other elements in the budget request.

7. **Program-based budgets (PBB) combine best practices such as program budgeting and performance measurement in a medium term approach**. The principal advantage of PBB is that it helps to ensure that the budget better reflects government priorities, by making the purposes for which funds are being allocated more transparent together with the service levels anticipated for these activities. The development of Program-based Budgeting (PBB) also helps to improve decision-making by providing better information on how well Government services meet the needs of its female and male citizens. The line item principle of allocations to types of inputs does not disappear under PBB. Rather, the line item classifications become less detailed, giving ministries some flexibility to shift funds between detailed input categories. At the broad level, however, input controls remain, and in this sense the PBB and line item budgeting approaches may be seen as complementary[1].

8. **Combining a summary level line item budget with the elements from program budgeting (identifying program objectives) and performance measurement in a**

[1] In a sense, PBB should be seen as a complementary approach to effective and transparent budgeting.

medium-term framework is a powerful combination for explaining and justifying the budget. It becomes a single mechanism for answering the basic questions of budgeting:

- What policy objectives do we want to emphasize?
- What services do we expect to provide to different population groups (e.g. women and men)?
- What outputs do we expect to deliver to the community?

9. **The style of budget gives decision makers and the public necessary information to make better choices about spending priorities.** It is also an enormous help in assessing the quality, quantity, and productivity of government programs.

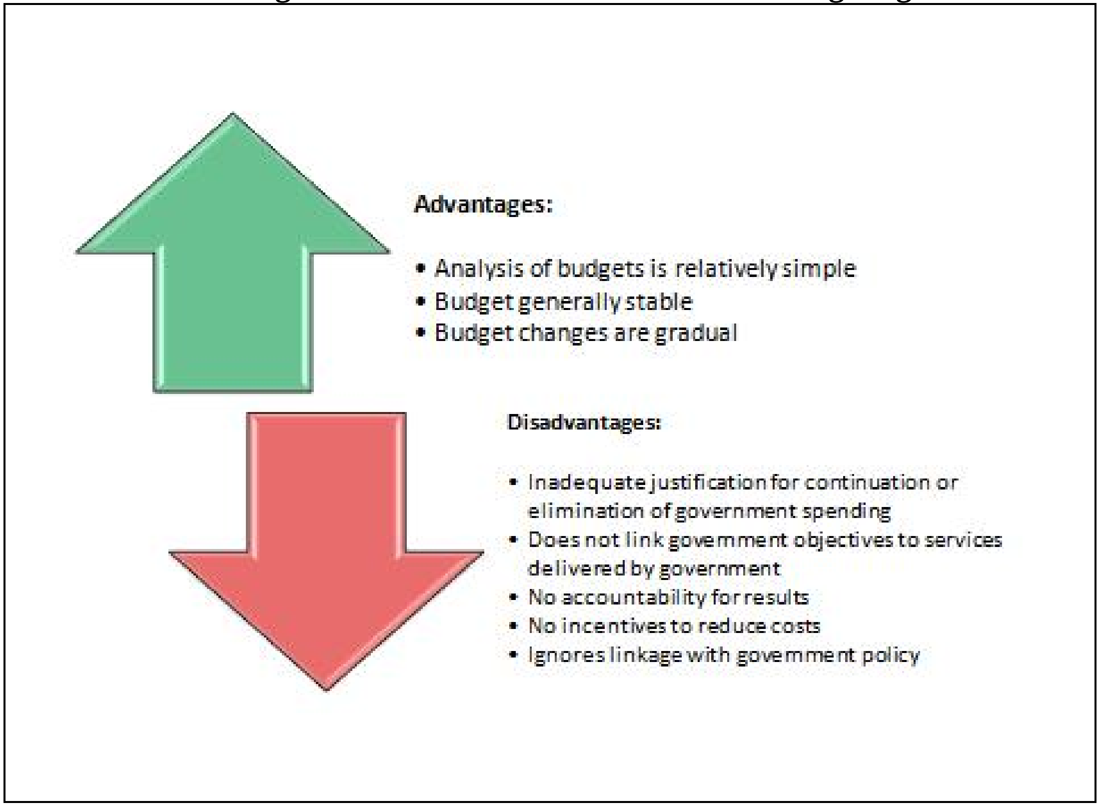
B. Types of Budgeting Systems

10. **Iraq has gone through various stages of budgetary reforms**. This has involved transformation of budgeting methods from incremental to program (performance) based budgeting. This section examines the various budgeting methods including incremental, zero based, and program (performance) based budgeting.

1. Line-Item Budgeting

11. **Line item budgeting is associated with an input-oriented budget preparation process with detailed ex ante controls and well-defined appropriation rules (e.g. rules regulating or forbidding transfers between line items).** Within the budget, expenditures are often classified by organization and economic object of expenditure (line-item). In brief, line item budgeting is defined as the process of adjusting the budget by a certain arithmetical factor regardless of outcomes. Figure 1 below, illustrates the primary advantages and disadvantages of line-item budgeting.

Figure 1: Pros and Cons of Line Item Budgeting



12. **A line item budget provides a list of the types of goods and services each department will purchase followed by a cost estimate for each. Examples include wages and salaries, supplies, utilities, and capital outlay.** Some line item budgets are reported at very detailed object of expenditure levels. Other versions have various degrees of aggregation. Normally, however this budget type proves little explanation of why the money will be spent or what will be achieved. Department line item budgets provide a simple basis for allocating funding.

13. **A detailed line item budget shows how much will be spent on every type of expenditure a government budgetary organization makes.** Primarily objects of expenditures such as salaries, materials and supplies, and goods and services are the basis for organizing expenditures. Normally amounts spent on line items and staffing levels are described as budgetary inputs.

14. **At a basic level, all budget managers must be aware of input indicators.** If a budget manager does not monitor spending to remain within budgetary limits, then difficulties arise. Payment arrears (pending bills) may result so that vendors may have to wait for payment for goods and services. Accordingly, a certain type of performance measure (input measure) can reflect the progress of a government organization with respect to spending in accord with its line item budget.

15. **In many governments, the line item budget and its natural counterpart, line-item control, allow little opportunity for flexibility.** Line item control establishes

significant control on spending and only allows spending in accordance with the approved budget plan. Line item budgets are generally converted to detailed quarterly and/or monthly spending plans. Accordingly, financial procedures may make it difficult to deviate from the approved plan.

16. **Knowing how much the government spends for salaries, supplies, maintenance, and utilities does not reveal much about the actual delivery of services,** such as:

- How many kilometres of roads are maintained?
- What is the cost per kilometre of roads maintained?
- What is the quality of education?
- Do girls and boys have equal access to education?

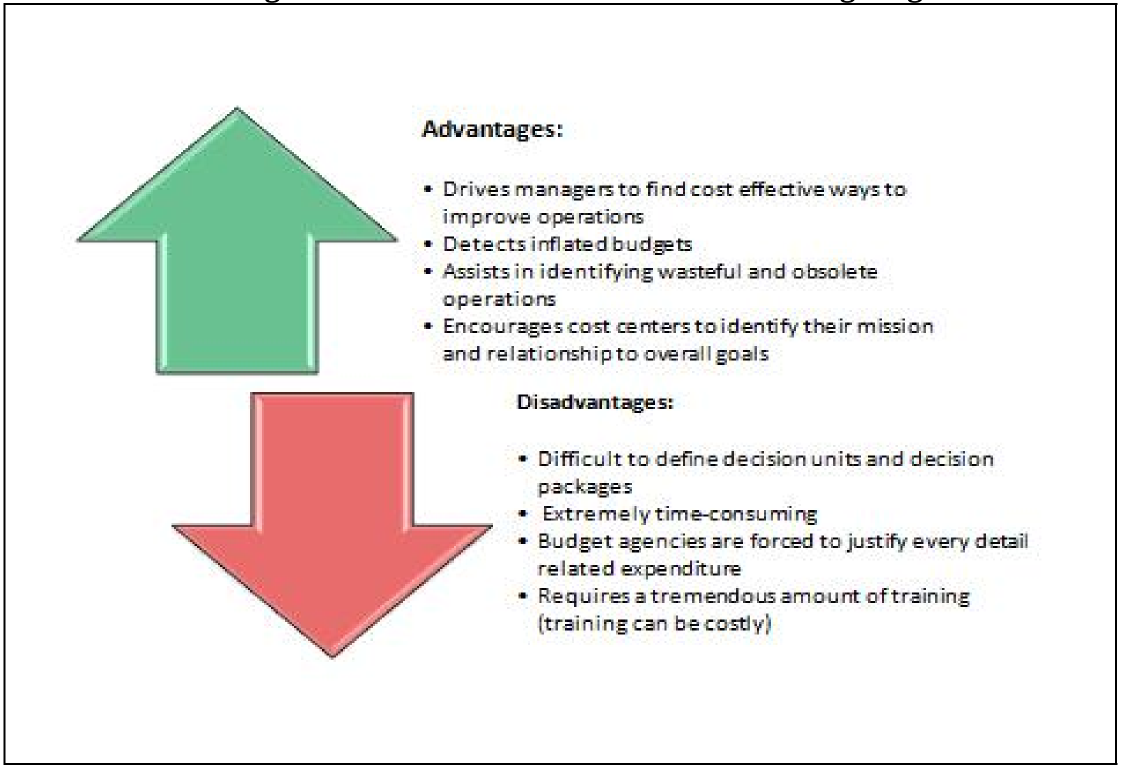
17. To answer these questions, governments must prepare different kinds of information for the budget. The government needs to provide information to decision makers to focus the budget discussion on what government accomplishes.

2. Zero Based Budgeting

18. **In the late 1970s, Zero Based Budgeting (ZBB) was introduced as an attempt to improve upon the drawbacks to purely incremental budgeting.** ZBB involves costing each activity, program or vote from scratch every year. The zero based budgeting is not based on the incremental approach and previous figures are not adopted as the base. Zero is taken as the base and a budget is developed on the basis of likely activities for the future period. A unique feature of ZBB is that it tries to assist management in answering the question, “Suppose we are to start our business from scratch, on what activities we spend our money on and what would we give the highest priority?”

19. **In a purely Zero Based Budgeting system all programs are evaluated each year and must be justified in each fiscal year as opposed to simply basing budgeting decision's on a previous year's funding level**. The fact that resources have already been granted to a program does not necessarily mean that it should be continued. The ZBB approach is used for occasional expenditure reviews, but it is practically impossible to undertake each year for the preparation of the annual budget. Zero-based budgeting is far too complex to undertake for an annual budget submission process. Figure 2 below, illustrates the primary advantages and disadvantages of ZBB.

Figure 2: Pros and Cons of Zero Based Budgeting



C. Structuring Information through Programs

20. **Program-based budgeting is a way to structure the budget information to help decision makers choose among alternatives for providing services.** This approach addresses the following questions:

- What are we trying to accomplish?
- How will the goal be accomplished?
- How much will be spend to accomplish this goal?

21. **Performance budgeting is based on program budgeting, but uses performance criteria as the basis for budget allocations.** It has advantages which are similar to those of PBB but allocations are based on the outputs that a ministry/ department/agency want to achieve. The main disadvantage is that lots of information is required.

22. **Combining a summary level line item budget with the elements from program-based budgeting (identifying program goals and objectives) and performance measurement in a medium-term framework is a powerful combination for explaining and justifying the budget.** This manner of budgeting provides a method for organizing government activities into programs (activities or services with similar or related goals). By organizing its activities in this way, governments can begin to identify alternatives for achieving each goal, to determine the costs and benefits for each

alternative, and to select the alternative that they believe will maximize benefits.

23. **There are various methods used in the instructions for preparing the narrative justification portion of the program budget.** For instance, most program budget formats require a description of services, a statement of the program's long-term goals, and some identification of short-term objectives (usually in the form of accomplishments expected in the next year). Some instructions also require citing the government orders or laws that established the program, descriptions of important issues, and concerns, summary descriptions of implementation plans, etc. Countries have generally focused on developing their program budget format to attempt to satisfy the information needs of decision makers rather than establish complete uniformity. The following sections will provide insight into how to design programs and provide for effective program (performance) indicators.

III. OUTCOMES AND OUTPUTS

This chapter on outcomes and outputs aims at assisting the readers to:

- Understand the key concepts of outcomes, outputs, activities (processes) and inputs (resources),
- Understand the distinction between high-level and intermediate outcomes,
- Understand the concept of "external factors" and how they influence the outcomes which are achieved by government interventions,
- Understand why in some cases different activities have to be identified in order to ensure that both women and men or girls and boys respectively have equal access to outputs and outcomes; and,
- Understand the "results chain" (program logic) under which inputs are used in activities to produce outputs which then result in outcomes.

By the end of this chapter, you should be able to:

- Have the foundational knowledge required to move on to properly defining programs, which are formulated in terms of outcomes and outputs,
- Have the foundational knowledge necessary to move on to the appropriate definition of program performance indicators,
- Avoid confusing outcomes and outputs, and,
- Avoid confusing outputs and activities.

A. Introduction

24. **Program-based budgeting aims to improve the efficiency, effectiveness and equity of government expenditure.** To do this, it focuses particularly on *outcomes* and *outputs*. The starting point in developing an effective program-based budgeting system is therefore a clear understanding of these and certain related concepts. This is crucial because, for example, the programs need to be defined, and program performance indicators selected, in terms of outcomes and outputs.

B. Key Concepts

25. **"Outcomes" are changes which government interventions bring about on individuals, social structures or the physical environment**. For example, literacy is an educational outcome; increased crop yields an outcome of agricultural programs; and reduced crime of policing. It is to deliver outcomes to the community that government undertakes expenditure. Outcomes of public spending are often different for women and men. For example, in 2008 literacy rates in Iraq for adult men (+ 15 years) were 90.3%

while literacy rates for adult women were only 82.8%. Several studies have also shown that crop yields of women and men differ.

26. **"Outputs" are the services delivered to, or for the direct benefit of, external parties in order to achieve these outcomes**. Examples of outputs include: medical treatments; advice received by farmers from agricultural extension officers; students taught; and police criminal investigations. Outputs can be goods as well as services, but in practice most outputs delivered by government are services. We therefore use "services" as shorthand in this manual. Also, for example, when looking at "outputs", differences between women and men need to be taken into consideration. The different outcomes of women and men ("gender gaps") are often due to the fact that women and men do not have the same access to "outputs" or "services" such as medical treatment or agricultural extension services because of their different roles in society and different constraints.

27. **"Activities/processes" are the work processes used to produce outputs**. For example, some of the activities which contribute to the delivery of the medical treatments output are surgery, nursing, hospital cleaning, medical record keeping, and the dispensing of required pharmaceuticals by the hospital pharmacy. Other more general examples of activities are: the recruitment of staff, policy advice to the minister, and public consultations on proposed new public policies or plans. In some cases, different or additional activities are necessary in order to ensure that women and men have equal access to "outputs" or "services" (e.g. the provision of child care).

28. **"Inputs" are the labour, material, equipment, buildings and other resources which are used in activities to produce outputs.** The results chain presented in Figure 3 below (also known as "program logic") that summarizes the process by which inputs are turned into outcomes. It is useful to expand a little on these key concepts, and in the process to deal with certain common misconceptions.

Figure 3: Results Chain - Program Logic

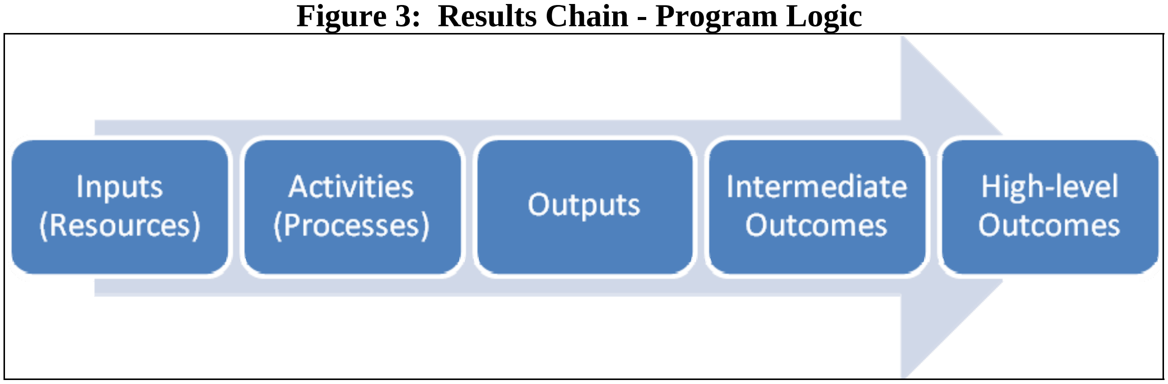
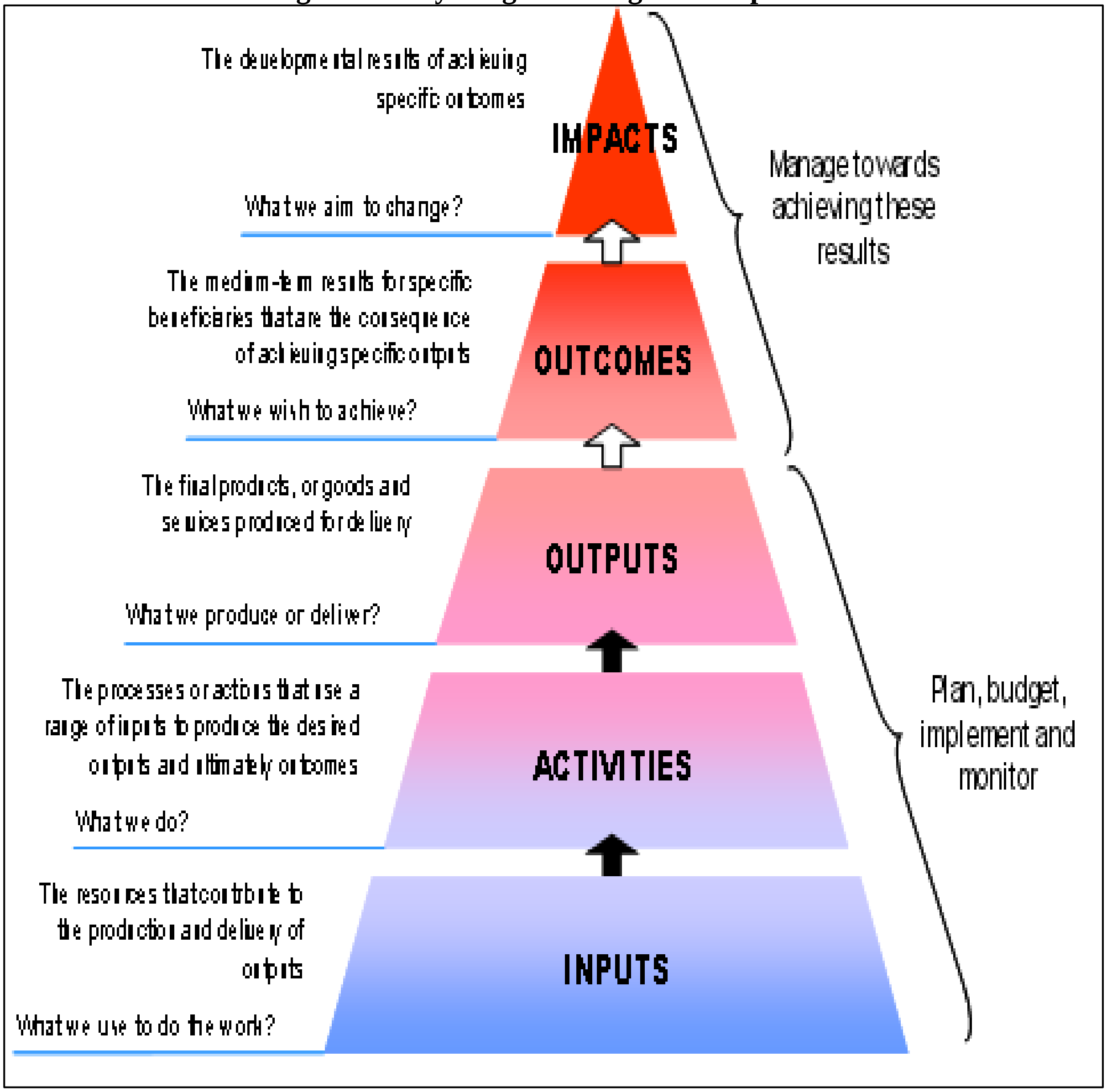


Figure 4: Key Program Budget Concepts



C. Outcomes

29. A distinction is made between **intermediate outcomes** and **high-level outcomes**, where the former contribute to the achievement of the latter (See Figure 5 below). For example, student knowledge outcomes such as literacy and numeracy are intermediate outcomes of education. But they contribute also to the objective of building a stronger economy, which is therefore a high-level outcome of education (as well as of many other government services).

Figure 5: Intermediate and High Level Outcomes

The concepts of intermediate and high-level outcomes can be illustrated with the example of an anti-smoking awareness campaign based on television, radio and newspaper advertising. The campaign (which is an output – or more precisely, a group of related outputs) aims to reduce the incidence of smoking related disease (the high-level outcome) by using information about the health dangers of smoking to change people's behavior (an intermediate outcomes). As one steps up the hierarchy, each intermediate outcome describes an objective that the agency will need to achieve in the medium-term in order to contribute to the high level outcome. In effect, each arrow should be read as 'which leads to'.

High level outcome:	Fewer people develop smoking related diseases
	↑
Intermediate outcome:	Fewer people smoking
	↑
Intermediate outcome:	Fewer people take up smoking
	↑
Intermediate outcome:	People view smoking negatively
	↑
Output (Service):	Awareness campaign on health dangers of smoking

As this example indicates, an output may have several intermediate outcomes. More generally, whether an outcome is intermediate or high-level is often a question of degree.

30. **So-called "impacts" are simply a type of outcome, and no distinction between impacts and outcomes is made in this manual**. Some people attempt to distinguish between outcomes and impacts.

- For some, the distinction is based on time: if the outcome is only realized in the medium to long term, it is called an "impact", and if it is realized in the short term, it is an "outcome".

- For others, the distinction is instead that between intermediate and high-level outcomes – what we call high-level outcomes are "impacts" and what we call intermediate outcomes are "outcomes".

31. **The problem with both of these approaches is that it is frequently unclear as to whether something is an outcome or an impact.** For this reason, the term outcome is

used in this manual in the most general sense, and includes longer-term and higher-level outcomes.

32. **Outcomes are the changes brought about by government intervention.** If the level of malaria falls for reasons which have nothing to do with government actions – because, for example, there is a drought which reduces mosquito numbers substantially – this fall is not a government outcome. Neither is it an outcome if the rate of economic growth increases substantially because, and only because, the world economy is very buoyant. Finally, if a student does well not because of good schooling, but because of extensive educational support from parents who in effect take over a substantial part of the teaching responsibility, the student's success is not a government outcome. Only to the extent that the fall in malaria, boost in the growth rate, or student learning is actually the results of government actions does it constitute an outcome. For instance, government can stimulate growth by eliminating inequalities between women and men with regard to education and access to agricultural inputs.

33. **Outcomes therefore need to be distinguished from the consequences of "external factors".** External factors are factors beyond the control of government which influence the characteristics of individuals, social structures or the physical environment which the government is trying to change. The level of rain is therefore an external factor impacting on the malaria rate. The state of the world economy is an external factor impacting on the rate of domestic economic growth. And the level of parental support is one of a number of external factors impacting on student learning. In assessing outcomes, the challenge is to distinguish the impact of external factors from that of the government intervention. Further, sometimes programs/outcomes need to be changed in order to adapt to changed external factors.

D. Outputs

34. **Outputs are frequently confused with support services and activities, so it is important to clarify the difference.** A ministry's outputs are all of the services it delivers to parties external to the ministry. This means that not only services delivered to the community, but also any services delivered to other ministries or the government as a whole, count as outputs of the ministry providing the service.

35. **A service which is delivered to a client within the same ministry is not an output, but a support service**. As previously noted, the agriculture ministry delivers an output when one of its officers provides technical advice to a farmer. By contrast, when the transport section of the agriculture ministry organizes the transport for one of its officers to go and visit farmers, the service it provides is a support service rather than an output. Similarly, the human resources department of a ministry provides support services rather than outputs when it manages the filling of vacant positions and the promotion process.

36. **In understanding the nature of outputs, it may be useful to think about the analogy of a car manufacturing corporation.** The corporation's outputs – its *products* – are the cars which it sells to its customers (i.e. to external parties). No one would say

that the services provided by the corporation's Human Resource (HR) department, legal department or design departments are the corporation's products.

37. **Another way of looking at this is that a service only constitutes an output if it is potentially capable of delivering a desired outcome.** Agricultural advice to farmers is capable of improving farming productivity. Transport services within the ministry cannot in themselves deliver a desired outcome – rather, they support the delivery of the outputs which can deliver outcomes. This statement must be qualified by saying that it applies only to outputs provided to the community, and not to outputs which ministries supply to other ministries or to the government as a whole.

E. Activities Are Not to Be Confused With Outputs

38. **Activities should not be confused with outputs**. Activities are work processes in the production of the output, and do not constitute outputs in their own right. Some examples can help to clarify the distinction.

- In a hospital, it is completed treatments of patients which are the outputs. By contrast, surgery, nursing, hospital cleaning, and medical record keeping are – as noted above – activities rather than outputs because they are components of the overall treatment provided to the patient, rather than the complete service. The patient can't recover through anaesthesia or cleaning in isolation, and it is only via the combination of all the necessary activities that the complete service (the output) is delivered. ***This example illustrates that the key test of whether something is an output is whether it is potentially capable of delivering the intended outcome.***

- Bus driving is an activity, whereas passenger trips are the outputs. Similarly, teaching is an activity rather than an output, which is students taught. ***These examples illustrate that outputs are services received by external parties. This becomes important when a single activity delivers services to multiple clients – in other words, when that single activity delivers multiple outputs.***

- Sometimes **different or additional activities** are needed in order to ensure that both women and men have equal access to outputs and that outcomes are gender-equitable.

39. **Physical assets are inputs which are sometimes mistakenly thought of as outputs –** for example, the number of roads or bridges provided by government to the community. But it is not the roads and bridges which are outputs, but rather the service which citizens get from these roads and bridges. This means that passenger miles travelled is an output measure while kilometres of road is an inputs measure.

F. Effectiveness, Efficiency and Equity

40. **Effectiveness, efficiency and equity are concepts which are based on outcomes and outputs.**

41. **Effectiveness means the extent to which an output achieves its intended outcome**. Education is effective if students learn. Policing is successful if it reduces

crime. And agricultural advice to farmers is effective if it results in tangible improvements in the techniques used by farmers. The core aim of program-based budgeting – improved expenditure prioritization – can therefore be said to be in part about ensuring that public money is spent only on programs which are effective (or can with redesign or improved management, be made effective).

42. **Efficiency refers to delivering of outputs at low cost**. The lower the cost at which a service is delivered, the more efficient its production can be said to be – assuming the quality of the service is not sacrificed. Reducing the quality of the service to cut costs does not represent an improvement in efficiency.

43. **Equity refers to the extent to which programs meet the needs of women and men, girls and boys.** The consideration of equity may considerably increase the effectiveness of public spending. Women, for instance, do the bulk of work in farming. If agricultural advice falls short of reaching women, an increase of agricultural yields will not be achieved to the extent possible.

IV. DESIGNING PROGRAMS

This chapter on designing programs aims to assist readers in …

- Formulating and developing ministerial program budgets that are aligned with the national goals and strategies.

By the end of this chapter, you should be able to…

- Understand how to develop effective programs; and, to
- Prepare program narratives and performance indicators.

A. Introduction

44. **Programs bring together expenditures with a shared objective which, for most programs, refers to the outcome which the program aims to achieve.** As noted in the previous section, outcomes are changes which government interventions bring about on individuals, social structures or the physical environment. Thus, for example, a "preventative health" program brings together a diverse range of outputs all of which aim at the outcome of reduced death and disability. These outputs might include:

- Sanitation promotion publicity campaigns,
- Safe sex awareness campaigns,
- Awareness campaigns to encourage pregnant women to have recourse to reproductive health services,
- Installation of notices warning people against swimming or washing in lakes or rivers with waterborne diseases,
- Anti-smoking pamphlets distributed in public health clinics,
- The spraying of water sources which breed malaria-carrying mosquitoes, and,
- The distribution of information pamphlets on healthy eating practices.

45. **Similarly, a "vocational education" program brings together a range of vocational education outputs** (formal courses, government support for apprenticeships etc.) which all aim to ensure that the skilled labour requirements of the economy are met (the outcome).

B. Formulating Programs

46. **Programs are groupings of outputs – that is, of services provided to or for the direct benefit of the community.** The outputs grouped together under a program will often share not only a common intended outcome, but other common characteristics such as a shared mode of intervention or a common client group. For example, various outputs under the preventative health program all seek to achieve reduced death and disability via preventative (as opposed to treatment) intervention. Similarly, a "crop industries" program groups together services such as extension services, fertilizer subsidies and marketing support with a common target industry. In summary, programs

are in general based upon outcome and outputs. In brief, the program is defined by the shared outcome and other common characteristic(s) of the outputs which constitute it.

47. **There are limited exceptions to the principle that programs are outcome and output based, of which the most important is "administration" programs.** These exceptions are discussed below. Unless a program falls explicitly into such a category, it is essential that it be defined as a grouping of outputs which share a common outcome.

48. **The number one objective of program-based budgeting is to help government allocate its limited financial resources to the areas of public services which will deliver the greatest benefits to the community.** Program-based budgeting is designed to turn the budget into a tool by which government can make and give effect to decisions about, for example, how much money is to be spent on preventative health versus health treatment services. It can only do this if programs are defined as groupings of related outputs. Further, in order to ensure that both women and men benefit equitably from programs it is important to take account their respective priorities and needs that may differ in some areas due to their different social roles and positions.

49. **Programs cover all expenditure directed towards the program objective.** This includes capital expenditure as well as current expenditure.

Table 1: Components of Program Budgets

Program Budget Component	Definition
Program	• A Program is a collection of related activities working toward a common purpose within the line ministry.
Sub-programs	A sub-program is defined: • As a group of projects / activities under the same operational or development priority policy objective.
Projects/Activities	Projects/Activities are defined as: • The work that ministries do within a sub-program. • A development project.

C. Designing Program Titles

50. **Each program must be defined by its title and its overarching program objective**. What are the basic characteristics of a program title?

- The program title should be short and informative.

- The program title should make clear the types of outputs and/or outcomes which the program aims to deliver.

51. The program's title should give an immediate idea of the program's content by referring to the type of outputs, clients, or objective of the program. **Examples of good program titles are: "nature conservation", "crime prevention", and "adult education".**

D. Program Objectives

52. **Program objectives should be explicit and brief. Ideally program objectives should be succinctly stated in one sentence**. Program objectives are often poorly defined. Oftentimes they are too wordy and unclear. It is not unusual to find program objectives which focus entirely on the output (service) which the program delivers to the public, or on program activities/processes, with no reference to the intended outcomes.

53. **The overarching program objective should indicate the key outcome(s) the program seeks to achieve**. This is important not only for clarity in program definitions, but also to provide a framework for the derivation of program performance indicators and targets.

Figure 6: Defining Programs - Right and Wrong Ways

Examples of well-formulated program objectives:

- "The conservation of biological diversity in healthy ecosystems" (Nature Conservation Program);
- "Maintenance of territorial integrity and national independence" (Armed Forces Program);
- "Increased foreign investment leading to technology transfer and a stronger economy" (Investment Facilitation Program); and,
- "Reduced crime and greater security of persons and property" (Crime Prevention Program); and,
- “Reduced violence against women” (Violence Against Women Program)

Examples of incorrect approaches to defining program objectives:

- "Provision of medical assistance to persons in an emergency" - refers only to outputs.
- "Manage the development, implementation, evaluation and maintenance of national policy, programs and systems for general education and quality assurance" - refers only to activities.

54. **The program objective should be formulated in such a way as to be relevant to the program as a whole.** The ***program objective*** is the overarching objective which ***all*** of the outputs (services) provided under the program aim to achieve. By defining program objectives in this manner, we do not refer to subordinate, more operational objectives which might be relevant to some program outputs but not to all. Take, for example, the “nature conservation” program example presented above. Amongst the operational objectives of this program might be “save the lesser black-spotted pea duck”

and “prevent desertification”. Such objectives are the focus of certain of the outputs under the nature conservation program, but not of the program as a whole. **A good test of whether program titles and overarching program objectives are well defined is whether they make it obvious to which program each of the specific outputs delivered by the ministry belongs.**

55. **Program objectives must not be confused with program performance indicators or targets.** In the example of the crime prevention program presented above, “reduced crime and greater security of persons and property” is neither an indicator nor a target. Indicators are quantitative measures such as “burglaries/population”, “murders/population” or “rape cases/population”, while targets state quantitative goals along with timelines for achieving these – e.g. “reduce the burglary rate by at least ten per cent by 2020”. It is crucial that all programs have objectives upon which indicators and targets are based. The role of program indicators and targets is discussed below.

E. Optimal Number and Size of Programs

56. **Programs are the level at which central decisions about expenditure priorities will generally be made.** This has two important implications when formulating the program structures for ministries:

1. **Creating one big program is a mistake!**

   - In the Ministry of Education, for example, there should be a number of programs such as primary education, secondary education and tertiary education in an education ministry than to have a single enormous education program.

   - **A program classification based on giant programs will be too crude to permit central decision makers to make the type of spending reallocations such as, for example, shifting money from tertiary education to primary education or from treatment health to preventative health**. Expressed differently, programs should capture the distinct dimensions of the role of each ministry so as to permit central decisions about where the ministry’s principle efforts should be directed. Of course, for small ministries with narrowly-focused missions, a structure with a single program may be appropriate.

2. **Too many small programs should be avoided.**

   - Because central decision makers need to concentrate primarily on expenditure priorities between programs, a proliferation of very small programs runs the risk of unnecessarily complicating the central budget preparation process.

Figure 7: Rules Regarding Number and Size of Programs

The following rules should be applied by line ministries in developing programs:

1. Ministries should, in general, not allocate all of their expenditure to one large program.

2. No ministry will, without approval from Treasury based on special circumstances, have more than 5 programs (including an administration program); and,

3. In cases where a Ministry has more than 5 programs, no program should represent less than 15 percent of a ministry's total expenditure.

F. Program Narratives

57. **To achieve its aim of improved expenditure prioritization, an effective program-based budgeting system must bring information on the performance of programs – that is, on their success in achieving their intended outcomes and outputs and in reaching out to various population groups (e.g. women and men) – together with information on their cost**. This enables budget decision-makers to make better judgments about whether programs should be cut, expanded, maintained or revised.

58. **Putting cost and performance information side by side is important in the budget preparation process.** Political decision-makers – cabinets, presidents, ministers of finance – should receive succinct briefings on program performance when deciding budgetary funding allocations.

59. **Parliament and the public should be kept informed via program statements presented with the budget documents which accompany the annual budget legislation**. Program statements should include the following information for each program:

- Title and objectives,
- List of the main outputs (services) which comprise the program,
- List of main development (capital) projects falling under the program,
- A brief narrative outline of program strategy (i.e. the relation between program outputs and the program outcome) and challenges
- Key program performance indicators,
- Program expenditure estimates, preferably with medium-term projections, and,

- A breakdown of program expenditure by broad categories of economic classification (staff, capital etc.), for information purposes.

60. **The specific content of the program statement in respect to a number of these elements is discussed in more detail in subsequent sections.** One way of presenting this material is for each ministry to prepare a document containing all of its program statements to be made available to parliament as an annex to the budget documents. The Ministry of Finance will provide a standardized format for these documents.

61. **In designing programs, the structure should correspond to main lines of service delivery and mandate performed by the ministry/department/agency.** Each program should be confined within a single ministry/department/agency and all ministerial functions should fall within programs. There should be no activities or functions which are not assigned to respective programs or crosscutting across ministry/department/agency. Each program should have a distinct name which provides a brief description of the main objective of a program. Care should be taken to avoid replication of program names used by other ministries/departments/agencies.

62. **Some programs are large and complex, involving a diverse range of outputs.** To accommodate the ministry's explanation of their programs, program managers may choose to further divide a program into two or more subprograms, as discussed below. Program-based budgeting is a flexible budgeting approach that allows officials some discretion to define their programs and subprograms. In addition, the program-based budgeting approach requires narrative explanation of programs and subprograms.

63. **Subprogram budget narratives require the same key elements as program narratives** defined above, including but not limited to:

- Subprogram description,
- Key objective for each goal,
- Key gender inequalities that are relevant in the sector that the subprogram is addressing, and,
- Primary performance indicator for achieving each goal.

G. Program Budget Narratives Quality Assurance

64. **During the process of program budget documents preparation, and upon receipt of the program budget narratives from line ministries (budget users), MoF Budget Officers should analyse the work for consistency with the Program Budget Manual and Budget Circular on guidelines and requirements.** Budget Officers should undertake this analysis using a checklist of questions (against key criteria in terms of compliance with basic program budget requirements, ministry's area of responsibility and National Development Plan and/or National Strategy specific objectives and benchmarks) as defined in Annex B.

H. Management and Administration Programs

65. **Most programs are based on outputs and outcomes. As such, program objectives should refer to the intended outcome of the program.** This is true for the great majority of programs which deliver outputs directly to, or for the direct benefit of, the public. However, there are some programs which are not focused on delivery of outputs to the public but instead on support activities – that is, on internal service provided to government itself. Such programs are generally referred to as "administration" programs. However, the same point applies to some of the programs of certain central ministries which support government as a whole. Such programs constitute an exception to the rule that program objectives should be outcome-oriented.

66. **In cases where a ministry/department/agency has more than one program, a third program covering planning, policy and administration should be created to cater for overhead costs which cannot be attributed to only one program.** Such program should be confined to common services such as general administration, financial services, accounting, internal audit, procurement, planning services, human resource management and IT services which are not program specific in nature.

67. **A ministry's "administration" program groups together internal ministry support or "overhead" services** .What these all have in common is:

- They deliver services not to the external clients but to the rest of their organization; and,

- They support multiple programs.

68. **Administration programs are used for a purely practical reason – to avoid the need to allocate all overhead expenditure between the multiple outcome and output based programs which they support**. The accurate allocation of such support costs – "indirect costs", as accountants refer to them – is a demanding management accounting exercise which most countries do not find it worthwhile to attempt.

69. **The support services covered by administration programs should be only those which support two or more programs.** Any support service expenditure which is focused on only one program should be included within that program, and not within the administration program. For example, if in addition to the education ministry's human resources directorate there is a separate group which provides HR services exclusively to the primary education system (e.g. managing recruitment, promotion etc. of primary school teachers), the latter group should be part of the primary school education program and only the ministry-wide human resources group would be included in the ministry's administration program.

70. **Salaries of staff in organizational units which are devoted entirely to a single program should be allocated to that program.** For example, if there is a secondary education department within the Ministry of Education, the remuneration of all officers who belong to that department should be part of the secondary education program.

1. One Administration Program per Ministry

71. **There should be only one administration program for each ministry.** The use of administration programs is a pragmatic choice. Administration programs do not help central budget decision-makers in making decisions about priorities in respect to the types of services to be offered to the public. There is therefore no advantage in fragmenting the administration program into, say, an IT and communications support program, a ministry financial management program and the like.

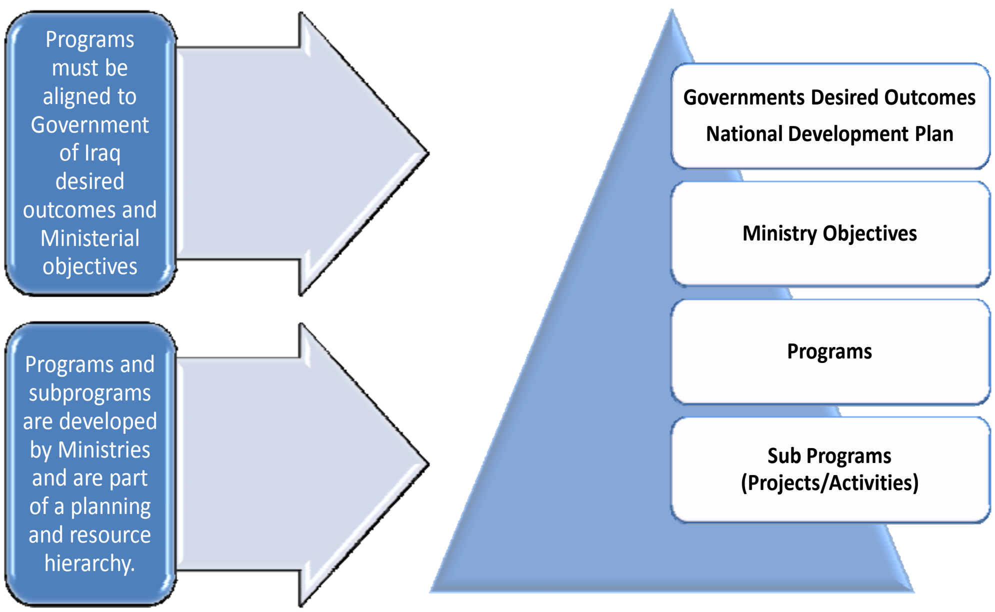
72. **In small ministries with a single program, there is no need for an administration program.** Some programs in central ministries which provide support or coordination services to government are also exceptions to the rule that programs should be outcome and output-based.

73. **To take another example, suppose there is a government agency which has a program which manages the provision of office accommodation to government ministries.** The objective of such a program would be something like "ensuring that the needs of government ministries´ agencies for appropriate premises are met in a timely fashion" – which is not an outcome because it does not refer to changes which government interventions bring about on individuals, social structures or the physical environment. This is unavoidable because the service involved does not directly deliver outputs to the community.

2. Linking to Strategy and Program Hierarchy

74. As illustrated in the following diagram, programs are a part of a planning and resourcing hierarchy.

Figure 8: Program Hierarchy



75. **Through this hierarchy, it is possible for budget implementers to assess the likely effectiveness of programs as clear linkages can be made between the sub-programs and programs and among programs**. Once the budget is executed and the ministries report against their program goals and objectives, assessments can be made of the effectiveness of the programs, and this assessment can provide guidance to the allocations required in the next budget.

76. **Efficiency assessment is also facilitated by the program hierarchy**. Where a ministry program is similar in nature to program(s) in any other Ministry, the opportunity exists for benchmarking between Ministry programs. This is particularly the case in the administration programs that will appear in each Ministry's structure. For the benefits of this to be achieved, it is important that these programs cover the same functions and activities in each Ministry.

I. Programs and Ministry Boundaries

77. **Programs do not cross ministry boundaries**. **Each program should be unique to a specific ministry**. This is necessary because, under a fully developed program-based budgeting system, the budget is approved and allocated to programs and it is essential that each ministry knows clearly what its budget allocation is. If money were allocated to a program which was shared between two or more ministries, without further specification, there would inevitably be disputes as to the amounts which each of the relevant ministries could draw from the program allocation.

78. **The move to a program-based budgeting system should provide an impetus to review and clarify ministry responsibilities in order to eliminate inappropriate duplication.** Such duplication becomes much more apparent in the development of program structures. It is not essential that administrative reorganization takes place immediately at the time of introduction of a program-based budgeting system. To require this might cause reform overload. However, the assignment of ministry responsibilities should definitely be reviewed over the medium-term after the move to program-based budgeting.

J. Programs and Ministry Organizational Structure

79. **To keep things simple, each major internal organizational unit with each ministry will be assigned to one program and, within that, one sub-program.** This section describes how this will work in respect to programs. The next section discusses sub-programs.

80. **Alignment between the internal organizational structure of ministries and their programs is desirable.** If a single department within a ministry is responsible for a program, managerial responsibility for the effectiveness, efficiency and equity of the program is clear-cut. This would be the case, for example, if the education ministry had a “primary school”, “secondary education” and “tertiary education” programs and primary school, secondary and tertiary education departments to manage each of these programs.

81. **Internal ministry organizational structure may not fully correspond to an ideal program structure based on outcomes and outputs**. Organizational structure will correspond to program structure to the extent that organizational structure is along “product” lines – that is, organized in terms of major types of services delivered to or for external parties – as in the education ministry example just cited. The existence of organizational units which provide ministry-wide support services is the most common reason for this, and justifies – as discussed above – the creation of administration programs. However, organizational structures sometimes diverge from the “product line” basis in other ways. Thus:

- A ministry may have regional units which deliver a range of services which relate to two or more programs. An environment ministry might, for example, have separate conservation and anti-pollution programs, with separate headquarters directorates managing these programs. At the same time, however, it might have regional units which deliver both conservation and anti-pollution services.

- The education ministry might have separate primary and secondary education programs, but at the same time have a single inspection directorate, responsible for quality inspections of both primary and secondary school teachers (i.e. the work of inspectorate who visit schools and observe/monitor the work of front-line teachers).

82. **In order to deliver the program-based budgeting goal of improved expenditure prioritization, it is essential that programs be based as far as possible on results – outputs and outcomes – and not functions or some other criteria** (e.g. organizational units). Inspection of teachers is not an output - rather one activity supporting the provision of the educational service (output). It is therefore inappropriate to create a "quality" program corresponding to an inspection directorate. Creating a regional services program in the environment is wrong because, even though the regional services are delivering outputs, the outputs are a diverse group without a common shared outcome.

83. **Programs should therefore not simply be based on the existing internal organizational structure of the ministry.** To force the program structure to conform to internal organizational structures in all cases would be to establish an organizational rather than a program classification of expenditure.

84. **In principle, the expenditure of organizational units such as regional service delivery units should be split between the several programs in respect to which they provide services**. In practice, however, such cost allocation is difficult to do, just as it is difficult to do for the cost of internal support services. Quite sophisticated management accounting systems would have to be developed. For this reason, consideration of the possibility of splitting the costs of organizational units which deliver services under multiple programs will be deferred till the future. In the meantime, a more practical approach will be followed.

85. **Any major organizational unit which serves multiple programs will be allocated to the "administration" program, irrespective of whether or not its role is internal support services.** This approach will ensure that no such directorate or other major organizational unit will be split between several programs, while at the same time avoiding a "program" structure built around the existing organizational structure rather than outputs and outcomes.

86. **The move to program-based budgeting should be accompanied by a review of internal organizational structures within ministries to make them more results-based. The alignment of ministerial organizational structure may be considered over time.** Restructuring more along "product" lines will unify the chains of command at the organizational unit and product levels. Naturally, it cannot be expected to bring program and organizational structures completely into line. Many ministries will need, for example, to operate regional service centres which deliver multiple programs.

87. **The budget allocation consequences of the relationship between program structure and internal ministry organizational structure are discussed further in the section on budget appropriations and execution**. Simply stated, it is necessary for ministries to translate program-based budgets into organizational unit budgets. Only in this way is it possible to ensure that program allocations set by the Parliament will be respected during budget execution. Since the approach outlined above ensures that no major internal organizational unit will be split between several programs, the only issue which will arise is that of programs which cover two or more directorates. Under these circumstances, it will be necessary that the ministry concerned allocate the overall program budget between those organizational units during budget execution.

K. Developing Hierarchal Subprograms that Roll-up To Programs

88. **Programs are broken down into "subprograms"**. All program expenditure must be allocated to one or another of these subprograms, so that the sum of all subprogram expenditure equals total program expenditure.

89. **In the Iraqi system of program-based budgeting, there are only two levels – programs and subprograms – to the program hierarchy.** Some other countries have third or even forth levels (i.e. sub-subprograms and sub-sub-subprograms). This adds considerably to the accounting complexity without being of substantial budgeting or managerial benefit.

Figure 9: Examples of Subprograms

A nature conservation program might be composed of subprograms such as:

- Protection of endangered fauna;
- Anti-deforestation;
- Identification and protection of habitats of special conservation value; and,
- Nature conservation management.

An administration program might be composed of the following subprograms:

- Human resources;
- Information technology and communication services;
- Provision of child care facilities for staff; not sure about that bullet. It pretty advanced even for western standards...
- Accounting and financial management; and,
- Health services to ministry staff (including AIDS/HIV prevention)

90. **Subprograms are used primarily for internal management within the ministry or agency concerned**. As explained later in this manual, at some point in the future, the Parliament may legally appropriate at the level of vote and programs. This will leave executive government free to vary the allocation of expenditure between subprograms in each program during budget execution. Subprograms represent a level of disaggregation of expenditure which is in general too detailed for the central decision-makers to either focus on during the budget preparation process (although they take subprogram information into account in deciding program allocations).

91. **Exactly the same programs are to be used in the development (investment) budget as in the recurrent (operations and maintenance) budget.** Program-based budgeting requires that an integrated view be taken of all expenditure on particular policy objectives.

92. **To keep things simple, subprograms will be based on the organizational units within the program.** This is to ensure that each major internal organizational unit corresponds to one and only one sub-program.

93. **In principle, subprograms should be defined along the same output and outcome principles as programs.** In other words, they will constitute groups of the outputs (or, in the case of administration programs, support services) within the program as a whole which have a common objective and, possibly, other shared characteristics.

Figure 10: Subprograms Based on Outputs and Outcomes

Many subprograms are like programs: groups of outputs with common characteristics.

Consider an "anti-deforestation" subprogram within the nature conservation program. This subprogram would comprise a number of individual outputs designed to counter deforestation, such as:

- Enforcement of laws against inappropriate logging;
- Replanting initiatives in deforested areas; and,
- Information campaigns designed to build public understanding of the importance of protecting forests.

Each of these outputs shares the specific, intended outcome of reducing deforestation while - at the same time - sharing the overall program objective of conserving nature more generally.

For a contrasting example of the type of common characteristic which might define subprograms, consider a "***crops industry***" program with subprograms based on sectors of the crops industries – e.g. a cereals subprogram, a vegetable production subprogram and an arboriculture industries program. These subprograms do not differ in terms of their specific outcomes – they have a common objective that is the same as the overall program objective. Rather, what distinguishes the subprograms is the sector upon which they are focused

94. **Insisting that sub-programs always be based on outcomes and output would create the same conflicts between organizational structure and program structure.** It would become necessary to split the costs of some “sub-heads” between two or more sub-programs. This, as previously noted, would be unnecessarily complicated. For this reason, each major organizational unit (“sub-head”) within a program will constitute a sub-program. For example, a police ministry with a “criminal investigations” program within which there is a forensics department would create a “forensics” subprogram.

95. **Subprograms should not be defined in terms of other criteria such as the economic classification of expenditure**. It would, for example, be a mistake to have a “teachers’ salaries” subprogram within the primary education program (as occurred in another country).

96. **Administration subprograms should be used to cover any overhead costs which are specific to a program** rather than to the ministry as a whole. For example, any senior management or support staff who work for the whole nature conservation program rather than specifically for a subprogram such as anti-deforestation.

L. Programs and Development Projects

97. **Programs and sub-programs are not the same thing as projects, and the two should not be confused**. Most projects are time-bound: that is, they are intended to operate only for a defined time period. This is particularly the case with capital projects such as the construction of a major airport. By contrast, programs and sub-program will generally be based on objectives and services which will endure indefinitely. This means that time-bound projects should be placed under the relevant long-term sub-programs and programs. Thus a specific airport project might properly be placed under the “air transport infrastructure” sub-program of the “transport infrastructure” program.

M. Role of Program Manager[2]

98. **The responsibilities, authority and accountability of each program manager should be established with a clear job description**. Programs and subprograms should be headed by senior management and where appropriate may be headed by officials at mid-level management levels. While the job description will vary in detail and technical content from program to program, or Ministry to Ministry, it should include several fundamental elements, including:

1. **Coordinate the preparation and appropriation of the program.** This includes development of the targets for performance delivery for the near and medium terms. The program manager must also establish realistic priorities with the program's activities and ensure that the delivery of public services is defined by clearly specified outputs.

[2] This section is derived from several primary sources including Republic of Mauritius "Manual of Program-Based Budgeting (PBB)" Pg. 10; and, Government of Georgia "Methodology for the Introduction of a Programmatic Approach to Budgeting".

2. **Prepare Annually a Multi-Year Rolling Program Budget.** The program manager must provide a multi-year program budget with an appropriate cost allocation by economic object. In collaboration with the Budget Department, the program manager must also supervise and maintain records of the assets used for the implementation of the services. The Program Manager is also responsible for program expenditure and cash flow management.

3. **Authority to Vire Funds.** The program manager must have authority to vire (transfer) funds appropriated for the program between subprograms and activities within the rules defined by the Budget Law.

4. **Coordination of Monthly/Quarterly/Annual Financial and Performance Monitoring Reports.** The program manager is responsible for coordinating the production of financial and performance monitoring reports related to the program/subprogram during the fiscal year. The monthly performance reports should serve as an early warning system aimed at measuring the performance of activities during the appropriate reporting period. The program manager is also responsible for contributing to the preparation of the annual budget and any adjustment budget submission.

5. **Supervision and Development of Staff within the Program**. The program manager is responsible for supervising and developing program staff and is accountable for timely and efficient delivery of services within the program. The program manager is expected to participate and actively contribute to the work of the relevant program area linked to the Ministry and Program, including the execution of tasks assigned as a member of any internal program committees and reporting back to the senior management of the Ministry.

6. **Provide all Relevant Information and Specific Reports on Program Activities.** The program manager is expected to provide all relevant information when officially requested either by the concerned Ministry or the Ministry of Finance.

N. Summary and Genera l Rules

99. **Appropriately defining programs is of critical importance if program-based budgeting is to achieve its objective of improving expenditure prioritization.** The nature of each program needs to be made as clear as possible through an appropriate title, clearly formulated objective, and the identification of the key outputs which fall under the program. With the limited exception of support and coordinating service programs, program objectives should be formulated with reference to the program's key outcome(s). Outcomes are the anchor which links program budgeting to strategic (including national) planning.

100. In order to define outcomes, outputs, and activities that will benefit female and male citizens equitably it is crucial to understand the **different situation of women and men**, or girls and boys, respectively, and their different needs and priorities in a given area/sector.

101. **Programs should be specific to ministries, rather than shared**. Within ministries, programs should not be simply selected to fit with the pre-existing organizational structure. They should, rather, be results-oriented and the organizational structure reviewed, if necessary, to make it also more results-oriented. There needs to be consistency in the approach taken by spending ministries to the program classification. Leadership by the MoF is critical. This does not, however, mean that MoF will dictate the choice of programs. Rather, the process will be a collaborative one.

Designing Programs: A Checklist

In developing programs, the following rules should be applied:

- Programs should – with the exception of management programs – be defined as groups of outputs with a shared outcome.
- Program titles should be short and give an immediate idea of the type of output and/or outcome which the program delivers.
- A short statement of program objective must be developed for each program. Except in the case of management programs, this should refer to the (intermediate) outcome which the program aims to achieve.
- Ministries should as a rule have no more than 5 programs without approval from Treasury.
- No program should, as a rule, account for less than 15 per cent of the ministry's expenditure.
- The different situation of women and men as well as their differing priorities and needs should be taken into consideration.
- The management program groups together the support services of the ministry, which are not outputs because they are services provided to internal ministry clients.
- Ministries should have one and only one management program. The sole exception is small ministries with a narrow mission which appropriately have only one program.
- Programs should be unique to ministries – i.e. there must not be any programs which are shared by two or more ministries.
- Organizational units at sub-head level should be aligned with programs to avoid messy cost allocation.
- Any organizational units within the entity which deliver a wide variety of different types of outputs (e.g. a regional service delivery centre), and which cannot therefore be readily aligned to a single program, should be placed within the management program.

V. MEASURING PROGRAM PERFORMANCE

This chapter on program budgeting aims at assisting the readers to:

- Understand the nature of indicators, and targets;
- Understand the distinction between output and outcome indicators, on one hand, and activity and input indicators on the other hand,
- Understand the four types of indicator which are to be developed for programs – effectiveness (outcome), output quantity, output quality, and output efficiency, equity and
- Understand that performance indicators provide a running check on whether programs meet their objectives and work towards goals.
- Understand what is meant by gender-sensitive indicators and why it is important to define targets separately for women and men wherever it is possible.

By the end of this chapter, you should be able to:

- Avoid confusing indicator with objectives,
- Avoid confusing targets and indicators,
- Select appropriate program performance indicators, focusing on programs outputs and outcomes,

A. Introduction

102. **The Ministry of Finance (MoF) will increasingly use performance information to help in decisions on the allocation of resources to priorities.** Ministry programs and outputs should be targeted toward achieving the results envisioned in the National Development Plan. Performance measures should:

- Measure the outputs (services provided by and to whom) of the program.
- Directly relate to strategic (i.e. program) and operational objectives.
- Measure the same thing over time, to enable the analysis of trends and progress achieved.
- Use information that is easily understood and affordably collected.
- Disaggregate information wherever applicable by sex (women and men)

- Provide information useful to program managers to manage and improve program performance.

103. **Ministries will be required to develop for each of their programs a minimum of five high quality key performance indicators.** These indicators must be ones which are useful for the general public and for budget decision makers in making decisions about levels of program funding and in holding programs to account for results delivered to the community. Ideally, programs should seek to develop at least one of each of the following types of program indicator:

- Outcome indicator;
- Output quantity indicator;
- Output efficiency indicator;
- Output quality indicator, and
- Output equity indicator.

104. It is, however, recognized that for some programs, it will not be possible to develop meaningful indicators for all of these five categories. Wherever it is possible, information about indicators should be collected for women and men separately.

B. What is a Performance Indicator?

105. **Performance indicators are quantitative measures which provide information on the effectiveness, efficiency and equity results of programs and organizations**. There is no difference between a performance indicator and a performance "measure".

Table 2: Performance Indicators

Type of Indicator	Definition	Example
Effectiveness (outcome) Indicator	The degree to which the intended objective of the service is being met.	▪ Percentage increase in employment (for women and men) ▪ Literacy rate of young females/young males at age 15. Percentage decrease in crime rate (by women and men)
Output quantity indicator	Quantity of Service Provided	▪ Number of female and male students taught ▪ Number of women and men served
Equity indicator	Gender equity	▪ School enrolment rate of girls as percentage of total enrolment rate and/ or as a percentage of male enrolment rate
Output Quality indicator	Quality of the service provided	▪ Average time for ambulance to arrive ▪ Client satisfaction rate (by female, male)
Output efficiency indicator	Cost per unit of output	▪ Cost/litre of water delivered to household ▪ Cost per vaccination ▪ Average staff time taken to process visa application
Activity indicator	Indicator of internal work processes	▪ Number of staff positions filled Number of policy statements developed
Input indicator	Measure of Resources Employed	▪ Equipment Needed ▪ Employees Required ▪ Supplies Used

106. **It is crucial not to confuse performance indicators with objectives or with performance targets**. An objective is a statement of what one is trying to achieve – for example “reducing death from HIV/AIDS”. By contrast, a performance indicator is

quantified (e.g. “the percentage of the women and men who are HIV/AIDS positive”, or “the number of women and men dying annually from HIV/AIDS”).

107. **A target goes one step further and sets a precise aim to be achieved by a specific date.** In some areas, statistics reveal differences between women and men, e.g. with regard to adult literacy rates, salaries, or the incidence of HIV/AIDS. With the aim to reduce these differences between women and men and to close the gap, targets should be set separately for women and men in those areas where these gaps can be observed (e.g. “reducing the percentage of HIV/AIDS of women by at least 40% and of men by at least 30% by 2030”). The following are examples of supposed program “performance indicators” from examples presented in various country national budgets which are in fact targets, objectives or something else.

Table 3: Examples of Program Performance Indicators

Supposed Indicators	Which is really a..	What a true indicator would be
Student textbook ratio (TPR) of at least 1:3 for lower primary and 1:2 for upper primary in all primary schools	Target	Student/textbook ratio
Prompt response to serious incidents affecting security especially cattle rustling.	Objective	Average time taken for police to initiate enquiries re cattle rustling events.
1,200 community groups assisted with grants this year	Target	No of community groups assisted with grants
Gap analysis report on the UNCAC and AUCPCC prepared	An activity	No of reports prepared
Reduction of delays in court rulings/awards (on election petitions) by 20%	Target	Average time taken till court ruling/award
Timely payment of 3500 teaching staffs in Public Technical Institutions.	Objective	Average delay (beyond due date) in payment of public teacher salaries

C. Selecting Key Program Performance Indicators

108. **Outcome and output indicators are the most useful ones for the program budget**. For the purposes of program-based budgeting, the indicators which are of most value are those which are most useful to budget decision-makers in determining appropriate program funding levels. This means indicators of the results achieved by

programs – the outcomes that they achieve and the outputs which they deliver to achieve these outcomes. These are the types of indicators which are also of greatest interest to the general public – because they provide information on the level of service being provided to the public, and the effectiveness and efficiency of these services.

109. **Wherever applicable, information about output and outcome indicators should be collected and analysed separately for women and men**. In some cases it may also be useful to measure if the gender gap in a specific area has been reduced or increased and, therefore, to define gender equity indicators. Examples for gender equity indicators are, for instance, the Millennium Development Goals (MDG) 3-related indicators (ratio of girls to boys in primary, secondary and tertiary education; ratio of literate females to males of 15 to 24 years-olds; share of women in wage employment in the non-agricultural sector; proportion of seats held by women in national parliaments).

110. **Activity and input indicators are mainly for internal use rather than for the program budget**. Because key program performance indicators are intended to aid budget decisions, the indicators developed by ministries for the program-based budgeting will be different from indicators used for other purposes. In particular, indicators of internal processes, capacities and resources of the ministry – that is, activity and input indicators – are in general only useful for internal ministry management.

Figure 5: Indicators Which Should Not Be In the Program Budget

The following are examples taken from various international country experiences, which represent indicators that are appropriate for internal management use, but should be excluded for use as an indicator for programs.

- Number of management training programs mounted by 30-06-10;
- Number of feasibility studies prepared;
- Increased salary for Job Groups "C-L;
- Number of policies reviewed;
- Number of consultation meetings held; and,
- Number of internal positions filled.

111. **The objective of the program-based budget is to focus attention on the outputs and outcomes which the budget delivers to the community**, **not on internal activities which may or may not result in benefits to the community.**

D. Limiting the Number of Indicators

112. **Many programs can and should develop more than five key indicators.** Five is a strict minimum, and many programs may develop, say, six or even, in a few cases, up to

ten or so key performance indicators. However, there should never be dozens of key program performance indicators. To be useful to budget decision-makers, who invariably have great demands on their limited time, it is also important to restrict the number of performance indicators to a limited number of key ones, and to avoid presenting dozens of indicators. The fact that only a handful of key indicators are used for program-based budgeting purposes does not mean that these are the only performance indicators which ministries will develop. But it means that the larger set of indicators will be more for internal use than for inclusion in the program-based budget documents.

E. Developing Outcome Indicators

113. **The development of more outcome indicators should be a key focus of performance indicators development by ministries in the coming years**. In general, there are far too few such indicators available at the present time. In education, for example, the most important indicators to develop are indicators of literacy and numeracy of female and male students at key stages in their school careers.

114. **For a small minority of programs, the development of outcome indicators will not be possible.** Thus, it is usually not possible to measure – even approximately – the outcome of a defence program since countries are only rarely at war and the level of national security in peacetime is not measurable. The outcomes of a foreign diplomacy program are also impossible to measure. However, these are the exception, and for this type of program there is no choice but to rely entirely upon output measures. It is expected that most programs will, over time, develop outcome measures.

F. Output Quantity Indicators

115. Output quantity indicators measure the volume of service provided. Examples of output quantity indicators are:

- Number of vaccinations carried out (by sex);
- Number of malaria prone districts sprayed;
- Number of female and male students taught at seventh grade; and,
- Number of planning applications determined.

116. All programs should develop output quantity indicators, and programs which deliver a range of different services should in general have a number of output quantity measures.

G. Output Quality Indicators

117. **The two types of quality indicators which are most readily able to be developed are timeliness indicators and client satisfaction indicators**. A timeliness indicator is an indicator of how rapidly an output is provided, such as:

- Average waiting time of a hospital patient between arrival and treatment;
- Average time for a planning application to be determined; and,
- Average response time of the fire brigade to a fire.

118. Client satisfaction measures can be of various types, from simple measures of the level of satisfaction felt by the client, to more targeted measures such as:

- Client ratings of the courtesy of the service provider; and,
- The rate at which clients obtained the service which they were seeking.

119. Women and men may have different perceptions and priorities regarding public services. In order to ensure that public service provision benefits both women and men it is, thus, important to collect and analyse satisfaction data separately for women and men.

H. Output Efficiency Indicators

120. **Unit output cost is the best efficiency measure for most programs**. Efficiency, as outlined in section II, relates to the cost of delivering outputs. So *unit output cost* – approximately speaking, average cost per unit of output – will for many programs be the best efficiency indicator. Expressed differently, unit output cost measures are measures which divided the total cost of delivering an output by output quantity. Examples of unit cost measures are:

- Cost per vaccination (including delivery);
- Cost per planning application determined; and,
- Cost per visa application processed.

121. **However, there are some programs for which unit cost may not be a useful measure of efficiency**. An example is a criminal policing program. The outputs of such a program are crimes investigated, and the appropriate output quantity measures would be, for example, number of burglaries investigated, number of murders investigated, etc. It would, however, not be very useful to develop an indicator of the unit cost of murder investigations, because the circumstances of murders vary greatly and with them the cost of the murder investigation. So if, say, the average cost of murder investigations fell by 10 per cent this year, it would be foolish to assume that this was because of increased efficiency. As such, activity cost measures can sometimes be a useful substitute for unit output cost measures.

I. Performance Indicator Plan

122. **Ministries which are not yet able to offer a full suite of key program performance indicators will be asked to present their plans for doing so.** If ministries

are not able at present to put in place the minimum of five key performance indicators, they will be required to indicate what indicators they propose to develop in the future to achieve this. If they believe that it is not possible to develop indicators in certain categories, they will be asked to explain why. This information will be provided in the form of a “performance indicator development plan” (see below) for each program, which will be reviewed by Treasury and, where appropriate, discussed with the ministry.

Figure 6: Program Performance Indicator Plan

Program Performance Indicator Plan
Ministry or Agency: ……………………..
Program Title: ……………………..

Category of Indicator	Indicators currently in place	Indicators to be developed in future	Date when indicator to be introduced	If type of indicator cannot be practically developed, please explain why	Detail of definition of indicator
Outcome	• [indicator 1] • [indicator 2, if more than one, etc.…]				
Output quantity					
Quality					
Efficiency					
Gender equity (where relevant)					

J. Program Performance Targets

123. **A performance target is a quantitative goal with a timeline (usually explicit, but sometimes implicit) for achievement**. Targets may be set for outcomes, output (quantity, quality, efficiency and/or equity), or even for activities or inputs.

124. **Performance targets should not be confused with program performance indicators**. Targets are always based on specific performance indicators, which provide the yardstick for measuring target accomplishment. But indicators do not include quantitative objectives, nor are they "time bound". The percentage of HIV/AIDS infected women and men in the population are a performance indicator. Cutting the rate of HIV/AIDS infection by 10 % over 5 years for men and by 20% over 5 years for women is a performance target.

Figure 7: Performance Target Examples

- Increase adult literacy from 82.8% to 95% for women and from 90.3% to 95% for men by 2015 (outcome target),
- Vaccinate the whole population against polio by 2012 (output target),
- Ensure that all monthly accounting reports are completed within 15 days of the end of the financial year (activity target, with implicit timeline "immediately/this year"), and,
- Fill all vacant agricultural extension officer positions with suitably qualified persons during this financial year and ensure that at least 30% of agricultural extension officers are women (input target).

125. **Program performance targets should, like indicators, refer mainly to outputs and outcomes, and usually not to support activities or inputs**. Thus, for a primary school education program, targets for improvements in literacy levels (an outcome target) or for the increase in the female school attendance rate (an output target) are more useful than, say, targets relating to textbook distribution (an input target), the filling of vacant principal positions (input target) or the volume of "in-service" teacher training. The latter types of targets may be set by the education ministry for internal management purposes, but are not the types of targets which are of greatest interest to the political leadership and the public, and are therefore not appropriate for inclusion in the program-based budget documentation associated with the budget.

126. **Performance targets should only be set for performance indicators which are reliable and in relation to which there is several years of data which give a reliable measure of "baseline" performance.** Performance targets demand improvement in performance relative to initial ("baseline") measured performance. It is dangerous to set targets if one is not confident of the reliability of the baseline measure, because the measurement and data processing methods have not been verified and the data might turn out to be unreliable. For example, this would be the case if the sample size upon which

the indicator depended turned out to be too small to have statistical validity. Moreover, measured performance of indicators sometimes fluctuates significantly between years, making it unsafe to set a target relative to any specific year's performance. It is therefore important not to rush to set performance targets in relation to every new performance indicator when it starts to be reported. Better to wait several years until the quality of the indicator can be assessed and several years' data are obtained.

127. **Program performance targets should not be set for variable which are in large measure outside the control of government because of the impact of "external factors".** For example, it would be inappropriate to set a target of "increase the weighted average of the prices received of Iraq's top three agricultural exports by 5 per cent by the end of the decade", given that prices are largely set by supply and demand factors in global markets which are beyond Iraq's control.

128. **Care should be exercised in setting targets which can be met in ways which would reduce rather than improve performance.** This refers to the danger of what are known as "perverse effects" of targets. There are some indicators which are very useful but in relation to which it may be dangerous to set targets. Unit cost is a good example. Unit cost (i.e. the average cost per unit of output) may be reduced by improvements in efficiency, and it is this which makes it a potentially valuable performance indicator. However, unit cost may also be reduced by cutting service quality. Moreover, if quality is difficult to measure, it may not be easy to see whether a specific reduction in unit costs is due to improved efficiency or reduced quality. This means that for services where quality is difficult to measure or to safeguard, it may not be a good idea to set targets for the reduction of unit costs.

129. **Ministries are not expected to set targets for all of their key program performance indicators.** As indicated in the previous paragraphs, there are some program performance indicators for which targets should never be set. Others may be too new for it to be appropriate yet to set performance indicators.

130. **Targets should be neither too easy to achieve, nor too difficult.** Setting easy targets serves no purpose. Setting targets which are impossible to achieve may actually demoralize service delivery staff rather than encourage them to improve performance: if they believe that, whatever they do, they will fail to meet the target; they may make no attempt to improve performance.

K. Program Performance Information Reports

131. **The program budget estimates to be presented to Parliament will contain, in addition to the financial information discussed in Section 8, key performance information about the programs of each ministry.** Concretely, they will include:

- **The program objective:** the overarching objective which all of the services provided under the program have in common,

- **Key program outputs:** up to three of the key services provided under the program. The purpose of this is to give readers a clear idea of what the program does,

- **Key program performance indicators:** a minimum of five performance indicators, focused on program results rather than internal activities and inputs. Ideally, these should include effectiveness, quality efficiency and equality indicators, although it is recognized that this will not be immediately possible for many programs.

- **Program performance targets**: this will identify targets which may have been set for certain of the key program performance indicators. Note that there is no expectation that targets will be set for all indicators. The program performance information will follow the format of the following table. An example of how this table, when filled in for a hypothetical program, is attached.

Figure 8: Program Performance Information Template

Program Title: ……………………

Program Objective: …………………

Main Program Outputs	Key Performance Indicators	Performance Targets (for the female and male targeted group, where applicable)

Program Title: Primary Education

Program Objective: Educated and competent young Iraqis' who are equipped for further education or to more effectively play their role in society and the economy.

Main Program Outputs	Key Performance Indicators	Performance Targets
Education of primary school aged children	Percentage of girls and boys who are literate at conclusion of primary school (*effectiveness indicator)*	Increase literacy rate by x per cent for boys and by x per cent for girls over next 5 years
	Average level of numeracy at conclusion of primary school *(effectiveness indicator)*	Increase average measured numeracy rate by 5 per cent over next 5 years.
	Percentage of primary school age girls and boys attending school *(output quantity indicator)*	Increase attendance rate from 75 per cent to 80 per cent within next two years.

Main Program Outputs	Key Performance Indicators	Performance Targets
	Female attendance rate as proportion of male attendance rate *(output quantity rate equity indicator)*	Increase the female attendance rate to at least 80 per cent of the male rate within the next 10 years.
	Teacher absentee rate *(quality indicator)*	[No target set, as setting a target of, say, reducing unjustified absenteeism by half might suggest that the remaining level of absenteeism was somehow acceptable]
	Cost per child *(efficiency indicator)*	[No target set, as setting target might encouraging cost-cutting at expense of quality]

VI. MONITORING AND EVALUATION

This chapter on program-based budgeting aims at assisting the readers…

- To understand basic monitoring and evaluation procedures.
- To understand that performance indicators are not sufficient to assess program performance, and need to be accompanied by evaluation.
- To understand why it is necessary to also evaluate gender equality impacts.

By the end of this chapter, you should be able to…

- Determine when it might be needed to supplement indicators with evaluations. Prepare a basic program evaluation report and related evaluation questions.

A. Introduction

132. **Performance-based budgeting is quite often represented as being only about the use of performance indicators in the budget. This overlooks the crucially important role of monitoring and evaluation**. Program evaluation is the formal assessment of programs using systematic methodologies, with the intention of forming as objective an assessment as possible. Evaluation is important because performance indicators are frequently insufficient in isolation to permit judgments on program performance. As noted above, some program outcomes cannot be measured, or can be measured only very imperfectly. Many outcome indicators are heavily contaminated by external factors. Evaluation is very important as a means of making judgments about the likely impact of external factors, and also as a means of making the best possible judgment about effectiveness in the absence of outcome measures. This section provides guidelines for the monitoring and evaluation of Ministerial programs.

B. Rapid Evaluations

133. **A well-developed program-based budgeting system requires the conduct of selected program evaluations specifically intended to inform the budget process – that is, to give budget decision-makers better information upon which to base budget decisions**. Such evaluations will differ in important ways from evaluations conducted for other purposes, such as internal management improvement within ministries. In particular, budget-linked evaluation needs to:

- Be focused on outcome evaluation, with process evaluation only relevant to the limited degree that it can guide budget decision-makers on whether it is worth postponing cuts to an ineffective program to give the agency a chance to make design or management improvements,

- Deliver its findings quickly and at the right time to be taken into account in budgetary decisions.

134. **Evaluations can be conducted in great depth, if desired, making extensive use of surveys, interview and other data gathering techniques**. However, in-depth evaluations tend to take considerable time, and therefore are as a rule not well geared to serving the needs of budget decision-makers.

135. **Rapid evaluations are as a rule much more useful for budgetary purposes**. This system will essentially involve the selection each year of a small number of major expenditure programs (no more than ten) for rapid evaluation and the provision to Treasury and ministers of a timely report advising on whether the program concerned should be eliminated or scaled down in the coming budget. Rapid evaluations focus primarily on:

- **Evaluation of program logic**. This considers whether it makes sense to believe that the program intervention is likely to achieve the intended program outcome. To evaluate program logic, the first step is to be clear on exactly how the program is supposed to achieve the outcome. Expressed in terms of the “results chain” (a.k.a. program logic), the key questions are: What intermediate outcome is the program expected to deliver? How is it that those intermediate outcomes are expected to generate, or contribute to, higher-level outcomes? Once the program logic is clarified, the next step is to ask whether it is reasonable to assume that the program will achieve its intended outcomes. For example, given what we know about relevant economic theory, is it reasonable to assume that a specific industry policy will deliver its intended outcomes?

- **Analysis and interpretation of available performance indicators.** The extent to which this can be done will depend critically on the availability of good indicators, which can be a particular problem in low income countries.

136. Most program budget evaluations can initially be limited to simple reviews which consider the following questions:

1. Are the outcomes of a program and the priority objectives of a subprogram a priority with the Government?

2. Is the program designed in such a manner that it can be expected to achieve its intended outcome(s)? And,

3. What do the available performance indicators indicate about the efficiency, effectiveness of the programs? Have the goals and objectives been achieved?

C. Evaluation versus Monitoring[3]

137. **Evaluations of programs (and sub-programs) rely on data generated through monitoring activities as well as from other external sources.** Table 4 below presents key features of the monitoring and evaluation process.

Table 4: Monitoring versus Evaluation Process Features

Item	Monitoring	Evaluation
Objective	Track changes from baseline conditions to desired outcome(s) and identify impediments.	Analyse what results are achieved; how and why they were or were not achieved?
Focus	Measuring progress on the outputs of programs/subprograms and projects and their contribution to outcomes.	Compares planned with intended outcome of achievements. Focuses on questions of relevance, effectiveness, sustainability, and impact, including impact on gender relations.
Methodology	Tracks and assesses performance progress towards outcome through comparison of the size and significance of indicators over time.	Evaluates achievement of outcome; role of concerned ministry by comparing indicators before and after intervention. Relies on monitoring data and on information from external sources.
Conduct	Observes whether there is continuous and systematic flow by program managers and concerned ministries.	Determine whether it is time-bound, periodic and in-depth.
Use	Alerts program managers to problems in progress and delivery of outputs and provides insight into possible corrective actions.	Provides program managers with strategy and policy options. Provides basis for learning and demonstrates accountability.

Source: Manual for Program Based Budgeting (PBB), Various.

D. Preparing for Evaluation

138. **The scope of a program-based budget evaluation will be more substantial** in most cases than that of an investment project evaluation which should be self-defined within the project appraisal and review documentation. The program manager should participate in defining the scope of the evaluation together with a representative from the Ministry of Finance (Budget Department). At a minimum, the scope of an evaluation should incorporate the following categories:

1. **Outcome Status:** Have the outcome(s) been achieved? And, if not what is the progress towards achieving the outcomes?

2. **Underlying Factors:** This part of the evaluation should include an analysis of the underlying factors that have influenced the outcome(s).

[3] The following three sections utilize procedures from Republic of Mauritius "Manual for Program Based Budget (PBB)" Pages 31-33.

3. **Other Interventions by the Ministry:** This part of the evaluation should review whether or not outputs and other interventions of the concerned Ministry can be linked towards the achievement of the outcome.

4. **Impact on gender relations:** The evaluation should, wherever possible, analyse what kind of impacts (intended and unintended) the program had on gender relations.

5. **The program (sub-program) selected** along with the timing, purpose, duration and scope of the evaluation will dictate much of the substance of the evaluation procedure.

Table 5: Evaluation Criteria

Category	Evaluation Criteria
Evidence of Change	▪ Degree of Change
Review of Factors Influencing the Implementation of the Program	▪ Relevance ▪ Effectiveness
Concerned Ministry's Contribution to the Program	▪ Relevance ▪ Effectiveness ▪ Efficiency ▪ Equity ▪ Degree of Change ▪ Sustainability
Partnership Involved in the Program	▪ Relevance ▪ Effectiveness ▪ Efficiency ▪ Equity ▪ Degree of Change
Rating	▪ Efficiency ▪ Equity ▪ Degree of Change ▪ Sustainability ▪ Relevance
Improving the Approach	▪ Relevance ▪ Effectiveness ▪ Equity ▪ Sustainability

Source: Manual for Program Based Budgeting (PBB), Various

E. Collecting and Analysing Data

139. **Primary data collection and analysis of program evaluation is the responsibility of the concerned department or budget agency.** Both qualitative and quantitative analysis procedures can be used in the program evaluation process. Preparing for an evaluation generally requires a combination of both types of methods:

1. **Qualitative Methods** can be used to inform the questions posed by evaluators through interviews and surveys.

2. **Quantitative analysis** can be used to inform the qualitative data collection strategies by applying statistical analysis.

140. **Whatever data collection method is applied, evaluators should ensure that women and men alike are interviewed which often necessitates that female and male interviewers are involved if an evaluator cannot interview someone of the opposite sex due to cultural reasons.** All data should be collected and analysed separately for women and men wherever applicable. Sometimes, it may also be necessary to collect gender-specific data (data related to topics that are relevant either only for women or only for men, such as the incidence of breast cancer or prostate cancer, the incidence of violence against women etc.) and time use data.

Table 6: Data Requirements for Monitoring and Evaluation

Item	Quantitative Approach	Qualitative Approach
Objective	To assess causality and reach conclusions that can be generalized.	To understand processes, behaviours and conditions as perceived by the groups or individuals being studied.
Use	To measure: How much? How many? How often?	To analyse how and why?
Data Collection Instrument	▪ Standardized interviews; ▪ Formal questionnaires; and ▪ Surveys.	▪ In depth interviews; ▪ Direct observation; ▪ Focus group discussion; and, ▪ Written documents.
Sampling	Probability sampling (random sampling)	Representative population sampling.
Methodology of Analysis	Statistical and Financial Analysis	Perception, validation and documentation.

Source: Manual for Program Based Budgeting (PBB), Various.

F. Evaluation Reporting

141. **A sample outline for an Evaluation Report is provided in Annexure C.** The evaluation group's team leader is expected to submit the evaluation report to the appropriate department in the line ministry with a copy submitted to the Ministry of Finance's Budget Department.

142. **The evaluation process does not end with submission and acceptance of the evaluation report.** The findings, conclusions, recommendations and lessons learned need to be fed into the forward planning cycle and acted upon.

VII. BUDGET CALENDAR

This chapter on budget calendar aims …

- To put program-based budgeting and costing in the context of the broader budget calendar.

By the end of this chapter, you should be able …

- To have an understanding of the entire budget cycle.
- To understand when budget submissions, monitoring and evaluation, and other submissions are due.

A. Introduction

143. This section attempts to put program-based budgeting and costing in the context of the broader budget calendar.

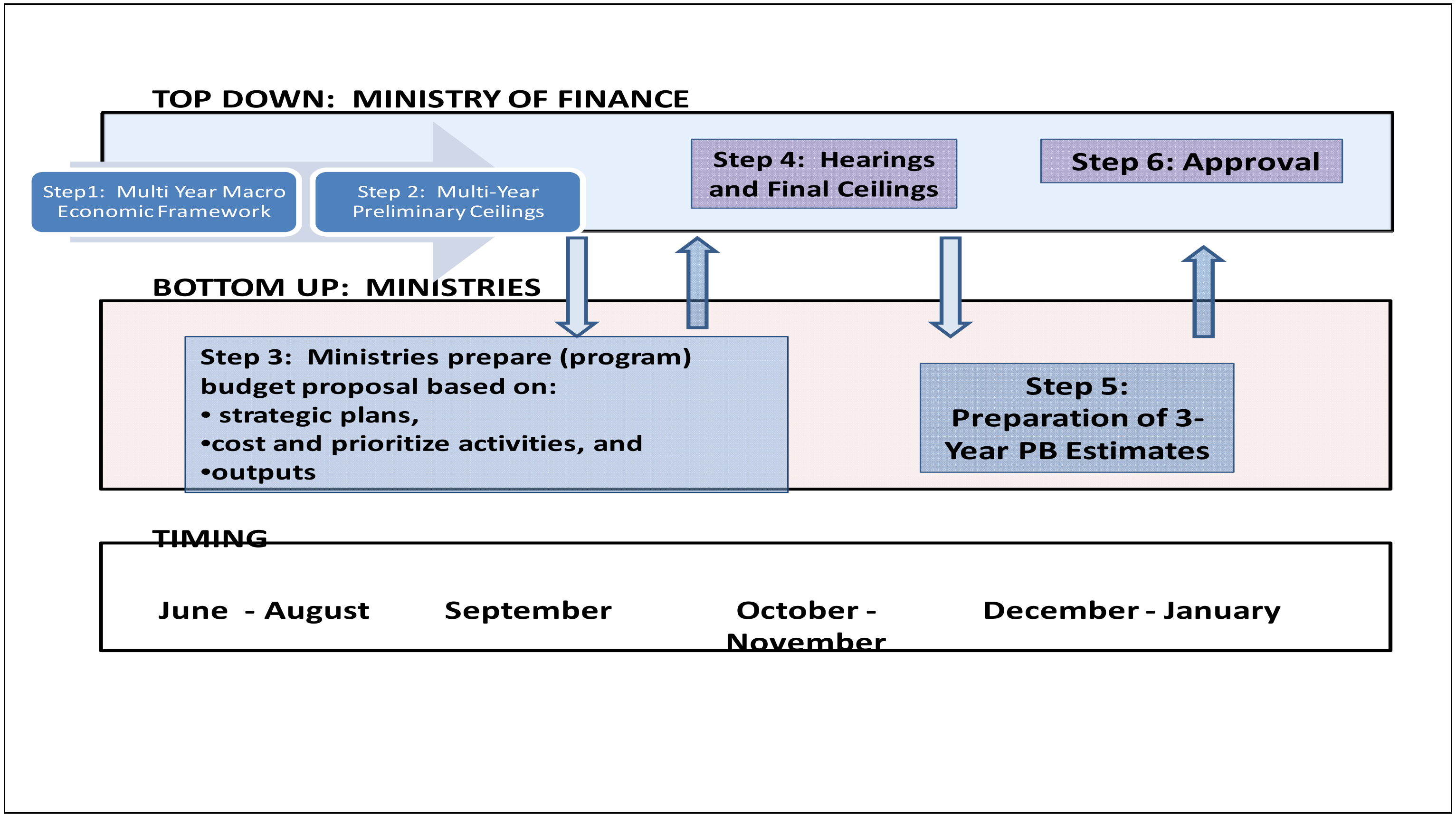
B. Top-down and Bottom-Up Budgeting Approach

144. **There are two basic phases in the budget preparation cycle**. Under the Top down approach derived through preparation of the Preliminary Printed Estimates or Medium Term Budget Framework (MTBF) – (see Figure 14, below). The aim is to:

- Calculate available funds in the next and following two years (domestic and donor funded);
- Select most important priorities of the national strategy that can be financed from the available funds; and,
- Establish budget ceilings.

145. **The MoF collects needed information from line ministries: asking for the most important priorities, how they link with the national development strategy and what is the estimated cost of implementing Ministerial priorities.** To provide this information, ministries need to prioritize their budgeted activities.

Figure 9: Proposed Iraq Budget Process



146. **The second part of the budget preparation cycle is the bottom-up preparation of the detailed National Budget**. Based on the information from MTBF, the MoF may issue second circular, requesting ministries to prepare detailed budget calculations for selected priorities and within given ceilings. For these submissions line ministries will have to prepare detailed budget calculations. Upon receipt of detailed budget submissions, the Budget Department will analyse these submissions and discuss them during the Budget Hearings. Based on the outcomes of Budget Hearings, a Draft National Budget will be compiled for Cabinet's review and consequent Parliament approval.

C. Budget Calendar

147. **The preparation and dissemination of the annual budget calendar, timelines, tasks and processes involved in budget preparation is an essential first step of an effective and successful budget process.** A comprehensive calendar ranging from the setting fiscal policy, budget preparation, budget execution and treasury management, and accounting and auditing is presented in Table 7, below. The proposed calendar envisages the adoption of the budget before the start of the fiscal year and the closure of audit review process before the next year's budget is adopted.

Table 7: Integrated Budget Calendar

Month	Macro Framework & Budget Preparation	Budget Exec. & Treasury	Accounting, Audit, & Oversight	Notes
Jan		Cash & Work Plans	Year End Circular	Work, procurement, and cash plans before start of FY
Feb		1st Qtr Budget Release 4th Qtr Exec Report	Controller Budget Report	Procurement starts based on approved FY Budget Controller Budget reports on last 4 months of FY-1
Mar	Annual Budget Reviews			1½ months to prepare Annual Reports
April	MTBF/PB Guidelines issued		Annual Reports to Auditor General	Guidelines enhanced for program budgeting (all levels)
May	Update Strategic Plans Economic and Fiscal Update	2nd Qtr Budget Release 1st Qtr Exec Report	Consolidated Accounts to Auditor General	Accountant General to consolidate account
June	Inputs to Fiscal Strategy including MTBF		Controller Budget Report	Coordination with line ministries and national policy
July	Sector Hearings		Audited Accounts	Audits of all entities as per Constitution
Aug	MTBF Projections (Program level) finalized & included in Budget Policy Statement (BPS)	3rd Qtr Budget Release 2nd Qtr Exec Report	Parliament approves audited accounts	Parliamentary approval of audited accounts Cabinet to adopt BPS end January
Sept	Budget Policy Statement to Parliament		Budget Performance Report on 1st Half of FY	Supplementary budget (if required), Parliament debates and adopts BPS for FY+1
Oct	Budget ceilings & circulars issued		Controller Budget Report Legislatures review of audited accounts	Firm ceilings for *all* budgets
Nov	Estimates to Parliament	4th Qtr Budget Release 3rd Qtr Exec Report		Estimates to Cabinet 1st half Apr, to Parliament 2nd half
Dec			Treasury Memo	Follow-up can be included in FY+1 budget execution
Jan	Adoption of Budgets			

VIII. MEDIUM-TERM BUDGET PREPARATION

This chapter on budget preparation under program-based budgeting aims at assisting the readers to:

- Understand the medium term budget formulation process. And,
- Understand the information that line ministries are expected to provide to MoF during the medium term budget process.

By the end of this chapter, you should be able to:

- Understand the linkage between Medium Term Budget Framework (MTBF) and program budgets.

A. Introduction[4]

148. **Program-based budgeting is not a new budgeting process to replace the MTBF rather it builds on the MTBF by incorporating performance measure into the budget.** While the MTBF has been more concerned with costing inputs for the entire government budgeting system, PBB introduces performance such that one does not only concern oneself with the inputs but also with the outputs of the budgets and more so with the budget outcomes. Thus program-based budgeting reinforces budgeting as a policy tool of achieving a given set of government objectives in a specified period. This section focuses on the relationship of program-based budgeting to the medium term expenditure framework.

B. Link between Program-Based Budgeting and the Medium Term Budget Framework

149. **Program-based budgeting under the MTBF will address the weakness inherent in the MTEF which includes among others:**

- MTBF focuses on expenditure at the item level and therefore is more concerned with inputs without giving much attention to the outputs and outcomes of the expenditure;
- Lack of transparency in the relationship between resources consumed and results achieved by the respective agencies;
- Limited opportunity for systematic assessment of the efficiency and effectiveness of spending, or for relating allocations directly to policy;

[4] For a detailed description of proposed MTEF process in Iraq, please see ***MTBF Manual (Iraq Budget Process).***

- The budgets reveals little about the purpose of expenditure, and, only allow analysis of inputs employed and budget aggregates, but not resulting outputs and outcomes; and,

- Expenditure may not be related to organizational mandates/ objectives and may easily lead to duplication of efforts by various agencies.

150. **Budget preparation under program budgeting is closely linked with the Medium-Term Budget Framework (MTBF) in Iraq.** Concretely, the links are the following:

- The MTBF aims to provide a clear medium-term fiscal policy framework – in particular, concrete objectives in respect to the budget balance and debt – which provide the overarching context of budget preparation. This component of the MTBF is referred to as the Medium-Term Fiscal Framework (MTFF).

- Under an MTBF, program expenditure estimates must be prepared for the medium term, and not just for the coming budget year.

- The estimation of the budget baseline is a key tool for improving the quality of the medium-term expenditure forecasts which are integral to the MTBF.

151. **Thus program-based budgeting instils real performance related transparency into the budget by clearly linking day-to-day program activities with the long-term goals of the agency through**:

- Identifying the operational aims of each program and activity for the budget year;

- Budgeting and accounting so that the separate costs and revenues of each program are shown;

- Measuring the outputs and performance of activities so that these can be related to activities' costs and to mandate/strategic objectives of the agency;

- Using the relevant data to establish standards and norms so that costs and performance can be evaluated and Government resources can be used more efficiently; and,

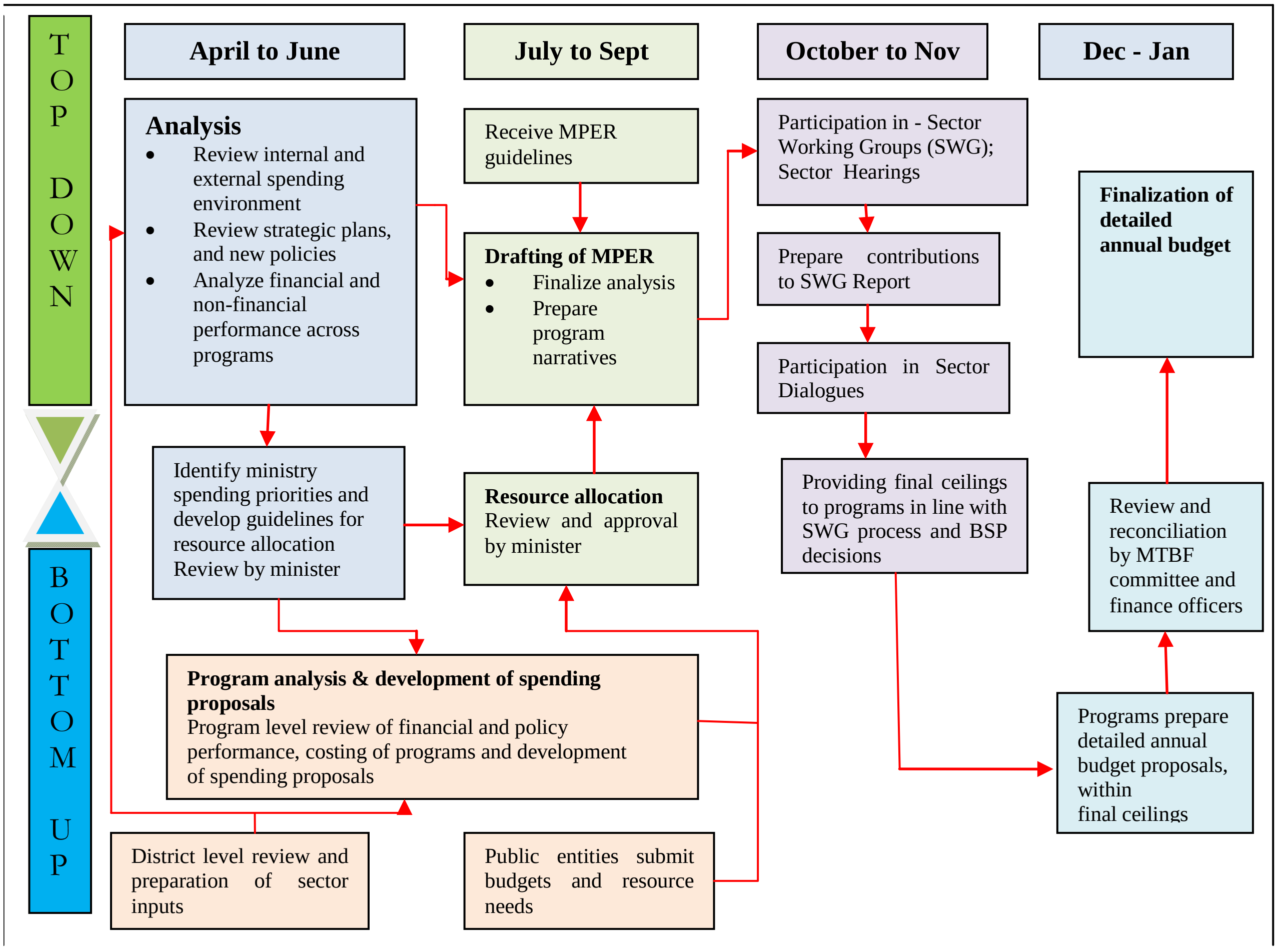
- Long term programs/projects just like before will be costed for the medium term with clear targets, outputs and outcomes over the three year period clearly and one can trace the outcomes over the MTBF period.

C. Multi-Stage MTBF Process

152. **The preparation of budget estimates under MTBF involves matching Ministries/Departments/Agencies with total resources based on overall spending priorities.** The MTBF process involves the preparation by Ministries of strategic plans in line with the government's current priorities. On the basis of the strategic plans,

Ministries must produce an integrated budget that reflects the cost of policies. The MTBF multi-step budget process is indicated in Figure 15, below.

Figure 10: MTBF Budget Process



Source: MTBF Manual (Iraq Budget Process)

153. **The capacity of the Government to raise revenue to pay for the delivery of goods and services to Iraqis depends on the overall level of economic activity.** While external grants can supplement domestic revenue over the short term, it is not sustainable. The only sustainable source to fund Government's activities to develop Iraq is the economy itself. It follows that the starting point for preparation of the MTBF is an analysis of the underlying prospects for the economy and of Government's macro-level economic and fiscal policies and strategies.

1. Macro-Economic Forecast

154. **Preparing an MTBF fiscal framework requires a focus on projecting those macroeconomic aggregates that have the greatest influence on the fiscal framework**. Of these, GDP and the inflation rate are the most important in driving the growth of both

revenues and expenditures. The exchange rate is similarly important, because of its impact on external financing of and external payments from the budget. Changes in the balance of trade can similarly affect revenues on external trade related taxes. The implications, for public revenues and expenditure, of major government policy initiatives, such as the poverty reduction strategy, privatization, public sector reform, and financial sector reform should also be outlined.

2. Revenue Projections

155. **Public revenues comprise tax revenues, non-tax revenues (including income of budgetary institutions and external grants), and social fund contributions accruing to both central and local governments**. The projection of revenues over the medium-term needs to be informed by:

- An understanding of recent domestic revenue trends and the factors underlying them;
- An understanding of development partner grant financing commitments, including an analysis of risks associated with their reliability;
- An assessment of the "tax burden" and the scope for and desirability of further increases in the share of GDP taken as public revenues;
- An assessment of agreed or planned tax policy changes and their expected impact on revenues; and,
- An assessment of the scope for improvements in revenue administration.

156. **Based on this analysis, an initial projection should be made of revenue as a share of GDP for each of the main revenue sources.** Since the revenue projections will reflect the implementation of planned tax policy measures and changes in tax administration, it is important to spell out what these measures are and the necessary actions to be taken to ensure their timely implementation. The projections should also take account of the impact of changes in major government spending aggregates, such as the size of the Government's wage bill, where these are likely to have a significant impact on levels of revenue collection.

3. Financing of the Budget Deficit

157. **The size of the budget deficit is the other factor that determines the overall level of resources available to finance public expenditure.** In an economy like Iraq, the budget deficit is affected by two factors – the level of foreign concessional financing available to the Government and the level of domestic and external financing deemed appropriate for fiscal stability. The budget deficit, excluding public investment financed by external grants and credits, is normally an explicit macroeconomic policy objective of the Government.

158. **MTBF documentation should review progress against the agreed deficit targets and provide projections for the main sources of financing of the deficit over the medium-term**. This should include an assessment of the external financing, both credit and grant, that is expected to be available to finance public investment. It should also highlight specific factors that are likely to affect the level of the deficit (e.g. an upsurge in debt servicing costs or macro-economic risk), the way in which the deficit is to be financed (e.g. the use of privatization revenues as a source of domestic financing), and the costs of financing.

159. **This is presented in the Budget Outlook paper in which various targets on taxation, expenditures and the sector ceilings are provided and presented before the cabinet for approval.** These targets are finally firmed up and sub sector ceiling set down in the Budget Strategy Paper.

D. Medium Term Expenditure Framework: The Process[5]

160. **The MTBF process consists of two sub–processes: the first is the preparation of an economic and fiscal update referred to as Macro Economic Framework and the second is the setting of sector and ministry level ceilings**. In establishing the macro economic framework the following factors are taken into consideration.

1. **The projection of economic growth targets in the medium term**. Providing the economic and fiscal outlook is a challenging task. This process entails an update of all expected imports and Exports, projections of investments and consumption. In working out the growth targets, consideration is made of the government's long term policy concerning wages, investment by government and other long term policies relating to other sectors of the economy. Hence the growth projections are also consistent with planned aggregate spending by Government.

2. **Once the growth targets are identified then the Ministry of Finance is able to project the revenue targets that are consistent with the growth targets**. The share of the various targets of revenues is also guided by the projections of the growth of various sectors, for example the expected realization of import taxes is guided by the assumptions in the growth of imports in the macroeconomic model. The prevailing government policies on other issues are also taken into consideration in projecting the revenues from domestic sources.

3. **The other variable is the assumptions on private sector credit. Depending on the assumptions made on contributions by private sector to domestic investment and growth targets, the level of change in private sector credit is determined**. The trade-offs made while deciding on this variable includes the level of government credit that will be targeted.

[5]This section is derived almost in entirety from MTEF Manual (Iraq Budget Process)

4. **The Government credit level which is also referred to as domestic borrowing is a variable taken into consideration**. The key guiding principles in deciding or determining the level of domestic borrowing is the government's own policy on public debt.

5. **The other key principle strategy is inflation rate and the rate of interest.** Assumptions are made on the interest rates of government securities as well as setting targets for inflation for the year and the medium term.

161. **The medium term framework also contains the aggregate expenditures levels.** The main categories of public expenditures are recurrent and development. There are two categories of recurrent expenditures; no-discretionary and discretionary expenditures. The *non-discretionary expenditures* are those expenditures that are pre-determined by law. These expenditures which include, other principal repayment of public debt, payment of interest on debt, pensions and consolidated fund services, such as, salaries and wages for constitutional officeholders. These expenditures are also known as *mandatory expenditures.* Since they are pre-determined by law, they are simple to estimate and cannot be part of a trade-off process. They are therefore just deducted from the overall resource envelope as a first charge.

162. **D*iscretionary expenditures* are those expenditures used by various agencies to produce goods and services for the citizenry.** These expenditures are not pre-determined by law but Government policy and resource availability. Most recurrent expenditures are accounted for in the recurrent budget and most capital expenditures are accounted for in the Development budget. A key policy decision is the trade-off between recurrent and development expenditures. The desire for the growth dictate that as much as possible, expenditures be oriented towards pro-growth development programs.

1. Budget Ceilings

163. **Ceilings are determined by the available resources as determined by the Ministry of Finance**. The ceilings for the sectors are determined on the basis of Government Policy and priority attached to each Sector.

The following are the main considerations and steps involved in producing ceilings:

- The national objectives to achieve enhanced economic growth.
- The requirements of core poverty programs;
- Funding on-going programs
- Donor Commitments through project loans and grants.

1. The first step is to review individual Sector Working Group Reports, containing Ministerial budget proposals and arrive at an assessment of resources required by the sector.

2. For the Development Budget, the Ministry of Planning first assesses forward commitments for externally financed projects and programs and for on-going

domestically financed projects. Secondly, it assesses new project proposals against policy priorities together with donor commitments through project loans and grants and the commensurate counterpart funding. The total is put against a sector's account as a floor since this represent ear-marked sector funding on the revenue side.

3. On the recurrent side, the process involves the determination of non-discretionary expenditures and the wage bill for all the Ministries and required operating expenses.

4. The final process is to add up all sectors funding requirements and comparing them with available resources and making trade-offs between sectors in the discretionary, non-core poverty program and non-committee portion of budget proposals.

2. Making Difficult Choices

164. **This section examines the main instruments and institutions in the Iraqi Budget Process that ensure that available resources are reconciled with competing demands**. This section describes a two-phased process which provides forum for trade-offs and ensures that guidelines are followed while making budget decisions for resource allocation.

165. **The MTBF process involves the setting of Sector Ceilings as contained in the Budget Outlook Paper (BOP).** The BOP establishes the resource framework for the three year MTBF period and the national policy priorities. The bottom up process involves the compilation of Ministerial Public Expenditure Reviews (MPERs), prioritization of programs to be funded and finally compilation Sector Budget Proposals (Sector Reports).

166. **The overall objective of PER is to inform the budget process by providing an in-depth analysis of budget performance in the past so as to inform the future budget decisions.** Ideally, this process is supposed to be a critical self-assessment of each ministry on challenges, weaknesses and successes and then use that information to chart the way forward. The two levels of the process have sets of activities that produce outputs required for the decision making. The processes are described in the following sections.

3. Sector Working Group

167. **During the Sector Working Group resource allocation process, the sector Ministries together with representatives from the Ministry of Finance, the Ministry of Planning and National Development and various stakeholders, review the MPERs, program funding proposals, including individual ministerial spending proposals.** Through a series of working sessions the Group rationalizes and prioritises ministerial proposals, ensures that linkages are made between Ministries and submits a

consolidated Sector Budget Proposal to the Treasury. The Sector Working Group Report comprises of a clear statement of sector objectives, sector programs and expected outputs against the proposed expenditure.

4. Sector Hearings

168. **During the Sector Hearings, the draft Sector Working Group Reports are presented to an open meeting of stakeholders. Submissions are heard from participants, which are taken into account in the finalization of the Reports.** These hearings are normally known as public hearings.

169. **Why Should we Involve Stakeholders in Budgeting Process?** There are many good reasons for including the stakeholders in discussions about budgeting. Such involvement can:

- Better inform residents about national/ministerial budgets, including revenues, expenditures and challenges;
- Highlight the trade-offs associated with allocating limited resources;
- Provide important information to policy-makers about the kind of goods and services that communities value;
- Generate support for the budget-related ideas and actions that will effectively address local needs; and
- Support transparency of government decision-making and create a more collaborative and trusted governance over time

5. Finalization of the Budget Policy Statement

170. **The Ministry of Finance then drafts the Budget Policy Statement for submission to Cabinet and finally to Parliament.** This Paper presents the proposed allocations to Ministries linked to an updated macro-fiscal framework and sets out the expected achievements of funding.

IX. PREPARING PROGRAM ESTIMATES

This chapter on preparing program estimates aims at assisting the readers…

- In estimating the current costs of program / sub-program activities (for both recurrent and capital); and,
- Prioritize activities so that total costs remain within the resource ceiling.

By the end of this chapter, you should be able to…

- Prepare a program-based budget.

A. Introduction

171. **This section focuses on the preparation of detailed program-based budgets over a multi-year time frame**. The Ministry of Finance budget staffs coordinates budget activities with members of Ministries/Departments/Agencies. Beyond coordinating, the Budget Department has the duty to actively encourage efficiency in resource allocation and budget allocations, and should also encourage realistic programming and costing of activities. This section provides some basic tools for consideration in developing program-based budgets.

B. Budget Appropriations under Program-Based Budgeting

172. **The overarching context of budget preparation under program-based budgeting is the changed nature of budget appropriations** of which the key elements are:

- Ministries will receive budget appropriations framed in terms of programs.
- Budget appropriations based on organizational units will play a much lesser role. Each core ministry will receive an appropriation, but this will not be broken into multiple appropriations for each of the ministry's internal directorates or other "sub-head" organizational units. Only independent authorities associated with ministries will receive their own specific budget appropriations. Under PBB, ministries and other independent authorities will have greater freedoms in resource reallocation and therefore more powers for internal prioritisation.
- Appropriations by item will also become much less detailed, with a small number of appropriations to broad categories of item (item "control totals") replacing the item-by-item appropriations of the present system.

173. **Although budget appropriations by organizational units will largely disappear and appropriations by items will become less detailed, ministries will still need to plan and prepare their budgets in just as much organizational and sub-item detail**

as under the traditional budgeting system. This is because it is essential that ministries know in advance what funding they plan to allocate to each internal directorate or other relevant organizational unit (“directorates” for short in what follows), and for what types of purchases. This means that when each spending ministry prepares its budget, it will need to prepare simultaneously:

- **A *program-based budget***, showing the breakdown of proposed expenditure between programs and sub-programs, together with a planned breakdown by item of expenditure on each; and,

- **An *organizational budget*** – primarily for internal purposes – showing the planned breakdown of expenditure between sub-heads of relevant organizational unit within the ministry, broken down by sub-items.

C. Organizational Units and Programs

174. **Because spending ministries need for internal purposes to prepare budgets in terms of their directorates, the relationship between these organizational unit budgets and the program-based budget prepared by the ministry needs to be completely clear**. This requires that every sub-item of expenditure by each directorate needs to be mapped to the appropriate sub-program, and vice versa. As explained in the section on Designing Programs, the potential difficulties which can arise in linking program-based and organizational unit budgets are to be avoided in Iraq in the near- and medium-terms by requiring that each directorate or other major internal organizational unit (each “sub-head” in pre-program-based budgeting terminology) be linked to one and only one sub-program.

D. Form of the Budget Submission

175. **Ministry budget submissions will present their proposed budgets in program terms--broken into programs and sub-programs**. Notwithstanding the change in the format of budget appropriations, spending ministries during the transition period will be required to continue to present to Treasury a full breakdown by sub-item and by directorate/sub-head. The purpose of this is to assist Treasury to assess the merits of spending Ministry budget proposals. **Annex A provides the various templates for the financial estimates to be provided by each spending ministry to MOF/MoP during the budget preparation process.**

E. Annual Spending Plan

176. **When completing the annual budget, the government requires much more specific financial and accounting detail.** The increased specificity of annual budget detail requires a “bottom-up” budgeting approach. A Budget Circular presents the mechanism for line ministries to present their budgets using a bottom-up approach. Since the annual budget exercise and subsequent budget execution occurs at the level of major and minor economic classification, annual budget costing is carried at an equal level of detail. Minor object details are rolled-up to the major object level by activity, which in-turn will be rolled-up to subprogram and program level detail.

177. **This is accomplished by inserting the detailed information for each subprogram into the budget submission forms and ensuring there are linkages present to accumulate costs on a program and then ministry basis. The following sections present the basic elements involved in costing ministerial functions under a program-based budget structure.** Recurrent and Capital (development) expenditure at the sub-program level are estimated, line ministries are required to submit a detailed budget proposal utilizing the major/minor object economic categories.

F. Costing of Public Sector Goods

178. **The program-based budget framework consists of strategic plans, annual performance plans, and semi-annual performance reports**. This requires Ministries / Departments to develop and deliver:

- **Multi-year strategic plans** which establish the mission and set of outcomes at the program level and priority objectives at the sub-program level.
- **Annual 3-year fiscal rolling program-based budget** which includes performance measures with target levels for a particular fiscal year, covering all programs and subprograms, and displaying current and future year data.
- **By linking performance results to the budget planning process, Ministries / Departments/agencies can attribute activities by their true costs so that a comprehensive financial picture can be created**. At this point, the financial summary of the budget can be linked to performance goals.
- **Costs are assigned to programs and** subprograms based on the amount of inputs that they use directly**.**

G. Preparing Cost Estimates: Baseline versus New Initiative Expenditure

179. **A key change which will take place in the budget preparation process under program-based budgeting is the separation in spending ministry budget proposals of baseline expenditure and expenditure on proposed new initiatives**. A *budget baseline* is to be calculated for each spending ministry (distinguishing between recurrent and development expenditure) and also for aggregate government expenditure. Under the medium-term expenditure framework, these baselines are calculated not only for the coming financial year, but also for the two subsequent years. The relationship between the baseline and projections for individual programs is discussed below.

180. **The budget baseline is an estimate of the amount of expenditure required in future years to maintain *existing expenditure policy* (including meeting expenditure obligations), whereas new initiatives expenditure refers to expenditure arising from a change in policy**. Existing expenditure policy refers to the government policies and expenditure obligations which deter*mine, other things remainin*g constant, the level of future expenditure.

181. **Expenditure policies may be explicit or implicit. Explicit expenditure policies may relate to inputs, output or transfers. For example:**

- A public undertaking by the government to inoculate all children under 5 against certain diseases is an example of an explicit expenditure policy relating to the *outputs* (services) to be provided to the public.

- A stated government policy of replacing only 1 out of 2 of departing civil servants, in order to slim down the civil service (either in general or in a particular ministry) is an example of an explicit government expenditure policy relating to *inputs*.

- An affirmative action policy of the government that states that 30% of public servants are to be women is an explicit expenditure policy relating to *inputs*.

- A government policy of using subsidies to ensure that the price of flour does not exceed a certain ceiling is an example of an expenditure policy relating to transfers.

182. **Implicit expenditure policies mean government obligations to provide a certain level of service even when no explicit public commitment or legal obligation exists to that effect.** For example, even if there is no law obliging government to make primary school education available to all children, and no public statement from government that it would do so, there still may be a general community expectation that government would provide this service. As this example indicates, an "implicit" expenditure policy means an obligation which government feels to provide a certain level of service even though there is no explicit commitment to do so.

183. **The existence of any such expenditure policies defines – in the absence of policy change – the evolution of expenditure in the area concerned**. Thus in the case of the vaccination commitment, future expenditure will be determined by number of children and unit cost of the vaccines. And in the case of the civil service replacement policy, expenditure will be determined by the cost of continued employment of existing civil servants plus the costs of the (reduced number) of each new civil servant hired to replace two departing bureaucrats.

184. **Existing expenditure policy is considered to include meeting existing obligations**. Obligations include not only contractual commitments, but also other expenditure which is unavoidable or quite difficult to avoid because of legal obligations of a non-contractual type or social expectations which impose heavy political pressure on government to undertake the expenditure concerned. Examples of obligatory expenditure in this wider sense include:

- Legally mandatory social security expenditure.

- Expenditure on continued employment of existing civil servants or other public sector workers who either enjoy legal job security or a de facto expectation of job security.

185. **Expenditure obligations may be overridden by policy**. This would be the case, for example, if – notwithstanding legal guarantees of job security – the government stated publicly its determination to engineer the departure of some portion of the permanent civil service workforce (e.g. by offering voluntary redundancy or by changing the civil service employment law). A more extreme and exceptional example would be a government announcement, under extreme conditions, that it intended to repudiate part of the public debt.

186. **In preparing and presenting baseline expenditure estimates, it is necessary to distinguish the policy-related and obligation-based elements**. The process for calculating ministry budget baselines by category of expenditure is as follows.

H. Development Expenditure Baseline Budget

187. **For the development budget, the baseline includes only development budget projects which have been previously approved by government and for which:**

- Multi-year construction contract already exist, or
- Multi-year funding has been approved by the government, but not yet contractually committed.

188. **The amount of funding for each project which is included in the baseline calculation for any given year must not exceed the projected amounts previously approved by the government for that year (and for outer year projections)**. When the project is initially approved by the government, the approval should cover the total project cost plus a medium-term year-by-year breakdown of project expenditure. If the ministry concerned wishes to increase spending on the project above the level previously included in the year-by-year breakdown, the proposed increase is considered as part of new initiative funding and must be the subject of a submission requesting supplementary project funding.

189. **The baseline estimates for the development budget must be realistic**. This means that, if execution of the project in the coming or subsequent years is now expected to be at a slower pace than previously envisaged, the baseline calculation should reflect this, and provide a realistic estimate of what will be spent. Treasury will review the realism of these estimates. If a given project has been proceeding very slowly in its first year, but the concerned spending ministry nevertheless proposes to base its baseline estimates on the assumption that the delays will cease in the second and subsequent years, it will be necessary to provide Treasury with a convincing explanation as to why the first-year delays were purely temporary and will not be experienced in subsequent years.

I. Recurrent Expenditure Baseline: Personnel Expenditures

190. **The calculation of the budget baseline for recurrent expenditure distinguishes between personnel expenditure and non-personnel recurrent expenditure**. In respect

to personnel expenditure, the process for estimating baseline expenditure involves two steps:

- ***Calculation of obligatory personnel expenditure:*** This means estimating the personnel expenditure which the ministry concerned will be obliged to undertake in respect to previously-hired civil servants and other workers who enjoy job security or contractual employment rights. In brief:
    - These estimates should be based strictly on staff members who have been previously engaged, and not on staff who may be hired in the coming financial year or subsequently.
    - The estimates takes into account expected departures of existing staff, as a result of natural attrition (retirement, deaths or resignation).
    - These estimates also factor in any wage drifts (promotions, any approved general salary increases, and annual growth).
- ***Calculation of personnel expenditure resulting from new hiring:*** This means estimating the additional personnel costs which will arise from the hiring of additional staff in accordance with government policy. Where there is an explicit hiring policy – for example, a stated policy to increase the number of primary school teachers by 5 per cent each year for the next five years – the personnel expenditure estimate should be based upon that. Where no such explicit policy governing future hiring exists, the estimates should be based on the assumption that the workforce of the ministry remains constant: in other words, that the number of new staff hired equals the number of departures (retirements and resignations).

J. Recurrent Expenditure Baseline: Non-Personnel Recurrent Expenditure

191. **Recurrent expenditure on items which are not personnel-related essentially refers to expenditure on goods and services, plus any transfer payments.** In respect to such expenditure, the methodology to be applied is to:

(a) Estimate the costs of any expenditure based on explicit policy commitments or obligations; and;

(b) Estimate any remaining expenditure by means of the application of relevant price indexes.

192. **In the first step, any explicit policy commitments and obligations – such as inoculations commitments mentioned above or a legal obligation to make certain social payments – should be identified and their cost estimated based accordingly**. For example, the government may have committed itself to the delivery of certain numbers of anti-malaria bed nets in each of the next three years. If this is the case, the recurrent baseline needs to include an estimate of the cost of purchasing and delivering these numbers of bed-nets. Similarly, if the government had promised to use subsidies to

ensure that the price of flour does not exceed a certain level, then the cost of those subsidies in the recurrent budget baseline would need to be estimated based on expected supply and demand of grain in the coming year, rather than on the application of price indexes to last year's subsidy expenditure. Such expenditure will for most ministries be a small proportion of non-personnel recurrent expenditure.

193. **In the second step, remaining non-personnel recurrent expenditure will be projected by taking the current year's actual expenditure and applying relevant price indexes provided by MoF**. MoF will provide a general price index to apply to goods and services expenditure as a whole, but may also provide indexes specific to certain items or sub-items (for example, a specific index for fuel costs).

194. **Expiring temporary expenditure must be excluded from the non-personnel recurrent budget baseline.** If, for example, the government approved in a past budget additional recurrent funding for a ministry for a purely temporary purpose, expenditure on that temporary purpose must be excluded from the calculation of the recurrent budget baseline once the period of the temporary expenditure is concluded.

195. **The estimate of baseline non-personnel recurrent expenditure for the coming budget year and future years should also adjust for any new spending initiative introduced part way through the current financial year, as a result of which their full annual cost was not factored into the current year budget.**

K. Baseline Estimates versus Simple Projections

196. **The budget baseline for next year is not in general the same as last year's expenditure, or last year's expenditure adjusted for inflation**. For example:

- The civil service salary bill for next year will depend upon a number of variables including planned recruitment (for previously-approved programs), departures and career progression, and will therefore not necessarily equal last year's salary bill adjusted for any general public sector percentage salary increase.

- Baseline expenditure on capital projects means continuing expenditure on projects and approved and initiated in previous budget years. The capital component of the baseline budget estimates will therefore depend upon the time profile of project execution, and will in general decline significantly over the medium-term as some existing projects are completed.

- If the government decided in a previous budget that a particular program would expand in future years – for example, if it approved a multi-year program for the provision of malaria bed-nets under which the number of bed-net distributed was planned to increase by 30 per cent per year over five years, the increased cost of this program expansion would be calculated as part of the budget baseline.

L. Incorporating New Initiatives

197. **New initiatives are expenditure on development projects or new or expanded services outside the budget baseline**. New initiatives therefore comprise:

- Any new development project not previously approved and programd by government.
- Recurrent expenditure to provide a service which has not previously been provided.
- Recurrent expenditure to expand a service, unless the expansion is pursuant to a previous commitment (in which case it is part of the baseline).

198. **Each proposed new initiative will need to be itemized and justified separately, so as to enable Treasury and the government to assess its impact upon the overall budget of the ministry concerned**. The financial estimates provided by spending ministries to Treasury will include medium-term costs of new initiatives itemized by each initiative. In addition to the financial estimates for new initiatives, information on objectives, "intervention logic" and expected results will need to be provided.

M. Unit Costs as a Program Costing Tool

199. **For some services, a calculation based on unit costs is the best method for estimating the cost of an existing policy commitment or a planned new initiative.** Such a calculation involves multiplying the planned quantity of services to be provided by the unit cost of the service. A unit cost is defined as 'the ratio of inputs required per unit of outputs'. This definition seeks to establish the level of inputs required (e.g. labour, materials, etc.) to produce one unit of output (e.g., 1 km of tarmac road

200. **Unit costs can also be a basis for gauging the efficiency in delivering products or services.** For example, the higher the unit cost, the greater the inputs required to deliver the product and hence the less efficient. Or, if the unit costs for maintaining a road in District "A" are higher than in District "B", then operations in district A may be less efficient.

1. Limitations of Unit Costing

201. **The unit cost methodology is, broadly speaking, only appropriate when the unit cost of the service concerned is constant**. Take the example of a policy commitment to inoculate all children under 5 against certain diseases. If it is known that the cost of purchasing and administering these inoculations is, for example, $20 per child, and this cost does not vary significantly between regions, the total cost of the vaccination program can be most accurately estimated by multiplying $20 by the projected number of children under 5 to be inoculated. The cost of a proposed new initiative may, if the unit cost of the service is constant, be estimated on the same basis.

202. **Unit cost calculations cannot, however, be undertaken for many government services**. This is the case wherever the unit cost is not constant. Other considerations and limitations with respect to unit costs include:

- Identifying and costing inputs can be fairly complex. Costs include direct costs attributable to inputs (e.g. labour, materials, etc.) and indirect costs linked in particular to process overhead costs (e.g. supervision, rent, utilities, etc.). Apportioning indirect costs can be a fairly complex assignment. Using an activity based costing (ABC) technique is a recommended approach.

- Costs are not always linearly related to outputs. There is usually an element of fixed variation of the cost structure. For example, the cost of training a class of twenty is not necessarily half of the cost of training a class of 40 students. Some costs (e.g. teacher's salary, lighting) may remain constant.

- Products, public goods and services or outputs are not always quantifiable. This is usually the case for qualitative outputs, e.g. improvement in the health of the population or satisfaction with a government service.

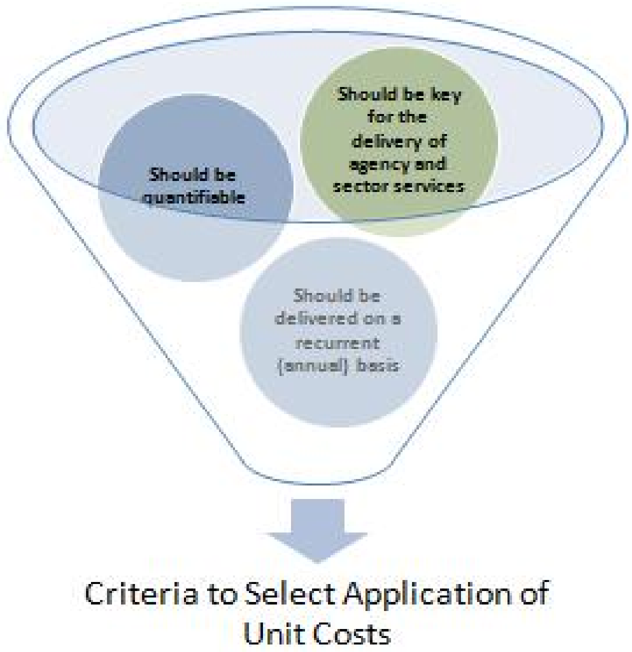
- Some outputs cannot be easily attributed to a single sector. Contribution is from more than one sector or agency. For example, in the provision of sanitation services, contribution comes from education, health and water ministries. When it comes to combating violence against women, contribution comes from education, health, communication, interior and justice.

- Unit costs may not be standardized across the board because of varying conditions. For example, conditions for maintaining 1 KM of road may differ from region to region.

2. Application of Unit Costs

203. **Unit costs can be used in some instances in the process of budget formulation to assist in costing expenditure projections.** This means that unit costs will be required at the time of costing work plans and generating budget estimates. A set of items, based on the Chart of Accounts, for which they may be used, fall largely in the goods and services and assets categories. In view of the complexity in generating unit costs, the criteria presented below may apply.

Figure 17: Application of Unit Costing in the Budget Process



204. **Some examples of outputs in this category include: unit cost of vaccinations, per-student annual costs of school education (differentiated by level of schooling), and unit costs of road construction and maintenance by region**. These are merely examples, and it will be important over time for each ministry to identify the outputs which it delivers to which the unit costing methodology may be applied.

N. Budget Ceilings and Budget Consolidation

205. **Annual budget ceilings put pressure on ministries to prioritize requirements within the ceilings to undertake new activities or provide greater support to effective programs and thus better achieve their objectives**. Hard budget ceilings assist ministries in taking the initiative to:

- Better relate activities to objectives;
- Review activities in terms of providing better value; and,
- Improve effectiveness, efficiency and equity of spending.
- Overall prioritization

206. **Once the budget ceilings have been provided, it will be necessary to reduce or increase the ministerial budget to meet the ceiling**. The difference between the

indicative ceilings for the ministry and the baseline spending is that discretionary funds will be used for new spending proposals.

207. **In general, ministries will not need to reduce the baseline, but only rationalize proposed new priority spending initiatives**. For example, if the total identified expenditure requirements exceed the ceiling, the ministry should prioritize new priority spending initiatives expenditures by either:

- Eliminating the new spending initiatives entirely;
- Deferring new priority spending initiatives; and,
- Scaling back or reducing the scope of these spending priorities

O. Financing of Budget Proposals above Ceiling

208. **Where the expenditure proposals submitted by a Ministry/Department/agency are within its overall ceiling, these will be approved without many adjustments by the Ministry of Finance. However, in certain circumstances,** a Ministry/Department/Agency may request appropriations that would exceed its ceiling. Under such circumstances, the only way to accommodate such requests for additional funding would be through a combination of:

- Efficiency savings;
- User charges and fees levied by the sector under the control of the line Ministry/Department/Agency;
- Increase in general taxes or borrowing; and,
- Borrowing, with negative effects on fiscal sustainability and potentially on macroeconomic stability.

209. **All proposals for the allocation of funds in excess of the expenditure ceiling should, be supported by appropriate justifications**, including how to pay for the proposals in terms of user charges and/or efficiency gains resulting in permanent savings and / or increases in general taxes. Since an increase in general taxes is generally not a viable option or, even under the control of the Ministry, the Ministry in question will need to focus on efficiency savings and other means of financing any spending above the ceiling.

P. Spending Review

210. Program-based budgeting is a tool to help government improve expenditure prioritization and encourage ministries to improve their results. To achieve this, two things will happen:

1. Performance-Oriented Review of Spending Ministry Budget Proposals

211. **When Ministry of Finance receives line ministry expenditure estimates, it will scrutinize these in the light of:**

- The performance indicators and other information provided about the effectiveness and efficiency of expenditure on existing programs, as annexed to the financial estimates; and,

- Information on the objectives, intervention logic and expected results of proposed new initiatives.

2. Selective Spending Review

212. **Consideration will be given to the development of a complementary system of performance-based *program and efficiency and equity spending reviews***. This will have two strands:

- A small number of programs will be selected each year for more in-depth review with a view to advising the government as to whether the programs concerned should be wound back or terminated in order to make way for other priority expenditure.

- Selected efficiency and equity reviews may also be established. Efficiency reviews will not examine specific programs, but rather more general issues of service delivery efficiency relating to many programs. An example of an efficiency review might be "scope for reducing service delivery costs by the establishment of one-stop shops". Equity reviews will examine the impact of service delivery on social relations between women and men in order to ensure that Government is on track to achieve its gender equality related objectives.

213. **The topics for such program and efficiency reviews would be decided by the government at or prior to the commencement of the budget process, and the reviews conducted quickly so as to provide in a timely manner to be used in the budget preparation process**. Further details of spending review mechanisms will be provided as and when these processes are established.

X. CHART OF ACCOUNT AND CODING STRUCTURE

This chapter aims at assisting the readers…

- In understanding the chart of account coding structure specifically as applied to budget preparation and monitoring purposes.
- In appreciating the purposes and scope of individual COA segments

By the end of this chapter, you should be able to…

- Comprehend the benefits of a flexible standardized chart of accounts structure.
- Define combinations of code segments for specific budget presentation, budget monitoring or analytical purposes.

A. Introduction

214. **A Chart of Accounts (COA)[6] can be described as a framework for budgeting, reporting and recording all the financial transactions in an organization.** The Chart of Accounts (COA) is used to classify all accounting transactions and to control the budgetary allocations whilst also facilitating the financial reporting process. All accounting and budgeting transactions must be coded in accordance with the COA to ensure that the information is consistently and accurately recorded. Transactions are organized through the use of the COA mechanism such that individual transactions may be tracked but the information can then be aggregated and presented in formats useful for management purposes.

B. Chart of Account Objectives

215. The Iraqi SCOA has been designed to achieve the following objectives:

- To address the current and anticipated financial reporting requirements of the users of the general purpose financial statements, including the requirements of specific interest groups such as international financial institutions and project donors.
- To ensure consistency between budget allocations and the general ledger account codes. It is particularly important to be able to compare and report on: the approved budget, budget releases, budget variances and budget execution analysis.

[6] The term "Chart of Accounts" is used throughout this section. In the context of this manual it is interpreted as being synonymous with "Budget Classification" and "Accounts Classification", which may appear in other budgeting reference material.

- To build, where feasible, on existing COA structures and values, thereby limiting the effort required to retrain users as well as to migrate historic data enabling comparability with previous years.

- To construct a COA structure that is simple to understand and intuitive to apply, thus limiting the initial and on-going training requirements.

- To ensure uniformity in accounting practice and reporting throughout Government. This is particularly important for enabling meaningful "whole of general government" analysis and facilitating the preparation of the government wide consolidated financial statements and statistics.

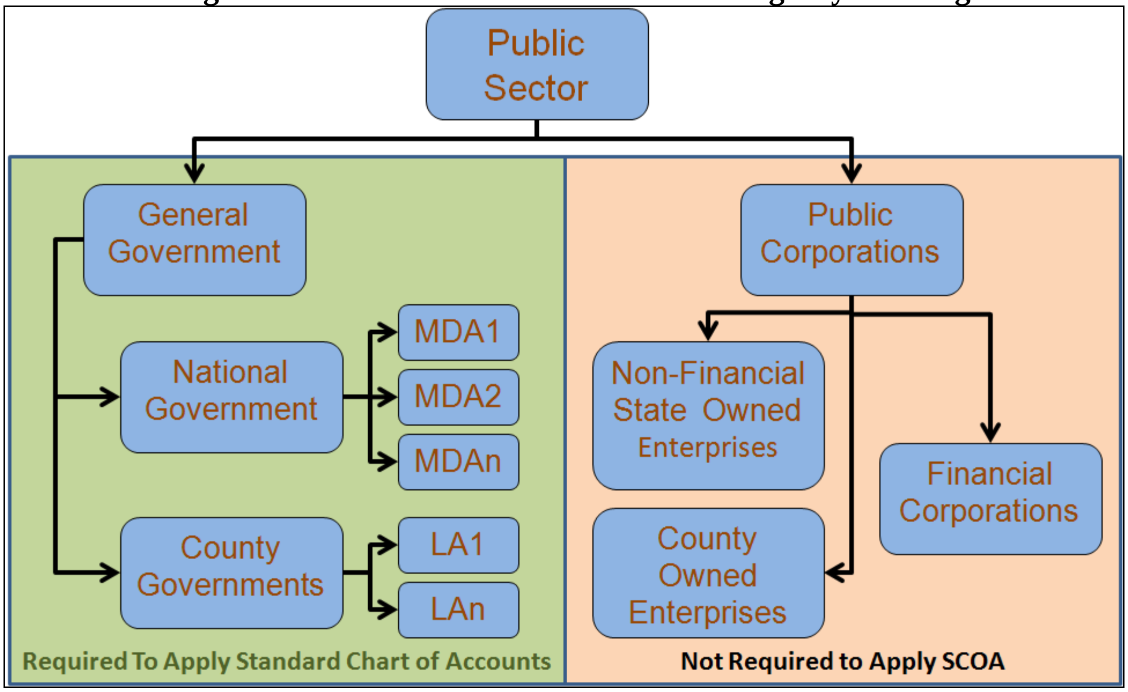
- To facilitate planning, performance and accountability through the aggregation of costs on the basis of organizational responsibilities, government programs and projects, funding sources, and government functional areas.

The word "Standard" in the description indicates that the chart of accounts structure and its values will be used consistently for all financial transactions and by all general government agencies. **The financial transactions cover the entire fiscal cycle and include budgeting, revenue collection, recurrent and development expenditures, as well as changes to assets and liabilities. The definition of "general government agencies" is inclusive of: institutions funded through the national budget such as ministries, departments and other agencies[7] (MDAs); special funds; and development projects. The SCOA will not be applicable to government controlled business and financial entities. The scope of SCOA coverage is illustrated in Figure 11: Standard Chart of Accounts - Agency Coverage**

216. 1, below.

[7] The term "other agencies" includes: Constitutional bodies; regulatory bodies; and other autonomous and semi-autonomous public bodies receiving a vote or subvention. It does not include public enterprises.

Figure 11: Standard Chart of Accounts - Agency Coverage



217. **The benefits of applying the Standard Chart of Accounts to record all financial transactions by all general government agencies, include**:

- Improved transparency and accountability through:
  - Enabling the sharing and comparison of financial data for an agency across the fiscal cycle (e.g. actual revenues and expenditures compared against the approved and released budgets).
  - Enabling the aggregation and comparison of financial data across agencies.
- Supporting uniformity of financial management practices throughout general government, enabling rationalization of training and audit programs, and standard financial management systems.
- Exploiting modern reporting tools by providing users with flexible reporting capabilities, for instance allowing the drilldown and rollup of data between different reporting levels.
- Supporting both the cash and accrual bases of reporting, and allowing agencies to progressively transition to the International Public Sector Accounting Standards (IPSAS) for accrual reporting.
- Enabling compliance to international reporting requirements by including within the SCOA reporting elements for Government Financial Statistics

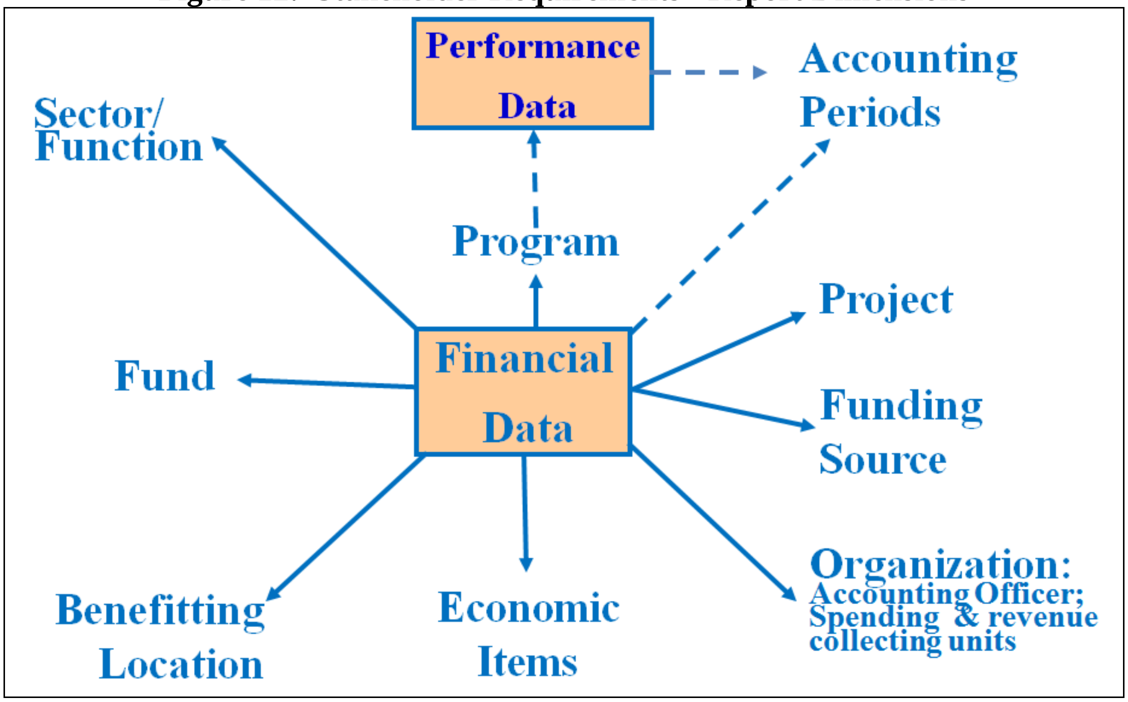
(IMF GFS 2001) and Classification of the Functions of Government (CoFOG).

C. Reporting Dimensions

218. **A wide range of stakeholder groups have interests in government budget reports and financial statements.** Stakeholders include: budget and accounting staff; internal and external auditors; Accounting Officers; politicians (Ministers, Cabinet, Parliament); councillors; development partners and international institutions; national statistics; financial system technical support staff; etc.

219. **Stakeholder demand for analysis of financial data to meet specific reporting needs is similarly varied**. The range of reporting dimensions required by stakeholders for different analytical purposes is depicted in **Error! Reference source not found.**2.

Figure 12: Stakeholder Requirements - Report Dimensions



220. **Analysis of financial data by time period and relative to output/outcome measures is not achieved through SCOA segments.** Breakdown of financial data by accounting period (week, month, quarter or financial year) is dependent on the calendars maintained in the respective accounting (i.e. general ledger) or budgeting modules. Linkages of programs to non-financial performance data is best done outside of the financial management system. Analysis of financial data by all other dimensions illustrated above will be dependent on the structure and values of the chart of accounts.

D. Chart of Accounts – Design Considerations

221. To optimize the government's reporting potential, **the SCOA structure is characterized by a number of code segments, with each segment containing one or more hierarchical reporting lines**.

222. Modern financial management computer systems, such as Iraq's IFMIS (integrated Financial Management Information System), are capable of accommodating multiple code segments, where:

- Each segment is independent from other segments and concentrates on a particular analytical dimension;
- Transactions will be defined by combining relevant values from each code segment; and
- Each code segment can contain one or more reporting hierarchies whereby:
    - The number of reporting levels is determined by operational and managerial requirements,
    - Transactions are recorded at the bottommost (or the most disaggregated level), and
    - Drilldown and rollup functionality allows the same data to be analysed at different levels of aggregation.

223. The SCOA structure has been established through a consultative process over several months led by a task force representing the interests of multiple stakeholder groups. The eventual structure sought to satisfy the design objectives and requirements for reporting dimensions, without introducing unnecessary complexities.

E. Chart of Accounts – A Possible Flexible Reporting Structure

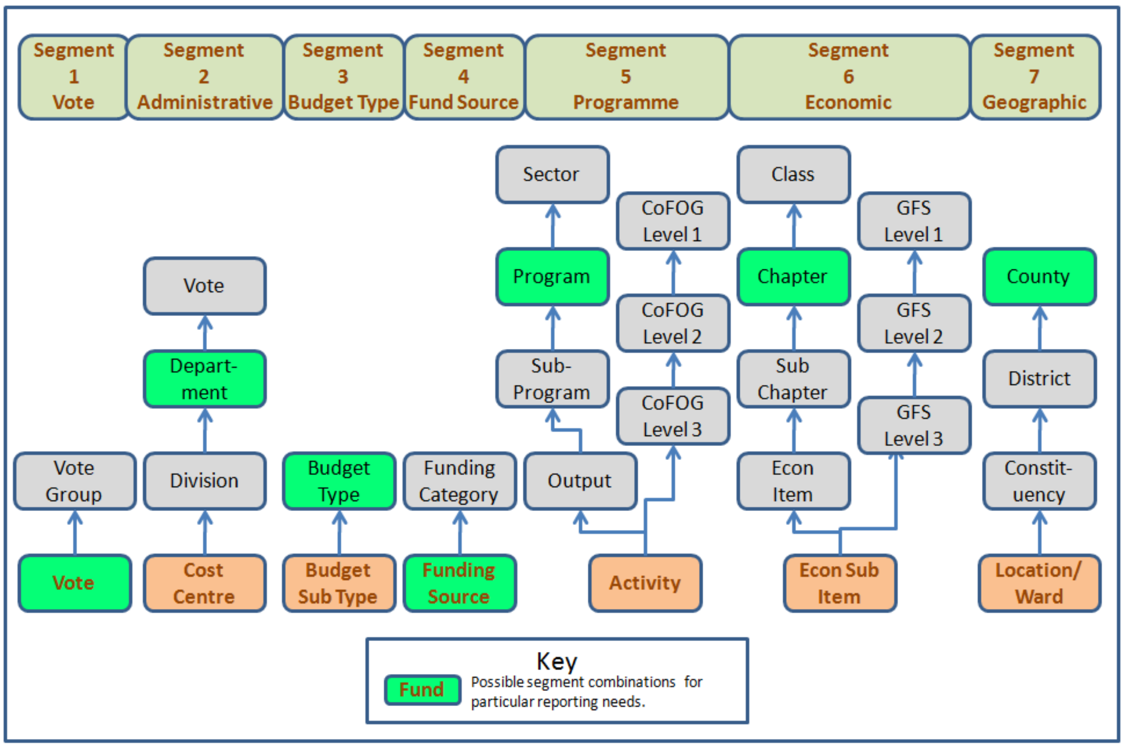
224. **As illustrated, the SCOA structure comprises multiple code segments with each of these segments containing one or more reporting hierarchies.** The reporting capabilities benefit from the following features:

- All accounting transactions will be entered at the lowest points in the code segment hierarchies;
- The relationships between reporting levels in a segment hierarchy will be established in IFMIS such that they will always hold true (e.g. every time that a specific value is applied for a transaction, it will always roll up to a particular point in the hierarchy, which in turn will always roll up to a particular point in the next level of the hierarchy, and so on); and

- All transactions will assign values for each of the seven coding segments (even though for some transaction types the value will default to a zero-value code signifying that the segment is not applicable for this transaction type).

225. **These features allow for a very flexible reporting structure, enabling users to generate reports from combining the seven code segments at any level within the individual segment hierarchies.** A possible combination is illustrated below:

Figure 13: Example of SCOA Report Combinations



226. **Similarly, combinations of different levels from each of the code segments can be used for some budget preparation and budget execution tasks.** For instance hard budget ceilings could be enforced at highly aggregated levels; budgets could be released for commitment and expenditure (funds availability checking) at an appropriate level of aggregation.

227. **The reporting potential is further strengthened through combining the SCOA features with the functions contained in the modern reporting tools** such as those used for analysing budgets and actual revenues and expenditures. These reporting tools will typically allow users to:

- Drill down from a summary level in the reporting hierarch of a code segment, revealing more details on the transactions that make up the summary;
- Roll up from a detailed level of analysis to show the same data at a more aggregated level;
- Filter data, to include only specific code values or ranges of codes;

- Total and sub-total; and
- Specify the presentation order of segments for each report.

F. Chart of Accounts – Maintenance

228. Careful control over the SCOA will be required to maintain the integrity of the SCOA structure by: avoiding duplication of values; ensuring code segments are used for the correct purposes; eliminating inconsistencies; and generally managing the SCOA so that it meets the reporting requirements of different stakeholder groups.

XI. Appropriations, Execution and Financial Reporting

This chapter on appropriations, execution and financial reporting aims to assist the readers…

- In understanding how appropriations will be dealt with under program-based budgeting.

By the end of this chapter, you should be able to…

- Prepare effective budget execution reports.

A. Introduction

229. **This section focuses on two closely related issues: 1) The system of legislative budget appropriations under program-based budgeting; and 2) Budget execution under program-based budgeting.** In other words, the manner in which spending ministries and the Ministry of Finance manage the implementation of the budget approved in programmatic terms by the Parliament.

B. Budget Appropriations

230. **Under program-based budgeting, the form of the budget estimates approved by the Parliament changes substantially relative to its traditional form**. The estimates will be structured around Ministries and Programs.

1. Appropriations by Program

231. **Within each Ministry, the estimates approved by Parliament are allocated first and foremost to programs.** This means that in endorsing the estimates, Parliament is deciding upon a particular allocation between programs of the expenditure of each ministry. In executing their budgets, ministries are then required to respect this programmatic allocation decided by the Parliament, subject only to the possibility of minor transfers between programs authorized by the Minister for Finance (see below).

232. **Allocations between sub-programs will appear in the estimates, but only for information purposes.** This is because the Parliament will not be concerning itself with the fine detail of expenditure allocation between sub-programs. Sub-programs will, rather, be a tool for internal planning and budget management within spending ministries. Ministries will require approval from Treasury for them to reallocate money between sub-programs within the same program

2. Appropriations by Organizational Unit

233. **Allocations to the major organizational units within ministries – will no longer appear in the estimates, because under program-based budgeting the Parliament allocates funds to programs rather than to organizational units.** As a result (and, as

discussed in the section on program design) independent commissions and similar bodies which fall under the umbrella of specific ministries but which have budgetary and managerial autonomy by virtue of their legal status will be assigned their own unique programs. This will ensure that when Parliament approves the estimates, it will be also specifying a clear budget allocation for each such independent commission. This is not necessarily the case in respect to internal organizational units within each ministry, which may “share” programs. In other words, a single program in a ministry may correspond to two or more directorates or similar internal organizational units. Where this is the case, the allocation of the budget funding of the program concerned during budget execution will be a matter controlled by the ministry concerned (see below).

3. Appropriations by Economic Classification (Item)

234. **Appropriations by "economic classification" refers to the use of "items" in the estimates.** Under the budgeting system operating in Iraq prior to the move to full program-based budgeting, the budget allocation provided to has been broken into as many as twenty "items" such as "training expenses", "fuel oil and lubricants" and "communication, supplies and services". By contrast, under program-based budgeting the detail of budget control over expenditure by economic classification is substantially reduced. This is because the *quid pro quo* for the greater accountability of ministries for results delivered to the community is greater freedom in their internal management of their budget.

235. **Concretely, with the move to full program-based budgeting, many "items" will be grouped together in new, broader "item control totals".** Within these item control totals, spending ministries will be authorized to shift money during budget execution if necessary without the need to request transfer authorization from Treasury. Ministries will be able to move money between items within the same item control total in the same manner that (prior to the move to full program-based budgeting) they were able to move money between sub-items within the same item. For example, all items relating to salaries and other forms of remuneration of personnel (including the items "basic salaries – permanent employees", "personal allowance – paid as part of salary" etc.) will be grouped together into a new "personnel expenses" item control total, and reallocations between the items within that item control total will not require MoF approval. The item control totals which will apply after the move to full program-based budgeting will be the following:

Table 8: Line Item Controls in Program Budgeting

Item Control Total	***Items***
Personnel Expenses	Basic Salaries – Permanent Employees
	Basic Salaries – Temporary Employees
	Personal Allowance – Paid As Part of Salary
	Personal Allowances Paid As Reimbursements
	Etc …
Utilities Supplies and Services	Utilities Supplies and Services
Foreign Travel and Related Expenses	Foreign Travel and Subsistence, and Other Transportation Costs
Other Recurrent Expenditure	Communication, Supplies and Services
	Domestic Travel and Subsistence, and Other Transportation Costs
	Printing, Advertising and Information Supplies and Services
	Training Expenses
	Hospitality Supplies and Services
	Specialized Materials and Supplies
	Office and General Supplies and Services
	Fuel Oil and Lubricants
	Routine Maintenance – Vehicles and Other Transport Equipment
	Routine Maintenance – Other Assets
	Etc …
Capital Expenditure	Purchase of Office Furniture and General Equipment
	Purchase of Specialized Plant, Equipment and Machinery
	Research, Feasibility Studies, Project Preparation and Design, Project Supervision
	Construction of Buildings
	Construction and Civil Works
	Overhaul and Refurbishment of Construction and Civil Works
	Purchase of Certified Seeds, Breeding Stock and Live Animals
	Etc ….

236. **As illustrated in Table 8, the key item control totals under program-based budgeting are those for personal expenses, other recurrent expenditure and capital expenditure**. In addition to this, several minor item control totals will be preserved for special reasons. Thus, the "foreign travel and related expenses" item control total will be maintained so as to safeguard against excessive expenditure on foreign travel. And the "utilities supplies and services" control total will be maintained so as to safeguard against the danger of ministries failing to pay their utility bills and, as a consequence, either

accumulating arrears or demanding budget supplementation from Treasury. However, it is anticipated that in the future the continued improvement in the quality of internal budget management within spending ministries will enable government to abolish the specific control total for utilities.

237. **The fact that approval of expenditure by economic classification will take place on a much more aggregated basis than in the past does not in any way imply that the accounting of expenditure by economic classification will become less detailed.** Accounting systems will continue to record expenditure during budget execution at the much more detailed sub-item level. See below for further discussion.

C. Program Appropriations in the Budget

238. **In light of these four significant changes in the structure of budget appropriations, the new integrated estimates volume will look significantly different from the estimates volume under the traditional, pre-program-based budgeting system.** The Vote structure in the estimates will now be as in the following hypothetical example as shown in Figure 17 below.

Figure 14: Example of Budget Estimates under Program-Based Budgeting

Ministry of Agriculture				
Program	**Item Control Total**	**Amount budget year**	**Amount year N +1**	**Amount year N + 2**
Crop Industries	**Personnel Expenses**	Dinar	Dinar	Dinar
	Utilities Supplies and Services	Dinar	Dinar	Dinar
	Foreign Travel and Related Expenses	Dinar	Dinar	Dinar
	Other Recurrent Expenditure	Dinar	Dinar	Dinar
	Capital Expenditure	Dinar	Dinar	Dinar
Livestock Industries	**Personnel Expenses**	Dinar	Dinar	Dinar
	Utilities Supplies and Services	Dinar	Dinar	Dinar
	Foreign Travel and Related Expenses	Dinar	Dinar	Dinar
	Other Recurrent Expenditure	Dinar	Dinar	Dinar
	Capital Expenditure	Dinar	Dinar	Dinar
Further Programs…..	**…..**	…..	…..	…..

239. **In addition, the breakdown by sub-program will be attached to the estimates for information purposes.** As this example indicates, allocations to item control totals will be by program. This means that it will not be possible, without Ministry of Finance approval, to shift money between, say, the personnel expenses allocation of one program to the personnel expenses allocation of a different program.

D. Appropriation Controls during Budget Execution

240. **During budget execution, there will be some scope for transfer of funds between appropriation categories, subject to Treasury approval.** The following transfers may be approved:

1. Virement between Programs

241. **As one means of providing flexibility to respond to unanticipated developments which may occur during budget execution, there will be certain scope for transfers of funds between programs.** Subject to MoF approval, a ministry may

transfer up to five per cent of the allocation approved by the Parliament for any program to its other programs. Transfers in excess of five per cent are not permitted. More precisely, any transfer in excess of five per cent will require an amendment of the budget by the Parliament.

2. Virement between Item Control Totals

242. **No transfer of funds between item control totals within a given program may be made without the approval of Treasury, which may subject to certain constraints approve such transfers**.

243. **There are two types of item transfers within programs which MoF is not authorized by the Parliament to approve.** The first of these is transfers *to* personnel expenses from any other item control total. The second is transfers *away from* capital expenditure to any other item control total. The ban on transfers to personnel expenses means that each ministry must respect absolutely the upper limit imposed by the Parliament on personnel expenses in the budget estimates. The reason for this is that hiring additional staff usually creates expenditure obligations not only in the financial year when those staff are hired, but in future financial years. Maintaining control of expenditure therefore requires firm control of staffing decisions. This firm control will continue to be supported by the requirement of Public Service Commission approval of ministry staffing levels.

244. **At the same time, transfers *from* personnel expenses to other item control totals within the relevant program are not necessarily forbidden**. However, for MoF to approve such a transfer, it would need to be convinced that the transfer does not risk leaving the spending ministry concerned without sufficient funds to meet all of the personnel expenses for which it is responsible during the financial year concerned.

245. **The ban on transfers away from capital expenditure is designed to prevent ministries from inappropriately sacrificing capital expenditure, which builds assets and infrastructure for the future, in order to increase current expenditure. When transferring funds between programs ministries must not either:**

- Increase the total amount of the ministry's allocation for personnel expenses for all its programs taken together; or,
- Reduce the total allocation for capital expenditure for the ministry as a whole.

246. **This means that when money is transferred between programs up to the five per cent limit discussed above:**

- Programs receiving funds transferred from another program may not increase their personnel expenses by an amount in excess of the reduction in the personnel expenses allocation of the program from which funds are being transferred; And,
- Any capital expenditure allocations transferred from a program may only be transferred to the capital expenditure allocations of other programs.

E. Allocation by Ministry in Budget Execution

247. **During budget execution each spending ministry will need to translate the program budget given to it by Parliament in the estimates into operational budgets for each of its directorates and other major spending units.** In a context where each such organizational unit is, as discussed in the program design section, aligned with one and only one program, this is not a difficult matter. If, as will frequently be the case, a program corresponds to a single directorate, the budget for that program is also the budget for the directorate. If, on the other hand, a program corresponds to two or more directorates, it will be necessary for the ministry concerned to internally allocate the program's budget between the directorates concerned. In doing so, it will naturally be guided by the organizational budgets which it drafted – together with the program budget – during the budget preparation process. However, the ministry will retain discretion in the allocation of the program budget between such organizational units, as this will not have been prescribed by Parliament when it approved the budget Estimates.

248. **The allocation of the budget between sub-programs during budget execution is also a matter which remains at the discretion of spending ministries,** which are therefore not necessarily bound to conform to the sub-program allocation indicated in the financial estimates which they submit to Treasury during the budget preparation process.

F. Accounting and Financial Reporting During Budget Execution

249. **During budget execution, all expenditure is to be comprehensively recorded in the accounting system on a continuing basis in terms of programs, sub-programs, major organizational units (equivalent to heads and sub-heads), sub-item and certain other characteristics**. This is to be facilitated by a revised Chart of Accounts which is program-compatible (See above).

250. **The simplified form of the budget estimates under full program-based budgeting does not in any manner affect the level of detail at which expenditure is to be recorded in the accounting system.** Thus, the system of broad item control totals will not remove the requirement to record expenditure by economic classification at the much more detailed sub-item level. Similarly, the fact that the Estimates allocate funding only at the program and not the sub-program level does not remove the requirement to record expenditure in the accounting system at the sub-program level.

251. **Consistent with this, the final accounts prepared by each ministry at the conclusion of the financial year will provide full detail of expenditure including by sub-program and sub-item**.

G. Performance and Financial Reporting

252. **Regular performance reporting should become an integral part of the budget planning and execution process**. Line ministries are expected to provide detailed and comprehensive information on actual budget execution as well as actual achievements of programs, sub-programs and activities in terms of output, outcomes, and efficiency, and

equity results as appropriate. This is done on a quarterly basis, through quarterly, semi-annual and annual performance reports that will be prepared by the line ministries, based on the Performance Reporting Circulars issued by the Ministry of Finance.

253. **The Ministry of Finance will examine closely those programs and sub-programs to ascertain whether they are/are not performing well.** MoF will also look closely at those (sub-) programs for which performance information are not provided. Bear in mind that it is difficult to justify continued funding if line ministries cannot demonstrate the effectiveness of their programs. Sometimes external factors outside the control or influence of line ministries can impact budget execution performance and lead to results that are less than expected. These circumstances will need to be explained in the documents.

Table 9: Reporting Activity and Responsibility

Activity	Prime Agency Responsible	Period
Submission of Monthly Budget Accounts	All Agencies	Monthly
Financial / Physical Progress Reports	All Agencies	Quarterly
Mid-Year Review of the Budget	Ministry of Finance and All Agencies	November / December
Monitoring of Financial / Physical Progress	Budget Department / MOF	Year Round
Auditing	Internal Audit Units Audit General	Year Round

1. **Monthly Financial Monitoring Reports**

254. **A monthly Financial Monitoring Report is to be prepared by each Ministry / Department based on information provided by IFMIS.** Detailed financial monitoring tables regarding program budgets must be provided. The report should include a summary of financial issues and developments during the considered period, an overview of the Ministry / Department financial results, steps taken to improve delivery of outputs by program and subprogram, and the near term outlook.

2. **Quarterly Performance Monitoring Reports**

255. **A quarterly Performance Monitoring Report should be prepared by each Ministry / Department.** The report should include a summary of the significant performance issues and developments during the period, an overview of the Ministry / Departments performance, and an outlook for the following period. Performance results by program / subprogram by output should be provided (where available).

3. **Annual and Semi-Annual Review of the Budget**

256. **These two reports are produced by the Budget Department**. The semi-annual report is produced following the first six months in the financial year, while the annual report is produced after completion of the financial year.

257. **The purpose of these two reports is to examine and report on the performance of the budget in terms of both financial and non-financial aspects, against the objectives and targets established at the beginning of the financial year.** The MoF will hold a mid-year review to check if the budget is on-track. The review shall be based on the reports sent by budget users (agencies) and various monitoring reports. The semi-annual report will inform reviews and adjustments that may need to be made in light of the half-year performance. The Mid-Year Review shall result in:

- Revised budgets for on-going and development expenditures.
- Revision of rolling budgets for subsequent years.

4. Semi-Annual Performance Monitoring Report

258. **A semi-annual and annual Performance Monitoring Report is to be prepared by Ministry / Departments.** The report must first explain the process undertaken to monitor the progress of program outcome(s) and performance measures (indicators and targets) of associated outputs. The monitoring report must also indicate data constraints, if any, and what steps are being taken to address data deficiency. In brief, the report must:

- Report on how the Ministry / Department have performed during the period in relation to the expected delivery of program / subprogram outputs and contribution to outcomes.
- Provide an assessment of how the Ministry / Department have progressed towards output targets and eventually outcomes. Therefore the report must include:

    1. Reporting of actual results against program / subprogram outputs and the specific performance information established in the Multi-year program budget documentation.

    2. A concise narrative discussion and analysis of the detailed performance information. This should include: an overview of entity strategy during the year (including responses to emerging challenges and unexpected events), performance trend analysis, references to any significant changes in the nature of the Ministry / Department's principal functions or services (and, how that may have impacted performance).

    3. Discussion and analysis of the Ministry / Department's financial performance for the half-year period in line with the delivery of expected outputs.

H. Program Budget Evaluation and Audit

259. **There are two levels of evaluations following the close of the financial year: program evaluation and the statutory audit.**

1. Program Reviews

260. **Program reviews of the budget are a necessary process to assess the effectiveness of policy and program implementation.** This evaluation focuses on:

- Assessing progress toward achieving targets that were set at the beginning of the year at both the vote and the sectoral level. These reviews also allow the assessment of the effectiveness of strategies chosen.
- Considering adjustments to policies, programs and future strategies and activities.

2. External Audit

261. **External Audit of Ministry / Departments is a statutory requirement.** In carrying out financial audits, the Auditor General is required to examine the accounts and financial statements of an agency as submitted. The audit examines the completeness of accounts in representing budget outlays, compliance with appropriations, authorizations and observance of relevant controls. The Auditor General also examines and corrects errors in computations. On the basis of the examination, the Auditor General will issue an opinion on the accounts which may be any of the following:

262. **Unqualified opinion** which implies in the auditor's judgment**,** the financial statements provided represents a true and fair view and is prepared within the relevant accounting procedures. **Qualified opinion** means that the auditor has not a satisfactory representation of the financial statements. The qualification may be in relation to:

- **Scope:** Where the auditor has been limited in scope of their work, preventing them to express an unqualified opinion.
- **Disagreement:** Where the auditors disagree with the accounting treatment or disclosure of a material matter in the financial statement.
- **Adverse:** Expressed when the effect of the disagreement is so material that the financial statements are thought to be misleading and do not give a true and fair picture.
- **Disclaimer:** Expressed when the possible effect of a limitation on scope is so material that the auditor is unable to obtain sufficient evidence to support or express an opinion on the financial statements.

3. Value for Money Audit

263. **Value for money audit refers to an examination of an expenditure program in terms of exercising efficiency, economy, effectiveness, and equity in the management of public spending**:

- **Economy** is concerned with minimizing the cost of resources used to deliver the same quality and quantity of services;

- **Efficiency** focuses on the relationship between outputs or results and the resources (inputs) used to produce them. The question is how to maximize outputs for a given level of inputs (i.e., is the money well spent).
- **Effectiveness** is concerned about the delivery of objectives. It compares the actual results against the intended results.
- **Equity** focuses on the extent to which programs meet the needs of women and men, girls and boys.

264. **The Constitution requires the Auditor General to submit an annual report on audited accounts to Parliament.** Accounting officers of each Ministry are required to submit their final accounts in respect to revenues and expenditures the Votes under their responsibility to the Minister of Finance and Auditor General, with copies to the Accountant General within 3 months after completion of the financial year.

ANNEXURE A: MINISTRY OF FINANCE QUALITY ASSURANCE QUESTIONS

265. In reviewing the various budget proposals from various ministries, Ministry of Finance budget officers should review proposals based on the following check list:

- ***Has the line ministry defined strategic objectives?*** Is strategic wide enough to cover all responsibilities (activities) of the ministry in the next long-term period?

- ***Have gender gaps in the sector been identified?*** *Are strategic objectives appropriate to reduce gender gaps in the sector and are they in line with the national gender policy and Plan of Action?*

- ***Has the line ministry properly defined programs****?* Are programs defined as main areas of responsibility of the ministry? Are all core areas of responsibility of the Ministry covered with programs? Are these programs sufficiently stable enough not to be changed in the next 5-10 years, at least? Are programs defined in a way that for each program a certain outcome – benefit to be produced in society in the long-term – can be clearly associated? Have gender differences been taken into consideration? Is there one program General Administration and Management or Institutional Support? Is there more than one supporting programs in total (program that support ministries internal work, rather than outside client)?

- ***Has the line ministry defined a program objective for each program?*** Are program objectives defined in a way that each defines a benefit the ministry is trying to achieve for the country in the long-term?

- ***Has the line ministry defined sub-programs under each Program?*** Does every sub-program correspond to one policy area of the ministry or to one service being delivered by ministry or one target client group within given program? Are gender differences within the target client group mentioned and strategies to reduce gender gaps identified? Can one main output (result) be defined for each sub-program? Are sub-programs too small? Can several sub-programs be actually merged into one more meaningful sub-program – that would clearly define one of the main services being delivered under the given program?

- ***Are the line ministry's departments mapped to sub-programs?*** Has the ministry mapped each of its departments to one of the sub-programs? Is one department split between two sub-programs?

- ***Has the line ministry defined the objective for each program?*** Are these objective statements of the outcomes which the ministry expects to deliver over the coming years? Do program objectives reflect the Government's policy priorities?

- ***Has the line ministry defined performance indicators?*** Are those indicators quantifiable and measurable?

- *Has at least one outcome indicator been defined for each program?* Are outcomes defined as impact or benefits Ministry will achieve for society? Does each outcome address program objective of the program for which it has been defined?

- *Has one output been defined for each sub-program?* Are outputs defined as direct results of Ministry's work or services produced by ministry? Do they reflect volume of work under specific sub-program? Does each output address operational objective of the sub-program for which it has been defined?

The following table provides guidelines for the Ministry of Finance budget advisors to evaluate program budget submission.

Table 10: Guidelines for Evaluating a Program Budget Submission

1. Does the mission align with national priorities?	
1.1 Does the mission align with the national strategy priorities?	
1.2 Does the mission clearly state the entire Ministry's core functions and service delivery priorities?	
2. Do program objectives reflect the desired result?	
2.1 Do all the objectives link clearly to the mission?	
2.2 Are the objectives aligned to the National Strategy priorities?	
2.3. Are the objectives in line with the priorities of the national Gender Strategy in the given sector?	
2.4 Do the objectives reflect the core function of the Ministry?	
2.5 Do the objectives state the end product or results of the Ministry's services?	
2.6 Can the objectives be translated into measurable results?	
2.7 Is it definitely stated as a result not an activity? (*an objective should state the end result not an activity*)	
3. Does the strategic overview provide a summary of the policies of the Ministry?	
3.1 Does the strategic overview state the purpose of the Ministry?	
3.2 Does it identify and evaluate the key policies implemented over the past two years?	
3.3 Does it capture the new policy developments and implications on activities for the next three years?	
3.4. Does it refer to the national Gender Strategy?	
3.5 Does it evaluate service delivery achievements for the past two years (differentiated by sex) and provide guidance for the next three years?	
3.6 Does it support the main program objectives?	
4. Overview of expenditure trends (recurrent and capital)	
4.1 Does it explain significant increases or decreases in expenditure over the 5 year reporting period, e.g. the past two years and the next three years? (Increases: -*Use the national inflation rate as a benchmark. Any increases*	

more than 5% over this figure should be explained) *(*Decreases*: -Any decrease of expenditure greater than –5% of the previous year should be explained)*	
4.2 Do changes in expenditure relate to the policy priorities stated in the strategic overview?	
4.3 Are the financial implications of new policy developments captured in the medium term budget?	
5. Medium Term Performance Targets	
5.1 Review of past performance	
5.1.1 Is there any difference between the actual and projected performance targets?	
5.1.2 If there is any difference, check that there is a satisfactory explanation given for the variation.	
5.1.3 Would the stated reasons for variations affect the future performance and hence resource allocation for the medium term?	
5.1.4 Are there variations in the performance with regard to women compared to men (where applicable)?	
5.2 Do the performance indicators relate directly to the output?	
5.2.1 Does it describe in words how the output will be measured (*e.g. the number of kilometres of road)*	
5.2.2 Are there at least 2 indicators for each output? *(quantity; quality; time; cost)*	
5.3 Are the performance targets specific, measurable, appropriate, realistic/affordable, and time bound?	
5.3.1 If a quantity target is used can it be achieved?	
5.3.2 If a quality target is used can you achieve the set standard?	
5.3.3 If a time target is used is it realistic based on the resources you have?	
5.3.4 If a cost target is used is the amount realistic?	
5.3.5 Are all the targets consistent with each other?	
5.3.6 Are different targets defined for women and men (where applicable)?	
6. Reviewing alignment of resource allocation to policy priorities and performance targets	
6.1 Within your Ministry budget estimate have sufficient resources been allocated to achieve the program objectives?	
6.2 Within each program budget, have sufficient resources been allocated to activities to attain the performance targets that have been set?	
6.3 Are the necessary policy and institutional arrangements being addressed to ensure efficient use of resources and achieving performance targets?	
6.4 Have the financial implications arising from a new reform and/or policy development been assessed and accommodated?	

ANNEXURE B: FINANCIAL ESTIMATE PRO FORMAS FOR BUDGET PREPARATION

FINANCIAL ESTIMATES PROFORMAS FOR BUDGET PREPARATION TO BE PROVIDED BY SPENDING MINISTRIES:

A. BASELINE EXPENDITURE ESTIMATES

1. Program Estimates: Baseline Expenditure

Program: Water Conservation and Pipeline (i.e. this and similar tables below need to be filled in for each of the ministry's programs)										
Sub-program Code	Item Control Total (CT) Code[8]	Item Code	Title	Recurrent Expenditure		Development Expenditure		Total Expenditure		
				Approved (previous year)	Estimate (budget year)	Approved (previous year)	Estimate (budget year)	Estimate (budget year)	Estimate year +1	Estimate year +2
PP			Water Conservation (sub-program)							
	YY		Personnel (item CT)							
		YYZA	Basic salaries (item)							
		YYZB	Allowances							
		..								
	XX	..	Other Operating							
		XXZA	Basic salaries							
		XXZB	Allowances							
		..								
RR			Pipeline							
	YY		Personnel							
		YYZA	Basic salaries							
		..	..							

[8] Note: for an explanation of "item control totals", see the section on appropriations and budget execution under program-based budgeting.

2. Project Estimates: Baseline Expenditure (Existing Development Projects)

Program: …….								
Sub-program code	**Project code**	**Item CT Code**	**Item code**	**Title**	**Approved (previous year)**	**Estimate (budget year)**	**Estimate year +1**	**Estimate year +2**

3. Organizational Unit Baseline Estimates (baseline expenditure by organizational sub-head and sub-program).

Program: …………………….										
	Sub-Program X. A		**Sub-Program X. B**		**Sub-Program X. C**		**Sub-Program X. D**		**Total (by sub-head)**	
	Recurrent	**Develop.**	**Recurrent**	**Develop.**	**Recurrent**	**Develop.**			**Recurrent**	**Develop.**
Sub-Head 1	12000	3000	-	-	-	-	-	-	12000	300
Sub-Head 2	-	-	6000	2000	3000	1500	-	-	9000	3500
Sub-Head 3	-	-	-	-	-	-	7000	900	7000	900

B. NEW INITIATIVES ESTIMATES

1. New Recurrent Expenditure Initiatives Estimates: estimates by individual new recurrent expenditure initiative

Program: ……… Sub-program: ……. Recurrent Initiative Title: ……				
Item CT code	**Item code**	**Estimate (budget year)**	**Estimate year +1**	**Estimate year +2**

2. New Development Project Estimates: estimates by individual new development project

Program: ……… Sub-program: ……. Development Project Title: ……				
Item CT code	**Item code**	**Estimate (budget year)**	**Estimate year +1**	**Estimate year +2**

C. NEW INITIATIVES ESTIMATES BY PROGRAM AND SUBPROGRAM

3. New Initiatives Estimates by Program and Sub-Program (all new recurrent initiatives and development projects consolidated)

Program: ….							
Sub-program Code	Item Control Total (CT) code	Item code	Title	Recurrent Expenditure Estimate (budget year)	Development Expenditure Estimate (budget year)	Total Expenditure Estimates	
						Estimate (budget year)	Estimate year +1	Estimate year +2

D. ORGANIZATIONAL UNIT NEW INITIATIVES ESTIMATES

4. **Organizational Unit New Initiatives Estimates** (planned budgets of each organizational sub-head by new recurrent and development project expenditure)

Program: …………….										
	Sub-Program X. A		Sub-Program X. B		Sub-Program X. C		Sub-Program X. D		Total (by sub-head)	
	Recurrent	Develop.	Recurrent	Develop.	Recurrent	Develop.			Recurrent	Develop.
Sub-Head 1	12000	3000	-	-	-	-	-	-	12000	300
Sub-Head 2	-	-	6000	2000	3000	1500	-	-	9000	3500
Sub-Head 3	-	-	-	-	-	-	7000	900	7000	900

E. CONSOLIDATED ESTIMATES (BASELINE PLUS NEW SPENDING)

1. **Consolidated Estimates**

Program: ………………..										
Sub-program	Item Control Total	Item	Title	Recurrent Expenditure		Development Expenditure		Total Expenditure		
				Approved (previous year)	Estimate (budget year)	Approved (previous year)	Estimate (budget year)	Estimate (budget year)	Estimate year +1	Estimate year +2

F. ORGANIZATIONAL UNIT CONSOLIDATED ESTIMATES

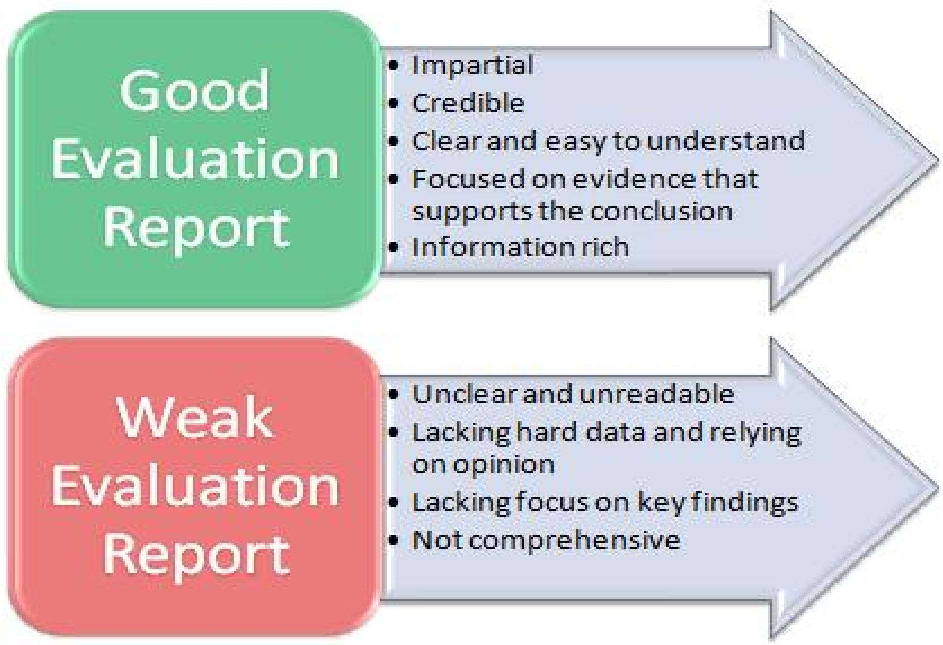
2. Organizational Unit Consolidated Estimates

Program: ………………..										
	Sub-Program X. A		Sub-Program X. B		Sub-Program X. C		Sub-Program X. D		Total (by sub-head)	
	Recurrent	Develop.	Recurrent	Develop.	Recurrent	Develop.			Recurrent	Develop.
Sub-Head 1	12000	3000	-	-	-	-	-	-	12000	300
Sub-Head 2	-	-	6000	2000	3000	1500	-	-	9000	3500
Sub-Head 3	-	-	-	-	-	-	7000	900	7000	900

ANNEXURE C: SAMPLE EVALUATION REPORT OUTLINE

266. **This annexure presents an outline for a program evaluation report**.[9] Figure 18 provides a portrait of good and weak evaluation reporting structure.

Figure 15: Characteristics of Good and Weak Evaluation Reports



Executive Summary

- What is the context and purpose of the program/subprogram evaluation?
- What are the primary findings and conclusions, recommendations and lessons learned?

Introduction

- Why was the program/subprogram selected for evaluation?
- What is the purpose of the evaluation?
- How will the evaluation results be used?
- What are the key issues to be addressed by the evaluation?
- What was the methodology used for the evaluation?
- What is the structure of the evaluation report?

Context

- When did the concerned Ministry/Department begin working toward the outcome(s)?

[9] This section utilizes procedures from Republic of Mauritius "Manual for Program Based Budget (PBB)" Pages 33-34.

- What are the problems that the program/subprogram is expected to address?
- Who are the expected beneficiaries? Does the program/subprogram address differences between female and male beneficiaries (where appropriate)?

Findings and Conclusions

267. **The section on findings and conclusions should include the ratings assigned by the evaluators to the outcome(s), outputs, and sustainability and relevance of the outcomes**.

- **Status of the program / subprogram**
  - Has the implementation of the program been achieved?
  - Was the selected outcome(s) of the program / subprogram relevant?

- **Factors affecting the program / subprogram**
  - What factors have affected the implementation of the program / subprogram?

- **Ministry / Department contribution to the program / subprogram outputs**
  - What are the key outputs produced by the concerned Ministry / Department?
  - What were the quantity, quality and timeliness of outputs?
  - Do women and men have an equal access to outputs (if applicable)?
  - What factors facilitated the production of such outputs?
  - How well did the concerned Ministry / Department produce its outputs?
  - Were the performance indicators appropriate to link outputs to outcomes?
  - Is there a need to improve these indicators?

- **Recommendations**
  - Recommendations should answer the following: What corrective actions are recommended for the new, on-going, or future work of the concerned Ministry / Department?
  - Lessons Learned - what are the main lessons that can be drawn from this experience?
  - What are the best and worst practices in designing, undertaking, monitoring and evaluating outputs and activities?

ANNEXURE D: BUDGET GLOSSARY

268. **The** following words are being used in the context of program-based budgeting and have the following meaning:

Accounting System	The set of accounting procedures, internal mechanisms of control, books of account, and plan and chart of accounts that are used for administering, recording, and reporting on financial transactions. Systems should record all stages of the payments and receipts process needed to recognize accounting transactions, integrate asset and liability accounts with operating accounts, and maintain records in a form that can be audited.
Activity	An activity is generally the smallest building block within a program that has a definable purpose and specific allocated costs. An activity is a thing you do to achieve a policy priority within a sub-program.
Audit	Expert examination of legal and financial compliance or performance, carried out to satisfy the requirements of management (internal audit), or an external audit entity, or any other independent auditor, to meet statutory obligations (external audit).
Baseline Budget	This baseline budget includes the costs of the current level of activity, which is the costs of ongoing programs adjusted for inflation services, legally mandated requirements, one-time expenditures, and the impact on a full year basis of decisions made in the current year.
Budget	The budget is generally prepared annually, and comprises a statement of the government's proposed expenditures, revenues, borrowing and other financial transactions in the following year and, in many countries, for two or three further years. The budget is submitted to parliament, which authorizes expenditure by approving either a budget act or an appropriation act that is consistent with the budget proposals.
Budgetary Unit	A Ministry or Government Agency
Capital Investment	An outlay of money to acquire or improve capital assets such as buildings and equipment.
Cash Basis	An accounting method that recognizes revenues when cash is received and recognizes expenses when cash is paid out.
Chart of Accounts	A chart of accounts provides the structure for recording and reporting of all financial transactions for a governmental unit, and classifies and determines what financial transactions can be tracked for managerial purposes and reported in the financial statements.
Core Budget	Includes all income and expenditure (including donor funds) that pass through and are administered by the Ministry of Finance (through the Treasury Single Account).
Costing	A management tool used to estimate the overall resources needed for implementation of an activity/program, assuming normal operations.
Efficiency	Measures the ratio of inputs needed per unit of output produced, measuring the extent to which resources are available for and applied targeted activities e.g. cost of vaccination program/number vaccinated.
Effectiveness	Measures the ratio of outputs (or resources used to produce the outputs) per unit of project outcome/impact e.g. the number of vaccination (or cost) per unit decline in mortality rate.
External Budget	A sub-program/activity that is funded directly from an aid donor and that financing does not go through the Ministry of Finance accounts outside the core.
Financial Management	Financial management includes the raising of revenue; the management and control of public expenditure; financial accounting and reporting; cash management; and, in some cases, asset management.
Gender	A concept that refers to the social differences between women and men that have been learned are changeable over time and have wide variations both within and between cultures. (European Commission, 1998)
Gender equality	The concept meaning that all human beings are free to develop their personal abilities and make choices without the limitations set by strict gender roles; that the different behaviour,

	aspirations and needs of women and men are considered, valued and favoured equally. (European Commission, 1998)
Gender equity	Fairness in women's and men's access to socio-economic resources […]. A condition in which women and men participate as equals and have equal access to socio-economic resources. (European Commission, 1998)
Gender gap	The gap in any area between women and men in terms of their levels of participation, access, rights, remuneration or benefits. (European Commission, 1998)
Gender mainstreaming	Mainstreaming a gender perspective is the process of assessing the implications for women and men of any planned action, including legislation, policies or programs, in any area and at all levels. It is a strategy for making women's as well as men's concerns and experiences an integral dimension of the design, implementation, monitoring and evaluation of the policies and programs in all political, economic and societal spheres so that women and men benefit equally, and inequality is not perpetuated. The ultimate goal is to achieve gender equality. (ECOSOC)
Gender (Responsive) Budgeting	An application of gender mainstreaming in the budgetary process. It means a gender-based assessment of budgets, incorporating a gender perspective at all levels of the budgetary process and restructuring revenues and expenditures in order to promote gender equality. (Council of Europe)
Gender-sensitive	Addressing and taking into account the gender dimension. (European Commission, 1998)
Line Item	In a line item system, expenditures for the coming year are listed according to objects of expenditure or "line items."
Outcome	Sometimes called the result and is used to describe what is intended to be achieved by the end of implementation on one or more activities. An outcome defines impact or effect we want to achieve in the society.
Operating Budget	Component of the core budget that is raised from government revenue and for which the government has sole charge of. Normally it is used for salaries and wages and goods and services but rarely acquisition of assets (capital) expenditure.
Objective	A concise statement of why a ministry exists, a program objective (often just referred to as an objective) describes one of several responsibilities of a ministry, and an operational objective describes a task associated with a particular sub-program (in order to achieve the objective of the program).
Outputs	Goods or services produced by an activity e.g. no of vaccinations.
Program	A grouping of Ministry functions according to a key objective, based on the main functions performed or services delivered by ministry. Normally there would be no more than 5 programs per Ministry.
Program-Based Budget	Program-based budgeting is linking government budget and other resources to the public policy objective. Program-based budgeting requires that program objectives stretch beyond a single fiscal year. Program-based budgeting requires effectiveness measures, which means the measurement of outputs and outcomes.
Performance Indicators	Performance indicators or performance measures are defined as "quantifiable, enduring measures of public sector **outputs, outcomes, and efficiency".**
Recurrent Activity	Package of ongoing and reoccurring operations that consumes inputs and produces a consumable good or service.
Strategic Plan	A plan that sets forth an organization's mission, goals, objectives, courses of action, and expected results for a specific time frame, usually five to ten years.
Sub program	For managerial efficiency, programs are often sub divided into smaller units of work. They must have a well-defined purpose, budget, and time line and be related directly to achieving the purpose of the program that is its host.

ANNEXURE E: BIBLIOGRAPHY

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