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MODERNIZING
GOVERNMENT BUDGET
ADMINISTRATION

*The application of technical cooperation in
improving budget administration
in the governments of developing countries*

*Prepared for the
Public Administration Division
Office of Educational and Social Development
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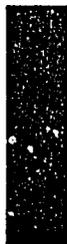


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FOREWORD

This volume seeks to identify key problems in efforts to modernize government budget administration in developing countries. Its emphasis is upon the need for and the means of increasing the effectiveness of budget administration in countries attempting to achieve rapid economic progress and to make related social changes.

Like its companion publication, *Modernizing Government Revenue Administration*, the volume is designed for several audiences. It is meant to provide A.I.D. advisers and technicians with a check list and reminder of the many facets of national budgeting and budget administration. It is intended to aid host country officials and technicians, whether working in their own countries or studying and observing within the United States, to view the problems of budget reform in better perspective. It is hoped that the volume will also help officials responsible for planning and directing cooperative assist-



ance programs in demonstrating the significance of improved budget administration to economic and social development efforts.

This document adds to the growing literature in the field of technical assistance in public administration of interest to both students and research workers.

For the preparation of this volume, the Public Administration Division of A.I.D. turned to one of its contractors, Public Administration Service, which has provided technical assistance on budget matters to many governments within the United States and either directly or under the auspices of A.I.D. and its predecessor agencies to a dozen national governments. This monograph is the work of G. M. Morris, Associate Director, Public Administration Service. The author has used many sources in the preparation of the volume, but he points out that in its emphases and possible omissions it reflects the experience and views of the author.

*G. W. Lawson, Jr., Chief
Public Administration Division
Office of Educational and Social Development
Agency for International Development*

June, 1962



I

THE BUDGET IN MODERN GOVERNMENT

Budgeting is one of the universal human experiences. All of us are faced with the problem of reconciling what we want with what we can afford, and all of us have to arrive at a solution, satisfactory or otherwise, to the equation. Even in the most primitive society, there must be a balance between the pasture available and the livestock that can be grazed on it. The problem of governments is like that of individuals, only many times multiplied and much more complicated. Every government must face this problem of balancing needs and desires against resources and set up the institutional machinery for dealing with it. The experience is common to all governments, but the circumstances are different for each one. The greatest difficulties arise where, because of the stage of national development or for some other reason, resources are limited and needs and aspirations are sharply rising.

In many countries acceleration of economic development is the major current concern. Some of them, where change has been gradual in the past, are attempting to make rapid economic progress together



with related social and political changes. Most of the problems they face are common to all and differ only in degree. Most of them must agree on a unified national purpose, build or strengthen institutions that will contribute to their national growth, develop and utilize all their resources, and arrive at a better distribution of the national wealth. Whatever their political and social systems, the business of operating government in such a fashion that it contributes to the achievement of national goals and aspirations has to be a paramount concern.

In addition to the basic requirements of integrity, honesty, and responsiveness to the needs and wants of the people, a government must be an effective instrument of public service. This effectiveness is measured not only by what the government does, but also by how well it performs the functions it undertakes. Although a variety of historical, political, economic, and social forces shapes the programs and activities that are undertaken, they are formulated and administered through the apparatus of the government. A basic part of this apparatus is the system by which the government forecasts, allocates, and supervises expenditures. The size of public expenditures and the many factors and forces which determine the level and composition of governmental spending demand that the system be orderly. The budgeting process must contribute data and analyses to serve as guides for decision making and must promise sufficient discipline to assure that the decisions are carried out.

Countries with developed economies have long been concerned with improving organization, techniques, and procedures to achieve effectiveness in budget preparation, presentation, execution, and control. In many of the less developed countries, the pressing need for good budget administration in the light of limited current resources and great social and capital demands is accompanied by inadequate budget organization and processes. In such cases, attention to strengthening and improving budget administration becomes imperative. It may be sufficient to develop improved devices, methods, and procedures to facilitate review and supervision of expenditure programs, but usually the need is far greater, and extends to inauguration of



basic organization and processes to make budget administration an effective instrument in the country's public administration.

There are few subjects of public administration that have been written and talked about more than governmental budgeting and budget administration. The great number and range of factors that enter into the raising and spending of public funds are reflected in the amount of budget literature available. Most of the literature has been about specific problems and concerns within a particular country or level of government. These problems and concerns typically arise out of the historical pattern of a government's operations and are influenced by current political, economic, social, fiscal, and administrative interests. The range and complexity of the subject, and the scope and variety of materials available about it, accentuate the need for a brief, summary treatment of some of the problems involved in introducing and developing improved budget administration.

EVOLUTION OF GOVERNMENTAL BUDGETING

Historically, the first concern of embryo budgetary systems has been with the effective maintenance of revenue. One of the earliest budget documents extant is the Domesday Book, compiled from the returns of a survey of the lands in Medieval England that was made so that the Crown might levy tribute more effectively. Lack of restraint on the part of hereditary rulers in the raising of revenue stimulated the rise of power groups that sought to curb their absolutism. Thus, in England, the Domesday Book was followed in due course by the Magna Carta under which the barons limited the king's power to impose levies. Similar developments occurred in other European countries along with the growth of institution of representative government. Such reforms inevitably brought about formalized control over the imposition of taxes by the current ruler.

The exercise of legislative control over governmental expenditures did not develop concurrently with concern over the amount of money



raised by the government. This natural extension of legislative power grew slowly and gradually. In the struggles between ruled and ruler, the most effective means of public control, next to restraint on tax legislation, was control of governmental expenditures. Budgeting processes were formulated largely on the principle of dependence by the executive on legislative approval to spend money. These processes were aimed at leaving the executive the minimum discretion to use money for different purposes or in greater amounts than those authorized by the body representative of the people. With the growth in scope and complexity of governmental activity, it became increasingly difficult for parliamentary bodies to survey and judge with any confidence the ever larger and more varied requests of the executive for money. There arose, therefore, a demand for orderly and defined processes in preparing and presenting budget requests, for some discipline in legislative review, and for ways of assuring that an approved budget was executed as it was projected.

It has now come to be generally recognized that legislative control through the budget can be made most effective if emphasis is placed on the affirmative role of the budget. The effectiveness of budgeting lies in its use for the formulation and execution of governmental programs rather than as a means of exercising uncoordinated restraints upon departmental spending. Providing the executive with budget procedures and a staff to formulate and propose a governmental program and to follow up on its execution will itself create conditions for more effective legislative control. It is easier for legislative bodies to keep informed on governmental programs and to influence their level and conduct where effective executive budget management exists than where they must deal with a multitude of governmental agencies whose heads look upon their agencies as their own principalities.

Within the Western world, the budget is connected with the development of representative government. The opportunity for representatives of the people to assemble at regular intervals to examine and authorize the financial requirements is one of the bulwarks of democratic government. Governmental budgeting exhibits great flex-



ibility, however, and is adapted to the structure and methods that prevail in each country. In those countries in which governmental powers are based in institutions other than the democratic processes traditional to most of the West, the budget receives attention similar in many respects to that given in the democracies. Budget-making time brings the counselors or tribal chieftains into consultation with the supreme ruler; it is an occasion for members of an oligarchy to take stock of levies to be made and amounts to be released for public purposes. In the communist countries or in other monolithic political structures, it is the party leaders who are called upon to approve the plans and projections which deal with governmental finances and the management of the economy. Under any form of government, the budget plays a major part in the realization of political aims, the maintenance of sound fiscal policies, and the carrying out of economic and social plans.

CONDITIONING FACTORS IN BUDGETING

The manner in which the budget system is organized and the role it plays in the total governmental process depend on many factors. History and tradition play important parts. Concentration or dispersal of power, depending on constitutional arrangements, may have far-reaching effects. Other institutional elements, such as the composition and stature of the civil service and the integrity of public management, may have comparable impacts.

Historically, budgeting reflects the interplay between legislative and executive power. The executive does the ground work. The legislative body reviews and approves proposed plans. The executive carries out the plans. The ways in which legislative control is exercised arise out of the general character of legislative-executive relationships in each individual constitutional system. Where the executive acts as the governmental manager for the legislative majority, charged with the execution of a program on which the majority is



agreed, legislative control normally functions as a broad kind of oversight. Where the link between legislature and executive is less direct, legislative control is much more inquiring and sometimes inquisitorial.

These fundamental characteristics of governmental organization shape the role and purpose of budgeting in each country. Budgeting doctrine in the United States, developed within the constitutional context of separation of powers, differs substantially from that which governs the approaches to budgeting in the parliamentary governments of most European countries. In the United States, the budget process has come to be looked upon as the principal means for achieving assent to a proposed plan of governmental operations to be carried out during the ensuing fiscal year. Proposed improvements in the budgeting process have been generally aimed at increasing the effectiveness of the mechanisms for executive compilation, review, presentation, and supervision of the budget and of the governmental programs and operations for which the budget provides.

Despite the increased prominence of budgeting in European parliamentary governments over the years, it has a different, and in general lesser, role in the governmental process. In such governments, budgeting is more apt to be subordinate to policy rather than policy making in itself. The budget process exists to give fiscal expression to policies determined on a higher level by the use of other machinery. Such determinations reflect a government's basic plans of public finance, and although the budgetary planning may raise issues of its own, the effectiveness of the process is largely measured by and related to its ability to ratify and buttress determinations reached elsewhere.

THE LOCAL BACKGROUND OF BUDGETING

Numerous other external factors mold a country's budget system. This is a central fact that is often slighted in budget literature. Much of the writing of specialists presents governmental budgeting as if it



existed in a political void. Budgeting exhibits similar characteristics in all environments, particularly in its recognized stages of formulation, review, and execution. Moreover, organizational and procedural arrangements can exert important influences upon the contribution that budgeting makes to orderly examination and implementation of public policy. The machinery and procedures, however, must be treated in terms of the total institutional setting that surrounds the budget process in each country.

Awareness of this marked influence of local environment is particularly important in countries that are seeking to achieve rapid progress in budgeting and general public administration in their efforts to accelerate economic development. The urgency of their problems may lead them to seek ready-made prescriptions. Local technicians observe and study budget processes in other countries, seeking approaches and devices to adapt to their own needs. Foreign technicians schooled in budgeting within the particular political frameworks of their home countries are called upon to advise in the improvement of budgeting processes. Technicians accustomed to traditional Western concepts of the supremacy of the legislative body in respect to final decisions on the budget may encounter situations in which these concepts do not prevail. The forms of representative government may be observed, but the legislative body may exercise little or no control over the actions of the executive.

In such a context, techniques of budget compilation and presentation that are useful where a major preoccupation of the executive is with securing legislative approval may lose much of their point. There is not, for example, the same need for presenting budget items in detail as is found where the achievement of a unified budget plan faces the test of scrutiny by individual lawmakers, some of whom are principally interested in the local benefits of budget proposals. In these political circumstances, the normal budgeting process of reconciling demands with resources is not curtailed or suspended; it is simply transferred from the legislature to within the councils of the executive. The technician must be prepared to make recurrent analyses of principles in the light of the evolving needs of manage-



ment and constitutional practice within any particular setting.

None of this means that budget methods and techniques cannot be adapted from one country to another. Quite the contrary is true. In many areas such adaptation is the only feasible approach to improvement of the methods, techniques, and procedures of budgeting. The important point is to avoid or resist the transplanting of devices and mechanisms that have been developed to serve different management or political needs. The technical and procedural detail of a budget system cannot substitute for the political determination and discipline that arise from a favorable combination of national unity and purpose, established constitutional arrangements, political responsibility, and administrative competence.

DIMENSIONS OF BUDGETING

Budgeting involves as great a range of interests and concerns as does government itself. A budget is a reflection of what the government is doing or intends to do. It is difficult to conceive of any public policy that can be carried out without money, and hence without becoming subject to budgetary processes at the development, review, and implementation stages. Besides its role in the political process and its impact on the national economy, budgeting has also been developed broadly as an instrument of administrative control.

Budgets are variously referred to as financial plans, work plans or programs, or political and social documents. Improvements in budgeting are frequently made synonymous with such objectives as strengthening administrative processes, achieving more effective or more stringent fiscal controls, securing efficiency and economy, effecting better utilization of resources, controlling inflation or improving economic conditions, or simply broadening the awareness and understanding of budget content. The early literature of budgeting treated the budget basically as a financial plan, and emphasized mechanisms of expenditure control. Later writing in this field recognized the



economic implications of the budget and emphasized it as an instrument of economic planning; budget making received much attention as an occasion for assessing probable developments in the national economy and for regulating the volume of governmental taxation and expenditures to offset threats of inflation or economic recession. More recently there has been a wave of interest in the budget as a work program, with emphasis on relating costs to performance.

The budget is all of these things. These different kinds of concern emphasize the many dimensions of budgeting and budget administration. They further point to the comprehensiveness of the budget as a plan and a procedure and to the necessity for a system of budget administration that can be utilized by responsible officials to deal with many kinds of problems and situations. The forecasting, determining, and carrying out of programs and activities by a government involve many different kinds of decisions about the spending of money. The budget system must clarify the responsibility for the various stages of decision making.

Budgeting is an important tool in learning the relationship of governmental programs to economic and financial conditions and trends and in fashioning suitable economic and financial policies and measures. Because the budget embodies a national plan for taxing, borrowing, and spending a significant segment of the national income, it has a substantial impact on the country's fiscal soundness and national economy.

Through the process of budgeting, public officials influence the conduct of governmental programs. Budgeting presents an opportunity to study and appraise the status and progress of governmental activities and to take action that determines their objectives, extent, and relative importance. Budget preparation and execution are complex processes that involve wide participation throughout a government, and these activities must be well coordinated if the objectives and requirements of programs are to be met. The effort is justified, however, since the budget represents a national plan that cuts across departmental boundaries and ties together all plans and projects. With this wide participation, elements of control and discipline must be



introduced if a unified national plan is to be formulated and carried out.

Budget preparation involves assembling much information about how components of a government propose to spend money. This process makes it a key management tool for reviewing work programs and the types and levels of services, the organization, and the methods that they reflect. Budget formulation affords opportunity for administrators to make a special annual scrutiny of operations in addition to their continuing management oversight.

THE BUDGETING PROCESS

There are no fixed formulas or precise criteria for determining the level or the composition of expenditures that should be included in a government's budget. Responsible officials must ultimately reconcile many conflicting views and resolve many conflicting claims. In times and places where the impact of governmental programs is slight, and where people's aspirations are not closely connected with what programs a government undertakes and how it administers them, budgetary decisions may have relatively little current significance. In national governments today, however, decisions on governmental fiscal transactions have a direct and immediate influence on the national economy. This is particularly true in the developing countries, where much of the available investment capital comes from governmental sources, and where decisions must be made on which of an overwhelming backlog of unmet needs are to be given priority.

As governments have assumed or have had thrust upon them responsibility for making decisions significant to the national interest, attention has increasingly focused on the processes by which public expenditures are determined, allocated, and controlled. It is generally agreed that these processes should be characterized by two basic elements. One is that responsibility for the formulation of a financial plan be undertaken by the executive. The other is that the formal



procedures be prescribed and authority be defined for the successive stages of budget preparation, review, enactment, and execution.

The assignment of responsibility for the budget in its various stages sets up a discipline under which financial decisions can be made. The budget system will assign responsibility for these decisions and limit the areas in which they are to be made. How the various processes are organized in any one country depends on historical and political factors, such as the constitutional relationships between the executive and legislative bodies, the degree of national unity, the responsiveness of the government to public pressures, and the economic and social objectives of the government.

There are, however, certain stages of decision making that are common to all settings and circumstances.

1. *Projecting Expenditures.* Of the many calls on governmental financing, some are so overriding that they have first claim on the available resources. Examples are those for debt retirement, construction projects under way, programs under way in which cutbacks would result in severe economic dislocations, and "essential" services such as public works maintenance and internal security. When these have been satisfied, there remain many claims and needs for programs, services, and capital projects, including demands for new and pressures for the expansion of existing programs and projects. A desired program of expenditure is drawn up after weighing the merits of these many calls.

2. *Determining Available Resources.* Attention must also be given to the available means of financing governmental activities. Here considerations are both economic and political. Problems of debt, international credit rating, and other fiscal and economic implications are intertwined with such considerations as the relationships of tax incidence to the maintenance of political support.

3. *Establishing Priorities.* The process of reconciling desirable expenditures with available resources is largely one of allocating resources among various claims. The issues that must be decided run the gamut of governmental responsibilities. How big a defense program is needed? What must the government do in the fields of education, welfare, and resources development? Which of the capital



projects needed for transportation development or land reclamation or the creation of essential electric power are to be undertaken? The answers to these policy questions must be expressed in financial terms, and decisions to propose bigger and more expensive individual programs must inevitably be accompanied by decisions to trim or curtail other demands.

4. *Matching Resources to Programs.* At this point in the budgeting process, consideration of the economic and efficient use of resources, involving the relation of costs to performance, becomes important. Is more man power needed and, if so, how much, in order to accomplish program objectives? Are all the supply and equipment items requested by agencies really needed? Many management, organization, and administrative issues arise that relate to the efficiency of programs as a whole or of specific operations within programs. The relation of costs to program accomplishment becomes an essential consideration, involving decisions on how much money will be allocated for what purposes and what restrictions will be placed upon its spending.

The result of these decisions is the budget, in which projected revenues and expenditures are assembled and proposed for enactment. The form and manner of presentation will be determined by many factors, as will the processes by which it is enacted into law. The making of a national budget is a difficult job. In the process, needs must be weighed against priorities and resources and issues forced to decision. Here, the effectiveness of the country's organization and procedures for budget administration plays a key role.

THE ROLE OF BUDGET ADMINISTRATION

The task of modern budget administration is to provide facilities and mechanisms that can contribute to timely, effective, and prudent



decision making in the governmental process of acquiring and spending money. In this way a country's budget administration can be an effective tool for the promotion of economic growth and responsible social progress. A good budget system should introduce orderliness into the process of spending public funds and produce data and analyses that will aid responsible officials in making decisions about the allocation and use of resources. Modern budget administration requires procedures to be established and staff and facilities provided to deal with each successive stage of the budget process in broad perspective across the entire government. It is the principal instrument that can aid the chief executive or cabinet in bringing about coordination of planning and management and the matching of agency programs with the resources of the government and the needs of the nation.

The concern of the budget agency in modern government extends over the full range of budget matters. Its responsibility begins with collecting and consolidating information to assist government leaders to arrive at a general course of action and to establish budget policy. Within the guidelines thus established, the trained analysts and examiners of the budget agency are called upon to review, and if necessary modify, expenditure requests of individual agencies so as to comply with national fiscal policies, objectives, and limitations. A major objective of budget administration must be to help responsible officials to focus attention on fundamental issues and problems. Thus, a modern budget shows costs of programs and activities and the means of financing them, together with the relationship of costs to services performed and results expected.

The responsibility of modern budget administration does not end with the preparation and presentation of the financial plan. After enactment of the budget, it moves into the phase of execution, which involves not only supervision over current spending, but continuous review of programs in relation to changing needs and circumstances. Through this supervision and review, information about operations, costs, and needs is gained, which is used for identifying problems and issues relevant to succeeding budgets.



THE FUNDAMENTAL IMPORTANCE OF THE BUDGET

The increasing importance of the national budget to a nation's economic and social development is reflected in the growing concern with methods and procedures of budgeting and budget administration. As earlier emphasized, the budget in modern government reflects many factors. It is more than an instrument of government administration. In addition, the budget reflects and shapes the economic life of a nation and the distribution of economic power. It reflects the political structure and the prevailing attitude toward the role of government. It serves as an instrument for deciding how the government shall spend its resources, who will receive the benefits, and who will pay the bill. In translating the money paid in by citizens into activities and services, the budget must assure that these resources are carefully husbanded and effectively utilized.

Anyone concerned with the financing, administration, or performance of a country's government must be concerned with budget administration and its effectiveness in reflecting and abetting the country's efforts to define and attain its goals. Even though various governments operate within a broad range of different political, economic, and social frameworks, there are many elements and techniques of improved budget administration that apply to all of them. This monograph is concerned with how they can be introduced and adapted so that they can best contribute to the economic and social progress of developing countries.



II

BUDGETING AND ECONOMIC DEVELOPMENT

The main concern of most developing countries today is to accelerate their economic development. In the past the pattern of life in these countries may have been set and stable, and changes few and slow to take effect, but now they are trying to raise their standards of living by making rapid economic progress and are having to deal with the accompanying political and social issues. Abrupt changes in the pattern of the economy put a strain on the existing system of government that quickly reveals its weaknesses. In this context, budgetary reform is seen mainly as a means of improving a country's financial posture and its ability to cope with complex problems of economic development. It is likely to be welcomed and implemented most effectively where it promises to supply this aid.

The process of economic development is extremely complex. Although it is sometimes presented in such simplified terms as achieving a given increase in per capita real national income or completing certain projects and programs, economic development involves much more. There has to be a radical alteration in the structure of society and in the pace of social change. Besides the formation and investment of capital, there must be the building of fundamental institutions in the banking, finance, and credit fields, the



accomplishment of greater equity in the distribution of goods and services, and expansion of the supply of physical overhead facilities such as transport and power and increased participation in economic activities by all sections of the population. These changes must be accompanied by the development of public administration so that it can cope with the new and constantly evolving problems of progress. This complex of changes will involve all arms and agencies of the government, including those local government units which propose or execute development projects; it will also affect the private sector of the economy in all its own complexity.

A newly expanding economy has its own peculiar budgetary problems, but this circumstance does not mean that the underlying principles and basic objectives of budgeting do not apply. The basic purposes of budgeting and most of its fundamental processes are strikingly similar in all national governments—a fact that should not be surprising, since the goals of economic betterment and stability in a developing economy are much the same as those of more advanced countries seeking economic growth, efficient allocation of resources, and optimum distribution of income.

These similarities in ends and means, however, cannot conceal the widely differing economic, cultural, and political environments within which fiscal policy and budgeting must operate or the varying states of development of public administration. Budget systems, practices, and techniques in older or more developed countries have been devised within particular constitutional frameworks and traditions and reflect the interplay of related political, economic, and social forces. They have been shaped, tested, and developed in particular environments that have conditioned their effectiveness. Failure to appreciate the impact of these influences can result, and has already resulted, in mistaken and costly attempts to transplant inapplicable experience to the governmental processes and economies of developing countries. The term "developing countries" covers a wide range of problems, needs, and abilities in economies and governmental apparatuses. These differences must be fully considered in attempting to diagnose and cure economic and fiscal ills.



BUDGETING AND FISCAL POLICY

The term "fiscal policy" in relation to economic development has come to mean the utilization by a government of coordinated revenue, expenditure, and debt programs to stimulate or control that development; it follows that fiscal policy affects and is affected by the size and content of the national budget, and that there is a desire to make the budget more effective as an instrument for the management of the national economy.

Creating Capital

The central problem in this management process is the formation of capital as the key to economic development. Fiscal policy must be directed toward diverting from the low output of the underdeveloped economy the resources to finance economic development activities and to encourage more vigorous investment activity. In this process substantial increases in governmental expenditures are inevitable if the so-called "overhead capital" is to be provided. These expenditures are required both to finance specific development projects and to increase resources to support development efforts.

Expenditures need to be sharply increased in such areas as education, health, and sanitation—functions that must be performed almost entirely by government. Such investment in human capital is essential, yet it provides no immediate or direct financial return. The development of transport facilities and water resources falls into a similar category. Other kinds of investment that must be undertaken by government are those in which returns are remote or slow or the capital investment is too large to be financed by other means. Examples are power installations, river developments, and irrigation or conservation projects.

The close link between these types of investment and the development process underlines the importance of strengthening and improving the tax and revenue systems of the developing countries. In



this tailoring of public finance to economic purpose, fiscal policy becomes one of the principal agents for influencing a nation's general level of economic activity. Increasing attention is being paid to the economic consequences of taxation and borrowing. There is general agreement on basic objectives of taxation and fiscal policy as applied to the problem of capital formation in developing countries; but frequently disagreement arises over the taxation policy that will most effectively encourage private investment and will guide it into the most useful channels.

The relationships of capital formation to taxation policy are covered in *Modernizing Government Revenue Administration*, pp. 24-28, a companion to this volume.¹

Governmental Expenditures and Fiscal Policy

The relationship of budgeting to fiscal policy and the effects of expenditures on the economy and its ability to support development efforts have received less attention than the economic effects of tax policy. National budget makers may make general references to the economic consequences of the budget, but the budgetary methods and techniques that are generally utilized call for little economic analysis at various stages of decision making. Typically, the expenditures side of the budgeting process is designed to establish agency accountability and to provide data and analyses for increased efficiency and improved program content and performance within the agencies. The entire process rests upon the formulation of estimates by segments of the government and their review and consolidation up through the several levels of responsibility and decision making to arrive at a coordinated plan. The budget makers are primarily program administrators, not economists.

It is unlikely that any kinds of formulas or fixed criteria can be developed to guide budget decisions in relation to economic policy, and certainly budget administration should not be converted to ap-

¹ Prepared for the Public Administration Division, International Cooperation Administration, by Public Administration Service, 1961.



plied economics. Nevertheless, budget formulation and administration are closely related to the formulation and implementation of fiscal policy; if they are not direct instruments, they are extremely important adjuncts. Budget administration (1) contributes essential information on governmental expenditures and (2) provides a mechanism to insure that expenditures conform to fiscal policy decisions.

Restraints on Fiscal Policy

In most nations there are certain restraints upon the formulation of fiscal policy—restraints that may be characterized as political, economic, legal, and traditional. Political and economic considerations affect a government's selection of programs it will undertake and its decisions on how much it will spend on these programs and how heavily and in what manner it will tax its citizens. Constitutional and statutory provisions typically set restraints on fiscal operations; these commonly include restrictions on the use of certain funds and limitations on the amounts of capital expenditures or the size of the public debt. By tradition, budgets are supposed to be balanced or overbalanced each year. Tradition is also reflected in many of the laws and budget "principles" relating to financing capital improvements. Most of these restraints seem to be based on the assumption that public improvements are infrequently occurring investments in long-term assets, although the need for or pattern of public improvements seldom conforms to this assumption. Governments, whatever their stage of development, usually face each budget year a large backlog of needs and demands for schools, highways, buildings, power plants, and so on.

Governments have, in fact, increasingly recognized the gap between traditional assumptions and the actualities in respect to financing capital improvements. Operating within legal frameworks based more on tradition than on rationality, they often must resort to special devices to provide for public needs. One common action is the creation of special authorities to finance public improvements outside general debt limitations. Such approaches involve the potential haz-



ard of failing to take into account all the facets of fiscal policy. Relating the financing of improvements to the operating budget should bring together all the elements of the government's fiscal program, so that all expenditures, tax and other revenue programs, debt management, and the use of fund balances can be considered in their own interrelationships and in the light of national economic trends and outlook.

Relating Budgeting to Fiscal Policy

Considerable progress has been made in recent years in the development of new approaches to budgeting and the creation of schemes and devices to help developing governments meet their responsibilities for economic and social policy.

Recognizing that the conventional administrative budgets do not permit an accurate measurement of the impact of their fiscal operations on the economy, some governments now prepare "consolidated-cash" budgets. These statements, which are supplemental to conventional budgets, provide information on money flows between the national government and the public and furnish the basis for short-run estimates of the effect of governmental fiscal operations on bank reserves.

Another approach, used by Scandinavian countries, attempts to reconcile seeming conflicts in respect to "balanced budgets" and financing capital outlays by distinguishing between "current" or operating and "capital" budgets. Under a system of capital budgeting and accounting, capital outlays may be entered in the capital budget whether the expenditures are self-liquidating or nonincome yielding, or alternatively the capital budget may contain only remunerative enterprises. In either case the operating budget provides for interest and depreciation charges as a means of amortizing outlays over a carefully estimated period of useful life of the object of the investment. Proponents of capital budgets advance them as a means to establish a base for informed decision making in relation to elements of fiscal policy.



The "economic functional classification," developed under the auspices of the United Nations, offers a means of showing how expenditures for a particular purpose are divided among economic categories such as current expenditures for goods and services, capital formation, and various types of loans and transfers. It also shows how expenditures in a particular economic category such as capital formation are divided among different purposes or types of public service.²

These schemes are supplementary to the internal administrative purposes of budgeting; they are designed to provide systematic information to assist in formulating government economic policy. They point up the fact that a large proportion of the decisions by governments which are expressed in expenditure budgets directly influence economic phenomena, and that budgeting and fiscal policy are closely interlinked.

BUDGETING AND DEVELOPMENT PLANNING

If there is no single scheme or device by which consideration of the economic impacts and the program impacts of governmental expenditures in their several ramifications can be merged, there is at least a process—development planning—in which the twain meet. Briefly, development planning is analysis and action by a country to consolidate and make sense as a whole of its governmental and private development efforts. It involves deciding how large a total development program a country needs and how much of the program it can afford; weighing the future effects of alternative actions relating to the program and choosing among them; and planning what changes in monetary, credit, and related institutions and practices will be advantageous and feasible.

² *A Manual for Economic and Functional Classification of Government Transactions*, Department of Economic and Social Affairs, United Nations, New York, 1958.



The Planning Process

Development planning is an extremely complex process. It should not be confused with the drawing up of a plan document or blueprint or with the still more limited function of formulating project proposals and making applications for foreign aid for these specific components of the development effort. The creation of a planning agency and the provision of administrative arrangements and technical competence for the formulation of plans, programs, and projects is only one of several needs. A basic requirement is a statement of national goals from which can be developed a declaration of immediate intentions around which national energies can be mobilized. If such statements, or "five-year plans," are to be realistic, they must be preceded by a general economic survey of the country, an over-all appraisal of its potentials, the evaluation of the country's resources by censuses of various kinds, and the establishment of indexes for analyzing production and income in relation to economic aims.

An evaluation of a country's resources and its productive potential at fixed intervals, however, and a comparison of the results with a determined maximum feasible future pattern, do not in themselves make a development plan, no matter how well the evaluation and comparison are conceived and supported. In addition to judging such imponderables as a country's ability to manage the change from an existing to a future blueprint, or a country's desire to make the effort, there must be a specific program covering the specific steps to be taken concerning specific projects. It is in this last stage particularly that budget administration has an essential part. An effective system of budget administration is needed to make planning realistic and fruitful.

The close relationship between budgeting and planning can be demonstrated by an enumeration of some of the matters on which decisions must be taken in the course of development. Decisions must be reached on the over-all magnitude of the development effort in the light of the financial, man power, and physical resources available for it. Individual programs and projects must be formulated, evalu-



ated, and executed. Projects and programs must be constantly inspected and progress on them evaluated. Periodically, the over-all emphases of the development effort and the scope of individual programs and projects will need to be reviewed and reformulated. Decisions must be taken on ways of initiating, expanding, and modifying all kinds of public undertakings. The final step in planning is a central budgeting process, which must relate individual projects to each other, and also must appraise the total effort in terms of the tax burden and indebtedness it entails, the desire and need of the public to retain income for private expenditure, and the degree, therefore, to which the government can carry out the financing of the plan.

A development program is carried out not in one leap, but year by year. Original anticipations of what will be accomplished will inevitably require modification. Adjustment of the ideal to the reality is an essential of development planning; it involves simultaneously adjusting specific proposals to total resources available and adjusting the total in the light of the urgency of specific projects and other current demands. In this respect development planning is, in its essence, a budgeting process. It is, however, much more comprehensive than normal financial and program budgeting because it takes into consideration economic factors beyond the province and competence of budgeting. Planning provides guides to budgeting decisions and opportunity to evaluate current budgeting policy in terms of its future effects on the country's development. Budget administration in turn produces data and analyses necessary in the planning of programs and provides the mechanism for reviewing, evaluating, and controlling them.

Minimum Specifications for a Development Budget

Many of the low-income countries have made rapid progress in budget administration in recent years, as they have increasingly recognized the close relationship between sound budgeting and progress in economic development. A number of them have established the



basic elements of a budgeting system and are introducing improved methods and techniques to increase the contribution of budgeting to the development process. In many countries, however, budget administration is so inadequate as to make impossible the implementation of any reasonable development plan.

The minimal requirements of a budget system in its relation to economic development are:

1. It should enable expenditure programs to be drawn up in a form that assists review of their purposes, costs of implementation, and conformity with national policy and objectives.

2. It should cover all public receipts and expenditures.

3. It should contain machinery that can be used to enforce the execution of approved budget plans or to adjust them where adjustment seems desirable and feasible.

4. It should provide for a central budget agency with clearly defined responsibilities for drawing up the budget, overseeing adherence to it, and perceiving the need for and arranging any modifications that become necessary during its implementation.

5. It should create a system of budget administration that will produce the data and analyses required for informed decision making.

EXISTING SHORTCOMINGS IN BUDGETING

Shortcomings in budgeting are many and varied. In some countries there is no central budget administration worthy of the name. Expenditure estimates are compiled on some historical basis, and programs and projects are initiated without any idea of when and how they may be completed or how they are related to one another. The annual budget represents a totaling up of departmental estimates of receipts and disbursements that are generally unrelated to governmental programs or foreign exchange resources or monetary policy. Basic accounting information usually is lacking. Countries with these shortcomings may be extreme cases, but there are many others in which less extreme but significant inadequacies exist.



A review of the budget systems of developing countries shows that many deficiencies are widespread. Among the most common are:

1. *Omission from the budget of certain governmental and quasi-governmental activities and enterprises.* The urgency to accomplish improvements in areas of special need such as health, sanitation, or irrigation has encouraged the creation of semiautonomous agencies in many Latin American and Asian countries to deal with such special purposes. These agencies often resist inclusion in the central budget because they enjoy a "higher standard of living" than regular government departments. Moreover, these agencies frequently use modern management and budget practices internally. The price of this local efficiency, however, is the correspondingly diminished effectiveness of the over-all national budget as an instrument for development planning in all of its ramifications.

2. *Extensive earmarking of taxes and other receipts.* The legislative earmarking of revenues for specified purposes imposes artificial restraints on planning expenditure programs in relation to balanced needs. The earmarking practice is widespread in Latin America and is growing in Asian and African countries. In one Latin American country in 1961 income from 291 out of 330 taxes was wholly or partly earmarked for subordinate authorities or marginal entities, leaving only 39 to the national government for general use.

3. *Uncoordinated use of extraordinary and supplementary budgets.* Generally accompanying the budget provisions that impose rigid restrictions on regular governmental expenditures are provisions for exceptions to the restraints by use of emergency or supplementary appropriations. The result frequently is extensive and uncoordinated use of extraordinary or supplementary budgets to defray "emergency" expenditures of operating departments. In one South Asian country, supplementary appropriations for the 1957 budget period accounted for about 25 per cent of the total operating budget. In a Caribbean country, extraordinary budgets have in the past served to negate effectively efforts to reform central budget procedures.

4. *Rigid and inflexible practices in budget execution.* Frequently no general practices exist for readjusting funds to accord with



fluctuating resources or changing needs during the course of the budget year. The phenomenon has often been observed of a large influx of vouchers at the end of the fiscal period; not infrequently each of these vouchers adds to the budget deficit.

5. *Defects in presentation.* Accounts do not provide information to permit either program evaluation or analysis for development purposes. There may be overitemization in accounts or, again, no itemization at all. Accounting information is often so late or unreliable as to provide no guidelines to budget review in relation to past experience.

6. *Defects in procedures and administration.* Often there is excessive and formalistic control over details of budget execution but general inattention to major program matters. Budget agencies and staffs may have technical competence but frequently lack the stature and prestige to exercise general oversight or to be an effective staff agency to the chief executive.

OBSTACLES TO BUDGET REFORM

The deficiencies in budgeting in the developing countries usually can be easily identified. With the deficiencies known it might seem that governments that are in earnest about development programs need only utilize available technical resources and assistance to introduce desirable improvements. Virtually all low-income countries have shown themselves capable of feats surpassing in complexity the introduction of an improved budget administration. Why, then, does weakness in budget administration remain such a significant obstacle to development efforts? The answer is that there are some very difficult hurdles to surmount. Their strength is perhaps best put in perspective when it is recalled that the United States government operated for a century and a half without a central budget system.

Political and Constitutional Factors

As has been emphasized, budgeting is done in political and institutional contexts and cannot be separated from them. These contexts



shape and direct the forms that the budgeting processes take. They may even work against the introduction of any changes to strengthen budgeting. In one view, budgeting can be looked upon as the translation of political decisions into specific programs. In this respect, it is a tool or mechanism that can contribute to the facility and effectiveness with which these decisions can be carried out. Supporters of budget reform often equate processes for reaching decisions with the results that are sought. Their support for reform may be colored by their views on the social and economic aims that the government should pursue in its programs as well as the impact of such programs on the interested groups.

These facts take on extra dimensions in many of the emerging countries as compared with the older, more developed nations. In the latter, the economic and social role of the government shifts and evolves and is subject to conflicting views and pressures. These modifications, however, occur within a more stable framework of established political processes and constitutional systems that have evolved through a long period of interplay of indigenous forces and circumstances and that reflect the prevailing views on the functions and responsibilities of the government.

Administrative and Governmental Factors

In some of the newly independent countries and in other countries emerging from oligarchy or feudalistic types of society, governmental structures may be inadequate for the accomplishment of current national aspirations. The fundamental need may be to create a responsible and responsive governmental structure. The development of managerial devices can become intermeshed with the development of the institutions that it is their purpose to serve. Such circumstances give rise to many problems and issues in determining the approach that should be followed in developing, installing, and implementing improved budget practices. In many countries, traditions, precedents, and historical antecedents for governmental action are adverse to current aspirations and needs. The improvement of public adminis-



tration involves many facets where a government in the past has been dominated by a colonial power or self-seeking oligarchies that have neglected the needs of large segments of the population. In many of the countries that have achieved independence recently, the problem of securing national unity and cohesion is paramount. Accidents of history or geography have resulted in national boundaries within which tribal and linguistic groups traditionally hostile to one another are thrown together in the difficult process of organizing for independent national existence. In other countries, different combinations of adverse factors make complex and difficult the building of a viable national society and economy that can cope with the problems of the modern world.

The current government's basis of power may by tradition be founded less on established constitutional and political processes than on its ability to secure the support of military or other dominant forces. Coalition governments where "opposition" leaders control certain ministries can set certain activities apart from central executive supervision. In such instances, it sometimes happens that the processes of budgeting and fiscal administration will be separated from the decision-making authorities. Institutions may have developed that have independent control over fiscal matters and attempt to enforce laws and regulations detailing the spending of money. The courts of accounts in many Latin American countries and the detailed processes for assigning accountability in some Asian countries are outgrowths of such circumstances. In these cases efforts to modernize budgeting practices may encounter questions of the stability of the chief executive and his ability to assume continued responsibility for budget planning, preparation, and execution.

In some countries emerging from colonial domination there is little executive or administrative leadership. Not infrequently a strong political leader arises who serves as an effective unifying force and a voice in world affairs, but who is not the chief executive in the sense of providing direction or leadership in the government. Inevitably, in a vacuum of executive leadership there are difficulties over the assignment of budget responsibility. Sometimes a nonpolitical person



or agency, such as a national bank, will become a unifying force in fiscal matters. Unless such a force develops, budgeting and financial administration may become an undisciplined contest among ministers with the strongest elements faring the best. Projected improvements in budget administration that would assign responsibility to a political figure raise many issues relating to the structure of power. Questions about who is to be responsible for the discipline that is part of a modern system of budgeting become so formidable that they may curtail effective action until the political processes become more orderly or a more disciplined bureaucracy evolves.

In short, budget systems must reflect political and constitutional institutions and traditions. In those countries in which institutions and traditions have not achieved sufficient definition and stability to provide and support effective and responsive instruments of government, substantial improvement of budget administration must be viewed as long range. First efforts may have to be limited to tidying up areas of fiscal administration and introducing some degree of orderliness in the processes of projecting and accounting for expenditures. The introduction of the techniques and processes of modern budgeting, tailored to the particular needs and circumstances of a country, can themselves contribute to the achievement of national unity and common purpose and the establishment of viable government.

Other Obstacles to Budget Modernization

Even in those countries where the leaders recognize the importance of budgetary reform and conscientiously endeavor to promote it, there are other factors that tend to preserve the status quo. Common to all governments are the problems of inertia and the dead weight of traditional operating methods within the administrative establishment. The possible effects of revisions of the budgetary system designed to bring program expenditures under closer control arouse more concern than do most other types of contemplated administrative reform. Existing budgetary processes often allow great



leeway to ministers or other program administrators in formulating and carrying out their expenditure programs. Modern budget administration introduces discipline into this process. Administrative officials, even if they have nothing improper to hide, are usually wary of a budget agency with authority over their program expenditures. Often the officials in charge of major programs take a strong paternalistic attitude to their fields of service, based on the firm belief that they personally know best what the people need. This attitude is strengthened by the fact that it is accepted by others who look to these particular persons as the providers of the services and activities for which their segments of government are responsible.

In many countries, a special problem may arise out of the role of the military in government. Aside from the fact that the military may be the significant basis for governmental power, it is not unusual in many countries in Asia and Latin America for the military to be involved in operations not directly concerned with national defense. Also, many countries today utilize different processes in budgeting for national defense than for other governmental programs. Any budget processes proposed will recognize that the amounts and types of expenditures for national defense must be worked out at the highest level of policy decision making. Even so, many efforts at budget modernization have been hindered, if not blocked, by the reluctance of military leaders to accept a budgetary system that clarifies and controls the processes by which public funds are expended.

Another entirely different kind of opposition to budgetary reform is not infrequently encountered. In many countries in which governmental administration and policies have been characterized historically by opportunism and lack of stability, certain offices or institutions have come to provide a needed source of integrity in matters of fiscal policy related to monetary management, international credit, or debt controls. These institutions, which may be, among others, national banks, ministries of finance, or audit agencies, may historically have provided the only day-to-day concern with the integrity of governmental fiscal affairs within a traditional framework of irresponsible conduct of governmental affairs at the executive level. Pat-



terns thus established are generally difficult to change even after effective and responsible executive supervision has been instituted that recognizes the need to accept and exercise the functions of budget preparation and execution and the direction of related fiscal processes. The officials and agencies that have exercised basic fiscal management responsibilities, more or less independently of executive supervision, may be reluctant to surrender their separate "watchdog" activities to an integrated system of budget and finance administration.

Even when a country's governmental leaders have been persuaded of the necessity for budgetary reform, there is still opposition to be overcome. As observed earlier, to be fully effective, budget administration must be comprehensive. It must cut across other administrative divisions and supersede departmental prerogatives. The attitude toward personal authority in a typical economically less developed society is often not understood by Westerners. In such a society authority is not primarily a means of accomplishing a purpose, as it is in a more management-oriented country. Rather, it is a symbol of personal worth, status, and importance. A person in a position of authority often does not regard himself as having any obligation to solve problems. Rather, his position is a reward for having attained an elite status. Such persons often view any restraint on their exercise of authority, or any suggestion that their policy decisions be evaluated by other than their direct superiors, as encroachments on their authority and reflections on their personal position. Hence, determined resistance can often be expected to budgetary planning processes that involve outside review and judgment of matters considered to be the prerogative of a particular position.

Lack of Budgeting Tools

Budget administrators in developed countries take for granted their ample supply of skilled technical assistance and the availability of reliable data and information. To them, this is where budgeting begins. But in a developing country these basic tools of the trade may be in short supply or nonexistent. Two of the major problems,



particularly in many Asian and African countries, are the almost complete lack of data that could help to identify program needs, let alone provide guides to budget policy, and the absence of trained technical personnel who can undertake the necessary supporting roles in budget administration. Such governmental accounting as exists is usually concerned with recording transactions according to prescribed rules and regulations, with no thought of relating them to management needs or providing data for information or analysis. Administrative structures will generally be inadequate in terms of internal organization and administrative processes and lacking in the concept of over-all coordinating mechanisms referred to as "staff services." The result is compartmentalization of administrative units, with lack of communication not only between ministries, but also between organizational units within a ministry or department. The introduction of many modern budgetary devices and techniques may have to be postponed because of the absence of trained technical personnel or a ready supply of coordinated data and information necessary for their implementation. However great might be the advantages of a cost-based budget, for example, this objective has little meaning if no accounting profession exists.

APPROACHES TO BUDGET MODERNIZATION

The demand for budgetary reform in a developing country is unlikely to result from a cool, critical appraisal of the existing system, or lack of system. More often, acute fiscal problems accumulate to the point where they block the planning and execution of desired programs, and the initial demand will be for an attack on these problems. Frequently, the existing problems have arisen from overspending of appropriations or other loose fiscal management that has affected financial posture and international credit standing. Thus, the initial impetus for revision of budget practices is in the direction of additional or more effective fiscal controls.



Some writers in the budgeting field criticize emphasis on the fiscal control aspect of budgeting. Such criticisms are valid only in those governmental jurisdictions in which firmly established control devices dominate the budgetary process at the expense of important planning and programming aspects. In less developed countries with widespread problems of public administration, budgetary reform almost always will be tied in with general efforts to strengthen and improve financial administration. The introduction of more effective controls over the spending of public money and increasing the integrity of financial records and reports are necessary first steps. From this approach and initial emphasis, more positive systems of budget administration generally develop.

The transition from subsistence budgeting to development budgeting is not an easy one. It may involve the destruction of systems and customs that are not only of long standing but in their limited context often work to the satisfaction of all concerned. In their place must be introduced systems that seem complex and taxing to those who have to operate them. Acceptance of the changes will need to be gained not only from budget and finance officials but from every ministry and agency involved directly or indirectly in governmental revenue or expenditure activities.



III

ESSENTIAL ELEMENTS OF AN EFFECTIVE BUDGET SYSTEM

There is no authoritative model or single "right way" to prepare and execute a national budget. There are, however, certain requirements common to all political and economic environments that are necessary to make the budget agency an effective instrument and to give meaning to its procedures and techniques. As an integral part of the governmental structure, budgeting needs a sound and realistically defined legal base. The budget process should cover all financial activities and requirements of the government. It must be capable of producing data so organized and classified as to provide assistance to a variety of types of decision making involving, not infrequently, conflicting policies and issues. Finally, the budgeting process should



be closely related to the accounting and fiscal processes that govern its execution.

THE LEGAL BASIS OF THE BUDGET

An essential element in modern effective budget administration is a sound, realistic legal base. This kind of base is particularly necessary in most developing countries where the introduction of an effective system of budget administration is likely to disrupt existing patterns of government. These patterns are usually personalized and juridical rather than institutional and managerial.

Such an environment will often offer formidable resistance to rapid change. On the one hand, the personalized administration works against coordination of efforts. Even where there are competent specialists and administrators in particular departments, they tend to be confined within their departmental walls. As a result, there is little coordinated planning or communication of decisions, and jurisdictional sensibilities are extreme. On the other hand, the processes of administration are governed by detailed legalistic restrictions. Generally it will be found that the handling of individual fiscal transactions is controlled in minute and inflexible detail. Often there is much concern over how documents are authenticated, processed, and filed, how transactions are classified, and how accounts are maintained. At the same time, large areas of governmental expenditure are under little or no control, slight relationship exists between expenditure estimates and results, and many procedural requirements are met by *pro forma* and "after the fact" actions. In the process of budget preparation, meticulous attention may be given to the manner in which estimates are assembled, without any real central executive concern with, or even knowledge of, the relationships of estimates to needs, programs, or work loads.

A sound budget procedures act, which has been considered and approved by responsible political leaders, can contribute greatly to



the overcoming of the kind of obstacles to effective budgeting described above. It can provide a foundation and framework for budget modernization efforts. While good budget practices and techniques cannot be legislated into existence, the institutional approaches and practices that can make them practicable and effective need to be founded, nevertheless, in the constitutional and legal structure of the country.

Evolution of Budget Legislation

In the United States and most European countries, the budget and budget administration rest on a legal groundwork consisting usually of constitutional and statutory provisions or, as in England, custom. In all cases the legal framework has developed slowly as the governmental structure and processes have become institutionalized. Generally, the legal structure supporting budgeting reflects the scope and variety of governmental activity and is modified in accordance with refinements in the budget system, such as the trend toward centralization of executive responsibility for budget preparation and execution, the tendency toward comprehensive budgeting, and the introduction of bureaucratic discipline in budget matters.

This last development is exemplified by what might be called the "controlled flexibility" feature of the budgeting system in the United States and most European countries. This feature is typified by fixed and rigid central controls of major segments of public expenditures but considerable flexibility and discretion in the carrying out of programs within the imposed limits. Budgeting is viewed as an essential political and administrative process, consisting of various stages, with the legal structure assigning and fixing responsibility at each successive stage. Administrative orders and regulations may elucidate and supplement basic statutory provisions, but they apply only within the general institutional pattern of administration and within the legal framework that has evolved to fit the political structure of the particular country. Such a system allows flexibility of



detail within a firm over-all structure. The antithesis, found in many of the developing countries, is a rigid insistence on conformity in detail within a lax and uncoordinated budgetary structure.

Need for a Sound Budget Law

Historically, improvements in budget administration have been the outcome of experimentation rather than the product of legislation. It is when budgetary practice has been developed that laws are needed to provide permanence and assign responsibility. But this very permanence has the drawback of tending to set budgetary practice in a rigid pattern, particularly when it describes the methods to be used in great detail and otherwise sets up formalistic controls.

Many countries now attempting to initiate budgetary reforms as a part of their efforts to accelerate economic development are faced with both facets of the problem of legal structure. On one hand, excessive and formalistic regulations and procedures hamper experimentation, the introduction of improved methods, and the redefinition of authority and responsibility. On the other hand, the stage of development of political processes, the characteristics of the existing bureaucracy, and the general administrative behavior traits combine to impede establishment of a legal framework that accepts the "controlled flexibility" approach. The urgency of the need for budgetary reform, however, makes the early establishment of a good budget law essential. Most of the countries that need to modernize their budgeting cannot afford the dozen years which the United States Congress spent in debating the Budget and Accounting Act finally enacted in 1921.

The establishment of the legal foundation that will give budget administration its proper role as a base for high-level policy planning and a tool for policy execution requires both the recognition and the support of the top political leaders of the country. A proper budget law not only imposes discipline but also assigns responsibility. Formulation of legal provisions that will contribute to the development



of budget administration and be adaptable to the structure of the country involves consideration of politics and political science in the broadest sense. In this area, the expert from outside can be only of limited help. In a climate receptive to innovation but without local critical research, it is sometimes easy to secure the adoption of legal processes patterned too uncritically on foreign examples. The legal basis of budget modernization must be agreed upon and supported by the statesmen and political leaders who are responsible for its implementation and answerable for its consequences. The futility of any other approach is exemplified by the general ineffectiveness of the budget laws and procedures that were pretty much imposed by creditor nations within several Latin American countries several decades ago.

BUDGET COMPREHENSIVENESS

A system of governmental budgeting should be comprehensive. It should include all fiscal income and outgo and it should present the fiscal requirements in proper relationship to one another. In effect, the budget system should cover the entire range of policies and issues involved in the projection of expenditures and revenues.

Comprehensiveness in budgeting is frequently more honored in theory than in practice. It is easy for a budget to become segmented to reflect different sources and means of financing various kinds of undertakings. Often the budget, as an integrated document, is concerned only with programs financed by those general revenues that are subject to annual appropriation. This circumstance arises primarily from traditional views that emphasize the budget as a means of exercising legislative control over taxing and spending; in other words, if the legislative body is not called upon to authorize a proposed expenditure by annual appropriation, there is no apparent reason to subject it to the budget process.

The problem of budget comprehensiveness has been particularly acute among the state governments of the United States. An historical



pattern has evolved of legislatures setting aside revenues for the support of particular programs and agencies. These dedicated receipts for special purposes, and other revenues not subject to general appropriation or the central accounting process, have led to the firm establishment of the "fund" concept in state and local government finance in the United States. Typically, laws require the segregation of specified receipts and disbursements for accounting purposes. Thus, each "fund" has its own cash and other assets and liabilities and is a separate fiscal entity. In other governmental jurisdictions, although financing is not subject to a rigid fund structure, a similar situation exists when many types of fiscal transactions are not subject to the regular process of annual appropriation of specific amounts for proposed expenditures.

Earmarking of Revenues

Several problems arise over the budgetary treatment of activities that are not financed through general revenues annually appropriated. The most basic is the question of the wisdom of earmarking general governmental receipts for special purposes. There is frequently strong support for this practice, either to assure the continued financing of an essential service or to make more popular the levying of a particular tax or surcharge by allocating its receipts to a purpose that the payees wish to support. In recent years, for example, several Asian and African countries have assigned the receipts from specified taxes to the support of education. Earmarked revenues also have been extensively used in many Latin American countries. However laudable may be the demonstration of continued special support for desirable purposes, it is obvious that the wide extension of this means of financing can seriously curtail the effectiveness of the budget in adjusting the balance of needs and resources to changing circumstances. The experience of many state governments in the United States testifies to the danger of carrying this policy too far. Some of them, with upwards of 50 per cent of their receipts dedicated to specified segments of regular governmental services, such as highways and



education, have found it impossible to finance the other segments from the remaining general revenues.

A related problem is found among many governments in which unified central direction has not been formally established. It is not uncommon to find ministries, departments, or agencies concerned with general government whose operations, by tradition or political pattern, are endowed with certain prerogatives. For example, an agency that generates governmental income is looked upon as having a special claim to a share of it and is authorized to retain certain types of receipts or "commissions" for agency purposes not subject to budgetary review.

From the point of view of desirable budgeting practice, little justification can be made for earmarking receipts for special purposes that set these specially financed activities apart from normal budgetary procedures. Even if the programs so financed are carefully reviewed to assure that their funds are properly used, the basic budgetary function of allocating total resources among competing purposes is not fulfilled. There is even less justification for permitting agencies to retain money for supplementary purposes and removing this money from central budget and fiscal control entirely. This is a political problem that must be solved by political means.

Budgetary Control of Autonomous Agencies

Another set of considerations is involved in the treatment of the income and outgo of governmental agencies that by the nature of their operations are not susceptible to such conventional budgetary controls as the appropriation of specific amounts for defined periods. These include enterprises in which receipts and disbursements are determined by volume of business and trust-type operations in which money is received and spent on the basis of established requirements not subject to administrative discretion.

Much has been written on the relative merits of gross and net budgets, that is, whether budgets should reflect total receipts and expenditures of certain undertakings or merely the balances resulting



from their operations. For example, this issue has been raised frequently in some countries in regard to postal services. Proponents of gross budgeting have argued that this approach brings all financial details under direct review and prevents agency irregularities. Proponents of net budgeting claim that the inclusion of gross income and expenditures needlessly inflates budget figures and obscures issues, since the only important consideration is the net amount of governmental cost to be provided by taxation.

In relation to budget comprehensiveness, the question of gross versus net presentation of the operation of government undertakings is secondary to the principal point that the central budget administration and the budget process should take proper cognizance of the undertakings outside normal appropriation processes. This cognizance and oversight has two facets. First, it provides some assurance that the internal expenditure programs of the undertakings are properly conceived. This does not mean that conventional methods for the formulation and execution of expenditure programs should necessarily be applied. Rather, it means that sufficient supervision will be provided to assure that expenditures are related to the purposes of the enterprise, that general governmental standards are adhered to, and that resources are properly used.

The second facet to be considered is the economic impact of enterprise operations on governmental policy. Frequently, enterprises come under budgetary review only when questions arise as to the extent that they are able to contribute to general revenues or that deficits must be made good from general funds. Debate about these questions usually centers on management efficiency or the diversion of funds needed for capital expansion. This concern only with isolated cases does not constitute adequate budget review.

Budget administration should maintain a continuous review of enterprises so as to control the balance between services performed on the one hand and income produced or subsidy required on the other. The fact that the enterprises are usually outside regular governmental processes means that standard budget methods should be applied discriminately. Differences in needs should be recognized and



integration required only at the appropriate levels of governmental policy. The fact that different types of information are needed in order to make different kinds of decisions is not incompatible with the requirement of budget comprehensiveness. Different methods of classification and accounting must be utilized, however, to reflect the various dimensions of budget considerations.

Special problems of budget oversight arise in countries that use governmental corporations extensively to operate productive enterprises. The nature of operations under a corporate form of organization requires that management have considerable flexibility in internal budget matters. At the same time, a central budget agency has a responsibility to see that public funds invested in corporate enterprises are properly used in terms both of internal management and of conformity with general governmental policies and development objectives. Budget review procedures need to be designed to avoid interference in enterprise planning and management of fiscal affairs but to provide for general cognizance and oversight of operations that can detect and bring to light instances of poor planning and management.

A basic requirement is a grouping or classification of enterprises according to financing arrangements and purposes of creation. Different criteria, for example, need to be applied to enterprises whose primary purpose is to produce general governmental revenue, such as a tobacco monopoly, and those that are meant to stimulate private investment or otherwise to serve specific development purposes, such as a demonstration sugar refinery. Also, the interests of the central government in a wholly owned enterprise under direct ministerial supervision differ from its interests in a stock corporation of mixed ownership. Within the several categories of enterprises fiscal regulations should only be imposed as they are necessary to curb irresponsible actions or policies at variance with general governmental objectives.

The central budget or fiscal agency should receive regular reports so designed as to provide sufficient information for a general review of enterprise operations. The central budget staff should be able to



assess the operations to determine, for example, if poor management practices are dissipating the government investment; if the losses of an enterprise require an examination of the wisdom of continuing it; if the enterprise's original purpose has been served and private enterprise may be better equipped to carry on in the area; or if activities of the enterprise are duplicating or in conflict with efforts of regular governmental departments.

EFFECTIVE BUDGET CLASSIFICATION

Budget information must be so organized that its significance can be understood. The classification of expenditures and revenues provides the form and structure essential for analysis and decision making and sets the pattern for many budgeting processes. The classification scheme determines the way estimates are gathered and the kinds of forms used to gather the information. It establishes the manner of arranging and presenting data in the budget document, and this presentation generally determines the way appropriations or other authorizations to spend are made by the legislative or central administrative bodies. The account structure, in turn, must be geared to the form and requirements of the authorizations. The accounts record the transactions and produce the summary data for budget execution and to serve as a basis of comparison for the succeeding budget cycle. In short, the classification scheme strongly influences both the basic approach to budgeting and the critical information it produces for evaluation of income and outgo of money in relation to program objectives and accomplishments.

The fundamental criterion for determining the adequacy of the budget classification and account structure is: does it provide the data and analyses needed to allocate resources effectively? There is no single, ideal type of budget classification, nor is one system inherently superior to another. The test is in the usability of the products of a particular process or approach.

Characteristics of Budget Classification

Amid the conflicting issues and competing demands that arise at various levels of the governmental hierarchy, there are many different kinds of decisions to be made. A budget classification system should be designed to help focus the questions and clarify and detail the answers. There are several characteristics that a budget classification scheme should possess to serve these purposes.

First, the classification should be pertinent. It must produce information on the points that are of interest to decision makers and at the level of detail that they require. It should neither bracket important questions nor break them down into such pieces that the whole cannot be recognized.

Second, the classification structure should possess a degree of uniformity. It is desirable that the expenditures of all agencies be similarly treated to facilitate comparisons. Uniformity, however, should not be achieved at the expense of pertinency. The kinds of information that enterprises need, for example, differ substantially from the kinds required by regular operating departments.

Third, the classification must be practical—which means, among other things, that the problems of accounting for transactions must be considered. Some kinds of information that are considered useful in some circumstances in others may simply not be worth the time and effort it would take to produce them. The accounting resources should, of course, be adequate to produce information that is sufficiently reliable to justify decisions.

Finally, the structure should be manageable. Maintaining a manageable system of classification can become a particular problem in places where budgeting emphasizes efficiency in governmental operations. Excessively numerous and detailed classifications can obscure larger program issues, particularly at the national government level where officials responsible for budget decisions are not usually in continuous touch with operations. Moreover, efficient governmental operations cannot be secured by a budget classification system alone. Additional management techniques, such as unit cost account-



ing and work reporting, are necessary supplements, as well as such broader requirements as good personnel administration and good organization and work methods.

Types of Classification

There are many ways in which budgetary data may be classified. A single item of governmental expenditure may be classified, for example, by the agency that purchased it, by the program for which it was purchased, by the source of financing, by its purpose or character, by time or place of purchase, and so on. Similarly, items of revenue may be classified in several ways, including by source, by collecting agency, by area of collection, and by fund to which credited.

There are several classification schemes in general use. Considerable fruitless debate has appeared in budget literature and conferences about the virtues of one system over another. Various methods of classification serve different purposes, any of which may be useful for specific budgetary needs in a particular government. Moreover, the debate over advantages and disadvantages of systems is generally further confused because the same term may mean different things to different people. For example, some use the term "line item" for any kind of classification that relates to object of expenditure, whether it be broken down into two or three general categories or into a score or more. Similarly, "program," "activity," and "project" may be used synonymously or they may mean completely different kinds of classification to different people. With these warnings in mind, the need for and purposes served by different types of classifications will be briefly discussed.

Functional Classification. A functional classification is concerned primarily with governmental expenditures and is designed to facilitate program formulation at the level of the chief executive or the level of legislative review. It involves the grouping of expenditures into broad functions or purposes such as education, defense, and social welfare. This form of classification is well suited to the analysis of governmental activities over a period of time, as it provides oppor-



tunity to measure the changes in programs and in the distribution of activity. Considerable attention has been given to the development of a "uniform" functional classification to facilitate intergovernmental comparisons. This objective is, of course, useful, but it must be remembered that when such a classification is developed for budgetary purposes it will necessarily vary from one government to another in accordance with the kinds of things that a government does and the types of programs that receive current emphasis. Generally accompanying any functional classification of expenditures is a revenue classification centering on major categories of receipts.

Organizational Units. Every budget classification system must identify expenditures with the organizational units that plan and execute sections of the budget program. Such a classification must necessarily be tailored to the specific organizational structure of the government, and its usefulness for over-all budget planning and review purposes will be determined to a large extent by whether the structure is realistically related to the administration of governmental programs. A governmental structure that assigns responsibility for segments of a program to separate departments or ministries creates a problem for effective budget planning and review. Also, the frequent practice of making appropriations to minor subunits of departments or ministries adds to the difficulties of evaluating program needs and performance.

Objects of Expenditure. The principal purpose of object classification is to control expenditures at the agency or departmental level. It centers attention on the accounting aspects of governmental operations in terms of things bought and is generally utilized to impose limits on the amounts that agencies may expend on specified items. The principal objections to undue reliance on object classification are twofold: (1) because it emphasizes individual items it does not direct attention to governmental programs in their entirety and (2) it is not useful for summary purposes—that is, for aggregating across departmental lines.

Much of the criticism of object classification arises from the detail to which it is frequently carried. Such detail establishes a



rigidity in operation that serves no useful purpose. Some kind of object classification is necessary in most governments, however, in order to provide for needed control and accountability of operating departments. Besides such general objects as personal services, materials, supplies, and equipment, about which information on expenditure may be required, other specific items often need to be isolated. For example, traveling expense is generally an item that is subject to considerable regulation as well as close scrutiny, and it may need to be classified separately to facilitate review. Again, items that are imported may need to be identified in order to estimate the effects of governmental importing on foreign exchange.

Programs, Activities, and Projects. Budget accounts need to be arranged so as to facilitate program formulation and execution or, in other words, to focus on what the government does or intends to do. In some jurisdictions the terms "programs," "activities," and "projects" may be used synonymously to indicate the kinds of things the government is undertaking. In other instances they may designate levels of performance, i.e. programs are subdivided into activities, which in turn are subdivided into projects. Sometimes the organizational classification provides the basis for identifying separate programs. In terms of aid to effective planning and utilization of resources, the recording and presenting of budget data on the basis of what is being undertaken is the most useful of all classifications. Many proponents contend that this type of presentation is also the best way to achieve efficiency and measure effectiveness of performance. It is unlikely at the national governmental level, however, that a single basis of classification can satisfactorily meet both objectives.

It is difficult to generalize about either the technique of program classification or the degree of detail that should characterize it. Suffice it to say that (1) the approach of budgeting that emphasizes classifying, recording, and presenting data in relation to past and anticipated performance and results obtained should be advanced and (2) the classification structure should be pertinent, manageable, and practical.

Some budget literature would appear to foster adaptation in



central budget preparation at the national governmental level of approaches to program classification supported by such precise measurements of work load and performance standards as have been developed within some United States municipalities and enterprises. These efforts fail to recognize the fundamental fact that the national officials responsible for budgetary decisions at the top executive level are not and cannot be "managers" in the way the principal administrators of less complex jurisdictions are. The utilization of detailed work program classifications supported by work unit costs can be an effective aid to internal budgeting and management within departments. Such data need to be reduced and consolidated, however, to give perspective for the kinds of decisions that have to be made at upper levels of administration.

Character. Most governments classify expenditures according to "character," that is on the basis of the fiscal period they are presumed to benefit. The chief character classes are current expenses, fixed charges, debt redemption, and capital outlays. This kind of grouping may be a simple identification for informational purposes or it may be the basis for making appropriations.

In any budgeting system, budget classification and account structure need to be arranged to produce information on the character of expenditures. Such information is indispensable to long-range budget planning and to analyses of economic impacts of expenditures.

Some European countries have adopted budgetary systems that distinguish between the operating budget and the capital or investment budget. Under a system of dual budgeting, the original cost of durable goods is met by borrowing, by transfer of amortization or depreciation charges from the operating to the capital budget, or by receipts from designated taxes. It is essential that losses on income-earning properties, after depreciation and interest charges as well as operating expenses, be carried by the operating budget. Similarly, nonincome-earning assets such as schools and roads must be a charge against the operating budget to the extent of interest and depreciation charges plus operating expense.

Economic Classification. The kinds of classification discussed



above relate in one way or another to administrative budgeting, i.e. measuring and projecting governmental expenditures and receipts. An economic classification, on the other hand, is intended to provide information useful in reaching decisions about governmental policies that affect the composition and level of economic activity. It shows governmental expenditures and receipts classified by economic categories that are of significance for analyzing the general effects of governmental transactions on the economy.

Many countries in recent years have developed systems of national accounts to trace money flows through the economy and to relate these flows to changes in purchasing power and holdings of different types of financial assets. An economic classification scheme records income and outgo of a government as an economic transaction, that is, the general economic impacts of its taking money by taxing and borrowing and returning it by spending for goods and services, making grants, and lending it.

The economic classification relates primarily to fiscal policy and must be distinguished from concern with the costs or efficiency of programs or activities undertaken. It attempts to record the impacts of governmental revenues and expenditures on the aggregates of national income and employment, the effects of governmental activity on the distribution of income, and the government's contribution to capital formation. While an economic classification scheme is basically unrelated to classifications for such management purposes as establishing accountability or examining program effectiveness, it cannot be completely isolated. If it is to contribute to an awareness of the economic impacts of budgetary decisions, it needs to be integrated into the budget and accounting processes in order to provide information on the economic consequences of decisions just as other classifications provide information on program consequences.

Effect of Legal Requirements

The legal provisions that control the receipt and expenditure of public funds greatly affect the application of any type of budgetary



classification. Not infrequently these requirements make it virtually impossible to reduce data to a pattern that will serve to focus attention and facilitate decisions on pertinent issues. The most common deterrent to effective classification is the earmarking of designated receipts for specified purposes. Other problems arise from the laws governing appropriations. They may require excessive detail or specify methods that are inconsistent with the manner in which programs are planned, reviewed, and evaluated. A budget classification must necessarily reflect legal requirements, and in many governmental situations there can be no progress toward more effective classification and its resulting benefits until the legal structure underlying budgeting has been revised. To be fully effective the budget agency must be free to evolve for itself the classification system best suited to its circumstances and needs.

CLOSE RELATIONSHIP TO ACCOUNTING AND FISCAL PROCESSES

The accounting system of a government plays an essential part in the preparation and execution of the budget. The accounts should give current information about the status of all phases of the government's financial activities. The accounting system should provide accurate data promptly for administrative control over the execution of the budget plan. It should also produce the financial information required for subsequent budget planning and formulation. Thus, budgeting and accounting must be closely articulated. The effectiveness of budget administration depends to a very considerable extent upon the ability of the accounting system to produce data that are current and correct and that have pertinence and meaning as guides to making decisions about programs and their costs.

Historical Relationship of Budgeting and Accounting

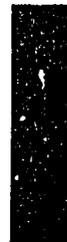
The interrelationships of budgeting and accounting must be fully



recognized in budget modernization efforts. At the same time it is essential that budgeting and accounting be viewed as separate and distinct processes, neither of which can be treated as an appendage of the other. Historically, in many jurisdictions, budgeting has been dominated by requirements of accounting and fiscal management. The traditional emphasis on legislative control of executive spending served to establish a rigid pattern of accounting designed to meet requirements for accountability and to demonstrate compliance with legal limitations on the use of funds. Budgets in turn were shaped by these accounting processes, and became to a large extent compilations of prior and projected expenditures, which were classified according to organizational unit and object and made subject to annual appropriation.

With the increase in the scope and complexity of governmental operations came increased concern with the management aspects of budgeting. New concepts of budgeting were introduced, emphasizing programs and the relationships of costs to results. In efforts to free budgeting from the limitations imposed by traditional fiscal control approaches, the separateness of budgeting and accounting was emphasized. Sometimes the concern for budget reform and the introduction of new concepts resulted in the creation of classification schemes for the assembly and presentation of budget data in forms unrelated to account structures. This approach can be as unsound as that of sole concern with fiscal control and the treating of budget data as a by-product of accounting operations.

Failure to recognize fiscal management requirements and their basic relationship to budgeting can result in many kinds of problems. Examples found among jurisdictions that have failed to integrate accounting and fiscal requirements with budget administration include: maintenance of dual systems of accounting, one "management" and the other "control"; conflicts between auditors and administrators in which the legality of expenditures made in accordance with the budget plan is questioned; and time-consuming transfers between accounts and the recasting of accounting data for budget presentation purposes.



The Dual Function of Accounting

The combination of separateness and interrelationship of the accounting and budgeting processes means that budget modernization efforts must be concerned with the accounting process from two different points of view. First, attention must be given to tailoring the account structure and method of recording data to produce information needed for budgeting. Second, the accounting point of view must be represented to assure that acceptable accounting standards and practices are maintained in the recording of transactions and the production of information.

The comparatively recent emphasis on the need for the accounting system to produce information for budget planning and execution does not mean that the traditional requirements of an accounting system decrease in importance. The responsibility for furnishing management information represents an additional dimension to governmental accounting. Requirements that the system establish agency accountability, demonstrate compliance with legal requirements, protect cash and other assets, and furnish statements on financial condition still hold good. Moreover, the accounting system must give appropriate recognition to necessary features of internal audit and control, and it must provide for an independent audit to assure the integrity of financial statements and reports. These elements are necessary to assure that the provision of current information is soundly based.

Modern techniques and methods of accounting and fiscal administration can supply data and analysis for widely different requirements. A government's accounting processes should be comprehensive, with all parts clearly related to the whole. This requirement does not mean that accounting needs to be concentrated in one central agency, nor does it mean that a single uniform system should be applied to all types of governmental operations. For example, it is no more logical to have an identical accounting system for a public power project and a governmental hospital than it would be for two such diverse activities carried on privately to follow identical accounting systems. It is,



however, essential that the account structure by which data are accumulated be compatible with the budgetary classifications by which revenues and expenditures are presented. The accounting information can be in greater detail than the information used in budget preparation but it cannot be in less or different detail if it is to serve budgeting purposes.

The drawing up of a budget requires other fiscal data besides revenue and expenditure information relating directly to operations. They include information about governmental investments in capital enterprises, indebtedness and debt costs, location and value of property, and cash flow and available cash on hand. Good fiscal management is indispensable to effective budget administration, and governmental practices in financial planning, reporting, accounting, and internal auditing must support and complement budget administration in order for modernization efforts in budgeting to have a lasting impact.



IV

ORGANIZATION AND STAFFING OF THE BUDGET AGENCY

A well organized and staffed budget agency is essential to effective budget administration. The budget agency must be in a position to see in broad perspective across the entire government. It is the principal arm the chief executive or the cabinet has for bringing about coordination of planning and management and for matching the programs of operating agencies with the resources of the government and the needs of the nation.

The primary purpose of a national budget agency is to assist the responsible political officers in making choices. It must have an active part in guiding the decisions that are taken on financial matters. The role of the budget agency gives it certain special organizational requirements. It must serve directly the national executive who bears responsibility for the final decisions relating to the budget, and to perform this service effectively it must possess stature and prestige



within the governmental structure. It cannot achieve this stature and prestige, however, by seeking popularity or identifying itself with sponsors of causes, however meritorious, when such sponsors are outside the decision-making process of government. It must possess an integrity in its operations and in the exercise of judgments that meets the tests of objectivity. It must recognize that the political leaders have responsibility for political decisions.

In a long-established bureaucracy, the desired characteristics normally accrue to the budget agency as it fulfills its role in the planning and decision-making processes. It becomes recognized as an important force but not a controversial one. Changes in government and in political parties do not cause the governmental leadership to reorganize the budget agency or to revamp its staffing.

For those countries that are initiating modern budget programs, the problem of building the prestige and stature that the agency must have to be effective can be as difficult as securing competent staff and introducing improved methods. Organization and staffing arrangements, however, can contribute much to the ability of the budget agency to fulfill its responsibilities satisfactorily and thus build its prestige. It is interesting to note the similarity of the first budget directors in countries that are inaugurating improved executive budgeting. Typically, they are outstanding men with broad governmental experience who are identified as being fiscally sound, and they are not politically controversial. Political leaders who are prepared to use the discipline of budgeting seem instinctively to know the kind of agency and personnel that will effectively help them in meeting their broad problems.

A former director of the U. S. Bureau of the Budget has stated well the basic functions of a national budget agency as it operates within the United States:

The Bureau exists primarily as an instrument for assisting the President in making choices. These choices often are close, and therefore extremely difficult to make. Almost every agency proposal requiring an increase in the budget is backed up with a strong case;



those that are not usually have been screened out by the agencies themselves and never reach the Bureau. These legitimate, but often competing, demands have to be weighed and fitted into a balanced governmental effort which the taxpayers are able and willing to support. The Bureau's efforts are all directed to this end.

The President's job is to make decisions, to choose carefully among the flood of alternative proposals that come to his office. Basically, he has a set of objectives, expressed in laws or in the broad goals of his administration. Against this background, he must select the means through which these objectives can best be attained. The Bureau of the Budget serves him by testing each new proposal, questioning its assumptions, judging its probable effectiveness, matching it on its merits against alternatives, appraising its timing, measuring how thoroughly it has been thought through, considering it in the context of its place in a free enterprise economy, and balancing its initial and ultimate cost against the expected results.³

The remainder of this chapter deals with the factors and considerations involved in establishing an agency that is equipped to fill this role.

PLACEMENT OF THE AGENCY

Many views have been expressed about where a central budget office should be placed in the governmental structure and how it should be organized in relation to other executive staff functions. The great differences in the ways in which governments are organized and the ways in which decisions are made, transmitted, and reviewed suggest that no single pattern can fit the needs of all. In the United States, the constitutional position of the President as the single head of the Executive branch has supported the logic of placing the budget agency under his immediate direction. Coincident with this logic is the existence of the concept of "Office of the President" with responsibility, staff, and facilities for general oversight of economic, fiscal, and related matters.

³Maurice H. Stans, "The President's Budget and the Role of the Bureau of the Budget." 9 *The Federal Accountant* 15-16 (September, 1959).



The most frequent arrangement in others of the older democracies is to vest the budget function in its central aspects in the executive department concerned with finance. These finance ministries or departments differ widely, however, in their distinctive characteristics and in their power and prestige within and without the cabinet. The outstanding example of a strong finance department is the British Treasury, which has evolved into a center of responsibility for oversight of the conduct of administration on a governmentwide basis. Weaker finance agencies generally have authority for budgetary veto, but the veto may be seldom exercised or may be subject to appeal to the level of final executive decisions.

In many countries, a frequent lament of finance ministries responsible for central budget functions is that they lack necessary support and backing. The degree to which they will be supported by a firm cabinet position is a product of many factors. One is the constitutional and political framework, which in general determines how strong a position the cabinet can take or maintain. Lack of support may occur when the cabinet is a makeshift coalition with participating parties pulling in different directions. The balance of power within the administrative system also contributes to the position of the finance minister or agency. Although finance ministers usually have a nominally high rank within a cabinet, it often happens that certain ministries, by custom, are able to proceed with considerable independence in fiscal matters.

In the emerging countries, there is a variety of relationships among chiefs of state, prime ministers, and cabinets in regard to responsibility for policy formation and execution. The prime minister may be both the political and the executive leader of the country with responsibility for decisions centered in his position. In many instances, however, other patterns prevail. In a few Asian and African countries, the chief of state exercises much of the executive responsibility, with the prime minister or head of cabinet the chief's "first minister" but only by a little. In other countries, the political leader may be involved with major problems of securing national defense, achieving national unity, or evolving political institutions and have



little concern for the apparatus of government. Generally, the administrative systems and the allocation of functions within the governmental structures of former colonies will reflect the prevailing patterns of the powers that occupied the countries, and these arrangements may be so firmly implanted that they will be maintained even though political environments and relationships make them illogical. In such circumstances *de facto* budget responsibility may reside elsewhere than with the authority to which it is legally assigned.

In countries in which a budgetary system has been operating with considerable effectiveness and is producing data and analyses that are utilized by responsible leaders, the location of the staff unit may not be a particularly important issue. With the discipline of budgeting accepted and a staff agency in operation, budget modernization will usually be concerned with strengthening and improving techniques. In places, however, where modern budgeting requires the introduction of new concepts of budget discipline and administration, location can be of prime importance. In these circumstances, it is essential that the budget agency, on its own, have stature in the eyes of and authority in respect to other agencies of the government. One way to secure this stature and authority is to make budget administration directly responsible to the chief executive.

For example, in the initial stages of efforts to strengthen and improve budget administration in Thailand, it was generally assumed that the central budget function would remain within the Ministry of Finance. To strengthen budgeting, technical advisers recommended that the function be separated from the ministerial agency responsible for general accounting and fiscal control and established as a major subdivision of the finance ministry. The Prime Minister decided to place the budget function directly in his office. The progress in budgeting and the increasing role and effectiveness of the national budget agency in Thailand's public administration have demonstrated the wisdom of this decision. It seems certain now that such progress could not have been achieved without that enhanced stature of the budget agency that was afforded by its location and by the direct support of the Prime Minister.



THE BUDGET AGENCY AND THE DEPARTMENTS

The process of budgeting involves all agencies of government and brings into play many forces outside the immediate governmental structure. If the central budget office is to have a decisive role in this process, its powers and duties must be specifically defined and adequate. A *sine qua non* of modern budgeting is the ability to cast projected expenditures and revenues into a single mold. On the expenditure side, the budget agency correlates, revises, reduces, or increases estimates of the several departments and establishments. Even in countries in which a budget agency has operated within a fairly well established institutional and managerial framework, the exercise of these necessary powers frequently brings it into head-on conflict with operating departments or their clienteles. Provisions are generally made to maintain the independence and authority of the budget agency. One is to require that legislative budget consideration be centered on a comprehensive budget prepared for and submitted by the chief executive. Another is to place all agencies under obligation to supply the budget agency with every item of necessary information. A third is to require each department or agency to designate an official to serve as a connecting link between it and the budget agency.

Different Kinds of Relationships

Relationships of financial ministries or other central budget agencies to departments have followed a wide range of patterns. The tasks of some budget agencies have been, for all practical purposes, confined to adding up departmental estimates and attempting to find the revenues that will be needed to meet the demands. Other agencies have traditionally maintained a tight grip on the purse and have given the appearance of opposing any disbursement of funds. An increasing number of central finance agencies, however, have considered it their responsibility to work toward the most effective use of the government's fiscal resources to support its many programs.



In the modern concept of national budget administration this last approach is obviously the one the central budget agency should follow in its relationships with departments and agencies. In its application, the budget agency has dual concerns or objectives. One is the need for prudent housekeeping in terms both of finance and of management; the other is the formulation and accomplishment of governmental programs. Thus, most budget agencies tend to function at a level that is somewhere between the verification of facts and figures on one side and the formulation of recommendations for the treatment and disposal of consequential issues on the other.

Increasing Responsibility of Departments

Within well established central budget agencies, concern with the details of verification and control of departmental proposals and actions tends to decrease as concern with coordination of policy increases. As a result, more responsibility accrues to operating departments in budgeting matters and in the management of their affairs. Selectively, central agency control may reach rather deeply into departmental affairs, but it extends less to minor matters. Moreover, the continuing nature of the responsibilities of the central budget agency influences its relationships with the departments, finding expression in the constant flow of questions on which a department seeks a decision by the central budget agency. Typically, any change in departmental activities that carries with it financial consequences calls for approval by the budget agency. Thus in budget formulation, departmental officials often find it convenient and helpful to seek the advice of the budget agency on how to approach the planning of expenditure programs.

Increasing Emphasis on Program Review

In the process of budget preparation, the two kinds of review—program and management or efficiency—are likely to be undertaken simultaneously. In some of their aspects they may be indistinguish-



able, but in others they are quite different. Much of what is called program review relates to the costs, performance, and results of established and operating programs of departments and is actually management review. This process may touch only lightly, if at all, on governmental operations from the point of view of the relative importance of one program compared with another and the level at which programs should be conducted, the benefits that will be derived from them, and the revenues that are available for their financing.

A program review process should permit the defining of issues, separating them according to importance and indicating to higher levels of governmental authority the ramifications and consequences of alternative courses of action within a complex of aggregate actions and policies. Accomplishment of this purpose cannot be achieved solely through an annual review of budget estimates no matter how they are presented and arranged or how advanced are the methods and techniques of review. It is possible only when the budget agency has the experience and competence obtained through continuing service in the decision-making processes related to financial planning. Success in program review is as much related to the strategic position of the budget agency and its approach as it is to its advanced techniques or the way in which information is classified. Program review is achieved in informal conferences with departmental officers and cabinet officials and in many other ways that shape throughout the year the governmental programs to be undertaken and supported. A budget agency's effectiveness in contributing to informed decisions about program priorities, contents, and alternatives depends upon the growth of many forces and factors. Foremost among them is a general improvement of public administration throughout the governmental structure. Departmental budgeting competence must be increased and a trained and responsible civil service developed. Information about governmental operations and their impacts must be readily obtainable.

It is particularly important that developing countries undertaking the initiation or enlargement of central budgeting programs recognize the vast part that operating agencies play in the budget process. A



principal task of the central budget agency must be to assist in developing an improved public administration. Efforts to transplant methods and techniques of program planning and evaluation developed within countries having more advanced public administration can be fruitless unless operating departments are equipped to fulfill their necessary roles and the budget agency has the experience and competence to exercise program judgments.

ORGANIZATION AND FUNCTIONS OF THE CENTRAL BUDGET AGENCY

The proper organization and functions of a central budget agency are apt to be viewed quite differently by persons of different national backgrounds. These differences in views stem from the historical circumstances that surrounded the development of budget administration in the United States as contrasted with England and other European countries. In the United States, the movement for establishing strengthened central budgeting agencies at the national and local levels coincided with rising interest in providing chief executives with better facilities and resources to increase management effectiveness. Typically, budget agencies in the United States have been concerned with a wide range of organizational and administrative matters that relate to how departments formulate and conduct programs requiring expenditures. Elsewhere, and particularly in the United Kingdom, budget administration generally connotes direct concern with the formulation of fiscal estimates, examining proposed expenditures and forecasting revenues, and supervising the execution of the fiscal budget. Activities that relate to general management control and supervision of the executive establishment are generally provided by central units which may be associated with the central budget unit but are organizationally separate.

Officials of emerging countries whose views on functions of the budget agency have been shaped by British or other traditions may



sometimes be confused when they are first exposed to some of the United States concepts of budget administration. The United States literature on budget methods and techniques has accepted and advanced the premise that the budget agency is concerned with general management matters. This premise may be a cause of some misunderstanding to those, for example, from many Commonwealth countries. These officers have typically viewed budgeting in terms of financial features only, leaving concern about organization and methods, performance standards, program evaluation, and general managerial functions to other units of the government.

Administrative Functions of Budgeting

In most of the developing countries, the need for introducing discipline in the formulation and execution of the fiscal budget is accompanied by the corresponding need to strengthen and improve organization and management. Budget administration and the functions of the budget agency are viewed here as encompassing both of these major areas. Whether the functions within these two areas are assigned to a central unit designated as the budget office or divided among units of a treasury or administrative department is relatively unimportant. The significant point is that there are several functions that need to be associated. The primary functions of budget administration in this context should thus include:

1. Prescribing, within the framework of controlling law, the nature, content, and form of annual budget estimates, including suitable instructions on format, supporting materials, charts, and statistics.
2. Preparing annual calls for estimates and other directives and instructions relating to budget preparation; assisting the several departments in budget preparation; and reviewing and revising the requests and estimates.
3. Maintaining control over the allotment or apportionment of appropriations on a time or project basis and managing budgetary reserves.
4. Conducting a continuous program review of all governmental



operations including corporations or enterprises; developing standards for collecting and reporting information.

5. Maintaining close liaison with the planning and economic offices of the government.

6. Reviewing plans for departmental reorganization; conducting management studies of governmental operations for the purpose of improving organization, methods, and procedures; and taking necessary steps to adjust budgets when improvements will increase effectiveness or reduce costs.

7. Developing training programs for the instruction of departmental personnel in budget administration and assisting in the creation of budget and management units in various ministries and departments.

8. Providing special assistance to the legislative body, special budget committees, the chief executive, or the cabinet and making special studies and reports as directed.

Organizing for Efficient Administration

A central budget agency can adopt a variety of organizational patterns for carrying out these functions. Some of the significant factors that will determine the most desirable scheme of organization are:

1. The degree of central fiscal control desired by the government or the necessity for or ability to maintain close fiscal supervision of departments.

2. The location of other central finance agencies and of planning and economic policy agencies within the government.

3. The adequacy of fiscal services that support the budgetary process.

4. The availability of trained personnel.

Generally, budget agencies have been organized to reflect the departmental structure of the government, with a subunit of the central agency identified with each department or group of departments. From this over-all pattern has evolved a tendency to organize on the basis of general operational areas that reflect major program group-



ings, such as social services, public works, or defense, which may involve more than one ministry or agency. Usually the organization or clientele basis is maintained, since the lines of delimitation between spheres of interest tend to coincide with those between ministries or agencies. The principal organizational question is whether the system should be dominated by this functional or clientele factor or by the various budgetary processes. Under the first approach, a subunit concerned with social services or health and welfare, for example, would be responsible for expenditure estimates, management review and assistance, program review and evaluation, and budget execution and control for the departments served. Under the second approach, the principal subdivisions consist of such units as an estimates division, an organization and methods division, and a budget control division, responsible for their particular aspects of budgeting in all governmental agencies, but possibly having subunits assigned to particular functions of governmental operations.

As with most organizational questions, it is of little point to generalize about what type is best. The organizational pattern will need to be worked out to fit what is determined to be best in the individual circumstances. The essential issue is to secure a balance between two perhaps conflicting objectives of the budget organization. One is to establish complete rapport between budget staff and agencies served in order to develop on the part of the budget staff a complete knowledge of the problems and issues within the organizational units and functional areas. The other is to develop within the budget agency the ability to view the entire governmental operation in terms of the interrelationships of the various units and functions that comprise the total.

BUDGET AGENCY RELATIONSHIPS

The central budget agency must keep informed of all current developments in the government. The agency, therefore, must establish and maintain effective channels of communication with all operations. This task falls largely on the technicians assigned to review



and administer the budgets of the various departments or ministries. In addition to this regular liaison with operating agencies, there are certain interservice relationships that are essential to developing a comprehensive, consistent, and effective budgeting system.

Central Accounting Organization

Budgeting and accounting are so closely related that the success of the former is dependent in large measure upon a proper and effective accounting and reporting system. The budget agency normally depends upon the accounting system for:

1. Information on prior years' revenues and expenditures and other information used in formulating each new budget plan.
2. The audit and recording before payment of commitment and expenditure transactions to assure that budget performance conforms to the enacted budget.
3. Pertinent information that affects allotments, supplements, transfers, and other decisions about budget execution.
4. Current statements of the financial condition of governmental funds.

If a ministry or organization has authority for both areas, its head may undertake responsibility for coordinating budgeting and accounting. Otherwise, the budget agency and the accounting unit work together to expedite each other's programs through close collaboration and mutual understanding of problems and objectives.

Central Planning Agency

The central budget agency obviously must work closely with the national planning body. The government's development program, as it relates to public expenditures, is arrived at through the government's plans for the operations of the various ministries and agencies of government, developmental and current. In a development plan, the final step in deciding upon these plans is a central budgeting process. In addition to relating individual projects to each other and appraising the total in respect to ability to finance, the budget agency



has the responsibility for appraising the ability of the government to carry out the programs.

Central Personnel Agency

Personnel service costs constitute a very large portion of a current expense budget. It is therefore important that the budget agency keep well informed of personnel policies and requirements through a close working relationship with the central personnel agency of the government. Organization and methods studies are frequently concerned with the utilization of personnel and the classification of positions within specific agencies. Frequent contact between the budget agency and the personnel agency is required to assure consistency of policy in the area of personnel service costs. Moreover, the budget agency is in a strategic position to recognize and identify training needs within departments as it reviews and evaluates program performance. The personnel and budget agencies, by working cooperatively, can usually do much to increase the competence of departmental personnel.

Central Postaudit Agency

Close liaison with the government's postaudit agency is of much importance to the budget agency. The auditing personnel usually work continuously with various agencies and obtain a good, first-hand knowledge of work procedures and methods. They are frequently able to advise on areas where financial efforts are not coordinated to good advantage. Moreover, close liaison and good working relationships may furnish the budget agency with information needed to take steps to improve management practices that potentially might lead to misuse of public funds.



V

TECHNIQUES OF BUDGET ADMINISTRATION

The budget practices of most governments exhibit certain procedural similarities. In the first place, estimates for the succeeding period are prepared. These estimates cover the expenditure requirements and forecast the income. They are constructed in the light of experience and checked against recorded financial data. From the estimates and supporting information, a proposed budget is drawn up according to a definite form. After the budget is authorized and comes into operation, certain prescribed methods and devices are applied in its execution. Finally, there are usually some kinds of review of resulting operations and their fiscal impacts.

These procedural features of budget administration frequently follow a prescribed rote from year to year, using established methods and concerned principally with comparisons with previous experience. With the increasing importance of budget administration, central budget agencies have been provided with staff and tools to develop and utilize improved techniques in budget formulation and execution generally aimed at producing more reliable and pertinent data and analyses for the kinds of decisions that must be made for effective allocation and use of resources.



BUDGET FORMULATION

All the processes of budget formulation need to be carefully planned so that at all points there will be adequate documentation or sufficient consideration of operational requirements and program demands. A fixed budget calendar or schedule that is reasonably adhered to is a necessity. Legislation usually specifies the date when the budget is to be submitted to the legislative body and the budgeting schedule must be designed to meet this date.

The usual steps in formulating the budget include:

1. Preparation by the central budget office of estimate forms and instructions.
2. Distribution to ministries or departments of estimate forms, instructions, and, usually, policy guides.
3. Preparation of estimates by the units originating budget estimates and submission of summary estimates by preparing units to the ministry or major agency level for review.
4. Transmission of estimates to the central budget office for recapitulation, review, analysis, and preliminary revision.
5. Conferences between budget agency staff and ministry officials and others for final revision of estimates.
6. Consolidation of estimates and preparation of the budget document.
7. Formal review of the budget by the responsible executive body.
8. Formal submission of the budget to the legislative body.
9. Approval of the budget as revised and enactment of appropriation acts, revenue measures, and other legislation to put the budget into effect.

Initiation of Estimates

Budget estimates are normally initiated by organizational units below the departmental or ministerial level. It is important that staff at various levels of agency operations participate in budget formulation. They have knowledge of operating conditions and needs and the responsibility for administering segments of the program.

It is essential that these estimates in their initial stage follow certain guidelines to facilitate their review and assembly into a con-



sistent budget. One basic requirement is the establishment of a focal point within each ministry or department to provide oversight of estimates preparation. The central budget office cannot and should not try to provide specific guidance to each operating level, and departmental responsibility for the coordination and integration of estimates prepared by subunits should be clearly established. The budget preparation process thus should provide an impetus to the development in the ministries of a sense of responsibility and authority and the interdivisional relationships necessary to improved public administration.

The central budget agency contributes to consistency in the preparation of budget estimates and thus minimizes the need for changes during the budget review process. It should design for the submission of estimates the forms and write the instructions that are vitally important to later stages of review and budget preparation. Estimates forms should be designed to segregate and identify the pertinent considerations relating to programs and proposed expenditures. They should provide for the identification and separate presentation of estimates for proposed programs and estimates for programs that are already established and agreed upon. Presentation of new proposals should be arranged and supporting data should be required to provide answers to a number of pertinent questions. They include:

1. Is the program authorized by law and is it consistent with enunciated plans and policies?
2. What is the need for the program and are its objectives desirable, practical, and attainable?
3. Is the program an appropriate one for the particular agency?
4. If other agencies are concerned with the program, is each carrying a proper share of the responsibility?
5. Are proposed methods for operating the program sound, economical, and effective?
6. Is the proposed scale or size of the program suitable and effective and based on reliable estimates of work load?
7. Will personnel and facilities be available to carry out the full program as proposed?

Carrying out any program of work requires employment of persons and the use of facilities, supplies, equipment, and services. The



volume of these administrative requirements depends upon and needs to be related to (a) the nature and amount of work to be accomplished and (b) efficiency in doing the job. Budget estimates need to be so organized and presented as to permit appraisal of administrative plans. Such appraisal usually is centered about the issue: are the proposed requirements of personnel, facilities, and material necessary and essential to carrying on the proposed program? The answer may involve consideration of organization, work methods, and general efficiency, as well as a review of specific requirements.

Review and Revision of Estimates

The establishment of general policies, methods, and standards to guide agencies in the preparation of budget proposals, coupled with the review of departmental estimates by the central budget agency, makes it possible to obtain consistency in the budget as a whole. When the budget estimates have been prepared, they will be subject to several reviews and revisions. The first review and revision takes place within the agency initially preparing the estimates, the next is by the ministry to which the agency is attached, and the third is by the central budget agency. In the case of the capital or investment budget, there should be an intermediate review by the planning agency.

As the basis for an informed judgment, the central budget staff should keep informed of agency objectives and activities through contacts with agency officials, observation of program administration, and field studies of activities and facilities on a continuing basis throughout the year.

The central budget agency should conduct hearings on expenditure proposals with agency officials as soon as practicable after its preliminary analysis of estimates has been completed. These hearings should be relatively informal, and a frank interchange of ideas should be encouraged. The budget staff should discuss with agency representatives any general issues or conditions that bear upon the budget that are timely and pertinent to the agency's proposals.



After each agency hearing, the budget staff should meet to formulate recommendations on the agency requests. Normally it should also confer with administrative management personnel about organizational arrangements and, in the case of development projects, with representatives of the planning agency. Issues and questions that relate to general governmental policy should be brought to the attention of the budget director or other principal staff for resolution. Decisions about important issues are normally sought from the chief executive or cabinet at this time.

When the review process has been completed and important questions have been ruled upon, the head of each agency or department should be notified of the decisions regarding its estimates. The agency should then submit revised estimates in detail for incorporation in the final budget document.

The making of arbitrary cuts in departmental expenditure estimates by the central budget office or the arbitrary substitution of the judgments of central budget staff on amounts and types of program support required should be avoided. Such actions are often encouraged by the urgent need to trim requests to the limits of available resources. The development of effective budget administration, however, can be achieved only through widespread participation of administrators throughout the governmental structure. The central budget office should adopt practices and procedures that encourage this participation. Any attempt to operate as a remote center of wisdom about departmental needs is one of the surest ways of discouraging this necessary cooperation. Moreover, this practice leads inevitably to the submission of deliberately inflated requests in anticipation of reductions, a practice that can turn budget review into a guessing game.

Preparation of the Budget Document

The budget document is the end product of the budget formulation process. It must be a concrete, comprehensive, and integrated plan suitable for consideration, review, and enactment by the legisla-



tive body. The quality of this document depends upon the accuracy and integrity of supporting data and the methods, skills, and care used in preparing, analyzing, and integrating estimates and in conducting studies and budget research. The arrangement and design of the budget document are also important, although budget format and the niceties of presentation will not substitute for inadequate staff work.

Because of the different kinds of issues and types of decisions involved in budget approval, a simple unified presentation may not be possible. Also, the mass of materials relating to estimates of expenditures and receipts that must be assembled, categorized, and grouped, usually under pressures of time deadlines, makes it easy for budget presentations to become stereotyped into a pattern year after year. Comparison with the experience of the previous year is encouraged on the assumption that the earlier figure in some way represents a norm and that deviation from it requires special justification.

Various techniques need to be used to focus attention on major issues. They include special classification schemes such as functional grouping, identification of current and development expenditures, and the use of "budgets in brief." The amount of detail that needs to be included in the budget document is influenced by the nature of executive-legislative relationships and the kind of scrutiny that the legislative body traditionally gives to appropriation requests.

The final part of the budget presentation normally includes drafts of the legislation that must be enacted to put the budget into effect. In addition to the appropriation act, which relates to the year's expenditure budget, budgets may be expected to include proposals for legislation to revise the revenue structure, amend salary or allowance laws, or deal with other matters of financing such as debt limits.

Very strict control over administrative agencies may be exercised by authorizing a separate appropriation for each detailed purpose, program, or object. Detailed itemizations of expenditure authorizations, however, usually do not allow administrators sufficient latitude to meet changing circumstances. Moreover, such itemization inevitably results in numerous transfers between appropriations. The



breakdown of appropriations according to specific objects of expenditures or small organizational units is sometimes supported on the basis that it is required to guard against improper expenditures by agencies. If this is a problem, it suggests that personnel, purchasing, preaudit, and other controls are not sufficiently effective and that attention should be given to overhauling these processes.

BUDGET EXECUTION

Budget execution involves the management of the approved plans or activities for a designated period of time at a cost that is within estimated available resources. There are two distinct aspects of budget execution. One deals with control, that is the provision and use of methods and devices to assure compliance with the approved financial plan. The other is concerned with flexibility, with obtaining the proper use of funds under constantly changing circumstances and adjusting and adapting the plans to new needs.

The control aspect requires the introduction of discipline and the establishment of a certain rigidity in the budget execution process. The manner in which expenditure authorizations are made establishes limitations and requirements in respect to purposes, amounts, and time of departmental expenditures. Generally, adherence to these requirements is accomplished through the accounting system. In addition, such devices as allotments, encumbrances, and budgetary reporting are used to maintain necessary control over commitments.

Need for Flexibility

Most budget systems recognize the need for flexibility by providing for making transfers, permitting "contingency" expenditures, or establishing mechanisms for emergency authorizations. These are largely "negative" means to flexibility in that they provide for exceptions to the established requirements for expenditure control. Increasingly, however, more positive execution of the budget is being



accomplished. A necessary element in a more positive approach is a broadening of the basis for the initial authorization of expenditures. With broadened expenditure categories it is possible through departmental budget administration and reporting based on program performance to gear expenditures to needs within the broad limits of policy and legal authorizations instead of confining them to a detailed prescribed pattern.

Successful budget execution depends greatly on achieving the proper balance between requirements of control and flexibility, elements that generally have operated in conflict. Historically, the focus of this conflict has been the continuing struggle between the executive and legislative branches of government over the use of funds. Much the same type of struggle has characterized relationships between the central fiscal review agencies and operating departments. The legislative approach tends to be concerned with the objects for which money is expended. Accounting and auditing agencies are oriented toward control of expenditures in relation to prescribed standards. On the other hand, operating agencies responsible for the direct execution of programs find that the plans as approved and the methods of achieving adherence to them inhibit their judgments of what program needs and priorities are at any given time.

The budget agency is the only institution in the governmental structure that is in a position to assist in meeting the requirements of each point of view. On the one hand, it must work in close concert with fiscal and control agencies in developing procedures to see that essential phases of the budget plan and general legal requirements and standards are observed. It must help agencies in observing these limitations. It must also work with agencies in securing needed modifications of projected expenditure programs to meet broad program objectives.

Proper budget execution may well find the central budget agency simultaneously making what at first glance might appear to be contradictory efforts. In Thailand, for example, a new budget procedures act introduced a considerably increased amount of discipline, particularly in the central review of expenditures for conformance with



authorizations. This was a development that was generally considered desirable for correcting certain lax expenditure controls and improving the financial posture of the country. Some departments were so impressed by the controls, however, that the budget staff found itself devoting much effort to encouraging them to accept responsibility for initiating changes in expenditure programs to meet changing circumstances. In fact, the central budget staff, in one instance at least, felt required to instruct agency personnel on the methods and procedures of obtaining revisions in budget plans in order to adapt programs to changed needs.

Budget Specificity

The way in which agency expenditures are appropriated or otherwise authorized by central authority sets the pattern for budget execution and the points of control for agency actions in spending programs. The greater the detail in the authorizations, the less the discretion of operating departments in managing their spending. The basis by which the authorizations are subdivided has no effect on this result; whether authorizations are subdivided by organizational unit, object of expenditure, or program and activity, the more and smaller the categories, the greater the rigidity in program execution.

In spite of the rigidity that detailed patterns of expenditure authorizations impose, they are frequently fostered by program administrators themselves. Generally, they arise out of an administrator's desire to protect his program by having a separate and special authorization. At times, central budget agencies also foster the separating of purposes of expenditures into smaller categories as a result of confusing the need for information with the manner in which expenditures are authorized. This confusion stems from the view that if a control account is established for a particular element, information will automatically be produced.

For example, the central budget agency may be interested in the distribution of expenditures for a health sanitation program among geographical areas. Such information can be produced by an analysis



of expenditures made within the appropriation for the health sanitation program. To require a separate appropriation or other type of central authorization for expenditures within each geographical area just in order to have the information is likely to introduce undue rigidity in the administration of the sanitation program.

Attempts to achieve effective central supervision of agency expenditures through use of a detailed pattern of expenditure authorizations are doomed to failure. Such attempts fallaciously assume that patterns of program operations can be precisely predicted or that, once predicted, they have a special validity that requires any variation to be reviewed. Estimates usually are initiated by subunits of an operating agency, based on their views of current and projected needs, pass through various review stages, frequently with little or no revision, and, finally, after legislative approval, become the basis for expenditure authorizations. To insist that the agency must adhere to detailed projections is to say in effect that its judgment of program needs in current circumstances is less reliable than it was in predicting needs several months earlier.

Departmental Participation

As in budget formulation, budget execution must be a government-wide responsibility. The role of the central budget agency is to provide general guidance and assistance to achieve the most effective program operations. This role requires a definition of what is central budget office responsibility and what is operating agency responsibility. Within operating agencies the responsibility of each of the several layers of organization also needs to be defined.

It is much easier to establish methods and to initiate devices for control of agency expenditure than to develop agency responsibility for effective participation in budget execution. It is highly important that the budget agency recognize the development of this responsibility as one of its principal tasks in budget execution. Without such recognition, budget execution is apt to become an unending process of reviewing transactions for compliance and considering requests for



deviations involving account transfers. Such efforts can be generally fruitless in respect to the broad objectives of budgeting, irrespective of how well they are done. The volume and complexity of transactions that relate to governmental programs make it impossible for any central office to furnish over-all program review and guidance if its concern is only with details of the budget plan.

Central Accounting Organization
Successful budget execution requires that each administrative head actively support the budget and its objectives. It also depends to a large extent upon the internal organization of an agency and the proper delegation of authority and responsibility for program execution and budget control. Development of organization and methods teams in major departments can contribute greatly to effective program execution, financing, man power distribution, and allocation of other resources.

The budget may be well planned and soundly formulated, but unless adequate provision is made for effective financial control there is small likelihood of conformance with the budget plan or of obtaining timely information on the degree of conformance. The accounting and auditing systems are the principal means of exercising such control. The success of budget execution depends upon the utilization of these controls, but proper administration requires that they be designed to accomplish their purposes with the minimum of "red tape" and no undue restrictions on the activities of operating officials.

Central Planning Agency
In many countries, there is overemphasis on the mechanisms of central fiscal controls. In fact, budget execution has come to be synonymous in much public administration literature with central control of spending. However undesirable this emphasis may seem in relation to the need for administrative discretion and flexibility and concern with program benefits and consequences, the controls are essential in the administration of the public service. If the history of a country is characterized by agencies overcommitting or overspending appropriations or undertaking expenditures that have not



been budgeted or that appear to be wasteful, budget reform will have to deal with the introduction of methods and devices to restrict such practices.

The most common types of over-all budgetary controls are:

1. An allotment or apportionment system in which funds for various purposes are made available by time periods. This system involves determinations by the central budget office of the amounts of appropriations that may be spent by an agency within a specified period during the fiscal year and, in most cases, for a specified purpose or object. It has a twofold objective: (a) to control the rate of expenditures in relation to the entire fiscal period and (b) to permit curtailment of expenditures and commitments in the event that revenues fall below expectations.

2. Specific procedures for recording the obligation and expenditure of funds to prevent the overobligation of appropriations or allotments. Accounts are maintained to reflect on a current basis the status of obligations in relation to appropriations and allotments. Expenditure documents require that a responsible officer certify that funds are available before payment is made.

3. A system by which ministries or departments are required to establish and allocate amounts and limits of expenditures for specified purposes within subordinate units of the department.

4. Formalized control over number of positions and salaries. Review by the central budget agency for budgetary effects is ordinarily required before new positions are created or salary schedules are changed.

5. A system that requires specific central fiscal or budget agency approval for designated transactions, normally those involving large amounts of money or of a specialized nature. Examples are large capital contracts, purchases of land, or purchases of equipment involving foreign exchange.

The purpose of these devices should be preventive. The proper use of these over-all budgetary controls provides a means for bringing under scrutiny fiscal transactions that might result in overexpenditures of budget authorizations or otherwise introduce special budget or fiscal problems. Often, in practice, the devices that by their nature should be used with administrative discretion become inflexible requirements that freeze fiscal operations into a fixed pattern. For



example, the recording of encumbrances or commitments is sometimes carried to the point of requiring that every transaction be approved for availability of funds when the expenditure has been fully committed or approved by other specific authorization or even has been consummated. Allotments are sometimes viewed as a grant, which can be authorized or withheld, to spend a specified sum within a designated time limit rather than as a device to regulate the rate of expenditure throughout the total budget period. Again, procedures designed to ascertain that funds are available to pay the salaries of new positions may act, particularly when coupled with civil service provisions, to establish restraints on desirable departmental reorganizations or even to subvert the responsibility of the administrator for the size of his staff.

In the utilization of these general budgetary control devices it is important that they not be permitted to become substitutes for the exercise of a general oversight and supervision that considers special problems and circumstances in the light of their particular requirements.

Use of Information and Data

Adequate and timely information about programs and operations is an essential ingredient for effective budget execution. Such information includes reports on financial experience and conditions, work programs and performance data, and special information developed through surveys, inspections, and audits.

Financial Reports. For effective budget control, information about appropriations, obligations, expenditures, and revenues must be available to departmental administrators and the budget agency. Some general specifications for satisfactory financial statements are:

1. Statements should originate from a balanced and reconciled set of accounts and amounts should be taken directly from the accounts.
2. Statements should be accurate and timely as measured in terms of the needs of the user.
3. Statements should include enough program data to make



possible an evaluation of accomplishment at the level of interest of the user. Normally, more detailed reports are required for departmental than for budget agency use.

The accounting and budget agencies need to coordinate their efforts and facilities in doing financial and program reporting. In this division of labor it is the responsibility of the budget agency to indicate the nature and form of financial information that is needed to supplement program reporting adequately. Successful operation of a reporting system depends upon the prompt submittal of necessary subordinate reports by component organizational units to the higher units that are responsible for consolidation and summarization. The full authority of the government should be exercised to assure that necessary reports are made on time.

Data on Work Programs. For management purposes quantitative data are needed that express in simple terms the current standing of the agency's program, work, and resources in relation to existing plans and policies. Such data make possible an understanding and evaluation of current operations, facilitate comparisons with past experience and with the forecasts for the immediate future, and provide management with a reliable basis for long-range forecasting.

Program and work data are usually statistical, and the development of this information has become so important to management that most large-scale enterprises, both public and private, make use of special statistical techniques and trained statisticians to perform this supporting service. In operations of increasing size and complexity, it is only with the help of adequate statistical information that current operations can be directed and controlled and a firm factual basis provided for sound program planning.

Many agencies at various levels of government have recognized the need for statistics in connection with their work and have done a certain amount of correlation between these data and their budget estimates. In most instances it is desirable to develop this correlation further for use both in the formulation and in the execution of the budget. Through careful analysis of operational facts improvements can be made and economies attained.



Surveys, Inspections, and Audits. For management purposes, information obtained through regular reporting systems usually needs to be supplemented by information obtained from periodic surveys, inspections, and audits. These reviews are necessary to verify information received through reports and to develop information not ordinarily included in reports.

Activities involved in the gathering of information through direct examination and appraisal of facts are described as inspections, investigations, audits, and surveys. In practice, these terms have often been used loosely and interchangeably, thus making it difficult to distinguish among them. However, the meaning most frequently associated with each is as follows:

1. **Inspections** involve examinations of agency activities for compliance with standards, rules, or regulations or for the quality of product or performance. They involve fact findings, analysis, and judgment as to conformance. They are frequently undertaken as preventive measures.

2. **Investigations** are inquiries into agency activities made for the purpose of determining what has happened, why it has happened, and who is responsible when it appears that a departure from authorized or standard procedures, rules, or practices has occurred. The term "investigation" sometimes implies an element of secrecy in conducting the inquiry and is usually directed toward a fairly specific or circumscribed subject or phase of operations.

3. **Surveys** may cover a great variety of studies or projects. Usually they are not periodic but are instituted as needs for this type of analysis become apparent. Ordinarily, surveys stress the identification of areas of operation where improvements are needed and the means for effecting such improvements. Compliance, as such, is not normally a primary concern of surveys.

4. **Audits** usually assume an established pattern of examination, with emphasis on regular periodic reviews of transactions after they have been completed. They are also primarily preventive in purpose and are usually concerned with compliance with previously established principles and directives.

An operations audit is a periodic, detailed examination of all phases of the work of a particular organizational unit. It is similar to a financial audit in that they both occur regularly and follow a



prescribed plan; however, the operations audit is broader and applies to all phases of work. The financial audit verifies the existence and state of resources and the receipt and disbursement of funds; the operations audit goes beyond these considerations and includes an appraisal of the utilization of men, methods, materials, and management techniques in relation to the values obtained from the expenditure of money. The operations audit has not yet been widely used in government, but it is gradually being accepted as a valuable management guide or device. It should be emphasized, however, that an operations audit to be useful must be undertaken by truly competent management analysts with ability to understand and appraise the operations being reviewed. Otherwise the principal result may be increasing problems in budget office-agency relationships.



VI

TECHNICAL ASSISTANCE IN BUDGET MODERNIZATION

Most national governments at one time or another have provided themselves with technical assistance in budget administration. The use of foreign advisers by less developed countries is extensive and dates back at least to the middle of the last century. Nearly all of the older independent countries of Asia and Africa, following the establishment of formal commercial relationships with the West, employed Western advisers in governmental budgeting and related fiscal matters. For example, Emperor Menelik II of Ethiopia (1889-1913) and King Chulalongkorn of Thailand (1868-1910) both sought foreign technical assistance in establishing a central system of fiscal administration. During the mid-thirties of this century, extensive technical assistance in budgeting practices was provided by creditor nations to South



American countries at their request or at the insistence of the creditors. The countries that were until recently under colonial administration received a form of technical assistance from the administering powers, and the budget systems of these countries, at least in their particulars, generally are based on the patterns they have inherited.

These various efforts were concerned in one way or another with improving the general effectiveness of the budgeting process. They had also the common characteristic of involving adaptation of practices and procedures that have proved to be or were assumed to be desirable in a country with more advanced public administration.

Technical assistance today has taken on a special meaning. In respect of the improvement of budget administration, it has objectives and methodologies similar to the earlier efforts. It has greater meaning and significance than those in the past, however, for it is sought and provided as a part of the whole complex of efforts of many countries to accelerate economic development and achieve increased economic and social stability. Thus, technical assistance in budget administration is aimed primarily at making the budget process more effective and useful to development efforts by maximizing the utilization of resources and increasing the effectiveness of outside aid.

THE BASIS FOR TECHNICAL ASSISTANCE

This final chapter is concerned with how technical assistance in budget administration can be most effectively provided and most advantageously used within the context of general aid programs. The preceding discussion of the role and purposes of budgeting, its interrelationships with other parts of the development effort, and the numerous factors that condition the effectiveness of budget administration points to three central facts that assistance efforts must recognize.

First, as an instrument of public management and a reflection of public policy, a budget system displays the virtues and vices of its



political environment. The total institutional setting greatly influences the way in which a nation manages its fiscal resources. Weak budgetary control is as likely to stem from poor environmental factors as it is from the absence of budgetary control mechanisms.

Second, organizational and procedural arrangements do, however, exert a telling influence on the effectiveness of budgeting. The amount and kind of legal authority for budgeting and the facilities and mechanisms for its exercise greatly affect the operation of the budget system.

Third, concepts of budgeting organization, methods, and techniques can seldom be transplanted successfully from one particular setting to another. Familiarity with procedures and systems that have been employed and proved workable is not enough; they must be adapted to different circumstances and interwoven into the full gamut of political and governmental factors that condition the public administration.

These factors suggest at least two essential requirements for technical assistance programs in budgeting. One is that they be recognized as long term and as extending over a wide range of matters—generally including provision of direct accounting support as well as improvements in most phases of public administration. Institution building and changes in habits of administrative behavior, which will frequently be required to make technical innovations meaningful, are long and complex processes. There must be practical recognition of what can and what cannot be accomplished by systems and procedural innovations.

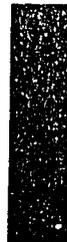
The understanding and support of the top political and executive leaders is also needed; in fact it is probably a *sine qua non* of success in budget modernization. Budget administration is part and parcel of the governmental process. Unless those responsible for this process see the need for better budgeting, are willing to support its development, and expect to use it in the exercise of their governmental responsibilities, the results of technical assistance are almost certain to be limited to niceties of procedures and forms, of interest and importance only to the budget technicians.



Improvement programs in budget administration must be related to needs. There is a great range to the needs among developing countries. In some countries, a system of budget administration may exist that has perhaps been adequate to serve basic purposes of assembling expenditure and revenue estimates and supervising budget execution. Needed improvements in budget administration center on provision of better methods and techniques to cope with the problems of achieving rapid economic development and related social changes. At the other end are some countries in which not even the rudiments of a modern budget system exist. Frequently the accounting system is inadequate to provide reliable information for preparation and execution of the budget. There may be an almost complete absence of trained technical personnel, and the machinery of government may have difficulty producing necessary decisions for effective administration. The differences in the needs and circumstances of developing countries require that technical assistance programs have a variety of forms and scopes.

Central Postaudit Agency

Many countries have taken significant steps in budget modernization. Organizational arrangements and basic procedures may have been introduced to secure increasing orderliness and effectiveness in the budget process. In such cases, the budget agency will normally be a "going concern" that can recognize and identify areas in which outside technical assistance is desirable in order to better its performance. Interest may be in new methods and techniques or new approaches utilized elsewhere. Many of the newly independent nations have systems of budget administration and budget staffs developed by former administering powers that perform clearly defined roles in the governmental apparatus and processes. Other countries have been able to take steps on their own to inaugurate budgeting processes that



serve, perhaps adequately, most of the traditional purposes of budgeting within the context of the government's concerns and purposes.

In these circumstances the need is generally for technical assistance to the budget agency with the purpose of increasing the competence and ability of the budget staff to meet the burgeoning demands on budgeting in relation to its role in the acceleration of economic development. Normally, the assistance needed can be specifically identified in terms of training or advisory projects aimed at increasing knowledge or providing more facilities to cope with commonly recognized problems. The technical assistance programs are aimed at adding to the existing framework for budget administration. The emphasis may be on improved methods and techniques of budget classification, increased effectiveness of program review and evaluation, improved capital budgeting, better assessment of the economic impacts of the budget, or on any of the several similar major concerns of developing nations.

In any event, a focal point exists for identifying needs and determining the nature and type of assistance that may be helpful. Programs would normally be worked out in conjunction with the budget officers of the host government and these officials would play a major part in selecting and directing the course of the assistance.

Building from the Ground Up

In a number of countries not even the rudiments of a modern budget system exist and budgeting is completely inadequate to needs and aspirations. In such cases, the methodology and techniques of budget administration ordinarily have little immediate pertinence. Here improvement in budget administration is tied in with and dependent upon a large amount of institution building, the development of trained people, and a host of other technical, social, economic, and political steps that mark progress toward a responsible and viable governmental machine.

Frequently there is so much direct preoccupation with pressing economic, social, and other national matters that little attention can



be given to the administrative processes of government. Lack of trained or properly motivated personnel may seemingly present hopeless obstacles to administrative reform. Resistance to change and a clinging to old prerogatives may work against direct efforts to initiate disciplined budgeting processes. In these circumstances technical assistance programs must be focused on building foundations for budgeting improvements in areas that are susceptible to action and that will also contribute in the long run to increasing the effectiveness of the budget process.

In the cases where the foundations for effective budgeting are lacking, an attack on the broad problems of financial administration is frequently most productive of results. Irrational organizational structure, absence of information and analyses for decisions, lack of facilities for interdepartmental communication and coordination, or dispersion of authority and responsibility for policy planning and execution also may be serious impediments to establishing effective budgeting. Deficiencies in financial administration, however, are more easily identified and susceptible to immediate attack. Such deficiencies and evidences of weakness are specific and open for all to see. Creditor countries and other lending agencies want assurances that the receipt and disbursement of public funds are being properly recorded and reported.

Effective control over the collecting and spending of money, besides being significant in itself, provides an essential part of the foundation necessary for better budgeting. In addition to increasing the validity and integrity of data that go into budget making and execution, the discipline of a good system of fiscal control is basic to budget administration. Historically, budget administration has developed from systems of control over governmental expenditures, and the "positive" management aspects that are emphasized in modern budgeting assume that governmental financial transactions are accurately and currently recorded. Efforts to introduce advanced techniques of budget planning and execution where the basic elements of integrity of fiscal data do not exist are generally fruitless.

The changes that are needed to accomplish improved budget



administration in many countries involve more than the introduction of new or greater skills. There must be changes in institutions. Sources of budgetary information must be created. Redistributions of authority must be expected, along with new ways of looking at the processes of government that involve the discarding of old and valued prerogatives. In these circumstances, technical assistance in budget administration must be related to sustained and unified programs to improve public administration generally. The new foundations that must be established and built upon call for many types of assistance.

The arrangements under which technical assistance in budget administration is supplied can be categorized in several different ways. One primary basis is the source of the assistance. Technical assistance may be provided (1) under the auspices of international or regional organizations, (2) through bilateral country agreements, or (3) by direct efforts on the part of the recipient country.

Assistance may also be categorized on the basis of location: (1) that which trains government officials outside the recipient country and (2) that which provides technical assistance at the point of governmental operations. Both of these types may be provided by any of the sources of assistance, or both may also be undertaken simultaneously under the auspices of any of the three general sources.

The training that is provided outside the recipient country further falls into the three major areas of (1) formal academic work, (2) general observation tours that may or may not be combined with formal training programs, and (3) job placement in which the trainee is given an opportunity to work in a budget office.

Technical assistance within the recipient country can take a number of forms, among them the following:

1. A general survey of existing budget administration and iden-



tification of major problem areas, with recommendations for future courses of action.

2. Comprehensive advisory assistance that provides a team to advise and assist in the development of laws, systems of classification, forms, methods, and procedures. Such assistance may be focused on budgeting or, more often, on the whole spectrum of financial administration. This approach would normally include sponsorship of training both locally and abroad.

3. Advisory assistance in particular areas of budgeting, such as development of a program or activity classification or assistance in "pilot" or demonstration studies or installations in a segment of the government.

4. Advisory service in training or in organizing facilities for local training in budgeting and related aspects of public administration.

5. Advice by individuals on some identified phase of budgeting or on specific problems on which counsel may be sought, such as working out the financial requirements of a long-range development project.

From the point of view of the recipient country, the form of technical assistance that should be sought depends upon the general assessment of needs and the availability of sources of help. If assistance is sought from other countries or from international or regional sources, the agencies responsible for furnishing the assistance must, of course, relate the requests to their own assessment of what is feasible and practicable from the point of view of their resources and the policies that govern their operations.

The kind of program that should be undertaken, once the decision to utilize outside assistance is made and its availability determined, depends on a number of factors. Where concern is with strengthening or improving the techniques of an established budget agency, specific programs can be worked out without undue difficulty. The source of aid is selected, the approach is determined, and the scope of assistance is precisely defined. If the kind of assistance required is more comprehensive, problems of planning and "staging" may arise, particularly since the budget process permeates the entire machinery of government and involves numerous agencies.



Normally, when the need for technical assistance is comprehensive, the first step should be a general reconnaissance to identify needs and propose approaches that are susceptible of action. These preliminary studies can be undertaken without large commitments on the part either of the recipient country or of the country or agency providing the assistance. They can identify problems and put them into perspective for review by local officials. The results of such studies can serve as the starting point for the cooperative planning of larger programs and serve as the basis for defining the amounts and kinds of outside technical assistance that may be required or feasible.

A pilot project or demonstration type of assistance also may be undertaken, either independently or in conjunction with a general study. Ordinarily such projects have the purpose of determining the feasibility of attempting a more general application of a new system. Such installations are frequently carried on in semidetached parts of the government and are successful in improving the internal budgeting of the agency. For full benefit to be gained from these projects, the central budget agency should have a role in the developments or the central budget staff should receive formalized training in the new techniques.

If a technical assistance program that calls for a comprehensive approach to many different facets of budgeting is to be effective, there must be coordinated and planned efforts both by the providing and by the receiving countries. A staff versed in budgeting and related aspects of financial administration must be provided. Understanding and support on the part of the host government is essential; responsible officials must recognize the need for budget modernization and be prepared to lend their support. The technical assistance staff must be assured of direct and continuous access to officials of sufficient rank and authority to make decisions. Provision of counterpart personnel and adequate space and facilities is further evidence of support.

Budgeting cuts across many aspects of governmental activities and changes and improvements must be coordinated. When advice and assistance in budget administration are being provided simultaneously by more than one country or institution, it is especially desirable



that the receiving country establish machinery by which the several efforts can be channeled toward a common purpose.

AN ILLUSTRATIVE TECHNICAL ASSISTANCE PROGRAM

The budget modernization program of the Government of Thailand can be used to illustrate many of the aspects of technical assistance in terms of what it was able to contribute and the circumstances that conditioned its effectiveness. The need for strengthening budgeting and fiscal administration in general was recognized by many Thai officials during the first stages of the efforts of the country to accelerate its rate of economic development. It was seen as a fundamental requirement both for the country's own efforts and for the effective use of aid at the outset of the United States program of assistance to the Government. In 1952, a contract team under the auspices of the then Mutual Security Agency and at the request of the Thai Government undertook a survey of public administration needs. Improvement of budget and finance administration was assigned high priority in the list of needs.

Background for the Assistance Program

At this time, budget administration was assigned to a unit within the central accounting and fiscal control department of the Ministry of Finance. The budget preparation process consisted largely of an annual compilation of expenditure and revenue estimates submitted by departments. No real budget planning or relating of expenditures to programs existed. Primary emphasis of the budget unit was on review and control of individual transactions and the administration of detailed regulations relating to processing and recording of expenditures and receipts. Overexpenditures of authorizations were presumed to be refunded from succeeding years' appropriations, but generally they were passed over at succeeding budget periods. Once



appropriations were made to agencies, there was practically no central supervision over the rate or purpose of expenditures. Unexpended appropriations were commonly transferred to agency accounts to be expended under their own control in subsequent years. The accounting system, while generally recording transactions in a reasonably current and technically correct manner, served little purpose as a means of controlling budget execution, as a source of information for budget preparation, or as a basis for disclosing information on operations or financial conditions.

During the early 1950's many Thai finance officials attempted to strengthen and improve budget and fiscal administration. New trained personnel were added to the budget unit. Officials were sent on observation and training tours to the United States and other countries. Recognizing that progress was slow, they sought United States aid for a major program of technical assistance in the fiscal field. In 1956, a comprehensive program of assistance was worked out between the Thai and the United States Governments. Under it, a contract was made with an American governmental advisory institution with experience in the United States and abroad to provide direct training, advisory, and installation assistance. Other general training assistance was also authorized. Assistance was begun early in 1956 and was continuing in 1962. In this period there has been substantial improvement in budget administration, and as the Thai Government has improved its budgeting, the kind of assistance has been modified to fit current needs.

The Initial Phase of Assistance

From the outset the technical assistance program in Thailand met a fundamental requirement for success—the active and sustained support of a number of responsible host country officials. The initial assistance team was quartered in the Ministry of Finance and was provided with generally excellent counterpart personnel. Responsible officials made themselves available to technical personnel and provided necessary decisions and support.



The first stage of assistance was concerned with the development of the basic elements of budgeting and related aspects of financial administration. It involved preparation of forms, procedures, revised budgetary classifications, an organizational plan, and draft legislation, with numerous attendant meetings, discussions, and clearances. A variety of training materials was prepared and about a dozen separate training courses were arranged and conducted for over five hundred participants. During this same time, a completely revised system of accounting and reporting was being devised and installed. The budgeting and accounting improvements were articulated to serve mutual needs.

During this phase of assistance, the developmental work was largely the responsibility of the technical advisers. Responsible officials furnished support and local technical personnel worked under the general direction of the advisers and participated in all aspects of the technical work.

At the beginning of 1959, the completely revised system of budgeting and accounting was placed in operation. Several of the necessary elements for effective budgeting were present. An accounting system was provided to support budgeting and to serve as an instrument of budgetary control. A system of budgetary allotments was put in effect and all commitments and expenditures prior to disbursement were charged to respective budgetary accounts. All expenditure transactions were classified according to principal subdivisions within ministries and by character and programs. Revenues were uniformly classified by source and collecting agency. The budget procedures act approved by the legislature assigned to the budget director the "power and duty to prepare the budget" for submission to the Council of Ministers. This act made the budget agency responsible for analysis in the budget formulation process; it was empowered to analyze and adjust agency requests in keeping with prescribed financial policies instead of merely assembling and checking the arithmetical accuracy of agency requests. Along with these developments, the budget agency was transferred from the Ministry of Finance to the Office of the Prime Minister where it has the status of a depart-



ment. This transfer, together with the appointment of an outstanding public servant as the first budget director, gave the agency enhanced prestige and secured recognition of its role in financial and budgetary planning.

Second Phase of Assistance Program

With the establishment of the budget agency as a functioning concern and with the basic elements for budget administration provided, another kind of technical assistance was needed. This help was aimed at improving the competence of the agency personnel and at introducing additional improved methods and techniques to serve better the needs of the government. Thus, technical assistance was focused on providing advice on technical matters to budget personnel responsible for actual operations. It was provided primarily through continuation of the existing contractual arrangements. An important factor in moving easily from development to operational assistance was the assignment to five of the six chief divisional posts in the budget office of former counterpart personnel to the technical assistance team.

Thus, assistance was provided in a number of different areas as the agency sought to improve presentation of data and analyses for program reviews and decisions. It has included advice in developing performance reports and standards and criteria for evaluation of programs and assistance in budgeting for personal services, in developing methods of budget preparation and execution within operating agencies, and in improving information about enterprise operations for budgetary review.

More recently the budget agency has extended its concern to improvements in related management areas including organization and methods improvement. Here the need for assistance was first in helping to train personnel and establish facilities to serve as a focal point in organization and methods improvement. With the establishment of the facilities, the budget agency is seeking further assistance in the conduct of major management studies, which are viewed



as serving a twofold purpose: (1) effecting improvements through the application of the recommendations of the studies and (2) developing competence on the part of the staff to conduct studies on a continuing basis.

Training assistance has also changed in type and emphasis. Initially it was concentrated on budget procedures and processes. Now the budget agency itself has become a training sponsor. It has established a program for which it has requested assistance to train subordinate staff in a number of specialties, such as public works, fiscal policy, and cost accounting. It has also come to occupy a position where it can recognize and advise on training needs in other areas.

Thus, two kinds of assistance to budgeting are illustrated by the Thai experience. The first stages are concerned with assistance in the establishment of the fundamental basis for budgeting—with building the necessary structure. A fundamental requirement for its success is the support of the responsible officials of the host government. With this support, a team of competent advisers can provide the technical know-how to fashion a system and provide the necessary tools. The provision of these tools does not assure, however, that they will be, or even can be, used effectively to implement national policy.

The second phase of assistance is a longer and more complex process. A well-staffed budget agency, given the tools to work with, can do much to make the government's efforts more effective, both where it is working alone and where it is operating with outside assistance. This phase of assistance to budgeting is primarily concerned with forwarding the implementation of development efforts by the review of programs and their translation into financial plans.

ROLE OF ADVISERS

Technical assistance needs to be well planned and conceived and requires continuing support on the part of the budget and fiscal officials of the host country. In the actual provision of the assistance,



the success of a program depends much on how the individual adviser or advisory group carries out assigned tasks. The capacity in which the adviser is to serve must be defined at the outset of any technical assistance program.

The use of budget advisers can take several different forms. In some instances, the adviser or foreign expert may be integrated into the governmental structure and work in conjunction with officers at the policy level. Such arrangements are frequently found within some of the countries of the British Commonwealth. Frequently, advisers or experts who operate within the governmental structure are concerned with defined *ad hoc* projects that normally are not of a continuing nature.

More commonly, the foreign expert or technician operates in a purely advisory capacity. Here the adviser's responsibility may take several different forms. One, illustrated by the initial phase of the technical assistance program in Thailand, may be assistance in system design and installation. Such assistance may extend to a full-scale revision or it may be limited to defined segments. In any event, fairly specific objectives are set forth and identifiable products are foreseen. Another purpose may be to advise the budget agency on a continuing basis on matters that will increase its effectiveness. An adviser may be responsible for general assistance or he may be identified with a particular phase of work—for example, organization and methods.

Another distinction lies in the purpose of the assistance. The adviser may be concerned with assistance in developing improved organization, methods, and procedures for budget administration, as earlier paragraphs have described. Or he may be responsible for advice on substantive matters, such as methods of financing or the allocation of resources among program requirements. Here, the adviser would be concerned with preparing background material for government policy making, but not with making decisions or implementing them.

The adviser, in whatever capacity, has several different roles. He must be an expert, a teacher, and a catalyst. He obviously must



be competent in the field, not only possessing technical knowledge but also ability to adapt techniques to local environments. Whether or not he has any formal training responsibilities, he must recognize that transfer of his knowledge is an essential part of any effort. The adviser's proper concern to get a job finished should never exclude attention to training. In addition to conventional methods, training can include a process of continuous and increasingly more responsible involvement of local personnel in the decision-making process necessary to system design and installation.

The adviser's catalytic responsibilities extend to activities aimed at securing interest in the strengthening of budget administration on the part of responsible officials. These activities can be furthered in both formal and informal contacts with officials. One of the greatest opportunities is in stimulating the interest of young technicians who are likely soon to be in positions of major responsibility.

The adviser obviously must have close working relationships with host country personnel and be capable of developing their confidence both personally and professionally. Unless it is his specifically defined responsibility, he needs to avoid involvement in budget programs. The adviser concerned with budget processes and procedures must leave such questions to other advisers who usually are selected directly by the host government. He cannot become an advocate for support of particular programs or for particular ways that programs should be financially supported. At most, he can only suggest factors that should be considered in such decisions.

An adviser needs expertness and relevant experience that can be adapted to different conditions. Complete familiarity on the part of an adviser with procedures and systems employed at home may have little usefulness. Budgeting experience at the central level of a federal government may have to be adapted to a unitary system. Experience in departmental budgeting under established central rules and regulations may be of limited help in assisting in the development of a central program. Likewise, experience at the state or local level will not touch upon many of the problems and issues at the national level. In addition to knowledge of principles, methods, and techniques,



there is needed the ability to treat each situation as a problem to be solved by the accumulation of available pertinent data, by methodical analysis and consideration of these data, and by the development of an effective solution that is applicable to the particular situation. Expertness in providing technical assistance has to be acquired; it does not automatically come from experience in budget administration in another time and place.

CRITERIA FOR ASSESSING IMPROVEMENT EFFORTS

The criteria for assessing the effectiveness of a budget system depend much upon who is doing the assessing. Budgeting may be viewed both as a process in terms of machinery and procedures and as an application of principles of public finance in terms of the aims and effects of particular budgets and budget policies. It is frequently very difficult to separate assessment of the processes and machinery for budgeting from prevailing views of the observer upon actions and policies that the budget may reflect. Thus, the people interested in economy look to the budget system to restrict expenditures. Those interested in social reform look to budgeting to increase expenditures in particular areas. Economists look to the impacts on private spending and capital formation. There is a general tendency to view the budgeting process in terms of its results rather than its methodology.

Moreover, a system of budget administration reflects its political environment. In a large measure, the effectiveness of a budget system depends upon factors external to the formal design. Budgeting is strongly influenced by the degree to which political accountability dominates the conduct of public affairs. Other conditioning factors are numerous. Historical, traditional, and institutional elements have far-reaching effects. Evaluations of budgeting sometimes ignore these conditioning factors, which affect the course of budget administration and cause it to take different directions from those to which one may



be accustomed. Thus, any assessment must take into account the total institutional setting.

The most important measure of advance in budget administration is the extent to which the budget in terms of its machinery and processes becomes an increasing focus of concern of responsible legislative and executive officials. If the manner of budget presentation and the way in which resources are allocated among programs in the budget preparation process receive increasing attention of responsible leaders, progress has been made. Evidences of this progress are an increasing responsibility of budget staff to present and support data for cabinet decisions and an increasingly institutional approach.

Other more specific criteria can be used to measure the success of improvement efforts. One of the most common, the form and format of the budget presentation, is probably less meaningful than some of the others. The budget book itself means little unless its full context and underlying factors are known.

Other realistic indications of progress in budgeting include:

1. An increase in the number of agencies and types of transactions that are placed under budget cognizance.
2. An increase in the currency and completeness of financial reports. Budget planning and execution depend upon financial data, and it is unlikely that budget administration can contribute much data and analysis for decision making unless underlying financial data are available.
3. An increase in the use by development and fiscal planning agencies of the resources of the central budget agency.

The processes and machinery of budget administration cannot in themselves accomplish the desirable objectives of governments. They can, however, contribute to improvement of the institutional settings for accomplishment of these objectives. Moreover, modern budget administration can provide data, analyses, and mechanisms to aid responsible officials in planning and carrying out more effective courses of actions for economic and social development. Basically, progress in budget administration must be evaluated in terms of the increasing usefulness of its products to officials in the exercise of these continuing responsibilities.



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