

ECONOMIC COMMISSION FOR AFRICA

LOCAL TRAINING WORKSHOP
IN PROGRAMME AND PERFORMANCE BUDGETING,
Cairo - Egypt (26 March - 14 April 1973)

(Report of a Mission)

by

I. A. Malik
ECA Regional Adviser
in Public Finance and Budgetary Management

The mission was undertaken in response to a request from the Government of the Arab Republic of Egypt - Ministry of Treasury - to the Executive Secretary of the Economic Commission for Africa, as communicated in the note verbale of their Ambassador, vide Reference 8/5 dated 25 December 1972, for assistance in holding a local training course in Budget-Plan Harmonization, with the aim of improvement of the budgetary system and procedures and structuring the same for a more effective mobilization of domestic resources and better implementation of the development plan.

I reached Cairo on 26 March 1973 and was joined by Mr. S.J. Bauna, Economic Affairs Officer in ECA, on 1 April.

Preliminary discussions were held by me, on 26 March, with the Deputy Resident Representative of UNDP (Mr. Dalal) and the UNDP Programme Officer (Mr. Hasan Amin) about the scope and arrangements for the course. As arranged in this meeting, further detailed discussions were held with the Budget Controller, Ministry of Treasury, Mr. Abdul Hamed Farag Rezk, on 27 and 28 March, in order to finalize the curriculum and other arrangements. In view of the importance attached by the Government of the Arab Republic of Egypt to the installation and effective operation of a system of Programme and Performance Budgeting, it was decided to devote the entire time of the course - which was to be conducted as a Workshop - to the various aspects of the installation of Programme and Performance Budgeting with practical illustrations in the context of the existing budgetary system of the Government and public enterprises. In the light of these discussions I prepared an Aide-Memoire outlining the purpose and scope of the Workshop and a tentative programme of meetings of the Workshop. The Workshop was largely conducted and directed in accordance with this programme, which was approved by the Ministry of Treasury (see Exhibit I). A final schedule of the Workshop is enclosed, vide Exhibit II.

The Workshop was inaugurated by H.E. Mr. Abdou, Under-Secretary (Budget), Ministry of Treasury, on Saturday, 31 March, at the Administrative Training Centre. While welcoming the holding of this ECA Workshop in Cairo, he emphasized the important role that the budget was already playing in the country as an instrument for the allocation and use of national resources to realize national goals, objectives and priorities. In this context he stressed the need for making continuous improvements in the budgetary system and procedures so that this all-important role could be performed more effectively.

A final list of participants is enclosed, vide Exhibit III. All the 27 participants shown in the list could not be present at all the meetings of the Workshop, in view of the urgent official work in which they were engaged, and as such could not be spared for all the meetings. However, in view of the fact that all the participants were drawn from the Ministry of Treasury, this did not cause any dislocation in carrying out the work of the Workshop as the important fields were represented by Budget Controllers and Inspectors in practically all the meetings of the Workshop. The designation of one of the Senior Budget Controllers of the Ministry of Treasury, viz., Mr. Abd-el-Monem B. Mosaad, to act as a technical liaison officer in all the meetings of the Workshop was of great help as the official language in which budget documents are presented is Arabic. He not only helped the Workshop in explaining the main provisions of the existing budgetary system of Governmental and public enterprises but also helped in interpreting discussions from Arabic to English and vice-versa as the need arose. During most of the discussions, however,

language did not present any problem, as most of the participants were well-versed in English - and my own working knowledge of Arabic was quite handy in understanding interpretation and explanation of various terms, etc.

The level of discussions throughout the Workshop was high and testified to the fact that most of the budget officers of the Arab Republic of Egypt, Ministry of Treasury are fairly sophisticated, (many of them having already received training at the International Monetary Fund, World Bank and other institutions abroad) and well-suited to receive and implement new ideas. This also points to the need for streamlining and improving existing procedures for the formulation, review, approval of the budget and appraisal of performance, so that effective use could be made of the talent already available in the Ministry of Treasury and other agencies.

Apart from the discussions with the Ministry of Treasury and course participants, a comprehensive meeting was also held with H.E. Mr. Abdel Sami Khalil, Under-Secretary of State for controlling the performance of the plan, on relationship of budgeting and planning, role of accounting and audit and plan evaluation procedures particularly in respect of public enterprises. These discussions revealed that most of the elements of Programme and Performance Budgetary System were already being applied through the "Business Budget" by most of the public enterprises in the country. The role of audit in practice has already been extended from mere accountability criterion to cover efficiency and performance aspects as far as possible.

The need for extending these improvements to the "Services Budget" is recognized and the Ministry of Treasury is already busy in developing a phased programme of budgetary and fiscal reform measures.

The nationalization measures of 1961, it may be mentioned, marked a turning-point in the role of the public sector in the Arab Republic of Egypt. All major economic activities were brought under Government control with public investment accounting for over 90 per cent of the total investment in the country.

To cope with the new system of public ownership two budgets were created, viz., the "Services Budget" and the "Business Budget". The latter includes public authorities and organizations while the former covers the traditional Central Government functions and includes very modest investment expenditure (on an average, about 10 per cent of total public investment). The relationship of the two budgets is close, as all surpluses generated by public authorities and organizations are transferred to the treasury and accounted for as Government receipts. Investment financing for the business sector has also largely to be provided by the Treasury, either through loans or contributions to the capital of companies. As there are a number of uneconomic enterprises, a proper performance appraisal system is necessary to bring to light such organizations which do not perform any social function and which might justify government support for keeping them going.

The predominant position of government in the economy calls for the judicious use of budget and fiscal policy as the main instruments for the allocation of available resources between investment and consumption and increasing the amount of public savings and their channelizing towards productive investment as far as possible. In view of the continuous increase

in public current expenditures, particularly on account of the growing defence needs of the country, there is no doubt that the budgetary and fiscal instruments must be geared to increase government revenues and their allocation in accordance with national priorities. There is also no doubt that a Programme and Performance Budgeting System would be of great help in Government decision-making in these directions. There is an increasing awareness of the importance of meaningful budget making and appraisal of results achieved in physical terms. Mere presentation of budgetary figures (whether these relate to "business" or "services" budgets) without being related to proper programmes projects and activities is coming under increasing criticism and the consensus of opinion in the Workshop fully reflected this awareness and concern for improvements.

The concentration of the Workshop on Programme and Performance Budgeting allowed for detailed presentation and discussion of:

- (i) The main features, advantages and implications of the new system and its comparison and fitting-in with the existing system of financial administration and expenditure control;
- (ii) Structuring the budget, viz., classification system for Programme and Performance Budgeting;
- (iii) Information and analysis system:
 - (a) Data requirements;
 - (b) Accounting and Auditing Systems;
 - (c) Procedures for formulation of projects, their appraisal and approval;
 - (d) Project efficiency appraisal through cost benefit analysis;
- (iv) Output and performance measurement - development of a measurement system;
- (v) Development of a phased programme of installation of Programme and Performance Budgeting System in Egypt.

The theoretical presentations and discussions were supplemented by practical illustrations of programme structure designs for some selected fields, e.g., Health and Social Services, Education, Agriculture and Highways. With the help of the Budget Controller of Railways in the Ministry of Treasury, the Railway Budget was considered in detail, with reference to its programme content and classification. Copies of some of the lectures delivered are enclosed, vide Exhibit IV. In addition the participants were supplied with copies of the following documents (through the courtesy of United Nations Headquarters, Division of Public Finance and Financial Institutions and the Documents Section of ECA) as background reading material:

- (i) A Manual for Programme and Performance Budgeting, United Nations Sales No. E 66 XVII;

- (ii) A Manual for Government Accounting, United Nations, Sales No. E 70 XVI.3;
- (iii) ECA Manual on Administration for Development, E/CN.14/UAP.
- (iv) Compilation of lectures delivered at the ECA Bilingual Training Course in Budget Plan Harmonization (E/CN.14/BUD/17, dated 26 May 1972);
- (v) Country papers prepared by the participants in the Training Course in Budget Plan Harmonization for English-speaking Countries (E/CN.14/BUD/14, dated 14 June 1971);
- (vi) "Programme Budgeting as an Aid in Budget Plan Harmonization"- paper prepared by Mr. I.A. Malik and presented to the East African Community, Regional Seminar on Programme Budgeting held at Nairobi in November 1971;
- (vii) Report and Background Papers of the Conference of African Planners, Fourth Session (held in October 1972).

It is hoped that these documents would provide useful reference material for the participants in future in dealing with practical aspects of the operation of the System of Programme and Performance Budgeting.

The concluding symposium was presided over by Mr. Mohammed Amin El-Saify, Director of the Administrative Training Centre. In his concluding remarks, he congratulated Messrs Malik and Bauna from ECA and the participants for completing the programme of the Workshop successfully. He expressed great satisfaction at the benefits derived by the participants from the Workshop and was hopeful of the practical application of the ideas and techniques discussed in the Workshop.

The concluding symposium while discussing the various stages involved in the installation of the system (see Exhibit IV) identified the following areas for immediate action:

- (i) Leadership for the installation and operation of the System of Programme and Performance Budgeting should be assumed by the Ministry of Treasury;
- (ii) A small but effective Programme Budgeting Research Unit should be established under a capable Budget Controller with in the Ministry of Treasury. Its major functions being:
 - (a) To co-ordinate the work of installation and operation of the Programme and Performance Budgeting System in different departments and agencies;
 - (b) To conduct necessary research in the field of budgetary management as may be required from time to time to take measures for the effective operation of the System;

- (c) To arrange for the holding of in-service training courses for personnel engaged in the preparation of the budget, maintenance of accounts and conducting audits in different departments and agencies. This training programme should also be extended to technical personnel, i.e., those having programme and work responsibilities;
- (d) Rendering assistance to the departments and agencies in preparing concise statements about their objectives, scope of operations, organization pattern and financial and statutory authority and obligations. These statements should be reviewed and finalized in the Ministry of Treasury. Such a review may reveal overlapping jurisdictions and duplication of activities, etc. These cases could be appropriately dealt with after discussion and when agreement is reached, a more efficient organizational and administrative pattern would emerge;
- (e) Help the departments and agencies in initial stages of the introduction of the system in work-planning and scheduling that would provide a rational basis for financial allocations, assigning work responsibilities and performance evaluation;
- (f) Help the departments, etc., to develop proper programmes and activity, etc., descriptions to meet presentation needs.

The Workshop also reached the conclusion that there was no hard and fast rule as to the manner or extent to which Government may decide to introduce the System of Programme and Performance Budgeting in different agencies and departments. A cautious evolutionary and selective approach was preferred.

The proposed Ministry of Treasury Programme Budgeting Research Unit should formulate an appropriate course of action and develop a phased programme of implementation. The main elements to be kept in view in developing the implementation programme being:

- (i) Development of a meaningful classification into programmes, sub-programmes, activities projects, tasks and works, etc.;
- (ii) Adoption of proper financial management practices and control procedures suited to management requirements; and
- (iii) Working or establishing of suitable ratios or standards of work-performance or measurement.

Of course an agreement to, or approval by, the Executive and Legislative Authorities to the change from the traditional budgetary system to the one based on programmes and performance and the announcement of the same to the departments and agencies concerned is a sine qua non in the effective establishment of the new System. It is not merely a matter of adjusting procedures

and budget format. It is more a matter of change of concept and approach to be followed in the matter of budgetary decision-making and performance evaluation. A lack of measurable end-product (as in the case of medical research for instance) should not militate against the establishment of a programme that otherwise meets the criterion of providing a suitable basis for planning; reviewing budget proposals and evaluating performance against budgetary allocations.

The development of financial management capabilities of officers in different agencies and departments being of primary importance in the effective operation of the System, the Workshop was of the opinion that consideration should be given to the introduction of rewards and punishments through the personnel system, as may be geared to better performance and effective use of the co-ordinated Planning, Programming and Budgeting System.

We are grateful to the Ministry of Treasury, the Administrative Centre and all the participants for the success of the Workshop. Our thanks are also due to the UNDP Resident Representative and his Programme Officer (Mr. Hasan Amin) for all the assistance given. I am particularly grateful to H.E. Mr. Abdou, Under-Secretary (Budget), Ministry of Treasury, H.E. Mr. Abdel Sami Khalil, Under-Secretary of State for controlling the Performance of the Plan; Mr. Mohammed Amin El-Saify, Director of the Administrative Training Centre, Mr. Abdel Hamed Farag Rezk, Budget Controller; Mr. Abd-el-Hamid M. El Malatawi, Controller General of the Government Budget Revenues, and Mr. Abd-el-Monem B. Mosaad for the very keen interest evinced by them in the programme of the Workshop and the assistance rendered to enable it to conclude its work successfully. Excellent arrangements on the administrative side were made by Mr. Gemal Sheheta Salem, Director of Training of the Administrative Training Centre and Mr. Mohammed Adel Abdul Ghani, the Workshop Liaison Officer. Last, but not the least, Miss Magda, Secretary of the Training Centre, rendered invaluable typing assistance. We are indeed grateful to all of them.

Exhibit I

Aide Memoire

The Government of the Arab Republic of Egypt is making continuous concerted efforts to move faster in putting the country on the path of self sustaining economic growth and prosperity. There is no doubt that this process would be greatly accelerated when the traces of external aggression have been removed from the Egyptian soil. The huge chunk of national resources which at present the Government is forced to utilize for national security would also become available for economic growth when the country regains its territory presently occupied by the enemy and peace returns.

The twin objectives of maximum national security and realization of full economic potential are the guiding highlights of Government policy. In order effectively to realize the national goals and move forward faster we must have a look at the institutions and procedures constantly in order to avoid waste and inefficiency in use of the country's scarce resources. This calls for improving our administrative methods, techniques and procedures wherever these are found to be necessary.

In view of the importance of Government budget making, its approval and execution in the allocation of national resources in accordance with national objectives, goals and priorities, it is necessary to have a look at the existing budgetary procedures and policies which are central to governments decision-making so that the needs for more effective management of the public service are effectively built into the system. This workshop of senior government budget officers is a step in this direction.

The importance of budget function in the context of increased responsibilities of government can hardly be over-emphasized.

The process of economic planning in which the country is engaged gives great significance to the budgetary system and the need to strengthen this system by the introduction of new techniques and methods of financial management. The PPB approach or a co-ordinated system of planning programming and budgeting is the core of the reform in this direction. This system has also been termed as programme or performance budgeting. This system is based on goal formulation, definition and selection of objectives, long range planning, management of operations, cost control and appraisal of results. The most valuable attribute of this system of budgeting is its potential for indicating possible consequences of alternative policy decisions to the policy makers to facilitate their task of making rational choices in the national interest.

While a full-fledged introduction of the system would require lots of groundwork and advanced preparation this workshop would concentrate attention on the following crucial aspects at this stage.

- (1) The importance of budget-making in the decision-making process of government.
- (2) The existing budgetary accounting audit and performance evaluation procedures and their drawbacks and limitations.
- (3) The advantages and pre-requisites of the establishment of programme budgeting or the system of management approach to budgeting - its outline and purpose.
- (4) Structuring the budget viz classification for programme and performance budgeting.
- (5) Information and analysis system:
 - (a) Data requirements
 - (b) Accounting and Auditing systems
 - (c) Procedures for formulation of projects, their appraisal and approval
 - (d) Project efficiency appraisal through cost benefit analysis
- (6) Output and performance measurement - development of a measurement system.
- (7) Stages involved in the installation of a programme and performance budgets.
- (8) Practical Work: Developing programme structure designs for some selected departments e.g. in the fields of Health, Education, or some Public Enterprise and rendering the existing budgetary data on a programme basis.
- (9) Symposium on conclusions and recommendations of the workshop regarding the role and importance of programme budgeting in securing better budget plan-harmonization.

EXHIBIT II
FINAL SCHEDULE

ECA PROGRAMME BUDGETING WORKSHOP CAIRO 31 MARCH -- 14 APRIL 1973

MONDAY 26 MARCH 1973

Meeting with Mr. K.P. Dalal,
UNDP Deputy Resident
Representative and Programme
Officer, Mr. Hasan Amin

Mr. I.A. Malik
ECA Regional Adviser
in Public Finance and
Management

27 - 29 MARCH 1973

Meeting with Mr. Abdul Hamid F. Risk,
Director of Central Budget about
the curriculum of the workshop and
finalization of the schedule

I.A. Malik
ECA Regional Adviser

SATURDAY 31 MARCH 1973

6.00 - 6.30 p.m. Inauguration by H.E. Mr. Abdou,
Under Secretary
Budget Ministry of Treasury

6.30 - 7.00 p.m. Scope of the workshop -
arrangement of meetings and
distribution of reading and
reference materials to the
participants

Mr. I.A. Malik
ECA Regional Adviser

7.00 - 7.15 p.m. Break

7.15 - 8.00 p.m. Importance of Budget-making in
the decision making process of
Government and major requisites
of budget-plan harmonization

I.A. Malik
ECA Regional Adviser

8.00 - 8.30 p.m. Main features of budgetary
structure and procedures
in Egypt with illustrations
from charts depicting the
cycle of Financial Administ-
ration

I.A. Malik
ECA Regional Adviser

8.30 - 9.00 p.m. Discussion

SUNDAY 1 APRIL 1973

I. Financial Control Cycle -
main features and problems:

- i) Budget Formulation; its scrutiny and approval
- ii) Budget Management and execution and
- iii) Accounting and auditing

I.A. Malik
ECA Regional Adviser

I.A. Malik
ECA Regional Adviser

11 a.m. - 12 p.m.

12.15 - 12.30 p.m.

Discussion

12.30 - 1.30

II. Importance of Establishing Proper Procedures for the formulation of Annual Development Programme and Synchronization of Time Tables for the formulation of Annual Plan and the budget.

I.A. Malik
ECA Regional Adviser

1.30 - 1.45 p.m.

Discussion

1.45 - 2.30

Planning; programming and budgeting or Management approach to budgeting - its main features, advantages and limitations

I.A. Malik
ECA Regional Adviser

MONDAY 2 APRIL 1973

11.00 a.m. - 12.30 p.m. The outline, purposes and pre-requisites of the establishment of PPB system in Egypt

I.A. Malik
ECA Regional Adviser.

12.30 a.m.-1.15 p.m. Discussion

1.15 - 2.15 p.m.

Role and Relative position
of Plan Organization in
Governmental set-up -
Relationship between Planning
Office and Ministry of
Treasury in Egypt

I.A. Malik
ECA Regional Adviser

2.15 - 2.30 p.m.

Discussion

TUESDAY 3 APRIL 1973

- 11.00 a.m.-12.30 p.m. Structuring the budget for programme budget viz - adoption of a revised system of classification by functions, programmes activities etc. with Practical Illustrations I.A. Malik
ECA Regional Adviser
- 12.30 - 1.00 p.m. Discussion
- 1.00 - 2.15 p.m. Economic Cum Functional Reclassification of the Budget - its purpose and format I.A. Malik
ECA Regional Adviser
- 2.15 - 2.30 p.m. Discussion

WEDNESDAY 4 APRIL 1973

- 11.00 a.m.-12.15 p.m. Role of Public Sector and Planning for Economic Development in Egypt Mr. S.J. Bauna,
Economic Affairs Officer, ECA
- 12.15 - 1.30 p.m. Role of Public Sector and Planning for Economic Development in Egypt Mr. A.E.M. Barakat Mossed
Budget Controller
- 1.30 - 2.30 p.m. Discussion

THURSDAY 5 APRIL 1973

- 11.00 a.m.-12.30 p.m. Information and analysis system required for programme budgeting
a) Data requirements
b) Accounting and auditing systems
c) Other techniques of financial management I.A. Malik
ECA Regional Adviser
- 12.30 a.m.-1.00 p.m. Discussion

1.00 - 2.15 p.m.

Selected Illustrations of
the establishment and design
of Programme and Performance
Budget System

- a) Mexico Pilot Project - Depart-
ment of Hospitals and
Institutions and the Health and
Social Services Department.
- b) Distinction between object and
functional classification -
Department of Agriculture -
Government of India

2.15 - 2.30 p.m.

Discussion

SATURDAY 7 APRIL 1973

11.00 a.m.-12.00 p.m.

Programme and Performance
Budgeting techniques

S.J. Bauna
Economic Affairs
Officer, ECA

12.00 - 12.15 p.m.

Break

12.15 - 1.15 p.m.

Work Load and Work Measure-
ment System considerations
involved

I.A. Malik
ECA, Regional Adviser

1.15 - 1.30 p.m.

Project efficiency appraisal
through cost benefit analysis

I.A. Malik
ECA Regional Adviser

1.30 - 2.15 p.m.

Procedures for formulation of
projects, their appraisal and
approval in Egypt

I.A. Malik
ECA Regional Adviser

2.15 - 2.30 p.m.

Discussion

SUNDAY 8 APRIL 1973

11.00 - 11.30 a.m.

Practical work concentrating
on following aspects

I.A. Malik
ECA Regional Adviser

- a) Developing programme
structure designs for some
selected departments
- b) Rendering the existing
budgetary data on a programme
basis with proper descriptions

11.30 - 11.45 a.m.

Break

11.45 a.m.-2.30 p.m.

Practical work

MONDAY 9 APRIL 1973 AND TUESDAY 10 APRIL 1973

11.00 a.m.-2.30 p.m.

Practical work continued illustrating the budgets of selected departments on programme basis

I. Railways (Egyptian experience)

Railways Budget Controller

II. Education, Health and Highways (Experience of Uganda, Mexico and India)

I.A. Malik
ECA Regional Adviser

10.00 a.m.-12.00 p.m.

Meeting with H.E. Mr. Abdul Sami Khalil, Under Secretary of State for controlling performance of Plan on relations between planning and budgeting and audit and plan evaluation procedures in respect of capital projects and Public Enterprises

Messrs. Malik, Bauna and A.E.M. Barakat Mossed

WEDNESDAY 11 APRIL 1973

11.00 a.m.-12.00 p.m.

Performance Budgeting for Capital Projects practical work

I.A. Malik
ECA Regional Adviser

THURSDAY 12 APRIL 1973

6.00 - 7.30 p.m.

Symposium

I. Conclusions and Recommendations

a) Presentation - Establishment of a Programme and Performance Budget System in Egypt - Stages and considerations involved

I.A. Malik
ECA Regional Adviser

b) Discussion

c) Concluding remarks.
Mr. Mohamd Amin El-Sarfi,
Director of Administration
Training Centre

10.00 - 11.00 a.m.

Discussion of results of the workshop with the UNDP Deputy Resident Representative and Programme Officer

I.A. Malik
ECA Regional Adviser

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EXHIBIT III
LIST OF PARTICIPANTS

ECA PROGRAMME BUDGETING WORKSHOP - CAIRO

31 MARCH - 14 APRIL 1973

<u>Name</u>	<u>Post</u>
1. Mr. Abdel Hamid F. Risk	Director of the Central Budget
2. Mr. Helmy Hashim	" " Service "
3. Mr. Mohamed Hamed Ibrahim	General Budget Controller
4. Mr. Ibrahim Lamie	" "
5. Mr. Hassan Fouad	" "
6. Mr. Mohamed A. Zagal	" "
7. Mr. Mohamed Khafagi	Budget Controller
8. Mr. Shaher El Salamony	Head Officer
9. Mr. Mohamed A. Ashmawi	" "
10. Mr. Mostafa K. El Dieb	Budget Controller
11. Mr. Saad El-Din M. Ashore	Director General of the organization budgets
12. Mr. Abd-El-Rahman A. Mohamed	Controller General of the Organization budgets
13. Mr. Abd El-hmid M. El Malatawi	Controller General of the Government budget revenues
14. Mr. Ez-El-Din M. Elwakil	
15. Mr. Mohamed Z. El Shahawi	General Controller
16. Mr. Adel A. Abd-El-Azize	Head Officer (Budget)
17. Mr. Abd-El-Monem B. Mosaad	Budget Controller
18. Mr. Mohamed A. El-Hanafi	Budget Inspector
19. Mr. Mohamed M. Abd-El-aal	Budget Inspector
20. Mr. Mohamed A. Shehata	Budget Inspector

Exhibit III

Page 2

21. Mr. Adel Kamal	Budget Inspector
22. Mr. Aref A. Ali	Budget Inspector
23. Mr. Mohamed M. Gaaber	Budget Inspector
24. Mr. Rashid M. El Quesny	Budget Inspector
25. Mr. Nabil Abd-El-Halim	Budget Inspector
26. Mr. Hassan M. El Maleh	Budget Inspector
27. Mr. Hamed H. Badawi	Budget Inspector

EXHIBIT IV

GENERAL PATTERN

PUBLIC FINANCIAL ADMINISTRATION IN AFRICAN DEVELOPING
COUNTRIES. EXPENDITURES COMPRESSED CYCLE

CHART I

BUDGET MAKING AND ALLOTMENT OF FUNDS

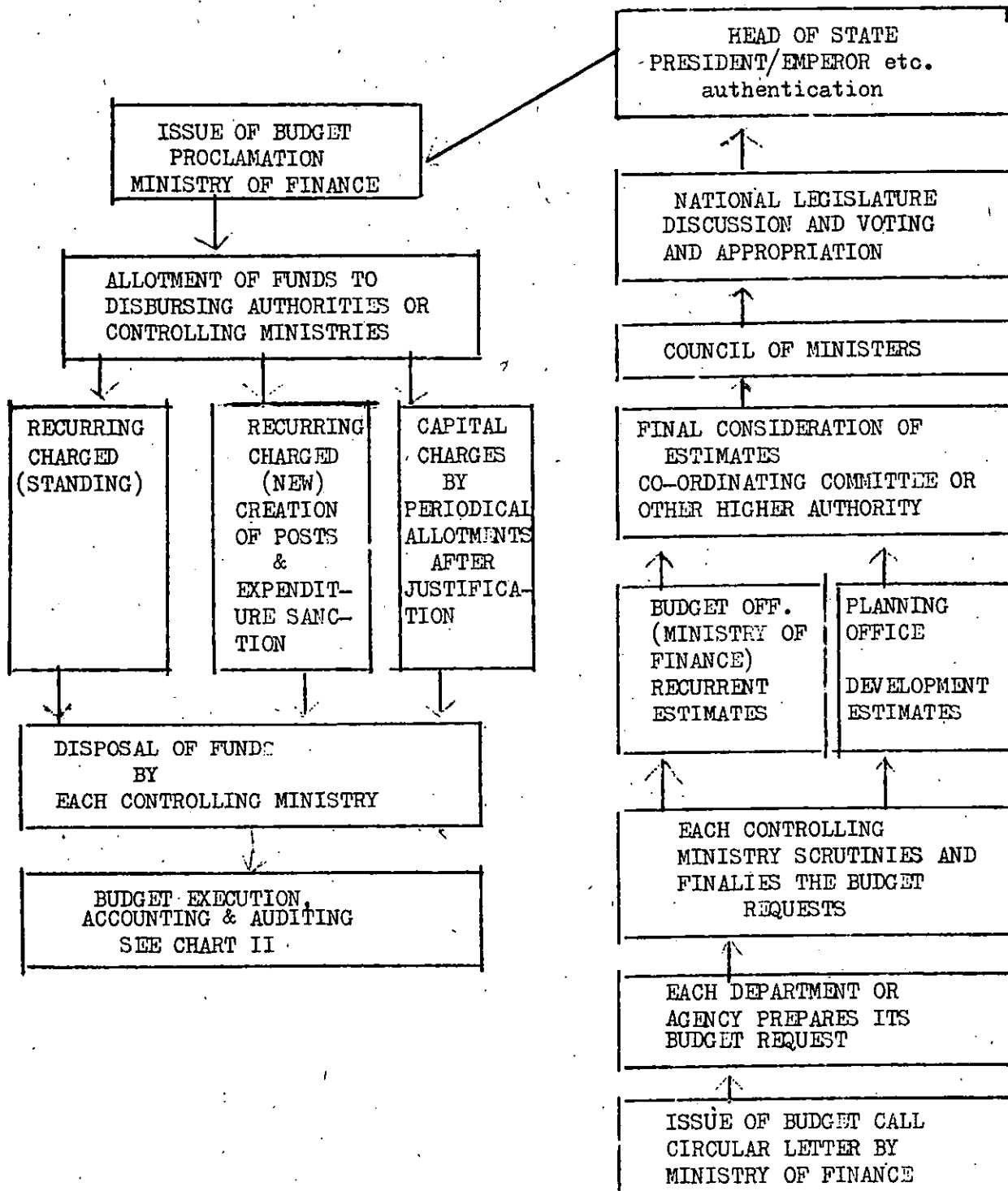


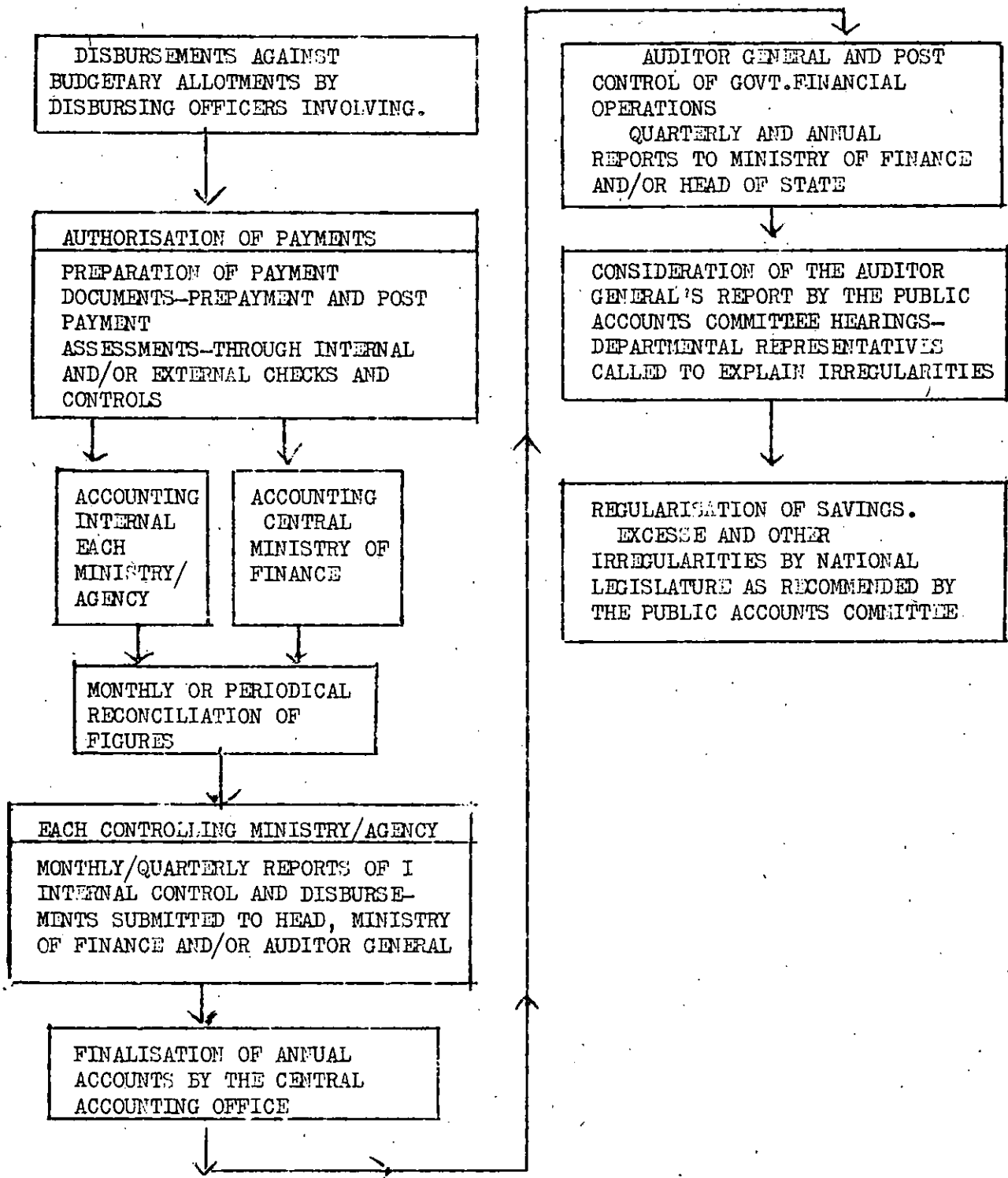
EXHIBIT V

GENERAL PATTERN

PUBLIC FINANCIAL ADMINISTRATION--COMPRESSED CYCLE

CHART II

BUDGET-EXECUTION ACCOUNTING AND AUDITING OF EXPENDITURES



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Exhibit VI.

ECA Local Training Workshop in Programme Budgeting Cairo 31 March - 14 April 1973

PLANNING PROGRAMMING & BUDGETING MANAGEMENT

Approach to budgeting , its main features

advantages & implications

We have discussed in the first lecture the problem of the budgetary systems of most developing countries having failed to keep pace with the new demands made on them by the greatly increased scope of activity of the public sector and the adoption of a planned approach to economic development. It is now widely recognized that there is urgent need for the modernization of budgetary techniques so that budget could become an effective tool of implementation of development plans and national policies.

Deficiencies of the traditional budgeting

It would be worthwhile here to repeat the weaknesses in the traditional budgetary system viz (a) it does not promote consideration of the relationship between ends and means and of various alternatives to reach a given end, (b) the traditional budget system provides information that is more suitable for controlling input (both in legal and economic sense) than for providing a basis for making national choices, (c) decision-making at almost every level tend to get mixed up in details from the start of the budgetary process and do not seem to be able to quite extricate themselves from it, (d) traditional budgeting puts too little emphasis on long-term consequences of budgetary decisions, (e) all budgeting is done on the margin and existing projects tend to be perpetuated.

Features of PPBS

In the case of PPBS however the following four components receive major attention:

- (a) Definition of the government's goals and the means to achieve these goals,
- (b) Planning for future development and consideration of alternate courses of action,
- (c) Delegation of responsibility, and
- (d) Measuring of output and costs.

This system seeks implementation and control of programmes through budget allocations. Among others it seeks to achieve: (a) an improved budget formulation and related decision-making through a systematic analysis of the programmes, their alternatives and through a recognition of the inter-dependence among the programmes, (b) a correlation between the physical and financial aspects of a programme and (c) help measure and assess the actual progress achieved through physical measures of programmes and work. Incidental to these, it facilitates a better appreciation and review by the legislature of the objectives of the government, the direction of expenditures and the results that are likely to accrue from the proposed outlays.

In modern administrative management the concern with the national budget is twofold(a) as a focus for rational policy decision and as a tool for effective management. A good budget system has also to be closely associated with every phase of national planning, from the identification of national goals, to the specification of objectives and the selection of short and long-run priorities. As an economic process budget determines the way by which scarce resources are allocated among competing needs and projects and evaluates effective utilization of resources.

In a free enterprise economy the market provides the means for measuring the effectiveness of the budgets of business enterprises. Policies and operations may be tested against return on each increment of invested capital. Objectives of government operations are however, frequently more difficult to define because of their qualitative nature and complexity. Political decisions influence public budgeting and are apparent at nearly every stage of the process. The organizational patterns of many countries operating the traditional budgetary system are often not well designed for effective budgeting nor are they easily changed. However, it is essential that a budget system of a government must be suited to its growth requirements and responsibilities. Programme and performance budgeting offers the mechanism that must be built into a budget system of a developing country.

The basic character of the governmental and political institutions conditions the structure and dynamics of a budgetary system. However, the general pattern is that the preparation and execution of the national budget are recognized as executive functions. The legislature reviews, criticizes, authorizes and gets it audited. Thus a system pattern is in operation in most countries where financial leadership is with the chief executive, but final legal authority resides with the legislature. Thus the executive becomes accountable to the legislature.

With the expansion of the public sector it has been found expedient in most of the developing countries to establish semi-autonomous agencies, corporations or parastatal bodies to perform certain specified functions involving commercial considerations. This separation of Government enterprise activities from the general stream of Governmental institutional framework rests primarily on management considerations. In view of the variety and complexity of government expenditures in our existing conditions, it is not merely necessary to operate the activities of Government enterprises with better management techniques, but it is also essential to extend management considerations to the Governments own budget so that its various programmes highlight both the financial and physical aspects. To conceive the budget merely in financial terms or to operate the budget on accountability criteria alone puts in the background what a government proposes to do or is actually doing or what the nation is getting for the money raised in the public sector.

A budget devised on management considerations highlights the physical and economic aspects alongwith financial costs. Thus it gives real meaning to the whole budgetary process and facilitates legislative review and appropriation in order to realize national goals and objectives with due considerations of regularity and efficiency.

Let us recognize here, the main elements and requirements of programme and performance budget. These are:

- i) Distribution of budgetary allocations under meaningful functions, programmes, sub-programmes, activities and tasks to be performed. This requires the introduction of classification on these lines;
- ii) Establishment of a system of accounting and financial management in line with this distribution;
- iii) Establishment under different programmes and their sub-divisions standards, ratios or units of work measurements and performance evaluation.

Thus under a system of programme and performance budgeting the Government objectives are first formulated at the functional level and then broken down for operational purposes into terms of specific programmes, projects or activities with their costs properly worked out on the basis of workload and unit cost data. The physical and financial data obtained from budget execution on these lines also serves as a feedback for further budget formulation.

At the programming stage, the emphasis is on the evolving of a budgetary classification, in which functions, programmes and their sub-divisions are established for each agency and these are related to realistic financial allocations. The Performance budgeting stage involves the development of more refined management tools, such as unit costs, work measurement and performance standards.

Both these stages depend on their success on (a) Establishment of a clearly defined pattern of organizational responsibilities; (b) Adoption of the accounting system in line with the new budgetary classification and (c) Introduction of a system of measuring physical progress and performance evaluation.

The various aspects of classification system for programme and performance budgeting, problem of work measurement and establishment of unit costs and accrual accounting as an aid to performance budgeting are subjects of separate lectures during this course. However, while recommending the adoption of performance budgeting in developing countries in view of its advantages to the legislative executive and other bodies in appraising programmes of government in physical, fiscal and financial terms, let me strike a note of caution.

In view of the difficulties in establishing all the features of a proper system of performance budgeting briefly referred to earlier all at once there is need for each government to spell out properly all the stages involved in the establishment of this system and the implementation of each stage should be preceded by proper studies and research.

The introduction of the first stage is relatively simple and once the Government has decided to introduce the system and taken action for essential adjustments in the organizational structure it may be introduced in the entire budget. The second stage of the system however viz. performance Budgeting should be introduced in some selected agencies, the operations of which are easy to locate and define and which result in end products meaningful in terms of programme content. The agencies selected for introduction of performance budgeting should be those which command a good reputation for sound budgeting and observation of canons of financial propriety. The agencies or departments selected should be required to define their activities in terms

of programmes which would represent the main objectives of the agencies concerned. The programmes should then be divided into projects/activities tasks etc. Suitable units of work measurement or end product of expected results should then be developed by the operating departments in close collaboration with the Budget Bureau. The budgetary appropriations in such cases should be supported by broad description of details of work load in the preceding period.

In the first few years of the experimental stage the estimates based on object classification should continue to be presented on the existing pattern alongwith presentation of estimates by functions and activities so that the established budgetary and accounting procedures are not disturbed during the experimental stage. After two to three years working of this experiment the agencies concerned should be required to present a review of the past years' performance to show the extent to which it was possible to accomplish the budgeted physical programmes for various programmes and sub-programmes and also to what extent the development of units of measurements and work load data helped in the process of budget formulation and performance evaluation. In so far as the Government enterprises are concerned they may be required to adopt the full system after necessary preparations. The activities of these bodies are mostly in the field of production of goods and services which can be presented and evaluated under meaningful programme and projects or activities.

The system may be gradually extended to cover the entire budgetary structure.

The budgets on a Programme and performance basis in the initial stages should supplement and not supplant the appropriations prepared on the existing pattern of object classification which should continue to be followed till such time as the system of performance budgeting is more fully established. At a later stage unnecessary details about posts etc. could be eliminated from the budgetary appropriations or presented therein in suitable summarized forms.

While operating the system of programme and performance budgeting in any government the preparatory stages in the budget cycle are of crucial importance. National goals must be reviewed and re-assessed, governmental objectives defined and balanced and priorities must be established. Programmes must be designed to achieve objectives in a coherent, consistent and practicable fashion. This would call for the redefining and proper interrelation of the role of each organizational unit.

The traditional budgetary system fosters the tendency of each administrative unit to continue undisturbed its traditional activities while seeking to extend its operations. Desires for survival and expansion are paramount even when the activities performed may have become obsolete duplicative or of declining importance. Such selfish tendencies have to be controlled and activities of each agency subjected to searching review to see that they are in line with broad national goals and basic objectives. This requirement is no doubt met in a well-designed Programme and Performance Budgeting System. This provides the framework for rational decision-making by accommodating and encouraging continuous consideration of problems of resource allocation among competing programmes. In addition it also fosters the use of precise analytical techniques to assist administrative judgement.

All elements in this budgetary process are directed to:

Formulation of governmental objectives consistent with national goals,
Translation of objectives into programmes,
Getting legislative approval to proposed programmes and appraising performance in relation to established programmes, goals and objectives.

Perhaps a definition of the terms goals, objectives and programmes is necessary here in order to be precise in their use in the context of the system of programme budgeting. National goals in this context are statements of desirable conditions toward which society should be directed. The objectives are stated purposes which can be planned for attainment. They are generally more limited and more specific than broad goals and are frequently quantitative. Programmes are the means to achieve clearly defined objectives. They are in other words time-phased plans for allocating resources and for specifying the successive steps required to achieve stated objectives.

Each major department or agency must assume responsibility to define its own objectives and priorities attainable within limitations of time and available resources. Once goals are formulated and objectives set they must be translated into programmes. For each major function, it would be desirable that a single organizational entity could be made responsible for planning what must be done and for developing programmes to achieve the various elements of the plans.

This task of developing and realizing objectives would involve several difficulties in most of the countries. These are:

1. Major problems and programmes often cross organizational boundaries and means should be found out to co-ordinate their efforts.
2. Organizational structure is bound with legalism and traditionalism with the result that often there is slavish adherence to old established practices and procedures.
3. Organizational structure is sometimes confused and irrational involving duplications and lack of firm patterns of centralized and decentralized functions and activities.

There are also the related problems of hierarchical rigidities, reluctance to delegate, tendency for overstaffing and bureaucratic corruption.

Adequate attention to the solution of these problems has to be paid if we have to derive good results from this system of budgeting. The system provides techniques by which programme administrators can focus more sharply on the objectives for which they are responsible and compare progress towards these objectives in terms of money manhours and materials. The system thus no doubt provides for information and bases for decisions unobtainable through traditional budgetary method.

Concept of planned programmed budgeting

As discussed earlier the traditional budgetary system no doubt provides the basis for financial control on the basis of the criteria of regularity and accountability of expenditure. While it might stimulate a review of

Government expenditures, it is not designed to stimulate a review of activities and objectives. Such a review would involve cutting across department responsibilities.

Preparation of long-term programmes

There is no doubt an urgent need for the Governments of developing countries to re-organize their planning and decision-making processes. The revised arrangements should encourage the establishment of clear national objectives with departmental objectives being subsidiary to them. This would encourage the preparation of a long-term programme even if there is no institutionalized planning as such. Such a programme should set out the objectives, alternative ways of meeting these objectives, their regular review and the performance of the Government in meeting them.

There is nothing particularly new in the concepts of planning programming and budgeting apart from what we know about performance budgeting. What is new is the combination of these three concepts in their application to Government decision-making. By itself the system does not provide decisions but what it does is to enable the management to make more informed decisions about the allocation of resources in the light of the overall objectives of the Government.

Planned programmed budgeting demands the formulation of long-term policy and establishment of clear objectives. In the setting of the objectives the system requires that the Government surveys its present objectives and bring together those facets even though relating to different Governmental levels or units which have an impact upon the objectives.

For example, in the application of this concept by a local authority, one of the objectives to be considered may be the care of old people. The following services make a contribution towards this objective:^{1/}

- (i) Provision of residential accommodation;
- (ii) Erection of sheltered housing by the local authority;
- (iii) Erection of sheltered housing by housing association;
- (iv) Erection of aged persons dwellings and one bed-room flats by the local authority;
- (v) Provision of domestic help and home nursing services.

The system of planned programmed budgeting would seek to ensure that all these different services are considered together for the purpose of meeting the particular objective viz "care of old people" and to this extent the resources to be spent upon these individual services are dovetailed to meet the overall objectives. By this system a much more effective allocation of scarce resources can be achieved. No regard is paid for the purpose of allocating the resources, to the individual committees responsible for the administration of the various services.

It would be appreciated that this is a quite different approach to consideration of an individual committee's departments estimates in isolation from the activities of other committees, which is what happens under more traditional arrangements.

^{1/} See "The Finance of Local Government" Hepworth-Ch I-Control of Finance.

Within the overall programme budget, apart from the main objectives of the programme there will need to be a series of sub-objectives reaching down to the lower levels of management. The effectiveness of management in achieving these objectives in relation to the resources available can be measured by performance budgeting techniques.

The analysis of the objectives coupled with a survey of present activities of any department or unit would probably reveal that some objectives are not being served at all, some only partially and others are using too great a proportion of resources. Some activities may even conflict. The analysis and survey might also reveal a shortage of basic information on which decisions can be made. This will tend to improve the compilation analysis and evaluation of proper data and information.

The second step in a planned programmed budgeting system is to compare and evaluate alternative methods of achieving particular objectives. Such a comparison and evaluation will show the costs of each alternative course of action, the timing of expenditure and the results which each will achieve. This concept provides for the consideration of both the revenue and capital expenditure of different programmes together. In the analysis of alternatives account is taken of all the benefits and costs involved whether or not they fall directly on the executing agency.

There are, of course, constraints upon the alternatives available; these may be political, social, legal or resource constraints. Not all solutions may be politically, socially or legally possible or even if they were, a practical limitation may be a shortage of physical resources e.g. an objective involving a certain standard of education may be frustrated by the impracticality of being able to train sufficient teachers to meet the proposed demand within the time available.

Multi-year plans

The emphasis of a planned programmed budgeting system is on the attainment of given objectives and this implies a future commitment of resources. Therefore a multi-year financial plan has to be prepared showing the impact of decisions over a fairly long period of time. The period of such a plan is usually five years although longer periods may be appropriate in certain circumstances. Equally an output plan should be prepared showing the output over the period of the programme. So far as it is possible the output plan should be prepared in quantitative terms. Ideally the measures of output should also indicate quality, but this is in practice extremely difficult to achieve except to a very limited degree.

Plans must be flexible because financial and economic situations change. Equally the objectives may require modifying in the light of changed circumstances as the plan develops. To be effective therefore, a planned programmed budgeting system would involve a regular review of the activities, output and objectives contained within the plan. These reviews should be completed at least annually.

There are a number of administrative implications at executive and legislative level in the adoption of a planned programmed budgeting system. First a team will need to be set up independent of the main spending departments to prepare the programme even though those departments will be heavily

involved in detailed aspects of the programme. This independence of the team is important to ensure that the programme is prepared as objectively as possible. Again, the team responsible for the preparation of the programme ought to be divorced from the detailed annual budget preparation (although of course the annual budget must be closely linked with the overall programme) so that there is no risk that the team will become involved in detailed administration at the expense of overall objectives.

The design of the existing budgetary system in most of the developing countries does not necessarily force a re-appraisal of the overall economics of providing a service or facility and thus expenditure (input) is considered in isolation from the resulting benefits. This is the situation which planned programmed budgeting or performance budgeting should remedy. It focuses attention on work loads in quantitative terms as well as the expenditure involved and thus establishes clear objectives for management to achieve. The main problem in utilizing the technique of performance budgeting is to devise suitable measures of performance. But if such measures can be devised then a far more effective budgetary control system which firmly establishes national objectives can be developed and this technique could effectively complement planned programmed budgeting system because it can be related to the multi-year plans.

Basic Steps

To recapitulate the basic steps involved in a system of programme and performance budgeting are briefly summarized as follows:

(a) Establishment of goals, policies and objectives;

This stage includes data collection, review of data, recognition of constraints and assumptions relating to inputs.

(b) Development of programmes;

This involves a classification of the whole range of transactions of either a spending department or a 'function' into meaningful categories or programmes, consideration of their alternatives, formulation of criteria for selection of programmes and recognition of supporting programmes;

(c) Allocation of resources;

This includes finalization of operational targets, measurement of performance and work load data, allocation of annual outlays and ensuring rapport between physical and financial aspects;

(d) Execution of the budget. This stage comprises the assigning of specific responsibilities and achievement of targets within cost requirements; and

(e) Appraisal and evaluation. This includes the development of indices of accomplishments reporting and monitoring of programmes and making adjustments wherever necessary in the light of the actual programme and evaluation.

Conclusion

There are three major objectives of scientific budgetary management:

a) A co-ordinated pursuit of overall corporate goals. Individual departments and agencies must not be allowed to pursue their own limited objectives regardless of overall priorities or possible conflicts of interests.

b) Rational decision-making. Objectives must be pursued by choosing the most cost effective of all alternative approaches available and allocating resources according to strict priority, rather than by the use of intuition, influence or political horse-trading.

c) There should be a vital concern for productivity, economy and efficiency in the performance of the public service. Once programmes of action have been chosen the skill and allegiance of the Government machinery must be harnessed to implement them with maximum dedication and the most economic use of resources. This involves giving public servants clear targets at which to aim and clear standards by which their performance can be judged and rewarded.

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Structuring the budget for programme and performance budgeting - viz adoption of a revised system of classification by functions, programmes activities

We have already extensively discussed that one of the primary objectives of the technique of performance budgeting is the establishment of a meaningful relationship between inputs and output by a display of governmental transactions in terms of work done or proposed to be done and services rendered or to be rendered by each department or organization.

The traditional budgetary classification based on spending agencies and objects of expenditure did not facilitate rational decision over priorities or management at the implementation stage. It is desirable therefore, that expenditure be classified according to the programmes which it served and their component activities. These should be accompanied by narrative statements describing the objectives which the programme pursued and the nature and volume of the activities which they comprised.

In designing programme structures close collaboration by officials of the treasuries planning agencies and operating ministries and departments was necessary. In the earlier stages it may be necessary to retain breakdown of appropriations to activities into the traditional object categories of personal emoluments, travelling and transport etc. These could be eliminated from the budget presented to the parliament at later stages.

It is clear that a proper budget structure for performance budget means the classification structure on the basis of which financial and other information is presented in different ways and at different levels in the budget and includes related aspects of budget format such as the presentation of narrative and statistical or work load information. This structure and format provide the framework for the exercise of the management functions of programme planning or decision-making, performance measurement and control.

Existing Budget structure

The existing budgets on the traditional pattern are broadly classified on the following bases:

- Appropriation or funding classification
- Organizational classification (by spending ministries, departments etc.)
- Objects of expenditure classification (Personal emoluments, supplies, transportation, etc).
- Project classification (in Development Projects).

This structure of classification primarily serves the need for control over funds spent by organizations and their sub-divisions, and over the personnel supplies and other inputs used. Such a classification is not directly designed to present expenditure in terms of the services and outputs

produced and to relate costs to them, nor in terms of the government programmes to which these services and output contribute and objectives served by them. The budget structure on this basis may support planning and performance management incidentally - to the extent that there is correspondence between organizational structure and distinct programmes (which is quite often, but not always the case). An organization's estimates may for instance be broken down into subordinate organizational groupings reflecting particular activities (e.g. the sub-division of education into primary, secondary, vocational etc. But this is only incidental and not the same as having a programme structure which has to be specially designed for planning and management needs.

To meet these needs a programme-oriented classification base is required that will enable better formulation of the budget in relation to policy objectives, explain the goals and objectives in terms of the programmes and activities and facilitate the development of a built-in system that will bring out what has been done in relation to what was programmed for. In evolving such a classification base, we come across the terms "functions" "programmes" and "activities" or "projects" whose meaning and scope will have to be first understood.

"Functions" may be defined as major areas of governmental efforts, the purpose of which is to provide a distinct public services such as Education, Health, Agricultural Development, Transport and Communications, National Security etc.

A "programme" is a segment of a function and has usually an end objective. It contributes towards the objectives of a function. It usually corresponds with a major objective of an organization or a major responsibility it has to perform e.g. minor irrigation under agricultural development, or elementary education under education.

An "activity" corresponds with a reasonably homogeneous product output, service, or in some cases work operation. It is the level at which personnel, services and equipment combine to produce an identifiable output which forms part of a wider programme, or in some cases an identifiable process which contributes to a wider homogeneous programme. The training of elementary school teachers under elementary education is an activity under the programme "elementary education". The term "project" denotes capital works as against "activity" which generally forms part of operational programmes. Programmes may sometimes be further divided into sub-programmes and activities into sub-activities for purposes of better planning, programming and decision-making.

A programme structure should properly comprise not only the titles of programmes and activities, but also narrative statements defining the objectives and describing the scope of the programme and its component activities. These statements provide the framework within which the financial proposals are presented in the budget and within which output achievements and work levels are justified and explained in relation to objectives. It is also possible to include mention of the measurement criteria which are to be used in evaluating programmes, where suitable criteria exists.

With this type of budget presentation, the legislature authorizes the expenditure of a sum of money for the performance of an activity rather than for expenditure on personnel, supplies and equipment. This type of structure provides the legislature and cabinet with better information on which to make decisions and to discuss policy questions.

Guidelines for programme structure

Management functions come into play at three different distinct levels viz:

- (i) Planning, decision-making, and evaluation of alternative means of achieving objectives;
- (ii) Management of performance efficiency and economy, achievement of work targets;
- (iii) Control of finance and regularity.

The primary emphasis of PPB being on the second level, the selection of proper activities categories is of importance.

There is no ideal structure that can be applied to any given situation since there are choices in the emphasis to be given to particular objectives and hence particular grouping of activities. In spite of this, however, it is desirable that similar principles should be used by all organizations in arriving at their particular structures: also that similar terminology should be used to denote particular levels of the structure e.g. what is clearly an activity should not be called an activity in one Ministry and a sub-programme in another. There is value in having common activity categories for similar activities performed in different organizations which could facilitate comparison of efficiency.

The introduction of the programme structure does not necessarily require corresponding changes in the organization structure so as to make the two coincide. Programme structure in this situation is a framework for promoting better co-ordination between organizational units, and better decision-making at higher levels on the outputs with which the various units are concerned. It can have the effect of strengthening informal inter-organizational links or the creation of inter-organizational planning structures. At the same time there is no reason why the process of programme structure design should not lead to changes in organizational structure. The clarification of objectives and the means of achieving them could lead to a re-grouping of activities between organizational units, justified on organizational grounds. This could certainly lead to a greater correspondence between organization and programme, a desirable outcome since decisions are generally more easily made and more effectively implemented within the limits of one organization. In certain situations a geographical or clientele basis for organization may have to be adopted.

Procedures for the introduction of programme structure

Three different approaches have generally been used by central agencies of government or other authorities to programme structure design viz unstructured, structured and imposed. In an unstructured approach agencies are given general guidance from the central agency and asked to work out their own structure, preferably in close consultation with the central agency. In a structured approach a government or authority wide support

is designed at programme and sub-programme level and agencies are left to determine their activities where they fit into the higher levels of structure. In an imposed approach the whole structure is designed centrally. Unstructured approach, in my opinion, with a strong central guidance, may be quite suitable for PPB at the central level in our situation here in Egypt.

Three steps can be identified in the process of designing programme structure:

- (a) The clarification and definition of objectives and the selection of programme categories.
- (b) The clarification of management needs and the determination of activity categories.
- (c) The preparation of descriptive statements for programme and activity categories.

In the process of defining objectives the process consists of reviewing and defining the ends or purposes of government activity normally at Ministry and Departmental level. It is objectives in the sense of the nature and purpose of work, not its quantity or the level of achievement desired, that are to be defined at this stage. The purpose of work is the focus of planning at this stage.

The definition of objectives in some cases may reveal that the several major purposes of a Ministry do not fully correspond with its departmental divisions and that for planning purposes or "non-departmental programme structure should be adopted. In this way the activities of mixed departments or divisions can be re-allocated to relevant programme categories rather than being grouped in an unsuitable departmental category. The determination of programme and such programme categories follows from the process of reviewing objectives and deciding which are to be taken at each level as the basis for programme planning. As already mentioned there is scope for choice in this and no pattern is ideal for all purposes. While the programme level should focus on objectives the activity level focuses on performance. The selection of activities should therefore centre on aspects of work for which it is desired to impose responsibility for performance. The management value of this in the sense of securing achievement of targets, reduction of costs or manpower ratios or increase in productivity is greatest, where the activity is measurable and homogeneous. Many government activities, however, may not be readily measured, and may not be homogeneous, unless they are sub-divided to the much lower level of work operations. It may be desirable to sub-divide an activity either to achieve greater measurability or to provide for a special sub-classification for particular management purposes. Where activities are selected which do not correspond with organization, management responsibility is exercised at a higher level.

Descriptive statements

To complete programme structure design it is necessary also to describe each programme in a concise form outlining its objectives, followed by a short description of its nature, scope and content. The narrative should amplify the objective, indicating, where possible, any criteria that can be used to measure its attainment, (e.g. reduction of crime rate, increase in literacy rate, acreage of area to be brought under irrigation) and also describe the

means or activities that should be used and the way these means would serve to promote its attainment. In short the statement should provide a concise definition of what government activities are included in the programme and provide a framework or terms of reference within which programme planning can take place. The statement should also mention areas of interaction with other programmes in the government structure as few programmes are wholly self-contained. Where it is intended to undertake systematic programme analysis through the examination of alternative sets of activities to achieve programme objectives, it is best to include in the descriptive statement a list of the measurement criteria, usually several, which are to be used in evaluation.

The process of programme structure design can itself be a valuable contribution to management. The review and questioning of established objectives can give new focus to government activity, overcome inertia, and re-direct efforts to new national needs.

The existence of medium-term plans and the formulation of annual development within their framework do call for a proper linking of the structure of the development plan, annual development budget and the services or operating budget closely.

A common structure could start with the broad sectoral or functional groupings of expenditure on a government-wide basis, which already exist in the development plan and which should also be used in the operating budget. A three-column listing would show operating, development and total expenditure for the year. This common structure should follow the programme - activity structure already described which provides the basis for the Development Plan. The level of detail would of course depend on the form of Development Plan in use. A 5-year plan expressed in fairly broad terms might not go below programme level, leaving activities and projects to be detailed in the annual budget. The most important thing however is that the objectives of the programmes in the plan should form the basis of the objectives of the annual budget, subject to further review as the plan proceeds.

The linking of operating and development expenditures would ensure that all expenditure proposals, both capital and operating are evaluated on a common programme objective basis. Moreover, it would ensure that the recurrent implications of development expenditure, both for finance and manpower are not ignored in the operating budget. Further it would encourage the evaluation of alternative ways of undertaking specific activities or projects on the basis of both capital and operating costs and relating the combined costs to benefits or outputs desired.

Exhibit VIII

Work load and work measurement system- consideration involved

We all now know the reasons why all government work cannot be measured. There are certain types of work which one even should not attempt to measure e.g. policy-making and research activities. The reason for not attempting to subject such activities to measure primarily being that they are not producing anything to sell on the basis of getting returns.

There may be certain statutory reasons which may also dictate not attempting to measure certain government activities for instance if the number of members of a Board is fixed statutorily on the basis of some political, regional or other factors you take the numbers as given and may not attempt to measure their performance in quantitative basis. In certain cases the proportion of staff of any organization may be fixed statutorily and cannot be changed.

In respect of activities and projects which are measurable the fullest co-operation of the operating departments is necessary in installing a proper measurement system and keeping it under constant review. Any attempt to introduce measures from above without my co-operation and involvement of the operating agencies would not lead to desirable results and proper operation of the system.

Availability and development of data for measurement is of great importance in any measurement system. The operating departments should have full and adequate descriptions of the work performed by them and within this descriptive framework identify guidelines on volumes of works handled and their meaningful measures of performance. Such guidelines should also try to identify the ingredients and stages of a system of reporting on performance. These guidelines should clearly state that it is not merely necessary and adequate for the departments to formulate the budgets and sit back on it and let the implementation proceed as it comes and the evaluation also done on a routine general basis. This is not proper budgetary management. Proper record keeping, reporting and review procedures at different levels must be instituted.

There are many systems of yardsticks and measurements that one could talk about depending on the nature of the activities and projects undertaken. A town department for instance may be handling town returns, a health vaccinating unit inoculating numbers of persons against smallpox, a cholera etc. Some activities especially in the industrial field are much more complicated than these examples and cost-accounting practices would be required to provide proper yardsticks and measurements. Help of engineers, statisticians, and other technical experts would be needed. The yardsticks or standards must reflect the objectives and goals to be achieved and what the particular department or agency is trying to do.

In organizations employing only manpower and not much equipment the volume of work is usually assessed in terms of man-days, man-months or man-years. If there are other inputs also involved these should also be reflected adequately.

The working out of performance ratios for certain activities has great appeal. These try to relate the volume of work performed and the manpower utilized in producing that volume. When the volume of work is difficult to measure in terms of output, the manpower or man hours etc. become important measures.

There may be related staffing pattern e.g. number of nurses required for a doctor in a hospital. This is determined on functional basis. This requires a careful assessment of volume of work involved.

Manning tables is another type of standard e.g. firemen attending a boiler or blast furnace for certain hours. One could think of time and people required to carry out specific operations. Manning the table can provide the yardstick for measuring the volume of work involved and the composition and number of hands required.

In the case of manufactured articles or standardized operations the measure of comparison is evident usually. Where it is not, unit cost will be of limited value.

The allocation of overhead gives lots of headaches in working adequate standards and has to be settled by developing proper ratios of costs to be apportioned to different operations.

Quality

The problem of quality, strictly speaking, is not one of measurement but of management through inspection and other devices and is of great importance. Quality is not easily measurable except in highly automatized processes.

Sometimes work study measures and time and motion studies may be undertaken to help in the development and introduction of proper performance yardsticks and measures. These studies may help to reform operational procedures.

Area of operation

Sometimes performance depends on area of operation and regional considerations have to be taken into account.

Analysis of performance

Quarterly progress reports on volume of work, man-days, performance rate and number of physical areas covered gives proper guidance in comparing with what has happened in the past. This may bring to light irregularities or improper utilization of manpower and other inputs. Reasons for excess backlog of work or arrears accumulated may be pin-pointed. Defects in the distribution of work amongst different units or persons may have to be looked into. Certain procedural defects may have to be rectified.

These measures and comparisons of performance will furnish invaluable guidance for budgetary policy and implementation of work programmes. It would help the departments to formulate their budgets more precisely based on volume of work, performance rates. A budget justification based on these facts would be well received by the budget department.

The process of setting up standards, yardsticks and ratios etc. of performance is a difficult task. We must set our eyes on it and move step by step in the perfection of these standards.

Exhibit IX

Performance Budgeting for Capital Projects

The programme and performance approach to capital or investment projects is based on proper advance planning, project formulation, its scrutiny and approval and various control procedures in execution which ensure proper implementation. Broadly the requirements are:

- (i) Advance planning and estimation;
- (ii) Examination of immediate and future financial needs;
- (iii) Control of funds;
- (iv) Mechanism and procedures for review of work in progress and removal of bottlenecks and difficulties that may arise during the course of implementation;
- (v) Evaluation of performance.

These requirements if properly applied to any capital project would bring together the separate elements of an integrated management system and ensure the organization and execution of work in a systematic manner and also provide information for the effective and efficient operation of the project after its completion.

Project formulation

There are various steps which have to be gone through before a project is sanctioned or approved for implementation. These have been dealt with separately already. It may however be re-iterated that the initial examination and investigation of capital projects should fully establish the need and desirability for investment in particular project and also identify its financial and physical requirements, sources of financing, phasing of implementation and expected benefits, costs and liability not only during the course of implementation, but more important still after its completion.

In case of big projects a feasibility study should be undertaken after its initial need is established and recognized. This should cover both the technical as well as economic aspects. A brief outline of the feasibility study would be as follows:

1. Introduction
2. History of the project
3. The market prospects
4. Pattern of demand and competitive position
5. Technical data on products, processes, quantities to be produced, raw materials layout of plant, raw materials labour transportation, housing and other requirements
6. Economic justification on size and processes
7. Location of project
8. Estimates of cost, working capital, and financing arrangements and expected financial results during the operation of at least

8. 5-10 years of the project after its completion
9. Profitability index of the project
10. Benefits to the national economy in terms of savings or additional earnings in foreign exchange, reduction of unemployment, increase in productivity and other effects on national economy
11. Outline of the earnings as a whole and comparison with commercial criteria of profitability if relevant
12. Position and priority accorded to the project in the national plan of economic and social development of the country.

There is no doubt however that the different components of a detailed project estimate will vary from project to project.

Before execution of the project is taken in hand principal tasks to be performed have to be clearly identified. A work breakdown structure must be prepared breaking the project into its main components and sub-components etc. Within this framework the various events, tasks and works to be performed should be defined and their sequence determined. In this manner one proceeds in an integrated way towards the orderly execution of the project and if any problem areas do arise during the course of implementation these could be handled effectively. A master control chart which shows its critical execution path is often prepared in case of big projects which indicates important tasks to be performed and arrange them in a logical sequence for the completion of the project.

A control implementation schedule would give the total cost of the project, the annual breakdown of the estimates for different years with breakdown of financial and physical outputs required. Such a control schedule would serve as the key element in performance budgeting system for a capital project and provide full information on planning programming, and budgeting basis of the project.

Within the framework of long-term control plan the annual plan of action must be fitted in. Programme statements should be drawn up in respect of each component; the physical and financial content of the programme determined and steps taken to procure these resources in time progress reporting.

A proper system of progress reporting could control and monitor the various execution stages. The progress report should consist of (a) financial aspects and (b) physical and engineering aspects.

While making the provision in the budget for the project the same needs should be reflected in the budget and accounts as in the project estimates. If this is not done the production of timely financial data would be difficult.

Exhibit X

Establishment of a programme and performance budgeting in Egypt - stage and considerations involved.

As submitted by me during the course of discussions in this two-week workshop on programme and performance budgeting, I reiterate that there is no hard and fast rule as to the manner or the extent to which a Government may decide to introduce the system of programme and performance budgeting at a given point of time. There is considerable flexibility in this respect. The only point however which I would like to emphasize at this concluding session is that each country deciding to adopt this system has to select an appropriate course of action and develop and adopt a phased programme of implementation suited to its own conditions.

The main elements of the system as we have already discussed are) A meaningful classification into programmes, sub-programmes, activities, sub-activities, projects, tasks and works etc. ii) Adoption of proper financial management, practices and procedures suited to management requirements and performance evaluation. iii) Working or, establishing suitable ratios, unit costs or standards of work performance or measurement.

Although the establishment of the system has to proceed on these lines it would be worthwhile to outline the steps and pre-requisites for the establishment of the system. However, before we do it, it seems necessary to focus our attention on the main features of the existing budgetary system in Egypt which call for the adoption of the new system. Permit me to summarize these points very briefly as we have discussed them extensively already during the course of this workshop.

- I. The present system of budgeting as practised especially in respect of the services budget lacks clear cut definitions that would permit better analysis of the budget and accounts data and the use of this information for facilitating the task of budgetary decision-making and formulation of fiscal and monetary policies.
- II. The object classification still predominates in budget presentation although some meaningful programme categories especially in the case of public enterprises have been introduced.
- III. The budget requests received from the different agencies and their presentation in the final budget should clearly identify future cost implications in cases in which it is not done.
- IV. The adoption of an integrated system of financial planning after its discussion at various levels both in respect of the medium-term plan and annual plan would greatly help in bringing the budget and plan closer together for the realization of national objectives. A proper system of revenue forecasting and the relationship of expenditure **projections** to the implementation of the development programme is of utmost importance in this direction.

- V. Although a plan performance unit exists in the audit department its scope is restricted to the public enterprises only and the existing reporting procedures on plan performance leave much to be desired. Proper means of appraising progress in the services budget are mostly lacking and in view of the delays in finalization of accounts and the emphasis of auditing merely on accountability criterias progress in this respect cannot be appreciable without making improvements to have speedy compilation of accounts and extending the scope of audit to cover "efficiency and performance audit" as well, alongwith audit on the traditional regularity and propriety basis.

The steps and pre-requisites for the establishment of the system are briefly as follows:

1. A recognition of the need for change in the budgetary system to one based on programmes and their performance by the executive and the legislative authorities and enactment of suitable legislation and regulations for the change over to the new system.
2. Redesigning of the budgetary presentation into meaningful programmes such programmes, activities, etc. by the departments and agencies concerned with the help of the Treasury Department.
3. Establishment of a properly staffed unit to work out the details of the establishment programme of the system and to furnish necessary guidance to the departments and agencies etc. in redesigning their programmes and carrying out other operations connected with the change over. This unit could be conveniently located in the Department of the Treasury.
4. The system could be introduced in some selected pilot programmes. The selection may be made on the basis of following criteria.
 - (a) Organizations involved in economic developments
 - (b) Areas in which opportunity for efficient use of funds is greater.
5. The proposed cell should also develop a comprehensive training programme for the officers and staff of the treasury and other agencies at various levels. In this they could draw on the experience and expertise in various agencies, enterprises and audit department performance evaluation units. Of course the services of ECA in this or other related aspects of the installation of the system would also be requested in case of need.
6. Of particular importance will be the assistance that the proposed cell would be in a position to render to the departments and agencies etc. in preparing concise statements about their objectives, scope of operations, organization patterns of financing of different programmes and statutory authority for the conduct of their operations. In fact the proposed cell should be continuously engaged in carrying out a review of programmes and their sale divisions. Such a review may reveal overlapping and duplication in various activities. Information on these matters would be of great use in the process of budgetary scrutiny.

Let me in the end, gentlemen, express the hope that the introduction of the new system would be taken in the dynamic administration of this great country in the true spirit of making maximum efforts towards proper allocation of scarce national resources to meet national goals and objectives in accordance with a well-established system of national priorities which no doubt would be helped by this system. Old ideas and traditions are difficult to change, but I am confident that explained in the proper way the system would be readily accepted and prove a welcome break-through in helping in the implementation of national goals. It is not, distinguished budget officers, a matter of adjusting procedures and budget format. It is more a matter of change of concept and approach in the matter of budgetary decision-making and performance evaluation. The support at the highest political and executive level is therefore necessary.

I humbly suggest that while accepting the idea of the establishment of PPB in Egypt consideration may also be given to the idea of introducing rewards and punishment through the personnel system geared to performance and development of management capabilities of officers.

Exhibit XI

Why budgeting?

Let me begin with the simple question why budgeting is necessary. It is required because we want more than we have. Our desires exceed our means. Since our resources are scarce in relation to demands, we have to make unpleasant choices as to how we use the available resources. Some demands can be met only in part, some not at all. Scarcity of resources confronts us at every level of public budgeting.

Like any individual or institution, therefore every government faces the crucial problems of balancing needs and desires against resources and has to set up the institutional machinery for dealing with it. Within the constraint of shortage of resources our needs and aspirations are sharply rising. In this context, the business of operating government in a manner that it contributes to the maximum achievement of national goals and priorities is of paramount importance. The process of budget-making, its approval and execution are therefore most important functions of any government. These involve the allocation and supervision of government expenditures. The strengthening and improvement of budget administration is no doubt imperative if the government is to be an effective instrument of public service, development planning and implementation.

Purpose of the budget

Broadly speaking a government budget has two main purposes:

- (i) to serve as the major tool of executive management and legislative control and
- (ii) to reveal information significant to economic analysis and at the same time to provide the framework for a policy of stability and development.

Relationship between legislative and executive power

The executive prepares the budget, the legislature reviews and approves it. The execution of the budget, and the carrying out of the plans and programmes reflected in it is again done by the executive. The ways in which legislative control is exercised on the budget largely depend on the general character of legislative - executive relationships provided for in the constitution of any particular country. Under the parliamentary system of government where the executive acts as the governmental manager for the legislative majority, charged with the execution of a programme on which the majority is agreed, legislative control functions as a broad kind of oversight. However, in cases where the link between legislature and executive is less direct, legislative control may be much more inquiring and sometimes inquisitorial.

Role of the budget and budgetary decision-making

The effectiveness of budgeting lies in its use for the formulation and execution of government programmes rather than as a means of exercising unco-ordinated restraints upon departmental spending 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. A sound budget system can assure a wise allocation of resources and follow execution to see that proposed plans and programmes are actually carried out faithfully.

Government budget as the forecast of public sector income and expenditure for the ensuing fiscal year, represents in financial terms, a comprehensive plan of government fiscal, economic and social policies and activities. It is an essential tool of financial management in the public sector. It is an essential tool of financial management in the public sector. It sets out in monetary terms what the government needs to further its objectives for a given period, what resources are available and from what sources and what measures are necessary to augment these resources.

In the preparation of the budget a wide range of policy and administrative issues are involved requiring close attention before reaching any decision. The decision to place an item in the budget is in fact tantamount to fixing government policy with reference to all possible implications involved therein. At the same time, it is hard to think of any government decision which has no budgetary implication. In view of scarce resources, the budgetary process involves the examination of alternatives in order to reach deliberate and explicit choices. The budgetary policies of a government should no doubt be directed to ensure an equitable and wise allocation of resources among competing demands. The budgetary decisions are therefore, principally designed to serve the positive function of promoting desirable expenditures and helping in the implementation of approved programmes. In the last analysis, budgeting should involve not only the negative function of control; properly used, it becomes the instrument by which and through which a nation's objectives are achieved.

Dimensions of budgetary improvements

In the context of the importance of this function, what are the dimensions of improvements in the process? These generally involve the realization of such objectives as strengthening of administrative processes, securing efficiency and economy, effecting better utilization of resources, effective fiscal policy and measures for control of inflationary conditions and broadening the awareness and understanding of budget content. As already mentioned, it is not merely a question of treating the budget as an instrument of expenditure control. The economic implications of the budget emphasize its role as an instrument of economic planning and implementation. It establishes relationship of government programmes to economic and financial policies adopted for their implementation. By adopting various taxation and borrowing measures, it becomes a barometer of the fiscal and monetary health of the economy. As a national annual financial plan, it cuts across departmental boundaries and ties together all functions, programmes, projects and activities. This requires the introduction of proper control and discipline if a unified national plan is to be implemented through the budget.

By assembling information of the different components of government expenditures, it becomes a key management tool for reviewing work programmes and the types and levels of services and the organizations and methods of their performance. A modern budget would show costs of programmes and activities and the means of financing them, together with the relationship of costs to services performed and results expected. Modern budget administration must therefore, establish procedures and provide adequate staff and facilities to deal with each successive stage of the budgetary process.

Central budget agency

The central budget agency should be responsible for collecting and consolidating information to assist the Government leaders or Council of Ministers to arrive at a general course of action and to establish a rational budgeting policy so that ultimately the budget coincides with national policies objectives and limitations. The responsibility of budget administration should not end with the preparation and presentation of the budget. After its enactment, it moves into the phase of execution which involves not only supervision over current spending but continuous review of programmes in relation to changing needs and circumstances. Through this supervision information about operations is gained, which is used for identifying problems and issues relevant to succeeding budgets.

Finally budget is much more than an instrument of government administration. It reflects and shapes the economic life of the country and the distribution of economic power. It reflects the political structure and the prevailing attitude toward the role of government. It serves to decide how the government shall spend its resources, who will receive the benefits, and who will bear THE COST AND IN WHAT PROPORTION. In its broad aspects, the budget is thus both the compass indicating the course a government should take in its financial administration, and the wheel with which it can steer that course. It has many aspects. It is an instrument for scheduling as well as for evaluating government activities.

Some of the essential requirements of a modern budget are:-

- (i) Comprehensiveness. It should present a complete picture of the financial programme of the government. It should also present the total extent of the government influence on the economy, not only in the form of its contribution to national income but also through such income - re-distributing factors as subsidies, social security benefits and tax revenue.
- (ii) Receipts and expenditures resulting from government activities other than production, trading and finance should be included in the general budget on a gross basis, without deduction of related expenditures or receipts in order to indicate their scope as well as their net effect.
- (iii) All special accounts; including earmarked revenues which have been established as part of the administration of government activities should be shown as an integral part of the general budget.

- (iv) The so called "balancing" items of receipts and expenditures, such as proceeds from borrowing and redemption of debt etc. should be excluded but shown in any statement showing the governments consolidated cash position, indicating the method of financing the gap between total expenditures and receipts.
- (v) The public undertakings should generally be included in the budget on a net basis. The budget should reflect the operating deficits or surpluses of public undertakings.
- (vi) Social security receipts and expenditures may be integrated completely into the general budget if no separate treatment of these transactions is considered warranted.

The job of any Government or agency should be to obtain maximum advantage from the use of scarce resources. Public activities must be judged by the broad criteria of economics as private business must be. While most government activities cannot be tested by the profit criterion, there should be a system in each government to ensure that resources used by government yield as productive and valuable result as would be obtained if those resources were used for alternative private uses. This test must be applied if the society as a whole is to make the best use of its resources. Budget estimates should be prepared in a manner that makes it easy to compare relative merits. Professor Pigou has tried to extend the doctrine of marginal utility in tackling problems of public budgeting which means that "resources should be so distributed among different uses that the marginal return of satisfaction is the same for all of them". This is however, easier said than applied. Because when we are actually confronted with the task of determining whether to allot additional resources on education, or agricultural research for example, we reach the conclusion that we have no slide rule technique by which to compute correct answers in accepting budgetary proposals. However, the expression of desires by the people through the political and the planning process supplies a basis for evaluation of governmental activities.

Apart from comparisons of different functions we may formulate and evaluate budgetary proposals in terms of their effectiveness in achieving a common objective. This is the criterion of efficiency. It may also be emphasized that no comparison of relative merits is good for all time and for all conditions. Value is a function of need and need changes from time to time. In the final analysis, questions of relative merit which arise in budgeting involve the value judgements of a political philosopher who can use to advantage some of the analytical methods of the economist.

Traditional budgeting in fact as is being largely applied in many developing countries is largely "incremental budgeting" which has been described as a system whereby budget reviews examine only those items for which increases over the previous year are requested" ^{1/}. In general, budgets are largely determined on the basis of decisions taken in the past and there is a resistance to change. Operational expenditures from previous years are often included in bulk and almost automatically. Only new measures receive

^{1/} Charles L. Shultz, The Politics and Economics of Public Spending, Brookings Institution 1968.

detailed consideration and frequently the only criterion applied to existing commitments is whether appropriations for them should increase in a greater or lesser proportion than total expenditure. In this way, new ventures which may be worthwhile and more effective than existing projects may be excluded because funds are pre-empted.

The need to develop an integrated budgetary management system which makes use of an analytic approach as far as possible is paramount. This system is broadly based on the application of the following basic requirements:

- (i) Determination of objectives to be achieved.
- (ii) Determination of alternative courses of action to facilitate the task of making rational choices for achieving the objectives. This can also be made applicable to bring about improvements in areas where the effectiveness of existing expenditures in the realization of objectives is low.
- (iii) Laying down criteria of effectiveness in order to determine the degree of success achieved in realizing the objectives. The relationship between outputs and objectives furnishes a measure of the success or effectiveness of expenditures incurred. It would bring out the extent to which government actions and outlay succeed in achieving chosen objectives and would direct attention cogently to the need for optimum use of resources.

Some of the components of better management of government budgeting are:

- (i) Action Plan. Development of an Action Plan to translate the programme budget into operational terms, specifically who is to do what, by when, and with what resources. Programme objectives may have to be translated into organizational or personnel objectives. The development of agency or personnel objectives would enable each executor or manager to place his responsibility in its proper perspective within the overall programme structure.
- (ii) The development of proper information system on performance serves as a "feed back" to evaluate the effects achieved with the envisaged or intended effects and where further decisions must be taken.
- (iii) The use of a general Analytical Approach is necessary for (a) establishing a relationship between cost and accomplishment or output and (b) providing data leading to output/cost criteria for judging management performance. This should be a necessary element in the delegation of managerial responsibility and review of the exercise of that responsibility. Cost effective analysis would help in identifying either the alternative that yields the greatest effectiveness for any given cost or the one that yields a required or chosen degree of effectiveness for the least cost.
- (iv) With the emphasis on effectiveness in programme budgeting a change in the role of Auditing is also called for. The increased information available about programmes, the outputs and their costs should involve an extension of the traditional audit functions of legality and regularity to examine how effective the agencies have been in performing the duties assigned to them. This would

involve a review of the chain of goals and means which constitute the activities of different agencies. The Audit office should be directed gradually to build up information on economic conditions and physical accomplishment which will provide data on activities, output and progress towards achievement of goals. The extension of audit functions in these directions would bring about new ideas and proposals for measures to increase effectiveness on the basis of assessment and evaluation of results.

In short, the modern management approach to budgeting would be most effective in conditions where objectives are clearly specified and agreed upon; where outputs are most concrete and quantifiable; where administrative discretion to choose among alternatives is broadest; where information systems are well - developed and where the head of the agency is keenly interested, prepared to use system and actively support it.

Where a country has a national planning system, or is already moving towards a planning system, the introduction of a planning/budgeting system tends to increase the degree of co-ordination between the planning and budgeting processes. This inter-relationship is all the stronger when one moves from an annual to a multi-annual budget.

The preparation of multi-annual estimates is, representative of an attempt to place the budget in a planning context, usually with regard to alignment with projected resources.

The adoption of the management approach to Government budgeting in itself may contribute little to producing criteria to be used for ordering priorities or for quantifying problems. The aim of the system is to indicate the necessity of priorities, not to decide them which is a matter for political decision. The adoption of the system could certainly serve to change broader aspects of public policy in relation to budgetary decisions on the allocation of resources and on the adoption and timing of execution of projects. Programme budgeting is a system which more than any other is "learned by doing". It needs to be developed in the operational context of the system itself. In designing programme structure in an on-going budgeting system, the programme should consciously be based on objectives derived from existing policy so that programmes and programme budgets can be linked definitively to the annual budget.

Failure of the traditional budgetary system

There is no doubt that the traditional budgetary system as still practised in most developing countries in Africa has largely failed to keep pace with the new demands placed on it by the exigencies of planning for economic development which call for increased rôle to be played by the public sector in implementation of development programmes. Government budgeting in most countries is still conceived in financial terms with elaborate rules and regulations built round the system designed to ensure financial accountability. The system lays major emphasis on observance of appropriation limits. The appropriations are classified mainly by objects of expenditures rather than on identification of programmes and projects or their relationships to the cost of major inputs or the expected output or work to be performed. Thus the traditional system does not provide information on Government performance in physical terms or an evaluation of what is obtained for the money spent.

Budget-plan harmonization

The Government budget being the medium for the reflection and implementation of public sector policies and programmes it must be effectively co-ordinated and, harmonized with the national development plan if the national objectives and targets laid down therein are to be effectively realized. Apart from development programmes to be directly executed by Government which have necessarily to pass through the budgetary mechanism the Government should also effectively influence the course of private sector development through the provision of basic infrastructural facilities and playing upon the various incentives and disincentives through the use of selective fiscal and credit policies. In the framework of planning for economic development the Government in short must be made to play the role of an overall regulator of the various determinants of economic growth of national income like savings, investments and consumption etc. It should clearly demarcate areas and magnitudes of public and private outlays, investments and consumption, so that fiscal policies and budgetary techniques could be directed to the attainment of set goals and priorities.

The need to establish a close relationship between the plan and budget can hardly be over-emphasized. In fact there is a growing realization amongst the African countries towards this end and concrete measures in this respect are being adopted by different countries. The various facets of the problem have also been extensively discussed in various seminars and workshops sponsored by the United Nations and its regional commissions during the last two decades and various recommendations made. Without going into the details of the various measures which require detailed presentation and discussion it would be useful to identify the more important points relevant to budget-plan harmonization so that we could discuss the same in the light of our own experiences as industrial administrators.

1. I begin with the role and functions of the central planning organization. In situations in which the functional responsibility assigned to the plan organization and its relative position in the governmental structure are not clearly defined plan formulation and its implementation suffer. In view of the key role to be performed by this organization in economic development it is incumbent that it should occupy a strategic position of importance in the governmental structure so as to be able effectively to direct and steer the development effort in the desired channels both in the public and private sectors.
2. It is necessary as well to institutionalize the planning process in the entire Government by having planning cells established at regional and local levels and in important government agencies and parastatal bodies.
3. Internal consistency and continuity in planning should be ensured. Internal consistency of the plan may be ensured by testing its several balances, such as savings and investment, external balance, manpower balance and sectoral demand and supply balances.

Continuity in planning may be established by constructing comprehensive annual plans in the framework of medium-term plans and long-term perspectives. This would impart the necessary resilience and flexibility to the medium-term

plan in the course of its phased implementation and provide a convenient framework for the formulation of current policies and management of the economy.

4. The time-tables for the preparation of annual budget and the annual plan should be effectively synchronized so that controversies that arise in the course of work get resolved and the final development programme as reflected in the budget becomes a blue-print for effective implementation to which task the energies of the entire governmental machinery should be consciously directed. This synchronization should be worked out within the framework of existing procedures and time-table for the formulation, scrutiny and approval of the budget.
5. The procedures for the formulation, scrutiny and approval of development projects and their reflection in plans and budgets should be streamlined so that adequate information on the purpose and benefits, estimated cost, financing arrangements, materials and other requirements and proposed schedule of work etc. is given to facilitate the task of decision-making. In formulating projects it must be generally ensured that the resources committed should produce the maximum benefit possible.
6. Procedures for progress reporting and evaluation of development programmes should be firmly established through the requirement of periodic progress reporting to bring about the financial and physical progress of development projects against established targets.
7. Modernization of the budgetary and accounting systems in accordance with a phased programme of improvements. The most important aspects to be covered being:
 - (a) The adoption of a refined system of budgetary and accounting re-classification needed for economic policy formulation and for linking it with sectoral plan allocations. Various policy issues which have an impact on the country's economic development emerge from the composition of government receipts and expenditure. It is therefore, necessary to analyze them in economic terms alongwith their functional divisions so as to present a vivid picture of Government fiscal policies on the economy and also link it with plan allocations under different sectors. The traditional legal, political and managerial control functions of the budget are based on an object classification system based on the organizational units of Government rather than programmes. In view of the role of this classification system in financial control it may have to be retained till the adoption of a full-fledged system of programme and performance budgeting. However, even in this case a pro-forma functional and programme classification of budget etc. could be conducted.

- (b) The adoption of a system of programme and performance budgeting has been much talked about. The adoption of this system no doubt strengthens the role of budget in government operations so that it becomes an effective instrument in the implementation of development plans.

The main features of the new budgetary system being:

- (i) distribution of budgetary allocations under meaningful functions, programmes, sub-programmes, projects activities and tasks to be performed. This would require the introduction of classification on these lines;
- (ii) establishment of a system of accounting and financial management in line with this distribution;
- (iii) establishment under different programmes and their sub-divisions, ratios or units of work measurements and performance evaluation.

This system provides an effective link of the budget with the plan at all stages.

8. Lastly attention must be paid to the streamlining of procedures to ensure proper budgetary and financial control over public corporations and other parastatal bodies especially to dovetail their programmes and activities to the realization of national goals and priorities as spelled out in the national plans for economic development. Important public enterprises particularly those which are entrusted with provision of goods and services for sale to the public should be required to prepare Annual Performance Reports for submission to the parliaments etc. so that their pricing policies and results of working could be subjected to adequate public scrutiny and review.

1. The first part of the report is a general
description of the project and its objectives.
2. The second part is a detailed description of the
methodology used in the study.

3. The third part is a description of the results
of the study.

4. The fourth part is a discussion of the results
and their implications.

5. The fifth part is a conclusion and a summary
of the findings.

6. The sixth part is a list of references.

7. The seventh part is an appendix containing
additional data and figures.

8. The eighth part is a list of figures and
tables.

9. The ninth part is a list of abbreviations
and symbols.

10. The tenth part is a list of acronyms.

11. The eleventh part is a list of footnotes.

12. The twelfth part is a list of appendices.

13. The thirteenth part is a list of references.

14. The fourteenth part is a list of figures and
tables.

15. The fifteenth part is a list of abbreviations
and symbols.

1. Yesterday, an important question was raised of the tremendous gap existing between the developed and the developing countries, on the one hand, and the expectations of a rapid growth in the developing countries. This question reflects, in fact, the idea of economic and social development which dominates the policies and is one of the main anxieties of most developing countries.
2. To demonstrate the importance of this question, reference has been made to the stock of achievements of new African Governments. At the 1960 constant prices, the gross domestic product (G D P) of independent Africa (excluding South Africa) rose from \$27,426,000 in 1960 to \$32,722,000 in 1967, giving an annual rate of growth of 2.6 per cent. Taking Africa as a whole (including the countries not yet independent) this rate is 3.4 per cent - which was incidentally confirmed by the Executive Secretary of the ECA in his statement at the third session of the Committee for Development Planning held at Addis Ababa from 29 April to 5 May 1968 in which he pointed out that because of the rapid rise in the population, the effect of this increase in the GDP was reduced to the equivalent of an annual compound rate of 1.5 per cent per inhabitant. If we exclude South Africa, the corresponding figures for developing Africa fall from 3.4 per cent to 1 per cent. This rate of increase in the GDP per/inhabitant is one of the lowest recorded in all the large regions of the world. If developing Africa maintained the recently-recorded rate of growth, it would need 270 years to reach the present income per inhabitant in the "average" industrialized countries such as the United Kingdom and France, and 340 years to reach that of the very rich countries like the United States, Canada and Sweden. Another striking and perhaps even more critical observation he made, was that a comparison of the present income per inhabitant in Africa with those that were recorded in the now-developed countries during the period before their industrialization indicates that if we relate the "take-off" leading to sustained growth to the attainment of a certain income per inhabitant, developing Africa will not be ready for that "take-off" for another 110 years.
3. This account of features reveals clearly that the central problem here is the need for a rapid accumulation of capital, which is not, or only for a small part, available in the developing country.
4. In the face of such a position, for instance in Egypt, where a public sector absorbs more than 50 per cent of GDP intervention is required on the part of the part of the government which can mobilize local capital either in a compulsory way through taxation or by taking loans from the public who has the means but does not want to take upon itself the risk of investment.

5. Before going into the particular task of the government in a developing economy, we will have to say something about the role of government in respect of any type.

6. In the past, many economies developed and grew mainly by private initiatives without the government interfering directly with development. In many cases, the government saw to it that young industries be protected by means of high tariffs, ensured the supply of raw materials and exports markets through an adequate foreign trade policy, and assisted in the obtention of external and interval loans. Governments removed obstacles and created the background for development, but it did not interfere with it directly. In this framework, a government that wants to encourage development, even indirectly, has many possibilities to act.

7. But those measures have proved not to be sufficient to guarantee a rapid development in new development countries.

8. In the particular case of African countries, the difficulties inherent in any improvement of the economic and social conditions were foreshadowed in the period before independence, but not always appreciated to their full extent, because they were dominated by the struggle waged by the colonized peoples against the old order. With the attainment of independence the African countries recovered their freedom, to be sure, but the newly-won political status does not appear to have brought with it a revolution in economic and social affairs; while independence was without doubt a precious asset the governments in those countries necessarily had new, and complex problems of development to face.

9. This particular role of the government in the development of the economy and planning in African countries makes it necessary to find economic tools and structures by means of which governments will be able to put the development projects into execution.

10. Where developing economies are concerned a start must be made with a study of the structures, a detailed preparation of the groundwork of African development. This task is beyond the capacities of private initiatives.

11. This government's role has often been emphasized by various writers. The Swedish economist Gunnar Myrdal in particular says: 1/ "the vicious circles could be broken only by planning and large-scale state interventions. In the initial development of the advanced countries the state played a greater part than is often admitted and it was a much more effective state to begin with than those of the underdeveloped countries of today. That is why it is generally admitted today that the backward countries, in which stagnation is still raising and strengthening terrible obstacles to development, must resort to much more radical steps by the state.

12. To implement most of their objectives, African governments have set up a number of operating public enterprises as instruments of economic policy.

1/ Quoted by Aly Courty, la planification de l'économie, Librairie. Droz, Geneva, 1964, p.284.

13. Egypt has quite a number of decentralized agencies and public enterprises. These entities are controlled through kind of agencies: the public authorities and the Egyptian organizations. The public authorities are simple enterprises that generally carry on the traditional government business activities such as railways, posts and telegraphs and consequently they are tax free. On the other hand, the Egyptian public organizations generally include many industrial and trade enterprises. Most of the enterprises are organized as joint-stock companies, and the board of the organization is similar to a general assembly of shareholders. In many cases the Egyptian public organization hold 100 per cent of the shares, but in some others only 50 per cent is owned.
14. The decentralized agencies develop their activities in different sectors. For instance, in the agricultural sector exist the following Egyptian organizations: for Agricultural co-operatives, for Desert Reclamation; for Land Development and for Agrarian Land Reclamation. The public authorities are: for Agricultural Production and for Agrarian Reform. In other sectors exist the High Dam Agency, the Public Authority for the Five Year Industrial Plan. There are also many Agencies for culture and recreation, and for social security, like the Public Authority for Insurance and Pensions and Egyptian Public Organizations for Social Insurance.
15. In the public enterprise level exist eight different types. The mining enterprise is the Egyptian Public Organization for Mining. The energy enterprises are the Egyptian Public Organization for Electricity (Cairo Electricity and Gas Department, Hydroelectric Power Department and the Committee for Electrification of the Republic); and the Egyptian Public Organization for Petroleum. The industrial enterprises are the Egyptian Public Organizations: for Food Industries, for Spinning and Weaving, for Government Printing Offices, for Chemical Industries for Metal Industries, for Buildings and Ceramics; for Military Factories and Airplanes, and for Productive Co-operatives and small Industries.
16. The transport and communications enterprises are the Public Authorities for Egyptian Railways, for Wire and Wireless Communications, and the Egyptian Public Organizations for Maritime Transport and for Inland Transport. There are also two other entities: the Post Office Authority and the Suez Canal Authority.
17. In the sector of housing and public utilities there are different Egyptian organizations: for civil works contracts, for housing and Public Buildings contracts, for public utilities contracts, for public buildings, for public housing, for housing and rehabilitation, etc.
18. The supply and storage enterprises are the Egyptian organizations: for consumer goods, for aquatic resources, for silos and storage, and for flour mills, rice mills and bakeries. In the trade sector there are three public organizations: for Trade, for cotton trade, and for cotton committee. The public authorities are: for the promotion of exports, and for exhibitions and fairs.
19. Finally, the financial enterprises are: the Central Bank and the Egyptian public organizations: for banks, for savings, and for insurance.

20. Some of the more important requisites for development planning and its implementation may be summarized as follows:

(a) As African economies can be identified as mixed economies, there are serious efforts toward peaceful coexistence between central planning and direction through price mechanism.

(b) The government and the public enterprise should be partners in the planning process, with the government giving the enterprise as much information as possible on the fields in which it wishes to give priorities and the possible location of projects, so that the enterprise could conduct feasible studies in advance as basis for advising the government on various alternatives to proposed projects. In broad terms, the planning process should recommend the desired pace of development and to fix priorities of the different branches of the economy. For instance, it has to take care of infrastructure investments being kept at an adequate level in order to prevent bottlenecks or wastes in the different kinds of capital formation.

(c) Once government approves the plan of the enterprise as an integral part of the national plan, the enterprise should be given a free hand to initiate negotiations with technical and financial partners for the implementation of the projects in accordance with the priorities set by the government. But when negotiations get to a stage where loans have to be negotiated, the Departments of Finance and Economic Planning, and the parent department, should be brought into the negotiations after which the government's final approval could be sought. For projects which have to be financed internally, the enterprise should be left free to proceed with their implementation within the framework of the approved plan.

(d) In respect to projects for which the government has to provide funds, the enterprise should submit for government's approval, its annual development budget covering all projects it wishes to implement during the coming year, indicating the extent of possible government financial contribution and other sources of finance. In approving such budget, the government should reflect its planned capital contribution in its annual capital budget.

(e) Projects which require government guarantee for capital loans should be included in the capital budget of the enterprise, indicating the financial involvement for the repayment of loans (including interest) over a number of years, to enable the government to provide fully for the annual loan repayment instalments in its own capital budget, before approving the inclusion of the projects in the capital budget of the enterprise.

(f) The relationship of public enterprises with various government controlling organs should be clearly defined so as to avoid confusion and middlesomeness. Areas of responsibility should be clearly delineated so as to ensure co-ordination and consistency in overall planning and plan implementation.

21. Since the public is used as an instrument through which a government discharges its responsibilities, care should be taken so that administrative aspects for economic development function are fully geared to the task of realistic development planning and its implementation.

22. It is desirable to conclude:

First, that feasible studies should be undertaken in order to counteract many shortfalls in public enterprises performance and in the implementation of projects;

Secondly, governments may consider establishing a public Enterprise Management Service in order to ensure continuing appraisal and improvement.

23. As one of ~~the~~ weaknesses in administering the existing public enterprises is accountable in large degree to the legacy of the colonial period, the establishment of Public Management Service would help African Governments involved to give serious thought to the problem of development administration for a better achievement of development targets.

Introduction

1. In the aide-memoire prepared for this workshop, emphasis has been placed on the necessary look at the existing budgetary procedures and policies which are central to Egyptian Government decision-making so that the needs for more effective management of the public service are effectively built into the system.

2. Although the available budgets documents are presented mostly in Arabic, a language I cannot read, it is true that the traditional system of budgeting lacks the necessary information about what the Government is doing and what it produced from the resources spent. Such information can be compiled from departmental reports of other document but in many cases, the information lacks link with the financial data as they are in the budget document.

3. Given the great need of such information for budgeting and evaluation of some important selected projects in developing countries where resources are scarce, the purpose of the Performance/Programme budgeting is to correct the shortcomings of the traditional system of budgeting. The introduction of this PPB should mostly be viewed in the context of allocating available resources to the specific sectors of the economy, especially when we all recommend the role to be played by African Governments through the public enterprises, in addition to their traditional functions.

Meaning of terms

4. Going back to my knowledge in 1970, I would like to mention here that some elements of Programme Budgeting are used in the Ministry of Agriculture in Egypt. Investment expenditure were divided as follows:

<u>Sector</u>	<u>Programme</u>
1 Agriculture	01 Soil improvement
	02 Distribution and improvement of agricultural produce
	03 Vegetable gardens improvement
	04 --
	10 Agricultural operations
	11 Economic studies

5. It is not of course, a complete new system for Egypt, nevertheless, I wish to explain its terms.

6. Broadly speaking, there is a difference to be made between programme and performance. The word "programme" is associated with future actions, while "performance" calls for what has been done in the past in carrying out the programme in the future.

7. As this topic is explained in more detail in the United Nations Manual "Manual for Programme and Performance Budgeting", my way of defining terms will not much depart from the original definition. However, I will just indicate that concerning programme budget, in a Ministry of Education, such programmes could be indentified as follows:

- Higher education
- Secondary education
- Teacher training etc..

8. To be able to select programmes in each department/agency, certain major steps are necessary:

- the identification of national goals;
- the relation to be defined between broad goals and specific programmes;
- the specific programmes should be estimated according to the available resources;
- the resources should be translated in budget in national currencies.

9. Performance budget, as said before, provides a useful tool for management purposes for improved implementation of the programmes at and below departmental level. In performance budgeting, activities or performing units need to be identified for carrying out programmes. Performance analysis attempts to measure the costs and accomplishments and to improve implementation of the programme.

10. For instance, activity or performing units for a Department of Mail under a central government's Ministry of Post, Telegraphs and Telephone would include the following:

- Receiving all mail
- Selecting mail according to the cities and communes
- Distributing mail

11. To conclude this question on terminology, I would rather say that performance budgeting solves the three fundamental economic problems of each economic organization: the what? the how? and the for who? In approaching these three questions to the familiar terms, we will say that what refers to input; how to operations and for who to output.

How to perform budget (method itself)

12. The system itself is based on the existing classifications. We have functional classification, programme classification and object classification.

13. A functional classification brings together budget data to show the share of budget expenditure devoted to each public service. This classification is useful for formulation, review and implementation of broad policy objectives and is of use for top level legislative and executive review.

For memory, you have:

1. General services - e.g. general administration, justice and police
2. Defence,
3. Social and community services - e.g. education,

4. Economic services - e.g. agriculture

5. Unallocable expenditure - e.g. interest on general debt.

14. Programme classification produces an end product which is measurable. As programmes are the sum of several activities, they lead to activity classification. This activity classification must be in a form of statistical measurement such as volume of work, end product or work load for the accomplishment of the programme.

15. Finally, the object classification can be grouped on basis of either activities or end products which are used in measuring performance.

16. To quantify information given by programme/performance budgeting, the work measurement is the proper instrument. It helps to improve the quality of managerial and behaviour and it is particularly useful in budgetary planning at both the administrative and legislative levels.

17. There are three techniques for evaluating performance:

- physical measures
- unit cost
- standards

Physical measures

18. Work measurement is used in relation with two variables viz.: (1) output, i.e., units of production; (2) input, i.e., the units of manpower time used - here only one element of input is mentioned - manpower. But cost accounting would report all resources used: manpower, materials, supplies and equipment in dollar terms. In the two variables, output and input, three kinds of physical measures will be involved in Programme/Performance budgeting. These are for output measurement.

- (a) Measures of end product -- which reflect the results of the work;
- (b) Measures of accomplishment which show the effort of the work;
- (c) For input measurement the only physical measurement is (a) the measures of work volume - these bring out the workload.

19. The development of units which measure input does not raise difficulty. Since the emphasis of the input variable, especially in government service, is on manpower, it is obvious that the man-hour, the man-day, the man-week or the man-year would all be applicable. In cost accounting dollar/pound is always used.

The measuring of output, end-product or work accomplishment is however another matter. Obviously there can be no standard unit, such as the man-hour, since output must be expressed in terms of the thing produced such as miles of streets swept, cases investigated and so forth. Attempts to develop criteria for the selection of these output units have not been satisfactory. The United Nations Manual however has suggested the following criteria:

1. That the unit of measurement for output, the physical measures should be countable -- must express work completed.
2. Expressed in familiar terminology that will have the same meaning to those recording, reporting and reviewing the data.
3. Consistent, i.e., the same work must be measured by the same unit.

20. Because of the difficulty of having a standard unit of measurement, there will be need to have more than one unit of work measurement under a programme of activity.

21. Unit cost: When one of the physical measures, units of work volume for input, units of work results and units of work accomplishment for output measurement is combined with financial data, information can be derived in terms of unit-cost. The unit cost is obtained by dividing cost of total resources used in the performance of a given volume of work by that volume.

22. Standards of performance: In order to be able to evaluate the results of performance, it is necessary to establish standards which could be used as a yardstick or as a base point against which performance can be measured. The problem here is how to establish this base point or yardstick. In industry, where operations are machine controlled, it is easy but not in government where most operations are man-controlled. The establishment of standards is closely associated with cost accounting. Here, the expense of the average unit of production of last year becomes a yardstick by which this year's cost may be evaluated.

The method used by the United Nations Manual, is the recording of units per man-hour or day for certain periods, say 3 months, and eliminating the best and the worst and calculating the average. The average of unit of work obtained may serve as comparative standard. To obtain full benefit from the standard thus established, a periodic reporting should be installed. The purpose of such a standard is to know whether performance is satisfactory or not.

Example from presentation of the Ministry of Agriculture in Kenya's annual budget (1964/1965)

Programme: 02 Promotion of Agricultural Production

Estimates

Sub-programmes

1. Studies and research	2,000
2. Agricultural training	3,000
3. Soil conservation services	400
4. Crops promotion	500
Total	5,900

Sub-programme 1: Studies and Research

Objects	Total £	Activity 1 agri- cultural stations £	Activity 2 plant breeding research £	Activity 3 farm planting & survey £
<u>Personal services</u>				
Salaries & allowances	250	50	100	100
House allowances	200	100	50	50
<u>Non-personal services</u>				
Passages & leave expenses	200	50	60	90
Replacement, maintenance and running expenses	100	25	50	25
<u>Materials and supplies</u>				
Miscellaneous	150	100	25	25
<u>Acquisition of equipment</u>				
Purchase of additional vehicles	1,100	100	500	500
Total	2,000	425	785	795

Unit of performance

Activity 1.

Agricultural stations

(Volume of work, end product or unit of work accomplishment)

Main work load volume or work

Actual

Estimate

Number of surveys:

10

15

Activity 2.

Plant breeding

Conclusions

23. Programme approach to budgeting is of course a logical consequence of economic planning and specifically necessary for proper co-ordination between the annual portion of development plan in the public sector and the budget, which should be a part of the plan expressed in financial terms and an effective instrument in the implementation of the economic development.

24. But, there is an opinion that performance techniques should be used only on a selective basis in certain governments activities where the end product or unit of work could be easily identified and where it may be really useful and required for managerial purposes.