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Fiscal Affairs Department

CARRY-OVER OF BUDGET AUTHORITY

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PFM TECHNICAL GUIDANCE NOTE
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This note addresses the following issues:
What is budget carry-over? What are the arguments for and against carry-over? What restrictions should be placed on carry-over? Can carry-over threaten aggregate fiscal management? What are the preconditions for introducing carry-over? When should countries introduce carry over?

I. WHAT IS BUDGET CARRY-OVER[2]?

Carry-over is the right to use an unspent appropriation beyond the time period for which it was originally granted. This means that a spending agency can use some or all of what has not been spent of the previous years' appropriations in addition to the current year's budget allocation. A few countries also allow spending agencies to borrow against a future appropriation, which is conceptually similar—the equivalent of negative carry forward.

The need for carry–over arises as a result of the fact that budget authority is normally granted for a discrete time period, the financial year. The argument for restricting the right to incur expenditure to a well-defined time frame—often referred to as the *principle of annuality*—is compelling, as this allows for a regular assessment and confirmation of spending priorities. Carry-overs should therefore be interpreted as an *exception,* justified by practical considerations, rather than a challenge to the principle of annuality itself.

The need for carry-overs arises because public sector budgeting is, in many ways, an imperfect process. The heterogeneous nature of government undertakings, information asymmetries, limited time and resources available for budget preparation, and complex approval procedures in the executive and the legislature, make it difficult, if not impossible, to completely assess all items in the budget every year. Consequently, to some extent budget allocations have to be based on approximations and universally applied formulas.

Carry-over is just one of a number of budget procedures used to simplify the transition between two budget years. In a cash-based budget and accounting regime, transactions can

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[1] In this note, the terms carry-over, carry forward and end-year-flexibility refer to the same thing, and are used interchangeably.

[2]Valuable comments on a previous draft were received from R. Allen, R. Hughes, B. Olden, M. Pessoa, E. Tandberg (all FAD) and J. Kristensen (World Bank). Remaining errors are the authors'.

sometimes be recorded against the previous year's accounts during a short period into the new fiscal year, e.g., for one month. Such *complementary accounting periods* are introduced to cope with delays in processing transactions. For undertakings with a distinct multi-year character, some countries grant *multi-annual appropriations*. As with carry-over, the principle of annuality is contravened, but this can be justified by practical considerations of budget management. In a handful of advanced countries, budget authority is on an accruals basis, i.e., measuring the actual utilization of resources. When the budget is accruals based, there is no possibility to drain an appropriation by pre-paying goods and services or by stocking up on supplies. An accruals-based budget therefore reduces *some of the rationale* for carry-overs.

II. ARGUMENTS FOR AND AGAINST CARRY-OVER

Carry-forward arrangements are intended to reduce incentives on budget managers to behave in a manner that is rational from the point of view of their individual budget entity, but suboptimal from the perspective of the government as a whole. By reducing the distortions created when transitioning between budget years, carry-over regimes can enhance *intertemporal efficiency* in the use of budget funds *within budget entities*. However, since the budget granting authority surrenders some of its influence over how funds are used, carry forwards could potentially have a negative impact on the *allocative efficiency* of expenditure *between budget entities*.

A. Arguments in favor of carry-over

The use of carry-overs can be justified for one or more of the following reasons.

Promotion of efficiency gains

A commonly observed phenomenon in government administrations is that *end-of-year spending sprees* occur when it becomes clear that the budget will not be used up by regular activities. One reason for this is the general *perception* that any unused appropriation is a missed opportunity for spending. From a collective point of view this is incorrect since taxes or borrowing could be lowered if resources are not effectively employed. However, unspent appropriations generally do not generate any benefit for the individual budget manager. A second reason why budget managers attempt to avoid ending up with unspent budgets is that this would send a signal that too much had been allocated, with the risk that future allocations will be lower. By allowing unspent appropriations to be carried forward to the next budget period, the pressure to use it or lose it is reduced, and budget managers are given more time to purchase goods or services that contribute meaningfully to the achievement of the organization's objectives.

Carry-over provisions can also promote more *active and durable cost saving initiatives*. The individual budget manager is generally in a better position to identify efficiency gains than the central budget office. However, unless there are tangible benefits, the efforts to reduce expenditure will be limited. A possibility to carry forward efficiency savings can change this, provided that there is a degree of devolution of budgetary authority, since:

- only if budget managers can actually influence how the budget is allocated between various inputs can they identify and implement cost cutting measures; and
- only when budget managers are given discretion to use the resources that have been carried over in the manner which they see fit are the incentives for realizing savings maximized.

Revelation of true resource needs

From the point of view of the budget granting authority, carry-over possibilities can function as a mechanism for *extracting information about the true resource requirements,* which can then be used when determining future allocations. To the extent that budget managers realize this information signaling, he or she may however be reluctant to make use of carry-over possibilities.

Facilitate multi-year undertakings

For some government undertakings, the total allocation of resources is determined, but the payments pattern over future years is uncertain. This is particularly the case for multi-year investment projects, such as the construction of a new road, or multi-year spending programs, e.g. the organization of an international conference, or support to individuals after a natural disaster. To avoid having to make repeated revisions to the budget, and to encourage active management of the overall rather than annual cost of a project, carry-overs can be helpful, provided that the limit on total multi-year spending is respected. A similar case can be made for *projects financed by foreign grants*, where numerous formal conditions have to be met before disbursements can be made.

Compensate for rigidities in budget execution procedures

Budget execution may be delayed by complex procurement procedures or multiple ex ante spending controls—either internal to the spending agency or externally imposed by the ministry of finance or stipulated in legislation or regulations. End-year carry-over can allow expenditure to be accounted for in the correct fiscal year. Where budget execution procedures are unnecessarily onerous, they should be simplified, and carry-over should not be seen as a substitute for reforming an excessively rigorous control system.

In the United Kingdom, the major reasons outlined above were invoked during the past 30 years, when the carry-over regime evolved from zero to full carry-over (Box 1).

Box 1. United Kingdom: Evolution of End-year Flexibility

End-year flexibility was first introduced in 1976. Its introduction was justified on the pragmatic grounds that when "the timing of the expenditure on existing projects cannot be precisely controlled, some arrangements are needed to allow a limited amount of flexibility between successive years and between current and capital expenditure.". At the time, carry-over approval was given on a case-by-case basis, which often became the source of disputes between H.M. Treasury and line ministries.

Pressure from spending departments to introduce a general, government-wide, carry-forward scheme led H.M. Treasury to propose in 1978 that 5 percent of the appropriation for *capital spending* be allowed to be carried forward. When the scheme was introduced in the early 1980s, it was justified on expenditure-reduction grounds and preventing , notably that "by reducing the end-year surge " the scheme would "reduce expenditure in the current year by 100 million pounds.". The reform was also justified on the grounds that it would improve the management of capital programs, where the timing of activity or payment was uncertain.

The scheme was broadened in 1988 to include elements of under-spending on selected *current spending items*, e.g. IT consultant contracts. Department-specific schemes covering both current and capital spending up to a fixed nominal amount or a percentage cap were also introduced for the Defence and Health ministries. These were generally justified on the basis that too much of senior managers' time was being spent matching outturn to planned expenditure.

Full and unlimited carry-over for both capital and current spending was granted in 1994. This move was justified in terms of "allowing [departments] to manage their money sensibly from year-to-year.". The move to accrual accounting and budgeting between 2000 and 2004 obviated the need for end-year flexibility to deal with mismatches in the timing of commitments versus payments. However, full end-year flexibility was retained in order to provide incentives for efficiency gains and intertemporal planning at the line ministry level.

B. Arguments against carry-overs

In the rationale for allowing carry forwards, three implicit assumptions are made.

- The size of the original budget allocation was appropriate in relation to the task to be carried out, and only the timing of execution was off.
- The magnitude of the expenditure carried over is small and therefore the opportunity cost of leaving the unused spending power with the line ministry is small.
- The budget granting authority is indifferent as to the timing of expenditure.

In practice, these assumptions do not always hold.

Over-budgeting

If the initial budget allocations were excessive, or if a planned activity did not, and will not, take place, the corresponding budget authority should in principle be canceled, i.e., the unspent appropriation should not be carried forward. However, it is *in practice* often impossible to establish precisely why there has been under-spending. Budget estimates are fraught with uncertainties and it is seldom feasible—neither *ex ante* nor *ex post*—to estimate exactly the amount of resources required to achieve the aims of government programs. A balance between theory and practice must be struck.

A particular case of over-budgeting where there is no rationale to allow funds to be carried forward to the next fiscal year is when expenditure is *completely determined by exogenous factors*, e.g., legislated entitlements, where expenditure is determined by the number of qualified beneficiaries and their respective entitlement payments, neither of which the government can affect in the short term. If the budget is not used up by the end of the year, there is little possibility for budget misallocation through end-year spending sprees since criteria for spending is clearly stipulated. Nor is it possible to make the argument that the unused amount will be needed in the future. Other examples of expenditure where there is little justification for carry-overs are transfers to sub-national governments or selected public enterprises, fees to international organizations and debt service payments.

Loss of policy control

If the size of carry-overs becomes large, the potential conflict between the spending priorities of the government and the action pursued by the budget manager could quickly escalate. For this reason, some limit on carry-over is necessary. Conversely, as long as carry-over balances in relation to total spending is limited, some end-year flexibility could be accepted—despite indications that the appropriations in fact were excessive—simply to avoid wasteful end-year spending sprees. In such a case, if the budget manager has more time to plan, expenditure is more likely to be in line with budget program objectives.

Timing

A third instance where there is a case for prohibiting carry-overs is where the government has a preference as to the timing of expenditure. First, in the case of a fiscal stimulus, the government may create a use-it-or-lose-it situation to ensure that budget managers spend allocations at the right point in the economic cycle. Second, when there is a fiscal consolidation, the government may wish to limit the draw-down of carry-overs to protect a fiscal target (this issue is discussed more fully in section IV).

III. WHAT RESTRICTIONS SHOULD APPLY TO CARRY FORWARDS?

As outlined above, it is possible to derive some *conceptual criteria* for when carry-overs should or should not be allowed. These should be used as *guiding principles* when setting up a carry-over regime in a specific country. In practice, it can be difficult to determine precisely in each individual case: i) if a carry-over is justified; ii) how much of the unspent appropriations should be allowed to be retained, and iii) if the carry-over should be allowed to be used in a particular year.

A. Case-by-case evaluation

One approach is to let the ministry of finance determine the amount that can be carried forward on a case-by-case or project-by-project basis. Such a procedure could be appropriate for a limited number of large carry-overs that can be distinctly related to identifiable events, such as the postponement of a large purchase, or a delay in the implementation of a multi-year project. Japan and Germany follow this approach (Table 1). However, the informational requirements and the amount of time and resources involved are high. Thus, a case-by-case evaluation would be inappropriate for a large number of small carry-overs—such as for smaller operational expenditures.

B. The case for general restrictions

Recognizing the difficulty of determining if there are grounds for carry forward, together with the onerous procedures of examining a large number of appropriations, most countries appear to favor a standardized regime for granting end-year flexibility to broad categories of expenditure. Specifying in advance the criteria for when budget managers are allowed to retain unspent appropriations can also strengthen stability and predictability.

Quantitative restrictions can be imposed in three ways: (1) a limit on the amount of carry-forward allowed in any given year, e.g., 3 percent of the appropriation; (2) a ceiling on the amount of accumulated carry forwards, e.g. 10 percent of the appropriation; or (3) limits on the draw-down of accumulated carry-overs.

The advantage of the first approach is that it gives a consistent incentive for budget managers to become more efficient and reduce costs. A standard norm of this type could be complemented with a case-by-case examination if deemed appropriate. In Sweden, for example, the default position is that government agencies are allowed to carry forward 3 percent of unspent appropriations, unless the government decides otherwise (Box 2).

The second approach allows large carry-over in an individual year, but would avoid the accumulation of large amounts of unspent appropriations. On the other hand, this type of ceiling would, once it becomes binding, eliminate the scope for new carry-overs, with the result that there once again would be incentives for budget managers to spend all of their appropriations.

Table 1. Carry Forward in Selected Countries

	France	Germany	Indonesia	Japan	Mexico	Russia	Sweden	U.K.	U.S.A.
Is carry-forward allowed?									
For operational spending?	Yes	Yes[3]	Yes[4]	Yes	No	Yes	Yes	Yes	Yes
Investment spending?	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes[5]
Transfers and subsidies?	Yes	Yes	—	Yes	No	No	Yes	Some	Yes
What restrictions apply?									
A fixed percentage of the budget appropriation	Yes, 3%[6]	No	No	No	—	—	Normally 3%	None	No
Case-by-case approval	—	Yes	Yes	Yes	—	—	Possible	No	Yes
Cap on the stock of carry-over	—	No (but 2 year limit)	No	No	—	—	No	No	No
Approval for the draw-down	—	—	—	—	—	—	Not normally	Yes, since 2005	
How is carry-over regulated?									
By statue law (act of Parliament)	Yes	Yes	Yes	Yes[7]	—	Yes	Yes	No	No
By Government regulation	Yes	Yes	Yes	—	—	—	Yes	No	No
By Ministry of Finance regul.	Yes	Yes	Yes	Yes	—	—	—	Yes	Yes

[3] Investment expenditure is typically carried over. Other expenditure may also be carried over if it is covering several years and if this is in the interests of efficiency and economy. The need for carry-over is obviated in the case of two-year budget appropriations, whose legal basis is found in the 1949 Constitution.

[4] The State Finances Law 2003 confirms the principle of annuality (no carry-over), However, annual budget laws since 2005 allow limited carry-over.

[5] Annual appropriations acts make budget authority available for obligation during the fiscal year. Some appropriations – especially for multi-year investment projects -- allow budget authority to remain available for obligation for a period longer than 12 months. This obviates the need for carry-over for such spending.

[6] Appropriations comprise commitment authorizations and cash-limit appropriations**.** Cash-limit appropriations for a specific budget program can be carried over, within the limit of 3 percent for salaries and 3 percent for all non-salary expenditures. These provisions are specified in the 2001 Organic Budget Law.

[7] Carryover is authorized under the Public Finance Act 1947, which that carryover of annual appropriations to the following fiscal year requires the approval of the Ministry of Finance. For this purpose, the head of a ministry or agency must prepare a carryover request, stating the reasons for and the amount carry-over.

Box 2. Carry-over in Sweden

A new type of appropriations was introduced in Sweden in 1992/93 —so called *frame appropriations*. Initially, there was no restriction in the amounts that could be carried forward, but in 1999 the government introduced a rule stipulating that government agencies could carry forward up to 3 percent of the appropriation. In practice, government agencies calculate the total amount of carry over from the previous budget year according to the following formula:

Initial appropriation	+	X1
Supplementary appropriation (revised budget)	+	X2
Reallocated appropriation (virement)	+/-	X3
Approved overrun	+	X4
Revenue accounted against the appropriation	+	X5
Cancellation of appropriation	-	X6
Expenditure accounted against the appropriation	-	X7
Carry over	=	**B1**

The carry-over balance B1 is entered as *appropriations savings* in the budget management system, and is—together with the new year's appropriation, previous years' appropriations savings and the appropriations credit (possibility to borrow against future appropriations)—presented as *available resources* to the agency. Before June 30 the government has to decide if an exception to the 3 percent rule should be made. If no decision is made, any excess of 3 percent is automatically removed from *available resources* in the budget management system.

The third approach has the advantage of maintaining control over annual expenditure, but can—if not combined with other restrictions—result in the accumulation of large overhangs of carry-over. Controlling spending against carry-over would seem to be appropriate in a cash-constrained environment, where the government is not in a position to guarantee that financing is available to meet a full, or even a partial, draw-down. However, a tight control over the annual draw-down creates uncertainties for the budget managers' access to the amounts that have been carried forward, which could diminish the incentives to curb spending. The examination and approval of each case where a budget manager wishes to access the accumulated carry-overs could also become administratively burdensome.

C. Choosing at what level restrictions apply

A related issue concerns the extent to which the *restrictions imposed on the annual appropriation* should be maintained for amounts that are carried forward. Should carry forward be applied at the line-item level of the annual budget, so that the carry-over balances can only be used for the same objective as the initial appropriation? With a detailed input-based budget this would, for example, mean that savings on fuel for cars could only be used for future fuel purchases. One obvious relaxation of this limitation is to apply the budget virement rules to carry-overs as well. Another possibility is to allow more freedom in the use of carry-overs than in the budget, although perhaps not full freedom, e.g., prohibiting the use of capital carry-overs to fund current expenditure.

IV. CAN CARRY FORWARD THREATEN AGGREGATE FISCAL MANAGEMENT?

If budgets are realistic, and the rules regarding the use of one-off spending savings are properly applied, then the amounts that can realistically be carried forward from one year to another are typically fairly small. Individual amounts that are carried forward for project expenditure can of course be large in relation to the appropriation, but not relative to the budget as a whole. Over time, however, the possibility to carry forward appropriations could lead to a significant accumulation of unspent carry-over balances. This introduces a risk that total expenditure for an individual year substantially exceeds the annual budget.

If accumulated carry-overs are used to increase spending, the government may be bound—explicitly through formal contracts, or implicitly by the creation of expectations—to increase appropriations when the carry-over runs out. As long as the size of carry-overs is small, the aggregate fiscal risk is limited, but once it becomes large it cannot be ignored.

If a large stock of accumulated carry-overs is translated into expenditure in any one year, this could threaten aggregate fiscal management. For example, if the government has made a commitment to comply with a fiscal target, e.g., on the fiscal balance, aggregate spending or public debt, the possibility of carried-over balances being turned into actual expenditure has to be taken to account when planning the budget. The management of these risks is illustrated by the examples from the U.K. and Sweden (Box 3).

Box 3. Fiscal Rules and Carry-over in the U.K. and Sweden

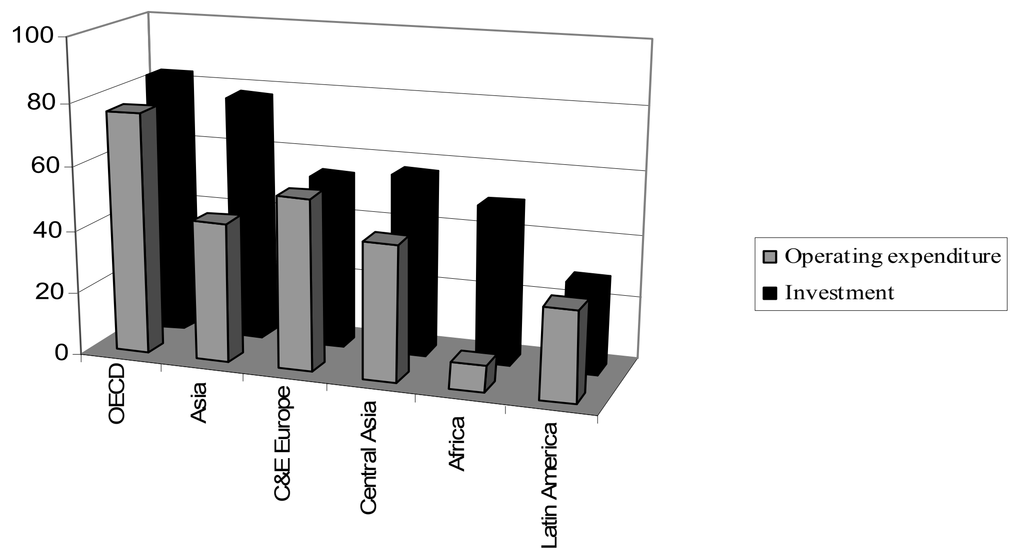
United Kingdom. Between 1997 and 2008, two fiscal rules operated: (1) over the economic cycle, the government would borrow only to invest and not to fund current spending; and (2) a sustainable investment rule, in which net debt was not to exceed 40 percent of GDP. In 2005, it became clear that the fiscal rules were threatened by the large stock of carry-over, which had accumulated to over GBP 7 billion. If line ministries had decided to use a substantial part of the available carry-over balance for expenditure, the resulting deficit would have broken the "golden rule", against which there was a margin of only GBP 8 billion. For this reason, H.M. Treasury reactivated an annual control on carry-over draw-down, and spending departments had to seek Treasury approval prior to spending carried-over balances .

Sweden. A nominal expenditure ceiling on central government primary expenditure, established three years before the budget year, sets a limit on expenditure each year. The possibility to use carry-over balances, in addition to the current year's appropriation, introduces uncertainty in the expenditure outturn, which needs to be considered when monitoring compliance with the expenditure ceiling. The government regularly uses its right to impose *limits* on the expenditure for individual agencies, particularly when large carry-over balances have been accumulated. In 2005, when forecasts indicated that there was a risk that the ceiling would be exceeded, the government imposed a moratorium on the use of carry-over. In 2006, when the challenging fiscal situation had been avoided, most government agencies were once again given full access to their carry-over balances.

V. COUNTRY PRACTICE FOR CARRY-OVER

The 2007-08 OECD Budget Practices and Procedures surveys indicate that carry-over for investment spending and operating expenditures is common in OECD countries, but less frequent elsewhere (Chart 1 shows the percent of countries with carry-over for two types of expenditures). The survey also indicates that, when carry-overs are allowed, they are typically restricted—either quantitatively or on a case-by-case basis.

Chart 1. Carry-over in selected groups of countries[8]



VI. PRECONDITIONS FOR GETTING THE MOST FROM CARRY-OVERS

End-year flexibility can simplify budget management and promote efficiency. However, before a country introduces a general system of carry-overs, the following six preconditions should be met.

A. Accurate appropriations

As discussed in section II, the arguments favoring carry-forward assume that the budget allocation was *adequate for the task that was supposed to be carried out*. For this, the ministry of finance must be reasonably confident that if there are unspent appropriations, this is because of efficiency gains or implementation delays, and not the result of over-budgeting.

[8] Whereas all 30 OECD countries responded to the survey, for the other country groupings, country coverage is incomplete, sometimes considerably. See http://webnet4.oecd.org/budgeting/Budgeting.aspx for details.

Conversely, if budget allocations are undisputedly insufficient, savings should not be expected.

As a diagnostic approach, past budgets can be compared with the outturns, to investigate if budget allocations were consistently bigger than the actual use of funds. Such figures can provide an input into an evaluation, but are insufficient. There are a number of reasons for deviations from the budget, not necessarily related to poor budgeting. A qualified assessment of the accuracy of appropriations would have to focus on large deviations from the appropriations *for which carry-over is considered.* Good explanations would be needed, including for amendments made in supplementary budgets, an externally imposed restriction—e.g., a moratorium on recruitment—or an unexpected macroeconomic event—e.g. an exchange rate devaluation.

B. Well developed accounting and reporting systems

Carry-over regimes can only be implemented if it is possible to determine by how much the budget has been under-spent at the end of the year. A government accounting regime that generates accurate outturn figures that can be compared with the budget is necessary. The outturn figures must be available reasonably soon after the end of the budget year—i.e., within two or three months—to give budget managers the information on how much carry-forward is available in addition to the new year's budget allocation.

C. Access to financing

In order for the government to honor payments associated with end-year flexibility, it must be in a position to finance payments when requested. In a situation of cash shortage, where payments one way or another have to be rationed, an important part of the foundation for carry-overs falls apart. Although financing constraints do not entirely undermine a carry-over regime—particularly if cash shortages are rare and small—the potential need to refuse or retard payments is not compatible with the managerial devolution embedded in the concept of end-year flexibility.

D. Well functioning internal control and external audit

An important assumption behind the rationale for end-year flexibility is that the amounts that are carried forward will actually be used for attaining meaningful government objectives. Unless this is the case, wasteful end-year spending will simply be replaced by wasteful carry-over spending. This points to the importance of internal control/audit and external audit systems that are able to prevent spending that is not in line with the government's intentions, and that have a high probability of detecting misuse.

E. Devolved budget management powers

One of the key ideas behind end-year flexibility is that wasteful end-year spending will be replaced by productive use of resources when the spending can be planned better. This pre-supposes a certain degree of managerial authority over the use of budget funds.

It is difficult to give definitive guidance as to when the devolution of management authority has gone far enough so that end-year flexibility may be effective in enhancing efficiency. Since the traditional budget management model is one of substantial centralized control over budget allocations at a very detailed level—often with well over 10 lines for each budget entity—an initial question to ask is if there has been any budget reform intended to devolve budget authority. More specifically, if the budget put at the disposal of the budget manager has more than, say, 5 to 7 lines, carry-overs are not likely to have much positive effect.

An exception to the above applies to carry-over provisions for undertakings over a discrete multi-year period. For investment spending and foreign-financed projects, budget preparation could be simplified by eliminating the need to re-appropriate every time a change is made in the initial implementation schedule. Consequently, devolution of budget authority is not a precondition for introducing carry-over for this type of expenditure.

F. Medium-term approach to fiscal policy

Implicit in the rationale for budget carry-overs is the assumption that the government is indifferent to the precise timing of expenditure. This is likely to be the case only where the government takes a medium-term approach to fiscal policy making. If, however, the budget is subject to annual fiscal targets, any carried over budget authority will likely need to be offset one-for-one by a lower allocation in the following year, which undermines any of the virtuous incentives that a carry-over regime is meant to engender.

VII. Conclusion—Should countries introduce carry-over?

Carry-over arrangements are commonplace in advanced countries, which suggests that it is widely perceived that their benefits outweigh risks. Despite their popularity in OECD countries, carry-over is generally *not advisable* for the vast majority of capacity-constrained countries operating basic budget systems, with the possible exceptions of investment spending and foreign financed projects.

When considering the introduction of carry-over it is important to ask what problem is being addressed, and if there are alternative—and less risky—solutions. It is also important to examine whether the six preconditions outlined above are met. If they are not, end-year carry-over could do more harm than good. Since countries are at different levels in developing their budget management systems, a differential approach for guiding countries is appropriate when carry-over is being considered —three groupings are identified below.

If carry-overs are deemed to be suitable, the risks that are created should be identified. A key objection to carry-over is that the ministry of finance loses some ability to redirect the use of unutilized budget funds. Another risk is that the carry-overs accumulate over time, creating an expenditure overhang that threatens aggregate fiscal management.

Advanced countries

A generalized system of carry-over for both capital and operating expenditure could be introduced once the preconditions discussed in section VI are met. Multi-year projects can be granted large carry-over, and can be subject to a case-by-case evaluation. For most types of spending, however, carry-over should be subject to a quantitative limit of say 3-5 percent of the appropriation. If budget regulations do not make it feasible to single out appropriations for entitlements, grants, interest payments and other exogenously determined expenditure, the carry-over limit for this type of expenditure should be set at zero. To ensure that aggregate fiscal management is not threatened, it is important that the government maintains a possibility to limit both the right to carry-over unused appropriations, and the right to spend accumulated carry-overs in individual years.

Emerging market countries

When emerging market countries have low levels of investments as a percentage of spending and GDP, carry-overs on investments could be introduced without creating problems for aggregate fiscal management or cash management. However, a more cautious approach is needed for general carry-over provisions for operational expenditures, since it is often the case that many of the preconditions discussed in section VI are not met.

Less developed countries

Most less developed countries do not meet the criteria necessary to introduce generalized carry-over. Where multi-year controls on capital projects are in place and work reasonably well, selected carry-overs could be considered, so as to avoid having to re-appropriate in the event there is a delay in project implementation. Carry-overs could also be allowed for donor financed projects, to reduce the administrative burden when expenditure is shifted from one year to the next.