

PUBLIC FINANCIAL MANAGEMENT COURSE

BUDGET EXPENDITURE CLASSIFICATION
AND THE NEW FISCAL GOVERNANCE

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A. Budget classification

1. What is budget classification?

A budget classification system constitutes a normative framework for the day-to-day administration and monitoring of budget execution, policy formulation and analysis, ensuring accountability, providing information to Parliament and the public, and creating the basis for budget authorization (or the level of Parliamentary authorization, *unité de spécialisation budgétaire*).

A sound budget classification is essential for better resource management, greater transparency and, more generally, greater accountability in budget management. It must provide clear information at all stages of the budget cycle (budget formulation, execution, monitoring and evaluation) by classifying budget transactions according to their economic type and any other necessary criterion for managing or analyzing the budget. The following section describes the most widely used classifications.

2. Different approaches to expenditure classification

The budget classifications used in day-to-day administration generally include:

- An administrative classification (ministries, departments, etc.), identifying the entity responsible for managing the public funds concerned. This classification must be sufficiently detailed to identify the expenditures of all government departments, including regional departments, to give managers greater predictability and facilitate internal control, in particular management control. It depends on the country's administrative organization and must cover all administrative units. It may include different levels, from ministries and higher institutions, departments and directorates, right down to individual operating units.
- An economic classification, or classification by type of expenditure, is used for day-to-day administration. Classification by type (e.g. electricity expenses, student grants, transportation expenses) can also be used to compile the government flow of funds Table (TOFE) and the national accounts. This classification must be consistent with the economic classification in the government chart of accounts, and is usually very detailed. The Chart of Accounts for Government Operations (PCOP) of Madagascar, for example, has nearly 60 accounts for purchases of goods and services alone. This classification generally serves for "economic" control of resources, but it is sometimes of a hybrid nature and deals as well with the destination of the expenditure or the way it is managed. This is the case with the budget "titles" in most Francophone countries, or the "categories" in Madagascar. Box 1 shows the categories as defined by the budget law of Madagascar. Table 1 shows the detailed presentation of the classification of expenditures by type in WAEMU countries, pursuant to Directive 08/2009/CM/UEMOA. This classification is consistent with the overall government chart of accounts.

Table 1. Classification of Government Budget Expenditures by Type in WAEMU

Codes	Headings
60	Purchases of goods
601	Materials, equipment and supplies
603	Change in stock of fungible goods purchased
605	Water, electricity, gas and other energy sources
606	Specific equipment and supplies
61	Acquisition of services
611	Transportation and mission expenses
612	Rentals and associated costs
614	Upkeep and maintenance
615	Insurance
617	Public relations
618	Communications
62	Other services
621	Bank charges
622	Provision of services
623	Personnel training costs
624	Royalties for patents, licenses and software
629	Other services procurement
63	Subsidies
632	Subsidies to public corporations
633	Subsidies to private enterprises
634	Subsidies to financial institutions
639	Subsidies to other categories of beneficiaries
64	Transfers
641	Transfers to national public institutions
642	Transfers to local governments
643	Transfers to other government agencies
644	Transfers to nonprofit institutions
645	Transfers to households
646	Transfers to supranational authorities and contributions to organizations internationales
647	Transfers to other budgets
648	Retirement pensions for public servants and other state agents
649	Other transfers
65	Exceptional charges
651	Cancellation of accruals from previous years
652	Court judgments and transactions
654	Book value of real assets sold, scrapped or written off
659	Other exceptional charges
66	Personnel expenses
661	Wages and salaries in cash
663	Bonuses and indemnities
664	Social contributions
665	Wages and salaries in kind
666	Social benefits
669	Other personnel expenses
67	Interest and financial charges
671	Interest and financial charges on the debt
672	Losses from transfers of securities
676	Exchange losses
679	Other interest and banking fees

68	Amortization allowances
681	Allowances for amortization of intangible fixed assets
682	Allowances for amortization of tangible fixed assets
69	Provisions
691	Provisions for depreciation
692	Provisions of a financial nature
19	Financial risk provisions
191	Provisions for operating risks related to public-private partnerships
192	Provisions for investment risks related to public-private partnerships
199	Other provisions for risks of a financial nature
21	Intangible fixed assets
211	Research and development costs
212	Patents, trademarks, copyright
213	Organization system designs - software packages
214	Operational rights – Goodwill
219	Other rights and intangibles
22	Land and subsoil acquisitions and improvements
221	Land
222	Subsoil, deposits and quarries
223	Plantations and forests
224	Watercourses
23	Acquisition, construction and major repairs of buildings
231	Administrative buildings for office use
232	Administrative buildings for housing purposes (civilian and military)
233	Administrative buildings for technical use
234	Construction works
235	Infrastructure
236	Computer networks
24	Acquisition and major repairs of furnishings and equipment
241	House and office furnishings and equipment
242	Office computer equipment
243	Transportation equipment for official use
244	Technical equipment and tools
245	Public transportation equipment (passengers and freight)
246	Collections – works of art
247	Strategic or emergency stocks
248	Livestock
25	Military equipment
251	Military buildings
252	Military works and infrastructure
253	Military materials and equipment
26	Equity investments and endorsements
261	Domestic equity investments
262	Foreign equity investments
264	Endorsements
28	Amortization
281	Amortization of intangible fixed assets
282	Amortization of tangible fixed assets
29	Provisions for depreciation
291	Provisions for depreciation of intangible fixed assets
292	Provisions for depreciation of tangible fixed assets
293	Provisions for depreciation of financial assets

Source : Directive N°08/2009/CM/WAEMU on Government budget classification

Box 1. Categories of budgetary expenditure

These include:

- Interest on the public debt.
- Current payroll expenses.
- Non-payroll expenses.
- Current structural expenditures.
- Investment expenditures.
- Exceptional current expenditures.
- Expenditures on financial transactions.

Within each category, appropriations are distributed by chapter, article or paragraph in accordance with the Chart of Accounts for Government Operations.

Source: Organic budget law (LOLF) of Madagascar

- A programmatic classification may also be used, structured as a program, subprogram (or action) and activities. The program is generally defined as "a consistent set of actions by a single ministry in pursuit of specific objectives defined in terms of goals of general interest, as well as the expected outcomes, and subject to evaluation." The program classification is used for public policy formulation, performance accountability, and performance monitoring. In France and in Madagascar, programs are grouped into missions, with a mission corresponding to a broad public policy. The characteristics of the programmatic nomenclature are examined more thoroughly in section C.
- Any other classification deemed necessary. Depending on needs, other classifications may be introduced. The most widespread include a geographic classification, a classification by source of financing, a classification for identifying poverty-reducing expenditures. The classification of financing sources is important for day-to-day management and macroeconomic analysis. It serves to distinguish, in the financial statements, domestically- financed expenditures (including the local currency counterpart of budget support) from project aid financed expenditures. Because some donors ask that budgetary expenditures relating to poverty reduction should be identified, some countries add an additional segment to the classification system to identify whether or not the activity or the budget item relates to objectives of the poverty reduction strategy. Similarly, from an analytical viewpoint, it may be useful to know which part of the country benefits from each of the government financial operations. This is difficult in most cases. A more realistic and more practical approach is to link the geographic classification with the location of the people who would benefit from the transaction, or the district where the service is provided. Generally speaking, the geographic classification is done one time only, establishing a definitive nomenclature for the territory and its constituent different parts.

The "traditional" budget included essentially classification by type and administrative classification. Performance was limited to observing the laws and regulations in force and controlling inputs. Programmatic classification is needed only for the modern approach. Performance indicators are established for each program in order to assess the efficiency and

effectiveness of programs and activities. By contrast, the nomenclature by economic type is necessary whatever the budget approach used, both for day-to-day management and analysis.

The budget classification system for day-to-day management must be compatible with international standards for the production of analytical reports. These standards are not useful for day-to-day budget administration. They include:

- The IMF GFSM economic classification, which is used for overall budget policy formulation and preparation of the TOFE and the national accounts. The GFSM 2001, like the United Nations system of national accounts (SNA), has adopted the concepts of accrual accounting (or balance-sheet accounting). It therefore covers expenditures related to transactions with physical assets such as amortization. However, countries do not always apply the procedures of this manual in full, but rather adapt them in light of their technical capabilities. Moreover, the TOFE prepared in the context of IMF programs does not follow the GFSM 2001 approach, particularly when it comes to these aspects of accrual accounting. The classification of expenditures in the GFSM is presented in Table 2. Table 1 above also distinguishes the economic nomenclature used within WAEMU. There are two levels of coding, which identify expenditures by type and economic classification, i.e. article and paragraph. The article represents the economic category of expenditure and is identified by the first two digits of the economic account in the general government chart of accounts. The paragraph is a subdivision of the article, specifying the type of expenditure. It is identified by the first three digits of the economic account in the government chart of accounts.
- The United Nations Classification of the Functions of Government (COFOG), which is a classification by socioeconomic objective and is used for the formulation of public policy and international comparison. A functional classification is stable and independent of the administrative structure. The COFOG has three levels of detail: directorates, groups, and classes. The first level contains 10 two-digit categories called directorates, covering for example general public services (directorate 01) or education (09). Groups and classes give details on the means by which the general objectives are to be achieved. Each directorate comprises several three-digit groups: for example, foreign economic aid (012) or preprimary and primary education (091). Lastly, each of these groups contains one or more four-digit classes: functioning of executive and legislative bodies (0111) and financial and fiscal affairs (0112). Table 2 below presents the first two levels of the COFOG.

For illustrative purposes, Box 2 presents the government budget nomenclature within WAEMU. In this nomenclature, the administrative segment also includes a geographic presentation.

Box 2. The budget expenditure classification in WAEMU

Expenditures under the general budget, supplementary budgets, and special treasury accounts are presented in accordance with administrative, programmatic, functional, and economic classifications.

The administrative classification is intended to present budgetary expenses according to the entity or group of entities responsible for their administration. It identifies the hierarchy of the entity responsible for executing the expense and specifies its degree of independence as well as its geographic location. It depends on the administrative organization of ministerial departments or government bodies. It contains two levels. The first level of classification (section) is by ministry or institution. The second level (chapter) refers to departments or groups of departments. The section is identified by a two-digit code, while the chapter code will have at least six digits, indicating:

- the code of the type of entity (centralized unit, de-concentrated unit, autonomous unit): one digit;
- unit code: this is a composite code based on the decimal principle. It is up to each member state to determine the architecture of this code in light of its administrative structure and the needs of budget transparency. The proposed coding includes at least three digits that identify the principal unit and the unit administering the funds, but depending on administrative needs this coding can be expanded;
- geographic code of the unit: this code identifies expenditures according to the country's various districts. It is up to each member state to determine the level – principal, secondary, or even more detailed. If the principal level is selected, this coding has two digits; if a second level is selected, the coding will have four digits.

Within ministries, budget allocations are broken down into programs. A program may include all or some of the funds budgeted for a directorate, a department or unit, a set of directorates, or departments or units within the same ministry. Each program is identified by two digits. The functional classification is designed to classify budget expenditures by their socioeconomic purpose. It is consistent with the COFOG nomenclature.

The economic classification of the budget nomenclature is consistent with the general government chart of accounts. Two levels of coding serve to identify expenditures by type: the article and the paragraph. The article represents the economic category of the expenditure and is identified by the first two digits of the account by type in the chart of accounts. It is coded with two digits. The paragraph is a subdivision of the article, specifying the type of expenditure. It is identified by the first three digits of the account by type in the chart of accounts.

Member states may adopt additional classifications to meet specific concerns. These may include:

- classification by source of finance, to be used for identifying and tracking the means of financing of budgetary expenditure (own funds, domestic or external grants and loans);
- classification by beneficiary, which establishes a link between the budgetary expenditure and the final beneficiary.

Source: *Directive N°08/2009/CM/WAEMU on Government budget classification.*

3. The relationships between the different budget nomenclature codes

To facilitate the production of financial statements using varying criteria (for example, economic classification of budget expense, classification by region, by source of financing), the following principles must be applied when coding the identifiers: (i) each segment must be independent (for example, the same segment must not mix the economic type and destination of the expense); (ii) the segments must be comprehensive in their coverage (for example, the administrative classification segment must cover all organizations covered by the budget); and (iii) the segments must not overlap.

Figure 1 below illustrates the relationships between segments of the classification system. A bridge table can be established between administrative, programmatic and functional classifications if and only if they are sufficiently detailed at the activity level. However, it is best to avoid very low levels, which would require highly detailed information. It is wise to stop at a level of detail that remains functional, for example at the level of departments (*services*) for the operating budget and that the level of projects (or project component) for the capital budget.

4. Presentation of appropriations in the budget

The nomenclature used in presenting budget appropriations should combine the "independent" segments discussed above. It must be noted that there is no standard method applicable to all countries. It will depend on the approach used and on the degree of detail desired. Box 3 presents, by way of illustration, a budget expenditure classification based on a programmatic approach. This nomenclature is organized as follows: (i) ministry; (ii) mission (missions may refer to ministries or a group of programs of different ministries with the same or similar objectives); (iii) program (which will preferably be a directorate or a group of directorates or a group of public institutions); possibly subprograms (in the case of composite programs); activities/projects (for example, activities of a directorate; project or group of projects in the public investment plan); source of financing; economic type (breakdown in the government chart of accounts) and regions (specifying whether this is an activity of central government, or a decentralized activity). In many countries, the "mission" level does not exist. This is a purely French concept, designed to give the legislature a good deal of leeway, recognizing that the French budget law originates in Parliament.

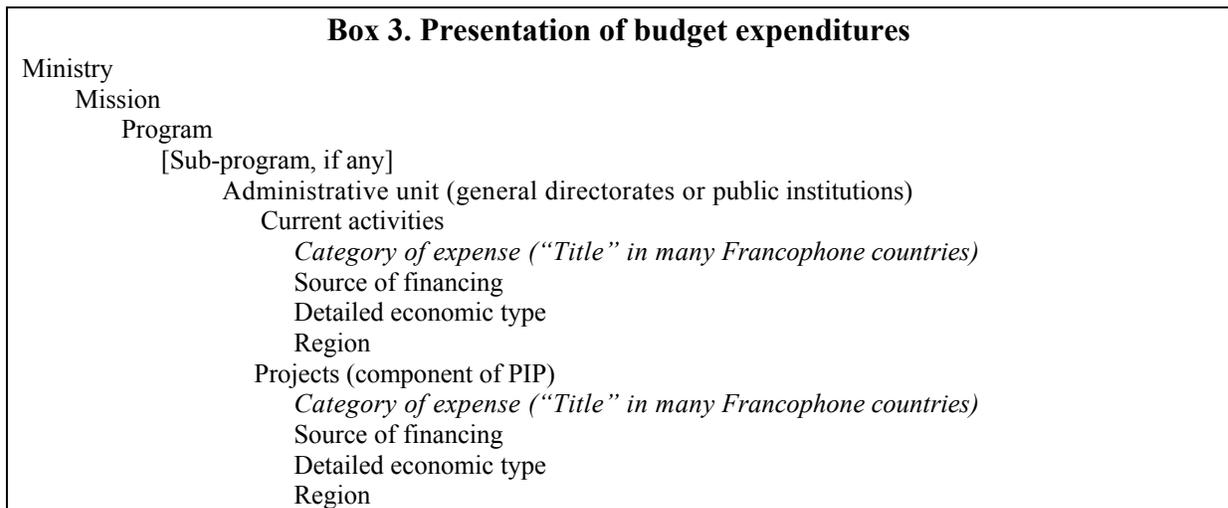


Table 2. Economic Classification of Expense

2	Expense
21	Compensation of employees [GFS]
211	Wages and salaries [GFS]
2111	Wages and salaries in cash [GFS]
2112	Wages and salaries in kind [GFS]
212	Social contributions [GFS]
2121	Actual social contributions [GFS]
2122	Imputed social contributions [GFS]
22	Use of goods and services
23	Consumption of fixed capital [GFS]
24	Interest [GFS]
241	To nonresidents
242	To residents other than general government
243	To other general government units
25	Subsidies
251	To public corporations
2511	To nonfinancial public corporations
2512	To financial public corporations
252	To private enterprises
2521	To nonfinancial private enterprises
2522	To financial private enterprises
26	Grants
261	To foreign governments
2611	Current
2612	Capital
262	To international organizations
2621	Current
2622	Capital
263	To other general government units
2631	Current
2632	Capital
27	Social benefits [GFS]
271	Social security benefits
2711	Social security benefits in cash
2712	Social security benefits in kind
272	Social assistance benefits
2721	Social assistance benefits in cash
2722	Social assistance benefits in kind [GFS]
273	Employer social benefits
2731	Employer social benefits in cash
2732	Employer social benefits in kind
28	Other expense
281	Property expense other than interest
2811	Dividends (public corporations only)
2812	Withdrawals from income of quasi-corporations (public corporations)
2813	Property expense attributed to insurance policyholders [GFS]
2814	Rent
282	Miscellaneous other expense
2821	Current
2822	Capital
[GFS] indicates that this item has the same name but different coverage in the 1993 SNA	
Source: GFSM 2001, IMF	

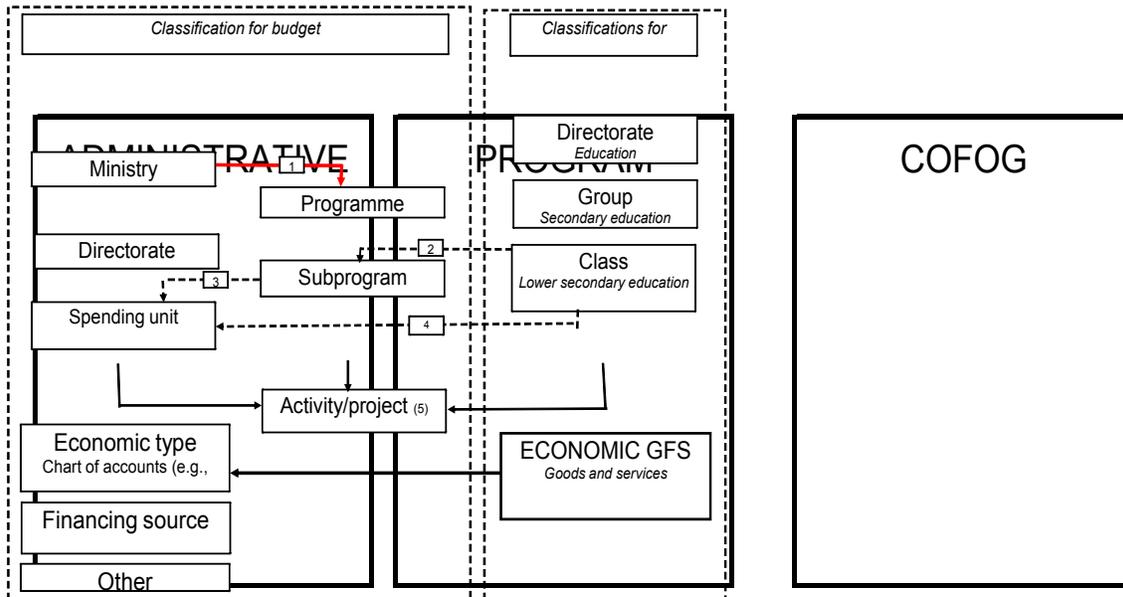
Table 3. Classification of Expenditure by Functions of Government

<p>7 Total outlays</p> <p>701 General public services</p> <p>7011 Executive and legislative organs, financial and fiscal affairs, external affairs</p> <p>7012 Foreign economic aid</p> <p>7013 General services</p> <p>7014 Basic research</p> <p>7015 R&D1 General public services</p> <p>7016 General public services n.e.c.2</p> <p>7017 Public debt transactions</p> <p>7018 Transfers of a general character between different levels of government</p> <p>702 Defense</p> <p>7021 Military defense</p> <p>7022 Civil defense</p> <p>7023 Foreign military aid</p> <p>7024 R&D Defense</p> <p>7025 Defense n.e.c.</p> <p>703 Public order and safety</p> <p>7031 Police services</p> <p>7032 Fire protection services</p> <p>7033 Law courts</p> <p>7034 Prisons</p> <p>7035 R&D Public order and safety</p> <p>7036 Public order and safety n.e.c.</p> <p>704 Economic affairs</p> <p>7041 General economic, commercial, and labor affairs</p> <p>7042 Agriculture, forestry, fishing, and hunting</p> <p>7043 Fuel and energy</p> <p>7044 Mining, manufacturing, and construction</p> <p>7045 Transport</p> <p>7046 Communication</p> <p>7047 Other industries</p> <p>7048 R&D Economic affairs</p> <p>7049 Economic affairs n.e.c.</p> <p>705 Environmental protection</p> <p>7051 Waste management</p> <p>7052 Waste water management</p> <p>7053 Pollution abatement</p> <p>7054 Protection of biodiversity and landscape</p> <p>7055 R&D Environmental protection</p> <p>7056 Environmental protection n.e.c.</p>	<p>706 Housing and community amenities</p> <p>7061 Housing development</p> <p>7062 Community development</p> <p>7063 Water supply</p> <p>7064 Street lighting</p> <p>7065 R&D Housing and community amenities</p> <p>7066 Housing and community amenities n.e.c.</p> <p>707 Health</p> <p>7071 Medical products, appliances, and equipment</p> <p>7072 Outpatient services</p> <p>7073 Hospital services</p> <p>7074 Public health services</p> <p>7075 R&D Health</p> <p>7076 Health n.e.c.</p> <p>708 Recreation, culture, and religion</p> <p>7081 Recreational and sporting services</p> <p>7082 Cultural services</p> <p>7083 Broadcasting and publishing services</p> <p>7084 Religious and other community services</p> <p>7085 R&D Recreation, culture, and religion</p> <p>7086 Recreation, culture, and religion n.e.c.</p> <p>709 Education</p> <p>7091 Pre-primary and primary education</p> <p>7092 Secondary education</p> <p>7093 Postsecondary nontertiary education</p> <p>7094 Tertiary education</p> <p>7095 Education not definable by level</p> <p>7096 Subsidiary services to education</p> <p>7097 R&D Education</p> <p>7098 Education n.e.c.</p> <p>710 Social protection</p> <p>7101 Sickness and disability</p> <p>7102 Old age</p> <p>7103 Survivors</p> <p>7104 Family and children</p> <p>7105 Unemployment</p> <p>7106 Housing</p> <p>7107 Social exclusion n.e.c.</p> <p>7108 R&D Social protection</p> <p>7109 Social protection n.e.c.</p>
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R&D = Research and development
n.e.c. = not elsewhere classified

Source: GFSM 2001, IMF

Figure 1: Relationships Between Segments of the Classification System



1. For accountability, the program should be placed under the responsibility of a single line ministry (or main agency etc.).
2. The program or the subprogram will be preferably monofunctional, with limited exceptions.
3. A function code may be generally attributed to each spending unit and project (or to their main function if they are multifunctional).
4. Spending units and projects will generally refer to a single program.
5. The bridge between the administrative, functional and program classification is theoretically established at the activity level. To simplify, the bridge will be placed at the spending unit or project level.

Adapted from R. Allen and D. Tommasi, "Managing Public Expenditure: A reference book for transition countries", OECD, 2001, from Salvatore Schiavo Campo and Daniel Tommasi, "Managing government expenditure", Asian Development Bank 1999; and D. Tommasi, "Strengthening public expenditure management in developing countries. Sequencing issues". 2009).

Figures 2 and 3 represent respectively examples of budget nomenclatures from two Francophone African countries, Madagascar (nomenclature adopted in 2008 for application as of budget year 2009) and the Union of Comoros (nomenclature adopted since 2005 and which, since not fully implemented, could be improved). These nomenclatures are useful for day-to-day administration and policy formulation. They are also compatible with international standards for producing analytical reports. The economic classifications can be based on a synthesis of accounting records (salaries, goods and services, transfers or subsidies, investment expenditure, interest on the debt). The functional classification is based on a Table bridging spending units or projects and function (COFOG). As this classification is not used for day-to-day administration, it is not advisable to attempt a classification based on budget items.

Figure 1. Organization of the Budget Line Item in Madagascar (nomenclature platform 2009)

Budget line item									
Category of expense	SOA	Mission	Program	Section	Account	Financing	Donor	Exec. Agency	Financing group
[]	[XXXXXXXXXXXXXX]	[]	[]	[]	[]	[]	[]	[]	[]

Figure 2. Organization of the Budget Line Item in Union of the Comoros (in process)

Budget line item							
Entity	Ministry	Service	Mission	Program	PGE	Financing	Budget
[]	[]	[]	[]	[]	[]	[]	[]
<ul style="list-style-type: none"> Administrative nomenclature: Entity + Ministry + Service/Project for day-to-day management, control and accountability. Economic nomenclature: General Government Chart of Accounts (PGE) for day-to-day management and control. Financing indicates the source of financing for day-to-day management. Budget indicates whether the budget item concerns the operating or the capital budget, a special treasury account, or a subsidiary budget. Program nomenclature (mission and program) for policy formulation, accountability, management, performance monitoring. 							

5. Cross-classification of expenditures

The classifications presented above can be cross-compared. Tables 3 and 4 show the most commonly used cross-classifications. These classifications can be produced more readily with the help of a computer system, when segments of the budget classification are independent and non-overlapping (see above).

Table 3 presents a statement prepared on the basis of a survey using COFOG codes and the codes from the government chart of accounts. The latter, combined, are shown in relation to the headings of the economic nomenclature.

Table 3 also shows a statement prepared from a search using a combination of "ministry" codes and program codes together with the codes from the government chart of accounts.

With the new WAEMU budget directive, member states must attach to their budget a matrix cross-referencing the functional and economic classifications, another cross-referencing administrative and functional classifications, and still another cross-referencing administrative and economic classifications (see Directive 06/2009/CM/UEMOA, art. 46 (7)).

Table 3. Functional and Economic Cross-Classification of Expenditure

	Personnel expense	Procurement of goods and services	Transfers and subsidies	Interest on the debt	Capital expense
General services					
Defense					
Public safety					
publics					
Economic affairs					
Environmental protection					
Housing and community facilities					
Health					
Recreation, culture and religion					
Education					
Social protection					
Ministry 1					
Program 11					
Program 12					
Program 1n					
.....					
Ministry n					
Program n1					
Program n2					
Program nn					

B. Structuring the budget by functions

The functional structure of the budget is independent of its implementation and administrative organization. In principle, the items classified should be individual

transactions, i.e. each transaction should be assigned a code corresponding to a COGOP "function". However, this approach is not feasible for all transactions. Instead, "[functional] codes may have to be assigned to all transactions of agencies, offices, program units, bureaus and similar units within government departments or ministries."

It is possible that the smaller administrative units may perform more than one COFOG function. In this case, administrative outlays will cover two classes or more. It will be best to allocate expenses among these classes. If this is not possible, all outlays should be assigned to "whichever purpose appears to account for the largest part of total outlays". This is most frequently the case with ministers' offices in "multifunctional" ministries.

It is also possible that the four-digit nomenclature provided in Table 2 will not be sufficiently detailed for economic ministries. In this case, a five-digit (classes) nomenclature will be used, making possible a "monofunctional" classification.

C. Structuring the budget into programs

1. Some characteristics of programmatic nomenclature

The program structure of the budget should be stable. A program corresponds at once to a government policy or function and to clearly defined responsibility centers that are to implement them. Programs should be established by ministry, *and interministerial programs should be an exception*. They very often correspond to the functions (or a supervised subsector) of the ministry in question. For example, they may correspond to a group of general directorates, public institutions, or projects.

A program classification embraces several levels, in particular the following: (i) the program; (ii) a subprogram, if any (called "action" in the French budget); and (iii) the activity¹. This last level is for internal use of the program coordinator (*Responsable de programme*). Programs are broken down operationally into activities or projects, corresponding to clearly defined groups of services or outputs. In practice, for the operating budget, the activity will generally correspond to the administrative unit (the directorate, for example). For the capital budget, the activity is the project or a component of a megaproject. For the activity, input and output indicators can be defined for monitoring efficiency, i.e. the capacity to minimize inputs for a given level of output.

In France, in particular, and in countries that have adopted a quasi-French nomenclature, the highest level is the mission, which often involves more than one ministry (and since this poses accountability problems, the program should be confined to one ministry). The mission is the unit at which the budget is voted, while the program remains the level of Parliamentary

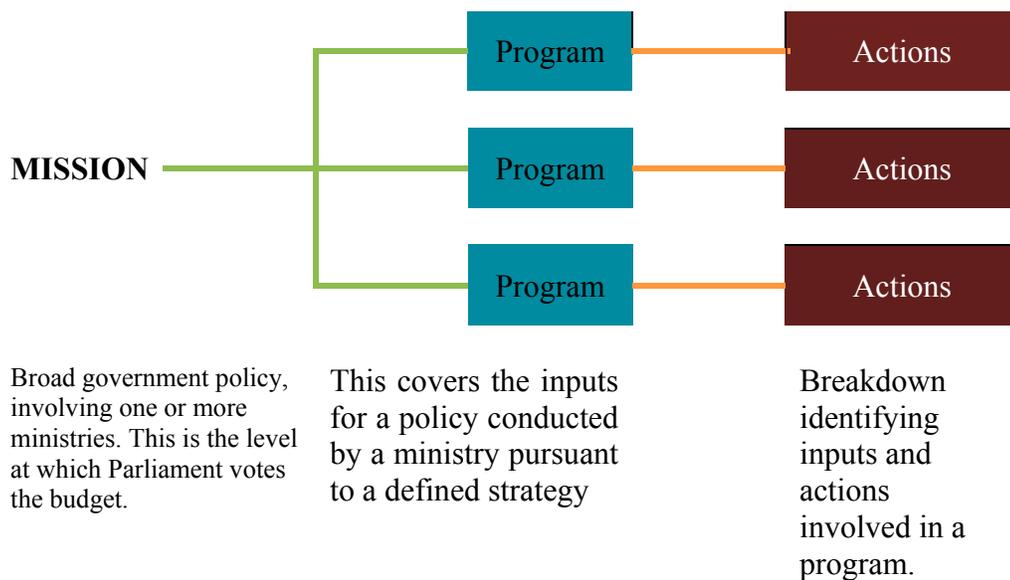
¹ It is difficult to give precise criteria as to what constitutes an activity. It is important, of course, not to descend to individual actions, but rather to try to describe all the attributes, missions, functions and services of the ministry. This is an essentially participatory task that draws on notions taken from founding statutes and policy documents, job descriptions, etc. Excessively detailed programs that describe the ongoing activities and outputs of each unit offer no value added. Accounting systems may not be up to tracking the execution of programs with detailed activities and outputs.

authorization. Figure 3 presents the program budget nomenclature in France, introduced by the LOLF (Constitutional Bylaw on Budget Acts).

In some countries (France, Madagascar, Australia) the annual government budget is structured in programs. A document separate from the annual budget presents the indicators (see below, "the culture of performance"). In other countries, including South Africa and Mauritius, the annual budget is organized in programs with multiyear expenditure projections in the same format as the appropriations, along with some performance indicators. The annual budget thus constitutes both the medium-term expenditure framework (MTEF) and the program budget.

Elsewhere again (and particularly in Francophone West Africa, e.g. Benin and Mali) the term "program budget" refers to an a document that is annexed or parallel to the annual budget, such as the multiyear program budgets. In these countries, the first year of the Table represents the current year budget. The other years are indicative, even though they represent firm commitments for the governments. They will be implemented in subsequent budgets. Multiyear budgets are illustrated in Table 4, extracted from the program budget of Mali (Ministry of National Education) for 2007. This program budget is often identical to the MTEF.

Figure 3: France: Mission, Program, and Action



Source: Ministry of Finance, France

Table 4. Extract From the Program Budget of Mali

Ministry of National Education

Section 410

1. MISSIONS:

Implement national policy with respect to basic education, literacy, preschool and special education, normal education, higher education and scientific research.

2. OVERALL OBJECTIVES:

- Promote a system of education for all.
- Improve the quality of education.
- Improve financial, material and human management.
- Adapt the basic education system to the country's economic, social and cultural realities.

3. PROGRAM EXPENSE TABLE

410. Ministry of Education

	Programs	Personnel	Current	Investment	Total		
					2007	2008	2009
01	General administration	6,766,752,000	8,233,913,000	6,701,865,000	21,701,865,000	21,345,973,000	22,274,113,000
02	Basic education	54,310,544,000	20,080,569,000	31,749,200,000	106,140,313,000	110,920,963,000	117,936,794,000
03	General secondary education	5,105,007,000	4,178,142,000	694,000,000	9,977,149,000	10,811,640,000	11,492,434,000
04	Technical and professional education	1,216,518,000	3,109,672,000	0	4,326,190,000	4,772,379,000	5,109,550,000
05	Higher education	3,959,387,000	9,653,452,000	3,964,000,000	17,598,839,000	18,972,403,000	20,164,628,000
06	Scientific research	0	486,494,000	205,000,000	691,494,000	739,979,000	785,461,000
	TOTAL	71,358,208,000	45,742,242,000	43,333,400,000	160,433,850,000	167,563,337,000	177,762,980,000

2. Some sound principles for preparing the program budget

While program budget architecture differs from one country to the next, the lessons of international experience point to some general principles about the approach to take in preparing a program structure. Box 3 presents some "good principles" for limiting the risk of failure when implementing program budgets.

These principles cannot eliminate all the problems. The following points should be addressed in particular:

- Appoint a program coordinator with sufficient authority to manage the program without difficulties. Program budgeting in fact introduces a horizontal management approach that requires coordination among players. This new approach does not always fit with the administrative and territorial organization of the State, although it is best to rationalize the two chains (managerial and administrative). Until such rationalization is achieved, the program coordinator will have to have hierarchical authority over all units involved in the program. In Madagascar, when the program concerns one directorate, its director will be the program coordinator; when it concerns several directorates, the program coordinator will be the person who has

authority over all those directorates. If there are several general directorates contributing to the same operating program, the Permanent Secretary "naturally" becomes the program coordinator. Questions will arise concerning the general administration and management program, which covers the Office of the Minister (*Cabinet*) and the units reporting directly to it as well as the Permanent Secretary of the Ministry and the units reporting to him. It is up to the Minister to decide which of these two senior officials – Permanent Secretary (*Secrétaire Général*) and Chief of Staff (*Directeur de Cabinet*) – will be the program coordinator. He may select another officer and give him sufficient authority to manage the program. In most cases, however, it is the Permanent Secretary who is the program coordinator. That choice in no way diminishes the power of the Chief of Staff, whose role vis-à-vis the ministerial administration should suffer no ambiguity. This choice may perhaps be guided by a desire to "depoliticize" the budget function.

- Define the respective roles of the program coordinator and the support functions. The program coordinator is the key person for implementing the program. It is he who prepares the budget for the program with the operating intermediaries. He also has prime responsibility for implementing the program operationally. The support functions (administrative and financial affairs directorate, human resources directorate, research and programming directorate, procurement unit) must "evolve towards a role of expertise, evaluation and advice" to support their ministry's program coordinators in preparing and implementing programs. These functions will coordinate the needs of the program coordinators and adapt them as necessary to ensure consistency with the sectoral budget and priorities decided by the minister.
- "Contractualize" relations between the program coordinator and the operating intermediaries, regardless of their level. These intermediaries may be located in head office or in the de-concentrated offices. Program budgeting takes an approach that is results-based rather than inputs-based in preparing and implementing budgetary choices. This means a new distribution of roles and gives managers wide freedom in using the funds and the personnel available to them. In return, managers undertake to achieve previously negotiated objectives, as measured by quantitative indicators for assessing outcomes against the resources used. There are various forms of contract and terminology, and their scope of application and their function will vary from one country to the next. However, these contracts should be negotiated and they should set out the reciprocal obligations of the parties. They institute true parity between the parties, who must take a positive attitude for achieving the previously established goals. Box 4 illustrates the principles that should guide the relationships between the program coordinator, the activities managers and the operating units within the context of the program budget in Madagascar. These principles are symmetrical with those that exist between the program coordinator, the program operating budget managers, and the operational units in the French LOLF. In short, program funds are allocated to a single person, the program coordinator, who is responsible for distributing them among program activities and the various players who contribute to implementing the program. He delegates operational management for the program to the actors involved in the program (central government units, deconcentrated units,

project management units, public institutions). The latter are responsible to the program coordinator for their portion of the program. Targets and indicators relating to their own areas of responsibility must also be established in the context of management dialogue. The management autonomy of public institutions is preserved or reinforced, but in return these bodies are held accountable for their results, on the basis of indicators agreed with the program coordinator.

- Review management rules to make managers more accountable for the funds assigned them. The new rules for managing budgetary allocations will target two main objectives: (i) to improve the efficacy of spending by highlighting the objectives of public programs and (ii) to make ministry managers accountable by requiring them to produce two key reports, the annual performance plan and the annual performance report (see below). This will require a new form of internal control based on performance. Ex ante control of public spending will be relaxed in favor of stricter ex post control. In particular, managers will be freed from formalistic controls and allowed to develop control that focuses on risk prevention and on performance, internalizing the constraints of performance and good management at the manager level. Managers have broad maneuvering room. Within programs, they are free to shift funds among "titles", although in some countries (e.g. France and Madagascar) this freedom is subject to asymmetric fungibility.
- Carefully assess the risk of conflict between program coordinators and administrative managers (risks of bureaucratization). The program budget introduces a triple hierarchical chain that requires better coordination if the planned objectives are to be achieved. This triple hierarchy involves administrative chains (directorates and units), budgetary chains (authorizing officer) and organization of the program and performance budget (program coordinator and operating intermediaries). This does pose problems in implementing program budgets, and an accommodation has to be found in order to give each of these three poles the means to achieve its mission.

In some Francophone countries, the personnel database will have to be revised for allocating "operational" personnel by program. On the other hand, administrative or managerial staff will be assigned to the administration and management program. As deconcentrated units are responsible for implementing a portion or all of a ministry's programs, their staff can generally be assigned to the management program. But if these units are organized in such a way that staff are assigned to different programs without a "distribution key", each program will take into account the personnel available to it. This holds as well for the funds budgeted for these units.

Table 5. Bridge Table Between Programs and Administrative Structure

Program	Directorate, unit, project or public institution
Administration and management program	SG, Cabinet, DAF, DEP, etc.
Operating program 1	Directorate 1A, Directorate 1B, project 1A, project 1B, etc.
Operating program 2	Directorate 2A, Directorate 2B, project 2A, project 2B, etc.
Operating program 3	Directorate 3A, Directorate 3B, project 2A, project 2B, etc.
Etc.	

Box 3. Some Sound Principles for Program Budgeting

- To identify responsibilities clearly, programs should be established by ministry, and interministerial programs should be the exception. The program corresponds in many cases to a general directorate or a group of general directorates, or a group of public institutions.
- Appoint a program coordinator, responsible for coordinating and monitoring program activities and projects.
- Keep the program nomenclature simple, and limit the number of programs per ministry (e.g. an average of 3 to 8 programs per ministry).
- In some cases it may be useful to break programs down into subprograms, but this should be done on a case-by-case basis, taking care not to construct a nomenclature of programs and subprograms that is too complex.
- Programs will be broken down into activities and projects. In many cases, this breakdown consists of identifying each administrative unit (general directorate, public institution etc.) pertaining to the program, and within these units, separating activities related to current operations, transfers, and development projects. Ministries or managers may adopt more detailed breakdowns of programs for their internal management needs, but at the central level it is best to adopt a simple structure of programs and activities for preparing the budget.
- The program (or subprogram) should whenever possible be monofunctional in the sense of the COFOG, but this cannot be a universal rule.
- The use of arbitrary distribution keys or parameters for allocating an administrative unit's expenses on goods and services or general expenses among several programs should be avoided. In general, all expenses and all staff of an administrative unit should be allocated to one program, and one only. Exceptions should be clearly identified, and the budget of each program will have to be identified within the budget of each directorate. For this purpose, bridge tables should be established between the program nomenclature and the administrative nomenclature (see Table 5).
- The program structure should be stable in a context of government reorganization. It must be readily transposable into the administrative structure of the new government.
- The program structure must be comprehensive, i.e. it must cover all activities of the ministry.
- Within each line ministry, a distinction should be made between: (i) a general administration program, covering the activities of general units that cannot be attributed to specific objectives (minister's office, permanent secretary's office, financial affairs directorate, etc.); and (ii) operating or support programs relating to the activities of units under the supervision of the ministry or operating units.

(Adapted from *Analyse du cadre conceptuel des budgets par objectifs* of the Republic of Tunisia, by P. Demangel, Daniel Tommasi, Ian Davies, Béchir Lassoued, Robert Poinard and Ahmed Ourir)

3. Grouping expenditures by program

A program groups a ministry's expenditures regardless of their economic type and source of financing. Data on all categories of expenditure must be available by program. Table 6 [sic] summarizes the steps needed to group expenditures into programs.

Table 5. Constructing a program budget

Nature of the expenditure	Treatment	Program expenditures
Personnel	Allocate personnel expenditures by directorate and then by program, according to the bridge Table between program and administrative structure	Expenditures for personnel assigned to SOA* X1 to Xn
Goods and services	Allocate by program according to the bridge Table between program and administrative structure	Non-personnel operating budget of SOA X1 to Xn
Transfers	<i>Transfers managed by the operational directorates:</i> Allocate by program according to the bridge Table between program and administrative structure. <i>Transfers managed by directorates or administrative or managerial authorities (DAAF, SG etc.):</i> Allocate by program according to their function (or their beneficiary sector)	Amount of transfers T1 to Tm
Investment	<i>Monosector projects managed by operational directorates:</i> Allocate projects by program according to the bridge Table between program and administrative structure. <i>Monosector projects managed by directorates or administrative or steering authorities (DAAF, SG etc.):</i> Allocate projects by program according to their function (or their beneficiary sector). <i>Multisector projects:</i> Allocate project components by program according to their function (or their beneficiary sector). If this is difficult, allocate by principal function (or beneficiary sector) of the project.	Cost of projects P1 to Pp

*SOA = *Service opérationnel d'activité*, "Operational activity unit"

4. Avoiding pitfalls in program preparation

Program classification should facilitate policy formulation and the monitoring of activities at the operational level. But it is well to avoid some technocratic errors that consist in ignoring responsibilities in budget management and in the organization of budgetary and accounting management. An example of such an error is to try to establish and quantify a budget for each economic policy objective (for example PRSP objectives) or for each performance indicator. As discussed in the note from the French Ministry of Finance (see Box 4) objectives-based budgeting is neither realistic nor desirable, for two reasons: (i) the budget is subject to an overall ceiling; (ii) there is no automatic link between budgetary appropriation and performance objectives. As indicated in Table 6, the link between programs and strategies is provided through performance indicators that can be used to track progress in the contribution of each program to the achievement of strategies. Managing performance

consists of breaking down the strategic approach into strategic objectives², operational objectives and indicators³. This breakdown applies to all levels of government. The link between strategic objectives and operational objectives must be consistent overall and must “serve” the strategy of the organization (or of the program). Objectives must be "SMART" – specific, measurable, accepted, relevant and time-bound. This holds as well for performance indicators (see below for further information on performance indicators).

Table 6. Articulation of strategies, programs and indicators

Strategic themes	Programs				
	Program 1	Program 2	Program 3	Program 4	etc.
Strategic theme (commitment/challenge) A		I ^p 2.A1			
Objective A1	IP1 .A1			IP4 .A1	
... Objective Am	'P1.Am			IP4.Am	
Strategic theme (commitment/challenge) B					
Objective B1		I ^p 2.B1			
... Objective Bn		IP2.Bn			
Strategic theme (commitment/challenge) C					
Objective C1			I ^p 3.C1		
... Objective Cp				IP4.Cp	
Etc.					

IPkl: performance indicator for program k and objective l

Adapted from P. Demangel, Projet de guide méthodologique pour l'établissement des nomenclatures de programmes de la Tunisie

² An objective expresses intent, commitment, the desired outcome, in short the goal pursued by units and programs. Normally, the objective targets an effect, a benefit for the clientele, or contributes to achieving such a benefit.

³ An indicator is a variable used to measure, describe or appreciate, wholly or in part, the status or the progress of an activity or program. It can be used to determine the path followed in comparison with the objective to be achieved, to determine whether the program is on track, and it constitutes the signal for the decision as to whether to switch course.

Box 4

This note from the French Ministry of Finance seeks to clarify the link between budget and objectives and to avoid the frequent confusion between program budgeting and objectives-based budgeting.

What is the link between budget and objectives?

Performance measurement must make it possible to guide management towards results, so as to enhance the efficiency of public spending, once its amount is determined. Performance becomes a matter of interest, then, essentially during the management of appropriations, once they have been voted. It can however also be of interest in the budgeting procedure, as a basis for taking strategic decisions.

1. The importance of performance in managing appropriations

The definition of target values to be achieved will take place prior to definition of budget envelopes. Performance measurement makes it possible:

- To inform Parliament of the results expected from the appropriations submitted for its approval.
- During the budgetary exercise, to steer units and operators towards achievement of these objectives.
- To report to Parliament at the end of the exercise on the results actually achieved.

2. The importance of performance for strategic budgetary decision-making:

Performance measurement can serve as the basis for strategic policy decisions that have a budgetary impact, prior to the budget setting process.

Thus the observation and analysis of the outcomes of a policy may lead to a review of its implementation modalities, or an increase or reduction in its resources. In the latter two cases, the strategic decision taken in light of actual outcomes and their accurate analysis will have a budgetary impact.

The decision to be taken is not, however, a mechanical one: should poor outcomes lead to a cut or an increase in resources? Only a precise explanation of actual outcomes can guide the decision, which in the end is a political choice.

Is performance measurement a tool for budgeting by objectives?

No. The presentation of performance objectives and indicators in the annual performance plans attached to the budget law is intended to guide management towards results and not to allow budgeting by objectives.

Budgeting by objectives, i.e. a budgeting procedure which involves first setting the desired objectives and targets and then determining the budget appropriations needed to achieve them, is impossible for two reasons:

- First, there is a total ceiling on the government budget. Appropriations are made between programs within an overall envelope determined before hand in light of the current state of public finances and macroeconomic considerations;
- Second, there is no material link between budget appropriations and performance objectives. Better socioeconomic conditions or quality of service may be achieved with the same amount of resources by improving the way those resources are used, or allocating them better.

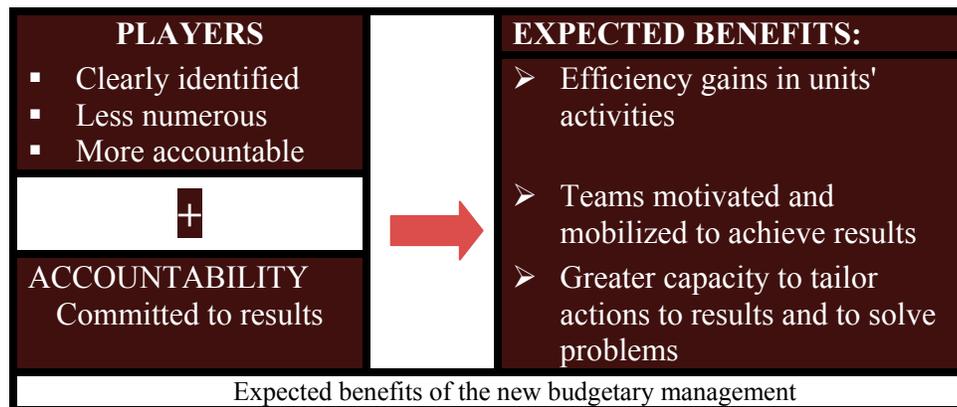
Source: http://www.finances.gouv.fr/lolf/15_1_5.htm

D. New fiscal governance

1. The importance of the new fiscal governance

Governments in developed countries as well as in developing countries, under pressure from societies that have new and different expectations, and also from the changes brought about by technological, economic, and social developments during the second half of the 20th century, have been driven to undertake significant reforms in the way they manage public affairs. Budgetary management in many countries has shifted its focus from means or inputs to results or outputs. This new approach to budgeting (performance-based) generally relies on the notion of programs (which constitute the budgeting and policy management framework), and it offers managers both greater freedom and greater responsibility⁴ in a context of new players, precisely identified and less numerous. Figure 6 summarizes these advantages.

Figure 6. The advantages of the new budgetary management



Source: <http://www.minefi.gouv.fr/>

2. Budget globalization and accountability of managers

The new fiscal governance implies two principal innovations: globalization of appropriations within a program and managerial accountability. The globalization of appropriations is the corollary of program budgeting. In some countries, the fungibility⁵ of appropriations is complete, and the program is the level of Parliamentary authorization within the envelope allocated to each ministry. In other countries, including France, the program coordinator has "a global funding envelope that gives him a degree of managerial flexibility, associated with

⁴ Franck MORDACQ, *le Pilotage et la cohérence de la modernisation de l'Etat*. Proceedings of the Third *Université de Printemps de Finances Publiques* of GERFIP.

⁵ A characteristic of program appropriations where allocation is not rigidly predetermined but merely indicative. Fungibility leaves management with the power to define the object and type of expenditures within the program in order to optimize them. In other words, the budget envelope is global.

objectives measured by performance indicators", with allowance for asymmetric fungibility⁶. However, applying fungibility to appropriations poses problems in many developing countries because of the high degree of fiduciary risk and also because of their heavy dependence on official development assistance, which has until now been largely geared to project aid or budget support tied to expenditures clearly identified in advance. In these countries, it should be possible to vote the budget in five overall envelopes: (i) **personnel, with an associated staffing ceiling; (ii) domestically-financed operations, (iii) externally financed operations, (iv) domestically financed investment and (v) externally financed investment**. Fungibility could be applied as follows, bearing in mind the conditions imposed by donors: personnel appropriations could be transferred to operations and investment (whatever the source of funding), domestically-financed operating appropriations to externally-financed operating and investment appropriations (whatever the source of financing), domestically-financed investment appropriations to externally-financed investment appropriations.

The growing accountability of players means that they are clearly identified, fewer, more responsible, and endowed with the capacity to take action (see Figure 6). This is achieved by identifying a program coordinator for each program, who must oversee the successful execution of the program in accordance with departmental objectives. He will be supported by operational intermediaries. The program coordinator is the guarantor, at the national level, of the program's implementation and performance. On the ground, he delegates matters to a program manager (for example a technical or regional director, a public agency head, etc.). Like the program coordinator, the managers work with a global funding envelope and are committed to operational objectives vis-à-vis the program coordinator. They allocate the resources available to them among the units that carry out the activities under their authority.

3. Performance monitoring

Management accountability means that the objectives, the expected outcomes (or targets), the performance indicators, and the cost of the resources needed to achieve the results are determined by the managers, who will track performance indicators and be accountable to the responsible authorities, justifying any discrepancies and taking any necessary corrective measures. For these purposes, two types of reports⁷ are often prepared:

- Performance plans (*projets de performance*) which set out for each program the expected objectives and outcomes. They are often part of the budgetary documentation submitted to Parliament with the draft budget law (as in France). They include information on the mission or mandate of the ministry, its strategies, the objectives of each program, performance indicators and other quantifiable data. They contain performance indicators for the budget year and an annual target subsequent to

⁶ Fungibility in the French budget is said to be asymmetric or "one-way" because, while personnel funds can be used for other types of expenditure (operations, intervention, investment), the reverse is not allowed. Consequently, the amount of payroll funds voted for each program is capped.

⁷ See, for example, for France, <http://www.performance-publique.gouv.fr/le-budget-et-les-comptes-de-letat/lessentiel/qu-est-ce-que-le-projet-de-loi-de-finances/qu-est-ce-qu-un-projet-annuel-de-performances.html> and for Canada, http://www.tbs-sct.gc.ca/rpp/0708/menu_f.asp.

the budget year (France). The format and nature of these documents will depend on the country. In some countries, for example, performance data may be included in the sectoral MTEF or in the program budget.

- Performance reports (*rappports de performance*) show the level of achievement of the outcoms. In France, the RAP (annual performance report) is appended to the budget review act. It provides an accounting for the results of each program. It is presented with the same structure as the annual performance plan.

The following Table illustrates the performance document in Madagascar

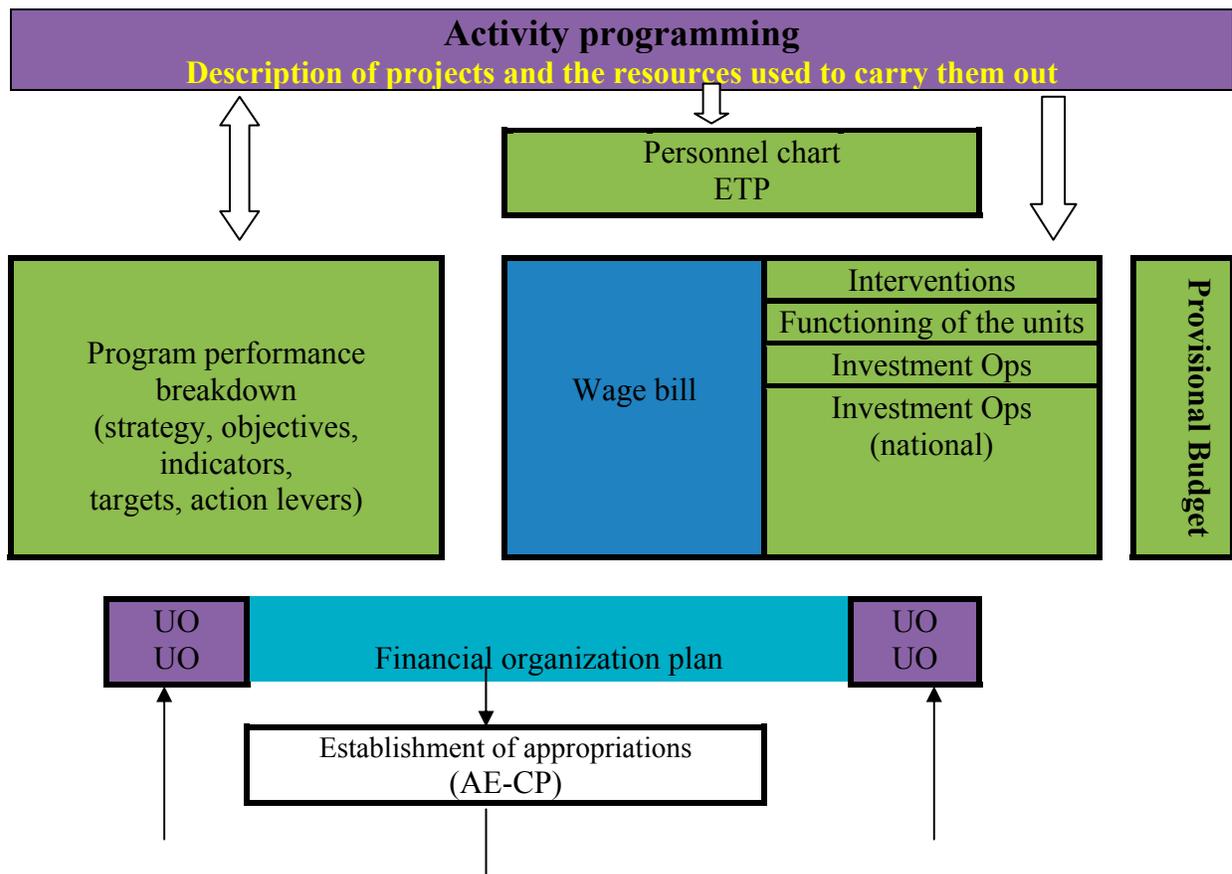
Table 3.a. Performance document

Ministry	Text				
Mission	Text				
Program 0.1	Text				
Objective 0.1.1	Text				
Year	2007	2008	2009	2010	2011
Indicator 0.1.1.1					
Specifications: text including methodological note: source					
Principal activities					
Objective 0.1.2					
Year	2007	2008	2009	2010	2011
Indicator 0.1.2.1					
Specifications: text including methodological note: source					
Principal activities					

Government must reform its culture, its operating modes and its working methods. This is why a new chain of responsibility for public managers, new tools and new modes of work and of dialogue between central and de-concentrated units have emerged. Each manager must, at his level of responsibility, be accountable for his results. Box 4 describes the new players involved in implementing the budget in Madagascar, and the relations among them. This organization could be interpreted as a transposition of the situation in France, where the new players are the program coordinator, the program operating budget (BOP) manager and the Operating Unit (UO). In France, programs are broken down for implementation purposes either by sector of activity or by territory into "program operating budgets" (BOPs), which are executed by "operating units". The BOPs may be national, interregional, regional, or departmental. They reflect the components presented in the annual performance plans, with the difference that they are adapted to the local context. This structure permits greater accountability on the part of all public managers. Figure 7 presents the components of a BOP for the French budget, preparation and monitoring of which presuppose management

dialogue⁸ with public managers, operating units, the program coordinator, the prefect and the financial controller. This dialogue represents a complete break with a strictly hierarchical and vertical organization: it amounts to "coordination at each level of responsibility as to the objectives and the way of using the available resources to achieve them."

Figure 7. The components of the BOP



Source: <http://www.minefi.gouv.fr>

4. The choice of performance indicators

A program's performance is measured by indicators of inputs, outputs (or services), and outcomes or results⁹ (see Figure 8). They may be qualitative or quantitative. Table 7

⁸ Management dialogue is a process of discussion between an administrative level and the levels subordinate to it, concerning the conduct of activities, the resources made available to subordinate entities, and the objectives assigned them. It is an ongoing process that involves sensitive parameters such as commitment of appropriations, the rate of progress, the volume of services delivered etc., based on performance reports. Management dialogue can also take place between program coordinators and the directors of a ministry's finance and human resource units.

⁹ "Input" indicators and "output" indicators relate to operations: what is being done and with what? "Outcome" indicators are defined against program objectives. Two kinds of outcome can be distinguished: "intermediate outcomes", which concern changes directly attributable to the program and that relate to a specific objective (for

illustrates this for the objective "improving primary education". The qualitative indicators explain phenomena and measure the notions of quality and satisfaction.

Table 7. Example of types of indicators

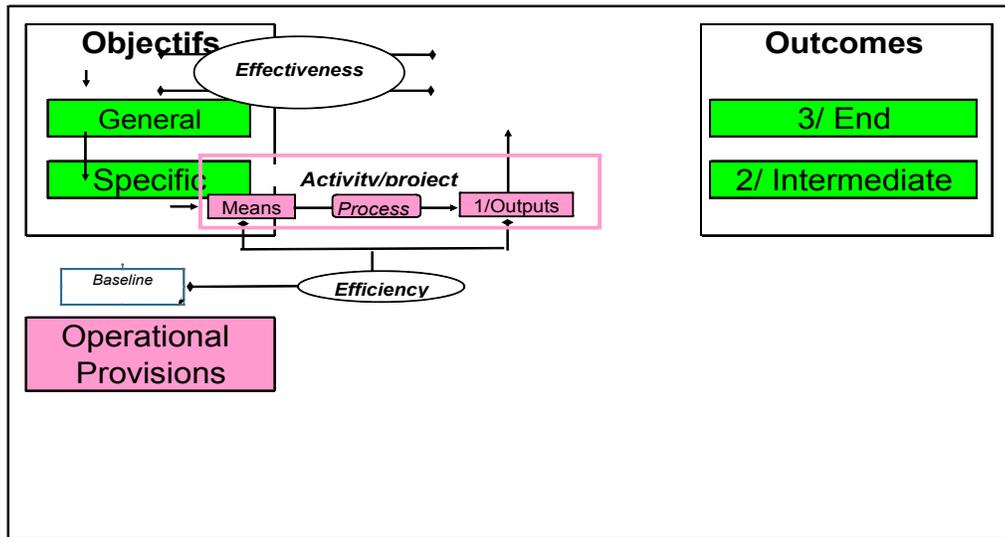
	Quantitative	Qualitative
Inputs	Spending on primary education	Relevance of the curriculum
Outputs	Number of teachers	Quality of teaching, classroom atmosphere
Effects	Enrollment rate and retention rate in the education system	Satisfaction with the quality of teaching
Impact	Number of illiterate persons	Change in the perception of poverty and chances for improvement

The choice of indicators is not always easy. It must be made in light of managers' concerns and responsibilities, as these indicators will be used to set targets against which their performance will be measured. The setting of indicators may provide positive incentives for rallying people around the program. But they can also demotivate, especially if the indicator is too easy or too difficult to attain. Indicators are often used to exert "bureaucratic pressure". They may therefore induce suboptimal behavior and unwanted consequences (because of manipulations). It is essential, then, to make good choices that will be shared, in the context of management dialogue. Often, if the focus is on one indicator, officials will ignore the others. This is the case, for example, when the government decided to monitor class size in primary schools. That could be monitored correctly, but class size could increase in secondary school. This is also the case when it comes to basic education for all. Governments in developing countries build schools and recruit teachers to ensure "education for all". But these efforts are often accompanied by poor performance in terms of education quality. Governments do not have the resources to boost the quality of teachers and ensure the supply of needed teaching materials at the same time.

Measures to improve performance can be identified more readily by monitoring indicators of outputs and intermediate outcomes rather than impact indicators, the trend of which will depend in large part on factors outside the program. Quantitative indicators of outputs and intermediate outcomes are generally favored in developing countries, while quality indicators are the preferred route in developed countries (for example, telephone waiting times for customers). It is logical to measure performance using indicators that reflect the objectives contained in the strategy and that can be compared with the resources used. However, practical considerations such as the availability, reliability and cost of data will play a role in the choice of indicators. It is best to use indicators for which the data are already being regularly collected (assuming they are relevant) rather than develop new data collection systems. It is also preferable to limit the number of indicators per program, focusing on those points deemed essential for improving performance rather than dissipating attention over an excessive number of indicators that no one will analyze.

example, the number of days of training taken by employees, the number of new inspectors trained, the number of operational surveillance brigades in Antananarivo and the interior, the number of tax centers audited) and "end outcomes" or impacts, which concern changes that cannot be entirely attributable to a single program: for example the rate of fiscal pressure, the trend of which will depend on other programs (improving the business environment).

Figure 8. Relationship Between Program, Objectives, Outputs and Outcomes



Adapted from Richard Allen & Daniel Tommasi. *Managing public expenditure: A reference book for transition countries*. OECD 2001

Box 4. The Program Coordinator and the GAC in Madagascar

Program implementation relies on a key person – the program coordinator (*responsable de programme*). Appointed by the competent minister, he contributes to preparing the strategy (identifying specific program objectives) under the authority of the overall program manager (*coordonateur de programme*): he is the guarantor, at the national level, for the program's implementation and its performance. To this end he breaks down the specific objectives into operational objectives, tailored to the responsibilities of each department involved in carrying out the program, in the context of management dialogue (in which bureaucratic ways of thinking must take the back seat) with the GACs (activity managers) and operators: in this way he ensures a performance-based approach at all levels of program execution.

It is the program coordinator who allocates funds among the players involved in implementing the program, i.e. the GACs and the operators. Each GAC works with the program coordinator to prepare a document defining the scope of his action and the corresponding objectives and indicators. These may be objectives drawn from the overall program objective (for example, the breakdown of a national objective into regional objectives) or objectives and indicators specific to this GAC. The GAC remains one of the elements in the chain of responsibilities which, from the program coordinator to the SOA (operational activities unit), manages the program. He is positioned at the administrative level most relevant to the program in question: within the central administration, at the inter-regional, regional or district level. Like the program coordinator, he manages a fixed, global envelope of resources (funds and staff) and is committed to achieving operational objectives. He allocates the available resources among the different SOAs, and they carry out the activities assigned to them. During and at the end of budget execution, the GAC must report to the program coordinator on his action and his contribution to program outcomes. In connection with the preparatory phase of the annual performance reports, this management dialogue stage allows the GAC to lay out his action plans and make the program coordinator aware of his needs.

The program coordinator is also held accountable for the program. He ensures and encourages transparency, by providing information and explanations about program costs, objectives and outcomes. He guarantees that the program will be implemented in accordance with the objectives set by the minister, and within the defined organizational framework. He institutes management controls and internal audit, as necessary, with the support of the ministry's horizontal functions. He prepares the portion of the annual performance report pertaining to his responsibilities.

NB. These provisions are not yet entirely operational. The resources (financial and personnel) available to managers for implementing program activities are fixed in the execution budget by decree of the minister responsible for the budget, taking into account the distribution proposed by the competent sectoral ministry. Movements of funds within a program are still done as appropriation transfers, with the approval of the financial controller.

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