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Introducing The New PPB – Pragmatic Program Budgeting

Overcoming Design Obstacles to Planning, Management,
and Control

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>>> Introduction

Program budgeting is a reform that intends to shift the focus of budgetary processes from control of inputs to producing measurable results. It aspires to enable governments deploy resources to priority areas and assess whether the resources have been translated into intended results. Linking resources with results can support in holding managers accountable for the delivery of specific targets and how the resources are deployed and used.

Dating back to the mid-20th century, program budgeting focused on giving planners a way to consider all resources that contribute to an area of results, with implied flexibility about moving resources seamlessly to areas of greatest policy preference. By the 1960s, planning programming budgeting (PPB), as it was called, began to influence the design of budget systems. Back then, a US manager explained, “the idea was the drawing together of all agency efforts to meet particular objectives, so that the validity of each program may be assessed in terms of the overall approach, dimensions and costs and may be compared against other competing programs, potential or existing” (Greenhouse 1966, 273). However, along with the rollout, problems were encountered, many of which linger today. Greenhouse (1966) further emphasized that the defining characteristics of a ‘program’ were not universally understood to mean each and every effort of an agency to meet a particular objective or set of allied objectives, but instead reverted to more traditional usage such as “the procurement program” or “the data management program.”

PPB implementation has faltered mainly due to the difficulty of combining the objectives of planning, management, and control in one budget system (Schick 1966). This tension remains unsatisfactorily resolved in many countries today. Program budgeting has often been associated with the undermining of control, while the pursuit of control has been at the expense of the higher-level goals of program budgeting. Practical difficulties in resolving the tension between analysis and budgeting were identified from the outset, threatening to compromise the essence of program budgeting (Cutt 1974, 110). In some countries, implementation appears to have gone well off-track. Instead of providing more information to government to manage its resources, program budgeting, as implemented, may have resulted in implementation of more, rather than less, controls and a fragmentation of the budget, which is exactly counter to the aspirations of program budgeting.

This paper does not provide a full account of program budgeting, nor does it provide guidance as to whether countries should

pursue program budgeting reforms. Rather, for countries already implementing program budgeting, it identifies specific stumbling blocks that have caused implementation difficulties especially in budget execution and suggests means to resolve them. This paper aims to help resolve the tensions between planning, management, and control in pursuit of higher performance from governments. In doing so, the focus is not only observing and supporting the efficiency and effectiveness goals of program budgeting but also resolving the tensions arising from execution control and designing measures to support analysis and performance. This paper is deemed more useful for developing countries, where systems are often not as robust or well-established compared to those of more developed countries.

While the intention is to preserve the legacy of the original PPB, reconsideration is necessary to support the core budgetary functions at play during budget execution. For this reason, it is proposed that the new PPB should be known as **Pragmatic Program Budgeting**.



Benefits and Conventional Operationalization of Program Budgeting

Program budgeting aims to shift the focus of the budgeting process from allocation of funding for line items of input categories such as salaries, goods, and services to expected achievements, using measurable indicators.

The main advantages of program budgeting are as follows:

- It enables the government to focus on priority needs in the various sectors of the economy (e.g., malaria eradication, primary healthcare, and infant mortality in the health sector), and specify the amount of government (and potentially other) resources that will be allocated to address these priorities.
- It supports the development of measurable indicators to assess the impact of the deployment of resources. Monitoring the specified indicators at the end of the budgeting period, or in-year, could form a feedback loop to change the deployment of resources as necessary.
- Armed with the information on impact of the resources deployed, program managers could be held accountable for the achievement of the desired outcomes for each sector as spelled out by measurable indicators.

The goal of accountability does presuppose that the managers have the ability to manage. Without reasonable discretion over the application of the resources provided, it would not be possible to hold managers accountable for their failure or success in delivering the planned objectives. In some countries, the cry of “let the managers manage” became “make the managers manage” as the promise of program budgeting began to crumble. It was not possible to hold managers accountable for what they produced if their hands were tied to detailed controls over the choice of inputs (if there is no choice over the amount and type of food you eat, you can’t be expected to manage your weight).

Program budgeting brought into sharp relief the choice between traditional budgeting with its focus on input controls while allowing flexibility on the output side, versus flexibility on the input side (albeit within a hard budget constraint) but with firm expectations on the output side. It has often been associated with wider reforms targeted on outcomes, as governments have questioned traditional approaches to the achievement of results. Quite simply, to pay forward the program budgeting promise and support the government’s focus on results, program managers will need flexibility to move allocated resources between categories of inputs within the span of their programs in order to be held to account for delivery.

2.1 Specification and Costing of Programs and Subprograms

Many jurisdictions design programs that span across agencies, with some being designated as government wide. In these cases, the design of programs has typically been driven by a concern for performance across sectors, supporting the government’s desire to focus attention to where it would like to fix measurable targets on the output side and manage costs on the input side.

Consistent with the logic of program budgeting, all programs—whether within or across agencies— require estimation and reporting of costs and performance against objectives for each program and subprogram. Performance specification generally requires details of the outputs produced, including

quantity, cost, quality, and timeliness of delivery. Accordingly, each constituent of the program classification needs to provide information which is consistent with this goal. For instance, to derive the cost of the various programs and subprograms, it is necessary to identify the anticipated activities, the required inputs for these activities, and the expected cost. The combination of these activities will estimate the cost of the subprogram and the combination of subprograms will provide the anticipated cost of the program. This should inform the total budget.

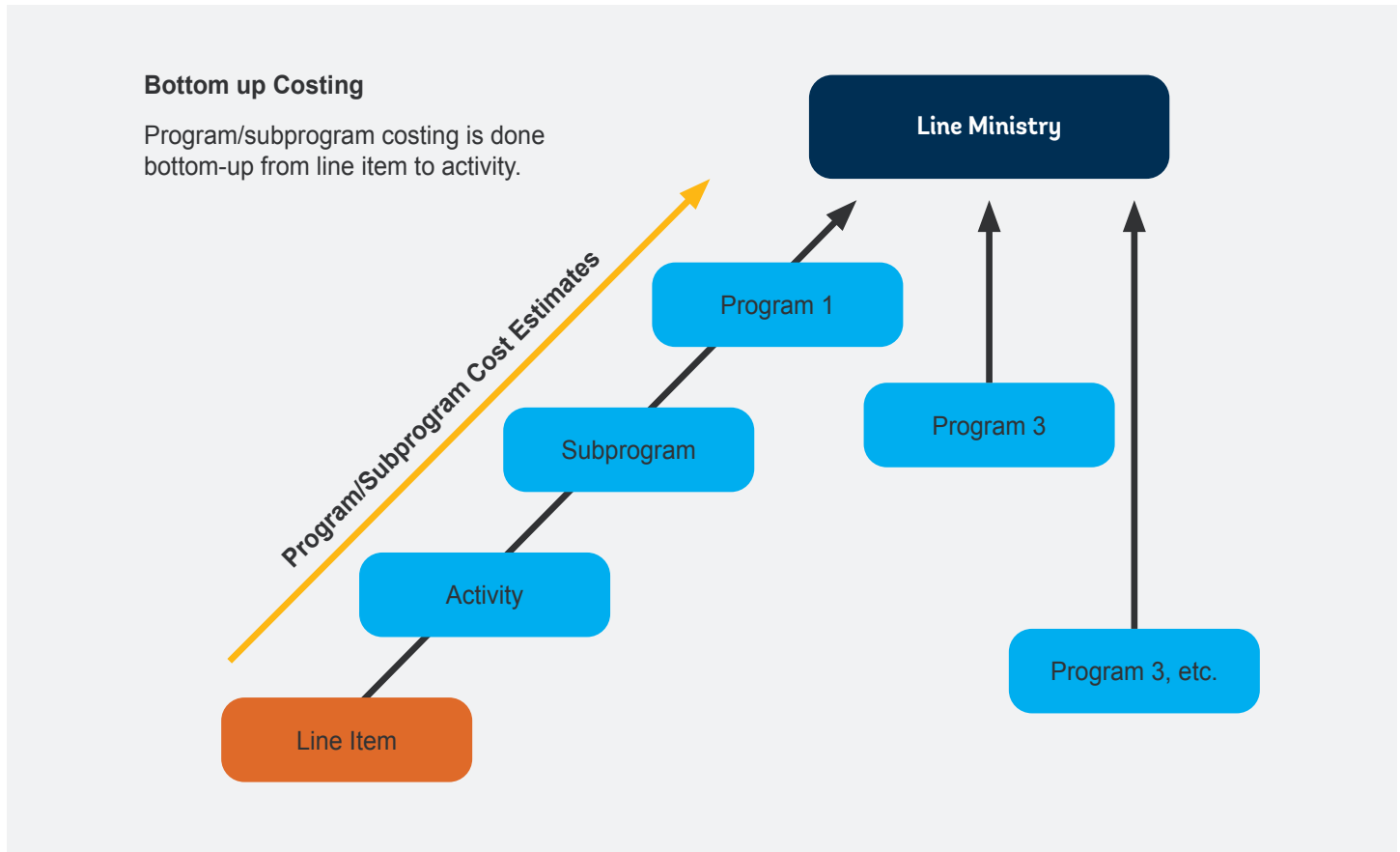
Focusing on results while keeping a handle on inputs means that program budgeting often provides a neat fit to fixed term and rolling multi-year plans. Depending on the classification used, this would allow governments to articulate their policy and delivery objectives, considering the broad level of resources required to achieve these objectives over the planning period. The tussle between budgeting and planning—a perennial tussle in some countries—appeared to have been resolved. But as with many apparent resolutions, the degree of resolution depends on where the various stakeholders may sit. While the planners’ intent may have been clear, the degree of commitment to the programs could be contested and influenced by the vagaries of the annual budgeting process wherein resources may need to be reallocated to meet unforeseen contingencies, and the need at times to make within-year adjustments to prevent a deficit blowout.

Pragmatic program budgeting requires the following:

1. A clear specification of activities that need to be executed to achieve the program’s objectives. For instance, in the health sector, activities would include setting up of clinics for specific purposes, training of staff in the required area, mounting a vaccination drive, or establishing facilities to provide specific types of health care.
2. Identification of the specific inputs required, organized by reasonably homogenous groupings. These would include salaries and allowances of staff, capital and maintenance costs of specific types of equipment, and the purchase of goods like drugs and other medical paraphernalia. Inputs can be categorized into groupings of similar items.

Figure 1 shows a schematic of the flow of information for cost-based estimation of a program.

FIGURE 1 - Costing of Program Budgets



Source: Authors.

2.2 Budget Execution

Once the budget is formulated and authorized via legislative action, the actual allocation of the resources is done in the budget execution phase. This phase should support the use of resources consistent with the budget presentation passed by the legislature.

The budget allocation as passed by the Parliament and recorded in the budget documents specifies the allocations at the program and subprogram level. However, this needs to be supplemented by a budget execution plan that would further detail the availability of resources for program and subprogram managers.

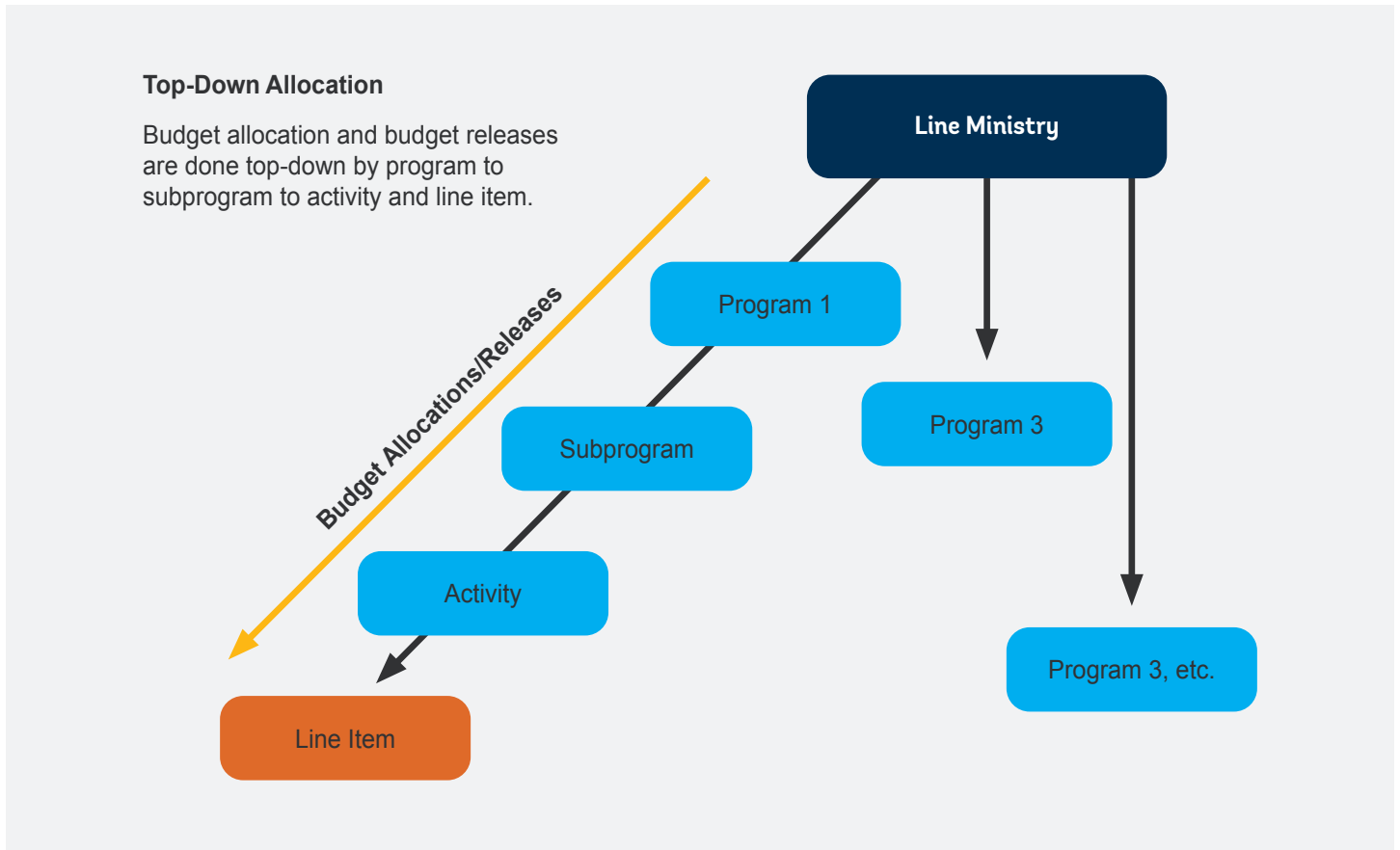
If costing for the original budget was developed bottom-up by aggregating inputs, activities, subprograms, and programs, the budget execution plan is often developed following the same

chain (i.e., program, subprogram, activity, and line item). The corresponding budget release process also follows the same sequence (see Figure 2).

Therefore, program budgeting involves the following:

1. A budget execution plan, shared with program managers, that specifies the intended release of budgetary resources during the year
2. A release schedule that specifies the amounts to be released to program, subprogram, activity, and line item
3. Implementation of the budget execution plan across the year, based on available resources
4. Realistic and attributable targets that reflect the available resources.

FIGURE 2 - Allocation of Cash Resources in Program Budgets



Source: Authors.

In practice, the actual deployment of resources to programs and subprograms goes through the budget release process which is managed by the ministry of finance (MOF) and the line ministry management. In many countries, this release schedule is impacted by the actual availability of resources, including the realization of revenue and financing targets and the control of other expenditures, as the fiscal year unfolds. Although practice differs across jurisdictions, the actual budget releases are normally divided into quarterly or monthly tranches over the course of the budget year.

Due to uncertainty in the amount of resources actually available, many jurisdictions adjust the within-year budgetary releases to hold back some resources for later in the year, when much of the uncertainty is resolved. This can cause delays in execution of programs and underspending for the year as a whole, and is generally contrary to the objective of allowing the managers manage within the budget constraints.



2.3 Budget Operational Management

During the fiscal year, the line ministry management, the MOF, and relevant government decision makers intend to determine whether the program and subprogram objectives are on target. For this they require information on the amount of resources that have been budgeted for various programs and subprograms, the amount applied, and the measurable indicators relative to the forecasts. This can help inform decisions about redeployment of resources.

Pragmatic program budgeting requires within-year reporting on the actual resources used relative to budget

releases, and the progress being made against program and subprogram targets.

This note identifies some key challenges that arise during implementation when the program budget was designed according to the structure shown in Figure 2. Hence mitigation strategies to these challenges are proposed. The modified scheme and processes for the budget execution plan could then become the basis of **pragmatic program budgeting**.



Key Challenges

Introducing a program budget structure allows linking of budgets to objectives, usually captured as outputs or outcomes. However, adopting a program structure can add complexity to formulation, execution, and reporting. This section discusses some frequently occurring structural problems with implementing program budgets, when designed as outlined in section 2.2. The subsequent section proposes pragmatic solutions to these challenges.

3.1 Avoidable Budget Execution Rigidities

A central promise of program budgeting is to remove rigidities. In the transition from input-based to program budgeting, activities are used to facilitate costing of programs. If appropriations and controls follow the inputs–activities–subprograms–programs structure, it means that at least one additional layer, and maybe more, to the number of controls have been introduced, leading to increased rigidities. This will make the reallocation of resources more cumbersome, as it will involve gaining additional approvals to permit virement between those lines of control. This is contrary to the value proposition of program budgeting and instead would result in high-cost, low-value interactions between program managers and the ultimate budget controllers.

If spending agencies derive resources from multiple programs and subprograms, this can be particularly problematic as virements across programs are challenging. Whereas previously, spending agencies were procuring inputs against a budget provision, this structure is potentially much more constraining. Drawing funds from multiple programs and subprograms and having input and activity level controls leaves very little discretion on fund utilization for actual spending agencies. The fragmentation of the resources can then complicate effective planning at the spending unit level, and thereby undermine public management and service delivery functions.

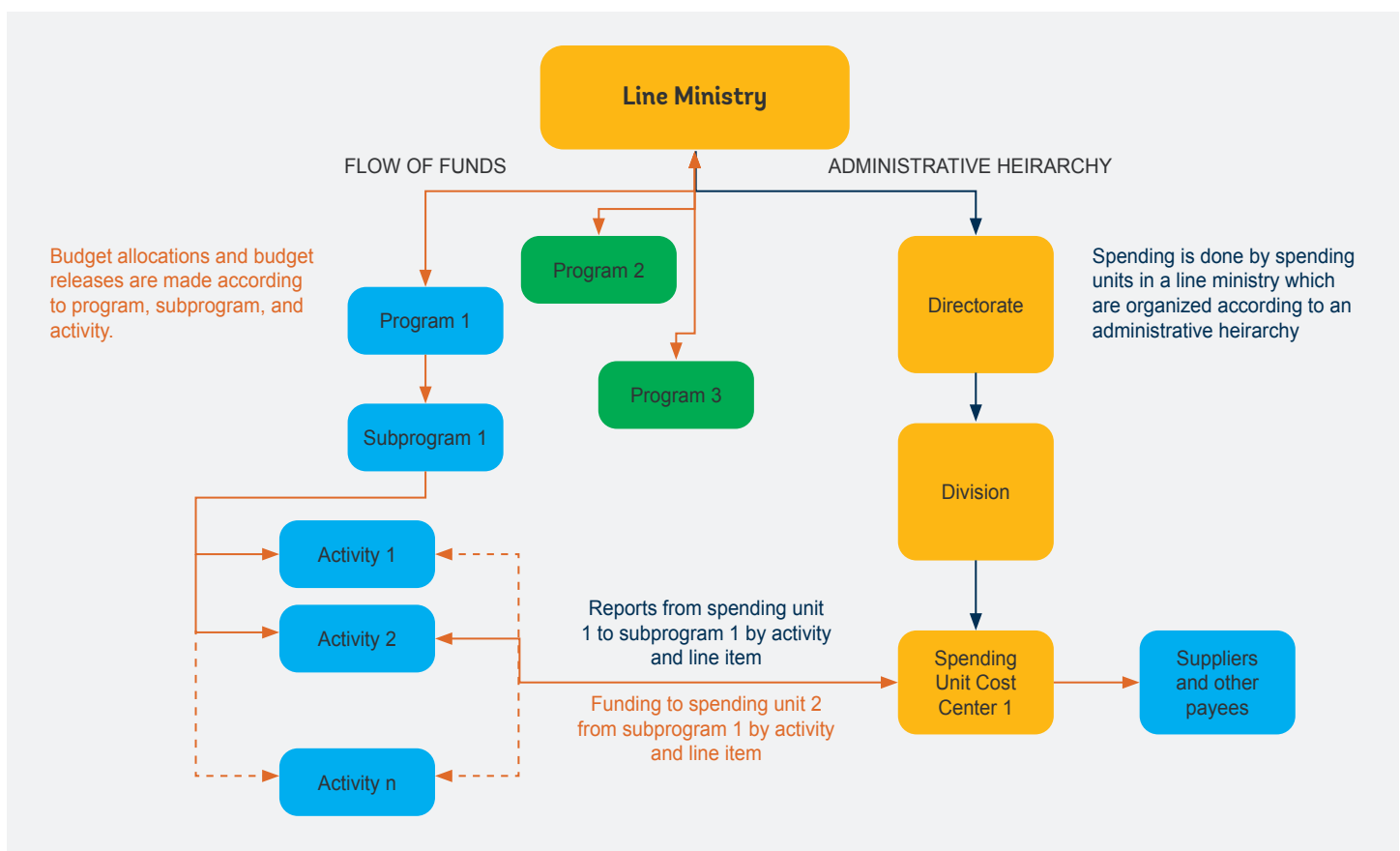
3.2 Avoidable Proliferation of Transactions

The transition to program budgeting has commonly resulted in more, not less, controls than those in a traditional input-based budgeting system. In addition to increased rigidities, it would also increase the transaction workload even with a functioning automated financial management information system (FMIS). Various activities in a subprogram would need to be recorded and processed as separate individual transactions. The average value of transaction decreases but the number of transactions increases (see Figure 3). In

a paper-based system, the workload would likely become unmanageable (Hashim and Piatti-Fünfkirchen 2018; World Bank 2016). In Zambia for example, there are about 3,000 activities in the Ministry of Health’s budget comprising of more than 15,000 line items requiring execution. This becomes administratively burdensome and has efficiency implications as it reduces economies of scale (Farooq and Schaeffer 2017; World Bank 2016).

> > >

FIGURE 3 - Budget Program Structure That May Lead To a Proliferation of Transactions



Source: Authors.

3.3 Inadequate Recording and Reporting Practices

Program budgeting is not intended to undermine effective control over the quantum of inputs. In fact, a major aspect of program budgets (although often understated) is to accompany the focus on objectives with tight control over

“global” budget allocations. But if the spending unit or cost center is not explicitly coded into the financial transaction, it may not be possible to generate information during the year that is commensurate with the accountability.

The implications are straightforward. If the spending unit or cost center code is not recorded in the FMIS at budget allocation, budget release, and expenditure stages, the program manager would have no means to give effect to or monitor the allocation of resources to the various spending units or cost centers that report to him or her. The misalignment between the management system and the budget system could have damaging results, with resources being over-consumed by some spending units and under-consumed by other units, with consequences for delivery—positive results would be jeopardized.

3.4 Avoidable Complexity

A program structure that allows one spending unit to draw funding from multiple programs and subprograms complicates accountability and becomes difficult to manage. Such a “many to many” relationship faces these challenges:

- As the spending units implement multiple programs, it becomes challenging to track progress of programs. Attribution of performance of the spending unit to specific financing sources becomes difficult. This therefore complicates accountability.
- A complex relationship between spending units and subprograms makes costing difficult. The total operational cost of the spending unit needs to be carefully apportioned to relevant programs. This can be particularly challenging if the staff assigned to a spending unit work on multiple program objectives and resources at the spending unit are shared across purposes.
- A complex arrangement will complicate reporting structures as spending unit managers will have to report to multiple program managers.

- Drawing funds from multiple programs invariably fragments financing and introduces undesired rigidities. In such a scenario, program budgeting may increase flexibility for program managers, but create rigidities for spending unit managers. As these are often at the point of service delivery (e.g., schools or health clinics), this may inhibit the autonomy they require to operate efficiently.

Implementing the program structure is much simpler if there is some congruence between program and administrative structure.

Congruence between budget classification and executing organizations should exist at some level, or accountability may become frayed and the ability to execute can be compromised. Depending on the size and nature of organization, congruence could occur at program or subprogram level. This would allow for the recording of all costs including the total cost of the program and subprogram. Program and subprogram codes could be used as a substitute for the department and the division code.

However, the actual delivery of services for particular subprograms is not necessarily carried out at the department or division level, but by spending units within the department or division. For example, in the case of the health ministry, the actual delivery of services is done by hospitals and clinics; and in the education sector, the service delivery units are the schools, colleges, and universities. In these cases, the activities related to a particular program or subprogram are carried out through multiple spending units. The program or subprogram manager requires information on the amount of resources allocated to various spending units that have been contracted to carry out the program or subprogram.

Conflicted in this way, the budget system would fail to effectively control inputs or outputs, and misallocation may occur. Accountability would be hard to anchor; low value transactions would abound, and results would suffer.



Pragmatic Policy Options

This section discusses implementation challenges and offers guidance to how these can be mitigated with the adoption of pragmatic program budgeting (PPB). The perspective of the health sector is used to ground the new PPB proposal.

4.1 Releasing Funds by Program and Subprogram to Allow Flexibility below Subprograms

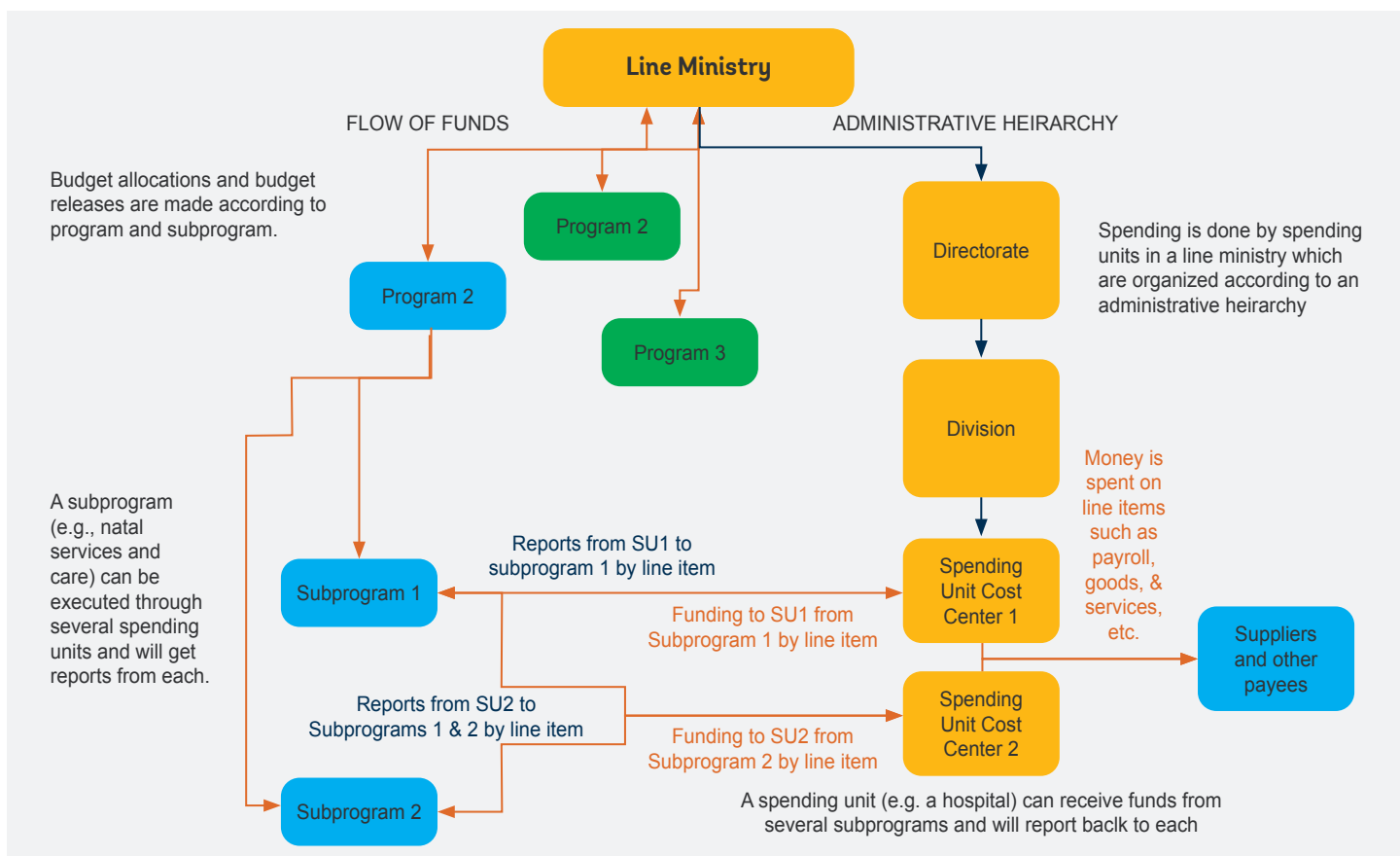
While the use of the program or subprogram as the fund head has not always been practiced, some have recognized this as an important feature in program budgeting (Ho et al. 2019; OECD 2019). This will adjust the flow of funds and administrative relationships as portrayed in Figure 4. Funds are released from line ministry to program and subprogram. Further lower-level allocation arrangements are occurring within the management structure in the spending agency.

The total budget for each subprogram can still be determined by a combination of the top-down and bottom-up exercise. However, at the facility level, funds should not, as far as possible, be allocated by activity or line-item basis; instead facilities should preferably operate on a “global budget” with the flexibility to allocate funds across activities and line items. Spending units would be responsible for executing the budget to programs and subprograms. Spending units would report on the use of funds to the subprograms. Virement at the spending unit level could occur within subprograms, but at higher levels for the agency. Subprogram managers would report upward on program execution and the realization of program goals, associated with their spending units.

Figure 4 shows how aligning subprograms and cost centers can support increased flexibility over the choice of inputs while supporting control within global cash limits, in pursuit of program objectives.

> > >

FIGURE 4 - Relinquishing Control for Greater Flexibility



Source: Authors.

This approach would relinquish formal central budget controls at the activity level and the line-item level. Line management could retain the controls necessary to produce the program in as efficient way as possible. There is no added benefit to having formal budget allocations and control at the activity level. While the activity level is useful for costing, using it for release and formal control processes is counterproductive. Relinquishing the formal activity level control extends flexibility to program managers and ensures greater accountability for outcomes and targets. It allows for honoring the aspiration of program budgeting on the one hand, but leaving in place an effective control system that will reinforce the focus on the achievement of objectives.

There will be fewer control-oriented transactions. This will allow the agency and the MOF staff to focus more directly on designing appropriate policies, identifying interventions to support them, and analyzing the performance of agencies in delivering them. To build confidence on this approach,

line items can be aggregated, such as into running costs and program costs. Such reorientation of the central finance agency's focus has been reflected in the structure and functionality of ministries of finance (Schick 2001).

In countries such as Cambodia, Ghana, and Zambia, the inappropriate imposition of controls has meant a proliferation of controls driven by the number of line ministry activities that can run into the hundreds. The total number of these activities for all ministries could be 10,000 or more. Such large number means that it can take the budget controller several months into the new financial year to complete the process of allocating at this level (sometimes referred to as "loading the budget"). Experience suggests that during the period while this work is being done, line managers are either starved of actual funding or operate on unpredictable interim releases. This can have an adverse effect on program and subprogram service delivery (World Bank 2016b).

Secondly, it is not necessary that the execution of a subprogram follow the original regime of activities and sub-activities. In keeping with the Pragmatic Program Budgeting approach, discretion lies with the program or subprogram manager. A budgetary envelope is available for each subprogram, notionally divided by line item. Having a secured funding, the subprogram manager may redesignate these resources into different activities to assist in meeting or exceeding the objectives of the program and subprogram. They could make this decision based on the information at hand; importantly though, this discretion could occur only within the constraint of the global limits they have.

Without doubt, there can be a perceived tension between controlling expenditure on the one hand and letting managers manage on the other. In the end, it is the central finance agency and the finance minister who will bear the responsibility for a blowout, adding to a sense of hesitancy and perhaps, inducing a fear to let go. But it is important to recognize that program budgeting does not involve a complete letting go. For instance, in countries where personnel-related benefits are not fully costed in programs, it will make sense to continue other forms of control over personnel numbers and related cost drivers. Any organization would have to constrain behavior in keeping with its objectives; treasury regulations will still exist, and these can be used to reinforce the focus on performance by concentrating on what matters for performance rather than what does not. In many cases, these constraints are designed to address a potential misalignment between the interests of individuals or program managers and the interests of the greater good. Sometimes, measures such as constraining travel or hiring expensive consultants may appear to contradict the *raison d'être* of program budgeting. In fact, they indicate that program budgeting does not provide a complete contract for performance, and just like a conditional grant, the funder retains an interest in the use of resources (Petrie 2002).

Pragmatic Program Budgeting requires the following:

1. The program level, or in some cases, the subprogram level, can be used as the fund head for budget allocations and associated controls.
2. The designation of a functioning control protocol for funding at the program or subprogram level, with additional limited transitional restrictions on the use of funds across broad line-item categories beneath that.
3. A similar control regime could be prescribed for the spending unit manager. Activity or sub-activity codes could still be recorded in the financial transactions but would

not be used for central budgetary control. They would be relevant for reporting purposes. The spending unit and cost center code and the line-item code would be required for each transaction, allowing the program manager to assert control at this lower level as circumstances deemed fit. The line-item codes would ensure that the prescribed fungibility restrictions would be adhered to.

4. Treasury regulations may still need to exist where constraints are necessary on the decision rights of program managers in areas such as personnel numbers, use of government real estate, and capital expenditure rules.

4.2 Recording to Allow For Appropriate Reporting

Transactions cannot be *reported* accurately to a given level unless they are recorded at that level. The FMIS needs to record each transaction, specifying the program, the subprogram, the full spending unit code (including the ministry, department, and division to which it belongs), and the line item for the expenditure. The purpose of this is to track the flow of funds to spending units and the use of those funds by the service delivery unit.

Recording is easier now than it used to be. Modern financial management information systems can significantly assist with the implementation of a well-designed program structure. All spending should be captured in the FMIS with each transaction being compliant with the full chart of accounts, detailing program, subprogram, spending unit or cost center, and line item. This will make it possible to report by facility, program, and item in various combinations of management accounts.

The FMIS could also help store information on the progress in achieving measurable indicators that have been formulated at the start of the year for a particular program and subprogram. A failure to include spending unit or cost center codes in the record of financial transactions can impede the allocation of personnel-related costs to programs and subprograms and result in underestimation of program and subprogram costs.

Government service delivery remains an overwhelmingly human capital business. Accordingly, personnel-related costs often constitute the single largest component of a program or subprogram cost. The majority of these costs relate to payroll

and procurement systems (for non-staff HR costs). These systems reflect the organization structure of a line ministry, and not the program or subprogram classification. Therefore, for these costs to be allocated to the programs and subprograms, it is necessary that the personnel-related costs of spending units be mapped out by programs and subprograms. The inclusion of spending unit codes in the record of financial transactions would make this process easier and streamlined. Even in the case where a spending unit is receiving money from various subprograms and staff in the unit are carrying out tasks related to these programs, the payroll costs of the unit can be divided in proportion to the money that it receives from the different programs and subprograms. The allocation of these costs through the year may require a time allocation system.

In some jurisdictions, personnel-related costs are lumped together against a separate program called overhead and or management. However, this approach is not recommended. It directly contradicts the aspiration of program budgeting. While some staff may spend most of their time on management-related activities across different programs, the actual delivery of services depends on doctors, teachers, nurses, and other health workers performing the tasks that are directly related to specific programs and subprograms. An exclusion of these costs from the cost of the subprogram would on the one hand under-represent the actual costs of service delivery while on the other hand over-represent the costs associated with corporate functions.

Pragmatic Program Budgeting requires the following:

1. Alignment of the budget classification and the chart of accounts to support differentiated control and reporting aspects of public financial management.
2. Spreading human resource costs across programs and subprograms based on the personnel's efforts associated with achieving the target results of programs and subprograms.

4.3 Harmonizing Budget Programs and Administrative Structures

The design of the program structure is often a challenge to implementation at both the central and decentralized levels of ministries. The devolution of budget authority from the MOF to sectoral ministries and down to program managers is often

a point of contention. Here the PBB approach as specified in this note proposes options to harmonize program and administrative structures to resolve these issues.

Implementing program budgeting is much simpler when there is a limited number of programs and some congruence or at least simple and clear mapping between administrative (organizational) structures and budget programs. To some, this sounds contrary to the objectives of program budgeting, as programs are defined by grouping activities that mutually support the achievement of objectives. But since its inception, this conflict of purpose between analytical underpinnings and management control has never been satisfactorily resolved in program budgeting. As the focus here is on devising a pragmatic approach, this paper takes the view that some compromise may be necessary to implement program budgeting.

Any of the three approaches below can help resolve the issue:

1. Programs can be aligned with existing government administrative structures
2. Administrative structures can be adjusted to align with programs
3. A combination of the two, depending on how they fit in a particular agency.

Organization change can be costly. While changing the organizational structure to fit with program designs may seem to be more consistent with the aspirations of program budgeting, it is important to consider the overarching objectives of efficiency and effectiveness. Program budgeting aims to support the achievement of a better performing government, thus if an organizational restructuring would be costly, it may make sense to avoid that.

The derivation of program objectives may need to balance the gains from grouping activities together that support common objectives on the one hand with the realities of government organization on the other. Standardized presentations of COFOG functions (UN system of Classification of the Functions of Government) and subfunctions are not likely to be that helpful to a realistic consideration of what might fit best for any particular jurisdiction. Hence there should be a balance between organizing program budgets purely around ideal objectives and recognizing the need for stable administrative structures to implement the agency budget each year. In areas of critical delivery such as health, any dislocations caused by reorganization struggles can be costly in human and financial terms.

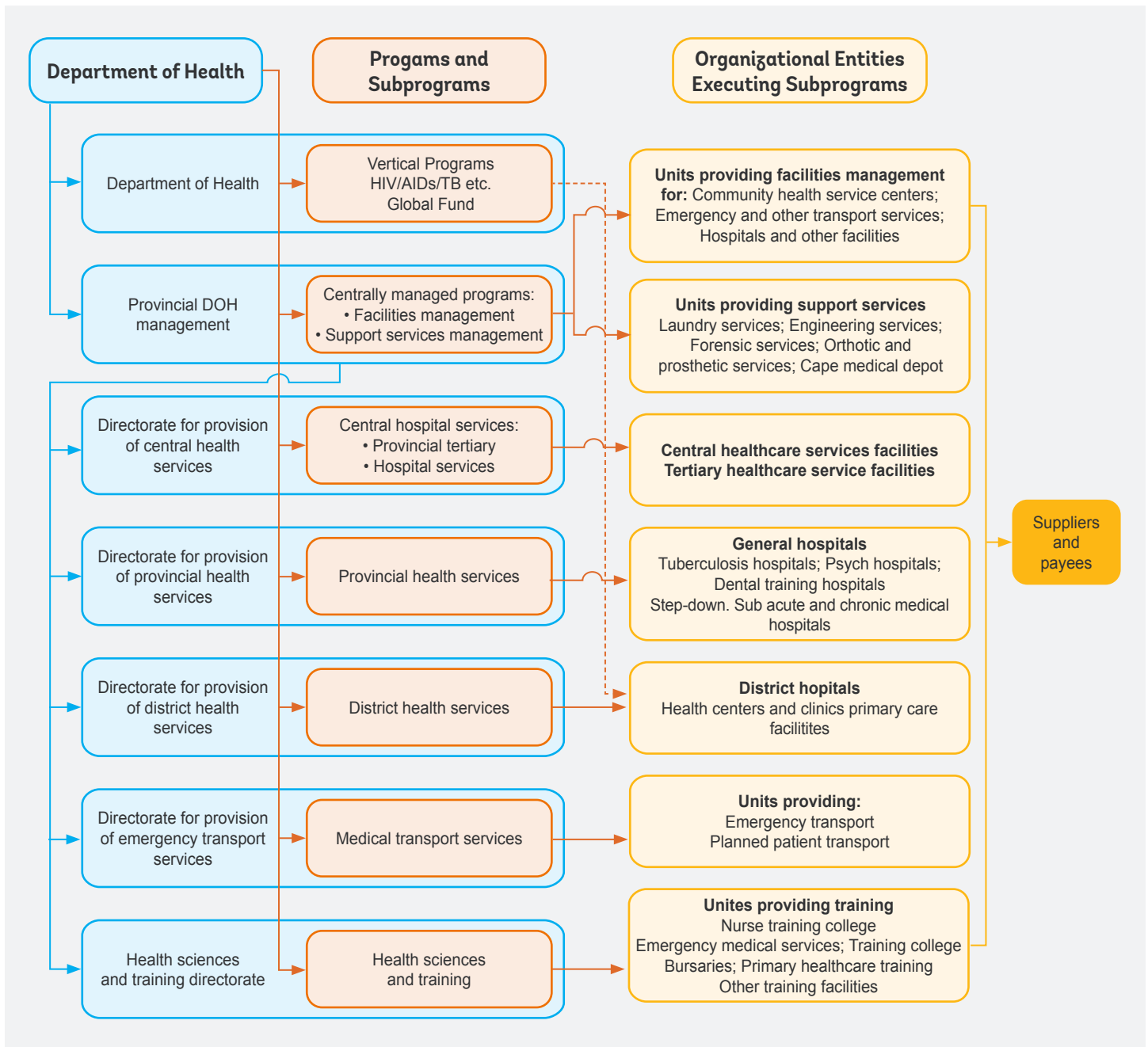
(i) Align Programs to Existing Administrative Structures

A perfect program budget system is probably an ideal that may not be achieved; however, the concern is whether it offers an improvement over the pre-existing system. In early stages of reform, the full alignment between programs and organizational structure can contribute to securing accountability and building acceptance of the program logic. As accountability grows, the program system should help in exposing institutional inefficiencies and reinforce good connections between the budget and the achievement of results.

Figure 5 shows how programs are serviced by multiple units in the South African health system. Here the district health services department serves multiple purposes and finances spending units such as district hospitals, health centers and clinics, and primary care facilities. As the nature of these types of facilities varies quite significantly, meaningful indicators and targets would be difficult to establish.

> > >

FIGURE 5 - Alignment of Program Structure with Administrative Structure - South Africa's Health Sector



Source: Authors.

(ii) Align Administrative Structures to Output-Oriented Program Structure

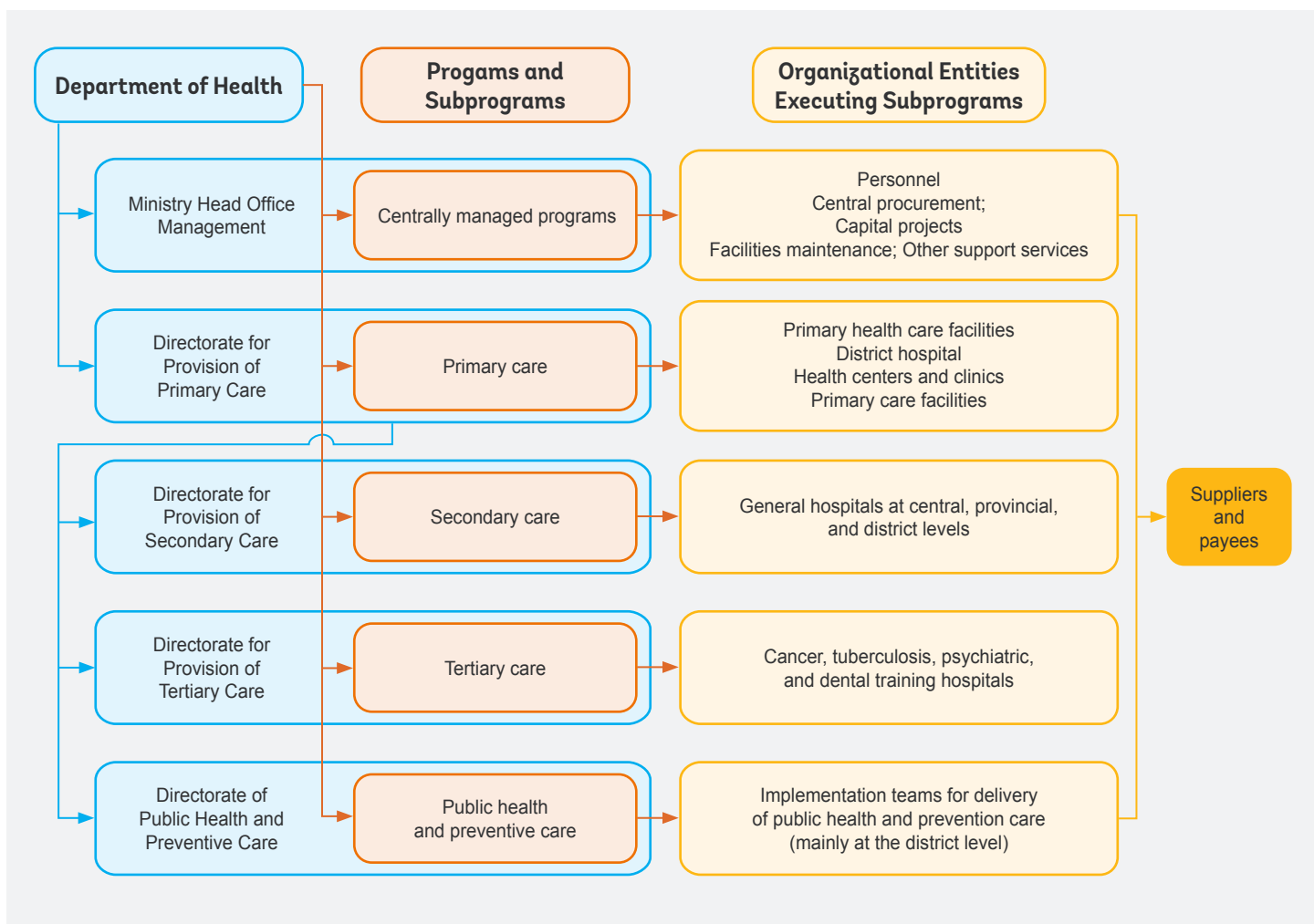
Form should follow function. Consideration of programs encourages consideration of the core functions of the ministry, thus aligning administrative structures with the program structure would be a logical move. This will require organizational and administrative reform in the ministry—a complex and usually a high-risk task. For example, output-oriented health programs may comprise primary, secondary, tertiary, or public health and preventive care, which would mean that budgets are explicitly allocated to these programs. Such programs would usually be executed by separate directorates (new administrative structures aligned with

program structure), each of which is responsible for executing one program. Spending units within these directorates, such as general hospitals or health clinics, are mapped to the respective directorate.

For the most part, the spending units are responsible for executing one subprogram and would access funds from only one subprogram. Zimbabwe has implemented a good working program budget along those lines where a primary care program caters to financing primary care facilities and clinics, and a secondary care program finances district hospitals among others. This allows allocation of funds by level of care and allows program managers to outsource specific providers in that level of care on an output basis (Figure 6).

> > >

FIGURE 6 - Administrative Structure Is Adjusted to Align with Program Structure



Source: Authors.



This approach addresses many of the problems associated with implementing program budgeting. For example, it provides clear flexibility for program managers and clear accountability. Health services can be purchased directly at subprogram or directorate level, from provider or spending unit. There is flexibility at the spending unit level on how to use funds. Spending units then report to program and directorates that are congruent. The outcome orientation allows for a budget allocation by purpose. For example, primary care or a response to COVID-19 could be explicitly prioritized and implemented or used as basis for strategic purchasing. Such clear delineation of function will however complicate the delivery of integrated care.

While the majority of relationships can be mapped from spending unit to subprogram, some challenges remain. For example, the primary care program and the preventive care and public health program may have overlaps, as some services will be delivered at the same spending unit (health clinic). Development partners may also wish to finance a specific disease (e.g., HIV/AIDS or malaria). Specific work on the detection and prevention of disease may happen at primary care facilities while the treatment of patients at higher level care facilities can be mapped to other programs. Therefore, the introduction of vertical disease specific programs complicates and fragments the program structure. How such challenges can be addressed with a hybrid structure is discussed subsequently.

(iii) Adopt a Hybrid Structure

Adopting both approaches entails spending undertaken by spending units in a line ministry organized according to programs and subprograms. The spending unit or cost center may receive funds from multiple programs.

Determining the full cost of a health program requires the apportionment of the cost of centrally managed costs to the

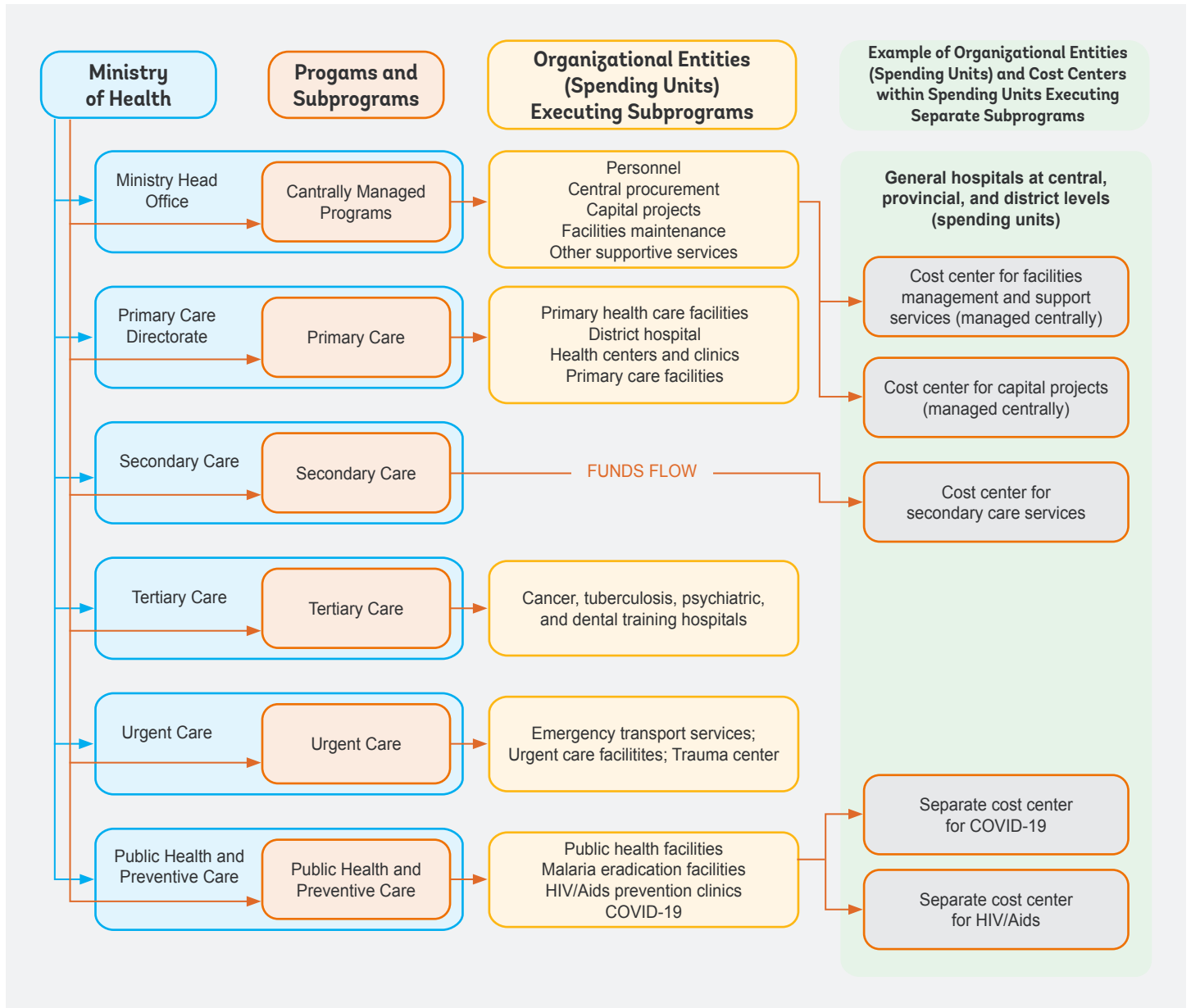
executing units where they are spent. It becomes a necessary but not a sufficient condition to require recording the spending unit. In general, it is best to capture key item inputs, such as personnel and medicines, within the service programs, since they reflect the most important management inputs and costs of the program and are essential in managing these programs and assessing value for money.

This scenario can be managed by establishing several cost centers in the spending unit, each with a different charge code. For instance, the second program could be a capital budget project managed by the central Ministry of Health; or it could also be a program financed by external donors to combat HIV/AIDS or COVID-19. In this case, spending unit managers would need to report to administrative managers and program managers. Reporting to program managers would be done by charge code assigned to each cost center and reporting to administrative managers by spending unit for all charge codes from which the spending unit draws money.

Accordingly, expenditure transactions need to specify program, subprogram, cost center, and line item to enable complete accounting. Where cost centers and charge codes share staff, then the staff costs will need to be allocated to the respective charge codes based on the time spent by staff on the corresponding programs.

Examples of such a hybrid structure for the health sector are shown in Figure 7. While the administrative structure is generally well-aligned to the program logic, there are some cases where units will receive a flow of funds and/or intermediate services from programs managed by other units, hence the characterization is a “hybrid.” Such structures require additional information and control support and are more complex to implement.

FIGURE 7 - Example of a Hybrid Structure



Source: Authors.



Conclusions

Program budgeting holds a lot of promise. While many countries have pursued such reforms, implementation challenges abound and have often led to slow progress and discouraging results. This paper systematically identifies implementation challenges to a common approach to program budgeting and offers concrete and pragmatic solutions. The proposed actions in this paper aim to help reap the benefits of program budgeting, without having to deal with the associated implementation pitfalls. This paper proposes reforms that foster more efficient service delivery without compromising accountability. Table 1 summarizes chief characteristics by budgeting system, standard reasons for preferring the approach, and common barriers to success.

TABLE 1 - Budgeting Systems—Advantages and Disadvantages

Budget system	Chief characteristic	Why prefer this approach	Common barriers to success
Traditional, administrative unit and line item	Appropriations fund units and provide control points related to items of expenditure usually by spending unit and economic type categories at varying levels of detail.	<p>Strong orientation to control and alignment of accountability between administrative unit and use of funds.</p> <p>Performance orientation can be generated outside the appropriation system.</p>	<p>Lack of flexibility when relative prices or requirements for resources change, compromising production efficiency.</p> <p>Budgeting becomes separated from policy performance, which leads to budgeting being a marginal game with undue focus on feeding the administrative units' cost structure.</p>
Compromised program budgeting	Appropriations fund programs that are organized based on objectives, which may or may not relate directly to spending units.	<p>Strong orientation to the public purpose, rather than the control purpose, with accountability related to programs rather than administrative units.</p> <p>Program and administrative accountability can co-exist.</p>	<p>Separation of steering (through programs) and rowing (through administrative units) dissipates accountability and creates conflict over appropriate control environment. This often leads to complexities and rigidities in execution that compromise the original intention of program budgeting and arguably results in the worst of both worlds—excessive controls but compromised performance orientation.</p>

To mitigate the problems described in Table 1, three approaches are recommended:

1. Estimate costs and develop the budget bottom-up using inputs and activities. However, the budget should only be approved, allocated, and released at the program, subprogram, and broad input category level. This will address problems of rigidities and a potential proliferation of transactions during implementation.
2. While the budget is approved at the program and subprogram level, spending against the full set of accounts should still be recorded. This should include detailed information on inputs, activities, spending units, and cost centers to facilitate accountability, costing, and tracking of program progress.
3. Minimize complexity by pursuing congruence of program and administrative structure. To the extent possible, one spending unit should draw from a limited number of programs and subprograms.

Following these three points would allow an outcome orientation through retention of a program structure that does not introduce excessive budget fragmentation, rigidities, or unnecessary complexities. It also allows for improved accountability and reporting.

In addition to these three points, below are some of the pragmatic actions worth highlighting that will allow for adequate implementation of program budgets:

- Specify clearly the activities that need to be executed to achieve the objectives of the program.
- Identify the specific inputs required, organized by reasonably homogenous groupings.
- Generate a budget execution plan, shared with program managers, that specifies the intended release of budgetary resources during the year.
- Release a schedule that specifies the amounts to be released to at least the level of the aggregation that is contained within an agency.
- Implement the budget plan within a year to the extent possible, as allowed by the availability of resources.

- Report within-year on the actual resources used relative to budget releases, and the progress toward achieving the program and subprogram objectives.
- Use the program level, or in some cases, the subprogram level, as the fund head for budget allocations and associated controls.
- Designate a functioning control protocol for funding at the program or subprogram level, with additional limited transitional restrictions on the use of funds across broad line-item categories.
- Prescribe a similar control regime for the spending unit manager. Activity or sub-activity codes could still be recorded in the financial transactions but would not be used for central budgetary control. They would be relevant for reporting purposes. The spending unit and cost center code and the line-item code would be required for each transaction, allowing the program manager to assert control at this lower level as circumstances deemed fit. The line-item codes would ensure that the prescribed fungibility restrictions would be adhered to.
- Align the budget classification and the chart of accounts to support differentiated control and reporting aspects of public financial management.
- Spread human resource costs across program and subprograms based on the personnel's efforts associated with the achievement of the objectives of programs and subprograms.

Country context always matters. These actions are a useful checklist for managing some of the trade-offs associated with program budgeting. Benefits from program budgeting may flow with these pragmatic actions; benefits will be compromised in their absence.

Program budgeting, if designed well and with simplicity such that it can be implemented in low-capacity environments, can yield tangible results. However, some of these results may be achieved through alternative means of budgeting,

without dealing with the risks that program budgeting entails. Whether or not program budgeting should be pursued in a low-capacity environment remains an open question that this paper does not address. The response would most likely need to be context-specific, and empirical research on this question would be valuable.

For countries that are already engaged in a program budgeting reform, taking a pragmatic approach to implementation challenges is desirable. This requires time and an iterative process to allow learning from past and emerging experiences. A program budgeting design also needs to be sensitive to contextual realities and political economy considerations. Performance and behavior across public sector institutions are far from uniform. Different agencies face different complexities, some have large delivery programs while others may be small policy units. Differentiated approaches are quite common in public sector performance contracting, with differing levels of autonomy provided to different agencies. Pragmatic program budgeting may provide an element in a contract that can exist in different forms across the bureaucracy.

This paper identifies implementation challenges that can be anticipated and addressed. For example, merely adding a program segment to the chart of accounts will likely increase rigidities that may make the system more onerous and less flexible than the legacy input-based line-item budget. In anticipation of this challenge, a dialogue can be held on what associated changes with the budget allocation process and control protocols are required. Similarly, countries can avoid the temptation of controlling at the activity level and ensure that spending is accounted for and reported against the necessary level of detail. Finally, programs can be designed with consideration of simplicity, especially during the early stages of the reform process. Such measures will give confidence that the system can be operationalized and yield tangible results.



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