

EB/CB/99/5

November 12, 1999

To: Members of the Committee on the Budget

From: The Committee Secretary

Subject: **Review of Best Practices in Budgeting**

The attached paper on review of best practices in budgeting will be taken up at a meeting of the Committee on Thursday, November 18, 1999, in Committee Room 12-120. Conclusions appear on pages 14 and 15.

Mr. Conrad (ext. 38724) and Mr. Vehorn (ext. 38547) are available to answer technical or factual questions relating to this paper prior to the Committee discussion.

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Department Heads

INTERNATIONAL MONETARY FUND

Review of Best Practices in Budgeting

Prepared by the Office of Budget and Planning

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November 12, 1999

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I. INTRODUCTION

A. Purpose

1. The public sector has been undergoing change in many countries driven by a new understanding of its role and by the application of concepts of management initially developed for private sector corporations. Government agencies have been required to more clearly define their objectives; translate them into strategic plans, medium-term programs, and transparent budgets; streamline their operations accordingly; and measure success in terms of expected outcomes.¹ In these processes, generally accepted "best practices" in budgeting have played a key role. Some of them are proven concepts of public expenditure management (PEM), and some are new or even experimental.

2. For the Fund, it is appropriate to take stock of these experiences in national and other international agencies to make sure that our own budgetary procedures serve the objectives of the organization as well as possible. However, it also needs to be recognized from the outset that the Fund belongs to a group of agencies the services of which consist mainly of providing advice rather than producing tangible goods and services that can be easily measured. Therefore, some of the public sector reform measures have not been applied to these organizations, although some of the principles may be usefully introduced to some of their activities.

B. Scope and Methodology

3. This paper is based largely on visits by Fund staff to some 12 "comparator" organizations, both national and international agencies. In addition, the large body of literature now available on the subject matter has been consulted. The Office of Budget and Planning (OBP) has tried to condense this material to bring out the most important aspects. Topics have been selected to reflect the present state of discussion as well as their practical relevance for the Fund.² Of course, further issues may be added as they come up in discussion. Most of the best practices identified in this paper are well within the realm of management, while a few may require a formal action by the Executive Board if they were to

¹ Governments in New Zealand, Australia, and the United Kingdom have taken a leading role in budgetary reform (see Box 1).

² This paper also considers recommendations made by the Office of Internal Audit and Inspection (OIA) as a result of an internal evaluation of the Fund's budget procedures that was part of the 1998 General Service Review. In addition, OBP staff also participated in a number of workshops organized by U.S.-based think tanks in which numerous U.S. agencies discussed their experiences with the implementation of the Government Performance and Results Act (GPRA). It also invited from time to time experts to internal seminars.

be implemented in the Fund. The primary objective at this time is to discuss issues in their broad context.

Box 1. Public Sector Reform in Governments

Key elements of reform include:

- Adoption of output-based budgeting, management, and reporting by ministries
- Adoption of accrual budgeting and accounting by ministries
- *Delegation of input management decisions to executives*
- Preparation of strategic business plans by ministries for which ministers will be held accountable at the end of the year
- Integration of current and capital budgeting in the appropriation process
- Preparation of appropriation estimates and annual performance reports

4. Creating a comprehensive list of all budgetary procedures that are generally considered “best practices” is beyond the scope of this paper. It should also be noted that a particular budgetary practice considered “best” by a given organization may not work well in another organization. The literature often does not distinguish between more important and less important practices; nor those that can be implemented in the short term and those that take a much longer time to implement. In essence, a number of prescriptions exist, but their effectiveness for any given organization is not always clear until after the organization has implemented these changes. Every organization is unique in terms of the mix of procedures that may work best for them, but all share at least some of the building blocks that make up a good budget system.

5. The discussions by OBP staff with budget directors and representatives of the comparator organizations³ started as structured interviews (see Appendix I for a list of

³ OBP staff conducted structured in-depth interviews with the following organizations: World Bank (WB), International Finance Corporation (IFC), Board of Governors of the Federal Reserve System (FED), Inter-American Development Bank (IDB), Organization of
(continued...)

subjects discussed), but usually covered broader ground to reflect the issues of interest that were specific to the host organization. Some of the agencies also provided extensive documentation.

6. The paper is organized by the three broad phases of the budget cycle, i.e., budget formulation, budget execution and monitoring, and budget accounting and evaluation, complemented by a brief outlook on planning. It should be noted, however, that budgetary practices at different phases of the cycle are interdependent. Moreover, certain proposals to improve the formulation process or implementation process may not be successful unless the planning process, which is not covered in detail in this paper, is first improved.

II. DISCUSSION OF BEST PRACTICES⁴

A. Budget Formulation

Should the budget be organized by programs or by departments and line items?

7. Organizations are increasingly focussing on **programs** as a base for resource allocation, as opposed to the more traditional way of looking at the needs of organizational units such as departments, or at more specific line items such as objects of expense. This facilitates the decision-making process for the political authorities in charge of voting budgets, because spending can be more easily aligned with agreed priorities. For management, the program approach has become a tool to allocate resources more effectively and to more clearly focus on the expected results.

8. Often programs cut across departments. This strengthens rather than weakens the usefulness of the program approach, as programs provide the opportunity to align departmental activities with organization-wide priorities and allocate resources accordingly. The OECD budget, for example, allocates resources to horizontal programs, e.g., the regulatory reform program spans the environment, the financial sector, etc. On a larger scale,

American States (OAS), Federal Emergency Management Agency (FEMA), Organization for Economic Co-operation and Development (OECD), European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), and the World Intellectual Property Organization (WIPO). OBP staff also met with experts from the U. S. General Accounting Office (GAO) and the Office of Management and Budget (OMB) to discuss the overall status of best practice budgeting in agencies of the U. S. Government.

⁴ For a summary of selected best practices in the comparator organizations, the Fund, and other sources, see Boxes 1-3 at the end of each respective section. More detailed information showing practices by individual organizations is contained in Appendix II.

the U. K. government has created the concept of joined-up government, in which several agencies are expected to cooperate by bringing each agency's individual resources together to address a given social problem. This is a new concept at an early stage of implementation.

9. The WIPO is a good example of an organization that has rigorously linked the budget to its program of work. The organizational structure of WIPO is also by major program, which coincides with departments. Their budget presents the objectives, activities, expected results, and performance indicators by each major program and subprogram. It also provides a standard line item (objects of expense) budget table by program and staff posts by program.

Should budget allocations be linked to results?

10. The objectives of measuring results or **outcomes** of programs, and linking outcomes to budget allocations, led to complex systems such as Activity-Based Costing (ABC). It has, however, been recognized that in knowledge-based organizations such as the Fund, the definition and measurement of outcomes all too often remains an elusive goal. Nevertheless, even if budget allocations are not strictly tied to outcomes, it is generally considered useful to describe the anticipated outcomes, or at least the intermediate outputs, when programs are formulated, so as to provide a basis for measuring their effectiveness.

11. Instead of a primary focus on inputs, management, in most of the organizations visited, has asked department heads to think in terms of **outputs and outcomes** when formulating their budget requests. In the EBRD budget, for example, each departmental budget is presented in terms of inputs (costs and staff resources), outputs, and key performance indicators. The annex to the World Bank budget presents for each department a one-page summary with objectives, major programs and activities, monitorable indicators, outputs, and performance measures.

12. The success of placing more emphasis on results rather than inputs has varied by organization and by departments within organizations. Obviously, units that produce tangible outputs have found it easier to adopt the new approach. For example, departments in regional financial institutions that conduct banking operations have found it relatively easy to identify performance indicators because they had been in the practice of analyzing various financial ratios. Other departments that produced primarily an intellectual service, such as economic advice, found it far more difficult to identify tangible outputs or outcomes, and even harder to determine a cause-and-effect relationship. So each organization has adopted a results-oriented approach that is uniquely designed to meet the specific conditions of the various departments in each organization.

Start from a management directive or from request by users?

13. One of the crucial issues in budget formulation is the extent to which users enjoy the initiative to formulate requests and express needs, as opposed to being given by management a firm budget ceiling from the outset. A **combined top-down bottom-up approach** is now considered a best practice, and several of the organizations visited described recent initiatives to adopt this dual approach. Under this widely-used approach, senior management can

enforce the broad constraint called for by organizational strategy, while departmental managers have the opportunity to present their arguments in debate on resource allocation issues. One advantage of this approach is that it promotes ownership among a wider set of senior and middle managers, who have had a public opportunity to present their arguments for resource allocation. It also provides managers an opportunity to develop a clearer understanding and appreciation of the organization's priorities as a whole. This works best in the context of an agreed strategic planning framework. A strictly top-down approach to budget formulation was not employed in any of the organizations visited.

14. Almost all of the organizations noted a shift in management philosophy from bilateral discussions between the budget office and individual departments to more open and inclusive meetings between management and all department heads. The EIB, which has a strategy to make budgetary improvements in a gradual incremental fashion, plans to implement the dual approach in its next budget cycle. One important reason for this initiative is to inject more **transparency** into the process of how the budget is formulated.

Should major acquisitions be approved in a separate capital budget?

15. Some of the organizations, including the Fund, have adopted **separate multi-year capital budgets** based on projects. Officials from these organizations agreed that the existence of a capital budget facilitated planning for multi-year projects. This is clearly a best practice. A more recent trend is the inclusion of major software development in the capital budget. Several of the organizations lacking a separate capital budget were interested in the Fund's experience.

Should management be given flexibility for unforeseen needs?

16. Views are split with regard to the explicit inclusion in the budget of **funding for contingencies**. The reality is that agencies that do not operate in a stable and predictable business environment are occasionally faced with requests for unforeseen expenses that cannot be denied without compromising strategic objectives of the organization. Some would argue that those additional outlays should be covered from unexpected savings elsewhere, while others would believe that it is more transparent to make explicit allowances for such needs. Some of those agencies that are expected to respond to crises as part of their mission (e.g., the Federal Emergency Management Agency, FEMA) have developed special budgets in addition to, and separate from, their regular budget to cover emergencies.

17. A few of the organizations provided management with a contingency fund to be used for unanticipated demands that arise during the year. The WIPO budget provides the Director General with one percent of total income "to undertake necessary unforeseen activities and to meet specific new demands of Member States." The budgets of the WB and the IDB also provide a one percent contingency reserve; the EIB provides up to two percent in contingency reserves. In implementing its budget, the EBRD provides for three types of contingencies: (1) unexpected, (2) management reserve, and (3) departmental management reserve. These contingency categories amount to about 2.5 percent of the budget.

Should administrative budgets span more than one year?

18. Three of the eleven comparator organizations have switched to a **biennial budget**. Officials at these organizations said they have found that preparing a budget only every second year frees resources that could be used more effectively in other budgetary or planning activities. Officials at some of the organizations currently on an annual budget cycle said that they are considering a shift to a biennial cycle, but that no decision had been reached at this stage. Several thought that such a shift would improve resource allocation and provide them with more time to undertake detailed evaluations of performance.

19. A multi-year budget, however, is predicated upon the existence of effective medium-term strategic planning and a stable and predictable operating environment. Budgeting translates the resource components of planning into specific allocations within a shorter timeframe, usually one year. The clearer the strategic planning framework is spelled out, the *more efficiently can the budget serve the priority needs of the organization*. For example, the FED now formulates five-year plans which provide a sufficiently complete and detailed framework so that budgets can cover two-year periods.

Should human resources be budgeted in dollars or in staff years?

20. Most of the agencies visited use a **combination of dollar budgets and head count**. Dollar budgeting in its pure form gives the budget manager authority to use his or her allocation for any legitimate expense (including salaries, benefits, travel, computers, and office space). It is consistent with rigorous decentralization of business decisions to front-line managers and the existence of meaningful scope for substitution among the inputs that are needed to produce clearly-defined outcomes. Head count, on the other hand, allows the central control of personnel objectives and does not require the deployment of large resources at decentralized units to manage their budgets.

Box 2. Selected Best Practices in Budget Formulation			
	Status in the Comparator Organizations	Status in the Fund	Other Sources 1/
Clearly link the budget with the program of work	Adopted by most in recent years	Proposed	A, C
Identify, besides inputs, specific outputs and outcomes that can be linked to programs	Most are considering, only a few have developed full links	Proposed	A, B, C
Combine the top-down bottom-up approaches	Generally practiced	To be improved	B
Provide as much transparency as possible	A recognized goal; most publish their budget	To be improved	A, B, C
Adopt a separate multi-year capital budget	Adopted by only a few	Current practice	B, C
Provide a small contingency fund (1-2 percent of the budget) for unanticipated needs	Adopted by only a few	Proposed	C
1/ An "A" indicates that the practice was recommended for governments in the Fund's Manual of Fiscal Transparency; "B" indicates that the practice was noted or recommended in the OIA review of OBP; and "C" indicates the practice was noted in at least one of the sources noted by an * in the References section of the paper.			

B. Budget Execution and Monitoring

To what extent should the budget be devolved?

21. A key policy issue in budget execution is the degree to which spending authority is **devolved** to decentralized units and their managers. Obviously, a head count budget leaves much less scope for decentralization than a dollar budget. There also are expenditure items for miscellaneous services and supplies, e.g., building maintenance, IT support, and office materials, for which decentralization may not be efficient or desired by users.

Should budget managers have the authority to shift resources?

22. **Fungibility** increases flexibility in budget management, reduces the need to make special requests when unforeseen expenditure within the given expenditure categories need

to be accommodated, and, in certain cases, is likely to result in a higher degree of budget utilization. On the downside, spending could deviate from the narrower purposes for which it was intended. It is common practice in government agencies to operate a hierarchy of transfer authority, with transfers among major expense categories or between departments reserved to top management. However, the degree to which budget managers may enjoy authority to transfer spending appropriations among their individual budget titles is, of course, limited in highly centralized budgets.

23. There appear to be two schools of thought regarding **devolved budgeting and fungibility**: one would allow budget managers complete flexibility to transfer funds among line items, including those related to personnel. The other would maintain central control over the personnel-related line items but allow limited to full fungibility on the other line items. The World Bank follows the first school of thought, along with U. S. government agencies to a more limited extent. Officials from OMB explained that the dollar constraint had actually driven the actual number of full-time equivalent (FTE) employees below the legal FTE ceiling. Almost all of the other organizations visited, as well as the Fund, maintain some degree of central control over the personnel budget, and thereby implementation of their personnel objectives, while providing limited to full fungibility with respect to other line items.

24. Some organizations, however, make a distinction between regular staff (centrally monitored ceiling) and other employees. The personnel budget is devolved to the extent that budget managers in these organizations are allowed to hire temporary staff financed from (1) vacancies or (2) underspending in nonpersonnel accounts.

What tools do budget managers need to do a good job?

25. Close **monitoring** of budget execution throughout the fiscal year is an essential tool for the budget manager to permit full use of resources while avoiding overspending or last-minute expenditure rushes or cuts in the execution of essential tasks. It is an equally important tool for senior management to detect any unforeseen changes in operations. Best practice requires that budget managers have reliable information on budget execution available on a daily basis while senior management should routinely receive budget progress reports. Several of the organizations visited, as well as the Fund, have instituted monthly reporting to management.

26. A budget system should include clear rules as to the treatment of **overspending**. In the private sector, the budget is sometimes seen as a guideline, and budget limits can be overridden by managers if required by the pursuit of strategic objectives. In government agencies, however, the budget is usually set by political authority and meant to represent a hard constraint, so that any overrun that cannot be compensated within the approved category requires a supplementary appropriation.

27. Budget information systems are often designed to automatically prevent overspending. About half of the organizations visited have adopted computer systems with

automatic safeguards to **prevent overspending** on any line item. The EIB system, for example, provides managers with a warning when expenditures for any one line item reach 80 percent of the budgeted amount. At the WB and the IDB, overspending up to a certain amount is charged to the budget manager's budget in the next year. Most of the comparator organizations have specified procedures to deal with overspending that in some way publicly remind budget managers that they are accountable for managing their budgets.

Can a wasteful year-end spending rush be avoided?

28. One common concern in most of the organizations was how to deal with **end-of-year purchases** that are made simply to avoid returning unspent funds ("use or lose") and facing the argument that next year's budget can be cut because all of this year's budget was not spent. Three of the organizations have addressed this issue by allowing budget managers to carry over a certain amount of unspent funds. The WB allows departments to carry over about 5 percent; the IFC shifts unspent funds into an institutional pool, but does not provide carryovers for individual departments; and FEMA allows carryovers in those cases of no-year or multiyear appropriations. A few other organizations allow carryovers only for capital expenditures. Officials at the WB explained that the 5 percent applies to both overspending and underspending. The practice was adopted to discourage wasteful spending at the end of the year if expenditures are estimated to be under budget, but at the same time provide a consequence for overspending. Overall, the central budget control has to balance out the differences. Carryover authority at the decentralized level needs to be matched by a similar provision at the global level, i.e., management should be authorized to keep the respective part of a budget underrun as a reserve to offset a potential overrun in future years.

Box 3. Selected Best Practices in Budget Execution

	Status in the Comparator Organizations	Status in the Fund	Other Sources 1/
Devolve, to the extent possible, spending authority	Partially devolved in all, but only fully devolved in a few	Partially devolved	C
Provide departmental budget managers with flexibility to transfer funds among line items	Adopted by most	Flexibility within fungible budgets	C
At regular intervals during the year (quarterly or monthly), the budget department should provide management with a report on current spending relative to the original budget authorization to monitor budget execution	Adopted by most	Monthly reporting was recently adopted	A, B
Establish rules or procedures (possibly automatic) to hold budget managers accountable and to guard against overspending of any budget	Adopted by most	To be improved	B, C
1/ An "A" indicates that the practice was recommended for governments in the Fund's Manual of Fiscal Transparency; "B" indicates that the practice was recommended in the OIA review of OBP; and "C" indicates the practice was noted in at least one of the sources noted by an * in the References section of the paper.			

C. Budget Accounting and Evaluation

What help can budget information systems provide?

29. Budget accounting state of the art **information systems** are those that provide budget managers with on-line up-to-date information on their remaining budget authorizations, pending commitments, and payments made. They may also include information on spending plans (e.g., travel scheduled but not yet committed) and analytical tools (e.g., comparison with previous-year spending patterns).

30. In order to devolve budget responsibility so that managers have more flexibility in producing outputs and achieving desired outcomes, it is essential to provide budget managers with an **efficient information system** that is capable of producing up-to-date information on commitments, along with information on resource allocation by object of expense and by

work programs. Many of the organizations visited are in the process of implementing new information systems to meet the needs of a results-based management approach. The EIB, for example, is in the process of implementing a new cost accounting system that integrates time sheet reporting and other costs to projects, with the objective of improving the utilization of EIB's financial and human resources. The WB has recently introduced the SAP system. Officials of the organizations undergoing new system development noted that it is a time consuming undertaking and requires the allocation of sufficient resources, if the new system is to be successfully implemented.

Should liabilities in respect to future years be charged to the annual budget?

31. In most governments and public sector agencies budgets are expressed in terms of cash or legal obligations entered in the course of the year. In essence, they are strictly annual spending plans. The claims that accrue in the year and may result in payments in the more distant future, e.g., for certain staff benefits (superannuations), are ignored. Even retirements may be paid out of the current year budget, unless separate pension funds exist. However, in line with accounting rules that govern private sector corporations, some public sector agencies now also use **accruals** in respect of future liabilities and charge them to the annual budget.

32. **Accruals** at the end of the year for goods or services purchased but not received can be booked in the current budget year or in the following year. Most of the comparator organizations book accruals in the current budget year. Of those organizations that choose to book these accruals in the following year, most use a special reserve account. Only the Fund and WIPO use accrual reversal, which is applied for accounting purposes.

To what extent should the budget office review selected areas?

33. One of the reasons why zero-based budgeting is not generally used is the fact that neither budget offices nor departments throughout the organization have the capacity to carry out basic reassessments of all activities every year. However, selective **rotating reviews** are promoted as a best practice. Under this policy, budget offices focus on one or a few activities or programs each year with a view to promoting best use of resources.

34. All of the organizations visited produced year-end accounts of closed budgets for senior management and the authority that has approved the budget. These accounts are most meaningful if they include a **critical evaluation** of spending in terms of program objectives.

35. However, only a few of the comparator organizations have analyzed the results achieved (inputs, outputs, and outcomes) relative to objectives of major programs, or attempted to link budget performance with the goals of the strategic plan. Several officials noted that their organization was in the first few years of the new budgetary approach and had not, as yet, devoted resources to a comprehensive budget evaluation. Their expectation was that more resources would be devoted to evaluation in the medium term. A few organizations had recently established evaluation units, but officials of these organizations explained that these units had not been in existence long enough to produce reports.

Box 4. Selected Best Practices in Budget Accounting and Evaluation			
	Status in the Comparator Organizations	Status in the Fund	Other Sources 1/
Adopt an efficient computerized system to provide reliable and up-to-date budget and accounting information	Adopted by most	Millennium replacement planned over the next few years	A, B, C
Critically analyze and report on results achieved (inputs, outputs, and outcomes) relative to the objectives of major programs set in the planning process	Most are considering this measure, only a few have implemented it.	Proposed	A, B, C
Conduct a detailed expenditure review, on a rotating basis, of selected programs or departments, as well as in-house audit	Only a few	Proposed	B, C
1/ An "A" indicates that the practice was recommended for governments in the Fund's Manual of Fiscal Transparency; "B" indicates that the practice was recommended in the OIA review of OBP; and "C" indicates the practice was noted in at least one of the sources noted by an * in the References section of the paper.			

D. Outlook for Planning⁵

What is the role of strategic planning in international organizations?

36. Strategic planning has been developed in the private sector over a period of several decades and there now is a wide consensus that it is valuable and probably the least dispensable tool of senior management in today's highly competitive and rapidly moving business environment. Public sector entities have been slow in catching up, probably for a number of reasons: (i) they lack the pressures of markets and the guidance of a bottom line; (ii) their objectives may be less clear or even inconsistent; and (iii) their planning process is more complex, as strategic objectives may be determined through a political process.

⁵ Although a detailed discussion of planning is beyond the scope of this paper, planning and budgeting are so interdependent that a brief summary was deemed appropriate.

37. Nevertheless, there is now growing acceptance that strategic planning can have a useful role in public sector or non-profit organizations. In fact, the far reaching public sector reforms in New Zealand and other Anglo-Saxon countries in the last 10-15 years have been driven, inter alia, by the installation of planning mechanisms at the department or corporate level. In these cases, planning and decision-making have been mostly delegated to agency management, and their responsibility has been broadened by creating a quasi-market environment as much as possible. However, even if such delegation is not practical, there is a need to plan at the agency level to anticipate future developments, foresee problems, and coordinate internal operational activities.

38. One example in international organizations is the WB, which two years ago established a planning mechanism that actively engages all senior managers and helps thrash out strategic directions that provide an agreed basis for resource decisions in the annual budgets.

Can mission statements be useful in planning and budgeting?

39. Most comparator organizations have developed organization-wide mission statements in the course of the last few years in the context of their strategic planning exercises. They report that it has helped them identify major objectives for their organization to concentrate its energies on, e.g., poverty alleviation for the World Bank and promoting financial stability for the FED, and streamline their operations accordingly.⁶ In addition to stating the broad objective(s), mission statements usually elaborate on major programs and may reflect a multi-purpose and complex structure of objectives.

III. CONCLUSIONS

40. This survey has identified a number of useful practices in budgeting. While there seems to be a growing consensus as to what constitutes a "best practice" in today's results-oriented budgetary systems, it is still true that not all best practices are equally useful in all organizations. Considerable variety was found among comparator organizations, although all had competent systems that served the agencies' objectives and circumstances.

41. It is of interest to note that almost all comparators had undergone minor or major reforms in their budgetary practices over the last few years and that some were still in the implementation phase. Maintaining an open mind and reviewing internal procedures critically from time to time is perhaps a most significant "best practice" in itself.

⁶ Similarly, the Bank of England has gone through the exercise and claims to have achieved significant savings by shedding functions that were not needed for their basic objective, which is price stability.

42. Possible conclusions to be drawn for the Fund's own budgetary procedures are contained in a separate discussion paper. However, in the tabular presentations in this paper, the Fund is included to facilitate comparison. In addition, Appendix III provides a more complete overview of the Fund's budgetary practices, showing the major steps in the budget cycle.

**QUESTIONNAIRE FOR DISCUSSION WITH COMPARATOR ORGANIZATIONS:
LISTING OF BROAD ISSUES**

I. Planning Process

- A. Has an explicit mission statement been formulated, and if so, how does it guide policy formulation by units?
- B. Describe the implicit or explicit strategic planning process that you use.
- C. Is there a separate planning function, and if so, how is it linked to the budget?

II. Budget Formulation Process

- A. Is the ultimate budget constraint dollars, a personnel ceiling, or both; and how is the constraint tracked?
- B. Does the budget call letter give guidance to budget units regarding the level of available resources?
- C. At what level are budgets negotiated, and by whom?
- D. How transparent is the budget formulation process, e.g. are budget requests known, and if so, what is the level of detail?
- E. Who approves the budget, and how deeply are they involved?
- F. To what extent are budgets devolved to user departments?
- G. If the budget is published, how detailed is the publication?

III. Budget Implementation and Monitoring Process

- A. How are responsibilities assigned for budget execution?
- B. Are there mechanisms in place to prevent units from overspending their commitment (in terms of cash or accrual)?
- C. Is your budgetary system based on a corporate model, a public sector model, or some type of hybrid?

IV. Budget Evaluation

- A. What is the process for assessing budget outcomes and how well they met budget expectations?
- B. Is the budget outcome evaluated with respect to performance indicators?
- C. Have you had any recent reviews of your budgetary techniques, and if so, what were the results?
- D. Are any future initiatives planned to improve the budgetary process?

DETAILED COMPARISON OF GENERAL BUDGETARY ISSUES WITH OTHER ORGANIZATIONS

	Board of Governors (FED)	World Bank	Inter-American Development Bank (IDB)	Federal Emergency Management Agency (FEMA)
Budget formulation				
Primary budget control	Both head count and dollars	Dollars rather than head count	Both head count and dollars, but moving to more fungible accounts	Dollars are major constraint
Call letter – guidance provided on level of available resources	Yes	Strategic Forum provides top-down guidance	Yes, better than in the past	Yes
Transparency	Yes	Yes, comparisons made in terms of unit costs	Yes	Yes
Who approves budget	Board	Board	Board	OMB submits agency budgets to Congress
Devolved budgeting	Yes, to division (same as department) heads	Yes, to department heads	Yes, to department heads	Yes
Budget published	Yes, like federal government agencies	A confidential Board Paper is produced	Yes	Yes
Budget implementation				
Responsibility for execution	Division (same as department) heads	Department heads	Department heads	Directorate/office heads
Monitor administrative and capital expenses	Yes	Yes, with separate administrative and capital budgets	Yes (automatically in most cases)	Yes (automatically in most cases)

DETAILED COMPARISON OF GENERAL BUDGETARY ISSUES WITH OTHER ORGANIZATIONS

	Board of Governors (FED)	World Bank	Inter-American Development Bank (IDB)	Federal Emergency Management Agency (FEMA)
Reporting requirements	Quarterly Performance Reports	Yes, monthly institutional reports are prepared to track spending; and a new system, SAP, was recently implemented	Quadrimestral Report are made available to the Board and monthly reports to executing departments	Quarterly Performance Reports and Biennial Resource Reviews
Administer activity reporting system (BRS)	No	No	No	No
Consequence if a unit overspends its budget	Overspending at cost center level is less problematic than overspending at the division level	The following-year budget is reduced by the amount of the overspending	A deficit penalty is imposed and the amount overspent is taken out of the following year's budget	Can use prior-year unspent funds to cover legitimate cost overruns
Accrual methodology for goods and services	When requisition is approved	When purchase order requisition is prepared	When purchase order is prepared	When purchase order is prepared
Accrual methodology for future staff benefits	Pay-as-you-go basis	Accrued based on actuarial methodology	When contract is signed	Pay-as-you-go basis
Accrual treatment of end-of-year commitments	Budget year	Budget year, if goods and services have been received	Budget year	Budget year
Extent of devolved budgetary (fungibility) 1/	Personnel and nonpersonnel	Personnel and nonpersonnel	Personnel and nonpersonnel	Personnel and nonpersonnel
Carryover of unspent funds into next	No	Yes	Yes	Yes, in certain cases

DETAILED COMPARISON OF GENERAL BUDGETARY ISSUES WITH OTHER ORGANIZATIONS

	Board of Governors (FED)	World Bank	Inter-American Development Bank (IDB)	Federal Emergency Management Agency (FEMA)
budget year				
Budget evaluation				
Assess budget outputs and outcomes	Yes, certain divisions use output indicators	Yes, one page summary in annex of Budget Document, and quarterly reviews on progress	Yes, assess outputs	An annual Program Performance Report is prepared, as well as a year-end financial statement and accountability report
Assess in relation to performance indicators	Not at this time	Yes, one page summary in annex of Budget Document	Would like to move to performance indicators	Yes

DETAILED COMPARISON OF GENERAL BUDGETARY ISSUES WITH OTHER ORGANIZATIONS

	Organization of American States (OAS)	International Finance Corporation (IFC)	United Nations (UN)	Organization for Economic Co-operation and Development (OECD)
Budget formulation				
Primary budget control	Both head count and dollars	Dollars and head count	Both head count and dollars	Both head count and dollars
Call letter – guidance provided on level of available resources	Yes, by providing indicative monetary figures and a staff ceiling	No, in the first round departments propose to management (1) a flat case scenario and (2) their own ideal scenario; management then responds with guidance on available resources	The budget outline, which is prepared a year in advance and debated, serves the same function as a call letter	Yes
Transparency	Yes, department heads have the opportunity to comment	Yes	Yes, after first round	Yes, after first round, however horizontal programs and generally more transparent than regular programs
Who approves budget	General Assembly approves the budget based on the recommendation of the Committee on Administrative and Budgetary Affairs (CAAP)	Budget Committee recommends and Board gives final approval	General Assembly approves the budget, taking into account the recommendations of the Advisory Committee on Administrative and Budgetary Questions	Ministers (same as Board)
Devolved budgeting	Yes, to office level	Yes, to department	Yes, to department	Yes, partially devolved

DETAILED COMPARISON OF GENERAL BUDGETARY ISSUES WITH OTHER ORGANIZATIONS

	Organization of American States (OAS)	International Finance Corporation (IFC)	United Nations (UN)	Organization for Economic Co- operation and Development (OECD)
		heads	heads, but fungibility between line items is restricted	to department heads, but fungibility between line items is restricted
Budget published	Yes, a summary is published, which is broken down by chapter (sets of offices and units) and subprograms.	Business Plan and Budget Paper is distributed to Board members and Senior Management staff throughout the Bank Group	Yes, for approval by the General Assembly, followed by short form reflecting decisions of the General Assembly	Yes, in the form of a Draft Decision of the Council
Budget implementation				
Responsibility for execution	Area, department, or unit heads; Human Resources and Program Budget Departments also ensure control	Department heads	Department heads	Department heads
Monitor administrative and capital expenses	Yes, automatically in the system	Yes, with separate administrative and capital budgets	Yes, in relevant information systems	Yes, but there is no separate capital budget
Reporting requirements	Monthly and quarterly basis	Quarterly and End of Fiscal Year reports	Annual budget performance report to General Assembly	Monitored on a quarterly basis
Administer activity reporting system (BRS)		No		
Consequence if a unit overspends its budget	System constrains any overspending of an account	A serious event, but not so serious as to stop the necessary work.	Expenditures cannot exceed appropriations. If a department	

DETAILED COMPARISON OF GENERAL BUDGETARY ISSUES WITH OTHER ORGANIZATIONS

	Organization of American States (OAS)	International Finance Corporation (IFC)	United Nations (UN)	Organization for Economic Co- operation and Development (OECD)
			overspends, offsets are sought in other departments. Appropriations may be increased to accommodate changes in exchange rates	
Accrual methodology for goods and services	When purchase order is prepared	When requisition is submitted	When purchase order is approved	
Accrual methodology for future staff benefits	Monthly for pensions, pay-as-you-go for separation allowances	Accrued based on actuarial methodology	Estimated at beginning of budget year for pensions, pay-as-you- go for other	
Accrual treatment of end-of-year commitments	Budget year	Budget year	Placed in a reserve account in the following year budget	
Extent of devolved budgetary (fungibility) 1/	Only nonpersonnel	Personnel and nonpersonnel	Personnel and nonpersonnel	
Carryover of unspent funds into next budget year	No	Placed in an overall institutional pool, but no carryover for individual departments	No	
Budget evaluation				
Assess budget outputs and outcomes	Not at this time, but moving toward a	Yes	Two types of evaluation are	A year-end financial report is produced

DETAILED COMPARISON OF GENERAL BUDGETARY ISSUES WITH OTHER ORGANIZATIONS

	Organization of American States (OAS)	International Finance Corporation (IFC)	United Nations (UN)	Organization for Economic Co- operation and Development (OECD)
	mandate-oriented budget for the year 2001		conducted: (1) an in- depth evaluation by the central evaluation unit, and (2) a self- evaluation by the department	
Assess in relation to performance indicators	Not at this time	Yes	Performance indicators are currently being designed for measuring accomplishments	Not at this time

DETAILED COMPARISON OF GENERAL BUDGETARY ISSUES WITH OTHER ORGANIZATIONS

	European Investment Band (EIB)	European Bank for Reconstruction and Development (EBRD)	World Intellectual Property Organization (WIPO)	International Monetary Fund (IMF)
Budget formulation				
Primary budget control	Both head count and dollars	Both head count and British pounds	Both head count and Swiss francs	Both head count and dollars
Call letter – guidance provided on level of available resources	Yes	Provided in the last section of the strategic plan—Resource Framework	Yes	Yes, but not always binding
Transparency	No, but expect to introduce some transparency in the next budget cycle	Yes, after first round	Yes, information is selectively provided to program managers and everyone has the opportunity to comment	Yes to a limited extent, after the first round
Who approves budget	Management Committee	Board	Reviewed in detail by the Program Budget Committee, and approved by the General Assembly	Board
Devolved budgeting	Yes, partially devolved to department head (except salaries and personnel), but only the budget office can authorize a shift of funds between line items	Yes, to department head	Yes, to program managers	Part of the budget is devolved to department head
Budget published		Yes, to shareholders	Yes, copies sent to member countries and	Yes, in summary

DETAILED COMPARISON OF GENERAL BUDGETARY ISSUES WITH OTHER ORGANIZATIONS

	European Investment Band (EIB)	European Bank for Reconstruction and Development (EBRD)	World Intellectual Property Organization (WIPO)	International Monetary Fund (IMF)
			posted on the Web	
Budget implementation				
Responsibility for execution	Department heads	Department heads	Program managers	Department heads
Monitor administrative and capital expenses	Yes (automatically when 80 percent of a line item is obligated), but there is no separate capital budget	Yes, with separate administrative and capital budgets	Yes	Yes, with separate administrative and capital budgets
Reporting requirements			Yes, financial management report	Monthly reports to management, midyear 9-month and end-year to Board
Administer activity reporting system (BRS)	Yes		Allocation system by activity to be introduced for 2000-2001	Yes
Consequence if a unit overspends its budget	Automatic notification has prevented cases of overspending	High peer pressure to stay within the budget or be publicly embarrassed in the end-of-year report	Budgetary flexibility provides for adjusting allocations in accordance with changes in priorities; no overspending has occurred in recent years	No formal accountability system
Accrual methodology for goods and services	When purchase order is prepared	When purchase order is prepared	When purchase order is prepared	When goods or services are received
Accrual methodology		Monthly	A separation reserve	Accrued based on

DETAILED COMPARISON OF GENERAL BUDGETARY ISSUES WITH OTHER ORGANIZATIONS

	European Investment Band (EIB)	European Bank for Reconstruction and Development (EBRD)	World Intellectual Property Organization (WIPO)	International Monetary Fund (IMF)
for future staff benefits			has been established to deal with superannuation issues	actuarial methodology
Accrual treatment of end-of-year commitments	Carried forward into a temporary (3 month) reserve account (transitoire)	Carried forward if goods or services have not been received	Carried forward as a negative amount (accrual reversal) in next year's budget	Carried forward as a negative amount (accrual reversal) in next year's budget
Extent of devolved budgetary (fungibility) 1/	Neither Personnel nor nonpersonnel	Personnel and nonpersonnel	Personnel and nonpersonnel	Some nonpersonnel accounts
Carryover of unspent funds into next budget year	Only for capital expenditures	Only for capital expenditures	No	Only for capital expenditures
Budget evaluation				
Assess budget outputs and outcomes	Not at this time	Not at this time	Yes, performance evaluation report	Limited and not systematic
Assess in relation to performance indicators	Not at this time	On the operational side various financial ratios are used, but on the non-operational side it is more difficult to establish meaningful indicators.	A separate evaluation division has been established and evaluation methodologies are under study	Limited and not systematic
Source: Discussions with officials from the various organizations, and from documents obtained from these officials.				
1/ Officials were asked if their organization allowed budget managers to use (1) vacancies to hire temporary staff (i.e., personnel accounts), or (2) underspending in nonpersonnel accounts to hire temporary staff.				

OVERVIEW OF MAJOR STEPS IN THE FUND'S BUDGET CYCLE

I. BUDGET FORMULATION

43. The following is a chronological outline of the Fund's annual budget formulation process, which starts some nine months ahead of the financial year (May 1 to April 30). Before formulating the budget, it has been the practice in the Fund to produce a paper on the medium-term outlook. This paper provides information on the proposed Fund work programs and the budgetary resources needed to implement those programs over the next three-year period. In August, OBP issues budget outlook guidelines to departments, which then submit their work program plans to OBP by late September. OBP meets with management and holds bilateral meetings with departments in the October/November timeframe. Then OBP produces the budget outlook paper, which is usually discussed first by the Committee on the Budget (in December) and then by the full Board (in January).

44. In the light of the discussion of the budget outlook in the Executive Board, and guidance by Fund management, OBP issues instructions for the formulation of requests for the annual administrative and capital budget (i.e., the budget call letters) to departments. Based on their proposals (usually due by mid-February), OBP issues a paper on the administrative and capital budgets (sometimes with alternatives) to the Committee on the Budget, which usually meets in mid-March. The final budget proposal is submitted to the full Executive Board (in late March) for a meeting in late April to discuss and approve the annual administrative budget as well as the capital budget. During this process, most of the issues discussed focus on inputs, in terms of net additions to staff (head count) and dollar amounts by object of expense. *The budget is formulated without provision of a contingency for unanticipated needs.*

45. The **capital budget** is a multiyear rolling budget. Capital expenditures are approved on a project basis, generally spanning the expected number of years to complete the project.

II. BUDGET EXECUTION

46. After the budget is approved, OBP informs each department individually of their budget appropriation (budget notification), which provides a personnel budget (measured in terms of staff years) and a discretionary dollar budget (divided into fungible and nonfungible categories).⁷ The personnel budget is controlled centrally; but specific personnel decisions are made at the departmental level; the discretionary dollar budget is **devolved**. While departments cannot **transfer** dollars into the personnel budget, nor savings from personnel vacancies into the dollar budget, limited flexibility exists by providing some dollar resources

⁷ Fungible items in the dollar budget include travel, books and periodicals, information services, miscellaneous purchases, representation, and sundry expenses. The travel component amounts to over 95 percent of the fungible budget for most departments.

for contractuels and permitting the use of accumulated vacancies for the hiring of temporary staff. A large part of dollar denominated expenditure is managed centrally by the departments that provide general services, e.g., expenses for space occupancy, building security, graphics, etc.

47. Fund-wide **budget monitoring reports** for management review are generated by OBP and TRE on a monthly basis, including a list of any new expenditure requests. Comprehensive procedures exist to ensure that the authorized staff ceiling is not exceeded. Staff and contractual positions are monitored centrally by HRD and OBP, and the latter provides departments with monthly reports on the use of staff resources and vacancies. Management can authorize, within limits, transfers of dollar appropriations among departments and line items.

III. ACCOUNTING AND EVALUATION

48. The Fund uses an outdated mainframe-based **computer system** (Millennium) for accounting and budgetary purposes, which does not possess many of the user-friendly and analytical features of more modern budgetary systems. The Departmental Administrative Applications (DAA) system is a Windows-based application that gives authorized departmental users access to Millennium data and allows users to view budget status data (e.g., expenses, commitments, available funds, etc.), perform budget transfers within their discretionary budgets, and generate various departmental budget reports. However, there are issues in regard to the timeliness and coverage of data. The Information Technology Policy Committee (ITPC), and the Financial and Administrative System Subcommittee (FASS) are involved in the Millennium replacement project. A new system, PeopleSoft, has been purchased, a preliminary design for the Fund has been developed, pilot tests of small components have been initiated, and funding for the next stage has been approved. It will, however, take more than a year to complete introduction and perhaps 2-3 years before the benefits of the new system come fully on stream.

49. The budget is implemented on an **accrual basis**, i.e., charges made to the budget may precede payment. For example, commitments for goods or services are accrued at the time the good or service is received; commitments for future personnel benefits are estimated based on methodologies designed for the specific benefit. The accrual process is currently being reviewed by TRE and OBP with a view to more clearly delineated accounting and budgetary requirements.

50. The end-of-year report presents dollar amounts by object of expense and compares budget estimates with actuals. The allocation of resources (staff years and dollars) by major program is also presented along with a list of activities performed.

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