8th ANNUAL SEMINAR: BUDGETING FOR RESULTS: MOVING TOWARDS PERFORMANCE BUDGETING

Roundtable Discussion 1: The Sequencing and Time Table of Programme Based Budgeting Reform

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Abstract

When programme based budgeting is implemented successfully, it can provide significant improvements in improving economic governance. It provides a straightforward mechanism by which a government can, on an informed basis, make decisions about the efficacy of the allocation of its scarce resources and determine whether policy objectives are being met or not. It however represents a substantial increase in budgetary management sophistication with particular challenges to budget implementation, especially for developing countries typified by capacity constraints, weak financial networks and highly centralised public administrations with long expenditure management pathways. Clearly successful programme based budgeting implementation requires a minimum threshold of public finance management performance and economic governance. The risks associated with implementing programme based budgeting are mitigated by adopting a carefully sequenced approach to reform. Three main sequencing phases are identified. The first phase seeks to strengthen basic PFM performance. The second phase seeks to create an enabling context for the implementation of the core PBB functions. This phase is guided by a process of enhancing performance informed budgeting. The third phase introduces the core PBB functions. The sequencing of which is guided by PFM functional linkages.

In this paper, a method for establishing the minimum threshold for Public Finance Management performance using PEFA indicators is developed. The method is applied to a sample of countries that have successfully implemented programme based budgeting as well as ones currently grappling with undertaking reforms. Further an approach for sequencing reform based upon activity chain considerations is developed. The analysis presented leads to the conclusion that programme based budgeting implementation requires a gradual approach that may well dictate a time table of a decade

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or more. This conclusion raises the question of the prudence in making the implementation of programme based budgeting a conditionality for donor funding governed by a financial instrument of three years or less.

Introduction

In the last decade, many OECD countries have reformed their budget procedures in order to transfer focus from inputs results. In recent years, a number of African countries have also decided to implement programme based budgeting (PBB) to adopt a results based approach to budgeting and away from the traditional line item approach. What has triggered these reforms? In an OECD study[2], the major reform motivators were listed as financial crisis, pressure to reduce public expenditures, and a change in political administration. In many cases, the reforms were introduced as part of a wider budget reform package seeking to control public expenditure.

The experience of OECD countries and some African countries that have already implemented such budgetary reforms demonstrates areas of significant success. However, there also remain areas of significant concern. The successful areas of budget reform would seem to include the reclassification of the budget and the multi-annual estimates on the basis of programmes or output areas. The areas that remain a challenge tend to include the use of performance information in the budget process, the alignment of programmes with the administrative structure and the presentation of performance information in budget documentation[3]. As one example, the Audit Office of France recently published a report that reviews the current status of the implementation of the organic budget law (LOLF) of August 1, 2001[4]. The review of the use of programme budgets points to real difficulties that have been encountered by way of the poor alignment of the administrative organisation with programmes.

In the case of budget reform towards the full adoption of PBB in developing countries, many are currently grappling with how to design and implement these reforms. It is important to consider the current status of the PFM and governance systems. Developing countries can also benefit from the lessons learned from the experience of OECD countries. It has been argued that PBB reform should not be considered in countries or states with weak public finance management (PFM) and governance systems[5]. The limited capacity, weak financial administrative networks along with weak PFM and governance systems all point to ensuring that a number of PFM performance standards have been met prior to initiating PBB reform. Once pre-requisites have been established as met, it is important to implement a reform with a schedule based upon appropriate sequencing and roll out.

[2] Performance Budgeting in OECD Countries, 2007

[3]Programmeme Budgeting in OECD Countries, Dirk-Jan Kraan, Budgeting and Public Expenditures Division of the Public Governance and Territorial Development Directorate of the OECD.

[4] For a summary extract of the report see http://blog-pfm.imf.org/pfmblog/2012/02/implementation-of-the-lolf-in-france-a-thwarted-ambition.html

[5] A Basic Model of Performance-Based Budgeting, Marc Robinson and Duncan Last, International Monetary Fund, Fiscal Affairs Department, 2009

In this paper, a model, based upon the application of PEFA[6] scores, is used to assess whether adequate pre-requisites have been met to implement PBB in a given country. Further, it provides a framework for sequencing budgetary reforms. The case is made for adopting a gradual approach to the implementation of PBB reforms in contrast to a big bang approach. The starting point to the reform of PBB, as in any reform, should be a comprehensive assessment of the current status of strategic planning and monitoring and evaluation; public finance management, the capacity, the available resources, the status of the financial administrative network, the political economy and the macroeconomic context. The PEFA Assessment provides a sound basis to asses PFM performance. The assessment of the current status of strategic planning and monitoring and evaluation does not have any standardised widely accepted assessment tools so countries may have to rely on a more ad-hoc approach.

1. A Simple Model for Programme Based Budgeting (PBB)

Programme Based Budgeting (PBB) is a budgeting approach that manages public resources through specified programmes implemented to achieve desired policy objectives. It provides a basis for directly linking strategic planning to budget implementation and consequently achieving desired results. The strategic planning process is structured by way of sectors, prioritised programmes and activities and constrained by firm realistic envelopes. Through a linkage between programme goals and measured outcomes, it guides strategy implementation towards desired policy objectives. The PBB approach facilitates a direct selection and implementation of priority programmes within a budgetary framework consistent with the strategy. In this way, it directly incorporates a government's policy objectives, as reflected in its national development framework and corresponding sector strategies, into its budget formulation, implementation and outturn reporting. The programme based approach is characterised by a budget classification that reflects four main dimensions: functions, programme, administrative and economic classification. For the purpose of simplification, this can be reduced to fewer dimensions either by way of employing mapping tables or aligning programme and administrative classifications[7]. The PBB approach is therefore directly reflective of a results chain that links inputs to specified outputs and outcomes through specified programmes.

For the purposes of clarity, it is useful to state what is meant by the term programme as applied in this paper. A programme is a collection of activities or projects intended to contribute to a common set of outputs and consequently outcomes. The programme is an independent budget structure specified so as to achieve at least one output that contributes to one or more sector outcomes. There is a hierarchy of programmes, sub-programmes and activities (current expenditure) and projects (investment expenditure). While programmes are principally a functional specification, their

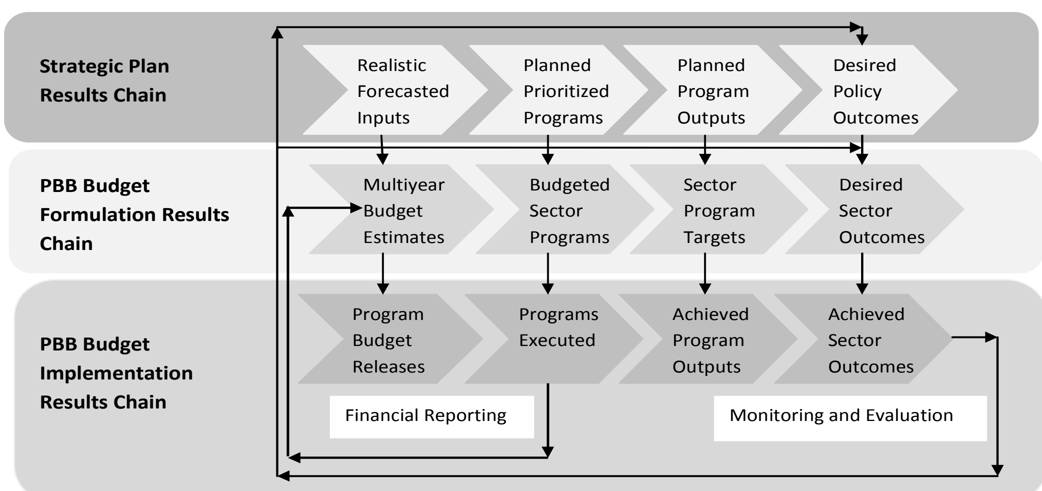
[6] Public Expenditure and Financial Accountability Performance Measurement Framework, PEFA Secretariat, 2005

[7] For purposes of simplifying implementation some countries reduce the number of dimensions to three by aligning the administration with either the functional or programme dimension. For example in the case of South Africa the administration and programme dimensions are aligned.

implementation requires a direct institutional mapping of programmes to the administrative structure[8]. Accountability considerations dictate that each and every programme requires a programme manager. Personnel costs along with other recurrent activity costs and project costs should be assigned to programmes. Therefore, the institutional arrangements supporting PBB must accommodate a linkage, directly or indirectly, between programmes and administrative elements. The programmes serve to deliver sector outcomes. Consequently, there is also a requirement to align the administrative elements with sectors or functions. For many countries, the COFOG standard (classification of functions of government) is adopted with linkages made using mapping tables.

Figure 1 is a schematic representation of the direct results chain linkages between strategic planning, budget formulation and budget implementation. The figure illustrates how the PBB approach serves to implement the results chain and provide a feedback mechanism at the levels of measured resource allocations, achieved outputs and outcomes to refine budget formulation targets (on an annual cycle) and also to refine strategic planning policy objectives. Clearly, the PBB approach provides a direct way, if successfully implemented, of achieving policy objectives. Such a budgeting approach provides a straightforward mechanism by which a government can, on an informed basis, make decisions about the efficacy of the allocation of its scarce resources and determine whether policy objectives are being met or not. Further, the direct alignment of resource allocation to policy and service delivery outcomes enhances transparency and accountability, thus improving overall economic governance.

Figure 1: Result Chain Linkages between Strategic Planning, Budget Formulation and Budget Implementation for Programme Based Budgeting



[8]Pragmatism sometimes tends to ignore this step. For example France preferred to retain the administrative organization that existed before the LOLF, rather than modify the organizational charts and responsibilities of the ministries, to better reflect public policies. This pragmatic choice, vindicated in the early years of the reform, has in the long run diminished the links between programmes and outcomes.

In contrast, traditional Line Item Budgeting approaches are limited to allocating resources administratively and economically and merely monitoring the utilisation of inputs. While a considerably simpler budget formulation, implementation and outturn monitoring approach than PBB, any linkages to desired policy outcomes are only indirect. In addition to inputs, the PBB approach facilitates the monitoring of results, which may be policy outcome objectives or routine public service outputs.

2. The Impetus for Adopting PBB in Developing Countries

PBB, when implemented successfully, has a number of important advantages. These include:

- Facilitating an effective and productive policy debate both within and without government;
- Facilitating a way by which a government can make informed decisions about the efficacy of the allocation of its scarce resources;
- Allowing all stakeholders to assess whether policy implementation is consistent with Government's strategic objectives, and permitting a ready analysis as to the degree of commitment to such cross cutting issues as poverty reduction and gender balance;
- Motivating programme managers and service-providers to improve performance as well as holding them accountable for service delivery outcomes;
- Promoting high quality, client-responsive public services and maximising value for money in service delivery
- Identifying the causes of good and bad performance and hence reducing waste and increasing impact, and so thereby improving the value for money of public spending and enhancing economic development; and
- Permitting development partners to assess progress on particular outcomes aligned with policy support areas.

With such promise held for achieving development objectives and improving economic governance, it is hardly surprising that there is a push for countries to move away from traditional budgeting approaches, which merely emphasise control and the monitoring of inputs, and seek to adopt programme based budgeting approaches. This promise has already led a number of developed countries, such as Canada, Denmark, the United Kingdom, Australia, New Zealand and the United States, to adopt Programme Based Budgeting. And indeed a number of countries and states in Africa are currently adopting PBB. These include Botswana, Ghana, Kenya, Burkina Faso, Mali and Lagos State. The adoption of PBB by South Africa and Mauritius are often cited as two successful cases in Africa that a number of countries wish to emulate.

3. Undertaking PBB Reform with Caution

In the case of developing countries, the international donor community has been a major driving force behind these PBB reforms. WAEMU (West African Economic and Monetary Union), with extensive technical assistance from the IMF specifies a programme based approach to be adopted by its eight member countries[9] (Benin, Burkina Faso, Ivory Cost, Guinea-Bissau, Mali, Niger, Senegal, and Togo). In 2010, the IMF and the EU made Botswana's adoption of Medium Term Expenditure Framework (MTEF) and PBB conditionalities for loan and budget support disbursements. Ghana in 2010 amended its GIFMIS (Ghana Integrated Financial Management Information System) Project[10] to include introducing PBB to satisfy IMF funding conditionalities. Experience with other PFM "new public management" reform initiatives that have also held great promise, such as the introduction of medium term expenditure frameworks (MTEFs) and accrual accounting, have not delivered on their promise when applied to a number of developing countries[11]. The experience in the introduction of other new public management reform initiatives suggests that developing countries exercise a degree of caution in undertaking PBB reform.

PBB places very significant burdens particularly on budget execution where the number of institutional elements involved may extend horizontally across dozens of ministries, departments and agencies, and vertically down to possibly many thousands of service delivery units. The degree of decentralisation or deconcentration matters as to the likelihood of PBB implementation success. This is a particularly important consideration in the case of developing countries undergoing budgetary reform where capacity constraints can be quite considerable. Further the limited devolution of expenditure management away from the centre that characterises many developing countries (either through decentralisation or sector de-concentration) has resulted in acute budget implementation challenges. This is due to the very long expenditure management pathways between the central ministry through the sector ministry headquarters, regional or provincial offices, district offices and finally to the frontline service delivery units. These very long expenditure management pathways are typically plagued by the limitations of weak financial administrative networks – the banking network, the postal systems, the communication networks and in some cases even electricity supply.

To illustrate the distinction that may occur as a result of different levels of decentralisation on expenditure management, we note that South Africa, that is viewed to have successfully implemented PBB at the national level, reports approximately 7%[12] of its budgetary outflows to be classified as expenditure, the balance being transfers. This compares to Ghana, a country currently undergoing

[9] Between 2008 and 2009, Fiscal Affairs Division of the IMF provided technical assistance to the WAEMU Commission to revise the Union's six PFM directives. As a consequence a new directive on transparency was adopted by the WAEMU Council of Ministers in 2009. The new directives incorporate modern PFM approaches including programme budgeting, medium-term budget and expenditure frameworks (MTBF/MTEF), and accrual accounting.

[10] The GIFMIS Project, Proposal to Danida for Providing Funding to the GIFMIS Project, 2010 states "In the original conception of the GIFMIS Project no firm decisions had been made about introducing Programme Based Budgeting (PBB) within the current package of PFM reforms".

[11] A Review of Experience in Implementing Medium Term Expenditure Frameworks in a PRSP Context: A Synthesis of Eight Country Studies, by Malcolm Holmes with Alison Evans, Overseas Development Institute, London, 2003

[12] See South Africa PEFA Assessment, 2008

reform of its budgetary systems towards a PBB approach, which reports approximately 75%[13] of its budgetary flows to be classified under expenditure management. These distinctions matter when PBB reforms are considered and lead to different levels of challenge with respect to budget implementation under a PBB regime.

It is of some interest to note that small island states are not faced with the challenges of very long expenditure management pathways even where expenditure management remains highly centralised. This observation suggests that small island states may be faced with significantly less difficulties with respect to the challenges that PBB places on budget execution. The same argument may be applied to federal systems.

4. *Criteria for Assessing PBB Reform as Successful*

The value of adopting a particular budgeting approach should not just be solely guided by its promise of better policy implementation, transparency and accountability. A more appropriate test of the merit of a particular choice of budgeting approach should also be based upon the credibility of the budget that can be reasonably expected to be achieved by a country given its current performance status of strategic planning and monitoring and evaluation and public finance management. If the credibility of a budget process is the criterion by which the success of a particular budget approach is measured, then the PBB reforms being currently undertaken by a number of countries shall remain more promise than actual achievement of an effective budget process.

Such credibility can be measured by considering (1) the effective matching of comprehensive budgetary resource allocations in accordance with strategic objectives and development plans, (2) achieving in budget implementation outturns (i.e. expenditure, outputs and outcomes) that match budget allocations and targets; and (3) achieving accurate, regular and timely measures of expenditure, outputs and outcomes.

5. *Transitioning from Line Item Budgeting to PBB*

A comparison of the budget management requirements for implementing line item budgeting versus PBB provides a framework for considering a transition between the two forms of budgeting. By a consideration of Table 1, it is made apparent that the reform from a traditional Line Item approach to PBB requires:

- The adoption of a multi-year budgetary perspective to permit the incorporation of strategy into the budget process;
- A transformation of the institutional arrangements to properly establish lines of accountability for all of the results chain elements;

[13] See Ghana PEFA Assessment, 2009

- An expansion of the dimensions and scope for budgetary releases and expenditure controls while transforming from input control (principally dictated by the ministry of finance) to output control (left primarily in the hands of the sector ministries);
- A reconfiguring of the chart of accounts for financial reporting on the basis of all four classification dimensions; and
- Setting up effective, accurate and timely monitoring systems for measuring and evaluating outputs and outcomes.

The table further demonstrates the magnitude of the difference in complexity of managing a budget that is based on the programme based approach compared to one based on a Line Item Budget. There are other areas of reforms not captured in Table 1 that must be associated with the introduction of PBB. These include the shift to a greater focus on performance based auditing and the need for a more complete measure of resource allocation as might be achieved through the introduction of accrual accounting.

Table 1: Comparison of budget management requirements for implementing Line Item Budgeting versus Programme Based Budgeting

Results Chain Element	Classification Dimension	Institutional Lines of Accountability		Estimate/ Allocate		Control		Financial Report		Monitor	
		Line Item	PBB	Line Item	PBB	Line Item	PBB	Line Item	PBB	Line Item	PBB
Inputs	Administrative	✓	✓	✓	✓	✓	✓	✓	✓		
	Economic	✓	✓	✓	✓	✓	✓	✓	✓		
	Program		✓		✓		✓		✓		
	Functional		✓		✓		✓		✓		
Outputs/ Outcomes	Program		✓		✓		✓				✓
	Functional		✓		✓		✓				✓
Multi-year Perspective	Administrative		✓		✓		✓		✓		
	Economic		✓		✓		✓		✓		
	Program		✓		✓		✓		✓		✓
	Functional		✓		✓		✓		✓		✓

6. *PBB Reform Experience*

A number of countries have successfully made the transition from Line Item Budgeting to PBB. These include Canada, Denmark, France, Singapore, the United States, New Zealand, Australia, South Africa and Vanuatu. The experience with introducing PBB in practice has been mixed and varied. Sri Lanka first introduced PBB in 1969 and in spite of early gains; this reform effort did not yield positive results. Singapore transitioned from Line Item Budgeting to Programme Based Budgeting between 1978 and 1989 using a more gradual approach that has largely delivered on its promise.

Mauritius introduced an indicative programme-based budget alongside the traditional line-item budget in 2007-08 as a starting point. Subsequently, a fully-fledged programme-based budget set within a three-year MTEF (2008/09 to 2010/11) was implemented in the budget year 2008-09. The accelerated PBB implementation may have resulted in some respects to be a simple change in budget presentation rather than a true integration of policy budgeting. It is important to note that prior to implementing PBB Mauritius already had successfully implemented a computerized financial management system.

In the case of South Africa, the institutional arrangements of government reflect the programme/sub-programme structure and so permit clear lines of accountability for delivering on the budgetary programmes. It should be noted that there is very close alignment if not coincidence of the programme structure with an administrative structure. The advantages include relative simplicity, and the facilitation of the incorporation of posts directly into programmes. The disadvantages however appear to be a pressure to institute new administrative structures with the introduction of new programmes, and the special challenges that are sometimes presented in defining meaningful output and outcome indicators. In the case of South Africa, as was the case for Mauritius, it is also important to note that it has a strong computerised financial management system.

Mali has expressed its intention to move forward and have its result-oriented budget fully operational between 2012 and 2015, in line with WAEMU legislation. Burkina Faso has moved towards PBB since 2000. It intends to add a result-oriented budget appendix to the draft budget for 2013 and to transmit it to the Parliament as additional information.

Experience seems to suggest that:

- A more gradual approach, one that incorporates careful sequencing, appears to be an important element of PBB reform success.
- The corresponding institutional reorganisation to accommodate PBB is an important element for effective PBB
- The support of political and administrative leaders is vital for reform implementation
- Strong PFM systems including the successful implementation of computerized financial management systems are an important factor.

7. *Considering an Appropriate Approach to Introducing PBB Reform*

In considering the introduction of PBB reform, as is the case for many other areas of Public Finance Management (PFM) reform there are a number of distinct elements to be addressed. These are:

- The current status of budgetary performance. A minimum performance level in planning and monitoring and evaluation, as well as PFM must be met.
- The sequencing of reform steps dictated by broad reform platforms and functional inter-linkages;
- The roll out of the reform steps both horizontally across the different sectors and vertically through the levels of sector headquarters, regional or provincial offices, district offices and frontline service delivery units;

- The current levels of capacity, including the status of the financial administrative network;
- The resources available for carrying out the reforms;
- The political economy and macroeconomic contexts; and
- The institutional arrangements set up for managing the reform efforts

Adopting a model for the achievement of sound PFM performance to be the measure of fiscal discipline, the strategic allocation of resources and efficient service delivery achieved affords us a basis for defining platforms platform focus for reform sequencing[14]. We specify a platform sequence to be (1) the achievement of fiscal discipline, next (2) the achievement of efficient service delivery and then (3) the strategic allocation of resources. This sequencing rationale suggests that PBB which is associated with the strategic allocation of resources should be pursued only when fiscal discipline and efficient service delivery are sufficiently functional.

8. Sequencing of PBB Reforms

PBB reform requires the introduction of a programme based budget classification and corresponding transformation of the institutional arrangements of public administration away from administrative heads to programme managers.

Instituting a new budget classification, as is required of PBB reform, constitutes a fundamental structural change to the budget process. It implies revisiting the budget release structure; a virement based upon programmes rather than based upon an economic classification; a commitment control based upon programmes and an in-year budget reporting also based upon programmes. Accommodating these fundamental changes suggest that a number of related areas of PFM must also concurrently be reformed even where such areas are currently functioning well. This therefore makes it a requirement that sequencing be considered very carefully when PBB reforms are intended. Further, it suggests that a gradual approach may be more productive than a big bang approach as the inter linkages between PBB and other areas of PFM are accommodated. This approach indeed is supported by the PBB reform experiences of such countries as Canada and Singapore for which reform was sequenced over periods close to a decade.
A careful consideration of sequencing and roll out requirements necessary for PBB reform identifies three main phases to be addressed. These are presented below in sequence:

1. The first phase focuses on strengthening of basic PFM systems to ensure that sufficient PFM performance has been achieved. The PEFA Assessment tool provides a basis to both guide the sequencing of PFM reforms as well as identify at what point sufficiently robust basic PFM systems have been achieved to undertake the next phase.

[14] On the PEFA Reform Sequence Model Framework, Ronald Quist, submitted to AIDCO, European Commission, 2009

2. The second phase focuses on the creation of a PBB reform enabling context. These reform steps may be guided by a consideration of the requirements to transition from line item budgeting to PBB. We note that the creation of PBB enabling environment includes introducing computerised expenditure management[15] and the institution of a treasury single account. The successful implementation of this phase can facilitate the implementation of a programme informed budget process that guides the allocation of resources between sectors on the basis of measured results.
3. The third phase focuses on the actual implementation of PBB with a reform of the institutional arrangements for budget management and the introduction of a programme based budget classification. The reform of the budget formulation, budget execution and financial reporting is guided by a sequencing rationale based upon the PFM linkages. The technique involves identifying activity chains that represent the PFM linkages, and sequencing the reforms by starting with the shortest activity chains and progressing to the longest activity chains.

8.1 Strengthening of PFM Systems – a Prerequisite to PBB Reform

The first step to undertaking PBB reform is strengthening the PFM systems; especially those areas of PFM that serve as prerequisites to successful PBB implementation. What prerequisites are necessary for the successful implementation of PBB? Is there as way to determine with reasonable reliability whether implementing PBB is technically and operationally feasible?

The pre-requisites for the successful implementation of PBB may be categorised under (1) planning and monitoring and evaluation, (2) budget formulation, (3) budget implementation and (4) financial reporting. These pre-requisites refer to the achievement of adequate performance levels. The PEFA Assessment, which as of mid-2011 had been carried out in over 93% of Sub-Saharan Africa[16], serves as a source for measuring the current levels of PFM performance. The pre-requisites are listed out below. In each case, where available, the corresponding PEFA performance sub-indicators are listed. The minimum scores applied are based upon a consideration of the requirements necessary to achieve a particular PEFA sub-indicator score and the minimum PFM performance requirement necessary to implement PBB. To draw conclusions on PFM performance both the indicator score and the accompanying narrative should be considered.

- The achievement of fully costed (investment and forward linked recurrent costs) strategies by an effective debt management strategy prioritised within firm reliable fiscal resource

[15] It is important to distinguish a number of currently implemented IFMIS systems that are better characterized as computerized payment systems rather than expenditure systems (see for example, Liberia). The distinction is that an expenditure management system would include effective control of commitments (which occur at the level of spending units) rather than simply controlling the payment component of the expenditure cycle which may be addressed centrally. Successful programme based budgeting relies upon PFM systems being able to align expenditure with budgeted activities and projects. This in turn requires effective commitment control.
[16] Evaluation of PEFA Programmeme 2004 – 2010 and Development of Recommendations beyond 2011 Final Evaluation Report, by Andrew Lawson and Alta Folscher

forecasts guided. A measure of performance may be obtained by considering PEFA sub-indicators PI-12(i), PI-12(ii) and PI-12(iii) ;

- The implementation of a credible monitoring and evaluation framework to cover all of the key sectors. There are no direct measures of the credibility of monitoring and evaluation included in the PEFA Assessment but some indication may be available from planning and sector reports.
- A credible multi-year macro-fiscal frame which can serve as an effective instrument of top-down budgetary discipline and whose effectiveness is not undermined by large unpredictable subsidies and donor flows(see PI-12(i));
- A credible budget process that results in close matches between expenditure outturns and budget estimates for revenue and aggregate and sector expenditure. In particular, it is important that the PFM systems are capable of effectively curbing the accrual of expenditure. High levels of expenditure arrears undermine a forward perspective on budget implementation as is required by PBB and the achievement of policy outcomes and mires budget implementation in the reconciliation of past contracts (see PI-1, PI-2, PI-3, PI-4(i) and PI-4(ii)). Where there is substantial donor participation in the budget the integration of programme and project aid into the budget becomes very important to the PBB process (see D2 (i), D2 (ii));
- The budget classification must reflect at least administrative and economic classifications (PI-5);
- A budget preparation process with adequate time to fully reflective of bottom-up inputs that reflect service delivery requirements and integrates political consideration at the beginning of the budget preparation cycle(see PI-11(i), PI-11(ii));
- A budget release mechanism with a sufficient horizon to effect an effective commitment control across all spending units, effective debt management, sound public procurement and payroll management(see PI-16(i), PI-16(ii)), PI-20(i), PI-17(i), PI-17(ii), PI-18(i), PI-18(ii), PI-18(iv), PI-19(i), PI-19(ii);
- An effective focus on output control of expenditure by the sector ministries rather than input control by the finance ministry. To meet this standard almost certainly requires the implementation of computerised financial management systems with complete coverage of expenditure and the capacity to monitor expenditure down to the level of the service delivery units (see PI-23);
- The accurate and timely in-year financial reporting of budget implementation as well as the preparation of comprehensive, accurate and timely financial statements (see PI-24(i), PI-24(ii), PI-24(iii), PI-25(i) and PI-25(ii));
- The assurance of sustained effectiveness, accuracy and timeliness of these systems through effective risk management and systems audit (see PI-21(i));
- Effective external scrutiny and audit (see PI-26 (i), PI-26(iii)) and PI-28(i));

- And effective policy debate and oversight by the parliament with approvals made prior to the start of the fiscal year (PI-11 (iii), PI-27(i)).

An analysis of whether a country has met the minimum PFM performance level, based upon the criteria listed above and using the PEFA scores was performed on seven countries and one state. This was selected on the basis of their having adopted programme based budgeting (or performance based budgeting) or are currently grappling with doing so. The seven countries are South Africa, Mauritius, Norway, Botswana, Ghana, Mali and Burkina Faso; and Lagos State. The results of the analysis are presented in Appendix 1. A summary extract of the results is presented below in Table 2.

Table 2: Summary Results of Analysis for Meeting Pre-requisites for PBB Implementation

Number of Pre-requisites for Implementing PBB				32
Number of Pre-requisites met:				
	Number	Adjusted	%	Remarks on Adjusted Figures
Mauritius 2011	27	27	84%	
Norway 2008	27	28	88%	It may be argued that PI-21(i) applied to Norway is inappropriate
South Africa 2008	26	28	88%	Given the very small amounts of donor aid D2(i) and D2(ii) scores may not be critical
Mauritius 2007	25	25	78%	
Burkina Faso 2010	19	19	59%	
Botswana 2008	17	19	59%	Given the very small amounts of donor aid D2(i) and D2(ii) scores may not be critical
Ghana 2009	10	10	31%	
Mali 2010	9	9	28%	
Lagos State 2008	7	7	22%	

The results suggest that Mauritius, Norway and South Africa substantially meet the pre-requisites to successfully implement PBB. Out of 32 pre-requisites, these countries meet between 25 and 28. In contrast, the analysis suggests that Burkina Faso and Botswana, with 17 to 19 out of 32 pre-requisites met, have considerable strengthening of their basic PFM systems yet to be undertaken before initiating PBB reforms. Botswana is currently designing a PFM reform programme. It is recognised that many pre-requisites must first be met and so the PBB initiative has been sequenced to start five years into the reforms. Burkina Faso is pursuing a gradualist approach and intends to move to programme based budget only as an appendix to the 2013 appropriations bill. The analysis suggests that it would be premature to introduce PBB at this time in the case of Ghana, Mali and Lagos State. In all three countries, there is some evidence to suggest the timetable for introducing PBB may be the result of donor pressure. In the case of Lagos State, the PBB initiative is being supported by DFID through the SPARC programme[17]. Mali is responding to its treaty obligations under WAEMU legislative requirements. Ghana did not foresee a PBB reform initiative under its original GIFMIS project. This was later introduced in response to IMF disbursement conditionality.

[17] DFID, through the State Partnership for Accountability, Responsiveness and Capability (SPARC) is supporting public finance management reform in Lagos State. Under the SPARC Programme a PBB pilot programme was introduced in 2010.

8.2 Creating an Enabling Context for PBB

The creation of an enabling context for the introduction of PBB may be guided by a consideration of extending traditional line item budgeting through a step of enhancing performance informed budgeting. Table 3 extends traditional line item budgeting through a step of performance informed budgeting prior to implementing full blown programme based budgeting. In such an approach, outputs and outcomes are monitored and used to inform the strategic planning process. Resource allocations are made on a sector basis. The strategic sector allocations enter budget formulation through a selection of projects on a functional classification basis – using mapping tables. Budget implementation remains on a line item basis, but reporting is done on a functional a basis to permit a comparison of resource allocation by sector against output and outcome achievements.

Table 3: Extension of traditional Line Item Budgeting as a Gradual Reform Approach to Introducing PBB

Results Chain Element	Classification Dimension	Institutional Lines of		Estimate/		Control		Financial Report		Monitor	
		Line Item	PBB	Line Item	PBB	Line Item	PBB	Line Item	PBB	Line Item	PBB
Inputs	Administrative	✓	✓	✓	✓	✓	✓	✓	✓		
	Economic	✓	✓	✓	✓	✓	✓	✓	✓		
	Program		✓		✓		✓		✓		
	Functional	✓	✓	✓	✓	✓	✓	✓	✓		
Outputs/ Outcomes	Program		✓		✓		✓			✓	✓
	Functional		✓		✓		✓			✓	✓
Multi-year Perspective	Administrative		✓	✓	✓	✓	✓	✓	✓		
	Economic		✓	✓	✓	✓	✓	✓	✓		
	Program		✓		✓		✓		✓	✓	✓
	Functional		✓	✓	✓		✓	✓	✓	✓	✓

Table 3 helps to define a sequence of budget reform steps. These may be introduced under five main sequenced initiatives: (1) the introduction of effective, politically backed, multiyear fiscal frames to make effective strategic programme prioritization and to serve as an instrument of top down budgetary discipline; (2) strengthening strategic planning; (3) strengthening monitoring and evaluation; (4) directly linking sector strategy to the budget based upon a functional classification; and (5) executing the budget and generating financial reports on the basis of a functional classification. These are detailed further in the sections below.

1. Introduce effective multi-year forecasts of fiscal aggregates, with full political backing, to inform the resource envelopes applied to strategic planning as well as to serve an instrument of budgetary top down discipline. Introduce sector Forward Spending Estimates to facilitate the incorporation of sector baselines in the macro-fiscal forecasts. Fiscal forecasts must be comprehensive to include revenues, expenditures and transfers as well as net borrowings. A reliable net borrowing profile in turn requires the strict adherence to a politically backed debt strategy. While this may seem like a basic step there are very many challenges that developing countries face in respect of achieving effective politically backed fiscal frames. For a number of countries aid represents a very significant proportion of the budget and may

be as high as 40% to 50%. Such aid is tied to conditionalities, some related to governance criteria and outside the control of public finance management efforts. The upshot of this is that donor aid flows are not predictable. There is some sensitivity to this problem. For example the European Commission incorporates both a front loaded fixed tranche and smaller variable tranches that are tied to conditionalities. But while such an approach may be effective in respect of single year fiscal forecasts, it does not really help much in the case of three year forecast horizons. Another challenge to developing countries achieving this first basic step to the implementation of PBB is the high level of unpredictable, volatile subsidies that are included in the budget, and thus undermine predictability in expenditure applied to service delivery and development outcomes. In spite of this threat to sound PFM, the subsidy problem is highly political especially in a poor country and any threat of removal can lead to social upheaval[18]. Political economy dynamics may not permit anything but a gradual achievement of this very first step to extending line item budgeting to facilitate a PBB enabled context. Just achieving this step can place years on the schedule of successfully introducing PBB reform.

2. The next step to instituting a PBB reform enabling context is to strengthen strategic planning both at the national and sector levels and specify by sector output and outcome targets. It is desirable to cover at least the major sectors – health, education, roads and transport, agriculture. The approach typically involves a pilot programme with one or two sectors and then rolling the process out to the rest of the sectors. This process may take three to four years. Strategic planning depends on an effective prioritisation of programmes. This, in turn, requires that a firm and realistic fiscal forecast capability has been previously achieved. The experience in a number of developing countries and states is for donors to focus on specific sectors and to make the preparation of Medium Term Sector Strategies (MTSS) a conditionality for continuing support. However, if there is a simultaneous introduction of strategic planning at the sector level prior to realistic fiscal forecasts having been achieved, then at best these are merely exercises in capacity building and cannot be expected to contribute effectively to the achievement of desired sector policy outcomes. In some cases their early introduction can be counterproductive where strategy estimates bear little relationship to the budget and leave the impression with officials that these are merely steps to satisfy donor demands to ensure that funds continue to flow, rather than recognising the process, when applied correctly, as a powerful mechanism for supporting development.

3. Tied closely with strengthening strategic planning is the strengthening of monitoring and evaluation to measure actual output and outcome achievements. This component of creating a PBB enabling context is not critically dependent upon either the development of effective multi-year fiscal frames or strategic plans so should be started as early as is practicable. The

[18] The removal of petroleum subsidies in Nigeria in January, 2012 led to riots and threats to shut down the oil industry through strikes. The government was forced to reinstate 50% of these subsidies.

outcome indicators commonly involve sophisticated statistical sampling and the establishment of baselines and so this process can take at least several years.

4. The next step is the direct linkage of policy to the budget. This requires that both effective politically backed multi-year fiscal frames and effective strategic planning have first been achieved. If so, then the country can introduce a multi-year perspective on a rolling annual basis to budgeting by linking multi-year forecasts to budget ceilings. Further, it can link budgets to sector plans on a sector basis using functional mapping tables, based upon a prioritised selection of projects and available fiscal space; and taking into account investment costs as well as forward linked recurrent charges.

5. Next, budget execution can be reformed to reflect a functional structure in line with the budget formulation and strategic planning structures. This may be reflected in the structure of budget release, and also in the organisation of financial reports. In anticipation of the layer of complexity imposed upon budget execution and financial reporting by the introduction of PBB, it is necessary to introduce computerised expenditure management and a treasury single account to effectively manage budget releases.

8.3 Undertaking Core PBB Reforms

Going through these five steps listed above to prepare a PBB enabling reform context will take at least several years and could be as long as a decade depending upon the political economy – both with respect to country political commitment to reform, as well as development partner practices with respect to participation in the budget process. The schedule of implementation will of course also depend upon capacity and resource constraints. Once these steps have been achieved, the core elements of PBB can be considered and the proper work of a PBB reform started upon. This requires a consideration of the sequencing and roll out requirements. The sequencing rationale is based upon PFM linkages that are impacted by the introduction of a programme based budget classification. These include:

1. The first step of the core PBB reform process is the review of the legal and regulatory framework centered on the budget law and possibly introducing a fiscal responsibility act. It requires a realignment of related regulations, manuals and reporting formats. For example in Mauritius the implementation of a fully fledged operational PBB was preceded by the enactment of the Finance and Audit (Amendment) Act 2008; the enactment of the Public Management Debt Act 2008; accompanying changes in the Financial Management Manual (FMM).

2. The second step involves operationalising the law. This step includes the reform of the institutional arrangements for managing a programme based budget. For some countries, this may include first integrating separate budget divisions – recurrent budget and development budget into a single budget division. These institutional changes must be rolled out to all

sector ministries. The reform of the institutional arrangements for public administration is to accommodate the designation of programme managers to be held accountable for delivering on programme results. Pragmatic considerations require that this step aligns closely with the existing administrative organization. However, on the other hand, too timid a reform initiative with respect to aligning the administrative structure to accommodating clear lines of accountability for programme managers can lead to a PBB implementation that merely reflects a PBB classification but in essence does not transition from an inputs focus to a results basis.

3. The third step addresses restructuring the budget systems and procedures to accommodate PBB. We note that the implementation of the core PBB reform is typically implemented on the basis of a pilot project involving two or three ministries, and then based upon lessons learned, rolled out to other sector ministries over a period that can take several years. Given that, the reform of systems and procedures must adopt an approach that accommodates both the current and reformed budget systems. This step begins with a reform of the Chart of Accounts. Many countries adopt a COFOG/GFS standard. This standard accommodates both cash and accrual accounting standards. The chart of accounts will reflect administrative, economic, functional and programme classifications and may incorporate well over a dozen segments. The subsequent degree of transaction codification complexity makes it particularly challenging to manage accounts manually. And yet, something often ignored is that in developing countries (excepting small island states and federal systems) even where computerised expenditure management have been successfully implemented, they do not cover all spending units. It requires that a simplified chart of accounts that can compile transactions consistently at least at an aggregate level be also specified. This step also entails redesigning the payroll ledgers to permit integration into the general ledger on a programme basis.

4. The fourth step entails redesigning the formats of the budget documentation budget call circular, monthly and quarterly expenditure returns, and the annual financial statements. It will also include revisiting the classification basis for pro-forma cash flow requests by sector ministries, procurement plans, and warrants or authorities to incur expenditure.

5. The fifth step, which represents the first implementation step, looks to address the budget release procedures to permit the timely release of resources on a programme basis, rather than on an administrative/economic classification basis. With a treasury single account in place, the transformation from an administrative/economic classification of sub-accounts to an administrative/programme classification is made more straightforward. These steps along with the implementation of a chart of accounts that reflects a programme classification, facilitates a basis to reflect budget virement and budget releases based upon programmes rather than economic classifications. To assure that budget releases are expended as per

budgetary intent and in accordance with specified programmes, this step also entails the implementation of commitment control systems based on programme and sub-programme head rather than administrative and economic head. Where a previously implemented computerised expenditure management system does not cover a substantial majority of non-salary expenditure, this introduces a very severe challenge.

6. The sixth step must be closely coordinated with the previous step. It involves the issuance of a budget call circular that specifies sector and programme ceilings and does so timed in a way to assure that the PFM systems can manage budget releases and control on the basis of a programme classification in the fiscal year for which the budget circular corresponds.

7. The seventh step entails introducing in-year and annual financial reporting based upon a chart of accounts that incorporates the PBB classification; and

8. The final step, once PBB is implemented is to reform audit to include performance based approaches and techniques.

9. On the Time Required and Scheduling of PBB Reform

Clearly, from the considerations outlined in the previous sections, the time required to successfully implement PBB successfully, very much depends upon a country's current status of PFM performance, and what steps it has already put in place towards creating a PBB enabling context. The time required will also be influenced by whether it is a small island state, a federal system or a country with highly decentralised or de-concentrated expenditure management, or whether it is a country with a centralised financial management administration. The circumstance is further influenced by the status of the financial administrative network.

Appendix 2 presents estimates of time requirements to address the different phases of PFM reform. The table separates estimates for small island states, federal countries or countries with highly decentralised or de-concentrated expenditure management, and countries with centralized expenditure management. The estimates are informed by the presumption of a weak financial administrative network as is the case for many developing countries. The analysis in Appendix two leads to a very wide range of time scales for PBB reform implementation. A summary is presented in Table 4 below. The time schedules depicted are estimates.

Table 4: Estimates of Time Required for implementing PBB reforms based upon the type of Political Administration, the Current Status of PFM Performance and the Degree that a Country has effected a PBB Enabling Context

Total Time Required for PBB Reforms			
	Small Island State	**Federal / Decentralised Government**	**Centralised Government**
The Basic PFM systems remain weak	**12 to 15 years**	**12 to 18 years**	**15 to 25 years**
Basic PFM systems are sufficiently strong	**8 to 10 years**	**8 to 12 years**	**10 to 15 years**
A PBB enabling context has been effected	**5 to 7 years**	**5 to 7 years**	**7 to 10 years**

The analysis suggests that in the cases of a small island state, if there is sufficient preparation successful PBB reform implementation can be achieved in a relatively short time. With developing countries, even where there is sufficient preparation, the sequencing and roll out considerations can make it a decade's long enterprise.

Discussion and Conclusions

While Programme Based Budgeting (PBB) provides the promise of markedly improved decision making, effectiveness, efficiency, transparency and accountability in budget management, it does so only when it is successfully implemented. The experience of OECD countries, as illustrated by the example of France, while achieving part of the promise, has not fully achieved expectations even after over a decade of implementation. Lessons to be derived suggest that great caution be taken in deciding upon whether a country should undertake PBB reform, and how it should do so. It is well recognised that PBB reform is only appropriate where sufficient PFM performance and governance has been achieved. This paper demonstrates that the PEFA assessment provides a basis for determining if a country meets the pre-requisites to undertake PBB reform. The analysis appears to well discriminate between countries that have successfully implemented PBB reform in Africa, and those that are grappling to do so.

Three main sequencing phases are identified. The first phase seeks to strengthen basic PFM performance. The second phase seeks to create an enabling context for the implementation of the core PBB functions. This phase is guided by a process of enhancing performance informed budgeting. The third phase introduces the core PBB functions. The sequencing of which is guided by PFM functional linkages.

Beyond identifying whether or not it is premature to undertake PBB reforms, the analysis presented suggests that careful sequencing and roll out considerations must be made. Such sequencing adopts a two-tier approach. The first tier is guide by an expansion of the Line Item Budget approach to accommodate a multi-year fiscal perspective and a functional budget structure, even if merely carried out on a mapping basis, to better link the selection of projects within sector strategies and budgets. This provided of course that care is taken to reflect recurrent cost implications of the projects. This tier may be characterized as one seeking to create an enabling environment to successfully launch PBB.

Once that is achieved, the analysis identifies PBB reform as foundational, given the need to introduce a programme classification that requires revisiting many elements of PFM practice. This warns against the narrow view of PBB reform that some countries adopt, which focuses principally on a redesign of the Budget Call Circular and possibly a modification of the Chart of Accounts. The linkages between the budget formulation, budget execution and financial reporting, especially strong in the case of PBB points to a consideration of activity chains to be a productive method for sequencing[19]. This suggests a gradual approach to PBB reform even where the pre-requisites of sufficient PFM and governance performance levels have been met. In practice, this easily translates into a decade or so for PBB reform implementation. The experience of a number of OECD countries bears this out. This questions the rationale for making PBB reform implementation a conditionality of donor aid and loan disbursements covering a period of five years or less.

In discussing sequencing, it is worthwhile to be reminded that sequencing and prioritising are not the same, and their respective consideration often leads to completely different ordering of reform steps. Many elements of the "new public management" such as MTEF, PBB, and Accrual Accounting are often toted as priorities in budgetary and financial management reform and so are made the early focus of reform. Such a perspective is prudent only if the proper sequencing is applied. Proper sequencing considerations would pace these priorities towards the back of a sequenced schedule.

In the consideration of sequencing, it is important to take into account, in addition to the length of activity chains that serve as a measure of reform effort, and a guide to order reforms starting with shorter activity chains and graduating to longer ones, the roll out requirements both horizontally across all sector ministries as well as vertically down through the levels of the headquarters, regional or provincial offices, district offices and down to the service delivery units. In practice, this often means dissemination of guidelines and the building of sufficient capacity at all of these levels. There are particular challenges in developing countries, which are not small island states and have not undertaken significant steps to decentralize or de-concentrate their expenditure management. The very long expenditure pathways are further challenged by weak financial administrative networks. The analysis considered in this paper point to the following conclusions:

- Countries should only undertake PBB reforms if they have achieved sufficient PFM performance. If a country has not yet met a sufficient PFM performance level, that can add between three and seven years for it to address the PFM basics. The complexity and burden placed upon budget execution suggest that a productive approach to the implementation of

[19] On the PEFA Reform Sequence Model Framework, Ronald Quist, submitted to AIDCO, European Commission, 2009

PBB is to precede the core PBB reform by creating a PBB enabling context. This approach facilitates a period of performance informed budgeting. But to embark upon this, it matters as to how effective and to what degree of political backing there is to a country's multi-year fiscal frame. This intermediate phase may take a number of years. This phase of PBB reform, in anticipation of the complexity of PBB, requires the implementation and roll out of a computerized expenditure management system, to cover a substantial proportion of non salary expenditure. Given the requirements for budget release management it also requires the implementation of an effective treasury single account. With the successful achievement of a PBB enabled context, a core PBB reform can be undertaken. It requires a reform of the institutional arrangements and a careful coordination and sequencing of budget preparation and budget execution reform steps based upon PFM linkage considerations. Such sequencing is tied to sufficient roll out for each step to be sufficiently implemented to warrant initiation of the next reform step.

- The implications imposed upon budget execution by implementing PBB, especially given the weak financial administrative networks in many developing countries, suggests different risk profiles for different types of country. There can be expected higher risks with countries with highly centralized expenditure management systems and significantly less so with small island states, federal administrations or otherwise decentralized or de-concentrated expenditure management systems.
- PBB should only be taken on if there is the sufficient achievement of effective strategic sector planning, and monitoring and evaluation.

By way of a final concluding remark; this paper makes the case that given the complexity of PBB, successful implementation requires a careful assessment of the current PFM performance status, and an ascertainment of the achievement of a number of key PFM steps and then a gradual implementation of PBB elements. Given the current status of PFM performance for a number of African countries, such an argument would suggest excluding many African countries from PBB reforms for a number of years yet. This in turn would consequently exclude it from the promise of better decision making, improved effectiveness and efficiency, and greater transparency and accountability. While there is some truth to that, we should be reminded that it is possible to achieve a degree of performance informed budgeting through an intermediate reform process of strengthening public finance management, including a transition to a more medium-term macro-fiscal budgetary frameworks and a progressive adoption of a more output focused approach to budget formulation and monitoring. It is worthwhile to note that Botswana maintained its position as the fastest growing economy in Africa through the eighties, nineties and the first half of the first decade of the new millennium. It did this on the basis of Line Item Budgeting coupled with an effective planning process. So it should be possible for countries to start now, make determined and sequenced gradual steps towards a successful implementation of PBB that may take a decade or more, and still remain optimistic about delivering on economic development and service delivery improvements.

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Appendix 1: Table of PEFA Scores applied to the pre-requisites for the successful implementation of PBB for to seven countries and one state.

		South Africa 2008		Mauritius 2011		Mauritius 2007		Norway 2008		Ghana 2009		Botswana		Mali 2010		Burkina Faso 2010		Lagos State	
PFM Performance Indicator	**Pre-Req.**	**Score**	**Status**	**Score**	**Status**	**Score**	**Status**	**Score**	**Status**	**Score**	**Status**	**Score**	**Status**	**Score**	**Status**	**Score**	**Status**	**Score**	**Status**
1. Aggregate expenditure out-turn compared to original approved budget	A	A		B	X	A		A		C	X	C	X	A		B	X	D	X
2. Composition of expenditure out-turn compared to original approved budget	A	A		D	X	B	X	A		C	X	C	X	B	X	C	X	C	X
3. Aggregate revenue out-turn compared to original approved budget	A	A		A		A		A		B	X	A		B	X	C	X	D	X
4.(i) Stock of Arrears	B	A		A		A		A		N	X	N	X	C	X	A		N	X
4.(ii) Data Availability	B	A		A		A		A		D	X	D	X	D	X	B		D	X
5. Classification of the budget	C	A		A		B		A		C		C		C		A		D	X
11.(i) Existence and Adherence to a fixed budget calendar	B	A		C	X	B		A		A		B		B		B		B	
11.(ii) Clarity/comprehensiveness of and political involvement in budget preparation	A	A		A		C	X	A		A		C	X	C	X	B	X	D	X
11.(iii) Timeliness of budget approval by the legislature	A	D	X	A		A		A		B	X	A		A		A		C	X
16.(i) Extent to which cash flows are forecast and monitored	B	A		A		A		A		C	X	D	X	C	X	A		C	X
16.(ii) Reliability and horizon of periodic information to MDAs on commitment ceilings	B	A		A		A		A		D	X	A		C	X	B		D	X
17.(i) Quality of debt data recording and reporting	A	A		A		B	X	A		B	X	C	X	C	X	B	X	C	X
17.(ii) Extent of consolidation of the government's cash balances	B	B		B		A		A		C	X	C	X	C	X	B		D	X
18.(i) Degree of integration and reconciliation between personnel records and payroll	A	A		B	X	B	X	A		A		A		A		A		A	
18.(ii) Timeliness of changes to personnel records and the payroll	B	A		A		A		A		C	X	B		B		C	X	B	
18.(iv) Existence of payroll audits	B	A		A		A		A		B		B		B		B		B	
19.(i) Use of open competition	B	D	X	A		A		D	X	A		D	X	B		C	X	D	X
19.(ii) Justification for use of less competitive methods	B	D	X	A		A		B		B		C	X	D	X	B		C	X
20.(i) Effectiveness of expenditure commitment controls	B	A		A		A		A		D	X	B		C	X	B		C	X
21.(i) Coverage and quality of the internal audit function	B	A		B		B		D	X	C	X	B		D	X	A		C	X
23. Availability of information on resources received by service delivery units	B	A		A		A		D	X	B		A		C	X	D	X	N	X
24.(i) Scope of reports (coverage and compatibility with budget estimates)	A	C	X	A		B	X	C	X	C	X	C	X	C	X	A		C	X
24.(ii) Timeliness of the issue of reports	A	A		A		B	X	A		B	X	A		D	X	A		D	X
24.(iii) Quality of information	A	A		A		A		A		C	X	A		C	X	A		C	X
25.(i) Completeness of the financial statements	B	A		A		A		A		C	X	B		D	X	B		D	X
25.(ii) Timeliness of submission of the financial statements	A	A		A		A		A		A		B	X	C	X	B	X	A	
26.(i) Scope/nature of audit performed	B	A		B		B		A		B		B		D	X	D	X	A	
26.(iii) Evidence of follow up on audit recommendations	B	B		B		B		B		C	X	B		D	X	B		B	
27.(i) Scope of the legislature's scrutiny	B	A		B		B		B		C	X	B		A		A		C	X
28.(i) Timeliness of the examination of audit reports by the legislature	A	A		D	X	D	X	B	X	D	X	C	X	D	X	C	X	C	X
D-2(i) Completeness and timeliness of budget estimates by donors	A	D	X	A		A				B	X	C	X	C	X	B	X	D	X
D-2(ii) Frequency and coverage of reporting by donors on actual donor flows	A	D	X	A		A				C	X	D	X	D	X	C	X	D	X
	32		**6**		**5**		**7**		**5**		**22**		**15**		**23**		**13**		**25**

Appendix 2: Table of Estimated Times for the Implementation of PBB Reform

	Developing Country Context		
PBB Reform Phase	**Small Island State**	**Federal / Decentralized Government**	**Centralized Government**
Strengthening Basic PFM Systems	3 to 5 years	3 to 7 years	5 to 10 years
	The constrained geographical spread of spending units limits the challenges to predictability and the implementation effective controls on expenditure	Given that most budgetary outflows are internal transfers, a computerized payments system is often sufficient to meet the sufficient PFM performance	Especially given the weak financial administrative networks, the very long expenditure management pathways present sever challenges to predictability and control in expenditure management.
Creating a PBB Enabling Context	3 to 5 years	3 to 7 years	5 to 10 years
Achieving an effective, credible multi-year macro-fiscal frame	This may be complicated by volatile unpredictable subsidies and unpredictable donor disbursements		
Achieving effective medium term sector strategies	The main challenges are political and tied to volatile unpredictable subsidies and unpredictable donor disbursements		
Instituting effective monitoring and evaluation	This is less of a challenge if the geographical range for data collection is limited	The requirements for monitoring and evaluation are independent of whether there is decentralized or de-concentrated expenditure management.	The requirements for monitoring and evaluation are independent of whether there is decentralized or de-concentrated expenditure management.
Introducing a Treasury Single Account (TSA)	Given the limited range of spending units even a simple implementation of a TSA can be highly effective	Given the very high level of internal transfers versus expenditure, even a simple implementation of a TSA can be highly effective.	To institute a TSA with sufficient reach to impact on the control of expenditure at the level of spending units
Introducing an effective, rolled out, computerized expenditure management system (in contrast to payments system)	Given the limited range of spending units, a payments system can be adequate	Given the very high level of internal transfers versus expenditure, even a simple payments system may be adequate	To have effective commitment and hence expenditure control, there must be sufficient roll out both horizontally and vertically across spending units to assure that sufficient proportions of expenditure are effectively controlled.
Undertaking the Core PBB Reform	5 to 7 years	5 to 7 years	7 to 10 years
Instituting legislative reform	Instituting legislative reform typically takes three years or more		
Implementing reform of institutional arrangements	Implementing institutional reforms across all sectors horizontally as well as vertically may take a relatively short time	Implementing institutional reforms across all sectors horizontally may be all that is required depending upon the mechanisms for fund transfers	Implementing institutional reforms across all sectors horizontally as well as vertically can make this in practice a long drawn out process
Reforming the chart of accounts and the classification of the personnel/payroll database	The capacity development associated with the implementation of a new chart of accounts tends to involve fewer spending units	The capacity development associated with the implementation of a new chart of accounts tends to involve fewer spending units	The capacity development associated with the implementation of a new chart of accounts tends to involve spending units
Reforming the budget release and control systems; along with the reporting the financial reporting	The limited spatial extent limits the time required for roll out	Roll out considerations may be limited to horizontal elements across sectors	Roll out considerations may be quite extensive given the requirement for both horizontal as well as vertical roll out
Instituting performance based audit	The institution of Performance Based Audits typically focuses upon the audit institutions		
Total Time Required for PBB Reforms			
The Basic PFM Systems remain weak	**12 to 15 years**	**12 to 18 years**	**15 to 25 years**
Basic PFM Systems are sufficiently strong	**8 to 10 years**	**8 to 12 years**	**10 to 15 years**
A PBB enabling Context has been effected	**5 to 7 years**	**5 to 7 years**	**7 to 10 years**