INTEGRATION OF DEVELOPMENT PLAN WITH THE BUDGET
AN EVALUATION OF THE USEFULNESS OF PROGRAM AND PERFORMANCE BUDGETING TO "PLANNING FOR DEVELOPMENT"
by
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We accept this thesis as conforming to the required standard

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ABSTRACT

In the developing countries where development plans are effected through the budget, it is imperative that effective and efficient execution of plans require not only integration between planning and budgeting, an efficient budgeting system, but also that, since national goals are realized through fulfilment of planned targets in programs and projects, the budgeting system should have a built-in format which reflects such activities, and that they ought to be the basis for financial allocations. The essence of such effective integration, an efficient budgeting system and presentation of activities in the budget, lies in the fact that since planning is a continuous process which involves the constant re-examination of trends, tendencies, policies, in order to adapt and adjust government policies and to make plans flexible, it requires as its basis for rational decision-making and ultimate selection of courses of action, assemblage of facts, data thoroughly analysed to ensure that what has been planned is in fact achieved. The planning process, and even more so the plan execution process, thus needs a lot of active, positive support to be successfully maintained; an efficient management tool providing the necessary vehicles for evaluation of achievements of planned targets. Therefore it is hypothesized that the evaluation of a development plan's performance is of only partial validity if it is not based on a budgetary classification system, which along with reflecting the physical and financial targets in the plan is effectively integrated with it.
Integration between a comprehensive plan and the budget involves first, annual programming of the goals and targets in the plan; second, assignment of responsibility of carrying out its component programs and projects; third, effective coordination and the closest of co-operation between the central planning agency, the ministry of finance and the operating agencies; making such an annual program the basis of budget presentation and allocation of financial resources to accomplish the targets; and fifthly, integrating the physical and financial plans of the programs in the budget classification system to provide tools for progress reporting and evaluation.

Using the Soviet planning experience to illustrate the processes involved, it is noted that although the processes are complex, yet the planning and budgeting systems are fully synchronized. Such effective co-ordination and integration are found to be wanting in many developing countries. The formulation of plans is divorced from plan implementation and there is no link anywhere in the budgeting system between planned targets and financial allocations. Planning is thus not only incomplete but also ineffective as the mechanism to give effect to planning decisions is not attuned to the requirements of development planning. It is demonstrated that owing to inadequate planning, or lack of flexibility in planning, absence or inadequacy of proper and efficient communication between planning and budgeting agencies, deficient budgetary techniques employed in the process of plan implementation and failure of the budgetary system to link financial resource allocations to the needs of physical targets, the system operating, leads one to conclude that an efficient
budgeting management system to implement plans may be more important than the plans themselves.

Therefore since evaluation and analysis of progress on projects and programs is critical to "planning for development" to enable selection from among alternative objectives, policies and programs and optimal allocation of limited resources, the attributes of program and performance budgeting that help in this process are analysed. It is demonstrated that it is an efficient management tool whose salient features can contribute to both effective plan implementation and execution and the whole planning process. It is pointed out that the technique links planning with budgeting and provides in its format planning goals in the form of programs and project targets linked to the requisite financial resources and also provides the necessary classification systems and tools to evaluate a plan's performance.

The principles of program and performance budgeting provide the basis for the case study of Ghana's planning and budgeting systems. It is demonstrated that although some features of the technique are being utilized, there is not effective coordination and co-operation in the formulation and presentation of annual programs and the budget. Owing to this lack of coordination it is demonstrated that plan implementation and execution has been ineffective and that there is room for improvement.

In conclusion, it is emphasized that in countries "planning for development" an efficient budget mechanism to effectuate the social, economic and physical development policies of govern-
ments is more important than the development plans. Thus it is noted that program budgeting is an efficient mechanism and the information it provides is very essential and useful to formulating, implementing and evaluating soundly conceived plans. As such it is a useful tool which a developing country, like Ghana, should adopt to buttress its development planning efforts.
# TABLE OF CONTENTS

## ABSTRACT

## TABLE OF CONTENTS

## LIST OF FIGURES

## ACKNOWLEDGMENTS

## CHAPTER I - DEVELOPMENT PLANNING AND THE BUDGET

The Importance of Economic Development ............... 1

The Roots of the Idea of Planning ....................... 4
  Ideas of Plato to the present writers

The Concept of Development Planning .................... 6
  Three types of planning distinguished
  a) Planning in Socialized countries .................. 13
  b) Planning in Democratic Societies .................. 16
  c) Planning in Underdeveloped Countries or Mixed Economies .................. 18

What is and what is not a development plan? ............ 20
  Types of Development Plans ........................... 22
  a) Short-term Plans .................................. 22
  b) Medium-term Plans ................................ 23
  c) Long-term Plans .................................. 24
  d) Rolling Plans .................................... 24
  e) Annual Plans ..................................... 25

Implementation of Plans .................................. 26
  The Budget and its Uses ............................... 29

The Need for Integration ................................. 33

Hypothesis ............................................. 36

## CHAPTER II - THE ROLE OF THE BUDGET IN PLAN IMPLEMENTATION

Budgeting for National Objectives ....................... 38

Relationship of the Conventional Government Budget to Development Plans and Programs .................. 40
  The Budget as an Instrument in the Programming of Development .......................... 40
<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Budgets Based on Annual Plans as an Integral Part of the Planning Process - the Soviet Experience</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td>(a) Financial Planning and the Budget</td>
<td>46</td>
</tr>
<tr>
<td></td>
<td>(b) The Unified Financial Plan and the Budget</td>
<td>47</td>
</tr>
<tr>
<td></td>
<td>(c) How Financial Plans and the Budget are Compiled</td>
<td>49</td>
</tr>
<tr>
<td>II</td>
<td>The Experience of Developing Countries</td>
<td>53</td>
</tr>
<tr>
<td></td>
<td>(a) The Weaknesses of Conventional Budget Systems</td>
<td>57</td>
</tr>
<tr>
<td></td>
<td>(b) Budgetary Fragmentation</td>
<td>58</td>
</tr>
<tr>
<td></td>
<td>(c) Deficiencies in Budget Procedures</td>
<td>61</td>
</tr>
<tr>
<td></td>
<td>(d) Classification Systems</td>
<td>62</td>
</tr>
<tr>
<td></td>
<td>(i) Object Approach</td>
<td>64</td>
</tr>
<tr>
<td></td>
<td>(ii) Line-item budgeting</td>
<td>66</td>
</tr>
<tr>
<td></td>
<td>(iii) Functional Classification System</td>
<td>66</td>
</tr>
<tr>
<td></td>
<td>(iv) Economic Classification System</td>
<td>69</td>
</tr>
<tr>
<td></td>
<td>Evaluation of the Usefulness and Suitability of the Conventional Budget System to &quot;Planning for Development&quot;</td>
<td>69</td>
</tr>
<tr>
<td>III</td>
<td>The Program and Performance Budget - A Management Approach to Budgeting</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The Performance Approach to Government Budgeting</td>
<td>76</td>
</tr>
<tr>
<td></td>
<td>The Concept of Program and Performance Budgeting</td>
<td>79</td>
</tr>
<tr>
<td></td>
<td>Features of a Program and Performance Budget</td>
<td>85</td>
</tr>
<tr>
<td></td>
<td>Performance Budget Classifications</td>
<td>86</td>
</tr>
<tr>
<td></td>
<td>(a) Functional Classification</td>
<td>88</td>
</tr>
<tr>
<td></td>
<td>(b) Program Classification</td>
<td>90</td>
</tr>
<tr>
<td></td>
<td>(c) Activity Classification</td>
<td>91</td>
</tr>
<tr>
<td></td>
<td>(d) Object of Expenditure Classification</td>
<td>92</td>
</tr>
<tr>
<td></td>
<td>(e) Classification of Capital Outlay</td>
<td>93</td>
</tr>
<tr>
<td></td>
<td>The Financial Management System in Program and Performance Budgeting</td>
<td>93</td>
</tr>
<tr>
<td></td>
<td>Measure of Work Performance</td>
<td>96</td>
</tr>
<tr>
<td></td>
<td>Approaches to Physical Measurement</td>
<td>97</td>
</tr>
<tr>
<td></td>
<td>The Performance Budget as a Synthesis of an Annual Development Plan and the Annual Budget</td>
<td>98</td>
</tr>
<tr>
<td></td>
<td>Summary</td>
<td>99</td>
</tr>
</tbody>
</table>
CHAPTER IV - A CASE STUDY OF GHANA: APPLICATION OF PROGRAM AND PERFORMANCE BUDGETING

Background on Ghana .......................................................... 104
  (i) The Structure of Government ..................................... 104
  (ii) Progress of Plan Implementation, and the Current Setting for Government Operation .... 106
  (iii) Physical Planning Administration ......................... 108

The Financial Management System in Ghana
  (i) Organisation for Financial Administration Structure and Functions of the Planning Commission and the Ministry of Finance .......... 110

Implementation of Planning .............................................. 118
  (i) Planning Procedure for the Seven-year Development Plan 1963-70 ......................... 119
  (ii) Annual Plans .................................................... 121
  (iii) The Budget Process
    (a) Budget Formulation ........................................ 126
    (b) Budget Presentation ....................................... 128

Possible Approach to Performance Budgeting in Ghana ......................................................... 131
  (i) Adaptability of the Ghanaian System .................... 133
  (ii) The Classification Scheme ................................. 133
  (iii) Measurement Needs ......................................... 135
  (iv) Conversion Considerations ............................... 136

CHAPTER V - EVALUATION OF THE CONCEPT OF PROGRAM AND PERFORMANCE BUDGETING AND ITS USEFULNESS TO "PLANNING FOR DEVELOPMENT"

Promise and Performance ............................................... 140

Formulation of Annual Policies, Objectives and Goals ............................ 142

Relating Plan Formulation to Implementation
  The Problem Posed .................................................. 145

Discounting Overambitious Plan Targets .................................. 149

Improving the Conditions for Implementation .............................. 150

Closing the "Project Gap" ............................................ 151
LIST OF FIGURES

1. The Soviet System of Financial Planning ............. 48
2. The Adoption of the Budget and the National Economic Plan ............................................. 51
3. Object and line-item Budget Classification - British Columbia Provincial Government Budget 1968 ................................................. 65
4. Functional Classification of B.C. Provincial Government's Budget ..................................... 68
5. Chart of Functional Classification of Government Activities - Phillipines Government Budget System ........................................... 89
7. Units of Work Measurement in Selected Programs - The Phillipines .................................. 98a
8. Program and Performance Budget Classifications: Object, Program and Workload Classification of the Bureau of Reclamation - United States Department of Interior .................................. 100
9. Evolving Planning Organization in Ghana .............. 116
10. Leading Industrial Targets for the Seven-year Plan ......................................................... 124
11. Ghana's Ministry of Industries - Annual Development Program ........................................ 125
12. Object and line-item Budget Classification Government of Ghana ........................................ Appendix 1
13. Program Classification, Government of Ghana .... Appendix 2
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CHAPTER I
DEVELOPMENT PLANNING AND THE BUDGET

The Importance of Economic Development

In the period which started with the end of World War II, the problem of economic development has increasingly come to occupy the centre of economic thought; before that time, economic development played a minor role in the thought of economic theorists because development was considered as something which is granted and which comes about spontaneously and therefore need not be given special attention. In more recent times, however, two events happened which had the effect of making economists conscious of questions of development. One was the development of the socialist countries which started with the Russian Revolution after the first world war, followed by the emergence of a number of socialist economies in Eastern Europe and finally by the entrance of the largest nation in the world, of China, on a road of socialist development. The most important of them, the Soviet Union, became in a brief period of forty years, the second industrial power in the world.

The other factor was the national independence movements in the countries which formerly were colonial, semi-colonial or in some other form dependence on leading European powers. These movements in Africa, Asia and the West Indies led to the
emancipation of dependent states from foreign political and economic domination. These countries, with independence, consider economic development and progress to be their chief problem; and furthermore the economic and social backwardness of these countries has become so great that the problems of their economic progress, have become a major international concern.

As a result of these historical events, we can discern three historic patterns of economic development: firstly, the free market pattern which was followed by the countries of Western Europe and North America; second, the socialist pattern which was started in the Soviet Union, then extended to a number of countries in Eastern and Central Europe; then to China and some other Asiatic countries; and, third, the pattern establishing itself in countries which have recently achieved political independence. Both the socialist pattern and the pattern in the newly independent countries, have one feature in common. To them economic development is not spontaneous as in the classical capitalist pattern but is consciously achieved through national planning.

The less developed countries have embarked on the quest for economic development not necessarily to raise per capita income, but essentially to derive the benefits development has brought to the more advanced countries - better education, health and housing; the substitution of mechanical power for human toil; industrial facilities, processes and products; improved transportation and communications; diversification and increased
economic stability; increases in the range of human choices, more services, as well as more goods; prestige, power and status in the international community. To achieve these involves appraising their potentials for growth; setting production, investment and resource mobilization targets; allocating resources to projects and programs; formulating appropriate economic policies; devising appropriate development institutions and adopting and carrying out development plans, adapting them to experience and changing circumstances as they go along.

Planning has thus become a relatively new method of economic policy, and although it originated with the socialist economies, as a method of promoting economic development it has not remained limited to them. More recently, the idea of planning is even spreading to the western countries as a part of the growing pre-occupation with economic development. In spite of this trend "what is national planning?" is still an explosive question subject to varied interpretations. Even the term "planning" is surrounded by many emotional overtones. In some countries this term is socially acceptable only when referring to the plans of private business, state or local governments or activities of national government agencies within such traditional sectors as road and airport planning. When used to refer to the broad co-ordinating and promotional activities of a central government the term is often a "red flag". In the United States and Western Germany, particularly, it smacks of socialism or communism.
The roots of the idea of planning

Most writers see planning as an organised intelligent attempt to select the best available alternatives to achieve specific goals; and most agree that all planning has certain common attributes which include looking ahead, making choices, arranging that future actions for attaining objectives follow fixed paths or where it is impossible, setting limits to the consequences which may arise from such action.¹ In this work, however, planning will refer to a special kind of planning - economic planning, by a specific institution, the government. According to Zweig, the idea of planning may be connected with the increasing mechanization and technicalization of economic life .... may also be derived from the modern rise of the masses, and their efforts towards equality and self-government in the economic field .... the outcome of modern nationalism and militarism, which strive after the best utilization of productive resources for the purposes of power politics or defence.

Planning is also deeply rooted in human psychology and is nearly twenty-four centuries old having been first formulated by Plato in his Republic. We see it developing and taking shape through the centuries in Thomas More (Utopia, 1516) and in various nineteenth century writers, including Saint-Simon and Robert Owen who advocated schemes of economic planning, in the


The idea of planning may be traced to three different sources: extreme rationalism or technocracy, socialism or communism and nationalism or militarism.\(^3\)

The technocrat advocates a "rational" economy within the framework of an ideal society built up in accordance with the external truths of science and governed by scientists and technicians. He seeks to utilize the available resources as a whole to secure the maximum and optimum return. He is not specially interested in social equality, but he will arrange the distribution of income scientifically according to objective principles of reason. His approach is not a social but a scientific one. Planning of this kind may be described as scientific planning.

The socialist advocates an economy directed towards certain definite social ends. It must be an economy without exploitation, and be based on economic quality. To the socialist the economy must be subservient in its character to social ends, which take a much higher place than purely economic values. The economic ends cannot be attained in an unplanned economy, because it is sovereign and follows its own rules. The social ends are not inherent in an unplanned economy, which is oriented towards quite different goals.

The nationalist seeks to attain certain political ends which cannot be inherent in an unplanned economy. The economy

\[^3\text{Ibid, pp.20-22.}\]
he visualises must serve certain political interests, as an instrument of power politics. He regards the welfare and the power of his own nation as a primary interest, which must be safeguarded at all costs. The economy must serve this interest, and this can be achieved only by central control.\textsuperscript{4}

What emerges from this analysis is that planning is an economic-political hybrid and requires the application of both methods, the political and the economic, to the problem of development as a whole, since the essence of planning is a contrived co-ordination of economic activity by means of a centralized initiative. It also reveals that planning has functions that are explicit, open and manifest or implicit, hidden and latent.

Development Planning

In the socialist countries and in the developing countries of Asia, Africa and Latin America, economic development is planned, because economic development would not, under existing historic conditions, take place by itself automatically. In the less developed countries, there are generally unemployed and under-employed resources, balance of payments difficulties and a variety of bottlenecks which impede production and distribution. Usually, the systems of land tenure and land use are outmoded and unproductive, the incidence of taxation is inequitable and the distribution of incomes is unbalanced. The domestic private sector

\textsuperscript{4}Zweig, Ferdinand. \textit{The Planning of Free Societies}, op.cit. p.23.
is very often concentrated in commerce and trade, is reluctant to expand productive capacity or open up new industrial fields, while foreign investment is often limited to the extraction of natural resources to be processed abroad.

Aside from these, there are barriers to the free flow of information as well as restraints of customs, tradition and ignorance; capital markets, foreign exchange markets and even labor markets which operate fairly efficiently in developed economies patently do not do so in many less developed countries. In these countries, therefore, to increase their rate of economic growth and social progress, governments have consciously and continuously to make attempts to alter those institutions which are considered to be obstacles to the achievement of progress. Such countries, therefore, plan for development, and their planning efforts go deeper.

Essentially, the most distinguishable phenomenon of development planning is that "it seeks to change the economic and social institutional framework of a market economy in the process of securing an acceleration in the rate of economic growth and social progress" its primary objective being change plus growth. Development planning, as defined by the United Nations, is "any action by the State, whose purpose is to raise the rate of economic growth above that which would take place without any con-

governments, agencies, communities, families and individuals.

2. National economic planning consists of co-ordinated efforts by central institutions to develop some combination of:-
   (a) aggregate planning for general levels of output and income, employment, price levels, consumption, investment, balance of payments;
   (b) cross-sectoral planning for the supply or distribution of income and of such resources as manpower, goods, credit or information;
   (c) sectoral or subsectoral planning for such areas of activity as agricultural crops, mining, steel, road construction, railways, electric power, education, health and other specific sectors;
   (d) enterprise planning by or for private, public or mixed enterprise;
   (e) spatial planning for the geographical distribution of activity.

3. National planning is economic planning to the extent that it deals with decisions on the allocation of scarce resources and the production and distribution of goods and services.

4. Many terms are used to refer to national planning, including:-
   (a) co-ordinated economic programming;
   (b) integration of national economic policies;
   (c) national resource budgeting;
   (d) management of the economy;
(e) national economic policy making.\(^8\)

The concept of development planning is thus distinct from other forms of planning. Whereas anticyclical planning, which is generally limited to industrially advanced countries with strong private sectors and well-developed markets, seeks to achieve within the prevailing economic and social framework established, the fullest utilization of capital stocks, labor force, a fairly consistent level of effective demand to maintain economic stability, development planning on the other hand seeks to break down structural obstacles which hinder growth, is concerned with basic institutional reforms, qualitative transformations concurrently with quantitative increases. It involves government intervention or initiative to stimulate, foster and guide economic activity; and finally it involves as operative machinery, the establishment of a planning apparatus to concert and integrate policies from local to national levels. It is also the planning of the economy, not within the economy. It is not mere planning of towns, public works or separate sections of the national economy, but of that economy as a whole; it embraces economic, social and physical considerations - the management of the allocation of space and of the resources occupying space. And it is based on the belief that in control of the national economy certain general aims may be attained which cannot be achieved by

an unplanned economy and that a country's resources must be utilized as a whole and in the interest of the whole of its people.

As Waterston points out, development planning may, however, be regional, subnational or multinational in scope. Subnational regional planning involves planning for one region, planning for a series of regions covering an entire country.

Multinational regional planning may refer to planning for an economic region which extends beyond the boundaries of one country; for instance, the planning for redevelopment of the Indus River Basin which covers portions of both India and Pakistan and that for the Mekong River Basin which involves the nations of Cambodia, Laos, Thailand and South Vietnam.

Two Types of Planning

National planning varies from country to country and from time to time with respect to:-

(a) the extent of compulsion or pressure, as distinguished from suggestion and persuasion, that may be used by central government institutions;
(b) the balance between centralization and decentralization;
(c) the extent of reliance upon, or manipulation of, market mechanisms;
(d) the degree of emphasis upon short-range or long-range considerations;
(e) the degree of initiative and autonomy exercised by inter-
mediate bodies and operating units.\textsuperscript{9}

The nature of a country's development planning is also influenced by other elements, like the availability of natural resources, skilled manpower, and the levels of technical, administrative and managerial competence. All told, however, two factors condition the form and role of a country's planning: "its institutional framework and its stage of development". Therefore, despite some similarities, development planning in highly socialized economies differs substantially from planning in mixed economies and the planning in both socialized and mixed economies at early stages of their development differs greatly from their planning at later stages.

As Arthur Lewis points out, the central issue in the discussion of planning is not whether there shall be planning but what form it shall take, and in particular whether the state shall operate through the price mechanism or in supercession of it.\textsuperscript{10} Thus two broad categories of planning have been distinguished though they are not mutually exclusive - central planning or planned economies and decentralised planning or unplanned economies.


Planning in the Socialized countries

Planning of the former type is usually associated with socialized countries. National development planning, as it has evolved in the Soviet Union as well as in countries of eastern Europe, has been "a detailed, pervasive and highly centralised administrative system of resource allocation and production based on the quantitative reconciliation of needs and available supplies through a system of balances reaching down to every plant and collective farm".\textsuperscript{11}

Planning is based on some general decisions as to the rate of growth of the economy as a whole and its structure, as well as various political, military and other non-economic considerations. These decisions are expressed in general directives and tentative longrun targets which form a part of the socialist party program. Plans are constructed on this basis through the so-called "planning by material balances" an input output process, to represent a fairly detailed, and integrated list of output targets and the investment program to create the productive capacity necessary for the achievement of these targets. Operational orders are then prepared in the form of annual, quarterly and monthly plans which represent subdivisions of the five or seven year plans not only for each commodity, but also for each separate enterprise within the three sectors of the economy – namely

\textsuperscript{11}Zweig, F. The Planning of Free Societies, (Seker and Warburg, London 1942) p.18.
1. A socialist sector comprising two subsectors, that is, 
   (a) nationalised enterprises;
   (b) co-operative enterprises.
2. A sector of small private commodity producers.
3. A capitalist sector.

Such instructions to enterprises specify "what and how much they have to produce, where they are to obtain their raw materials and supplies and how much they are to pay for them, how much labor is to be employed and what its compensation is to be, how costs are to be determined, what prices are to be charged for output and where it is to be delivered, what investments are to be made and so forth". Thus control is highly centralized although there is, of course, consultation in the preparation of the programs.

The different departments and sections of the national economy comply with the general plan and are free to move only within the framework set up for them by the plan. The national plan sets physical targets of production for all the country's industries and agriculture, physical targets of services of transportation, physical targets of social and cultural services, physical targets of employment and physical targets of the nation's consumption.

According to Tinbergen, socialized planning has political overtones that emanate from the idea to achieve the goals of communist leadership. Thus the success of centralized planning may be the result of its being a "command economy" as the state and party exercise an enormous degree of control over the economy. A second feature is the state ownership of the great majority of the means of production. For example, the state sector is responsible for about ninety-two per cent of the gross value of industrial output; all land is owned by the state and the government has at its disposal nationalized banking and finance, transportation, the monopoly of international trade, domestic wholesale trade and over ninety per cent of retail outlets. The third feature is the centralized planning with economic plans, which are enacted as law and which are therefore backed by legal sanctions, supplemented by various kinds of administrative pressures and numerous economic and non-economic incentives.

However, in recent years, as a result of the many deficiencies that have emerged in the fulfilment of plan targets, socialist economists have begun very seriously to evaluate the disadvantages of centralization and the advantages of decentralization. Oskar Lange very aptly describes the concern in Poland thus:

the centralised system of management of the economy was found to be inflexible. It caused a certain bureaucratic inflexibility of the economy reflecting from the fact that

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all decisions were taken by men at the top. The new task of raising the standard of living and of satisfying the increasing consumers' demand requires a system of management more flexible than that of the preceding period.

Such "self-criticism" has produced a realization that quality, variety and efficiency are important in building a modern economy. Thus in the USSR, Yugoslavia, Czechoslovakia and other socialist countries, steps have now been taken or are mooted to decentralize economic decision-making, planning decisions, formerly prerogatives of the centre, are gradually being transferred to the republics, regions, territories, and enterprises; and some features of the free market system are being introduced.

Planning in Democratic Societies

In contrast to "planners' sovereignty" in the socialized countries, one finds "consumers' sovereignty" obtaining in countries with free market economies. In such countries as the United States and Canada, prices guide economic activity in response to market forces. Economic planning in such a system plays only a supplementary role, taking the form of government efforts to stabilize the level of national income, employment and the price level; to develop less developed areas, to promote economic growth and to modify income distribution. To accomplish these objectives, the government relies primarily on instru-

ments of monetary and fiscal policy. Planning therefore tends to be partial, aggregative and, indirect. Thus Professor Johnson\(^\text{16}\) argues that "planning of the development council type is consistent with the principles of a free enterprise economy. Planning of the planning commission type is necessarily at variance with free enterprise principles".

To determine the planned rate of growth, two methods have been used in western countries - planning by bark and planning by bite.\(^\text{17}\) A barking approach is one in which there would be a voice to explain or urge certain lines of economic development or policy and a biting approach is one where there are teeth to help to ensure the attainment of specific objectives. In the planning by bark, which has found some footing in the United Kingdom, the United States and Canada, the government sets up an organisation of nationally eminent citizens from varied professions and disciplines, whose function is to investigate the growth potential of the economy, arrive at an agreed view of what is feasible and what it implies for individual industries, and then publicize its views to the public and the industries concerned, in the hope that everyone will be persuaded to conform to the plan. This is the function of the National Economic Development Council in the United Kingdom, the Council of Economic


Advisers in the United States and the Economic Council of Canada in Canada.

The alternative type of planning involves establishing an expert body within the government, say a planning commission, endowed with enough power either directly or through its influence on other departments of government, to force industry to carry out the investment required to implement the rate of growth planners decide is feasible. This is planning by bite: "if you don't conform to the plan, the government will bite you". This method, usually designates indicative planning and, as practiced in the Netherlands, France and some other western European countries, employs the powers of the state to enforce conformity with the investment program specified by the plan, especially on the part of the major industries. This system, too, utilizes integrative planning which is basically concerned with coordination of all the planning that goes on all over an economy; it puts all planning efforts together to see if the thing as a whole makes economic sense, and to see if it makes the kind of economic sense desired in terms of economic and social objectives set for society.

Planning in Underdeveloped Countries or Mixed Economies

Development planning in the mixed economies of the

underdeveloped countries takes three forms. First is the project-by-project approach which in reality is planning on a piecemeal basis with the formulation of public investment projects little related to each or to a unifying concept; very often, they do not appear in a single document but are programs for the public sector which make little or no reference to the private sector. They are little more than collections of unrelated projects. This approach is characteristic of governments without a clearly defined development philosophy or a long-term outlook. Most of the development plans formulated in the British Colonies to guide the allocation of colonial development and welfare funds are examples of such plans. Inadequate from many points of view, this approach has nevertheless provided many developing countries at the beginning of their development with infrastructure facilities, and foundation for their development.

Integrated Public Investment Planning

This system of planning is an advance on the first type since it is free of many of the defects of the project-by-project approach. Here priorities are determined on the basis of realistic estimates of costs and benefits, the relationship of each project to others completed, underway or contemplated, administrative and technical readiness to proceed with construction, as well as other pertinent criteria. An integrated public investment plan starts with individual projects and is combined into

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sector programs and finally into an investment plan for the pub-
llic sector. Ultimately, therefore, such plans are integrated
sectoral programs.

Comprehensive Planning

Comprehensive planning is a merger of a public invest-
ment plan and a plan for the private sector which are reconciled
with each other and with the over-all targets. This system of
planning takes two forms. First is "forward planning", planning
from above or planning from-the-top-down, where the exercise
starts with the aggregate plan and targets and disaggregates in-
to interrelated plans and subtargets for each economic sector or
region; the second type which may be described as backward plan-
n ing, planning from below or planning from-the-bottom-up, is con-
cerned with the reconciliation of public and private investment
projects and programs from various sponsors reframed into sector
programs or regional plans.*

What is and what is not a development plan?

Development planning is closely associated with plan-
n ing as a process which involves the formulation of rational pro-
grams of action consistent with national priorities and object-
ives, effective execution of such programs and the establishment

* For a more detailed information on these plans see
(1) Waterston, Albert, Development Planning : Lessons of Exper-
ience, op.cit. pp.61-67; (2) Higgins, Benjamin, Economic Devel-
opment, principles, problems and policies, (W.W. Norton & Company
Inc. New York, 1959) pp.629-686; (3) Lewis, Arthur W, Development
Planning, The Essentials of Economic Policy, (George Allen and
Unwin Ltd., London 1966); (4) Tinbergen, Jan, Central Planning,
as a government policy of planning machinery to co-ordinate and evaluate development programs. Development planning then is not the same thing as a development plan. The planning process does not terminate with the formulation of a plan even though the preparation of a document which embodies the results of development planning provides a systematic approach to attempts to co-ordinate development decisions and to improve on previously unco-ordinated decisions.

There is little agreement on what constitutes a development plan. Some writers describe as a development plan a general strategy composed only of fiscal, monetary, wage, price, foreign trade or other policies and capital budgets. These fiscal policies in themselves, however, are not adequate instruments for promoting the economic advancement of less developed countries because they do not supply a sufficient basis for determining the quantity, the distribution and timing of public investment and also they rely heavily on market forces which generally operate ineffectively in such countries. Therefore, if one agrees that development involves change plus growth, then Waterston's definition appears appropriate. He describes development plans as

public investment plans which may range from enumeration of poorly co-ordinated government investment projects, with private investment largely ignored to integrated public investment plans which include forecasts of global economic activity and policies and instruments for stimulating the private sector to act in accordance with a government's development objectives.

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Perhaps, one may add qualitative and quantitative social and spatial changes, as well as economic are all incorporated into such a plan.

Types of Development Plans

Development plans are prepared to cover a fixed period, but they vary as much in duration as they do in type. However, development plans are generally classified into: (a) short-term plans; (b) medium term plans; (c) long-term or perspective plans; (d) rolling plans, and (e) annual plans, and (f) comprehensive plans. Waterston's classification system has been followed.

Short-term Plans

As the term implies, such plans cover short periods and these conditions may dictate the formulation of such plans. Internal administrative or political requirements may prevent taking a longer perspective. Thus in periods of transition or uncertainty, conditions may inhibit a country from looking ahead for more than six months or a year. Failures with the achievement of plan targets in long-term plans may also cause countries to revert to an interim use of one-year plans, so as to gain experience as well as time to prepare longer-term plans. Ghana's planning efforts between 1966-68, aimed at the rehabilitation of

* For a check list of countries that have development plans and the duration of such plans see Waterston, Albert - Development Plans: Lessons of Experience, op.cit. Appendices II and III, pp.589-643.
the economy and the preparation of the ground for a sound economic policy, might have been prompted by this fact.

Short-term plans thus provide some countries with limited or no planning experience, or in periods of emergency or other uncertainty with an opportunity to plan that they might not otherwise have had. Their chief value lies in establishing favorable conditions for further development. However, because of their limitations most countries prefer and use medium-term plans.

Medium-term Plans

Such plans vary with periods ranging from three to seven years. In practice, however, such plans may frequently extend up to ten years; thus a ten-year plan may be a medium-term plan in one country and a long-term plan in another. The most distinctive feature of a medium-term plan, however, is that usually the plan period is married with political considerations, that is a presidential term, as obtains in Mexico, the life of parliaments, as occurs in Norway, Burma and India. The guiding principle seems to be that "the plan be short enough to permit reasonably accurate projections and estimates to be made, and long enough to cover the gestation period of a sufficient number of major projects to give a reasonably adequate indication of their effect in carrying out plan objectives." 21 With medium-

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term plans, development programs can be maintained, frequent re-
vision of long-term plans and inaccuracies which appear in later
years can be avoided.

**Long-term Plans**

A long-term plan covers that category of plans which
provide a broad perspective of the general direction in which an
economy is likely to move over a long time. Thus, in addition
to short-term and medium-term plans, many countries prepare long-
er-term projections or sectoral programs covering fifteen to
twenty years for the critical sectors of the economy such as edu-
cation, agriculture or industry. Such plans provide a set of
long-term goals and appraise the amounts of savings, and invest-
ment capital, the number of skilled workers, and technicians re-
quired to achieve the long-term objectives and targets.

**Rolling Plans**

A rolling plan maintains a plan period of constant
length throughout its life, the plan is revised at the end of
each year and, as the first year of the plan is dropped, estimates,
targets and projects for another year are added to the last year.
For example, for a five year plan this may be accomplished by ad-
ding a year at the expiration of each year of the plan period.
In this way, a five year period is maintained as the plan rolls
forward in time each year.
Annual Plans

These plans spell out, in a more detailed manner, current development activities without losing sight of longer-term goals. As such they serve as recurrent instruments for detailing exactly what must be done to convert existing medium-term plans into programs of action. Usually such plans phase out or break down resources and targets of a medium-term plan into annual components, thus taking on the all important role of being the operational plans; thus they are variously labelled "implementation, practical, current or working plans" as they are the media through which national objectives are quantified yearly and forecasts and policies for achieving plan targets are suggested. The importance of these plans can be seen in Waterston's description of them.

A typical annual operational plan starts with an account of the progress of the medium-term plan in the previous year. A comparison is made between planned and actual development to date and the reasons for deviations from targets are analyzed. The more important projects and programs to be carried out during the current year are described. Included in this description are investments and other preliminary actions to be undertaken in the current year whose benefits are expected to accrue in later years. Consideration is also given to the action to be taken in the current year to correct deficiencies and to make up for short-falls in previous years in order to reach targets by the end of the medium-term period. The most important section of an annual plan, although the one usually most neglected, describes the specific monetary, credit, wage, fiscal and other measures to be adopted during the year to achieve targets.

This short review of development plans reveals that to a country that wants to achieve rapid modernization through planning, annual plans are particularly important. It is the essential linkage that should exist between an annual plan and the government's administrative budget that this work will explore.

Implementation of Plans

Plans do not accomplish themselves; they must be carried out, and in this respect the implementation process assumes great importance. As Walinsky points out -

Progress can be achieved without planning, and planning alone will not achieve progress. If planning alone could ensure development many countries would be much farther along the road to development than they are now. Planning without execution is a meaningless, even a frustrating exercise. Planning followed by faulty, inept, wasteful or chaotic execution, can end only in failure.

In this context one should be concerned with the media and measures by which a government effects its development efforts. Although this work is not essentially concerned with an evaluation of the conditions prerequisite for successful plan execution, a short overview of some pertinent factors could be attempted. Walinsky in his book Planning and Execution of Economic Development lists these factors as the essentials - (a) realistic objectives and plans; (b) good government; (c) good leadership; (d) the need for a responsible political

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opposition; (e) efficient public administration; (f) honesty in government; (g) reliable and timely accounting in the public enterprises, and (h) dynamic participation by the private sector.  

The importance of all these essentials cannot be over-emphasised but one could only pass this remark that because the history of development efforts of most underdeveloped countries is replete with lack of these conditions, plan failures are numerous.

Development plans, on the other hand, are implemented through various qualitative policy measures ranging from fundamental reforms, such as land reforms and nationalization schemes, to detailed measures - usually through a financial plan which may call for the mobilization of resources both domestic and foreign achieved through tax reforms involving introduction of new taxes, or private savings, or improved tax enforcement or foreign investment, loans or grants, incentives and aids to the private sector and other fiscal, monetary, wage and debt management measures. A government could also adopt other quantitative measures such as the design and building of roads, dams, irrigation canals, harbors, railway lines, power stations, factories, schools, or hospitals and training schemes and reforms in the public services and administration. With all these measures however, successful

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plan execution requires effective supervision and co-ordination over all the program elements and also flexibility in adapting and modifying the plan as required by experience and changing circumstances, and realistic annual programming and budgeting.

Of all these instruments available for plan implementation, in the developing countries where governments undertake not only to provide certain basic economic and social facilities – infrastructure – but are also increasingly involved in the role of entrepreneurs, and where they participate directly in the production process, the most important and effective medium through which national development objectives, proposals and policies are enunciated, and their impact on the economy assessed, is the budget.

As Waterston points out

A government budget is a key instrument in converting a development plan into a program of action. It is by examining the link between a plan and a budget that one can tell whether or not a government means to carry out a plan.

To this essential role Walinsky adds,

since a long-term plan must be carried out in a series of annual steps or programs, effective annual programming and budgeting must be an important element in effective plan execution.


The Budget and Its Uses

The concern with a national budget is twofold; "as a focus for national policy decisions and as a tool for effective management". In this broad sense, the budgetary process is intimately associated with every phase of planning, from the identification of major national goals to the selection of immediate priorities. It is involved in the conduct of current operations; without it results cannot be appraised. It determines the way in which scarce resources are allocated among competing needs and how effectively resources are subsequently used. And also it provides not only for planned capital expenditures but also for associated current expenditures as well as for revenue and other domestic financial resources which, in combination with available external financial resources, will support the required outlay.

Three different budgets are usually compiled to summarise national government activity. These are: (1) the administrative or conventional budget; (2) the consolidated cash budget; and (3) the national income accounts budget. Each type meets a different need.


The administrative budget is the oldest and most generally familiar of the three types. It is primarily an instrument of management and control by the executive and legislature over activities financed with government funds – largely legislative appropriations. It serves as the means by which the executive quantifies proposed programs and sends them to the legislature for perusal, modification and approval. The approved budget then becomes a tool of executive control over the spending of the various departments, agencies and government corporations. Among its most salient features are the following: (a) not all receipts and expenditures are included; (b) expenditures and receipts are recorded on a cash basis; and (c) the receipts and outlays of government enterprises included in the administrative budget are solely for enterprises that are wholly owned by the national government.

The consolidated cash budget, on the other hand, gives a global picture of the total receipts and expenditures during a given period of time. Essentially, it shows the cash inflows and outflows of a government and its financial position much better than the administrative budget. The cash budget is thus a more meaningful indicator of the size and scope of government activity than is the administrative budget. In short the cash budget is useful for analyzing the financial impact of a government's over-all program.
The national income accounts budget differs from the administrative and cash budgets as it has to correspond in concept to the system followed in the income accounts, a system of dual-entry accounts to estimate the current productive activity of residents in a nation. The accounts show the market values of the currently produced output of goods and services, classified by type of expenditure: (1) consumer expenditures; (2) gross private expenditures on equipment, new construction and inventories; (3) federal, state and local government purchases of goods and services; and (4) net exports. The total of these items is called Gross National Product (GNP). It also measures and classifies the stream of income generated in the process of producing GNP: for example, wages, and salaries, professional income, rental income, corporate profits, interest and others. The national income budget thus differs from the cash budget with respect to (1) coverage, (2) netting and consolidation, (3) timing of receipts and expenditures, and (4) the exclusion of capital transactions.

This short survey of three types of budgets reveals that, for countries which want to achieve rapid economic progress and to make related social changes, the administrative budget plays a major role in the realization of political aims, the maintenance of sound fiscal policies, and the carrying out of economic and social plans. Thus the process by which it is formulated and presented should be such as to provide a tool for gauging not only the impact of national spending but physical achievements as well. President Johnson, describing how an
The administrative budget's format should be, says -

it should enable us to (1) identify our national goals with precision and on a continuing basis; (2) choose among those goals the ones that are most urgent; (3) search for alternative means of reaching those goals most effectively at the least cost; (4) inform ourselves not merely on next year's costs - but on the second, and third and subsequent years costs of our programs; and (5) measure performance of our programs to insure a dollar's worth of service for each dollar spent.

The question then arises, what should be the structural-functional relationship between a development plan - more importantly an annual plan and the administrative budget. Should the nature of the socio-economic goals influence in any way the usefulness of one kind of budget presentation over another? For example, does a developing country actually require different items of information in a budget and a different way or organizing those items? Alternatively, do industrialized countries require a different organisation of budget data in order to make decisions that make sense in their kind of environment as against the items and presentation needed by developing countries? If this way of looking at the budget suggests that it may be viewed essentially as a medium of communication, what does it communicate?

And, finally, to what extent does the conventional budget system meet the budgetary requirements of development planning?

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29 A Statement by the Policy and Research Committee, Budgeting for National Objectives, op. cit. p.22.
Although numerous exogenous factors have molded developing countries budgetary system, and have exerted considerable influence upon the contribution that budgeting makes to orderly examination and implementation of public policies, none of this invalidates the fact that modern budgetary methods and techniques cannot be adapted from one country to another. After all, the administrative budget in any country represents a national plan that cuts across departmental boundaries and ties together all plans and projects.

The Need for Integration

Herman Roberts in his article Two Aspects of Budgeting writes: "planning without regard for the realities of annual budget implementation becomes an academic exercise of little operational value".

To this one may add this view too, that if there is no single scheme or device by which consideration of the economic impacts and program impacts of governmental expenditures in their several ramifications can be merged, there is at least a process - development planning in which the twain meet.

The development planning process, as has been noted

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earlier on, does not terminate with the formulation of a development plan document. The implementation of the plan is an important part, if not the most important, of the whole extremely complex process. From year to year, it requires the formulation of national goals from which can be developed a declaration of immediate intentions, through annual plans, around which national energies can be mobilized. Decisions must be reached on the over-all magnitude of the development effort in the light of the financial, manpower and physical resources available for it. Individual programs and projects must be formulated, evaluated and executed. Projects and programs must be constantly inspected and progress on them evaluated. And, periodically, the over-all emphasis of the development effort and the scope of individual programs and projects will need to be revived and reformulated, for adjustment of the ideal to reality is an essential part of development planning. Also, from time to time, decisions must be taken on the ways of initiating, expanding and modifying all kinds of public undertakings in the light of the urgency of specific projects and other current demands. At this stage in the process, the budget's role becomes crucial and only an effective budget system can make planning become realistic and fruitful. Thus one writer points out:

in this respect development planning is, in its essence, a budgeting process.

Planning at this stage, provides guides to budgeting decisions and opportunity to evaluate current budget policy in terms of its future effects on the country's development. Budget administration in turn produces data and analyses necessary in the planning of programs and provides the mechanism for reviewing, evaluating and controlling them. For development to be effective then the budget system should enable expenditure programs to be drawn up in a form that assists review of their purposes, costs of implementation and conformity with national policy and objectives; it should contain machinery that can be used to enforce the execution of approved budget plans or to adjust them where adjustment seems desirable and feasible; and should create a system of budget administration that will produce the data and analyses required for informed decision making.

Therefore if we agree that a government's administrative budget is the principal instrument through which a government mobilizes its financial resources, authorises and controls most of its expenditure, then the need exists for integration of development planning with the budgeting process. Thus one could say that the extent to which the targets and goals set forth in a development plan are achieved will depend upon how far outlays provided for in the annual budget reflect annual plan targets.

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A Statement by the Policy and Research Committee, Budgeting for National Objectives, op. cit. p.23
The Hypothesis

With development planning the need has arisen for a budget to be modernized so as to reflect the development activities of a country. The conventional administrative budget, with the passage of time, has been proven to contain several deficiencies as will be pointed out in chapter two. Development now requires an effective budgetary mechanism that will facilitate review, provide data and supervision of expenditure programs. The need is not so much of financial management designed to make the control of public expenditure more effective, but one that ensures that the annual budget is closely related to the implementation of a country's development objectives. Therefore it is hypothesized that the performance of a development plan can only be evaluated conclusively if it is based on a budget classification system which reflects physical and financial targets and is effectively integrated with it.

Such a system is provided by the "Program and Performance" budgeting technique, which classifies expenditure in terms of specific areas of activity such as construction of roads, building of bridges, irrigation, and for the measurement both of the total costs of such programs and of their results in physical terms. This system also provides a link in specific terms between the role allotted to the public sector in the development plan and the provision included in the government's budget to fulfil that role. The essence of this work is thus to test the hypothesis within the framework that program and performance budgeting brings budgeting and development planning closer together.
thus providing a common language useful to both and an effective tool for a development plan evaluation.
CHAPTER II

THE ROLE OF THE BUDGET IN PLAN IMPLEMENTATION

Budgeting for National Objectives

It was pointed out in the previous chapter that, for reasons widely known, the public sector of developing countries had absorbed a considerable proportion of the national productive resources; and that government in these countries have become increasingly aware of, and, in many instances, have explicitly accepted the responsibility of mobilizing national resources for a more rapid increase in the productive facilities of their countries. The increase in the activities of the public sector has been matched by their greater complexity, and these factors have resulted in a need to reconstruct administrative machinery and procedures.

The acceptance of a more active role by governments in furthering economic development implies a new responsibility by way of collecting and classifying information which will facilitate the assessment of the actual or potential influence of governmental activity on the national economy. In consequence, the traditional types of public accounts have ceased to be adequate for the purposes of accounting necessary for much more complicated operations. In addition, the more extensive government activities become, the more important it is that they should be
carried out with the maximum of efficiency. Traditional types of accounts are not well suited to this purpose as they usually lay more emphasis on what the government buys, the extent to which the financial targets of expenditure are being achieved, without any indications of the extent to which the physical targets have been achieved.

The over-riding effect of governmental action on economic development thus makes it desirable that, in budget systems, more advanced techniques should gradually be adopted leading to more rational decisions. As often happens in cases of this kind, modern man has been slow to recognise the need for such adaptation. Despite the fact that the nature and extent of public activities began to change at about the beginning of the mid-twentieth century in many developing countries, there has been, up to the present, no substantial change in many of the techniques used in the public sector, particularly those which, like budgetary techniques, are designed to ensure the efficiency of the public sector as an instrument for the preparation of economic and social policy.

In this context, if development plans as envisaged were to be successfully implemented, a system of presenting the budget accounts has to be established to co-ordinate the national development targets and goals and the annual government budgets. The budget system of the government must be suited to the growing requirements and responsibilities of a modern nation-state. As James Martin argues -
the budget is a policy document; it represents a judgment upon how scarce means should be allocated to bring the maximum return in social utility; it cannot escape an implicit government-wide evaluation of programs; indeed, it is the work program of the government, reflecting all governmental responsibilities in their political, economic and social aspects. As such it has four functions to perform: (1) to ensure that the required resources are made available for implementing the government's program; (2) to ensure that the most economical administrative methods are employed in program execution; (3) to advise the government as to whether the most effective and efficient combination of programs is being employed for achieving the government's objectives; and (4) to assist the government in appraising alternative proposals for new programs.

RELATIONSHIP OF THE CONVENTIONAL GOVERNMENT BUDGET TO DEVELOPMENT PLANS AND PROGRAMS

The Budget as an Instrument in the Programming of Development

Programming for economic development involves the establishment of medium and long-term objectives and the achievement of a certain proportion of each medium and long-term objective in the course of each financial year. For example, one example in the field of education might be an increase in the average period of the population's school attendance from 1.5 to 3 years within a period of ten years, or a reduction in a given percentage, within the same period, of the illiteracy rate. Completion of such a program would require, within that time, the construction and equipping of a specific number of schools, the training of a given number of teachers and so on. A long-term objective of this kind cannot be achieved unless funds are set

aside in each annual budget for the purposes mentioned.

This shows that a comprehensive, multi-year economic development plan must of necessity be executed in a series of annual steps or programs. These annual programs rephase the longer term plan as required by changing circumstance and experience. They also adapt and modify the longer-term plan itself - by expanding or pruning existing projects, adding new ones and dropping others, accommodating total investment to changes in resource estimates, for the same reasons. In this context, it becomes imperative that the annual conventional government budget must be an essential component of the annual program, and the budgeting process be completely integrated with the programming process.

The ideal connecting link between a plan - more specifically a medium-term plan and an annual budget - is already indicated - is an annual plan. By identifying what must be done, and the resources and measures needed to do this in the coming year, an annual plan reduces the multi-annual tasks and targets of a medium-term plan to the quantities required for incorporation in an annual budget and, in this way, greatly simplifies the task of translating the relevant portions of a medium-term plan into an annual budget.

The annual plan, however, is broader in scope than a conventional administrative budget which is almost always limited to the domestic funds required for general government activities. The annual plan is mostly concerned in broad outline with
objective priorities for the use of resources and expected outputs from proposed inputs of physical, human and financial resources. While an annual plan may indicate how financial and other resources are to be allocated among programs and projects, the administrative budget is concerned much more specifically with receipts from various taxes and other sources, the availability and commitment of funds, and the canons of financial custodianship and control.

The annual plan could thus substitute in effect for the budget of the nation. But in "planning for development" it is more important for the budget to substitute for an annual plan. Because the budget which is the critical instrument through which a plan is implemented can only reflect national goals when its classification system is linked to programs, projects and activities within each sector, the physical workload plan and the relative financial obligations to achieve such workload targets that one can safely assume that the possibility may exist for the targets of a plan to be accomplished.

This chapter is therefore concerned with an analysis of the conventional budget system and its evaluation as to whether or not (a) it serves as an efficient mechanism which integrates a development plan with the budget, and (b) if it satisfies the conditions just emphasized. If the examination proves that it does not, then a basis is established for the need to adopt a more efficient budget mechanism which will achieve these purposes essential to "planning for development". As one writer points out, for most countries, especially developing countries, annual
plans and budgets and their effective co-ordination are virtually a sine qua non for putting medium term plans into effect. Integration of a plan with the budget therefore involves first, establishing an annual plan detailing specific programs, projects and activities to be undertaken during a current year all keyed to the over-all development targets; second, using such a plan as the basis for the preparation of a physical workload and financial plan; and third, incorporating the projects, programs and activities with their composite financial requirements into the annual budget.

To integrate the annual budgeting and programming processes would require the closest of co-operation between the authorities and staff concerned. Organizationally this calls for extremely close co-operation between the ministry of finance responsible for the annual budget and the central planning authority responsible for long-term planning and for annual programs. The necessity for this same close cooperation and co-ordination extends to the staffs and advisors of these agencies. And in practice, the planning and finance agencies should arrive at agreed estimates of resources likely to be available for capital investment to accomplish the goals in the plan.
Budgets Based on Annual Plans as an Integral Part of the Planning Process - The Soviet Experience

Since a budget is a reflection of what a government is doing or intends to do, budgets based on annual plans of necessity ought to become an integral part of the planning process. It is only through this means that the budget could contribute to the achievement of national goals and aspirations, as it provides that apparatus by which the government forecasts, allocates and supervises expenditures.

Concern with improving organisation, techniques, and procedures to achieve effectiveness in budget preparation, presentation, execution, and control is world-wide. Methods, and procedures to facilitate review and supervision of expenditure program vary from country to country and usually reflect either the closeness or laxity with which development plans are associated with budgets.

In the socialized countries where the allocation of resources is centrally determined, annual budgets play a different role. As Davis argues, in the USSR itself the crucial budget figures .... do not have an independent existence, but are built up at each stage on the draft or final figures of the national economic plan. 35

Similarly, the Czechoslovak budget is thought of as mirroring the material proportions of the comprehensive plan. Hence, a close connection between plan and budget is unavoidable and necessary.

while in Hungary, the budget is carefully drawn up in close conformity with the guide-lines and targets of economic plans. Thus, the financial plan - i.e. the Budget, of the economy is built upon the fundamental indicators of the economic plan and comprises their financial aspects.

Consistency with an annual plan is therefore a prime requisite of a well-prepared budget in Soviet-type economies. A deficit in the budget indicates that productions, consumption and accumulation targets and the quantitative and qualitative indicators of the economic plan are not properly co-ordinated.

Although it may be conceded that discrepancies arise between budgets and plans, especially when annual plans are revised at the last moment, on the whole a large measure of consistency is achieved, a feature inherent in the direct planning process of the Soviet-type.


37 Ibid, p.22.

Financial Planning and the Budget

The plans with which the Soviet planning system is concerned essentially consist of production programs and crucial equations or balances which mediate between policy-objectives, and real data in the course of planning are material balances, expressing a quantitative relationship between real things whether these be commodities or factors of production. Hence the kernel of any plan is the production plan, which is a complex of output programs for all the main products of the economic system, embracing real expenditure and real product, input and output in each case. But the plans do not consist only of a production plan, even if this in a genetic sense is primary. Nor is the method by which plans are integrated and tested for consistency concerned only with material balances. Alongside the production plan stands the financial plan within whose sphere falls a number of balances which need to be expressed in terms of money prices for the purposes of "synthetic planning". Included in it are such constituents as a credit plan and a cash plan and also the budget.

The budget, however, from the point of view of financial planning is part of a wider national accumulation plan - that is to say, the budget in the Soviet system, forms one arm of the sources for the capital investment program, the other

being retained profits of enterprises. Thus, before 1938, the budgetary system did not include the accumulation plans—retained profit plans of industry, and the local budgets were excluded from the State budget. All these were however, included in the unified financial plan which used to be the key document in Soviet financial planning.

The Unified Financial Plan and the Budget

The pre-war Soviet budgetary system had two features, namely the unified financial plan and the budget. The existence of this dual feature brought to issue the question whether or not the budget should act as a substitute for an over-all financial plan or should take its place alongside the credit plan and the financial plans of industry as part of a "general financial plan". Interest in this development was the device to raise the planning of finance to a higher level and to include the finances of the socialised sector in a unified financial plan—an over-all financial plan of socialised economy which would include the state and local budgets, the over-all financial plans of the banks, the social insurance and state insurance budgets, and the financial plans of industry, transport, agriculture, trade and co-operation, and housing and municipal economy.

Figure I attempts to summarize the interrelations of the Soviet financial planning system. It includes in abbreviated form all the main Soviet financial plans:
THE SOVIET SYSTEM OF FINANCIAL PLANNING

INTEGRATION OF DEVELOPMENT PLAN WITH THE BUDGET: AN EVALUATION OF THE USEFULNESS OF PROGRAM AND PERFORMANCE BUDGETING TO "PLANNING FOR DEVELOPMENT".

SCHOOL OF COMMUNITY AND REGIONAL PLANNING, UNIVERSITY OF BRITISH COLUMBIA

(ISAAC A. OMANE)

1. the unified financial plan;
2. the balance of money incomes and expenditure of the population;
3. the budget – including local budgets and the social insurance budget;
4. the cash and credit plans;
5. the capital investment plan;
6. the financial plans of industry;
7. the incomes and expenditure of the collective farm sector.  

Having surveyed the structure of Soviet financial plans and the budget, we can now turn to a consideration of the methods by which these plans are drawn up. By what procedures are they compiled? What is the relation of the budget to the indices of the national economic plan?

How Financial Plans and the Budget are Compiled

In the first stage of planning, balances in physical terms and over-all financial plans are compiled by Gosplan. These show the state of the economy as it is expected to be in the current year. On the basis of these projects the government adopts a general directive, indicating the main targets envisaged for the planned year. This directive in general fits in with the longer-term perspective plan of which the plan for


davis r.w. the development of the soviet budgetary system, op.cit. p.177.
the year is a part. The directive also consists of a series of inter-related production and investment targets based on the overall balances of Gosplan. Based on these directives, each ministry issues more detailed directives to the bodies under it, and these bodies in consultation with the lower units down to factory and workshop level, compile plans embodying their production programs, their requirements for material and labor, and the money income and expenditure corresponding to the material plans. These are re-submitted to the ministry, which then puts alternative proposals to the government, based partly on the modifications of the lower bodies. At the conclusion of this process, shown diagramatically in Figure 2, the government adopts the final national economic plan, and the lower bodies then adjust their original plans to fit in with the final plan. The plan for the forthcoming year, however, is compiled on the basis both of the draft targets set by the higher body, and of an analysis of the course of plan fulfilment in the current year.

Parallel with this planning process, the operative financial plans are compiled. The financial directives issued by the NKF, or People's Commissar of Finance (Narodnyi Kommissar finansov) and based on the over-all government's directives show the proposed general growth of the budget, and the main purposes for which the extra sums available are to be used and indicate specific measures which are to be taken in connection with separate items of revenue and expenditure in order that the plan shall be fulfilled. Each unit, in compiling its budget estimates, shows the details of its expected results for the current year, and the basic draft production indices, wage funds, numbers
ADOPTION OF THE BUDGET AND NATIONAL ECONOMIC PLAN
IN SOVIET UNION
(MAIN STAGES)

SYNTHETIC BALANCES
(including overall financial plan)

GOVERNMENT DIRECTIVES

DIRECTIVES OF NKS

CLAVKI

ENTREPRISES

NKS (DRAFT PLAN)

NATIONAL ECONOMIC PLAN
Adopted by SNK (December)

SNK

BUDGET COMMISSIONS OF
SUPREME SOVIET

SUPREME SOVIET

(Directives of NK)

DIRECTIVES OF NK

REPUBLICS

CLAVKI OR DEPARTMENTS

ENTREPRISES OR INSTITUTIONS

NKS (DRAFT ESTIMATES)

(Draft Budget)

(Directives of NK)

REPUBLICS

CLAVKI OR DEPARTMENTS

LOCAL SOVIETS

INTEGRATION OF DEVELOPMENT PLAN WITH THE BUDGET:
AN EVALUATION OF THE USEFULNESS OF PROGRAM AND
PERFORMANCE BUDGETING TO "PLANNING FOR DEVELOPMENT".

SCHOOL OF COMMUNITY AND REGIONAL PLANNING:
UNIVERSITY OF BRITISH COLUMBIA.

(ISAAC A. OKANE)

Source: Davis, R.W. The Development of the Soviet
Budgetary System op. cit p. 183.
of employees and capital investment allocations with which it will be expected to conform in the forthcoming year.

The financial plans thus compiled are then examined by the higher authority in the echelon and incorporated by it in an over-all plan. The over-all estimates and financial plans of all-Union ministries and republican SNK's - Council of People's Commissars - are then evaluated by the NKF (People's Commissar of Finance). After the draft estimates have been examined in this way, the figures accepted by NKF as suitable budget allocations and possible receipts are combined by it into a draft budget unifying the estimates of all departments. It is then submitted to Gosplan - State Planning Commission - and then passes on with the conclusions of Gosplan to SNK. At this level, the SNK resolves any differences still remaining between the all-Union ministries, the republican SNK's, Gosplan and the NKF. Finally, the budget as approved by SNK is ratified by the USSR Supreme Soviet, after being examined by the budget commissions of the Soviet of the Union and the Soviet of Nationalities.

In Soviet-planning therefore, the budget becomes an operative plan, although it does not form part of the original government directives of the national economic plan. However, the crucial budget figures, as we have seen, do not have an independent existence but are built up at each stage on the draft or fiscal figures of the national economic plan. The national plan thus shows the planned production of each unit both in physical terms and in money terms since it consists of a series of crucial tables of production indices, some in physical terms
and some in money terms. Although the processes involved are complex, yet planning and budgeting are synthesised. For example, for a number of services financed by the budget the economic plan would show the targets in physical terms - the number of schools and pupils, the number of places in hospitals, the number of doctors. Alongside would be their transformation into money terms by the use of an elaborate system of "budget norms" which calculate their cost at the fixed prices and rates of wages. Soviet budgetary planning, although a by-product of its central and direct planning phenomenon and a repository of Russian historical conditions and adaptations to the specific task of turning an underdeveloped peasant country into an advanced industrial nation, provides a suitable yardstick for the evaluation of Russia's planning achievements.

The Experience of Developing Countries

In contrast, there is only a tenuous relationship between plans and budgets in most mixed-economy countries, particularly in the developing countries. For example, as Collett and Clapp point out, although the 1962 budget in Honduras was supposed to be drawn on the basis of co-ordinated action by the Honduran Bureau of the Budget and the National Economic Council, the country's central planning agency, the Council, did not see it until after it had been approved by the President. As a result, there were
serious and irreconcilable discrepancies between the plans drawn up and the appropriation recommended to Congress in the draft budget.

And in Guatemala, as the Department of Economic Affairs, Organisation of American States/points out in an article inclusion of a project in the plan did not ensure that the necessary funds would be appropriated. Further, even if funds were appropriated, the implementation agencies retained substantial leeway to use the funds for projects not forming part of the development programs.

And in Burma there was no financial framework for the plan as a whole and no attempt was made to fit the plan into the government budget.

As a result of these features, Waterston sees the fate of development plans in developing countries in these terms,

Unless the budget reflects the corresponding items in the annual plan, the probabilities are that the public sector portion of the plan will not be implemented. To ensure the close relationship between plan and budget which is essential for effective plan implementation, requires a budget classification system and budgetary procedures which permit easy translation of the

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41 Collett and Clapp Inc. Organisations for Financial and Planning Administration, (San Juan, Puerto Rico 1963) p.15.
42 Organisation of American States, Department of Economic Affairs: Planning Organisation and Implementation in Guatemala (August 27, 1962 UP/G5/1(Eng.))
plan into budgetary forms as well as budgetary expenditure controls which allow timely and accurate preparation of quarterly, semi-annual and annual reports of plan progress.

The lack of integration of plans and budgets, in many developing countries engaged in development planning is attributable to many factors. For as one writer points out, whereas in Pakistan and India budgets are prepared on the basis of annual plans, this is a recent innovation. One of the most important problems therefore, is the failure of most less developed countries with medium-term plans to prepare annual development plans. In the absence of annual plans such countries with medium-term plans have resorted to annual budgets to co-ordinate their development efforts. Planning has thus been largely carried on through annual budgets. However, since medium-term plans do not indicate clearly the action to be taken annually to fulfil plan targets, what is included in budgets usually falls short of what may be required by a plan. And even according to one UN Technical Assistance Organisation report where annual plans are prepared, they often do not relate proposed expenditures to physical targets. Many annual plans are little more than lists of projects with amounts to be included in a budget.


The report points out furthermore that it is impossible to fit plans into budgets because annual plans are drawn up on a calendar-year basis while annual budgets are prepared for a different fiscal period. The report concludes by stressing the need not only for the periods of a plan and a budget to coincide but also the timetable for preparing the annual plan to be synchronized with the one for preparing the budget. The Soviet planning process as previously outlined, achieves this very remarkably. The need for such co-ordination stems from the fact that planning and budgeting constitute a two-way process in which the data of each feeds the other. Budgetary figures for the coming year may be needed to help detect current economic trends and the annual plan for the coming year must also evaluate the probable effect of that year's budget on the economy.

A United Nations report of the Workshop on Budgetary Classification and Management in Central America and Panama views the delay in the progress of integration as stemming from lack of uniform terminology and nomenclature for use in plans and budgets. Further, the excessive centralization of planning activities sometimes prevented the integration of plans with programs at the ministerial and autonomous level. Allied with this was the want of a timely flow of statistical data on which to base the formulation of progress and to facilitate their execution and control.

The Weaknesses of Conventional Budget Systems

The above survey either explicitly or implicitly reveals that very often the budget may not be an effective instrument for allocating financial resources in accordance with a plan. The International Bank for Reconstruction and Development, IBRD, in a survey report describes the conventional budget in many developing countries as an incomplete statement of government receipts and expenditures with significant exclusions; in some countries there are a multitude of segregated funds which complicate and restrict the usefulness of a budget; and in other countries formalistic controls take the place of efficient budget management.

The same view runs through a study which the Public Administration Service of Chicago, Illinois, completed for United States AID in 1962.

Often there is much concern over how documents are authenticated, processed, and filed, how transactions are classified and how accounts are maintained. At the same time large areas of governmental expenditure are under little or no control, slight relationship exists between expenditure estimates and results.

The same study also discovered many other shortcomings in budgets which greatly impede their use as instruments for carrying out development plans. It writes


in some countries there is no central budget administration worthy of the name. Expenditure estimates are compiled on some historical basis, and programs and projects are initiated without any idea of when and how they may be completed or how they are related to one another. The annual budget represents the totaling up of departmental estimates of receipts and expenditures that are generally unrelated to governmental programs or foreign exchange resources or monetary policy.

These countries, however, may be extreme cases especially when one considers that many developing countries have within the past few years established the basic elements of a budget system and have introduced methods and techniques which are increasing the usefulness of their budgets for development purposes. Nevertheless, one cannot but agree with its conclusion that

in many countries .... budget administration is so inadequate as to make impossible the implementation of any reasonable development plan.

Budgetary Fragmentation

The conventional administrative budget commonly used does not encompass all public sector activities. In the developing countries, particularly where many activities both in the economic and in the social field have been entrusted to autonomous or semi-autonomous bodies, very often the conventional bud-

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50 Ibid, p.35.
get does not include their transactions, even when the national budget makes large contributions to their activities. Their exclusion from the central government's budget reduces the budget's comprehensiveness and may thereby reduce its capacity to implement public sector programs. A World Bank report sums up the position thus:

"the ordinary budget gives an incomplete and misleading impression of the fiscal position of the government because it does not cover certain extraordinary defense expenditures and receipts and transfers of funds between the Treasury and independent agencies."

Although the omission of items which should be included in a conventional budget is the more common weakness, however in many developing countries such budgets are impaired by the inclusion of unnecessary or largely meaningless receipts of funds between accounts. These and other procedural inadequacies make it almost impossible to obtain an over-all view of the financial position of the public sector.

The usefulness of the administrative budget as an instrument for implementing a development plan may also be impaired by excessive earmarking of tax receipts or other revenues for specific purposes. Although such earmarking may be economically and politically justifiable, when a substantial proportion of total budgetary revenues is segregated into special funds earmarked for specific use, the administrative budget loses flex-

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ibility for development because it becomes difficult if not im-
possible to allocate financial resources with priorities called
for by a plan.

Another U.S. AID report expresses concern over ear-
marking of revenue in Latin America in this way.

in one Latin American country in 1961 income from 291
out of 330 taxes was wholly or partly earmarked for
subordinate authorities or marginal entities, leaving
only 39 to the national government for general use. 52

And in another Latin American country "eighty per cent
of the central government's expenditure is predetermined and can-
not be altered by those responsible for preparing the budget". 53

Fragmentation of a budget into a series of separate
funds or accounts because of earmarking of receipts and expend-
itures, or because of a proliferation of more or less autonomous
agencies whose transactions are extrabudgetary, has generally
resulted in unduly complex budgeting and accounting systems. As
Herman points out, it also makes it difficult for a government
to follow a coherent budgetary policy and to determine how much
money is available for development and other expenditures.

52 United States AID. Modernizing Government Budget
Administration (Prepared by the Public Administration Service,
Chicago 1962) p.25.

53 United National ECLA: Fiscal Budget as an Instrument
in the Programming of Economic Development (April 25, 1959
E/CN.12/BRW 1/L.3) p.70.
Deficiencies in Budget Procedures

Whereas Soviet financial planning exhibits consistency with the national economic planning process, in a report which is typical of those for other developing countries, the World Bank survey mission to Thailand in 1958 found that

the procedure for preparing the annual budget is deficient. Government departments request appropriations with only vague justification and in amounts that are consciously set beyond any expectation of achievement. The Ministry of Finance lacks personnel with the necessary competence and detailed knowledge of departmental requirements to evaluate adequately the reasonableness and priority of requests. In these circumstances it is almost axiomatic that requests for appropriations will be cut; but the nature and extent of cutting involves substantial elements of arbitrary judgment and political pressure. Hence some appropriations may be unrealistically low and in important cases almost certain to be exceeded, while others may be well in excess of any reasonable justification.

Unrealistic estimates of revenue and expenditure in many countries often tend to cause emergency, supplementary or other extraordinary appropriations to fill gaps or correct miscalculations which become evident after a basic budget has been authorised. In many cases, these additional authorizations may reach sizable proportions of total budgetary outlays. In this context, one could easily realise that continual and unco-ordinated use of such special appropriations reduce the effectiveness of expenditure controls and the usefulness of budgets for carrying out development plans.

Aside from these shortcomings, the result of a conventional budget's lack of comprehensiveness, the system used to classify accounts and the form in which they are presented, also make it difficult if not impossible to obtain information needed for development planning purposes. Accounts may be so detailed and voluminous that it becomes difficult to group them into categories related to specific projects, programs or activities; or they may be insufficiently itemized for this purpose. A World Bank mission to Nicaragua assesses its budgetary system in this view it is impossible to appraise from the budget, either the actual cost of the various functions of government or the profitability of the various quasi-business activities of the government.

With development planning, an effective budget has not only to provide appropriate facilities and mechanisms that can contribute to timely, effective and prudent decision-making in the governmental process of acquiring and spending money, but also to serve as an effective tool for the promotion of economic growth and social progress. Apparently the desire revolves on the introduction of a good budgetary system bringing orderliness into the process of spending public funds and producing data and analyses that will aid responsible officials in making decisions

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about the allocation and use of resources. The demand however, goes further than this; the budget system in a modern state should become the principal instrument in bringing about coordination of planning and management and the matching of agency programs with the resources of the government and the needs of the nation.

The responsibility of a modern budget system should be such that it does not end with the preparation and presentation of the financial plan. After enactment of the budget, it should move into the phase of execution which involves not only supervision over current spending, but continuous review of programs in relation to changing needs and circumstances. For through this supervision and review information about operations, costs and needs is gained, which is used for identifying problems and issues relevant to succeeding budgets. The challenge of planning and achieving rational objectives thus heightens a system or method for defining and achieving clearly stated quantitative objectives.

Thus for a budget to be a reasonably efficient instrument for plan execution the "planning-programming-budgeting approach" becomes essential as this system provides a classification method which permits allocations and expenditures to be related to specific projects, programs and other purposes in a plan. Its usefulness may also be appreciated through the additional components such a system provides.
Definition of the program in terms of the specific results or outputs desired; identification of alternative methods; comparison of costs between methods; development of measures for appraising effectiveness in achieving desired results; organisation of information for continuous comparison of results with costs and facilitation of revision of plans and programs.

The classification system employed in conventional administrative budgets, however, does not meet these requirements. It was designed primarily as a framework for making appropriations to government ministries and departments, to facilitate internal management and control, to insure accountability, usually to a legislature and to help execute government policies under conditions which antedate postwar development planning.

A conventional administrative budget has several classification schemes and the various methods serve different purposes, any of which may be useful for specific budgetary needs in a particular government. Generally speaking, however, conventional budgetary statistics are usually classified on an object, line item, functional or economic basis.

The object classification of which a specimen is shown in figure 3, presents budgetary data according to the major objects on which appropriated funds are expended - that is accounts are lumped together under a single head, for example total personal emoluments, total transport and travel allowance, total general

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### Vote 286: MINISTER'S OFFICE

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>22,426</td>
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<td>Temporary assistance</td>
<td>2,795</td>
</tr>
<tr>
<td>Office expense</td>
<td>25,221</td>
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<tr>
<td>Travelling expense</td>
<td>474</td>
</tr>
<tr>
<td>Total</td>
<td>28,400</td>
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</table>

Less: Transfer, Vote 129 (b)—Salary Adjustments | 300

### Vote 287: GENERAL ADMINISTRATION

<table>
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<tr>
<th>Item</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Salaries</td>
<td>230,726</td>
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<tr>
<td>Office expense</td>
<td>12,226</td>
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<tr>
<td>Travelling expense</td>
<td>12,203</td>
</tr>
<tr>
<td>Office furniture and equipment</td>
<td>963</td>
</tr>
<tr>
<td>Office expenses</td>
<td>1,260</td>
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<tr>
<td>Office equipment</td>
<td>1,132</td>
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<tr>
<td>Incidents and contingencies</td>
<td>361</td>
</tr>
<tr>
<td>Total</td>
<td>248,311</td>
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</table>

Less: Transfer, Vote 129 (b)—Salary Adjustments | 10,212

### Vote 288: GOVERNMENT BUILDINGS (MAINTENANCE)

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>2,792,871</td>
</tr>
<tr>
<td>Temporary assistance</td>
<td>379,579</td>
</tr>
<tr>
<td>Heat, light, power, and water</td>
<td>3,172,450</td>
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<tr>
<td>Maintenance of buildings and grounds—Labour</td>
<td>1,419,800</td>
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<tr>
<td>Travelling expense</td>
<td>32,979</td>
</tr>
<tr>
<td>All other expenditure</td>
<td>1,175,022</td>
</tr>
<tr>
<td>Furniture, supplies, etc.</td>
<td>1,179,990</td>
</tr>
<tr>
<td>Maintenance of mechanical equipment</td>
<td>45,055</td>
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<tr>
<td>Motor-vehicles and accessories</td>
<td>20,582</td>
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<tr>
<td>Telephones</td>
<td>1,733,450</td>
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<td>Total</td>
<td>8,142,108</td>
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</table>

Less: Transfer, Vote 93—Technical and Vocational Training | 159,480

### Vote 289: CONSTRUCTION OF PROVINCIAL BUILDINGS

<table>
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<tr>
<th>Item</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td>901,931</td>
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<tr>
<td>Travelling expense</td>
<td>61,612</td>
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<tr>
<td>All other expenditure</td>
<td>11,832,898</td>
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<td>Total</td>
<td>12,756,441</td>
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Less: Transfer, Vote 93—Technical and Vocational Training | 4,765,697

### Vote 290: RENTALS

<table>
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<tr>
<th>Department</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Agriculture</td>
<td>18,857</td>
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<tr>
<td>Attorney-General</td>
<td>241,685</td>
</tr>
<tr>
<td>Commercial Transport</td>
<td>5,381</td>
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<tr>
<td>Education</td>
<td>181,079</td>
</tr>
<tr>
<td>Finance</td>
<td>31,365</td>
</tr>
<tr>
<td>Health Services and Hospital Insurance—Public Health Services</td>
<td>248,862</td>
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<tr>
<td>Highways</td>
<td>44,035</td>
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<tr>
<td>Industrial Development, Trade, and Commerce</td>
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<tr>
<td>Labour</td>
<td>5,385</td>
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<tr>
<td>Lands, Forests, and Water Resources—Lands</td>
<td>12,425</td>
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<tr>
<td>Forests</td>
<td>71,975</td>
</tr>
<tr>
<td>Water Resources</td>
<td>17,700</td>
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<tr>
<td>Mines and Petroleum Resources</td>
<td>21,553</td>
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<tr>
<td>Municipal Affairs</td>
<td>50,134</td>
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<tr>
<td>Provincial Secretary</td>
<td>142,185</td>
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<tr>
<td>Public Utilities</td>
<td>15,430</td>
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<td>Public Works</td>
<td>37,948</td>
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<tr>
<td>Recreation and Conservation</td>
<td>53,014</td>
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<td>Social Welfare</td>
<td>114,445</td>
</tr>
<tr>
<td>Total</td>
<td>1,318,059</td>
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</tbody>
</table>

Less: Transfers, various votes | 135,868

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**INTEGRATION OF DEVELOPMENT PLAN WITH THE BUDGET: AN EVALUATION OF THE USEFULNESS OF PROGRAM AND PERFORMANCE BUDGETING TO "PLANNING FOR DEVELOPMENT".**

**SCHOOL OF COMMUNITY AND REGIONAL PLANNING UNIVERSITY OF BRITISH COLUMBIA.**

(ISAAC A. OMANE)

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Figure 3

May 1968
expenditure and total minor expenditure. This may be done to
insure centralized control for administrative convenience, al-
though the expenditure relates to different functions, programs,
projects or activities.

In the case of a line-item budget system, the objects
of expenditure are specified in great detail, for example in
figure 1. Although this presentation is simple, easily under-
stood and ensures accountability and provides legislative and ex-
ecutive control over the spending departments; it has very seri-
ous defects. Under the traditional line-item budget, it is
often not possible to transfer funds from one expenditure item
to another, even though the nature of the program might have
changed since the budget was passed or some unforeseen emergen-
cies might have developed, which make it difficult to obtain
certain goods or services. Such budgets therefore tend to be
inflexible and their rigidity interferes with the attainments of
the objectives of plans. Further, such budgets do not tell us
whether the costs of different public services are changing or
not, and whether their efficiency is increasing or going down.
But it should be noted in passing that the citizens and the leg-
islature are interested to know whether with extra expenditure
proportionately extra results are being achieved. This enables
them to judge the efficiency of the government.

The functional classification system, on the other hand,
presents details of government expenditure in accordance with the
functions which the government performs, for example, education,
defence, justice. It involves the grouping of governmental expenditures into broad functions or heads or purposes as borne out in figure 4; and it is designed to facilitate program formulation at the level of the chief executive or the level of legislative review. As such it is well suited to the analysis of governmental activities over a period of time as it provides opportunity to measure the changes in programs and in the distribution of activity. Its usefulness does not extend further as the participants to a conference on budget classification and management in South America in Santiago, Chile, 1959 agreed in this statement.

There was general agreement that classifications by administrative units, while indispensable for accountability purposes, was not enough to ensure effective use of the government's financial resources. The object of this type of classification is fundamentally to group under one functional head or category all expenditures destined for the same purpose, for instance, all expenditures relating to the provision of the same public service. Though a useful means of informing the public about the principal activities of state, none the less it was emphasized that, for the purpose of preparing programs, assigning priorities or supervising the efficiency of the administrative services, a more detailed analysis was needed presenting information on the relative costs of the various activities connected with any given function.

Essentially therefore, functional classification is primarily classification of expenditures. It does not tell us the unit cost of providing different government services such as

57

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57 UN: Workshop on Budgetary Classification and Management in South America, (Santiago, Chile 1959, United Nations New York) p.7.
## Public Accounts, 1966/67

### British Columbia

### AND EXPENDITURE BY FUNCTION

#### EXPENDITURE BY FUNCTION

<table>
<thead>
<tr>
<th>Year</th>
<th>General Government</th>
<th>Legislative</th>
<th>Protection of Persons and Property</th>
<th>Transportation and Communications</th>
<th>Health and Social Welfare</th>
<th>Recreational and Cultural Services</th>
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<tr>
<td></td>
<td>Administrative:</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>General</td>
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</tr>
<tr>
<td></td>
<td>6,149,908</td>
<td></td>
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<tr>
<td></td>
<td>Employees' benefits</td>
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<tr>
<td></td>
<td>Construction and maintenance of public buildings</td>
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<td></td>
<td>Legislative:</td>
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<td>Elections</td>
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<td>Legislative Assembly and Government House</td>
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<td>Research, planning, and statistics</td>
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<td>Expenditure by Function</td>
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<tr>
<td></td>
<td>General Government:</td>
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<td>Expenditure by Function</td>
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</table>

### Notes:
- Includes $15,581,106 pursuant to Toll Removal Act, 1963, chap. 49, sec. 5.
- Includes $15,439,868 pursuant to Toll Removal Act, 1963, chap. 49, sec. 5, and $17,749,250 pursuant to Toll Removal Act, 1964, chap. 58, sec. 5 (2).
- Includes $17,749,250 pursuant to Toll Removal Act, 1964, chap. 58, sec. 5 (2).
construction and maintenance of a mile of road, treating a patient or providing inoculation against contagious diseases. Furthermore, such a budgetary classification does not enable us to know the relative importance of the different items of expenditure needed to achieve the objectives which the executive or the legislature may have in its mind. But this decision is always important especially because of the need to allocate limited funds amongst competing demands.

Economic classification is applicable to any government fund or account and usually is utilized to supply information needed for formulating economic policy. It is therefore designed to meet the principal requirement of a system of national accounts. It serves its limited functions very well in the financial statement.

Summary
Evaluation of the usefulness and suitability of the Conventional Budget system to "Planning for Development"

The basic features of a plan are its use, within a sector of programs or projects, as operational units, the emphasis on their physical inputs and results or benefits and on their cost in relation to benefits. And the essence of such programs, projects and activities also lies in the fact that they are the media which are expressive of national goals, translated into operational terms. Thus it is the extent to which such programs are computed, programmed and accomplished that one can determine whether or not the objectives of a plan will be achieved.
To this extent, since the budget is the mechanism which should effectuate the economic, social and physical development objectives of a country, it is imperative that it should express, reflect, and be related to such operational items keyed to the national goals, not only physically in the budget format by itemizing such specific programs, projects and activities, but also since the accomplishment of such programs depends upon financial allocations, their physical and financial plans should serve as the framework for the allocation of financial resources.

But instead of the conventional budget reflecting such activities, it is only concerned with line-item or object classifications, that is with personal emoluments, travel and transport allowances and so on. Such a presentation, invariably does not reflect the government's efforts to achieve the goals in a plan; and one cannot deduce from such a budget presentation how a government committed to development is making progress towards reaching its targets. But such information is critical to "planning for development", because from year to year decisions must be reached on the over-all magnitude of the development effort in the light of financial, manpower and physical resources available for it; and individual programs and projects must be formulated, evaluated and executed in the light of the urgency of specific projects and other current demands. Therefore since such programs and projects serve as the communication system through which national goals are expressed, they ought to form the main body of a budget classification format. The conventional budget however, does not function on this basis.
The most important thing is not how money is spent, that is on salaries and wages, but on what it was spent and the accomplishment of such expenditure; not how much money is spent on education instead of on defence but why more should be expended to provide more additional classrooms, training facilities, secondary and technical schools and higher education for a government to attain its objectives in the educational field when it considers education of the people more important than defence expenditure; not how much was spent on health in the form of salaries and wages paid, but the cost per health centre and the number built as compared with the cost per one huge hospital and whether or not considering social benefits it will not be more feasible to construct more health centres to serve the people rather than two giant ones. Because the conventional budget antedates development planning it fails to provide a framework which enables decisions to be made on such valid questions.

The traditional conventional budget classification systems tell us only the extent to which the financial targets of expenditure are being achieved; they give us no indication of the extent to which the physical targets have been achieved; especially at a time when developing countries have in hand large development programs. The system also fails to indicate the main purposes for which sums available are to be used and they fail to show the number of services financed by the budget. The systems also provide no useful tools to evaluate government programs by linking actual expenditures for programs with the achievements of the programs in terms of physical results. In such a system
therefore, inclusion of a project in an annual plan will not ensure that the necessary funds will be appropriated since proposed allocations are not related to the physical targets of the plan. Because its format does not reflect the programs and projects which represent the goals of a national plan, the provision of finance under its item or object classification is not related to program activities and the accomplishment of program objectives. To this extent, such classification systems are not useful and efficient vehicles for the formulation and management of development programs.

In countries "planning for development" therefore, the author strongly believes that the budget systems should be more efficient vehicles for carrying out development plans than they are now. The conventional budget is more important than the development plans since it is the most important mechanism through which governments implement their economic, social and physical development objectives. Although it may be argued that an efficient budgeting system is valid with or without "planning for development", it should be stressed that the author's main argument is that it is more valid since such a system will provide a more efficient tool to integrate development planning and budgeting and also a broad framework within which a government manages its development programs and projects to achieve national goals. In such countries therefore, the budget should be an instrument through which a government carries out the full range of its activities; besides being a device for implementing plans, it should be a means for financial control and management of government operations; it must provide data required to make
basic decisions on fiscal and economic, and social policy and it must be a suitable vehicle for carrying out the decisions which are made.

What is needed in a conventional budget in a country "planning for development" is a good classification of programs, sub-programs, activities and projects, accompanied by a proper classification by object of expenditure and physical results which will provide information needed to grasp the operational costs of programs and thereby enable analysis of public expenditures from the standpoint of their effect on economic and social development. The need for broadening the awareness and understanding of budget content is imperative.

But these are not the attributes of a conventional budget; rather they are the attributes of a program budget in which the objectives are first formulated at the functional level, and then broken down for operational purposes into specific programs, projects or activities. Similarly, just as in a plan, outlays represent cost of providing goods and services and not merely disbursements or obligations to be incurred.

In both a plan and program budget, the intent and direction of resource use, the expected workload and its cost are related closely to each other. The conventional budget fails to provide such a linkage as it does not reflect resource use to specific programs and activities as it should in its format. But the similarities between the plan and program budgeting in their form and operational orientation make the system particularly suitable for plan implementation and evaluation of a plan's
progress in developing countries. The data obtained from budget execution based on this system both of a physical and financial nature can, moreover, be helpful in subsequent revision of a plan or formulation of new plans. Because of the many shortcomings of conventional administrative budgets as instruments of financial management which have been aggravated by the requirements of development planning, their usefulness is far outdated. It is this particular feature - that is operating under conditions where they are not as efficient tools as they ought to be - that validates the need for adoption of a more effective and efficient budget system. The next chapter therefore, will be concerned with an analysis of the program and performance budgeting and its characteristic features which makes it a more efficient tool for "planning for development" comparative to what the conventional budget is unable to achieve.
CHAPTER III

THE PROGRAM AND PERFORMANCE BUDGET -
A MANAGEMENT APPROACH TO BUDGETING

The Performance Approach to Government Budgeting

The budgetary systems of many developing countries have failed to keep pace with the new demands made on them by the greatly increasing scope of activity of the public sector and, in particular, by the adoption of a planned approach to economic development. Thus the need is first for the development of new types of information on the public sector essential for drawing up long term development plans, and second for changes in concepts and procedures in government budgeting required to make the annual budget an effective instrument for implementing the development plans and policies.

With these words, the United Nations Secretary General U Thant has expressed the two essential prerequisites for any meaningful progress towards achieving the goals set forth in the UN Development Decade. The latter case which is more pertinent to this work brings out clearly two basic functions for the government administrative budget; namely the policy function and the programming function. With respect to plan objectives, the policy function is somewhat wider both in terms of its scope and its consequences. The sole purpose is not only to provide financial resources for the execution of budgetary programs. The

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objectives of fiscal and credit policies to be pursued must also include measures needed to promote savings and investment in the private sector in accordance with the goals laid down in the plan. The programming function includes these essential considerations:

- to ensure that all plan programs to be scheduled for implementation were included in the budget, and, further, that details with respect to the preparation and phasing of projects were completed by the operating agencies;
- secondly to provide the required financial resources and effective administration for project execution;
- thirdly to ensure that budget execution resulted in the provision of the intended volume of public services and to check continuously the consistency between work progress and its financial cost;
- fourthly to advise government on the progress of the plan implementation, particularly with respect to plan objectives; and
- lastly to assist the government in appraising alternative proposals for new plan programs.

But the object-cum-organizational classification of expenditures in the conventional budget does not enable identification of programs or projects. Furthermore, it is not related to the cost of major inputs or the work performed. In other words, that system of budgeting does not provide information on what a government is actually doing or what it gets for the money spent.

Not surprisingly, therefore, the United Nations, through a series of workshops on problems of budgetary reclassification and management to meet the requirements of development planning in emerging countries, has come out with a series of recommendations and variety of proposals for improving budgets. Some are

merely intended to make conventional budgets more informative and more effective as instruments of management and control through improvements in the practices and methods by which they are prepared and executed. These proposals concentrate on such matters as improving the time-table for budget preparation; extending the period covered by a budget to provide information on receipts and expenditures for more than one fiscal year; improved budgetary and accounting practices in spending agencies and better screening of their budgetary requests; reduced budgetary fragmentation arising from earmarking of revenues and expenditures or exclusion of transactions of autonomous and semi-autonomous agencies; and reduced supplementary and other special appropriations.

But of all the techniques suggested to help developing countries improve their budgetary systems, and in attuning such systems to the requirements of development planning, none has gained such wide attention throughout the world as "program and performance budgeting". This technique, which is an entirely new approach to budget formulation and execution, presupposes that the conventional administrative budget is completely outmoded, and whatever readjustments and improvements are made to it, it is not best suited to the needs of development planning. The system of program and performance budgeting has the advantage of not only combining the right tools of classification, accounting and work measurement, but also provides that essential link between a development plan and the budget. These then are
the essential features which make the system more useful to a
country "planning for development".

The new system not only takes cognisance of a business
management approach to budgeting, but, also, its characteristic
features effectively merge the planning and budgeting process.

The Concept of Program and Performance Budgeting

Historical Background

The origin of this concept in government budgeting -
although not new in business management is attributed by Mosher
and many authors to President William Howard Taft's complaint
that the United States Federal Budget did not lend itself to
consideration of program. Resulting from this was the appoint-
ment of the first two Hoover Commissions whose terms of reference
included:

- recommending methods and procedures for reducing ex-
  penditures to the lowest amount consistent with the
  efficient performance of essential service, activities
  and functions;
- eliminating duplication and over-
  lapping of services, activities and functions;
- consolidating services, activities and functions of a
  similar nature;
- defining responsibilities of of-

The Commission's report on department management, Wil-
liam Divine points out, constituted a landmark because it set
forth for management of the executive branch the pattern which
to an amazing extent has been adopted and put into effect. The

William R. Divine, "The Hoover Commission Reports,
an Analysis", Article in Public Administration Review (Vol.XV
key elements in this pattern of department management were:
(1) emphasis on the line of command from the Congress to the
President to his responsible agency heads; (2) organisation of
the agencies within a department by major purpose, thereby
bringing into each department a unified group of activities
having common broad objectives; and, (3) provision for decen-
tralized administrative services under central control.

Because the first Hoover report approach to depart-
mental management was to secure improvement by establishing clear-
cut lines of authority and assignment of functions, former Presi-
dent Herbert Hoover is said to have invented the term "perform-
ance budgeting"; his argument was that the budget process would
be focused upon programs and functions instead of upon objects
of expenditure.

The benefits of this new system in the United States
to the various Federal Government Departments and States, where
its concepts and tenets have been more perfected and sophisti-
cated, led, first, to its transplantation in the Philippines
during 1956. Since then, the spread and adoption of this con-
cept, particularly in the developing countries, has been world-
wide through the efforts of the United Nations Workshops on Mod-
ernizing Government Administrative Budgets. The UN Report of
the Workshop on Budgetary Classification and Management in Cen-
tral America and Panama held at San Jose, Coast Rica in 1963

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61 Clifford R. Barnes: "Budgeting for a Large Organiza-
pp.212-216.
lists the following countries in Latin America as having installed this system\textsuperscript{62}: Bolivia, Colombia, Peru, Paraguay, Argentina, Ecuador, Venezuela, Brazil, Costa Rica, together with Guatemala, Nicaragua, and El Salvador which is considering its adoption. In Africa, program budgeting has been mainly attempted in Ghana\textsuperscript{63} and the United Arab Republic; and it has also been introduced to some extent in Iran and Thailand, in the Republic of Vietnam, and in China. Latin America has thus been particularly receptive to the new budgetary techniques.\textsuperscript{64}

The Concept of Program and Performance Budgeting

Program and performance budgeting may be broadly described as a budget system that emphasizes things done by government rather than things bought by government. Compared with the traditional budget, therefore, in program and performance budgeting, the emphasis is shifted from the means of accomplishment, that is personal services and so on, to the accomplishment itself. Therefore the central idea of performance budgeting is that the budget be focused upon programs and functions instead of upon objects of expenditure.

\textsuperscript{62}UN: TAO: Report of the Workshop on Budgetary Classification and Management in Central America and Panama, San Jose, Costa Rica, September 1963 (St/TAO/Ser.C/66) p.11, para 48-49.


The main emphasis, unlike that of the traditional form of budget, is less on means to achieve an aim (wages, materials, travel cost, etc.) than on the actual results (kilometers of road built, schools and hospitals built, hectares of land made fit for cultivation or irrigation etc.)

This view is amplified in another workshop report.

Performance budgeting can be interpreted more broadly as any procedure for planning, implementing and reporting both in financial and physical terms.

Professor Bertram M. Gross, however, sees it as "the new systems analysis", and describes the concept in these words.

The basic idea behind program and performance budgeting has been that a meaningful government budget should not be limited to a listing of the "inputs" (or resources) to be used -- in budget terminology often referred to as "items" or "objects" of expenditure. Rather, it should also list the "outputs", that is, the services or facilities to be provided through the use of such resources. The budgeting of government plans should be based upon an appraisal of (a) the direct and indirect benefits likely to be obtained from (b) identifiable outputs (or services) to be provided by the use of realistically estimated inputs (costs).

The idea here is that planning-programming budgeting system should be a "benefit-output-cost system". Such an idea may be close to "cost-benefit" analysis, but with two important changes. As Professor Bertram Gross points out, it has now been realised that costs (or the use of inputs) do not directly lead

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65 UN: Report of the Workshop on Budgetary Classification and Management in Central America and Panama, op.cit. p.30, para. 3.

66 UN: Government Budgeting and Economic Planning in Developing Countries, op.cit. p.44, para. 27.

to benefits. Rather, the costs reflect the inputs used in producing certain outputs such as health services, educational services, dams, buildings, regulations and so on. And the justification of these outputs is that they provide certain benefits such as malaria eradication, literacy and technical skill, water for irrigation, shelter and safe working conditions in factories. His second reason, is the need to place major emphasis on benefits; to neglect them he points out, would be to take a narrow "cost accounting" viewpoint whereby attention may be directed to doing more economically things that should not be done at all. Hence the desirability of formulating the new approach to budgeting in terms of "benefit-output-cost" system; the reason being that emphasis be placed on the comparison of alternative benefits through alternative output patterns.

Ali Eghtedari and Frank Sherwood in an article "Performance Budgeting: Has the Theory Worked" amplify this point when they argue that program and performance budgeting is largely directed toward decision-making both by legislators and executives; the emphasis here is the consequence of greater awareness of the budget as, first, a power and control instrument, and, second, a policy statement. They are convinced that performance budget can do much to rectify the failures which have characterised detailed line-item budgeting because

... it helps to improve planning; (2) provides more effective control; (3) sharpens decision-making at all executive levels and particularly by the legislature; (4) it helps to decentralize decision-making
and thus encourage placing authority at the level of real responsibility; and (5) helps to improve public relations by providing clearer information on each program.

The performance budgeting idea thus seeks to promote rational decision-making through the presentation of objective program data, in which costs and size of program are related; it involves the quantification of information, that is x number of units of work to be performed at x dollars per unit. The measurement of work in a governmental jurisdiction is thus practical and feasible and there are positive benefits to be gained from such measurements.

Therefore it is no wonder that some budget authorities describe it as a tool that brings "budgeting and development planning closer together by providing a common language which is useful to both". Others present it as being synonymous or interchangeable with a development plan because

the program budget makes it possible to determine exactly what the government has to do to meet its development aims and targets. It translates the direct participation of the government in the program into terms of specific decisions and becomes the operative instrument for short-term governmental action. In

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this sense, it may be said that the program budget is a veritable short-term plan, since it relates to the government's direct sphere of action for the attainment of medium- and long-term objectives.

Features of a Program and Performance Budget

Establishing the system involves three basic steps: first, establishing a meaningful program and activity classification reflecting what government organisations are set up to do; second, bringing the system of accounts and financial management into line with this classification; and, third, working out measures of performance for each program and activity. As a first step, therefore, a program budget starts with the structuring of the problems and the organization of available data. For each agency, it establishes its work objectives in terms of programs, projects and activities which can be aggregated into separate functions. Second, under each of these categories, it estimates workload data by a rational ordering of inputs and directly identifiable outputs, and finally it makes use of proper accounting tools to serve the purposes of fund control and work measurement.

The budget under performance or management approach thus presents these features.

(I) the short-term and long-term objectives in major functional areas for which the funds are requested; (II) the programs in each function and activities or projects in each program proposed for the achievement of the stated objectives in the various functional area; (III) the costs of the programs and activities or projects proposed; (IV) the qualitative and quantitative data for the programs and activities or projects proposed; (V) the organisational units responsible for carrying out the programs; and (VI) the sources and amounts of all receipts and expenditures.

Performance Budget Classifications

The establishment of budget classifications is one of the most important steps in government administration. Its importance stems from the fact that the basic classification structure provides the framework for decision-making throughout the budget process. The classifications employed, therefore, should facilitate formulation of the budget in relation to policy objectives, effectively reflect in the budget what the government proposes to do with available resources, and permit determination of what has been done in relation to the budget approved by the legislature.

For a program and performance budget, the establishment of appropriate classifications assumes even greater importance. For, in this approach to budgeting, attention in the decision-making process is directed also to the nature of the proposed work, its relation to policy objectives, planned performance and

its cost. This involves establishing appropriate relationships between long- and short-range plans and that portion of the plans that is proposed to be carried out in the annual budget.

Therefore, basic to a program and performance budget is the establishment of programs and activities that group work operations in terms of the major purposes of government served by the basic work operations.

The classification structure for a program and performance budget involves the identification of: (a) functions — broad groupings of operations that are directed toward accomplishing a major purpose of government; (b) programs — broad categories within a function that identify the end products of major organizations; and (c) activities — segments of a program that identify homogeneous types of work carried out by subsidiary organisations to produce the end products of a program.

Such a classification scheme would provide better balanced judgment and decisions at all levels of responsibility in government. The classification by function, for example, will facilitate top level decision-making on the distribution of available resources in accordance with policy objectives and long range plans. Those by program and activity relate financial requirements to end products and work performed by specific organisations, and this helps financial planning in relation to long and short-range goals; the review of work plans in relation to costs, and control over the performance of organisations in executing the authorized appropriations.

Functional Classification

Functional classification identifies distinct and separate services provided to the public, such as national defence, education, health or agriculture; but with a different emphasis. Here information is provided on purposes served by governmental expenditures, irrespective of the organisation making the expenditure. This is accomplished by grouping programs and activities of organisations according to the basic services provided, each of which has significance from the standpoint of the duties and responsibilities of the government as a whole.

Figure 5 which sets forth the functional classification of the Philippine Government reflects the distribution among functional categories of programs and projects carried out by specific organisation units of the Department of Public Works and Communications. It illustrates how a functional classification serves to bring together the expenditures for a given service, regardless of the organisational units responsible for providing parts of that service. This segment of the total classification scheme of the Philippine Government shows, for example, that the activities of the Department of Public Works and Communications are classifiable in ten of the fourteen functional categories. This approach permits a summation of total governmental effort by major purposes served, in contrast to the conventional budget where the division by department does not give a full picture of the total effort in any one functional area. Also, it emphasizes the need for providing a classification of departmental expenditures according to the purposes served. In program
# Chart of Functional Classification of Government Activities

## I. Arranged by Department and Agency, Program and Project, and Function

<table>
<thead>
<tr>
<th>Department and Agency</th>
<th>Program and Project</th>
<th>Function</th>
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<tbody>
<tr>
<td><strong>3. Department of Public Works and Communications</strong></td>
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<tr>
<td>(1) Office of the Secretary</td>
<td>I. General Administration and Staff Services</td>
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<td></td>
<td>1. Technical Staff Services</td>
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<td>2. Subvention to Steamship Companies</td>
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<td></td>
<td>3. General Administration</td>
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<tr>
<td></td>
<td>I Irrigation Service Unit</td>
<td></td>
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<tr>
<td></td>
<td>I. Control and Supervision over Irrigation Pump Systems</td>
<td>x</td>
</tr>
<tr>
<td></td>
<td>1. Installation and Supervision of Pump Units</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. General Administration</td>
<td></td>
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<tr>
<td></td>
<td>2 Radio Control Division</td>
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<tr>
<td></td>
<td>I. Enforcement of Radio Laws and Regulation</td>
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<td></td>
<td>1. Licensing of Radio Stations and Radio Operators</td>
<td>x</td>
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<tr>
<td></td>
<td>2. Inspection and Investigation of Radio Stations</td>
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<td></td>
<td>3. Monitoring Service</td>
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<td>4. General Administration</td>
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<tr>
<td></td>
<td>3 National Planning Commission</td>
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<tr>
<td></td>
<td>I Regional and Local Master Planning for Physical Development</td>
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</tr>
<tr>
<td></td>
<td>1. Planning and Regulating Activities</td>
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<td>2 Field Survey and Planning</td>
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<td>2. Buildings</td>
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<td></td>
<td>3. River Control and Drainage</td>
<td>x x x x</td>
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<td></td>
<td>4. Port Facilities</td>
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<td>II. Operation, Maintenance and Repair Services</td>
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<td>1. Irrigation</td>
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<td>3. River Control and Drainage</td>
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<td>4. Port Facilities</td>
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<td></td>
<td>5. Equipment</td>
<td>x x x</td>
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</tbody>
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### Integration of Development Plan with the Budget: An Evaluation of the Usefulness of Program and Performance Budgeting to "Planning for Development"

School of Community and Regional Planning. University of British Columbia.

(ISAAC A. OMANE)

and performance budgeting, therefore, a functional classification aggregates budget data to show the share of public expenditures devoted to each service. Budget information summarized in this way is more meaningful and informative for the general public than the functional classification system in a conventional budget system.

**Program Classification**

Classification of work performed by an agency in carrying out assigned responsibilities according to programs constitutes the highest level of classification system in a program and performance budget. This method is used to designate that portion of the work that produces an end product or service which is representative of the purposes for which an agency is established. Generally, it reflects the responsibilities of major organizational units, and represents a grouping of activities that is of significance from the standpoint of the agency's substantive responsibilities. The program classification thus furnishes a framework for developing an agency budget, and a broad basis for review of proposed plans, estimates of requirements and progress of work in relation to approved plans.

The structure of a program classification generally comprises functions, programs, projects and activities, a program being a subdivision of a function. For example, with regard to the function of agriculture, the production of fertilizers may be termed a program and the construction of the plant as a project and research and investigation, activity. A characteristic of the program classification is that it produces an
end product - one that is identifiable and measurable; and is based on close relation to the workload data, the use pattern of human and material resources and to the financial outlay. However, this may be more feasible for some programs than it is for others. A highway program, for example, can be measured by mileage of road constructed while the end product of a medical research program may be difficult to identify and measure.

Activity Classification

The activity category reflects the work efforts of a complete organisational entity.

...an activity in a program and performance budget may be defined as a division of the total effort under a program or sub-program into reasonably homogeneous type of work - the purpose of which is to contribute to the accomplishment of the end product of a program. It represents a grouping of work operations or tasks that generally are carried out by lower level administrative units within an organisation in order to attain the program goals and objectives of the agency.

Activities in a program and performance budget thus serve as the focal point for management, a primary basis for developing and presenting the budget and for accounting and reporting on budget and plan execution. Such activity classification, thus represents a grouping of work operations or tasks that is useful to officials for management decisions and performance analysis; such activities also provide the basis for the estimation of work load, employee utilization, and unit costs.

that provide the statistical measurements. The range and coverage of activities may vary depending upon the organisational structure, assigned responsibilities, work processes, or tasks of an agency.

Multiplicity of activities under a program has many setbacks, thus a United Nation report advises that the number of activity categories should always be kept at a minimum, consistent with the need for sound appraisal of work progress under a program. However, it is essential that the activities in total cover all work carried out under a program and at the same time reflect the work efforts of a complete organisational entity.

Object of Expenditure Classification

Under the traditional form of budgeting in government, the primary classification of data generally used for review and analysis of fund requests and for control of operations is the classification by object of expenditure, that is the things to be purchased with appropriated funds. In program and performance budgeting, however, the emphasis in review, analysis, and control is shifted to the things to be accomplished - the planned programs and activities. The classification by object of expenditure is still retained as a secondary classification, to support the program and activity presentation. To this extent, the object categories provide a standard basis for the classification of items being purchased by all agencies, irrespective of the purposes for which those objects will be used. As such, the object classification furnishes a base for developing estimates of requirements, permits a review of the character of actual and
Object classification in program and performance budgeting, therefore, identifies the inputs required for work involved in planned programs and activities. As such, it is a base classification that can serve as a link between government purchases and over-all economic categories, thus contributing to economic classification and analyses; it furnishes a uniform basis for review of fund requirements for work and program outputs at various levels of management; and it provides operating officials with a subsidiary basis of control appropriate to the programs and activities being carried out.

Classification of Capital Outlay

The basic aim of program and performance budgeting is to develop classifications that are appropriate for the measurement and evaluation of performance in relation to assigned responsibilities. To attain that objective, program and performance budgeting delineates between fixed and current outlays, that is between outlays that will provide a benefit over a lengthy period, or investment programs directed towards the production of capital goods from operating programs and activities.

The Financial Management System in Program and Performance Budgeting

The financial management function shown in figure 6 is a continuous cycle of related operations that contribute to decision-making at various levels of the governmental administrative
INTEGRATION OF DEVELOPMENT PLAN WITH THE BUDGET: AN EVALUATION OF THE USEFULNESS OF PROGRAM AND PERFORMANCE BUDGETING TO "PLANNING FOR DEVELOPMENT".

SCHOOL OF COMMUNITY AND REGIONAL PLANNING,
UNIVERSITY OF BRITISH COLUMBIA.

(ISAAC A. OHANE)

Source: A Manual for Program and Performance Budgeting:
(United Nations, New York, 1965) p. 29
machinery. Within the financial management cycle, the accounts are the official source of financial information used in the budget. Such data with the passage of time has been developed in the accounts in a form that had supported budget requests and provided for adequate control of budget execution. Traditionally, accounting in government has been developed as a mechanism for financial control. It has been used primarily as the means by which operating officials in the executive have met their responsibility for control of the funds provided by the legislature. But if one considers these prerequisites of financial management laid down by a United Nations report that accounts should be developed so that they effectively disclose the financial results of program operations, including the measurement of revenues, and determination of costs of programs and organisations; the accounting systems should be capable of serving the basic financial information needs of development planning and programming and the review and appraisal of performance in physical and financial terms,

then, one cannot but agree that such an outmoded system is very inefficient in providing meaningful data for any form of analysis. The application of program and performance budgeting provides the essential framework for linking programming, budgeting, accounting and reporting operations. These various facets of financial management are integrated through the use of common classifications - that is the primary classifications used for developing and presenting the budget are identified in the accounting system and in related reports. The same accountability

requirements apply in program and performance budgeting, but more recognition is given to serving the management needs of the operating officials. Whereas in conventional budgeting, accountability and accounting requirements revolve on data provided on the basis of fund, organisation and object, a program and performance budget satisfies these same requirements plus accurate and timely information by function, program and activity; accounting data are also presented in a manner and form that permit effective operational and fund control and shows the progress being made towards goals.

Measure of Work Performance

The use of program and performance budget contemplates the measurement of work performance in a manner that will help to strengthen the decision-making process at the various levels of management in government. The primary objectives are to obtain physical measures of work effort and results and to establish pertinent relationships with the use of resources so as to provide data that will help in developing and presenting budget proposals, assigning personnel and allocating funds to responsible organisations for the conduct of approved plans, and reviewing progress in the attainment of policy objectives and program and work goals.

This presentation of the purposes of measurement of work performance, reveals to a large extent the usefulness of program and performance budgeting technique in development planning. Such measures are not only of assistance in the replanning and reprogramming that is needed to accommodate program changes and unexpected developments in comparing the performance

of similar types of operations, but are also useful in evaluating the relative efficiency of individual organisations, practices and procedures.

To achieve this most effectively, program and performance budgeting employs physical measures and ratios reflecting resource utilization in all operating organisations in which the approach is feasible and the cost of obtaining the desired data does not exceed the benefits to management.

Approaches to Physical Measurement

In program and performance budgeting, the various programs or services which government agencies carry out toward the attainment of the goals and objectives implicit in the purposes of agencies - that is, their work accomplishments, are made to represent the output of the agency and its constituent organisations. The resources available to the agency to achieve such outputs, for example the labor, purchased materials, supplies and services, collectively represent the inputs of the agency. A relationship termed "productivity ratio" is then established between the outputs and inputs at the program level. In developing such ratios, outputs, may be related to one, several or all inputs. They might, for example, be related to the cost of all resources utilized, or they might be related only to a measure of employment - the labor costs involved in production of the output. Thus in a single program agency, a ratio of this type would reflect the total productivity of the organisation, and in a multi-program agency the productivity experience under each program.
combined with the others in an appropriate way would reflect the total productivity of the organisation. Invariably, such total indicators of productivity could be useful particularly at the higher levels in the governmental management process for observing the trend of the over-all performance in an agency, for comparison with the productivity results in other agencies, and for relating the productivity experience in government to productivity data in the private sector.

At the lower echelons in the administrative hierarchy, where physical outputs reflect the accomplishment of work or tasks, the establishment of the output-input relationship produces "performance ratios". Two different measurements are involved, namely unit cost and work measurement. With respect to the former, the system is developed in conjunction with data on the costs of all resources used in carrying out a work, to derive first a physical output measure, and then the unit cost information. Where the input data are limited to the staff time utilized - that is, man-hours, man-days, the relationship between the input and output measures is commonly referred to as a work measurement ratio. Figure 7 shows the components of program and performance budget together with the units of work measurement more clearly.

The Performance Budget as a Synthesis of an Annual Development Plan and the Annual Budget

One of the paramount values of the program and performance budget is its management usefulness in the conduct of economic development and long-range programs. Through its function,
<table>
<thead>
<tr>
<th>Function</th>
<th>Organization</th>
<th>Programme</th>
<th>Project</th>
<th>Unit of work measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>Bureau of Plant Industry</td>
<td>Increase in rice and corn production</td>
<td>1. Rice and corn research</td>
<td>Researches conducted</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2. Soil analysis</td>
<td>Soil samples analysed</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3. Production and distribution of certified seeds</td>
<td>Cavans of seeds produced</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4. Control of rice and corn pests and diseases</td>
<td>Hectares controlled</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>5. Demonstrations of improved farm practices and farmers' education</td>
<td>Demonstrations conducted</td>
</tr>
<tr>
<td>Bureau of Forestry</td>
<td>Forest protection and management</td>
<td></td>
<td>1. Forest management and land uses</td>
<td>Number of hectares managed and leased</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2. Reforestation and afforestation</td>
<td>Number of hectares planted</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3. Domain use classification</td>
<td>Number of hectares classified</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4. Research</td>
<td>Number of research projects conducted</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>5. Prevention of forest destruction</td>
<td>Number of hectares protected</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>6. Sealing and lumber grading</td>
<td>Number of cubic metres of logs and</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>lumber sealed and graded</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>7. General administration</td>
<td>General administrative employment</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>ratio and expense per man-year</td>
</tr>
<tr>
<td>Education</td>
<td>Bureau of Public Schools</td>
<td>Vocational education</td>
<td>1. Trade and industrial education</td>
<td>Students enrolled</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2. Agricultural education</td>
<td>Students enrolled</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3. Fishery education</td>
<td>Students enrolled</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4. Philippine nautical school</td>
<td>Trainees enrolled</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>5. Training in home industries</td>
<td></td>
</tr>
<tr>
<td>Bureau of Public Libraries</td>
<td>Library and archives administration</td>
<td></td>
<td>1. Library extension service</td>
<td>Patrons served</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2. National library service</td>
<td>(a) No. of books, etc. catalogued,</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>classified and processed</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(b) Patrons served</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(c) Indexing entries</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>General administrative employment</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>ratio and expense per man-year</td>
</tr>
<tr>
<td>General</td>
<td>Bureau of Internal Revenue</td>
<td>Administration and enforcement of internal</td>
<td>1. Tax rulings and other legal services</td>
<td>Rulings issued</td>
</tr>
<tr>
<td>Government</td>
<td></td>
<td>revenue laws, special tax laws and regulations</td>
<td>2. Tax assessment</td>
<td>(a) Tax returns processed and/or</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>assessed</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(b) Tax cases processed and/or assessed</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(c) Tax investigations conducted</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Cases closed</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>General administrative employment</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>ratio; general administrative expense</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>per man-year.</td>
</tr>
<tr>
<td>Health</td>
<td>Field Operations</td>
<td>Field health services</td>
<td>1. Rural health units</td>
<td>Units operated</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2. Dental services</td>
<td>Patients attended</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3. Social hygiene services</td>
<td>Number of cases handled</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4. Malaria eradication services</td>
<td>(a) Persons protected</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>5. Tuberculosis control services</td>
<td>(b) Research activities</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>6. Environmental sanitation</td>
<td>Persons attended</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Inspections conducted</td>
</tr>
</tbody>
</table>
program, and activity structure, this type of budgeting provides a programming framework for the development of detailed agency plans that can be related to long-term objectives and goals. The underlying technique that gives fiscal substance to this relationship is the financial plan.

In the formulation of a program and performance budget, a financial plan reflects the substantive and workloads of the long- and short-range program plans, identifies the organisations that will conduct the proposed programs, and outlines the related financial requirements. This relationship comes out clearly in Figure 8, which shows the financial plan of the Bureau of Reclamation under the U.S. Department of Interior. It identifies not only the program and activities under its supervision and the composite financial requirements, their program workload for the current year and accomplishments of the previous year, but also the project costs.

This system established along organisational, and program lines, provides responsible officials an operating budget with a set of objectives that govern operating decisions and furnishes a basis for financial and performance reporting that enables management, at various levels of government, to review the progress being made against the approved plan.

Summary

If a budget were only a document for giving effect to a country's development plans, problems of budgetary reform and modernization would be easier to resolve than they are. But a
## Program and Performance Budgeting

### Object Classification (in thousands of dollars)

<table>
<thead>
<tr>
<th>Item</th>
<th>1960 actual</th>
<th>1961 estimate</th>
<th>1962 estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>11 Personal compensation: Permanent positions</td>
<td>471</td>
<td>507</td>
<td>519</td>
</tr>
<tr>
<td></td>
<td>Positions other than permanent</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>11 Other personnel compensation</td>
<td>25</td>
<td>21</td>
<td>19</td>
</tr>
<tr>
<td>11 Total personnel compensation</td>
<td>496</td>
<td>529</td>
<td>539</td>
</tr>
<tr>
<td>12 Personnel benefits</td>
<td>33</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>21 Travel and transportation of persons</td>
<td>4</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>22 Transportation of things</td>
<td>5</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>23 Rent, communications, and utilities</td>
<td>6</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>24 Printing and reproduction</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>25 Other services</td>
<td>15</td>
<td>11</td>
<td>3</td>
</tr>
<tr>
<td>26 Supplies and materials</td>
<td>10</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>31 Equipment</td>
<td>5</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>31 Total obligations</td>
<td>573</td>
<td>616</td>
<td>618</td>
</tr>
</tbody>
</table>

### Program and Financing (in thousands of dollars)

<table>
<thead>
<tr>
<th>Item</th>
<th>1960 actual</th>
<th>1961 estimate</th>
<th>1962 estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. El Paso projects</td>
<td>1,304</td>
<td>748</td>
<td>659</td>
</tr>
<tr>
<td>2. Lower Rio Grande flood control project</td>
<td>633</td>
<td>659</td>
<td>713</td>
</tr>
<tr>
<td>3. San Juan dam and powerplant</td>
<td>264</td>
<td>293</td>
<td>290</td>
</tr>
<tr>
<td>4. International gaging stations</td>
<td>257</td>
<td>283</td>
<td>285</td>
</tr>
<tr>
<td>5. Rio Grande emergency flood protection</td>
<td>338</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>6. Total operating costs</td>
<td>2,846</td>
<td>1,993</td>
<td>1,977</td>
</tr>
<tr>
<td>6. Unfunded adjustment to total operating costs: Depreciation included above</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>6. Total operating costs, funded</td>
<td>2,706</td>
<td>1,843</td>
<td>1,827</td>
</tr>
<tr>
<td>7. Capital outlay: Replacement of equipment</td>
<td>207</td>
<td>178</td>
<td>139</td>
</tr>
<tr>
<td>8. Total program costs, funded</td>
<td>2,913</td>
<td>2,021</td>
<td>1,966</td>
</tr>
<tr>
<td>9. Relation of costs to obligations: Costs financed from obligations of other years, net</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>9. Total obligations</td>
<td>2,706</td>
<td>2,021</td>
<td>1,966</td>
</tr>
</tbody>
</table>

### Program Workload Summary

<table>
<thead>
<tr>
<th>Item</th>
<th>Unit</th>
<th>Quantities performed, 1960</th>
<th>Quantities performed, 1961</th>
<th>Quantities performed, 1962</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. River channel:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Clearing</td>
<td>Acre</td>
<td>743</td>
<td>700</td>
<td>700</td>
</tr>
<tr>
<td>(b) Revetment placing</td>
<td>Mile</td>
<td>21.2</td>
<td>3.8</td>
<td>[ ]</td>
</tr>
<tr>
<td>(c) Excavation</td>
<td>Cubic yard</td>
<td>1,506,500</td>
<td>674,500</td>
<td>550,000</td>
</tr>
<tr>
<td>2. Levees:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Clearing</td>
<td>Acre</td>
<td>5,700</td>
<td>5,700</td>
<td>5,900</td>
</tr>
<tr>
<td>(b) Surfacing</td>
<td>Mile</td>
<td>20.38</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>(c) Road maintenance</td>
<td>Mile</td>
<td>474</td>
<td>480</td>
<td>480</td>
</tr>
<tr>
<td>(d) Embankment</td>
<td>Cubic yard</td>
<td>32,207</td>
<td>23,125</td>
<td>23,125</td>
</tr>
<tr>
<td>(e) Rodent control</td>
<td>Acre</td>
<td>1,202</td>
<td>1,300</td>
<td>1,200</td>
</tr>
<tr>
<td>(f) Reconditioning</td>
<td>Acre</td>
<td>59</td>
<td>55</td>
<td>55</td>
</tr>
<tr>
<td>(g) Road surfacing</td>
<td>Mile</td>
<td>33.19</td>
<td>16.5</td>
<td>16.5</td>
</tr>
<tr>
<td>3. Floodways:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Clearing</td>
<td>Acre</td>
<td>8,900</td>
<td>12,000</td>
<td>14,500</td>
</tr>
<tr>
<td>(b) Leveling</td>
<td>Acre</td>
<td>933</td>
<td>700</td>
<td>700</td>
</tr>
<tr>
<td>(c) Rodent control</td>
<td>Acre</td>
<td>6,786</td>
<td>9,200</td>
<td>9,200</td>
</tr>
<tr>
<td>4. Pilot channel:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Excavation</td>
<td>Cubic yard</td>
<td>40,662</td>
<td>30,000</td>
<td>30,000</td>
</tr>
<tr>
<td>(b) Earthwork</td>
<td>Cubic yard</td>
<td>15,103</td>
<td>12,602</td>
<td>12,602</td>
</tr>
<tr>
<td>(c) Maintenance</td>
<td>Mile</td>
<td>41.5</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>(d) Rock riprap</td>
<td>Cubic yard</td>
<td>1,470</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>5. Canal: Maintenance</td>
<td>Mile</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>6. Arroyo control: Earthwork</td>
<td>Cubic yard</td>
<td>244,234</td>
<td>240,000</td>
<td>240,000</td>
</tr>
</tbody>
</table>

budget is an instrument through which a government attempts to carry out the full range of its activities, and this accounts for the wide variety of proposals which have been put forward to improve budgets. Some are only intended to make conventional budgets more informative and more effective as instruments of management and control through improvements in the current practices, methods and procedures by which they are prepared and executed; but these refinements, although generally desirable, do not go far enough and the writer argues they will not appropriately accomplish the requirements of budgeting for development planning.

The writer, however, strongly believes that the new approach towards budgeting, alternatively or synonymously called program and performance budgeting, has a different philosophy which makes it useful for development planning. Not only does it introduce business management approach to government administrative budgeting, but also its format and constituent parts are such that it provides a financial plan which incorporates the essential features of both development plans and budgets. This form of budgeting attempts to classify budgetary transactions on the basis of government functions, programs, projects and activities, and measures results achieved in physical and financial terms.

The new approach emphasises the things done by government rather than things bought by the government as in the case of traditional budget systems; it also breaks with the traditional systems by shifting emphasis from the means of accomplishment - wages, salaries and so on - to the accomplishment itself - kilo-
meters of road built, schools and hospitals built, acres of land made fit for cultivation or irrigation and so on. Because of what its component parts try to achieve, many writers visualize it as essentially a public sector development plan.

Whereas the traditional form of budgeting emphasizes accountability and control in terms of organisations and objects purchased, program and performance budgeting gives attention to those needs and, in addition, stresses the identification of programs in relation to long-range plans, uses quantitative analysis for the allocation of resources and calls for control over budget execution in relation to approved annual program plans and stated physical objectives.

The performance budget as such, is a useful tool for carrying out development plans. In addition, it provides guidelines for rationalizing the public administration and introduces a series of new factors conducive to the exercise of more effective control through assessment of specific results to be attained rather than mere accounting operations. It provides a means of ensuring that the budget system becomes a multi-purpose instrument for rationalizing and planning government activities; it is a medium that provides the people in general with information on activities the government is undertaking to attain its goals and also it furnishes a yardstick to go by in working out a satisfactory "planning for development".

By incorporating programs, projects and activities into its format, it identifies the essential vehicles through which
national goals will be achieved. Its functional classification system permits a summation of total governmental effort by major purposes served, in contrast to the conventional budget where the division by department does not give a full picture of the total effort in any one functional area. The program classification system also provides a framework for developing an agency budget keyed to estimates of requirements and progress of work in relation to approved plans, and a basis for review of proposed plans. As such it is a useful technique that correlates objectives, responsibilities and resources in a way that keeps management at various levels better informed on budget proposals and performance in the attainment of approved goals.

This system integrates all the three facets of planning, economic, financial and physical, and provides an efficient mechanism that determines how public sector plans can be expanded according to policy, contracted or re-balanced and re-scheduled. The conventional budget fails in all these respects. It also recognizes the fact that in the nature of national plans, their final expressions are to be found in the new pattern of industry and settlement, in new highways, power and other public facilities. Since the interest in "planning for development" lies in these expressions which are of interest and benefit to the people, it is imperative that the programs, projects and activities to accomplish them be set forth in a comprehensive national annual budget as occurs in a program and performance budget.
CHAPTER IV

A CASE STUDY OF GHANA

APPLICATION OF PROGRAM AND PERFORMANCE BUDGETING

Background on Ghana

In a discussion of the relationship between planning and budgeting in Ghana, it is essential to keep in mind certain important considerations which bear significantly on the entire process of planning and its implementation in Ghana. First, although Ghana is presently under military rule and has yet to adopt the proposed new constitution, it has been and will continue to be, a unitary state with eight administrative regions. Both the former and the proposed new constitutions establish three branches of government, the executive, the legislative and the judiciary. The main income sources of the central government are customs and excise taxes, and direct levies such as individual and corporate income taxes, all imposed under the authority of an Act of Parliament. Portions of the collections


made by the centre are distributed to the local authorities as grants-in-aid. As their own source of income, the local authorities individually impose such levies as land, property and head taxes.

The supreme legislative authority of the country will be the parliament and it will possess legislative control of the 'power of the purse'. Like any legislature, it will give initial consideration to executive budget requests, the appropriation bill that is required to permit spending by executive authorities, and a finance bill that adjusts or imposes taxes levied by the centre.

In the executive branch, there will be the President, who will be elected by members of the National Assembly, and will act on the advice of the Cabinet. The President will appoint a Prime Minister, who will head the cabinet and will be in the key position of leader of the majority party in parliament. The cabinet will consist of Ministers of State, all appointed on the advice of the Prime Minister. This structure, which will establish the policies of the future civilian government, will act in the name of the President, who, unlike that of the former government, is not an executive president. In the absence of a fully established civilian government, the treatment here will be focused mainly on conditions that existed before February 1966.

The former government had within the executive branch a Planning Commission that gave leadership in formulating and
following through on development plans for economic development. It assessed the available resources of the country, established the seven-year development plan, now abandoned, and allocated available resources and appraised progress made in the execution of the plans. Mention should be made here that in Ghana, a large part of the economic activity takes place in the public sector; and the result of planning efforts has been the steady and relatively faster expansion of this sector compared with the private sector.

Progress of Plan Implementation, and the Current Setting for Government Operations

Ghana, until February 1966, was in the midst of a vast developmental effort that was country-wide in scope and would have involved an estimated expenditure of over one billion pounds sterling. The country had then entered the second year of the seven-year development plan effort. Prior to that time, Ghana had gone through over a decade of planned work that started in 1950, with a ten-year development plan for the period beginning April 1, 1950, subsequently converted into the First Five-year Plan; a Consolidated Development Plan for 1957-58 to 1958-59; a Second Development Plan for 1959-64; and a Seven-year Plan for National Reconstruction and Development for 1963-64 to 1969-70. But Ghana's planning experience goes beyond these periods as Waterston points out

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it is not widely known that development planning in the country now known as Ghana antedates all other development planning in the modern world, even that in the Soviet Union. The first five-year, more or less global, plan started in the USSR in 1929, although the GOELRO Plan, a program for the electric power sector, was instituted in 1920. But the first plan in what is now Ghana, the Ten-year Development Plan for 1920-30, was formulated by Sir Gordon Guggisberg in 1919. This plan covered the entire public sector of the Gold Coast, especially railways, roads and harbours, but also water supply, electricity, hospitals and schools. Between 1920 and 1927, investment outlays under this plan produced a considerable increase in the rate of growth. It would not be an exaggeration, therefore, to say that Ghana, not the USSR, was the innovator of national development planning in modern times.

Besides being the first modern country to plan for the public sector, Ghana can also claim more than the usual amount of experience with national development plans. The record, however, is not all that good. Significantly, all the plans mentioned except the Two-year Consolidation Development Plan, were abandoned before the end of their plan periods. Also, throughout these years, planning had been carried out without effective central planning machinery; until 1961 when the Planning Commission was established. Even then, the practice until lately, as will be discussed later, had been that the Central Planning Agency (now Ministry of Economic Affairs) was solely responsible for development planning while operating ministries and departments were in charge of implementing development projects and programs.

Another notable feature had been the separation of economic planning from national physical planning both organisationally and functionally. Until the early 1950's when the country's planning became economic oriented all development planning efforts were physically oriented — that is the period after Governor Guggisberg launched his Ten-year development plan (1920) — and were mostly concerned with the provision of infrastructure facilities — roads, hospitals, harbours, schools and so on. During those years physical planning administration was located in the office of the Governor. To this extent one may not be entirely wrong to assume that physical planning then constituted an integral part of financial planning and the two processes were to a great degree co-ordinated.

The post-independence period however, saw a change in this fortuitous arrangement which could have been augmented when, with national planning becoming economic oriented, — industrialization, agricultural modernization, mineral development — national development needed the organization of all factors of space, economy and the physical structure molded into a workable and balanced unit. The transfer of the physical planning functions from its original strategic position to the Ministry of Works and Housing where it became a subsidiary department placed the office in the backyard of national planning activities. The lack of foresight in transferring this particular function back to the Central Planning Agency when it was created in 1961 not only increased the isolation of physical planning from national
economic planning; but also compounded the failure to recognize the essential role of physical planning in national development. Since national planning involves locational questions economic as well as social problems and its final outcome is expressed in physical terms, one would have thought that the establishment of the Central Planning Agency should have combined the functions of economic, social and physical planning. However, until 1967, economic and physical planning had operated at different levels in the administrative hierarchy and in opposite directions without any form of co-ordination or integration. The Division of Town and Country Planning of the Ministry of Works and Housing which had been involved in some form of physical planning, planning of towns, villages and urban areas - had existed as an independent entity totally removed from the stream of national physical planning affairs and operated in a planning vacuum.

This dislocation of the physical planning function and the lack of integration between the two planning agencies may be attributable to the failure on the part of the Division of Town and Country Planning to appreciate that: (1) physical planning is not concerned solely with the classic forms of town planning, that is subdivision, zoning and urban renewal, per se but is only a component of it; (2) that it involves prognosticating future patterns of industry, population distribution, urbanization and a program to bring these about; and (3) that it involves assembly and portrayal of government policies for economic, social and physical development into a form of national reference tables and maps which combine resources, population, industrial potentials and future public facilities across the whole country.
Currently, therefore, specific measures are being taken to improve the machinery for planning; to integrate economic and physical planning; also a new planning machinery is being worked out systematically to effectuate concentrated and sustained actions toward higher levels of performance, more responsibility in the different ministries and more systematic reporting and evaluation.

Organisation for Financial Administration

Structure and Functions of the Planning Commission and the Ministry of Finance

The former Planning Commission and the Ministry of Finance were the two agencies which were most universally associated with planning in Ghana. They bore a special relationship to each other and hence it is useful at the outset to review briefly their structure, areas of responsibility and institutional arrangements designed to ensure close co-ordination between them.

(a) The Planning Commission

The Commission was set up by the government of Ghana in October 1961, and among its functions were these:-

(1) to make an assessment of the material, capital and human resources of the country, including technical personnel, and investigate the possibilities of augmenting such of these resources as are found to be deficient in relation to the nation's requirements;
(2) to formulate a comprehensive plan for the most effective utilization of the country's resources;
(3) on a determination of priorities, to define the stages in which the plan should be carried out and propose the allocation of resources for the due completion of each stage;
(4) to determine the nature of the machinery which will be necessary for securing the successful implementation of the plan in all its aspects;

(5) to appraise from time to time the progress achieved in the execution of each stage of the plan and recommend the adjustments of policy and measures that such appraisal may show to be necessary; and

(6) to make such interim or ancillary recommendations as appear to it to be appropriate either for facilitating the discharge of duties assigned to it; or, on a consideration of the prevailing economic conditions, current policies, measures and development programs; or on an examination of such specific problems as may be referred to it for advice by central government.

Invariably, the Commission was essentially an advisory body entrusted with the primary responsibility of plan formulation and of following and appraising the progress of plan implementation. Until its dissolution in 1966, the Commission had grown considerably in workload and in prestige although its original membership had been cut from thirty to ten. The Commission owed these achievements to its special structure. Since its inception the President had been its Chairman; the rest were full-time experienced administrators, economists, specialists, technicians and professors, each with a definite area of responsibility; on it too, were the Minister of Finance, in charge of finance and resources, the Executive Secretary, Office of the Planning Commission, and the Secretary to the Cabinet, both being joint secretaries to the Commission. 81


This interlocking relationship between the Planning Commission and the Administration gave the former a special status and expertise. Not only did it maintain close and direct relationship with the Cabinet through the presence of its Chairman and the Secretary to the Cabinet, but also in its work it combined the experience of specialists and so on with that of administrators and policy makers. This structure justifies Appleby's contention that "planning is an important part of administrative policy-making not something done in the political and administrative vacuum so usually the resort of professional planners."\(^8^2\)

The entire machinery of planning, however, had been centered in the Office of the Planning Commission. Located organizationally at the top government level, it functioned directly under the President, it was responsible for taking a broad view of activities in the administrative ministries - with primary concern for forward planning projecting resources and requirements, analyzing the benefits and costs of projects proposed and reviewing program results in terms of their effect on economic development of the country, and formulated general economic policies based on trends and prospects. The new Ministry of Economic Affairs which has taken over its functions now has six divisions namely: (1) manpower planning; (2) industrial planning;

\(^8^2\) Paul H. Appleby, Re-examination of India's Administrative System, (Government of India, Cabinet Secretariat, New Delhi, 1956) p.31.
(3) agricultural economics; (4) physical planning; (5) programming and plan co-ordination; and (6) statistical and research.  

For the first time therefore, it seems that Ghana has implemented the recommendation of Mr. George Nez, Chief of the UN Special Mission to help Ghana prepare a national physical plan in connection with the Seven-Year Development Plan 1963-70. He had urged strongly that in the swift stream of transition, Ghana had to combine economic, social and physical planning under one agency. In an article entitled "National Physical Development Plan: A Pioneering Effort in Ghana" he had observed that "under the jurisdiction of the National Planning Commission, it becomes possible to carry on a process of continuous planning .... thus it must become a well-staffed workshop for continuous economic, social and physical planning .... no lesser organization could do the kind of job that is called for". Integration of economic, social and physical planning has thus been achieved; his observation that Ghana's development planning lacked the form and precision of a national physical plan to which purpose he had laid the foundation for the critical role of physical planning and economic development has now been recognized; also it is hoped


that the efforts of the United Nations in offering fellowships to Ghanaians for training in physical planning to work out programs of development will now materialize.

The relocation of this function to its proper place will not only remove the oddity in the planning administration already alluded to, but also will be a visible contribution to the efforts of all those persons who have helped establish the need for physical planning education in Ghana.*

The function of the inter-ministry planning committee, in the absence of a National Planning Commission, will be to formulate broad over-all national objectives and goals for the major sectors of the economy, - that is industry, education, agriculture and health - to establish uniform criteria to be followed by the programming units in these sectors in preparing their projects, sector programs and plans; and to devise methods for reporting on the progress of such projects, sector programs and plans in a consistent form.

Also the objective behind the creation of programming units in such major sectors is to identify and involve them in the planning process so as to decentralize the task of development planning to make those who plan for the development of the

* Special mention should be made of the singular efforts of Dr. Peter Oberlander who, not only recommended the need to establish a physical planning school in Ghana in one UN report, but also his visible efforts in carrying out this idea by the establishment of the Department of Community and Regional Planning at the University of Science and Technology in Ghana, and his continuous support and advice to this institution and to the Government of Ghana on physical planning matters.
economy responsible for implementing the various projects identified within their respective sectors.

And, finally, in the case of the regional and local planning committees, to ensure that the process of decentralization is extended beyond the setting up of programming units in the key ministries to the various regions and communities of the country.

Ostensibly the idea here is to identify and also involve the people with planning and to stimulate them to develop their own plans in consonance with national objectives and to ensure that local and regional development needs are incorporated into the national plan. The system being established is thus basically concerned with co-ordination of all planning that goes on all over an economy; to put all the planning efforts together to see if the thing as a whole makes sense in terms of economic and social objectives set for the society. Such a system has the added advantage of discovering disharmonies before individual policies are translated into action.

The system of planning evolving which has been conceptualized in figure 9, seems to have a two-way channel: a vertical system involving the respective regions of the country and a horizontal system involving the major ministries of government. To this extent, it has features of comprehensive planning which takes two forms: first concerned with "forward planning", that is planning from above or planning from-the-top-down, where the exercise starts with aggregate plan and targets and disaggregates into related plans and sub-targets for each of the
Evolving Planning Organization in Ghana

Prime Minister:
- Minister of Economic Affairs
- Minister of Finance
- Governor Bank of Ghana
- Professor of Economics (Univ. of Ghana)
- Secretary to the Cabinet
- Executive Secretary: Ministry of Economic Affairs

National Planning Commission

Membership:
- Commissioners of Finance, Industries, Works, and Housing
- Economic Affairs

Programming Units in Ministries:
- Industries
- Education
- Health
- Works and Housing
- Agriculture
- State Enterprises

Ministry of Economic Affairs

Ministry of Finance

Regional Planning Committee

Membership:
- Regional Administrative Officer
- Regional Planning Officer
- Regional Medical Officer
- Regional Chief Engineer
- Regional Education Officer
- Social Welfare and Community Development Officer
- Paramount Chief

Local Planning Committee

Source: Author's own conception
major sectors or regions; and the second type described as backward planning, planning from below or planning from-the-bottom-up which is concerned with reconciliation of public and private projects and programs from various sponsors reframed into sector programs or regional plans.

The Ministry of Finance

This ministry is responsible for raising both internal and external financial resources and for regulating their utilization. It thereforeformulates the fiscal policy of the government and, in consultation with other ministries, controls the entire expenditure of the government of Ghana. It arranges for the proper utilization of foreign exchange resources and deals with all problems connected with banking and currency. The ministry has two main divisions, the administrative section and the budget bureau. The formerformulates and administers financial rules concerning transactions of the government and relating to conditions of service of central government employees; and makes periodic assessments of foreign exchange needs and resources, both internal and external, in keeping with the country's plans for development and other needs. The latter prepares the overall government annual budgets, deals with questions of borrowing, ways and means position, the administration of the contingency funds and matters relating to auditing and accounting.

Considering the functions of the Ministry of Economic Affairs and the Ministry of Finance, it is only logical to expect a close working relationship between these two agencies. Although
they all have similar goals, the link between them is tenuous; and consequently this has resulted in ineffective planning. Waterston, whose works are quoted extensively in this chapter because of his long experience with the Ghana scene, lists the impediments to effective planning to be "the way in which the development and recurrent estimates are prepared", that is the split responsibility for its preparation and the lack of a system for ensuring regular and early communication between the two agencies during the time the budget is prepared, with the result that the Ministry of Finance at times may learn about the nature of the development estimates only after they have been completed. This point will be developed later under budget process. 85

Implementation of Planning: Planning Procedure

Planning in Ghana, as elsewhere, is essentially a backward and forward process - an exercise in successive approximation as well as successive co-ordination. Planning in Ghana has never been the result of input-output matrices nor any other sophisticated planning techniques. The formulation of the first Comprehensive Seven-year Plan 1963-70 was spread over a period of three years and was characterised by various distinct stages. As a first step, a general approach to the plan was formulated by the Planning Commission established in October 1961. At this stage, the Planning Commission spelt out broad considerations.

85 Albert Waterston, Practical Program of Planning for Ghana, op.cit. para. 43 and 44, p.7.
such as aggregate rate of growth, priorities and objectives. After these were approved by the cabinet, the commission set up various working groups for the preparation of sectoral plans and programs. Based upon the results provided, the commission undertook an over-all examination of the plan with a view to checking its consistency, structural imbalances and in relation to the total financial resources that were likely to be available during the plan period. A memorandum was then submitted to the cabinet for its approval and comments, after which a draft outline of the plan was published for discussion in the country. At this stage, in April 1963, the government invited sixteen world-renowned economists among whom were Professors Bobrowki of Poland, Bognar of Hungary, Albert Hirschman, Kaldor and Arthur Lewis, to discuss and assess the plan. The final document was thus a distillation of varied ideas.

Here special mention should be made of the efforts of the UN Chief Mission headed by George Nez to help Ghana develop a comprehensive national physical development plan as a composite of the over-all seven-year plan. Recognizing the need for a combined approach to economic, social and physical planning following the effects of rural transformation and urbanization, the Ghana Government called on the technical planning expertise of the UN early in 1961 for concerted work in the following terms of reference:—

(a) to assemble existing broad public policies for economic, social and physical development of Ghana;
(b) to devise a comprehensive framework within which a national physical development plan can be prepared;
(c) to develop methods and techniques of charting all short-term and long-term physical development projects as an aid in establishing priorities and
(d) to consider the administrative problems and devise appropriate administrative procedure to implement national physical planning.86

The UN Mission thus introduced a new philosophy of planning into Ghana and their work has produced tremendous effects. Comprehensive planning, they postulated, involved first the survey phase - the stocktaking of national resources, population, agriculture, industry and public facilities; second the planning phase - the statement of goals and objectives and production of maps showing future agriculture, industries, and an evolving pattern of urbanization; enlarged urban centres and new ones, the main public social facilities needed, the requirements of housing and finally the implementation phase establishing of a continuous planning procedure; it is because of this continuity of planning that the writer is arguing for the need for economic, physical and financial planning - the budget - to be fully integrated for a development plan to be effectively executed.

Industrialization, agricultural modernization, mineral development, urbanization and foreign trade - all these vital aspects of planning had to be interwoven. The Mission thus at

first produced comprehensive national reference maps and schedules that combined resources, population and industrial potentialities and social facilities across the whole country. Economic and physical planning was integrated and with this a mechanism to translate and test economic and social aims in the form of projects that could be tied back to time schedules was introduced. With programming of economic and physical development, there was the need to restructure the national budget to become project and activity oriented to facilitate national review financial allocation and evaluation of development achievements.

Annual Plans

Convinced that the planning procedure does not end with the formulation of a medium-term plan, and that progress toward the attainment of plan targets depends upon evaluation of past progress, yearly accomplishments, reassessment of resources and technical possibilities, in 1965 the first effort at making annual plans was attempted. This annual plan provided an operational instrument in the plan procedure, gave the much needed flexibility in planning as it spelt out in detail the physical programs expected to be undertaken during the year to which it related. For the first time that essential machinery to link a development plan and the budget was established since it provided the basis for the preparation of the national budget.

*The writer in this chapter is utilizing his four-year working experience (1962-66) with the Office of the Planning Commission and his familiarity with the Ghana scene, and developments. His work covered the preparation of the country's development estimates.
Commenting on the importance of annual plans, J.H. Mensah, the then Executive Secretary, Office of the Planning Commission, wrote in a booklet entitled Annual Plan for the Second Year Plan, 1965 Financial Year.

The Seven-year Plan has set targets for the development of the country over a period up till 1970. If the final objectives for 1970 are to be reached then every year an adequate measure of progress towards them must be planned and implemented. Annual development plans such as this one are therefore an integral part of the seven-year plan itself. It is intended that the annual plan should show the quantitative progress made so far in the implementation of the plan, and present definite programs of action in the public sector as well as estimates of prospective developments in the non-government sector. ... serves both as a guide to the individuals and agencies which are expected to implement these targets and as a benchmark to the government in charting its way towards the achievement of the final goals of the Seven-year Plan ... The annual plan will become a more detailed record of our achievements under the Seven-year Plan and a more exact guide towards the successful implementation of the remaining tasks under the plan.

This annual plan indicated the economic progress made in the previous year and the bottlenecks and other problems encountered. It estimated the total resources available in physical terms, for example natural resources, manpower productive capacities as well as in financial terms in domestic currency and foreign exchange, public and private savings, domestic and foreign loans, and grants.

On the basis of the progress made and of estimated resources, the plan set forth investment, growth and other targets.

for the year to which it related. It also included estimated
development expenditures for the year, on recurrent as well as
capital account, for state enterprises as well as for ministries
and agencies included in the budget.

In short, the annual plan provided the outlines of
proposals which basically included these - (a) a general policy
for the planned year; (b) the program for the planned year;
(c) summary of programs of the public sector and plan outlays;
(d) statistical schedules with information on schemes included
in the state plan; (e) checklist for principal projects in im-
portant sectors of the economy; and (f) targets and achievements
in selected programs and fiscal and monetary policies requisite
to obtain the necessary resources to finance the projects.

To illustrate the contents of an annual plan, figure 11
is provided. It shows the past performance and anticipated
production targets of the programs under the Ministry of Indus-
tries of Ghana together with the cost estimates. Compared with
figure 10, a close relationship emerges. To achieve the indus-
trial targets for the seven-year plan, as set out in figure 10,
the annual production plan not only spells out in detail the
physical program expected to be undertaken during the year but,
also, alongside, the financial commitments requisite to achieve
the goals. At this point, the importance of a budgetary clas-
sification structure to reflect the provisions in the annual plan
becomes apparent and critical. Here the need for an effective
"rapport" co-ordination between the Ministries of Economic Af-
fairs and Finance in the preparation, formulation and presentation
GOVERNMENT OF GHANA

LEADING INDUSTRIAL TARGETS FOR 7-YEAR PLAN

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INTEGRATION OF DEVELOPMENT PLAN WITH THE BUDGET: AN EVALUATION OF THE USEFULNESS OF PROGRAM AND PERFORMANCE BUDGETING TO "PLANNING FOR DEVELOPMENT"

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### GHANA'S MINISTRY OF INDUSTRIES ANNUAL DEVELOPMENT PROGRAM

#### STATE ENTERPRISES PRODUCTION TARGETS FOR 1965

**APPENDIX 3**

<table>
<thead>
<tr>
<th>Corporation</th>
<th>Full Capacity of Plant</th>
<th>1963-64 Actual Production</th>
<th>Approved 1965 Target</th>
<th>Percentage Change in Value of Output</th>
<th>Plant Utilization Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No. of Shits</strong></td>
<td><strong>Value £G</strong></td>
<td><strong>Quantity</strong></td>
<td><strong>Value £G</strong></td>
<td><strong>Quantity</strong></td>
<td><strong>Value £G</strong></td>
</tr>
<tr>
<td>1. Brick and Tile Corporation, Tema</td>
<td>4,200,000</td>
<td>210,000</td>
<td>2</td>
<td>2,096,000</td>
<td>67,322</td>
</tr>
<tr>
<td>2. Metal Industries Corporation, Accra</td>
<td>50,000</td>
<td>227,500</td>
<td>2</td>
<td>43,000</td>
<td>195,650</td>
</tr>
<tr>
<td>3. State Furniture and Joinery, Accra</td>
<td>—</td>
<td>360,000</td>
<td>1</td>
<td>—</td>
<td>126,356</td>
</tr>
<tr>
<td>4. State Furniture and Joinery, Kumasi</td>
<td>—</td>
<td>122,000</td>
<td>1</td>
<td>—</td>
<td>77,610</td>
</tr>
<tr>
<td>5. Tyre Service Corporation, Accra</td>
<td>5,600</td>
<td>41,540</td>
<td>1</td>
<td>2,224</td>
<td>14,037</td>
</tr>
<tr>
<td>6. Ghana Distilleries, Accra</td>
<td>650,000</td>
<td>6,000,000</td>
<td>1</td>
<td>100,000</td>
<td>938,390</td>
</tr>
<tr>
<td>7. State Furniture and Joinery, Accra</td>
<td>120,000</td>
<td>65,880</td>
<td>1</td>
<td>69,100</td>
<td>38,000</td>
</tr>
<tr>
<td>9. Vegetable Oil Mills Corporation, Accra</td>
<td>261,000</td>
<td>278,748</td>
<td>1</td>
<td>18,325</td>
<td>19,784</td>
</tr>
<tr>
<td>10. Vegetable Oil Mills Corporation, Kumasi</td>
<td>273,000</td>
<td>161,070</td>
<td>1</td>
<td>23,500</td>
<td>13,865</td>
</tr>
<tr>
<td>11. Vegetable Oil Mills Corporation, Tema</td>
<td>847,000</td>
<td>385,000</td>
<td>3</td>
<td>720,797</td>
<td>328,004</td>
</tr>
<tr>
<td>12. Vegetable Oil Mills Corporation, Takoradi</td>
<td>132,000</td>
<td>280,000</td>
<td>1</td>
<td>147,632</td>
<td>350,000</td>
</tr>
<tr>
<td>13. Vegetable Oil Mills Corporation, Tema</td>
<td>261,000</td>
<td>278,748</td>
<td>1</td>
<td>28,072</td>
<td>25,520</td>
</tr>
</tbody>
</table>

**STATE ENTERPRISES PRODUCTION TARGETS FOR 1965**

**APPENDIX 3—contd.**

<table>
<thead>
<tr>
<th>Corporation</th>
<th>Full Capacity of Plant</th>
<th>1963-64 Actual Production</th>
<th>Approved 1965 Target</th>
<th>Percentage Change in Value of Output</th>
<th>Plant Utilization Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No. of Shits</strong></td>
<td><strong>Value £G</strong></td>
<td><strong>Quantity</strong></td>
<td><strong>Value £G</strong></td>
<td><strong>Quantity</strong></td>
<td><strong>Value £G</strong></td>
</tr>
<tr>
<td>14. Ghana Canecry, Nsawam</td>
<td>624,000</td>
<td>499,200</td>
<td>1</td>
<td>179,870</td>
<td>143,896</td>
</tr>
<tr>
<td>15. Match Factory, Kade</td>
<td>48 mls.</td>
<td>528,000</td>
<td>1</td>
<td>600,000</td>
<td>50,032</td>
</tr>
<tr>
<td>16. Paper Conversion Corporation, Takoradi</td>
<td>60 mls.</td>
<td>60,000</td>
<td>1</td>
<td>2,100,000</td>
<td>4,509,000</td>
</tr>
<tr>
<td>17. Fibre Bag Factory, Kumasi</td>
<td>4.5 millions</td>
<td>748,742</td>
<td>1</td>
<td>3,000,000</td>
<td>450,000</td>
</tr>
<tr>
<td>18. Ghana Paint Corporation</td>
<td>300,000</td>
<td>285,800</td>
<td>1</td>
<td>147,632</td>
<td>140,000</td>
</tr>
<tr>
<td>19. Ghana Boatyards, Tema</td>
<td>12-60 ft.</td>
<td>168,000</td>
<td>1</td>
<td>60,000</td>
<td>12</td>
</tr>
<tr>
<td>20. Ghana Boatyards, Sekondi</td>
<td>42</td>
<td>203,958</td>
<td>1</td>
<td>54</td>
<td>165,142</td>
</tr>
</tbody>
</table>

Total | — | — | 11,833,014 | — | 3,385,594 | 5,484,834 | 1580 | 422 | 670 |

of the budget so that it becomes an effective mechanism that can contribute not only to timely, effective and prudent decision making in the government process of acquiring and spending money, but also to serve as an effective tool for the promotion of economic growth, cannot be over-emphasized.

Budget Formulation

The preparation of budget estimates in administrative ministries usually begins in July of the year preceding the budget year. Besides standing requirements set forth in the general financial rules, the Ministry of Finance each year provides specific guidance for developing the budget, skeleton forms for presenting the data and the time schedule for submitting the information. The budget instructions call for presentation of data under heads of accounts constituting a budget demand. A demand ordinarily will cover the needs of one service; for example the Ministry of Agriculture will have a demand for its own establishment expenditures, one for each of its departments, and one possibly for miscellaneous purposes. Also new items are required to be supported by detailed justifications.

After development of the budget submissions in the departments and other constituent organizations, the data are reviewed, adjusted and consolidated in the responsible ministry. All recurrent expenditures are then forwarded to the budget division of the Ministry of Finance, while those of capital or development estimates go to the Ministry of Economic Affairs. The
latter ministry after a series of consultations and budget hearings with administrative ministries, institutions, and organizations, prepares the development estimates and forwards them to the Ministry of Finance for inclusion in the national budget.

The lack of effective co-ordination between planning and budgeting that has been emphasized several times in this work particularly in the developing countries, is clearly demonstrated here.

Pondering over this system as an impediment to effective planning, Waterston in a booklet entitled *Practical Program for Planning in Ghana* wrote in 1966:

> there is no system for insuring regular and early communication between the MEA, i.e. Ministry of Economic Affairs, and MF - Ministry of Finance, during the time the budget is prepared, with the result that the MF may learn about the nature of the development estimates only after they have been completed. The procedure followed not only does not allow proper correlation of development capital estimates and recurrent estimates for development; it makes it difficult to measure the impact of current investment outlays on future recurrent expenditures. This is a serious shortcoming, since capital expenditures almost always increase future recurrent expenditures .... A final shortcoming of the system is that operating ministries are required to make two budget presentations, one for capital estimates to MEA, the other for recurrent estimates to the MF.

To deal effectively with these impediments which interfere with proper integration of plans and budget, the same writer recommended two changes in budgetary procedure in August 1966.

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The setting up of a Budget Review Committee composed of the principal secretaries in charge of the budget office and the Ministry of Economic Affairs as permanent members, and the principal secretary of each operating ministry presenting proposals in turn for inclusion in the budget, as a temporary member.

This particular organizational structure has been established according to the *Daily Graphic* - a Ghanaian local newspaper - report of February 16, 1968.

**Budget Presentation**

Financial data in the annual financial statement are presented in terms of the actuals for the preceding year, the original and the latest revised budget for the current year, and the estimate for the budget year. The annual financial statement also covers all financial transactions of the central government. Basically, it is an accounting presentation that shows data by major and subsidiary account heads prescribed by the Comptroller and Auditor General, under the fund structure established by the constitution. As the features in the annual financial statement are peripheral to this work, the writer has left out discussion on them.

Of importance, however, are the presentations in the summary documents for each organisation or ministry.

In the volumes for each ministry or organisation, the financial information is summarized to show the total expenditures under control of the ministry or organisation, and is clas-
sified by major account heads and subheads under which the demand for appropriation is accounted for. These classifications, prescribed by the Ministry of Finance, generally follow the internal organisation of each ministry and show some functional categories of expenditure. However, because two ministries, namely the Ministries of Finance and Economic Affairs prepare the estimates, the budget classification for each ministry has two distinct and irreconcilable features. While development estimates are prepared on the basis of specific projects and programs for each functional ministry, by the Ministry of Economic Affairs, recurrent estimates, the product of Ministry of Finance, appear on the basis of conventional object classification heads, subheads and items. Invariably such a system does not permit the separation of development from non-development estimates and disbursements or the relating of development items on capital account to corresponding items on recurrent account.*

Also the development estimates, which are prepared by the Ministry of Economic Affairs, at times constitute a catalogue of capital rather than development items. They include a large number of non-development capital estimates for such varied items as defence installations, police and fire stations, court houses, prisons, post offices, and the construction of government buildings at home. In contrast, the recurrent estimates which are prepared in the Ministry of Finance include recurrent items for development, for example, for research, training and agricultural extension.

* See appendix for figures 12 and 13.
However, there is no information on such items as (a) functional classifications based on the program and performance system; (b) program workload data; and (c) project cost analyses. To this extent the budget classification systems are of limited value in the evaluation of a plan's performance.

Commenting on the need to restructure the whole budgetary system to make it an effective tool for plan implementation, Waterston wrote in August 1966 in the article previously referred to

To obtain a breakdown of development and non-development estimates and expenditures, both on capital and recurrent account, it would only be necessary to introduce a cross-classification system for budgetary items (and if possible for non-budgetary estimates prepared by at least the larger state enterprises) which separates development items on capital and recurrent account from non-development items on capital or recurrent account.

To achieve these aims he suggested a program of action based on

(a) a budget classification committee composed of representatives of the Ministry of Finance, the MEA, the State Enterprises Secretariat and such others interested persons as may be deemed desirable, should be established to define development and non-development items.
(b) on the basis of the secretariat's proposals and the committee's decision, the secretariat should prepare a manual embodying an appropriate cross-classification system.

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(c) when the new system was approved by the relevant authorities, it would be installed as the main basis for expenditure control, as quickly as is feasible.

Possible Approach to Performance Budgeting in Ghana

In many instances, budgeting in Ghana has not been at a standstill the past eleven years since the attainment of national independence. Throughout these years, it has been well developed as an instrument for administering the use of public resources within the framework of a parliamentary form of government. Thus, any review of the Ghanaian budgetary system should recognize that it became receptive to modern techniques recently, following a lengthy period under British Colonial rule. As a result, present practices in Ghana are based on the British system in many respects.

One of the major original objectives in Ghana, after self-rule, was to set up a system which would insure that public funds were properly used for legally authorised expenditures. For that purpose, the Ghanaian government provided a strong central structure for budget administration. Rules and regulations were promulgated to communicate requirements and promote consistent and uniform practices. The product of these efforts was a budget process heavily oriented to accountability demands, a dependence on centralized direction and financial control, and a

concentration on financial statements as the primary method of preparing, presenting and controlling the budget.

Along with these developments, the Ghanaian government undertook its intensive drive toward economic and social development of the country. The importance of this was reflected in the high stature accorded the planning commission when it was created in October 1961, and the emphasis given to carrying out the successive development plans since 1951, particularly the Seven-year Development Plan, 1963-70. This involved setting up and following through on projects directed toward long-range economic and program goals; and incorporating those projects in the annual budget process, so as to co-ordinate long and short range financial requirements. To contain these developments, the government had to prepare comprehensive annual development plans so as to spell out in a more detailed manner a physical program of activities consistent with the general framework of the over-all plan for a particular planning period, for both the public and private sectors. The annual plan developed incorporated schedules of programs and activities, together with physical targets and the appropriate financial requirements to achieve the goals; concurrently too, attempts were made to adapt the financial system to the needs of the long-range development plans. The pre-occupation with financial accountability has therefore not been permitted to obscure or override other desirable objectives. That the success of these efforts still may be open to question does not detract from their importance or value - these are deep-seated changes that need time to become fully effective.
Adaptability of the Ghanaian System

A comparison of the existing Ghanaian financial management system with the concepts and requirements of program and performance budgeting already described in the preceding chapter shows that steps have been taken to some degree toward some of the basic requirements, particularly in the development estimates budget presentation system. The over-all results, however, in terms of an effectively modernized system throughout the government appear to be negligible. This may be due to the fact that individual improvement actions were taken for a variety of different reasons. They seem to have lacked the single, firm objective that would serve to unify the various improvement efforts into a meaningful whole. A decision to adopt program and performance budgeting fully, for example, would give more meaning on an across-the-board basis to some of the recent planning-budgeting administrative actions taken, and thus contribute to more effective results.

The Classification Scheme

A standard classification of work by purpose according to functions, programs and activities or project, is lacking in the existing system. But the need for some such approach, at least on an over-all basis, apparently has been recognized, thus the setting up of the budget review or classification committee already alluded to. However, in the development of such an over-all classification scheme, a functional classification system for example, should be reflected in presentations of development
plans, the annual financial statements and fund appropriations from the contingency and consolidated funds too, apart from that in annual budgets.

A decision to adopt performance budgeting would provide an opportunity to standardize and extend the existing functional categories more adequately to identify and cover all governmental services. The important goal here would be to use a consistent functional classification that is meaningful for long-range development planning and the annual budget.

Beyond that goal, the need for establishing for all organisations the programs and activities or projects supporting a function, would enhance past and present efforts to make ministry officials more positively a part of total management. The joint effort of central authorities and administrative ministry officials now emerging that is needed for that purpose would improve the communication of objectives and requirements between the central and operating levels. Furthermore, it would contribute to the assumption of more responsibility in the administrative ministries for carrying out programs according to plan. As another benefit, this classification by purpose, in combination with the existing economic classification developed by the government statistics department after presentation of the budget

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92 The Central Statistical Bureau makes an 'expost' functional reclassification of the recurrent and development budgets. But besides being available after a lapse of about four months, the functional classification is based on the United Nations functional classification which does not distinguish between development and non-development items. This remark is found in a recently published book by Messrs. Walter Birming-
would enable the preparation of an economic-functional schedule that would permit additional analyses for decision-making on long-range development plans.

**Measurement Needs**

The idea of measuring workload and accomplishments is recent in origin in Ghana. The concern about its importance however, is recognized, as evidenced in this remark by J.H. Mensah in the booklet entitled *Annual Plan for the Second Plan Year 1965 Financial Year*,

in order to make the development program a proper yardstick for measuring our performance year by year, details of the physical programs underlying the development estimates have been collected. Government departments have as yet shown a very uneven ability to plan their development activities in terms of a firm physical program with quantitative real targets, as opposed to cash outlays and a realistic time-table for the implementation of each project. But in priority sectors of agriculture, especially for state farms and irrigation, and in education, comprehensive physical programs have now been established. It is hoped that as other departments gain more experience of planning in real terms the annual development program will be completely supported with physical programs and time-tables.

The physical measures that have been developed are used primarily by the Ministry of Economic Affairs for preparing budget requests and in determining fund needs in the administrative

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ministries under the "development estimates" section of the budget. However, the systematic development of performance ratios showing the manpower or cost per unit of work has not been as fully developed.

Therefore in this area, the primary need would seem to be one of better organizing and presenting the kinds of physical measures already developed. A positive program toward adoption of performance budgeting would contribute to that end, and would serve to formalize and lend significance to the management improvement efforts that produced the physical measures presently employed. The extension of program and activity classification to cover the functions of all operating organisations, and the requirement for financial plans in relation to work under such categories, would extend measurement efforts on a more uniform basis in all administrative ministries.

Conversion Considerations

Given a decision to move toward use of a program and performance budget, the Ghanaian government has, in the Ministries of Economic Affairs and Finance, the strong central facility needed for organizing and conducting a successful conversion. These two ministries have the means for obtaining needed guidance – UN technical assistance personnel and other experts attached to them; a capability for working out an appropriate application that can identify the elements of the system that need strengthening; and have available the opportunities and facilities needed for training personnel in the revised concepts.
One of the apparent weaknesses that needs attention is the strengthening of financial management facilities in the administrative assumption of delegated responsibilities, and for effective implementation of the budget planning and reporting processes.

Under the existing situation in Ghana, there are several ways of approaching the installation of complete program and performance budgeting. Considering the problems encountered in the effective execution of long-range development projects, one approach would be to require the use of performance budget techniques for each of the projects in a budget that will be part of a development plan. Another would be to use these techniques in the administrative ministries that have demonstrated an effective capability in their present financial management practices. As another alternative, considering the fact that some of the required techniques are being employed in varying degrees throughout the government, it would not be beyond reason to undertake an installation in all ministries of the central government.

Regardless of the approach that might be used to install the system, an effective application of the total system throughout the Ghanaian government can be expected to be a long-range job. Too much cannot be expected too soon. The full development of the individual techniques for appropriate application and their installation will take time and a future civilian government could greatly contribute to the whole process by legalising it.
Above all, it should be recognized that this is not a mere adjustment in procedures. An effective application requires a change in the approach to the total budgeting job—which in turn means a change in the attitudes and habits of employees. This requires clear and concise directions, training in new methods, and a reorientation of existing administrative practices.
CHAPTER V

EVALUATION OF THE CONCEPT OF PROGRAM AND
PERFORMANCE BUDGETING AND ITS USEFULNESS TO
"PLANNING FOR DEVELOPMENT"

The essence of this work has been to study the essential linkages that should exist between a development plan and the budget. Since the two processes are closely interrelated, it was pointed out the need exists that they should be effectively integrated to achieve effective plan implementation and execution; it was also stressed that because the budget is the most important instrument through which plans are implemented it should be an efficient management tool. To achieve this it was pointed out that integration between a development plan and the budget involves first, the annual programming of the goals, targets and objectives in a development plan, detailing the specific programs and projects to be undertaken during the current year; second, assignment of responsibilities of carrying out its component programs; third, effective co-ordination and the closest of co-operation between the central planning agency, the ministry of finance, and the operating agencies; fourth, making such an annual program the basis of budget presentation and allocation of financial resources to achieve planned targets; and fifth, integrating the financial and physical plans for such programs into the budget format to provide tools for progress reports and evaluation of plans.
In chapter two it was demonstrated that because the conventional budget fails to fulfil these prerequisites essential to effective integration and efficient execution of plans, formulation of plans are divorced from implementation with the result that planning is ineffective in the developing countries.

The purport of this concluding chapter is, therefore, to investigate the extent to which "planning for development" will benefit from the features inherent in program budgeting discussed in chapter four, and also to discuss the extent to which this technique fulfils the conditions for integration necessary for effective plan implementation and evaluation. Essentially, the discussion will revolve on the inter-relationships between planning and program and performance budgeting and why planning for development needs such an efficient management tool.

Promise and Performance

Inability to implement plans is a problem peculiar with countries that plan for development. With few exceptions, planned targets have fallen short of expectations in many developing countries and in many cases this has led to either extensions or abandonment of plans before their planned target years. Any attempt to judge the success or failure of a development plan, however, raises questions about the validity of the criteria used to make the judgments. Some writers contend that the proper test of a plan is not whether it achieved targets, but whether it was instrumental in getting development projects and programs started, advanced or completed. A more realistic measure, how-
ever, is the extent to which reasonable planned targets have been achieved.

If this criterion is acceptable then an obvious conclusion is that where there is ineffective integration between planning and budgeting as obtains where development plans are effected through the conventional budgeting system, there is no basis to evaluate plans; whereas in the case of program and performance budgeting this is possible owing to the dual emphasis on financial and physical output targets. Program budgeting is thus useful to planning since it does not mistake the means for the objectives of the plan. Also since orientation toward achieving financial targets has frequently led to the neglect of physical planning and programming, the system points out the importance of the physical aspects of project implementation, and indicates the need to evaluate, plan and prepare soundly conceived projects and programs.

As an efficient management tool, the system introduces discipline into the whole development planning process in cases where one finds that what is done often bears no discernible relation to what is planned; also it ensures that to accomplish planned targets, efforts at co-ordinating fiscal, price, monetary credit and other economic and financial policies with the requirements implied in the plans, is important. And where departments and agencies proceed as if plans did not exist, it makes the policies and programs of such organisations relate to the provisions of the country's development plan, thereby making them follow the priorities implicit in national plans. In this regard, program
budgeting is uniquely related to planning since it lays emphasis on program preparation and accomplishment which is more important to development, rather than the belief that investment virtually insures development. Also it attempts to integrate all the three facets of planning, economic, physical and financial, into one entity.

In a sense too, it ensures co-ordinated conscious effort to lead development along pre-defined lines. This is crucial where plans seem to have little influence on government decisions and where the point is sometimes made that such countries can hardly be said to be planning at all. For not only does it manifest a sense of urgency in taking measures needed to execute plans and to counteract activities and events which impede implementation; but also brings awareness and consciousness to operating agencies and the whole public administrative system a sense for the need for efficiency in the management of public activities. The need for program budgeting therefore, arises from the indissoluble connection between budgeting and the formulation and conduct of national policy, or the policy of a state, a city or a town as the case may be.

Formulation of Annual Policies, Objectives and Goals

A modern government is concerned with broad objectives of defence; law and order; health, education and welfare and with economic development. No government, whatever its resources, can avoid the need for compromise among these objectives since governments, like private individuals or organisations, are con-
strained by the scarcity of economic resources at their disposal. Before formulating goals and objectives for a plan year, it is important to appraise the economy, studying achievements and failures, bottlenecks, adequacy or inadequacy of services and then arrive at some valid judgments as to how best the limited resources should be allocated to improve and stimulate activities. The essence of such evaluation lies in the fact that the whole planning process is a continuous process that necessitates constant re-examination of trends, tendencies, policies, in order to adapt and adjust government policies with the least possible friction and loss.

However, initial to the solution of any of these problems should be interest not in the techniques for getting the highest possible returns from allocation of economic resources and concentration on how quickly, but rather on how well money is spent. To formulate a meaningful goal, policy or objectives for the education sector therefore, it is essential not only to have the broad financial expenditures in education, but also to know whether or not the previous year's programs and projects accomplished the target objectives that were set. The conventional budget system fails to provide such information for its classification system which is based on ministerial functions, does not provide a cross-section of functional activities of the other ministries. For example, a ministry of health may not be solely concerned with health matters but also general administration, education, building and construction and so on.
The program budgeting functional classification system however, provides a summation of total governmental effort by major purposes served in contrast to the conventional budget, where the division by department does not give a full picture of the total effort in any one functional area. In this regard the program budget provides a more efficient vehicle to determine the share of public expenditures devoted to each service and also a basis for rational choices either in augmenting or decreasing investment and other development actions based on a consideration of economic, social costs and benefits, policies and goals.

The basic point of view in this work is that a government can determine its policies most effectively if budgetary data are organized and presented most effectively so that it can choose rationally among alternative courses of action, with as full knowledge as possible of the implications of those alternatives. The primary purpose of program budgeting is to facilitate the making of these difficult choices. For it serves not only as the focus of the process of comparison and co-ordination between planning, programming and budgeting, but also involves more explicit recognition of the need to perform them than has been traditional; and also involves the application of new analytical techniques as an aid to the exercise of the human judgment on which choices must ultimately rest.
Relating Plan Formulation to Implementation

The Problem Posed

If, as many writers argue, the foremost reason why plans are not carried out is political, the second most important reason is technical. From the technical point of view, the failure to carry out plans is largely attributable to the inadequate provisions of techniques for their implementation. Thus since the budget is the most important vehicle through which plans are implemented, failure to attune the budgeting system to the needs and requirements of development planning is one of the major causes of failures in the implementation of plans. It seems the developing countries have an uncommon grasp of planning problems. The concern seems to be the belief that better planning depends on further improvements in imperfect planning techniques. In the words of Prime Minister Nehru, "we in the Planning Commission and others concerned have grown more experienced and more expert in planning. But the real question is not planning, but implementing the Plan .... I fear we are not quite so expert at implementation as at planning". 94 But for a majority of developing countries they are experts in neither of these.

However, this statement is notable not only because it recognizes correctly — what the writer believes — that the problems of plan implementation are more difficult than those of plan

formulation, but also it distinguishes wrongly the writer believes - "planning" from "implementation".

The word planning in most developing countries and even to many writers is often used, as it was used by Prime Minister Nehru, to refer to the formulation of plans but not to their implementation. This conceptual separation of "planning" from "implementation" is wrong. Because experience shows that nothing is more conducive to bad planning in countries "planning for development" than the separation of plan formulation from provision for implementation. Since planning cannot leave off where plan formulation ends and action to execute the plan begins, a technique that links the two processes together becomes very useful, else planning becomes limited to setting targets and not much effort towards carrying the plan out. Drawing a distinction between planning as an advice and planning as a program of action makes plan formulation become art for art's sake with very few practical results.

Where plan formulation is viewed as an exclusive or isolated element, divorced in practice if not in theory from plan implementation, one finds that planners pay little attention to the choice of techniques to be employed to achieve plan targets. This is why most plans provide detailed information only about what is to be achieved, but not about how to go about securing development objectives or targets or about who should be responsible for carrying out the required tasks. Program budgeting helps to bridge this gap for it integrates planning
planning with the means of accomplishment - the budget. Also it indicates the organizations required to implement such targets and the physical workload they have to accomplish; also it makes it possible to determine what the government has to do to meet its development aims and targets.

In this respect it vindicates the belief that the problems of plan formulation are different and separable from those of implementation. Since it is the accomplishment of planned targets than ensures progress - social and economic - it enables the government to determine how far it should go in its fiscal policies to make available the requisite financial resources to accomplish program objectives.

This leads to yet another problem to be resolved in countries planning for development - the failure to realize that there is an organic link between targets in a plan and the policy and other measures required to attain them. There is frequently a lack of understanding that investment is not enough to insure growth; and that adoption of appropriate and efficient management tools is frequently more important for accelerating the rate of growth and social progress than increased investment. It is not the quantity of plans a country produces that insures progress and growth but efficient management of a single one that will consequently invite another. Since program and performance budgeting is an efficient management tool, its adoption will help the quest for progress and growth.
There can be little doubt that the prevailing separation of plan formulation from implementation has been exacerbated by the concentration of planners' attention on economic factors to the virtual exclusion of organizational and management factors which predominate when a plan is being implemented. Since the success of a plan depends upon effective management, program budgeting will help in this regard.

With few exceptions, the present conventional budget structure neither encourages nor assists an orderly, rational view of the future. This precisely is what planning attempts to achieve. To this extent not only does it deny the possibility of effective planning, in our sense of the word, but it fails to organize resource utilization problems in a way that invites a planning viewpoint. Equally, it fails to organize cost information by a method that permits relating requirements to objectives. It should not be surprising, therefore, that a certain share of executive and legislative actions with respect to the budget resemble improvisation rather than informed decision. Nor should it be surprising that public administrators are often limited in their ability to make analyses of effectiveness and efficiency of the sort suggested in earlier chapters of this work. The installation of a program budget facilitates rational planning, encourages its development and helps to present relevant information in a form useful for its application in a planning context. By its comprehensive, integrated display of costs, physical work load associated with identified program objectives, it makes planning both effective and intellectually attractive. For it helps to sharpen critical judgments and
encourages the substitution of rational analysis for intuition.

**Discounting Overambitious Plan Targets**

Both the usefulness and feasibility of a plan depend on the ability to appraise and analyse past and current experience. Implementing a plan is more difficult than making it; for whereas making a plan is an exercise of the imagination, implementation is a struggle with reality. The plan must be modified continually to cope with changing facts. The direction and techniques of future policy depend critically on the quantitative and qualitative data derived from the past, present and the near future. A knowledge of the past is necessary not only to provide experiences analogous to those of the present but to point to methods of improving on past performance.

But if the planner in preparing his plans ignores these factors, together with the lack of commitment to plans and effective tools to implement the plans, which together constitute the main limitations on the ability of most less developing countries to realize their economic possibilities, he will end up by separating his activities and the plans he formulates from the real world outside a national planning agency.

This point is important because if planners are to set realistic targets they must find means to measure quantitatively, administrative inadequacy and the lack of political will to develop for the purpose of discounting the overly optimistic results obtained when plans are formulated solely on the basis of
economic potentiality. It may not be easy to obtain these measurements, but it is not impossible. For example, it is possible to quantify the cost of administrative inefficiency in terms of money and time on the basis of past discrepancies between original estimates and actual performance for projects in different sectors. These data, which may be available wherever projects and programs have been carried out can be used to adjust cost and time of construction estimates furnished by sponsors of projects and programs. By deflating the estimates by a factor based on their past errors, such adjustment can go a long way toward closing the gap between promise and performance. The unit cost measurement technique in program and performance budgeting can effectively be utilized for this purpose, as financial allocations are made for specific programs and projects.

**Improving Implementation**

Improving the Conditions for Implementation

The writer strongly believes that a prime purpose of planning in the developing countries like Ghana, must be to improve implementation to make it possible to accelerate the rate of development; and that the difficulties of improving implementation should not be underestimated. This is based on the fact that short falls in achieving plan objectives and targets have brought home to many planners and government authorities the need to pay much more attention to improving plan implementation. And since this depends largely on improvements in administrative and organizational efficiency, the basic changes
required to reform public administration can be effective through adoption of program and performance budgeting, which in reality is a vehicle for greater efficiency in administration.

Closing the "Project Gap"

Most less-developed countries run into great difficulties not in formulating plans, but in preparing and carrying out projects. Few less-developed countries are fully aware of the need for selecting soundly conceived projects, defining their scope with clarity, estimating their national currency and foreign exchange requirements with a sufficient degree of accuracy and laying down realistic schedules for their execution. Since program budgeting involves physical planning it is closely related to planning, thus is valuable. Just as planning on the macro-economic level is a continuous process, so is preparation or programming of projects on the micro-level. Program budgeting thus indicates the need for annual programming - continuous planning and stocking up projects for execution and to replenish the stock to meet all foreseeable needs for projects. Therefore it underlies the importance of setting up programming machinery in operating ministries, departments and agencies. Here one can see the unique relationship that exists between the two processes and the usefulness of a technique that enables maintenance of a stock of well-prepared projects from which to draw. Also as annual programming is an essential prerequisite for integration between a development plan and the budget, program budgeting has a useful role to play in planning for development.
Evaluating Plan Progress

If one agrees that appraisal of programs and projects is essential to determine the progress of a plan, then the work measurement and workload data in program budgeting is of value to planning. The essence of appraisal lies in the fact that flexibility is an essential element of development planning because changing conditions, as well as operating laxity, make deviations from original plan targets unavoidable. Planning therefore requires constant review and assessment of progress in relation to events. The planning process also requires that from time to time potential bottlenecks be identified, their causes determined and evaluated and measures suggested to correct deviations that may threaten plan objectives.

Such evaluations are very essential prior to the establishment of sectoral goals and objectives for a current year. For example before revising the goals in education, appraisal of this sector's achievements is critical. If the overall target is to raise literacy by a certain percentage within the plan period, it is valid that from year to year progress should be measured; it is important to know whether the elementary, secondary, technical and higher institutions established during the previous years have resulted in an increase in the percentage over the other years. Such a measurement may not be difficult to compute if an indication is given in the budget as to the number of classrooms constructed, teachers trained and students who graduated.
Reporting Systems

The workload data in program and performance budgeting provides such complete, accurate and timely reports on the progress of sector programs and projects. Because the system has a built-in feature which establishes physical and financial criteria against which to measure progress, the system provides an up-to-date record of physical and financial progress of reports that can be utilized to evaluate progress on quarterly, semi-annual and annual basis. Such data assists particularly in the preparation and detailed justification of budget proposals, the review of performance against plans and the detailed management of program operations. As such they are particularly useful in the conduct of development plans as they assist in the selection of programs that produce the greatest amount of return from the given amount of resources in countries where relatively scarce resources make the choice of the more productive projects a vital necessity. Such data, of value to planning to compare with the levels of proposed work and related cost estimates, are helpful in making decisions on future appropriation requests and on fund allocations sought under proposed operating budgets. In assessing plan execution, they are useful for broad analyses of progress made under an operating budget when compared with the levels of work and fund use projected in the approved plan. Work measurement and unit cost ratios in the program budgeting will thus prove in practice to be useful planning management tools because they provide a factual basis for decision-making in the more detailed aspects of physical planning formulation of programs, their presentation and execution.
On the broad basis too, cost-benefit ratios that accumulate the costs associated with a particular program or project and relate them to the benefits derived from the undertaking will be of help to higher levels of management in deciding between alternative courses of action. For example, if the cost of constructing ten health centres in strategically chosen villages is lower compared with a modern hospital in a town and the benefits derived from such health centres in terms of number of people served or accessibility to villagers who may not have to travel long distances to such hospitals is greater, then from such estimates and benefits it will be more feasible to build more health centres and fewer hospitals if a government's goal is to increase the health standards of the people most of whom live in such villages.

Plans versus Planning

A development plan may be necessary to ensure rapid growth but it is certainly not a sufficient condition for development. The fact is that a country can develop with or without a plan. However, in countries that want to develop with a plan, apart from political considerations, other prerequisites are important. To be guided by more or less rational programs of action, supplemented by the necessary budgeting techniques designed to achieve their development goals is a sine qua non. That they should co-ordinate their programs of action through the budget which is the vehicle through which developing countries effect their plans, is a must.
It is therefore clear that a development plan is not the same as development planning. Those who equate the two—and there are many—confuse what should be—but frequently is not—a product of the planning process for the process itself. Development planning as a process involves the application of a rational system of choices among feasible courses of investment and other development actions based on a consideration of economic and social costs and benefits. Thus it is similar to managing an economy on business lines, and in fact government is a business organization and its profits, unlike a business corporation, are the social benefits people derive from its many services.

Planning as a process is an indispensable precondition for the formulation of effective development policies and measures. A plan can play an important part in the planning process when it makes explicit the basis and rationale for planning policies and measures.

Development planning however, requires that from year to year national goals be formulated from which can be developed a declaration of immediate needs—through annual plans, around which national energies can be mobilized. Decisions must be reached on the over-all magnitude of the development effort, in the light of the financial, manpower and physical resources available for it. Individual programs and projects must be formulated, evaluated and executed. And periodically, the over-all emphasis of the development effort and the scope of individual programs and projects will need to be revived and reformulated,
for adjustment of the ideal to reality is an essential part of development planning. Also from time to time decisions must be taken on the ways of initiating, expanding and modifying all kinds of public undertakings in the light of the urgency of specific projects and other current demands.

What can be drawn from this feature is that since the two processes - development planning and budgeting are closely interrelated, their integration is essential. Development planning requires that the budget through which a plan is implemented should become an efficient mechanism able to provide the necessary information and data on the progress and achievement of programs and projects. In this regard the necessity exists that the budget should become an integral part of the whole planning process, - and that it should incorporate into its format the programs and projects through which goals are expressed. Also since progress depends upon the accomplishment of targets in such programs and projects, their physical and financial plans should serve as the basis of financial allocations. In this process then, an efficient budget as a management tool to accomplish the goals becomes not only crucial but also essential to make planning realistic and fruitful. National planning at this stage provides guides to budgeting decisions and an opportunity to evaluate current budget policy in terms of its future effects on the country's development. An effective and efficient budget administration in turn will have produced data and analyses necessary in the planning of programs and should provide the mechanism for reviewing, evaluating, and controlling them.
What is imperative at this point is that the budget system should enable expenditure programs to be drawn up in a form that assists review of their purposes, costs of implementation and conformity with national policy and objectives; it should contain machinery that can be used to enforce the execution of approved budget plans - like the physical financial plan in program budgeting - or adjust them where adjustment seems desirable.

But these are not the attributes of a conventional budget; rather they are the attributes of a program budget where the objectives are first formulated at the functional level, and then broken down, for operational purposes into terms of specific programs, projects or activities.

Thus since the basic features of a plan are its use, within a sector of programs or projects as operational units, the emphasis on their physical inputs and results or benefits and on their cost in relation to benefits, so in a program budgeting the intent and direction of resource use the expected workload and its cost are related closely to each other. The conventional budget system fails to provide such linkage between a plan's physical program and financial plan as it does not reflect resource use to specific programs and activities. The similarities between a plan and program budgeting in their form and operational orientation make the system particularly suited for plan implementation and evaluation of plan's progress in developing countries. The data which will be obtained from budget execution both of a physical and financial nature can, more-
over, be helpful in subsequent revision of a plan or formulation of new plans.

Therefore, program budgeting which involves the use of budgetary techniques, that facilitate explicit consideration of the pursuit of policy objectives in terms of physical targets and their economic costs both at the present time and in the future, is very valuable.

Conclusions
Changing the Planning Mix

One reasonable conclusion to be drawn from the arguments so far is that it may be desirable to reverse the usual proportions of the planning mix in most developing countries. Planners in these countries have almost invariably concentrated on over-all planning rather than on the proper preparation and execution of programs and projects. As indicated earlier, the empirical evidence suggests that countries with well-prepared projects co-ordinated by sound budgetary procedures and controls can dispense with comprehensive plans at least for a time, and still maintain high rates of growth. Conversely, when well-prepared projects or sound budgetary procedures are lacking, even a good aggregative plan is of little value in bringing about a significant acceleration in the rate of development. Since the proper preparation of good projects and effective budgetary controls thus appear to be indispensable to rapid development and a plan does not, it is clear that project preparation and an efficient budgetary system are at least more urgent than the preparation of aggregative plans.
It is obviously desirable for countries to prepare an over-all plan, as well as improve preparation and budgetary controls. But governments in less developed countries have only limited ability to undertake these tasks simultaneously. However, if less developing countries want to achieve progress through planning then it becomes imperative that an efficient vehicle through which plans are implemented is more imperative than the plans themselves. Without such a tool their efforts will be negative; this point may be substantiated by the fact that very few developing countries have been able not only to reach their plan targets but to carry their plans to completion. The failures are numerous. An efficient budgeting system closely interrelated with the programs and projects in plans, whose financial resource allocation is lined to accomplishment of targets and adopts institutional re-organizations required to enforce or implement major allocative decisions, and provides machinery to evaluate progress is more meaningful to a country "planning for development". The single greatest impact of the program budget in operation, and also certainly the single greatest contribution, is its encouragement and support of more rational assessment of the ends and means, goals and resources, outputs and inputs. The comprehensive term for this range of activity is planning.

Implicit throughout the discussion has been the proposition that program budget is a neutral tool. It has no politics. It is simply a method of organizing information to help officials who bear responsibility for allocating public resources to make better decisions in accomplishing public objectives. The
conventional budget is proven to be very inadequate in this regard. The planning problems in developing countries that have been analysed also point to the need for an efficient budgeting system to make "planning for development" successful. The conventional budget system as analysed in chapter two has very serious inadequacies that make integration of development plans with the budget impossible.

Integration, as pointed out, involves both the planning and budgeting process to be co-ordinated through the annual programming process, so that the programs and projects through which goals will be accomplished will have to have the same format in the budget structure and the allocation of resources based on the targets of such programs. This is what program budgeting tries to achieve.

Although it may be argued that an efficient budget is necessary with or without a plan, the case that has been argued in this work is that it is more valid in the case of countries that have limited means of assessing and efficiently managing their affairs. Since program and performance budgeting will bring efficiency into the management of government affairs and particularly where such governments are involved in many developmental programs, it may be ultimately what is urgently needed for development rather than the formulation of endless development plans.
Apart from this needed efficiency in the administration of government programs in the public sector, program and performance budgeting has other attributes which make it valuable for countries planning for development. It makes it possible to determine exactly what the government has to do to meet its development aims and targets. It translates the direct participation of the government in the program into terms of specific decisions and becomes the operative instrument for short-term governmental action. In this sense it may be said that the program budget is a veritable short-term plan, since it relates to the government's direct sphere of action for the attainment of medium- and long-term objectives. It is a more efficient tool through which plans can be implemented; its benefits compared to the conventional budget are numerous. Therefore, if one agrees that it is efficiency in the administration and management of affairs that every government wants to achieve, then the adoption of this technique is valid to all and sundry.

Although numerous exogenous factors have molded developing countries budgetary systems, and have exerted considerable influence upon the contribution that budgeting makes to orderly examination and implementation of public policies, none of these invalidates the fact that modern budgetary methods and techniques useful to "planning for development" cannot be adapted from one country to another. In this regard it is advised that the planning and budgeting systems in developing countries like Ghana, should be keyed to its concepts in order to utilize the wide opportunities it offers in plan implementation, integration of planning and budgeting - economic, social and physical - and
in the evaluation of social and economic progress and achievements. Its adoption will be of critical value to the whole developmental planning process in the developing countries.

Whatever the goals a plan may have, be they economic - to revise the gross national product by a certain percentage, or physical - to achieve some target production in say agriculture or industries, or social - to provide more social facilities - schools, hospitals, roads and so on, if such goals do not effectively operate through an efficient budgeting system, the probabilities are that such goals will not be accomplished. An effective and efficient budgeting system is thus sine qua non to planning for development. If one agrees with Hoffman that inadequate programming and planning for development in the sense of lack of knowledge of physical resources are some of the principal common denominators of under-development, then program budget has attributes that will help contribute to this knowledge.
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B. PUBLICATION OF GOVERNMENTS, LEARNED SOCIETIES AND OTHER ORGANIZATIONS.


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## OBJECT AND LINE-ITEM BUDGET CLASSIFICATION SYSTEM IN GHANA

### Appendix 1

### HEAD 003. FUEL AND POWER SECRETARIAT—cont'd.

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### PROGRAM CLASSIFICATION IN THE MINISTRY OF INDUSTRIES APPROVED DEVELOPMENT BUDGET

#### Appendix 2

#### DEVELOPMENT

##### DEVELOPMENT PLAN EXPENDITURE 121-027-000

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#### Source: