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THE DEVELOPMENT BUDGET AS AN INSTRUMENT OF
PLANNING AND BUDGETARY POLICIES

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The purpose of this paper is to examine the interconnections between planning and budgeting. Plans are executed through the budgetary process and for this reason the question of plan-budget coordination is of vital importance. This paper discusses the following issues: (1) Planning as a process (2) Why plan-budget coordination often fails; and (3) How plan-budget coordination can be improved through the development budget.

I

The governments of many developing countries seem to favor a development policy that maintains some sort of balance between the private and public sectors of the economy. A case in point is the Government of Liberia. For several years now it has pursued a policy designed to encourage private investment, both domestic and foreign. At the same time, the Government has confined its own development activities largely to the building of infrastructure.

Most governments that follow this path toward development usually rely quite heavily on external assistance. The Government of Liberia is no exception. In 1969, it expects to receive about 23.8 million dollars worth of aid in one form or another. This will amount to about 80 percent of total development expenditures for the year.

One of the ironies of foreign aid, however, is the fact that a government may soon find itself allocating more of its resources to service external debts than it receives in the way of aid for development. The Government of Liberia is approaching this point. In 1969 it expects to spend 18.3 million dollars to service its external debts which means net foreign aid will amount to about 5.5 million dollars for the year.

Under these conditions the level of government spending is likely to become a critical issue to parties concerned but especially to the suppliers of foreign aid. Indeed, the policy of maintaining a balance between the private and the public sectors of the economy may eventually lead to a dilemma. On the one hand, a government may find itself under pressure from all sides to hold down the level of spending, while on the other hand, it may also be under pressure to push ahead with the building of infrastructure so as not to discourage private investment.

II

A government faced with these problems must continuously search for new revenue sources. At the same time, it must plan future development projects and programs with great care, taking into account not only national development priorities and the availability of resources but also the question of how to proceed with the planning operation itself.

In a great many countries planning is conceived as a periodic exercise in plan formulation. It begins with a survey of available resources and ends with a statement designed to show the potentialities of development.

The aim is usually to produce an economically consistent medium or long range plan based on national development objectives.

As far as it goes, plan formulation is an important step in the over-all planning operation. However, it should not be considered the only step. Equally important, if not more so, is the business of converting a plan into an action program and the subsequent follow up of plan progress.

No medium or long range plan can possibly anticipate the problems that are likely to appear once a plan has been put into operation. Original estimates of what is to be accomplished inevitably require adjustment in length of experience and changing circumstances.

It was noted above, for example, that foreign aid plays a large role in the building of infrastructure. The amount and the type of aid that is actually received, however, are not matters decided by the requirements of the plan but depend instead on events taking place in the donor country. Donor aid policy, in other words, is bound to have an influence on the pace and direction of local development efforts.

So too will world market conditions. Most developing countries earn the largest share of their foreign exchange through the export of primary products. This foreign exchange is used to pay for imports of strategic materials such as food stuffs, machinery, and fertilizers. While there is some controversy over the long run trend in the terms of trade, the prices of primary products have a clear history of short run fluctuations. In any one year, therefore, a price change could easily force a plan to be modified either by increasing or decreasing the amount of local resources available for development purposes.

By its very nature, planning must be regarded as a process that reaches all levels of government. Any modification in development priorities must be transmitted down to the level of the operating agencies where the projects are formulated and the corresponding expenditures are programmed. Conversely, any change in the scheduling of project execution dates must be transmitted upward to the top policy making levels of government for review and evaluation in terms of the probable effects on development priorities.

One planning expert summarized the question of how to proceed with the planning operation in the following manner:

..... Nothing can be more parochial than restricting the planning function to the mere manufacture of plans without reference to what is needed for their implementation.... Planning may begin with the formulation of a plan as a guide to implementation, but implementation, becomes, at a later stage, a guide to revision of the original plan. The whole process is organic and continuous, with plan preparation blending into implementation, then into revision of the plan, and again into implementation and the formulation of the next plan, ad infinitum.*/

.III

If planning is to be conceived as an "organic and continuous" process, as it should, then the planning and the budgeting functions of government must be closely coordinated. In fact, the best opportunity to evaluate the progress of plan implementation and to make any necessary adjustment is at the time the annual government budget is being prepared.

* Albert Waterston, Development Planning: Lessons of Experience, (Baltimore: The Johns Hopkins Press, 1965), p. 336.

This is time when agencies review their activities with a view toward estimating the next fiscal year's budgetary requirements. This is also the time when all government activities are considered in the context of over-all priorities and the estimated availability of resources.

The budgetary process therefore is indispensable to effective planning. It provides a framework for periodic review of the progress being made toward development objectives. It facilitates the comparison of alternative courses of action both in relation to each other and in relation to their costs. The budgetary process also provides a device for testing the proposed use of resources against alternative proposed uses and against the total resources available in a given fiscal year.

In spite of the obvious need to coordinate planning and budgeting, experience shows that this is difficult to achieve in practice. In a great majority of countries budgeting has evolved in a political atmosphere that emphasized legislative control over executive spending. Thus, in turn, has produced a system of budget accounting designed to demonstrate compliance with the legal limitations on the use of funds.

Budget classification reflects this concern with financial accountability. Under the traditional form of budgeting, the primary classification of data is made according to object of expenditure. An example of this is shown on the following page. Although the individual categories may vary from one government budget to another, the pattern among government budgets is generally consistent with that shown in the example.

This type of budget classification centers attention on the "things" that agencies buy. It is used as a means to impose limits on the amounts that an agency can spend on particular items.

Classification By Object of Expenditure

Personal services and benefits

Personnel compensation

Personnel benefits

Benefits for former personnel

Contractual services and supplies

Travel and transportation of persons

Transportation of things

Rent, communications, and utilities

Printing and reproduction

other services

Supplies and materials

Acquisition of capital assets

Equipment

Lands and structures

Investments and loans

Grants and fixed charges

Grants, subsidies, and contributions

Insurance claims and indemnities

Interest and dividends

Refunds

From the standpoint of planning, budget classification is a matter of vital concern. Actually, budget classification determines whether or not planning and budgeting can be coordinated.

The reason why this is true is that budget classification determines the way estimates are collected. It establishes the basic format of the budget and this in turn, usually decides the manner in which appropriations and other budget authorizations to spend are made.

It also provides the summary data generally used for review and analysis of fund request and for control of government activities — development or otherwise. In other words, budget classification provides the framework for decision making throughout both the budgetary and the planning processes. Budget classification, in short, has a strong influence on the approach to budgeting and therefore, on the result of planning.

IV

Budget accounts based on object classification identify the inputs required to conduct a particular government operation. When the output of this government operation is ordinary in the sense that it recurs annually and is generally understood by all concerned, the information generated by object classification may be all that is needed to review, appraise and control fund request.

For example, the long standing or traditional operations of government in the area of police, justice, or general administration require funds for basically the same purpose each year, i.e., salaries, office supplies and equipment, uniforms and so on. As long as the basic activities continue unchanged, the composition of expenditures is likely to remain the same from one budget period to the next; only the level might vary because of

salary or price increases or decreases or because the activities themselves expand according to the growth in population.

Development expenditures, however, represent an extra-ordinary type of outlay. They are extra-ordinary in the following sense: (1) The expenditure is directly related to a government policy designed to change existing social and economic institutions at an accelerated pace; (2) The expenditure has a beginning and an end and usually creates recurring expenditures along the way; and (3) The expenditure changes in character as the special projects and programs move forward in time. These characteristics of a development expenditure have certain implications for plan-budget coordination.

(1) There is some difference of opinions as to what constitutes an expenditure for development purposes. According to one view, capital outlays under the general heading of social and economic services would qualify as being for development purposes. Others have argued that capital as well as the associated recurrent expenditures belong in this category. Still others maintain that only those outlays that lead to a direct increase in output of goods should be regarded as development expenditures.

Without adding more to the confusion, all development expenditures would have one thing in common, namely a political character. Policy pronouncements are made for a special reason and, in the case of development, supposedly the government feels it necessary to single out certain problems that must be overcome and ready to allocate resources for that purpose.

(2) A policy designed to remove a particular social or economic problem is not usually open-ended. That is to say, the policy sets a time limit

to the solution of the problem. Unlike recurring expenditures, therefore, development expenditures must have a beginning and an end. They may also span several fiscal periods or the duration of the plan itself.

One feature of development expenditures that is often overlooked and leads to serious consequences, is the recurring component of the outlay. An interesting example of how this works was suggested earlier when it was noted that most developing countries rely heavily on foreign assistance for support in the building of infrastructure. Once a project gets underway, ordinary recurring expenses begin to appear in the budget. These new expenses include not only salaries, office supplies, replacement of equipment and so on, but also debt servicing which together with the other expenses absorb government resources that might have been put to other uses.

(3) Another important difference between development and recurrent expenditures is their composition through time. As projects and programs moved forward, the amount budgeted in each successive fiscal period will be for a different purpose, depending on the stage of work.

Highway construction is a good illustration of what happens when a projects extends over more than one fiscal year and changes in composition as it moves forward. Suppose for example the government decides to open up a remote region of the country with a new highway that should take three years to complete.

Most of the budgetary outlays in the first year might be for design and engineering studies and for the purchase of land. Once this phase of the project has been completed and construction actually gets underway, funds would then have to be budgeted for such items as heavy equipment, drain pipes,

cement, wages for heavy equipment operators and labors and the other items that are needed to build a highway. In the final year of construction there may or may not be a need for most of these items but highway maintenance would have to be provided for.

This project would appear in the traditional budget in the form of objects of expenditure. In other words, the data used for review and analysis of fund requests and for control of construction operations would be classified according to the things purchased or the inputs of highway construction.

This type of information, however, does not fully meet the requirements of planning. Most important to effective planning is the feedback of information from current operations and the measurement and evaluation of progress toward the objectives.

Development expenditures classified by input alone would only provide a partial picture of what was taking place and, therefore, would prove to be of limited value. What is needed for effective planning is a classification scheme that relates development inputs to development outputs, or in other words, a classification scheme that shows what government is doing in the way of development and the cost of doing it.

V

When the ordinary government budget does not meet the requirements of planning, it is essential to establish a link between planning and budgeting through a so-called "development budget". Basically, this involves recasting development expenditures into the type of budget format shown on the following page.

This particular budget classification scheme has a number of important

DEVELOPMENT BUDGET, FISCAL YEAR 19__

Function, Program and Project	Total Estimated Cost			Actual Accumulated Expenditure up to 19__			19__ Current Year Estimates			19__ Budget Year Estimates			Balance to complete *			Percent Completed
	Resources			Resources			Resources			Resources			Resources			
	Lo-cal	For-eign	To-tal	Lo-cal	For-eign	To-tal	Lo-cal	For-eign	To-tal	Lo-cal	For-eign	To-tal	Lo-cal	For-eign	To-tal	
Agriculture, and Non-mineral Resources																
Program																
(i) Project																
(ii) Project																
Program																
(i) Project																
(ii) Project																
.																
.																
.																
.																
.																
Education																
Health																
Labor																
Fuel & Power																

*Alternatively, separate columns could be shown for each year plan, if a plan did infact exist.

features. For example, it is comprehensive. A development budget must show all the resources, both foreign and local, that are available for development purposes and not just the portion subject to annual appropriations.

Once a country starts to develop its economy, it should be in a position to allocate progressively more of current income for development purposes and rely less heavily on foreign aid. Unless this happens with the passage of time, a developing country is likely to find itself facing a financial crisis. The breakdown of development expenditures, therefore, between foreign and local sources, is needed to keep the whole development effort in perspective and under control.

A development budget must also show development expenditures classified by functions. Summarized in this way, the data would facilitate decisions at the top policy making levels of government on the distributions of resources in relation to development priorities.

Where classification by function serves to highlight priority sectors of the economy, classification by project and by program indicates what is planned and what is actually underway. These classifications would also reveal the relationship of project to program to function and thereby help identify inconsistencies or weaknesses in the over-all development effort.

Project and programs classification provide a basis for determining what government is doing and the cost of doing it. In other words, it lays the foundation for measuring the work performed and the unit cost of performing the work.

A development budget must also fully specify the time dimensions of each project and program. As noted previously, a development activity

generally spans a number of fiscal periods. This means that the estimated total cost of the development activity must be estimated before hand along with an estimated rate of spending.

The programming of expenditures serves a number of important functions. For example, it provides an estimate of the budgetary requirements for each period over the life of the activity. In this connection, programming would also reveal any "bunching up" of expenditure. It is entirely possible that a several projects started simulataneously might produce a similar expenditures pattern. That is to say, the rate of spending might reach a peak in the same fiscal period for all projects. This may or may not create a budgetary crisis depending on the estimated resources in the peak spending year.

Programming out expenditures would also provide a check on the progress being made toward on objective. It often happens that a project does not proceed according to schedules. In other words, should actual expenditures fall behind estimated expenditures in any given fiscal period, this would be revealed in the development budget. Alternately, the development budget would also indicate where actual expenditures exceeded the estimates. In other case remedial action, such as the shifting about of funds, would be taken at the time the problems occurred.

Although a discussion of the accounting and reporting aspects of a development budget are beyond the scope of the present paper, the format does suggest a need to make adjustments in these areas. The direction would be toward the production of data that permits the measurement of progress and performance.

In this connection, object classification would still prove useful for

identifying inputs required for work. It would also provide a uniform basis for determining the cost of related items in various development activities and thus serve as a subsidiary control device.

A development budget constructed along the lines suggested in this paper would provide a means of converting development projects and programs into budgetary activity. Its usefulness as an instrument of planning policy does not depend in the existence of a formal development plan, just development projects and programs. Nor does its usefulness as an instrument of budgetary policy depend on the immediate reclassification of the ordinary government budget accounts, although eventual reclassification would be in order.

VI

The Department of Planning and Economic Affairs is considering a number of questions related to its future role in promoting the economic development of Liberia. Among the issues to be discussed is the question of how to approach planning.

The arguments presented in this paper support the view that the Department should postpone drafting another multi-year plan for the time being. Instead it should work toward the objective of instilling the planning process at all levels of government through the development following consideration.

The development budget serves as a vehicle for bringing the operating agencies into the planning process in a meaningful way. By emphasizing the need to plan projects and to program expenditures, and by identifying the particular agency's work in relation to the total development effort, the development budget would lay a foundation for close cooperation between the Department and the operating agencies. The successful

outcome of planning will depend in no small measure on the understanding, participation, and, above all, the support of those who must actually carry out the work of development.

The development budget provides a ~~firmer~~ basis for plan - budget coordination; the government budget is based on object classification and, therefore, in its present form does not meet the requirements of planning. If a multi-year plan were to be drafted, in other words, it could not be integrated into the budgetary process.

The development budget would provide a means to rationalize development projects and programs now underway. By identifying projects and their relationship to sector at programs, the development budget would help bring to light resource flows. It would also reveal inconsistencies in current development activities as well as areas that required special attention.

The arguments presented in this paper support the idea that planning should proceed in a step by step fashion until it becomes a process that reaches all levels of government. The first step the Department could take would be to emphasize the importance of development budgetary. Until the agencies acquire the experience in identifying and preparing projects and in programming expenditures, multi-year plans do not seem very feasible.