



**REPORT OF  
THE THIRD WORKSHOP  
ON PROBLEMS OF  
BUDGET RECLASSIFICATION  
AND MANAGEMENT  
IN THE ECAFE REGION**

**BANGKOK, 17 to 26 August 1960**

**MANILA, 28 August to 2 September 1960**

**UNITED NATIONS**

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## I INTRODUCTION

1. The Third Workshop on Problems of Budget Reclassification and Management in the ECAFE region met at the headquarters of the Economic Commission for Asia and the Far East in Bangkok from 17 to 26 August 1960 and in Manila from 28 August to 2 September 1960. Like the two previous meetings, the Workshop was held under the auspices of the United Nations Technical Assistance Programme. It was sponsored jointly by the United Nations Economic Commission for Asia and the Far East, the Bureau of Technical Assistance Operations, the Division of Public Administration and the Fiscal and Financial Branch of the Department of Economic and Social Affairs of the United Nations. The Workshop was convened in accordance with the recommendations of the United Nations Economic Commission for Asia and the Far East at its fourteenth and fifteenth sessions. 1/
2. Thirty-nine experts nominated by eighteen governments attended the session, and two representatives from Ghana and one from Israel participated as observers. A representative of the International Monetary Fund also took part in the Workshop. 2/ The experts served in their individual capacities, and the opinions expressed by them did not necessarily represent the views of their Governments.
3. The emphasis of the Third Workshop was on the techniques of programme and performance budgeting. A review was made of the progress made since the Second Workshop by the countries in the region in the field of economic and functional classification of government transaction for the consideration of a draft questionnaire prepared by the secretariat. At the conclusion of the session, the participants visited Manila, the Philippines, in order to observe the operation of a budget system based on programme and performance techniques. The agenda, with annotations, is appended to this report. 3/
4. The working papers of the Third Workshop comprised three documents prepared by the secretariat, including a Manual of Programme and Performance Budgeting prepared by the Fiscal and Financial Branch of the Department of Economic and Social Affairs of the United Nations, the report of the Second Workshop, thirteen papers submitted by participating experts from Member Governments, and a paper prepared by the International Monetary Fund. The full list of documents and papers circulated is given in Annex III.
5. The meeting opened under the chairmanship of Mr. U Nyun, Executive Secretary of the Economic Commission for Asia and the Far East. 4/ Mr. Sunthorn Hongladarom,

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1/ ECAFE Annual Reports [E/CN.11/482 (E/3102) and E/CN.11/506 (E/3214)] and also Report of the Second Workshop on Problems of Budget Reclassification and Management in the ECAFE Region, Bangkok, 3-10 September 1957 (ST/TAA/Ser.C/30).

2/ Annex I.

3/ Annex II.

4/ See Annex IV.

the Minister of Finance of Thailand, inaugurated the session and read a message of welcome from Field Marshal Sarisdi Dhanarajata, Prime Minister of Thailand. The Executive Secretary emphasized the importance of efficient and effective utilization of resources in the public sector in order to accelerate economic and social development of countries in the ECAFE region, and the consequent need for reforms in budgetary presentation, accounting and control. He read a cable of welcome received from Mr. Roberto Heurtematte, the Commissioner for Technical Assistance of the United Nations. A vote of thanks to the Prime Minister and the Minister of Finance of Thailand, was carried unanimously.

6 A drafting committee to prepare the report was appointed, consisting of the experts from Australia, India, Indonesia, the Philippines, Singapore, Thailand and the United Kingdom. Experts from China, the Federation of Malaya, Iran and Pakistan also assisted the Committee. Mr Shiv Naubh Singh (India) and Mr. J.L. Rampton (United Kingdom) were elected as Chairman and Vice-Chairman respectively.

7. At the closing meeting thanks were expressed to the Bureau of Technical Assistance Operations, the Division of Public Administration and the Fiscal and Financial Branch of the Department of Economic and Social Affairs of the United Nations, and the ECAFE Secretariat for their contribution to the successful organization and functioning of the Workshop. Appreciation was expressed to Mr. U Nyun, Executive Secretary and Chairman of the Workshop, and to Mr. A. Rashid Ibrahim, Deputy Executive Secretary and Director of the Workshop. Thanks were also expressed to the Government of Thailand for their hospitality.

## II. PROGRESS SINCE THE 1957 WORKSHOP

8. The Workshop reviewed the developments which have taken place during the period since the meeting of the Second Workshop on Problems of Budget Reclassification and Management held in 1957.

9. It had before it a paper prepared by the secretariat<sup>1/</sup> which, in addition to a summary of developments in the region, includes a review of progress in each country, and also the working papers, <sup>2/</sup> prepared by participants, which surveyed developments in those countries and treated the important problems with which they were faced.

### A. Economic and functional classification

10. The usefulness of economic and functional classification of government transactions in the formulation of fiscal and economic policies has received increasing recognition. The Manual for Economic and Functional Classification of Government Transactions <sup>3/</sup> has proved a valuable guide in the reclassification work undertaken in the region. Economic and functional classifications have become a well-established feature in the budget documents of a number of countries, such as Burma, India, Japan, the Republic of Korea. In Burma, India, and Singapore, it is now the practice to submit to the legislature an economic classification of the budget about the time when it is presented. There has also been a significant extension of the scope of the work. In order to improve their appreciation of the economic impact of the government transactions, some countries have undertaken reclassifications of previous years. In India, for example, the reclassification covers the periods of the First and Second Five-Year Plans. The need for including transactions at provincial or state level is particularly important in countries with a federal form of government. For this reason, India recently prepared an economic classification of the transactions of its States starting with 1951. This made it possible to prepare a consolidated economic classification for the central Government and the States, for the ten years to 1960.

11. In the Federation of Malaya an experimental reclassification of the 1958 budget was undertaken by the Government agencies concerned, with the assistance of the ECAFE secretariat.

12. The Workshop noted that work on economic classification of government transactions has in some cases been initiated by agencies outside the Ministry of Finance, such as a central bank, an economic research institute, or a central statistical office. Recently, however, the direction of this work has in some countries been taken over by the central budget offices or the Ministry of Finance.

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<sup>1/</sup> Working Paper No. 3, Development of Budget Reclassification Work in the ECAFE Region, E/CN.11/BRW.3/L.3.

<sup>2/</sup> See Annex III.

<sup>3/</sup> United Nations publication, Sales No. 58.XVI.2.



This is the case in Burma and the Republic of Korea. But in Ceylon the basic work on reclassification is still carried out by the Central Bank, and in the Philippines by the National Economic Council.

13. Singapore and the Republic of Viet-Nam have now joined the ranks of the countries of the region which have introduced a cross classification by economic character and function. In its 1960 budget, Thailand introduced a functional classification on the lines recommended by the Second Workshop.

#### B. Other developments

14. The Workshop noted that significant developments had taken place in the field of budget management. Some of these reforms have been stimulated by the need for better co-ordination between economic development programming and government budgeting, others by the need for improvement of financial controls and accountability.

15. Included in the first category are India, the Republic of China, and the Federation of Malaya. India has separated "plan" expenditure from "non-plan" expenditure in the demands for grants for each ministry. In addition, it has proposed the reclassification of the major heads of accounts with a view to distinguishing between development and non-development expenditures and separating direct expenditure from transfers to and from other levels of government. In the Federation of Malaya, separate budgets are presented for Development Plan expenditure and for the ordinary or current expenditure. Since 1959, the budget in the Republic of Viet-Nam has been presented under three separate accounts current operating, capital and unclassified expenditures. In the budget for 1961/1962 for the Republic of China, it is planned to separate current from capital expenditure.

16. Notable improvements have been made in the field of financial control and accountability by Iran, Pakistan, the Philippines, Thailand and the Republic of Viet-Nam. Iran is engaged in work on a new presentation of the budget, which will result in a classification of expenditure by programme. The important changes in Pakistan are the decentralization of financial control, direct association of financial advisers with each ministry, and the separate exhibition in budget documents of development expenditures. A major reform of the budget system has been completed in Thailand. This has involved the installation of a new system of accounting, a classification of expenditure by programme or project, and an enhanced role for the budget office. In the Republic of Viet-Nam the budget has become more comprehensive by the inclusion of expenditure financed from foreign aid. Machine accounting has been introduced since 1958, which facilitates expenditure control and the provision of up-to-date financial statistics.

17. In Burma, Ceylon, the Republic of China, and the Republic of Korea, progress has been made towards the adoption of business type accounting for government enterprises. The completion of this work will make possible further improvement in the economic classification of government transactions. Afghanistan has recently carried out a basic reform in its budget and accounting system, and Indonesia is considering major changes designed to improve financial control and accountability.



18. Many of these developments will facilitate classification along economic and functional lines, as suggested in the Manual for Economic and Functional Classification of Government Transactions. The Workshop noted with satisfaction that the progress of budget reclassification has largely followed the system prescribed in the Manual, and that countries of the region are using this document as a basic reference in this field.

### III. UNIFORM SYSTEM OF REPORTING

19 The Second Workshop recommended that "in order to facilitate the review of progress made in reclassifying Government transactions along economic and functional lines, a questionnaire should be prepared by the secretariat and circulated to the various countries for reply before the start of the Conference. The information from the replies should be used by the secretariat to prepare suggestions for a uniform system of reporting on budgetary data." 1/

20. In response to these recommendations, the secretariat collected information on the progress of reclassification work in the region by correspondence and by visits of two of its officials to selected countries. The data collected were processed, and formed the basis of a report 2/ which was circulated by the secretariat to the countries in the region well in advance of this meeting. The information was most useful, and the Workshop records its appreciation of the work of the secretariat.

21. A draft questionnaire was also drawn up by the secretariat, and was based on the system of classification presented in the Manual. 3/ This was an attempt at evolving a system of uniform reporting of reclassified budgetary data as recommended by the Second Workshop. The draft questionnaire was circulated late in 1959 to elicit comments from Governments of the region as well as from the participants of the Second Workshop. The comments received were quite varied. Some countries were in general agreement with the basic concepts of the draft questionnaire, and considered it a useful guide for their own reclassification work. Others questioned the need for uniform reporting itself. Several countries regarded the questionnaire as much too detailed and stressed the need for its simplification, or considered that the treatment of some items in the questionnaire should take account of the concepts used in the form of reclassification, which they had adopted.

22. The draft questionnaire, as well as the full text of the comments received from the Governments of the region, were submitted by the Secretariat to the Workshop for further guidance and recommendations.

23. The International Monetary Fund submitted a paper to the Workshop, which described the Fund's experience in the compilation and use of government finance statistics, and explored the possibilities of relating the statistical needs of the Fund to any system of uniform reporting which might emerge. It referred, in particular, to the definition of the government sector and to (a) the development of global cash data on government revenue, expenditure, the surplus or deficit and the financing entries, and (b) the currency composition and ownership distribution of government debt. The Workshop noted that the requirements of the Fund would involve considerable adaptation of the existing scheme of

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1/ ST/TAA/Ser.C/30, para. 78.

2/ Working Paper No. 3, Development of Budget Reclassification Work in the ECAFE Region (E/CN.11/BRW.3/L.3).

3/ Working Paper No. 4, Draft Questionnaire on Public Finance and Summary of Comments Received (E/CN.11/BRW.3/L.4).

reclassification. It felt, however, that countries of the region, in developing their own system of reporting, would wish to bear in mind the points raised by the Fund.

24. The Workshop discussed the questionnaire in detail. It noted that the draft questionnaire is essentially based on the classification schemes presented in the Manual, although it simplifies them in several important respects. For example, imputations of items not normally recorded in accounts covering transactions of government administration are not required. The questionnaire also assumed that only trading and production activities of the government are recorded on an accrual basis, while all other transactions are recorded on a cash basis. Other simplifications concern the treatment of items, such as production of capital goods by government agencies themselves, and pension funds for government employees. Nevertheless, many members felt that it was much too detailed, and some felt they would not find it possible to furnish all the data required. Even for those countries where economic or functional classification had made considerable progress, some revision would be necessary if data were to be classified exactly as the questionnaire proposed.

25. Consideration of the draft questionnaire led the Workshop to discuss whether a uniform system of reporting on budgetary data could be developed for the entire region. Some participants raised the question of the proper lines of demarcation between a comprehensive public sector and a more narrowly defined government sector. This is particularly important in countries where there are large numbers of government owned enterprises, enjoying a considerable degree of independence. Another difficulty arose from the absence of business type accounting for government enterprises. The problem was also raised of consistency in the concepts and definitions of the questionnaire with those used in national income accounting systems. Problems arose from classification of revenue according to economic character. For instance, countries may treat in different ways returns from government lotteries, which could be classified as profits of a government enterprise, a voluntary transfer from households, or a tax. The wide variation of pension arrangements for government employees also led to difficulties. For instance, it would not be easy for the purpose of a uniform reporting system to reconcile contributory and non-contributory schemes.

26. The comments received on the questionnaire, and particularly the discussions during the Workshop, clearly brought out the difficulties which arise from attempts to establish uniform reporting systems on government financial transactions in a region with such variations in the constitutional structure, institutional arrangements, and in the extent of government responsibilities.

27. The Workshop concluded that the draft questionnaire was too elaborate to serve as a practical basis for the collection of budgetary data in many countries of the region. It also considered that, given the disparity of circumstances to be found in the region, and the differing needs of individual countries, it would not be profitable or desirable at this time to attempt to devise a uniform system of reporting public finance data on a regional basis.

28. The Workshop considered, however, that the draft questionnaire had served a useful purpose in stimulating thought and action in this field, and recommended that it should be circulated as an annex to this report. The Workshop stressed that the Manual for Economic and Functional Classification of Government Transactions should continue to be regarded as the main source of guidance on

reclassification work. At the same time it recognized that the draft questionnaire could serve as a helpful supplement to it which countries of the region might find useful in developing classification schemes to meet their own particular needs.

29. The Workshop recognized that, though no common system of classification appeared feasible, there was much that countries of the region could learn from each other. It was important that there should be a central pool of knowledge and experience upon which they could draw. The Workshop, therefore, urged that all countries of the region supply the secretariat annually with an account, supported by relevant documents of the progress achieved in reclassification. The secretariat would in this way be able to offer help in finding practical solutions as well as in passing on the information obtained to other interested countries. The secretariat could also consider preparing a summary of progress for circulation to the member countries.

30. The Workshop reaffirmed the recommendation of the earlier workshop that technical assistance for budget reclassification and management be made available to countries desiring it, and urged that countries of the region should take the necessary steps to avail themselves of this facility to a greater degree.



#### IV PROGRAMME AND PERFORMANCE BUDGETING

##### A. Views and Recommendations of the Second Workshop

31 The 1957 Workshop noted the great increase in budget expenditures for development purposes in the countries of the ECAFE region and the growing public interest in what these expenditures actually accomplish in physical terms. Accordingly it expressed great interest in programme and performance techniques, and considered that these techniques facilitated the linking of budget expenditures to their results in physical terms, such as additions to electrical generating capacity, acres of land reclaimed or irrigated, and schools and hospitals built.

32 The 1957 Workshop further noted that programme and performance techniques were widely applied in the budget systems of the United States and the Philippines, although the exact application of these techniques differed. While expressing great interest in the type of application of programme and performance techniques by the Philippines, the Workshop concluded that it would be premature for the other countries of the region to introduce them in that form.

33 It was recommended, however, that within the framework of the traditional budget and on a selective basis, countries should make efforts to apply programme and performance techniques. The Workshop further recommended that the Secretariat should prepare a Manual on programme and performance budgeting for consideration at the present Third Workshop meeting.

##### B. Progress since the 1957 Workshop

34 The present Workshop had before it A Manual of Programme and Performance Budgeting prepared by the secretariat, which describes the basic elements of programme and performance techniques. Individual chapters deal with the performance or management approach to government budgeting, performance classification, measurement of work, performance budgeting and accounting, budgetary needs of management and installation of a performance budget system. A number of countries <sup>1/</sup> had also submitted papers describing their experiences with programme and performance techniques.

35 The Workshop noted with satisfaction the progress towards applying programme and performance techniques. These applications have in some cases, involved a reclassification of budget heads, reorganization of the central budget agency, or a change toward programme emphasis in the budgetary process. In others, the budgetary process continues as before, but supplementary data have been built up and provided on an extended scale in selected fields of government activity.

36 The former group includes Thailand, the Republic of China, Iran and the Republic of Viet-Nam, and the latter India and Pakistan.

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<sup>1/</sup> Republic of China, India, Thailand and the Republic of Viet-Nam

37 In Thailand<sup>1/</sup> prior to 1960, budget review and analysis emphasized the object of expenditure, but beginning with the 1960 budget, the emphasis has been shifted to programmes and projects. The budget is divided into over 150 programmes, and each one of which is further subdivided into projects. The agencies are required to submit their estimates by programmes and projects with justifications in terms of work to be accomplished under each programme and project. This approach, with supporting justifications in terms of anticipated work, has contributed to the analysis of budget requests in relation to anticipated performance. An attempt has also been made in a limited field to link the financial outlays with their results in physical terms. However, the reclassification of expenditure estimates by programmes and projects and the information available with the agencies on physical end-results, attained or anticipated, is a major improvement that permits budget review in physical terms.

38 The Republic of China applied programme and performance techniques to the budget of the Shihmen Development Commission in 1959 <sup>2/</sup>. The major objectives of this Commission include irrigation, flood control, public water supply, and power generation. The total work of the Commission is divided into fifteen major work-programmes, and sub-divided into sub-programmes and activities. A beginning has also been made towards the installation of quantitative work measurement in respect of construction programmes and sub-programmes of the Commission. In the execution of the budget, expenditure information on the basis of obligation as well as on the basis of accruals is considered essential. For this purpose, the allotment ledger has been segregated from the basic accounting system, so that both the cost and obligation records for each activity can be simultaneously maintained and reports on two different bases separately prepared. On the basis of the experience gained so far, a phased plan has been drawn up for the progressive extension of the application of programme and performance techniques to other activities of the Government of the Republic of China.

39 In Iran a classification of the expenditure into programmes and activities has been adopted, and an attempt has been made towards work measurement in a few selected programmes.

40 A start has been made in the Republic of Viet-Nam. Programme and performance techniques have been applied in the Directorate-General of Public Works and in the Directorate-General of Budget and Foreign Aid. The former represents measurable work and the latter non-measurable work. Within the existing budgetary structure, the application involves adoption of programme and activity classifications and, where applicable, of work units. Accrual accounting is used to supplement the existing obligational accounting.

41 In Pakistan and India, the budget documents continue to exhibit only financial magnitudes on which authorizations are made. Attempts are also made to supplement

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<sup>1/</sup> Budget Administration in Thailand, prepared by the Budget Office, Office of the Prime Minister, Government of Thailand, submitted to the Third Workshop (BRW 3/4)

<sup>2/</sup> Performance (Programme) Budgeting in Shihmen Development Commission, Republic of China, prepared by the Budget Office of the Commission, submitted to the Third Workshop (BRW 3/3)



the expenditure estimates for each Ministry with notes on important schemes. These give a general description of the objectives, total cost, and targets of work-load or end-products, their annual phasing in terms of results achieved, expenditure incurred, expenditure provided for, and results planned. These give the legislature a broader view of the progress of the various development schemes and programmes, and enable them to judge the budget provisions in the proper perspective. The Railways in India have a separate budget. They have brought out a supplementary document for the budget for 1960-1961, which attempts a review of their performance over a period of nine years to 1959-1960. In this document an attempt has been made to measure performance in both physical and financial terms, and to establish a link between the two.

42 In the United States, the introduction of programme and performance techniques was initiated under a law passed by Congress in 1949. The first budget which applied these techniques was that for the year 1951. In the Philippines, programme and performance techniques were introduced partially in the 1956 budget, and fully in 1957. <sup>1/</sup> Improvements in the application of these techniques are being made continuously in both countries.

43 In this connexion, it appeared to the Workshop that basically, the approach and application in the two countries are similar, but with differences. Although both countries receive appropriations on an obligation basis, the United States is considering the adoption of accrued expenditures as the basis for appropriations. In the Philippines, some agencies receive appropriations on a programme basis. In the United States, however, all appropriations are by agency. Accrual accounting on a limited basis has been installed in the Philippines in all agencies, whereas it is in the process of being installed in the United States. Although both countries use work measurement, in the Philippines it is more extensively applied, and data on work-load and costs are more extensively presented in the formal budget document.

## C Basic Issues

44 Consideration of the Manual of Programme and Performance Budgeting<sup>2/</sup> and of the experience of countries of the region led the Workshop to identify certain basic problems which seemed bound to arise in any attempt to apply the techniques of performance appraisal in the budgetary process. It was felt by many countries that information on these issues was valuable and that an attempt should be made to crystallize this information in the form of general guidance. The main issues relevant to budget formulation, presentation, execution and management considered by the Workshop were

(1) Should the programming and performance techniques be formally introduced into the budget and account structures, or should these be utilized, without replacing the existing budget presentation and account structure, to provide supplementary

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<sup>1/</sup> "The Uniform Accounting System of the Republic of Philippine" (BRW 3/6) and "The Installation and Operation of Performance Budgeting in the Philippines" (BRW 3/7), submitted by the Philippine participants

<sup>2/</sup> For the purpose of its discussions the Workshop adopted the definition of programme and performance techniques given in paragraph 19 of the Manual (E/CN.11/BRW 3/L.5)

information on physical results of government expenditure by functions, programmes, projects or schemes? The Workshop was of the view that the final choice in this matter would have to be made by each country in light of its own resources and needs, but, in making this choice, the country could profit by the experience of the United States and the Philippines. In considering the problem, countries may wish to adopt a cautious approach. The usefulness of these techniques might first be tested by limited application in scope and intensity. Such an application could be made (a) vertically in a few departments where the activities are particularly linked to performance budgeting or (b) horizontally throughout all departments, heads, or expenditure, by providing a short introduction in each case on performance budgeting lines, while retaining as a transitional measure the existing line-type presentation of the budget figures. In this way, the practical experience gained would provide the basis for a more extensive use of these techniques. The Workshop felt that in the application of these techniques, requirements of trained personnel and the need for any administrative or organizational changes would also have to be carefully considered. Significant advantages could be obtained from the adoption of performance techniques without radical changes in budget and accounting structures.

(2) How widely, that is, over what functional areas, should performance and programme measurement techniques be applied? Should attempts be made to apply them to all government activities or only to activities in, for example, the field of economic and social services? The Workshop was of the view that the application would be more fruitful in functional areas where meaningful work-load data or end-products could be built up to facilitate decision-making by the appropriate authority - executive, administrative, or legislative. The extent to which this could usefully be done, and the area which should be covered, would be determined in practice by the requirements of government policy in each country. It was, however, the Workshop's view that, in general, economic and social services were likely to offer a better field for investigation than other functional areas of government activity. The Workshop drew attention to the fact that the linking of the financial outlays and physical end-products has so far been introduced in the United States of America and the Philippines in a selected number of programmes.

(3) Should performance techniques be applied only to current government expenditure or services, or also to capital investment programmes? If both, how would the link be established in the budget between annual expenditure and end-products, where a programme takes a number of years to be completed? In the view of the Workshop, these techniques could be used in either field. As the end-products of operating programmes are different from the end-products of capital programmes, the two would have to be dealt with separately. If financial outlays and physical results of capital programmes maturing over a period longer than a year are linked, it would be necessary to present the plans on an annual basis, both in physical and monetary terms, and to measure performance during each year accordingly.

(4) Should end-products be measured in terms of work-load, work-results, or work accomplishments? Since end-products should be designed to facilitate decision-making by the appropriate level of authority, the Workshop felt that no single measure could be specially recommended. Each of the three types of units has its importance, and the decision to use one or more can only be made in each case on consideration of the needs of the agency concerned, and the nature and the types of the decisions it has to make. In this connexion, the Workshop drew attention to the importance of adopting programme classification and units of measurement to

serve the needs of the level of authority concerned. For instance, for the purposes of management and for the assessment of comparative standards of efficiency, a comprehensive classification of operational programmes and detailed measurement of end-results would be desirable. A classification by broad objectives only will be required for major policy decisions on programming, priorities and allocation, which is the primary concern of the legislature or the top executive.

(5) Should the total cost, including allocation of overheads, be taken into account, or only the direct costs when linking outlays with end-results in the budget? The Workshop felt that in this respect the line taken by the Second Workshop appeared to be the most appropriate. An attempt should be made to measure variable costs as comprehensively as possible, but overhead costs, except where they can be easily allocated, could without serious disadvantage, be omitted.

(6) Does the introduction of programme and performance techniques necessarily mean that costing and accounting should be on an accrual basis? The view of the Second Workshop prevailed that no special measures need be taken to substitute an accrual system for existing systems. It had not been clearly established that, outside the field of government enterprise, there were significant practical advantages in adopting the accrual system. The criteria which form the basis for decisions on government expenditure, particularly in the field of administrative services, tend to be different in kind and in emphasis from those which are normally appropriate in the commercial field. When a country, however, in relation to its particular needs, wished to extend the area of accrual accounting, it might with advantage start with pro forma accounting on this basis in the functional areas selected for the application of performance techniques.

(7) Should only total cost be linked with total end-products, or should unit costs be worked out for each programme, project or scheme? The Workshop reaffirmed the general view of the Second Workshop that measurement of unit cost should only be attempted when the end-product is homogeneous and easily measurable. Unit cost measurement may not in every case provide information which is a useful addition to that which can be derived from a breakdown of aggregate costs into costs such as wages and salaries, materials, machinery, and equipment. But unit costs, even where they have been worked out, should be used with caution for budgetary purposes. Such costs are seldom conclusive by themselves, they have to be taken in conjunction with other available data and qualitative factors, such as quality and standards of work, and available resources.

#### D Conclusions

45 The Workshop considered that the papers which had been submitted by countries of the region and the Manual of Programme and Performance Budgeting prepared by the Secretariat were of great value as a basis for their discussions. The Manual in particular provided a most useful collation of theory and practice, and rendered a valuable service in defining and clarifying the terminology in this field.

46 It was felt that the Manual could with advantage be amplified in the light of the discussions. The Government could also attempt to give practical ways of identifying end-products and measuring them. For this purpose, it would be extremely useful if case studies could be undertaken in selected countries of the region.



47 More generally, the Workshop emphasized that the basic objective of all the countries of the region must be to devise and maintain an effective system of budgetary management and control. There was no one system which provided a perfect solution. Success could only be achieved by building carefully on foundations already laid and by constant review and adaptation designed to meet changing circumstances and each individual country's particular needs.

48 The Workshop accepted that performance and programme techniques could play a useful role in the formulation and execution of budgetary policy. Generally, the introduction of these techniques should be regarded as part of an evolutionary process, and that it should be carefully phased to ensure orderly progress.

## V CONCLUSIONS AND RECOMMENDATIONS

49 The Workshop noted with satisfaction that further progress has been achieved by the countries in the region in reclassifying their budgets along economic and functional lines and that the information provided thereby is now generally recognized as of great assistance in the formulation of economic and social policies. The Workshop recommended the extension of budget reclassification work to transactions of provincial or State governments, local authorities and government enterprises. It reaffirmed the recommendation of the Second Workshop that the Manual for Economic and Functional Classification of Government Transactions should serve as a guide for work in this field.

50 The Workshop accepted the usefulness of the techniques of programme and performance budgeting, but considered that the introduction of these techniques should be regarded as part of an evolutionary process, each country adopting a cautious and selective approach in the light of its own needs and circumstances.

51 The Workshop considered that the Manual of Programme and Performance Budgeting was a valuable contribution to thought in this field, and recommended that it should be amplified to take account of the Workshop's discussions. Case studies of selected countries in the region should also be undertaken.

52 The Workshop recommended that the secretariat prepare an annual review of developments in the field of budget reclassification, as well as of other improvements in budget management and control introduced by countries of the region. A document summarizing these developments should be circulated.

53 The Workshop considered that these meetings did much to stimulate interest in budgetary reform and provided a useful forum for exchange of experiences. It therefore recommended that another Workshop should be organized at a future date.

54 The next Workshop should review progress and consider further improvements in the field of economic and functional reclassification, and programme and performance budgeting. The emphasis should be placed on improving techniques of budget formulation, execution, control, and accounting. A topic of particular importance to the region is the relationship between government budgeting and economic development programming. The Workshop suggested that the secretariat should continue its studies, with particular reference to the topics referred to above, and should request member countries to suggest other topics which could be considered at the next meeting.

55 The Workshop drew the attention of countries in the region to the assistance which could be obtained under the United Nations Technical Assistance Programme, in the form of experts to advise individual countries, or fellowships for the study of actual budgetary techniques in other countries.

## ANNEXES

### Annex I

#### LIST OF PARTICIPANTS

##### MEMBERS

###### AUSTRALIA

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<sup>1/</sup> Member of the United Nations, participating in a consultative capacity under paragraph 9 of the terms of reference of the Commission

## Annex II

### AGENDA

- 1 Opening address
- 2 Adoption of the Agenda
- 3 Discussion of recent developments in the field of budget management
  - a Review of progress made in reclassifying government transactions along functional and economic lines and of other developments in the budget field
  - b Draft questionnaire on public finance and comments received
- 4 Programme and performance budgeting
  - a Performance or management approach to government budgeting
  - b Functions, programmes, and activities or projects
  - c Measurement of work
  - d. Installation of a performance budget system
- 5 Adoption of the report
- 6 Study Tour, Manila, Philippines

### ANNOTATED AGENDA

#### Item 3 Discussion of recent developments in the field of budget management

- (a) Review of progress made in reclassifying government transactions along economic and functional lines and of other developments in the budget field

The work undertaken in the budget field since the last Workshop can be divided into two areas (1) Budgetary reform a number of governments have carried out, or are in the process of carrying out, major budgetary reforms which are expected to contribute significantly to improvements in financial administration In some countries, these reforms are directed towards the improvement of existing payment procedures, in others towards a better co-ordination between the requirements of budgeting and economic development planning, and in still others, the introduction of programme and performance budgeting techniques is considered, (11) Reclassification of government transactions according to economic and functional categories Budget presentations of this type have become a well-established feature in a number of countries in the region Expansion of this work to government authorities below the central level is at present being considered in several countries

- (b) Draft questionnaire on public finance and comments received from the governments of the region

The Workshop held in 1957 recommended that the Secretariat prepare suggestions for a uniform system of reporting on budgetary data. In response to this recommendation, a draft questionnaire on public finance was prepared which is based essentially on classification schemes presented in the Manual for Economic and Functional Classification of Government Transactions, but simplifies them in several important respects. The draft questionnaire was circulated in 1959 to the governments of the region. It is submitted to the present meeting together with the comments and suggestions received from the governments of the region for further recommendations.

#### Item 4 Programme and performance budgeting

- (a) Performance or management approach to government budgeting

The budget under performance or management approach may be defined as one which presents

- (i) The short-term and long-term objectives in the major functional areas for which funds are requested,
- (ii) The programmes in each function and activities or projects in each programme proposed for the achievement of the stated objectives in the various functional areas,
- (iii) The costs of the programmes and activities or projects proposed,
- (iv) The qualitative and quantitative data for the programmes and activities or projects proposed,
- (v) The organization units responsible for carrying out the programmes,
- (vi) The sources and amounts of all receipts and expenditure

A budget built to the above specifications, while retaining the key elements in the traditional approach, namely, organization unit and object of expenditure, shifts the emphasis to the services to be provided by the government. It is this shift in focus which represents the essential difference between the conventional approach and management approach to budgeting.

- (b) Functions, programmes and activities or projects

The formulation, presentation and review of a budget based on services to be provided or work to be done is facilitated by a classification of expenditures by functions, programmes and activities or projects, which may be referred to as a performance classification.

A function may be defined as comprising all those expenditures in the budget whose immediate or short-term purpose is the provision of a distinct and separate public service, such as health or education. A programme is a sub-division of a function. Activities or projects, in turn, are sub-divisions of a programme. The



difference between an activity and a project is that the former represents a sub-division of an operating or current programme, while the latter is a component of a capital programme

In practice, the establishment of a performance classification would mean an examination of the effort of all agencies of a given jurisdiction with a view to preparing a list of functions, programmes and activities, or projects meaningful for that jurisdiction. Such a list, once established, should not be looked upon as providing a rigid budgetary structure, but should be capable of accommodating changes in public policy

(c) Measurement of work

Measurement of work may be defined as a system of establishing an equitable relationship between the volume of work and the employee time required for that volume, or the cost of all objects, including employee time required. It involves the selection of a technique of work measurement suitable for governmental operations, level of work at which it is to be measured, the appropriate unit for measuring the work, recording, and reporting the volume of work at that level in terms of the unit of work adopted. Activity or project represents the level at which it is suitable to measure work. The unit for measuring the work at the activity level should be (a) capable of being expressed in numerical terms, (b) as far as possible a measure of the work result, (c) a measure of group effort, and (d) expressed in familiar terminology. While quantitative information is basic in performance budgeting, it does not replace, and has to be supplemented by, qualitative information

(d) Installation of a performance budget system

The installation of a performance budget system is an evolutionary process characterized by flexibility and adaptability to specific country conditions. A general and comprehensive installation of the system throughout the entire government may not be practicable owing to staff limitations, the time required, and the very size of the government. A partial approach, therefore, initiating the system in certain units of government at first, and extending the installation to the remaining units in succeeding fiscal years, would be preferable on practical grounds. The specific decisions as to which units should be given priority in the gradual application and extension of the system would depend very much on particular country conditions

Priority in the installation process may be given to those agencies or departments whose expenditures are strategic in the execution of the development plan. There may be a special urgency for budgetary reforms in those departments engaged in numerous development projects and activities. The criteria of quantitative significance may also be used for and priority given to those departments or agencies whose outlays are large in the total government expenditures

Item 6    Study Tour, Manila, Philippines (programme)

27 and 28 August            Arrival in Manila

29 August (Monday)        (WHO Building)

9 30 a m            Welcome address            Hon Faustino Sy-Changco,  
Commissioner of the Budget

9 45 a m            Speech                      Hon Dominador R Aytona,  
Secretary of Finance

10 30 a m           Discussion                  Workshop participants

2 00 p m            Observation                Bureau of Lands,  
Department of Agriculture and  
Natural Resources

30 August (Tuesday)

9 30 a m            Observation                Armed Forces of the Philippines,  
Department of National Defence

2 00 p m            Observation                Bureau of Telecommunications,  
Department of Public Works  
and Communications

31 August (Wednesday)

9 30 a m            Observation                General Auditing Office

2 00 p m            Observation                Budget Commission

1 September (Thursday)

9 30 a m            Observation                Budget Commission

2 00 p m            Sightseeing                Manila and suburbs  
(Conducted by the Budget  
Commission)

2 September (Friday)    (WHO Building)

9 00 a m            Speech                      Senator Gil Puyat,  
Chairman, Finance Committee  
Philippine Senate

10 00 a m           Concluding  
Discussion                  Workshop participants

11 00 a m           Closing Remarks            Hon Faustino Sy-Changco,  
Commissioner of the Budget

12 00 noon          Luncheon                    Filipinas Hotel  
(Courtesy of the Budget  
Commission)

Annex III

LIST OF DOCUMENTS

A Working papers submitted by the Secretariat

Revised provisional agenda	E/CN 11/EPW 3/L 1, Rev 1
Revised annotated agenda	E/CN 11/BRW 3/L 1, Rev.1, Add 1
<u>Report of the Second Workshop on Problems of Budget Reclassification and Management in the ECAFE Region, Bangkok, 3-10 September 1957. United Nations Publication (ST/TAA/SER C/30) (Workshop Paper No 1)</u>	E/CN 11/BRW 3/L 2
<u>Developments of Budget Reclassification Work in the ECAFE Region</u> Prepared jointly by the ECAFE Secretariat and the Fiscal and Financial Branch of the Department of Economic and Social Affairs (Workshop paper No 2)	E/CN 11/BRW 3/L 3
<u>A Draft Questionnaire on Public Finance and Summary of Comments Received</u> Prepared by the ECAFE Secretariat (Workshop paper No 3)	E/CN 11/BRW 3/L 4
<u>A Manual of Programme and Performance Budgeting</u> Prepared by the Fiscal and Financial Branch of the Department of Economic and Social Affairs (Workshop paper No 4)	E/CN 11/BRW 3/L 5

B Working papers submitted by Participants and Draft Report of the Meeting

<u>The Fund's Experience in the Compilation and Use of Government Finance Statistics</u> Prepared by U Tun Wai of the International Monetary Fund	BRW 3/2
<u>Performance (Programme) Budgeting in Shihmen Development Commission, Republic of China</u> Prepared by the Budget Office of the Shihmen Development Commission	BRW 3/3
<u>Budget Administration in Thailand</u> Prepared by the Budget Office	BRW 3/4

<u>Japan - Central Government</u> <u>An Economic Reclassification Based</u> <u>on the ECAFE Draft Questionnaire</u> <u>Covering the Budget for the Fiscal</u> <u>Year 1960</u> Prepared by the Budget Bureau of the Ministry of Finance	BRW 3/5
<u>The Uniform Accounting System of the</u> <u>Republic of the Philippines</u> Prepared by Bernardo Bumatay	BRW 3/6
<u>The Installation and Operation of</u> <u>Performance Budgeting in the Philippines</u> Prepared by Juan S Agcaoili	BRW 3/7
<u>The Economic and Functional Classification</u> <u>of the Estimates and Financial Statements</u> <u>of the Government of the State of Singapore</u> Prepared by the participants from Singapore	BRW 3/8
<u>Experience Viet-Namienne en matiere de</u> <u>"Program Budgeting"</u> Prepared by the participants from Viet-Nam	BRW 3/9
<u>Le Traitement du probleme de l'etablissement</u> <u>du "PROGRAM BUDGETING" au Viet-Nam</u> Prepared by the participants from Viet-Nam	BRW 3/10
<u>Budgetary Reclassification in India</u> Prepared by the participants from India	BRW 3/11
<u>Programme and Performance Budgeting</u> Prepared by the participants from India	BRW 3/12
<u>Union of Soviet Socialist Republics,</u> <u>Budget System and Budget Rights in the</u> <u>Union of Soviet Socialist Republics</u> Prepared by the participants from the U S S R	BRW 3/13
<u>Le probleme de la reclassification</u> <u>economique et fonctionnelle du budget Lao</u> Prepared by the Ministry of Finance	BRW 3/14
<u>Draft Report on the Third Workshop on</u> <u>Problems of Budget Reclassification and</u> <u>Management</u>	BRW 3/15

C Information and background papers

Information for participants

List of participants

Manual for Economic and Functional Classification  
of Government Transactions United Nations  
publication Sales No 58 XVI 2

Report of the Workshop on Budgetary  
Classification and Management in South America,  
27 May-5 June 1959 (ST/TAO/SER C/39)

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Classification of the Central Government Budget  
for 1960-1961, New Delhi, 1960

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New Delhi, 1960

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India, Ministry of Railways, A Review of the Performance  
of the Indian Government Railways During the Second Five  
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Republic of Korea, Bureau of Budget, Ministry of Finance,  
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Fiscal Year 1960

New Zealand, Department of Statistics, The Accounts of  
the Government Sector 1955-1956 to 1958-1959, Wellington, 1960

Union of Soviet Socialist Republics, The Soviet Budget,  
by V Lavrov, Moscow, 1959

International Monetary Fund, An Introduction to IFS,  
A Reprint of introductory articles published in the  
January to May 1960 issues of International Financial  
Statistics



#### Annex IV

#### ADDRESS BY U NYUN, EXECUTIVE SECRETARY OF THE ECONOMIC COMMISSION FOR ASIA AND THE FAR EAST

I have great pleasure in welcoming you all to this third meeting of the Workshop on Problems of Budget Reclassification and Management in the ECAFE Region sponsored jointly by the United Nations Economic Commission for Asia and the Far East, the Bureau of Technical Assistance Operations, the Division of Public Administration and the Fiscal and Financial Branch of the United Nations Department of Economic and Social Affairs

In the first instance, I wish to express on behalf of all of us our grateful thanks to His Majesty's Government of Thailand for the excellent arrangements they have made for convening this meeting of the Budget Workshop in Bangkok. We are grateful to His Excellency the Prime Minister of Thailand for his kind message to us. The knowledge of his personal interest in our meeting is very gratifying indeed. We are also very grateful to His Excellency the Minister of Finance, Mr. Sunthorn Hongladarom, for being able to attend our meeting in the midst of his heavy duties of state and for his warm words of welcome and his thoughtful address. It gives me great pleasure to see present at this meeting experts from the various member countries of ECAFE. It also gives me particular pleasure to welcome to this meeting the distinguished observers from Ghana and Israel and the representative of the International Monetary Fund.

The present Budget Workshop is one of a series organized by the United Nations Headquarters in co-operation with the secretariats of the Regional Commissions. The first Workshop was held in Mexico in 1953 for the benefit of countries of Central America. That was followed up in that region by another Workshop in 1959 held for countries of South America. The first Workshop for the countries of the ECAFE region was organized in 1955 and a second Workshop was organized in 1957. The present Workshop is therefore the third one for ECAFE and the fifth in the over-all United Nations series. You may be interested to know that it is proposed to hold a Workshop in 1961 in Addis Ababa for the benefit of the countries of Africa.

These Budget Workshops are intended to meet a vital need of the developing countries. The problem of development, as we all know, is the problem of the most efficient and effective utilization of our resources. While the concepts relating to the investigation, assessment and utilization of other resources are now being increasingly understood and accepted in the countries of the ECAFE region, there is already a tradition regarding the measurement and husbanding of financial resources. In the past, however, financial resources were mostly mobilized and expended for the administration of law and order or the provision of limited social and economic services. With the emergence of the desire for rapid development, the governments have assumed an active role to provide the economic and social infra-structure for development and undertake other functions designed to accelerate the process of economic growth. This has inevitably led to very much larger government budgets, or in other words, the expansion of the public sector. It has meant increased taxes and borrowings and increased public outlays, so that government financial operations now constitute, in most countries,



a very substantial portion of economic activity. In some countries, further economic growth practically hinges on the public sector. In these circumstances, it is more essential than ever that the public financial resources should be managed with the maximum efficiency possible. It has become increasingly important that the budgets which are the medium through which all monies pass should be compiled and presented in the best manner possible.

The purpose of the Budget Workshops that we have been holding is to consider what budgetary reforms are needed and how the techniques associated with the compilation, presentation and accounting of budgets can be improved, so that the budget plays its appropriate part in the process of economic development. I am glad to say that while in the past everything connected with the budget was regarded as the concern mainly of the accountants and the officials of the ministries of finance, the administrators are now increasingly taking interest in the understanding and utilization of the budget, as part of their responsibility for good administration. The budget can be a most vital instrument for the watching and control of operation. It tells the whole story of the working of the public sector, and in fact reflects the entire policies of the government, covering the public as well as the private sector. Recognizing the expanding role which the budgets have assumed in the ECAFE region, we have tried to study, through the medium of these Budget Workshops, the most important features requiring reform. In the first two Workshops, we concentrated on the problem of reclassification of financial transactions on economic and functional basis. The objective was that the budgets should provide a more meaningful picture for the planners as well as other authorities.

In accordance with the recommendation of the second Budget Workshop which met in Bangkok in 1957, the present meeting will deal primarily with the subject of programme and performance budgeting. This subject is highly significant to the countries of the ECAFE region where the governments are playing a strategic role in the planned development of their countries. As mentioned by me earlier, the crucial role being played by the governments in the planned development of their countries has in the last decade resulted in at least two fundamental changes in the scope and nature of budget expenditures.

The first change which is easily recognized is that the government budget today is much bigger and larger as compared with the budget of only a few years ago. The other basic change, perhaps more significant than the first and also harder to detect, is that that much of this increased expenditure goes on scientific and engineering schemes associated with development plans.

The problems posed by these basic changes in modern government expenditure to financial administration vary according to the magnitude of these changes and according to the budget process as it has evolved historically in each country. However, broadly speaking, a serious consequence of these changes has been a weakening of the traditional financial control and financial planning. The budget has tended to become less a detailed administrative plan of expenditure and more a statement of broad policy estimates.

The officials concerned with financial administration have performed their existing job remarkably well under the very difficult conditions created by the increased size of the budget and the increased volume of technical expenditure in it. Credit must also be given to them for being deeply aware of the need for modernizing and adapting the traditional financial machinery in order to make it an

effective instrument for coping with the new demands and needs of the progressively increasing developmental activities of the government

In this connexion, you may recall the keen interest evinced by the second Workshop which met in Bangkok in 1957, in the techniques of programme and performance budgeting. In accordance with the wishes of that Workshop the secretariat has prepared A Manual of Programme and Performance Budgeting which describes the techniques of programme and performance with practical illustrations drawn from the United States and the Philippine budget systems which are based on these techniques. After the conclusion of the session here in Bangkok, the Workshop, as you know, will proceed to Manila where you will have an excellent opportunity to observe the operation of a budget system based on the concepts of programme and performance budgeting.

Broadly, a performance budget substitutes the ends for the means as focal points in government budgeting. The ends in budgeting are the services to be provided or the work to be done while the means are the personnel, supplies, equipment, etc., needed to accomplish these ends. This is quite a basic departure from the practice and thinking underlying conventional budgeting since traditional financial control and financial planning tend to emphasize the means rather than the ends. While it thus requires a psychological re-orientation to budgetary operations on the part of the administrator and legislator which is perhaps difficult to achieve, the potentialities of this technique for improving financial administration in the region require your closest attention. I should, in particular, like to urge you to consider and examine its merits closely in relation to the formulation and execution of developmental schemes in the budget. It is needless for me to point out to you how crucial efficient budgeting is to the success of economic planning in the region.

While programme and performance budgeting is the main topic before you, you will recall that the second Budget Workshop after reviewing the important studies carried out by the governments in reclassifying their budget accounts according to functional and economic categories, recommended that the present meeting also review the further progress in this field since 1957.

The studies carried out by several countries by 1957 were aimed at providing themselves with supplementary information on government activities for policy purposes. This important work in these countries has continued since, on a regular basis, and notable additions are being made as shown in the secretarial paper Development of Budget Reclassification Work in the ECAFE Region and in the documents submitted by the countries themselves. Since 1957 several other countries which could not for practical reasons initiate work before have undertaken important studies in this field. A significant feature of this work has been that it has been accomplished as an integral part of budget modernization programmes designed to improve budget administration in these countries. In devising the new budget and account classifications which now serve as the basis for budget formulation and execution in these countries specific recognition has been given to the economic and functional schemes of the Manual for Economic and Functional Classification of Government Transactions which served as the basic working paper at the first and second Budget Workshops held in Bangkok in 1955 and 1957.

Several technical and practical problems remain in this field. The need for policy information on government activities based on economic and functional

categories is well recognized in the region. And with further guidance from you at this meeting on the problems that still remain, I have no doubt in my mind about the continued progress of work in this important field.

There is one other question I should like to draw your attention. In accordance with the wishes of the second Workshop meeting, the secretariat has prepared a draft questionnaire which is essentially based on the classification schemes presented in the Manual for Economic and Functional Classification of Government Transactions, but simplifies them for practical reasons in several important respects. The secretariat has circulated this draft questionnaire which is a rather comprehensive one to the governments of the region as well as to the participants in the second Workshop and has received from them valuable comments which are submitted to you together with the questionnaire itself for discussion and further guidance from you.

May I, before concluding my statement, refer with pleasure to the continued co-operation between the United Nations Bureau of Technical Assistance Operations, the Fiscal and Financial Branch, the Division of Public Administration of the Department of Economic and Social Affairs at United Nations Headquarters and our own secretariat of the Economic Commission for Asia and the Far East. The Bureau of Technical Assistance Operations has arranged the financing of the Workshop from funds provided under United Nations Technical Assistance Programme and has taken an active part in organizing the Workshop. The Fiscal and Financial Branch of the Department of Economic and Social Affairs has prepared the principal document of this Workshop, namely, A Manual of Programme and Performance Budgeting.

I have no doubt that with your wide knowledge and experience in the field of budget reclassification, your deliberations at this meeting on programme and performance budgeting will greatly contribute to the development effort in the countries of the region through better information on government activities and through improved budget administration. I am fully confident that this Workshop will make an important and lasting contribution to the development and improvement of budgetary techniques and practices in the countries of the ECAFE region.

I wish you every success in your work.



Draft questionnaire on public finance

During the last decennium or so, it has come to be realized more and more that the wealth of information contained in government budgets and accounts is excellent source material for the economist and the planner if certain relatively simple regroupings of the figures according to economic and functional characteristics are made. This does not mean that the traditional budgets and accounts which show various types of expenditure by administrative units serve no useful purpose. The traditional budgets and accounts are in fact indispensable for fiscal control and, even in unchanged form, they also provide much information for the politician, planner and economist.

A supplementary classification of government budgets and accounts according to economic and functional categories can be made with relatively little expenditure of manpower. One skilled professional person with some computing assistance may be able to reclassify the budget of a country in a few weeks' time. Considering the usefulness of the information which can be extracted in this way, no country should hesitate to undertake the task.

In 1958, the United Nations published A Manual for Economic and Functional Classification of Government Transactions, <sup>2/</sup> which is the standard source of information on how to reclassify government accounts. The present public finance questionnaire is based on this Manual with a few simplifications in detail, which will be pointed out in due course. Although the questionnaire itself is designed to guide the reclassification of government transactions in the countries of the ECAFE region, the person or persons responsible for the actual reclassification work in each country are strongly advised to make themselves thoroughly conversant with the Manual. Numerous references to the Manual are made throughout this questionnaire.

The object of the questionnaire is to inaugurate a system of regular reporting of budgetary data on a uniform basis. The need for such a reporting system both for the informational and analytical work of ECAFE on behalf of member governments and otherwise is generally recognized by the countries of the ECAFE region, as expressed at the second workshop on Problems of Budgetary Classification and Management held in Bangkok in 1957.

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<sup>1/</sup> The Workshop concluded that it would not be profitable or desirable at this stage to attempt to devise a uniform system of reporting public finance data on a regional basis, but recognized that the draft questionnaire could serve as a useful supplement to the Manual for Economic and Functional Classification of Government Transactions, which countries of the region might find helpful in developing their own classification schemes.

<sup>2/</sup> United Nations publication, Sales No. 58 XVI 2

Further remarks on the subject of budget reclassification in general, on the consolidated accounts for the central government sector, on the economic-functional reclassification and on the main differences between the Manual and this questionnaire, will be found in Appendix I. The questionnaire itself, consisting of six tables and their accompanying notes, follows immediately below.

Where, in addition to dealing with the questionnaire itself, Governments wish to submit general progress statements on their budget reclassification work since 1957, such statements will be welcomed.

Table 1    Central Government

Current account

Expenditure		Receipts	
1	Current expenditure on goods and services	8	Sales and charges
a	Compensation of civilian employees	9	Net surplus from trading enterprises
b	Pay and allowances of armed forces	10	Provision for depreciation of fixed assets of trading enterprises
c	Rental of fixed assets	11	Interest and dividends received
d	Military construction and equipment	a	Interest received from local government
e	Other goods and services for current operations	b.	Interest and dividends received from other sectors
2	Interest	12	Social security contributions
a	General debt	13	Taxes from personal income
b	Commercial debt owed by trading enterprises	14	Taxes from corporate income
3	Subsidies	15	Other transfers from income account of domestic sectors
4	Transfers to income account of households	16	Taxes on production and expenditures
a	Pensions to government employees	(a)	General sales and turnover taxes
b	Other transfers	(b)	Selective sales taxes
5	Transfers to local government for current operations	(c)	Import duties
6	Current transfers to abroad	(d)	Export duties
		(e)	Taxes on foreign exchange
		(f)	Licence taxes
		(g)	Taxes on assets
		(h)	Surplus of government monopolies
		17	Transfers from local government for current expenditure
		18	Current transfers from abroad
7	Current expenditure	19	Current receipts
20	Saving before depreciation		



## Notes to Table 1

### 1 Current expenditure on goods and services

Includes all purchases of goods and services other than for (a) capital formation for civilian purposes (existing physical assets, new capital goods, stockpiling (net)) and for (b) transfers in kind to other sectors. Such grants are to be included under the appropriate transfer item, e.g. transfers to income accounts of households (item 4). Expenditures should be reported on a gross basis, that is, without deduction of offsetting receipts from sales and other charges (see item 8). Current expenditure on goods and services is divided into the following categories:

#### a Compensation of civilian employees (Manual item 1 la and 1 lb, pp 82-84)

Includes remuneration in cash and in kind. Cash remuneration consists of ordinary payment of wages and salaries including overtime pay reckoned before deduction of tax and employees' contributions to social security and pension funds. Cash supplements, such as bonuses, family allowances, and severance pay should also be included. Employers' contributions to social insurance and pension funds are considered part of their employees' compensation. Remuneration in kind consists of the value of food, clothing and lodging provided free of charge.

#### b Pay and allowances of armed forces (Manual, item 1 lc, p 82)

Includes the same items as mentioned under 1a above, for members of the armed forces. Civil defence personnel are not considered members of the armed forces, and income in kind excludes shelter provided to military personnel, such as barracks and billets. If extraordinary police expenditures are incurred to perform defence tasks, like keeping rebels in check, these expenditures should be classified here. Normal police expenditure should be classified under item 1a above.

#### c Rental of fixed assets (Manual item 1 2, p 83)

Includes all payments of rent for the hiring of fixed assets, such as buildings, machinery and equipment, as well as land.

#### d Military construction and equipment (Manual item 1 3, p 83)

Covers outlays other than for purchases of land for construction of barracks, administrative buildings, training grounds, fortifications and air fields, as well as purchases of tanks, war ships, war planes, guns, trucks and cars for use by military personnel or for defence purposes. Expenditures on expendable military supplies, such as munitions, are classified under item 1e below.

#### e Other goods and services for current operations (Manual item 1 4, pp 83 and 84)

Covers materials, office supplies, fuel and light, repairs and maintenance, printing, travel expenses, telephone and telegraph charges and other items for current operations. Purchases from other central government agencies should be excluded, except those from ancillary agencies keeping their own accounts.

2 a Interest on general debt (Manual item 13 2, p 91)

Covers interest paid to sectors outside central government by general government agencies and financial enterprises. Payment of interest paid by one government agency to another should not be included. For instance, payments of interest by trading enterprises on the capital advanced to them by general government agencies, or interest payments arising from lending and borrowing between general government agencies and financial enterprises.

b Interest on commercial debt owed by trading enterprises (Manual, item 13 3, p. 91)

Covers interest paid by government trading enterprises on commercial overdrafts and other commercial credit.

3 Subsidies (Manual item 16, p 92)

Covers cash payments to domestic producers, other than for goods and services rendered, which are treated by the recipients as receipts on their trading accounts. Includes also deficits of government trading enterprises which are run at a loss as a result of a policy decision.

4 Transfers to income account of households (Manual, item 17, p 92)

Payments in cash to households and to non-profit institutions serving households, which add to their disposable income and which are not paid in direct return for goods supplied and services rendered. Transfers paid through intermediaries such as local government bodies are classified here as transfers to households. The types of payment included are benefits in cash to the unemployed, aged and disabled, family allowances, veterans' benefits, scholarships, grants to private school institutions and other private social welfare organizations, as well as pensions paid to former government employees. Also included are transfers in kind to households, such as assistance in kind to the poor, medical support, food and clothing given to victims of a natural disaster and cost of free school meals.

5 Transfers to local government for current operations (Manual, item 18, p 93)

Transfers to general government agencies at the local level treated by them as current receipts. Transfers of central government agencies channelled to recipients through local general government agencies are excluded (see description of item 4 above).

6 Current transfers to abroad (Manual, item 20.1, p 95)

Covers military aid (in cash, but not in kind), contributions to meet the operating cost of international organizations, relief contributions in cash and kind, social security pensions paid to former residents now living abroad and all other transfers linked to the current income and expenditure of the recipient.

8 Sales and charges (Manual, items 7 1 to 7 4, pp 87 and 88)

Sales of goods and services by general government agencies except sales of assets as defined below under item 30 of Table 2. Included are (a) sales of

existing military construction and equipment at home, (b) other sales and non-regulatory charges by general government agencies to other sectors, such as charges for social services by institutions of the government, such as fees and charges by hospitals, health clinics, schools, universities and similar institutions and (c) regulatory charges, that is, those in connexion with regulatory activities of government agencies, such as charges associated with the regulation and inspection of enterprises and charges made for marriage and birth certificates, passports, drivers' licences and application to the courts. Sales to other central government agencies are excluded. For a fuller explanation, see the Manual.

9 Net surplus from trading enterprises

This item represents the balance between the trading surpluses and deficits of government trading enterprises operating in direct competition with other producers. The derived trading surpluses of ancillary agencies with separate accounts should also be included here. Surpluses from fiscal monopolies are not included here, but under item 16 - taxes on production and expenditure. Deliberate deficits resulting from a policy decision to operate a trading enterprise at a loss are considered as subsidies and are normally included under item 3 - subsidies - or possibly under item 4b - transfers to income accounts of households - if a particular class of consumers is enabled to obtain at lower prices goods and services for which all other consumers have to pay unsubsidized prices. For the derivation of the net surplus of trading enterprises, reference should be made to Table 1-a (page 8).

10 Provision for depreciation of fixed assets of trading enterprises (Manual, item 3, pp 84-85)

This item refers to provision for depreciation of fixed capital assets owned by government trading enterprises, including ancillary agencies keeping their own accounts. See note to item 5 of Table 1-a.

11 a Interest received from local government (Manual, item 15 2, p 91)

Interest received on loans and advances to local government bodies

b Interest and dividends received from other sectors (Manual, items 15 3 and 15 4, p 91)

Interest and dividends received by government from outside sources in respect of loans and advances, as well as holdings of bonds and shares. Interest and dividend earnings of government trading enterprises from sectors outside the consolidation are also included here, in case such transactions should occur. (See item 6 of Table 1-b)

12 Social security contributions (Manual, item 21 1)

Payments to comprehensive social security funds by employers, employees and self-employed persons, including contributions by central government agencies on behalf of their employees. This item does not include contributions to central government pension funds or schemes for government employees.

13. Taxes from personal income (Manual, item 21 2, p 96)

Covers taxes on all types of personal income, the basis on which they are assessed may be total income, or specific types of income, such as wages and salaries, professional income, interest, dividends and business profits. Taxes on net worth are also included here, which correspond to the excess of the aggregate value of assets owned over the aggregate value of liabilities and "the expenditure tax", which, unlike ordinary taxes on production and expenditure, is levied on the total expenditure of individuals. The amounts shown should, if possible, be net of any tax refunds.

14. Taxes from corporate income (Manual, item 21 3, p 96)

Payments by corporations, co-operatives, and non-profit institutions serving business in respect of income taxes, excess profits taxes, and taxes on undistributed profits. Payments should be shown net of refunds, if possible.

15. Other transfers from income accounts of domestic sectors (Manual, items 21 4 and 22, p 96)

Covers (a) compulsory transfers, such as penalties, fines, forfeited bail and special assessments, and (b) voluntary transfers, such as payments of "conscience money" and voluntary reimbursements for relief supplies provided. Also included are government and employee contributions to pension schemes for government employees. This counterbalances the inclusion of this item on the expenditure side under item 1a or 21a, in the case of own-account construction by general government agencies.

16. Taxes on production and expenditure (Manual, item 23, pp 96 and 97)

Taxes levied upon the gross value of production or upon gross receipts from sales, which can be regarded as forming part of the cost of producing or acquiring particular commodities, or as falling on specific kinds of expenditure. Amounts actually received net of any refunds should be recorded. Profits from fiscal monopolies should also be included here (see note to item 9 on page 5).

The following categories of tax are covered here

(a) general sales and turnover taxes

These are taxes levied on gross sales receipts of retailers at a common rate, regardless of the type of commodity or service being sold, and taxes levied on gross sales receipts of other types of business enterprises.

(b) selective sales taxes

These cover duties levied at specific rates on specific commodities whether collected from producers (manufacturers' excise taxes), from retailers or from intervening distributors, and on specific services such as entertainment and transportation. Import and export duties are not included here. This item also includes selective taxes



on output, such as royalties on the removal of natural products such as petroleum, gas, iron ore, and timber from government-owned land

(c) import duties

Taxes imposed at the point of entry from abroad on value or quantum of goods imported. Includes also receipts from the issue of import licences and other duties on shipping documents

(d) export duties

The same types of levy as described under import duties

(e) taxes on foreign exchange

Taxes levied specifically on the purchase of foreign exchange. The profits from multiple exchange rate schemes should be included here

(f) licence taxes

Amounts charged for licences to exercise a business, profession or trade, and levied either at a flat rate or on some base other than gross receipts or net income

(g) taxes on assets

Taxes levied on the use of a specific physical asset, such as motor vehicle taxes, and taxes on the occupancy of land and building. Taxes on financial assets, such as on the value of bank deposits, stocks, bonds, and mortgages are also included here, if they are not part of a general property tax

(h) property transfer taxes

Taxes levied on sales of all types of assets, real and financial, including stamp and registration duties on documents recording the transfer of property

(i) surplus of government monopolies

17 Transfers from local government for current expenditure (Manual, item 24, p 98)

Counterpart of item 5 on the expenditure side. Represents contributions from local government bodies in respect of current expenditure by central government agencies for such purposes as police, justice, education and public health

18 Current transfers from abroad (Manual, item 27, p. 100)

This item covers (a) taxes received from non-residents, net of any tax refunds, and (b) transfers in cash or kind received from abroad for current operations. Transfers in kind received from abroad for the use of the government should be recorded here at the time the goods are placed at the disposal of the government, and a corresponding entry should be made under item 1-e. The value put on the goods should be that agreed to with the donating country. Transfers in kind for military purposes are excluded



If the goods are for the use of other sectors, the transfer from abroad should be offset by an equal entry under item 21c, table 2 for net government stockpiling. Sales of the goods should be recorded under the same item, as and when they take place, at a value equal to that placed on the goods when received from abroad. If the value actually realized from the sales is lower than this, the difference should be recorded as some kind of transfer payment, such as a subsidy if sold to a producer, and as a social transfer if sold to households. If the value actually realized on the sales is significantly higher than the original value, the difference should be recorded as a tax on production and expenditure.

Proceeds from sales on the domestic market are frequently channelled into special funds (counterpart funds) which are governed by certain rules laid down in agreements concluded between the donating and receiving governments. Net changes in such funds would be taken into account under the item "net increase in cash" on the capital account. When the counterpart funds device is used, it is also customary to earmark a certain part of the value of the goods received for use by the donating country. The amounts involved should be included under item 6 "Current transfers to abroad".

20    Saving before depreciation

Balancing item

Table 1a    Government trading enterprises

Trading account

Expenditure		Reference item (Tables 1 and 2)	Receipts	
1	Compensation of employees		6	Sales of goods and services
2	Rental of fixed assets		7	Value of goods and services supplied free to other central government agencies
3	Purchases of goods and other services for current operations		8	Value of own account production of capital goods
4	Net drawings on (+) or net additions to (-) working stocks	22c		
5	Provision for depreciation of fixed capital	10 10		
Balances				
9	Net trading surplus	9		
10	Taxes on production and expenditure	16 (i)		
11	Subsidies (-)	3		

## General note

Table 1a shows a trading account which may be used to derive the surplus or deficit of all three main types of government trading enterprise, including ancillary agencies keeping their own accounts (see the section "Consolidated accounts for the central government sector" of Annex I) Balancing item 9 shows the net trading surplus of government enterprises operating in direct competition with other enterprises, which is carried over to item 9 (net surplus from trading enterprises) of Table 1, item 10 shows the profits of government fiscal monopolies, which is carried over to item 16 (1) of Table 1, and item 11 shows the intentionally incurred deficit of some government trading enterprises which should be included under item 3 - subsidies - of Table 1

Tables 1b-c show the other types of accounts necessary for a full description of the activities of government enterprises While some of the items on these accounts disappear in a consolidation of the whole central government sector, most of the items will appear as part of the items on the consolidated account for the whole of central government Those items which will be part of the consolidation are shown against the items with which they should be consolidated, in the column of Tables 1a-c headed "Reference item (Tables 1 and 2)"

## Notes to Table 1a

For descriptions of items 1, 2 and 3 of Table 1a, see notes to items 1 (a), (c) and (e) of Table 1 Items 1 and 3 include, however, expenditures relating to own-account production of capital goods by government trading enterprises See note to item 8 of Table 1a The other items of the account are described below

- 4 Net drawings on (+) or net additions to (-) working stocks (Manual, item 2, p 84)

Value of the net change during the accounting period in the volume of stocks of goods of the type indicated under item 3 above This item is required to determine the trading surplus of government trading enterprises, such as marketing boards, and of ancillary agencies keeping their own accounts (See note to item 22c of table 2)

- 5 Provision for depreciation of fixed capital (Manual, item 3, pp 84-85)

This item is required only for government trading enterprises, including ancillary agencies keeping their own accounts It should refer to all items treated as fixed capital assets This item is carried over to item 10 of Table 1

- 6 Sales by government enterprises and ancillary agencies (Manual, item 7 1, p 87)

Covers rent received on fixed assets hired out, including land, sales of goods bought for resale, and sales of goods and services produced as part of the current operations of government trading enterprises and ancillary agencies

7 Value of goods and services provided free to other central government agencies  
(Manual, item 8 2, p 89)

For purposes of the questionnaire, this item refers only to goods and services supplied without charge by government trading enterprises and ancillary agencies to general government. The item is required in the accounts of the providing agency to offset expenditure incurred to produce the goods and services supplied free to the receiving agency. It should also be entered in the accounts of the receiving agency as current or capital expenditure according to its nature.

8 Value of own-account production of capital goods (Manual, item 8 3, p 89)

This item is needed to counterbalance that part of items 1 and 3 which refer to expenditure in connexion with own-account production of capital goods. The production of capital goods by government trading enterprises with their own labour for their own use is first recorded as current expenditures on their trading account, and these expenditures are offset by an entry on the receipt side, corresponding to the value of the capital goods created. The value of the assets produced are finally shown on the enterprises' main capital account for all transactions under the heading "new capital goods" (item 9a of Table 1c).

Table 1b Government trading enterprises

Main current account for all transactions

Expenditure		Reference item (Tables 1 and 2)	Receipts		Reference item (Tables 1 and 2)
1	Interest paid within central government		4	Net trading surplus	9
2	Interest on commercial debt	2b	5	Interest received within central government	
3	Subsidies	3	6	Interest and dividends received from other sectors	11b
Balance			7	Taxes on production and expenditure	161
8	Surplus (+) or deficit (-) on current account				

Notes to Table 1b

For descriptions of items 2 and 6 see notes to items 2 (b) and 11 (b) of Table 1. Under items 1 and 5 interest paid by one central government agency to another is recorded. On the consolidation of whole central government sector they are cancelled out. The items of Table 1b are carried over to the appropriate items of Table 1 (see listing of reference items on Table 1b).

Table 1c    Government trading enterprises

Main capital account for all transactions

Expenditure		Reference item (Tables 1 and 2)	Receipts		Reference item (Tables 1 and 2)
9	Gross capital formation		8	Surplus (+) or deficit (-) on current account	
	a    new capital goods	22a			
	b    existing physical assets	22b	13	Provision for depreciation of fixed capital	10
	c    net increase in stocks	22c			
10	Net increase in receivables	28	14	Sales of existing capital goods	30
11	Net increase in cash	40b			
			15	Direct borrowing (net) from domestic sectors	34
12	Cash adjustments for value of goods and services supplied free by one central government agency to another				
			16	Sales <u>less</u> purchases of negotiable securities issued by central government agencies	35
	a    Amount provided free				
	b <u>Less</u> amounts obtained free		17	Net increase in payables	38
				Balance	
			18	Net finance received from central general government	

Notes to Table 1c

For items 9, 10, 11, 14, 15, 16 and 17 of Table 1c, see notes to items 22, 28, 40, 30, 34, 35 and 38 of Table 2. Item 13 is carried over from item 5 of Table 1a. Item 9c is equal to the negative value of item 4 of Table 1a - net drawings on (+) or net additions to (-) working stocks. Items 12 and 18 are the transitory items, the same entry is made on the accounts of the corresponding agencies and will disappear on consolidation of the whole central government. The items of Table 1c are carried over to the appropriate items of Tables 1 and 2 (see listing of reference items on Table 1c).

Table 2    Central Government

Capital Account

Expenditure		Receipts	
21	Gross capital formation (general government)	20	Saving before depreciation
	a    New capital goods	30	Sales of existing capital goods
	b    Existing physical assets	31	Transfers from capital account of domestic sectors
	c    Stockpiling (net)		a    Death duties
22	Gross capital formation (trading enterprises)		b    Other capital taxes
	a    New capital goods		c    Transfers (net) of central bank currency depreciation gains
	b    Existing physical assets		d    Other
	c    Net increase in stocks	32	Capital transfers from abroad
23	Transfers to capital account of domestic sectors	33	Repayments of direct loans and advance
	a    Local government		a    Local government
	b    Independent public and private enterprises		b    Independent public and private enterprises
	c    Households		c    Households
24	Capital transfers to abroad		d    Abroad
25	Direct loans and advances	34	Direct borrowing (net)
	a    Local government		a    Central bank
	b    Independent public and private enterprises		b    Commercial banks
	c    Households		c    Private non-banking sector
	d    Abroad		d.   Abroad
26	Purchase <u>less</u> sales of claims on domestic sectors	35	Sales less purchases of negotiable securities issued by central government agencies
	a    Local government		a    In domestic currency
	b    Independent public enterprises		b    In foreign currency
	c    Private enterprises	36	Issue of securities in exchange of ownership rights
27	Purchases <u>less</u> sales of claims on non-residents	37	Net increase in coins issued
28	Net increase in receivables	38	Net increase in payables
29	Capital expenditure	39	Saving before depreciation and capital receipts
Balance			
40	Net increase in cash		
	a    Counterpart fund deposits		
	b    Other		



## Notes to Table 2

### 21 Gross capital formation (general government)

Covers all expenditures on goods and services related to capital formation for civilian purposes by general government including financial enterprises

#### (a) New capital goods (Manual, item 6 1, p 86)

Covers outlays for acquisition of new buildings, new construction and new machinery and equipment, having a useful life longer than one year. This item also covers outlay on capital goods produced with own labour for own use (own-account construction) including payments of wages and salaries to government employees engaged in such activities. Such wages and salaries may be shown in a separate sub-item so that the total sum of wages and salaries of general government agencies can be derived by adding these amounts to items 1 (a) and (b) of Table 1. Purchases of second-hand capital goods from abroad are also included here. Outlays for new buildings and construction cover schools, hospitals and prisons, as well as construction such as highways, roads, bridges, dams, airports and flood control. Expenditure on major alterations and renewals which extend the normal life of existing assets or raise their productivity are also included here. Goods of small value, purchased regularly, such as small tools and small items of office equipment, even though durable, should be classified as purchases of goods and services for current operations.

#### (b) Existing physical assets (Manual, items 6 2 and 6 3, p 87)

Purchases of land and of existing capital goods other than land from domestic sectors. Purchases of land for military use are also included here.

#### (c) Stockpiling (net) (Manual, item 5, pp 85-86)

Represents the net movement in stocks of goods the purchases of which are not included under item 1e of Table 1 as government expenditure on goods and services for current operations.

The item covers accumulation and disposal of strategic and other materials set aside for emergency purposes, as well as accumulation and subsequent disposal of relief shipments and other supplies received as aid from abroad for the benefit of other domestic sectors (see description of item 18 of Table 1).

Receipts from sales of surplus material after a war and from other extraordinary disposals of goods, which were classified under item 1e of Table 1 when purchased by the government, should be deducted from the net increase in stocks as defined above.

### 22 Gross capital formation (trading enterprises)

Covers all expenditures on goods and services for capital formation by government trading enterprises.

#### (a) New capital goods

See definition of item 21a

(b) Existing physical assets

Purchases of land and existing physical assets other than land

(c) Net increase in stocks

The value of the net change over the accounting period in the volume of stocks of purchased goods and of goods of own production, measured on the basis of commercial accounting practices

23 Transfers to capital account of domestic sectors (Manual item 19, p 94)

Unrequited payments which the recipients would regard as paid into their capital accounts. The item covers transfers to finance the construction of residential and non-residential buildings, acquisitions of machinery and equipment, increase in stocks and public works, such as roads, irrigation and sewerage systems, payments for war damage compensation and transfer to finance lending activities by independent public (not government) and private financial enterprises

Hence item 23b covers transfers to the capital accounts of individual and non-profit institutions in their capacity as producers, and item 23c represents only transfers to the capital account of households for such purposes as compensation of losses of personal effects

24 Capital transfers to abroad (Manual, item 20 2, p 95)

Covers reparation payments, grants given to finance capital formation, grants given to help finance a deficit in the foreign transactions of the recipient country, and other grants given as part of a programme of general economic aid

25 Direct loans and advances (Manual, item 28, pp 100-101)

Money lent directly to a particular borrower in the sectors specified under sub-items a-d. The document setting out the terms and conditions of the loan should not give rise to a negotiable claim, since such claims are included in item 26

26 Purchases less sales of claims on domestic sectors (Manual, items 29-31, pp 101-102)

Covers (a) net purchases of negotiable financial claims issued by bodies within the local government sector, and (b) net purchases of equity shares or ownership rights of independent public enterprises, net purchases of types of bond bearing a fixed rate of interest issued by independent public enterprises, and net purchases of ownership rights and bonds of private enterprises. For detailed description, see Manual

27 Purchases less sales of claims on non-residents (Manual, item 32, pp 102-103)

Covers all types of claim except direct loans (included in item 25d). Included are the following categories of claim

(a) net increase in foreign reserves

Covers net increase in gold, foreign currency, foreign bank deposits and foreign currency assets held for account of the central government by government financial enterprises, such as a foreign exchange stabilization fund and a multiple exchange rate scheme. This item does not apply to countries where official reserves are treated as held by the central bank of its own account.

If multiple exchange rate schemes are not used, the net increase represents simply the net cash outgoing in domestic currency in respect of purchases and sales of foreign currency assets. Correspondingly, a net decrease can be measured by the cash inflow from the net sale of foreign exchange. If, however, a multiple exchange rate scheme is being operated, the value of the net change should be calculated by applying an average of the buying and selling exchange rates which prevailed during the accounting period to the changes in the quantity of different currencies held. If the increase valued in this way is greater than the change in terms of the net cash outgoing in domestic currency, the excess should be included as part of taxes on foreign exchange. If there is a decrease in reserves (valued in the same way), and it is less in amount than the net cash inflow, then this difference should also be classified as part of taxes on foreign exchange.

(b) changes in the net IMF position

Covers the changes of a country's initial subscription to the International Monetary Fund in gold and in its currency less the Fund's holdings of its currency.

(c) subscriptions to the International Bank for Reconstruction and Development and the International Finance Corporation

Covers subscriptions to the IBRD and the IFC less changes in IBRD and IFC holdings of a country's domestic currency.

(d) net purchases of other claims on non-residents

Purchases less sales of all claims on non-residents other than those covered by the preceding subdivisions of item 27 and by items 25d and 33d.

28 Net increase in receivables (Manual, item 33, p 104)

This item, together with item 38 - net increase in payables - reconciles the difference between the balance of transactions recorded on an accrual basis and the net change in cash. If all transactions were recorded on a cash basis, an item would not be needed. It is assumed, however, that the transactions of government trading enterprises are recorded on an accrual basis.

20 Saving before depreciation

The balancing item (item 20) carried over from table 1.

30 Sales of existing capital goods (Manual, items 11.1 and 11.2, p 90)

Sales of items that would be classified under items 21a and b and 22a and b of table 2 when purchased. Includes all sales of land whether by civilian or military authorities.

31 Transfers from capital accounts of domestic sectors (including capital taxes)  
(Manual, items 25-26, pp 89-99)

Covers compulsory or voluntary transfers from the (a) capital account of persons such as result from death duties, capital levies, confiscations and gifts and bequests of a capital nature and from (b) the capital accounts of other domestic sectors, such as contributions from local governments to the cost of road construction and other capital projects, as well as net transfers of the central bank book gains resulting from currency depreciations or appreciations

(a) death duties

Taxes on the capital estate of a deceased person, such as inheritance and estate taxes

(b) other capital taxes

Covers (i) capital levies, i e , taxes whether assessed on the capital value of part or all of a taxpayer's estate or income which are levied at irregular intervals to meet some extraordinary government expenditure or in conjunction with a monetary reform (ii) confiscations (iii) taxes on gifts inter vivos

(c) Transfers (net) of central bank currency depreciation gains

This represents the balance of incomings and outgoings resulting from (a) transfers from the central bank to the central government of book gains resulting from depreciation of domestic currency (appreciation of foreign currencies) or (b) coverage of book losses resulting from domestic currency appreciations (foreign currency depreciations)

(d) Other

This covers voluntary transfers from domestic sectors

32 Capital transfers from abroad (Manual, item 27 2, p 100)

Defined in line with item 24 above

33 Repayments of direct loans and advances from domestic sectors (Manual, item 35, p 104)

Repayment of loans and advances included under item 25 above

34 Direct borrowing (net) (Manual, items 36-38, p 105)

Money borrowed directly from a particular borrower, less amounts repaid, where the form of the borrowing is such that it does not give rise to a claim which can be sold to another sector Sub-item c, Direct borrowing (net) from private non-banking sector, includes net increases in deposits in government savings banks Direct borrowing (net) from abroad covers loans obtained from international lending agencies and from foreign governments

Table 3 ECONOMIC AND FUNCTIONAL CLASSIFICATION OF CENTRAL GOVERNMENT EXPENDITURE

Economic Classification	Current Expenditure							Capital Expenditure								TOTAL	
	Current expendi- ture on goods and services	Less outside sales a/	Net current expendi- ture on goods and services	Interest payments	Sub- sidies	Trans- fers to Income account of house- holds	Trans- fers to local govern- ment for current opera- tions	Current trans- fers to abroad	Gross capital formation		Capital transfers to			Direct loans and advances to			
Functional Classification	(C 1)	(C 8)		(C 2)	(C 3)	(C 4)	(C 5)	(C 6)	(C 21)	(C 22)	(C 23a)	(C 23b-c)	(C 24)	(C 25a)	(C 25b-c)	(C 25d)	
	1	2	3=1-2	4	5	6	7	8	9	10	11	12	13	14	15	16	17=3-16
A. <u>Economic services</u>																	
1	Agriculture and non-mineral resources																
2	Fuel and power																
3	Other mineral resources, manufacturing and construction																
4	Transport, storage and communications																
5	Other economic services																
B. <u>Social services</u>																	
6	Education																
7	Health																
8	Social security and special welfare services																
9	Other social services																
C. <u>General services</u>																	
10	General administration																
11	Defence																
12	Other general services																
D. <u>Unallocable expenditure items</u>																	
TOTAL																	

<sup>a/</sup> Sales by general government agencies and by financial enterprises as recorded under item 8 of Table 1



35 Sales less purchases of negotiable securities issued by central government agencies (Manual, items 39 and 40, p 105)

New issues and sales less redemption and purchases of negotiable securities with a maturity when issued of more than one year (long-term) or one year or less (short-term)

36 Issue of securities in exchange of ownership rights (Manual, item 41, p 105)

Issue of negotiable and non-negotiable securities as compensation for the acquisition of ownership rights (e g nationalization) less any securities cancelled in connexion with the return of enterprises to private ownership

37 Net increase in coins issued (Manual, item 42, p 106)

Face value of coins issued less face value of coins withdrawn

38 Net increase in payables (Manual, item 44, p 106)

See note to item 28 Changes in amounts deposited with a government body in suspense or other forms of account representing a central government liability to an outside body should be included here, e g receipts of sums in litigation

40 Net increase in cash (Manual, item 34, p 104)

Net increase (+) or decrease (-) in holdings of domestic currency in the form of notes, coins, and bank deposits by general government and government trading enterprises Includes cash earmarked for specific purposes, such as unspent balances of earmarked taxes and counterpart fund balances The latter should be shown separately

## Notes to Table 3

### General note

Table 3 is an example of an economic-functional cross-classification framework. Only broad functional categories are shown, and further details may, if desired, be included. It should be noted that the detailed functional classification of central government expenditure shown in table 25, pp 145-147 of the Manual was later amended at the recommendation of the Second Budget Workshop, held in Bangkok in September 1957. The amended classification is shown in Annex II.

The broad functional categories shown in the table are explained below. The economic categories shown in the stub can be easily derived from the items shown in tables 1 and 2.

#### 1 Agriculture and non-mineral resources

Expenditure for the conservation, development, and effective use of the soil, forests, livestock, fishing resources and wild-life of a country. Includes outlays for veterinary services, extension services, irrigation and drainage of land, reclamation of waste land, land settlement, reforestation, forest fire prevention, propagation and protection of fish and wild-life.

Also includes capital formation of government trading enterprises and subsidies, capital transfers, and loans to units operating in the industry in question.

#### 2 Fuel and power

Expenditure for the extraction and development of coal, petroleum and natural gas, including prospecting, surveying, map-making and other related activities, and for the production, transmission and distribution of electricity, gas, steam heat and power.

#### 3 Other mineral resources, manufacturing and construction

Expenditure in connexion with the extraction, development and distribution of mineral resources other than coal, petroleum and natural gas, expenditure for manufacturing and for facilities connected with the building and construction industry.

#### 4 Transport, storage and communications

Expenditure in connexion with facilities for transport and communications by land, sea and air, including docks, harbours, inland and coastal waterway facilities, streets and highways, bridges, terminals and airports, as well as postal, telephone, telegraph and radio facilities. Includes also expenditure for storage and warehousing.

#### 5 Other

This heading covers activities not identified under previous headings, or which cannot be allocated to the economic services shown separately in the scheme.

## Social services

### 6 Education

Expenditure for the provision, support, supervision and regulation of schools and institutions of higher learning, such as colleges, universities, and technical training institutes. Includes also adult education activities, provision of libraries and museums, and scholarships or similar grants to individuals. All educational activities are included, unless they are an integral part of some other government service, such as military schools, classified under item 11, defence, and reform schools, included under justice. Schools for the deaf, dumb and blind are considered as welfare institutions and accordingly classified under social security and special welfare services.

### 7 Health

Expenditure on facilities or services for preventing and curing human illness. Expenditure on similar facilities and services for members of the armed forces is not classified here, but included under defence. Veterinary services are shown under agriculture.

### 8 Social security and special welfare services

Social security benefits, including unemployment insurance benefits, contributions to private unemployment insurance schemes, payments of pensions to government employees, payments of non-contributory pensions and other forms of assistance to the needy not related to a social security scheme, war veteran benefits, including support payment to war veteran organizations, child care and mother care, including payment of family allowances and maternity benefits, net cost of cheap school meals, expenditure of child welfare clinics and institutions for orphans, and provision of home help for mothers, care of the aged and disabled, and the care of mentally defective people. Transfers to local governments for special welfare services and the cost of the central social security administration.

### 9 Other

Expenditure for provision, assistance or support of housing and related slum clearance activities. Includes expenditures of sewerage and refuse disposal, water supply and other sanitary services, such as inspection of food and drugs, disinfection and smoke regulation. Also includes expenditure for the state church, where applicable, or contributions to religious organizations for general assistance, as well as provision for other social services not included above.

## General services

### 10 General administration

Covers expenditure of the organs of state, such as the remuneration of members of legislative bodies, the official head of the state and their staff, expenditure of the fiscal administration (e.g. Ministry of Finance, the Central Budget Office) and of bodies concerned with the planning and supervision of general policy and development programmes (e.g. Ministry of Economic Affairs, Planning Commission and all agencies for regulating general economic activities and controlling the use of resources), expenditures of all agencies charged primarily with the formulation

and execution of foreign policy and the handling of foreign relations (e g foreign office, diplomatic and consular services) as well as expenditures for central personnel management, the collection and provision of information to the public (e g central statistical office) and general services not included elsewhere

#### 11 Defence

All expenditure directly serving defence needs and purposes Covers expenditures to keep the army, navy and air force in a state of readiness, and the running of the defence department including outlays on military buildings, construction, machinery and equipment, net expenditure on stockpiling of strategic materials, and expenditure for foreign aid clearly undertaken for defence purposes Expenditure on civil defence is also included Not included are (a) expenditure on pensions awarded for death and disability and other special aid to veterans (classified under item 8), and (b) expenditure which directly serves civilian purposes and which is not incurred as a necessary part of the cost of maintaining a self-sufficient organization for the armed forces (classified under the appropriate civil heading) If the police is used to a large extent for fighting rebels or for similar tasks which are in excess of what may normally be called police duties, it is preferable to include extraordinary police duties under this item, while leaving expenditures on normal police operations in item 12 below

#### 12 Other

Includes all expenditures related to preservation of law and order, such as for the upkeep of law courts, police forces (see notes to item 11), prisons and other places of detention and correction

This item also includes fire protection, general research and scientific services which are not linked to the provision or promotion of any particular type of service, but are of benefit to the whole community Includes expenditure for the planning and supervision of multi-purpose schemes such as for community development, flood control and irrigation, and town planning projects Also includes expenditure for the provision and upkeep of facilities such as parks, playgrounds, and athletic fields, and expenditure for the provision and upkeep of facilities such as botanical and zoological gardens, radio and television studios

#### Unallocable expenditure

This heading covers expenditure that cannot be allocated to particular services or activities as defined above Examples are interest on debt, subsidies not included elsewhere, general transfers to local government, foreign economic aid and other unallocable transfers abroad



## Appendix to Draft Questionnaire

### I General remarks on budget reclassification

In a conventional budget, the various types of expenditure are normally classified under each ministry or under subordinate administrative units, while revenue is mainly classified by type. These budgets therefore give a cross-classification by type and administrative unit as far as government expenditure is concerned. By analysing in detail the various types of income and expenditure, a different grouping may be obtained, which is more useful to the economist. This is the economic classification, in the terminology of the Manual. It is also possible, although somewhat more difficult, to group the expenditures according to the immediate purpose served. This is the functional classification of expenditures. If the two classifications are combined, an economic-functional cross-classification is obtained of government expenditure. This cross-classification shows not only which economic category a certain item of expenditure belongs to (current expenditure on goods and services, gross capital formation, interest and transfers), but also which purposes are being served by total expenditure as well as each economic category of expenditure. One of the most important aims of the present questionnaire, as far as government expenditure is concerned, is to obtain reclassified fiscal data on a uniform basis for the ECAFE countries in enough detail to make possible the construction of an economic-functional cross-classification of government expenditure. An example of a table of this type is shown in Table 3.

While an economic classification is also possible for government revenue, a functional classification of the revenue side is much more difficult to achieve and has not been attempted.

Ideally, the data should cover all government sectors, central and local government trading enterprises, and financial enterprises. If it is possible to provide figures for the whole or part of local governments such as States and municipalities, on a current and up-to-date basis, this should be done. In countries where the local government sector is important, a special effort should be made to obtain figures for it.

An attempt has been made below to explain in broad outlines how the required information may be extracted from conventional government budgets and accounts. For central government, as well as for local government, there are three main groups of government bodies whose accounts have to be analysed, namely, general government agencies, government trading enterprises, 1/ and government financial enterprises. The last two groups may or may not be composed of enterprises which have their own accounts outside the government budget. If the accounts of

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1/ Including ancillary agencies which keep their own accounts. Ancillary agencies are government bodies separately organized to supply goods and services to other government agencies, like naval dockyards, munition factories and printing establishments. Ancillary agencies which do not keep their own accounts are included with general government.



government trading enterprises are originally merged with the budget, they will have to be reconstructed for purposes of the questionnaire. Government financial enterprises, however, should be merged with general government regardless of whether or not they have their own accounts.

Normally, the reclassification of government revenue and expenditure by economic character is made first, and the functional classification of expenditure afterwards. During the economic reclassification of expenditures, however, it should always be borne in mind that an economic-functional reclassification is one of the most important aims as far as government expenditure is concerned. Although it may not always be possible to do simultaneously, both the economic and functional reclassification of expenditures, the work may be so arranged that duplication of effort is avoided as much as possible.

It is not possible in abstract terms to give indications in detail, which would apply to countries with different types of budgetary systems, of how the reclassification work should be done. Through actually doing the work, however, and following the principles laid down in the Manual, experience will be quickly gained and the best procedures found.

The accounts included in the questionnaire should not be understood as absolutely rigid forms. Thus, items of importance for a particular country which do not appear on these accounts should be added, while items which are of no importance for a country may be omitted from that country's statement.

The totals in the reclassified accounts both for general, central, and local government and for trading enterprises should be reconciled with the actual accounts and any differences should be explained. This provides a check on the reclassification and in practice it should be expected that this reconciliation may be one of the more difficult steps in the reclassification work. The task is not finished, however, until a complete reconciliation has been effected.

#### Consolidated accounts for the central government sector

Tables 1 and 2 show the items which should be included in a consolidated statement of central government transactions. The items to be consolidated may appear in the main budget, on specific accounts, such as general, special, ordinary, extraordinary, current, capital and others, or on sinking, reserve, social security, public works, trust, pension, and other funds or accounts. It is important to note that transactions of government financial enterprises, such as government savings banks and housing banks, should be consolidated with the budgets and accounts mentioned above.

Government trading enterprises and ancillary agencies which keep their own accounts are treated in a different way in the consolidation of the current account. Only their surplus or deficit is shown on this account. Table 1a shows how this surplus or deficit is derived.

Examples of government enterprises are postal and telegraph services, government-owned railways, marketing boards, government tobacco monopolies, salt monopolies, match monopolies, and liquor monopolies.

The net surplus of government trading enterprises as well as the derived surplus of ancillary agencies with their own accounts is shown in item 9 of the consolidated current account. Government trading enterprises may be classified in three groups according to the nature of the balance on their trading account. (i) Some government trading enterprises operate in direct competition with other enterprises and their surplus or deficit takes the form of a normal trading surplus or deficit. (ii) The second type of government trading enterprise consists of government monopolies which are normally operated for revenue purposes. Their surplus is treated as an indirect tax and is included under item 16 in the consolidated current account. (iii) Some government trading enterprises deliberately incur a deficit in order either to stabilize prices or to benefit a particular class of consumer. The deficit of such an enterprise may be considered either as a subsidy which will be included under item 3 of the consolidated current account, or as a direct transfer, which will be included under item 4b.

For a fuller description of the items shown on tables 1, 1a-c and 2, see the notes of the Manual referred to in connexion with each item.

#### The economic-functional reclassification

As mentioned under the heading "General remarks on budget reclassification", an economic-functional cross-classification may be one of the most important aims as far as government expenditure is concerned. Table 3 shows the items to be included in such a cross-classification scheme.

Most of the items shown on the expenditure side of tables 1 and 2 are found in the stub of table 3. Only items of expenditure, however, which are determined by political bodies and which are related in a meaningful way to specific purposes, should be included in the functional classification.

Some other items of expenditure, like interest on government debt, although they are, strictly speaking, outside the scope of the functional classification, are included under the residual category "Other and unallocable", in order to provide a comprehensive picture of the distribution of total current expenditure.

#### Main differences between the Manual and the questionnaire

Ancillary agencies<sup>1/</sup> In the Manual, ancillary agencies, that is, government agencies which, as a rule, deliver the goods and services they produce to other government agencies, are treated similarly to government trading enterprises. On the other hand, for purposes of the questionnaire, ancillary agencies should, for practical reasons, be considered part of general government unless separate enterprise accounts have been established for them.

Basis of recording transactions In the Manual, it is assumed that interest, dividends, and transactions in goods and services are recorded on an accrual basis, that is, at the time when payment is due. For purposes of the questionnaire, it is assumed that only transactions of government trading enterprises, including ancillary agencies with separate accounts, are recorded on an accrual basis, while all other government transactions are recorded on a cash basis.

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<sup>1/</sup> For definition, see Manual, pp 46-48

Imputations The Manual provides for imputations of certain transactions, such as depreciation on fixed assets, imputed cost of capital owned, and imputation of pension liabilities accruing to government employees. For purposes of the questionnaire no imputations are required, but it is assumed that estimates, such as of depreciation, are available in the accounts of government trading enterprises.

Own-account construction For general government, own-account construction, for purposes of the questionnaire, is not treated as part of expenditure for current operations, to be offset by a corresponding entry on the subsidiary account for transactions in goods and services, but is entered directly under gross capital formation together with purchases of capital goods. For government trading enterprises, however, the former treatment is maintained.

Pension and contributions to pension funds Instead of the more complicated procedure described in the Manual (see description of item 1 lb on p 82 and item 43 on p 106), it is recommended for purposes of the questionnaire that actual government contributions to pension funds or schemes be recorded under "expenditure on goods and services", and offset by a corresponding entry on the receipt side under "other transfers from income accounts of domestic sectors". Actual pension payments are shown under "transfers to income accounts of households", regardless of whether a contributory pension scheme exists or not.

## II Functional Classification of Central Government Expenditure

### Division of the classification scheme

#### A Economic services

- 1 Agriculture and non-mineral resources
  - a Administration and regulation
  - b Research
  - c Agriculture
  - d Forestry
  - e Hunting and fishing
- 2 Fuel and power
  - a Administration and regulation
  - b Research
  - c Coal-mining, petroleum and natural gas
  - d Electricity, gas, steam heat and power
- 3 Other mineral resources, manufacturing and construction
  - a Administration and regulation
  - b Research
  - c Mineral resources not classified elsewhere
  - d Manufacturing
  - e. Building and construction
- 4 Transport, storage and communications
  - a Administration and regulation
  - b Research
  - c Railways
  - d Water transport
  - e Air transport
  - f Other transport, storage and warehousing
  - g Ccmmunications
  - h Roads and waterways
- 5 Other economic services
  - a Administration and regulation
  - b Research
  - c Ccmmmerce
  - d Economic services not included elsewhere

B Social services

6 Education

- a. Administration
- b. Primary schools
- c. Secondary schools
- d. Colleges and universities
- e. Technical training institutions
- f. Adult education, libraries and museums
- g. Other

7 Health

- a. Administration
- b. Research
- c. Hospitals
- d. Medical and dental centres and clinics
- e. Individual health services
- f. National health scheme
- g. Special health programmes

8 Social security and special welfare services

- a. Administration
- b. Social security benefits
- c. War veteran benefits
- d. Child and mother care
- e. Care of aged and disabled
- f. Care of mentally defective people
- g. Other welfare institutions

9 Other social services

- a. Administration
- b. Housing
- c. Religion
- d. Water supply
- e. Sewerage and refuse disposal
- f. Other sanitary services

C General services

- 10
  - a. Organs of state
  - b. Fiscal administration
  - c. General economic regulation
  - d. Conduct of foreign affairs
  - e. Other

11 Defence

- a. Administration
- b. Armed forces
- c. Civil defence
- d. Other



12 Justice and police

- a Administration
- b Law courts
- c Police prisons
- d Prisons
- e Other places of detention and correction

13 Miscellaneous community services

- a Administration
- b Fire protection
- c General research and scientific services
- d Other community services
- e Recreation
- f Social services not included elsewhere

D Unallocable expenditure

14 Interest on general debt

15 Subsidies not included elsewhere

16 General transfers to local government

17 Foreign economic aid and other unallocable transfers to abroad

18 Other

