



PROGRAM CLASSIFICATION FOR PERFORMANCE- BASED BUDGETING: HOW TO STRUCTURE BUDGETS TO ENABLE THE USE OF EVIDENCE



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1. Introduction and Overview

This guide provides practical guidance on *program classification* – that is, on how to define programs and their constituent elements under a program budgeting system.

Program budgeting is the most widespread form of performance budgeting as applied to the government budget as a whole (Robinson 2011). The defining characteristics of program budgeting are:

- Funds are allocated in the budget to results-based “programs.” For example, the education ministry’s budget provides allocations of funds to a primary education program, a secondary education program, and a tertiary education program, while the environment ministry’s budget includes a nature conservation program and an anti-pollution program.
- “Line item” controls – limits imposed by the parliament or the ministry of finance on the amounts ministries can spend on specific types of inputs (such as office supplies, travel, and utilities) – are radically reduced, although certainly not entirely eliminated.
- Good performance information on programs is collected and used in the budget preparation process to assist budget decision makers to determine how much money is allocated to each program.

The core objective of program budgeting is improved expenditure prioritization. Expenditure prioritization means that limited government resources are allocated to the programs that deliver the greatest benefits to the community given the money spent. By providing information on the costs and benefits of alternative programs, a program-budgeting system facilitates decisions about which areas of expenditure to cut back on and which to augment, to best meet community needs. By contrast, a traditional budget in which funds are mainly allocated by line item is of limited value as a vehicle for choices about expenditure priorities.

Expenditure prioritization is not, however, the only objective of program budgeting. By making program performance a systematically important factor in decisions on ministry budget allocations, program budgeting also aims to place significant pressure on ministries to improve the effectiveness and efficiency of their existing services.

The appropriate definition of programs – and other elements of the so-called *program hierarchy* – is central to a good program budgeting system. In almost all program budgeting systems, programs are comprised of a number of “subprograms,” which are defined according to the same principles as programs themselves. In some countries, subprograms are broken down even further into sub-subprograms and even (very rarely) into even smaller elements. At the other end of the spectrum, there are certain countries where programs themselves are grouped into broad results-based categories, which we will refer to in this guide as “super-programs.” The term “program hierarchy” refers

Figure 1. French Program Classification Example (simplified)

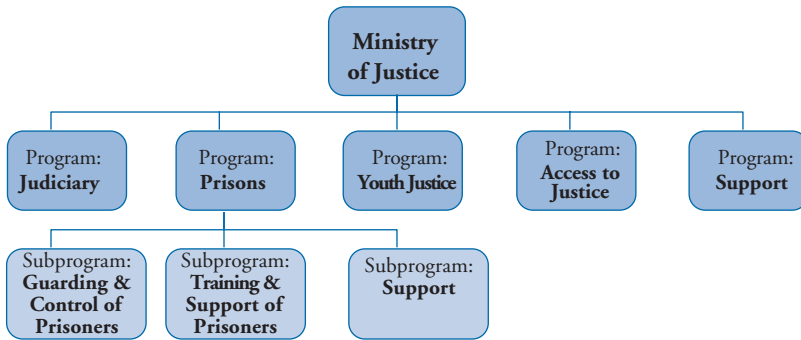
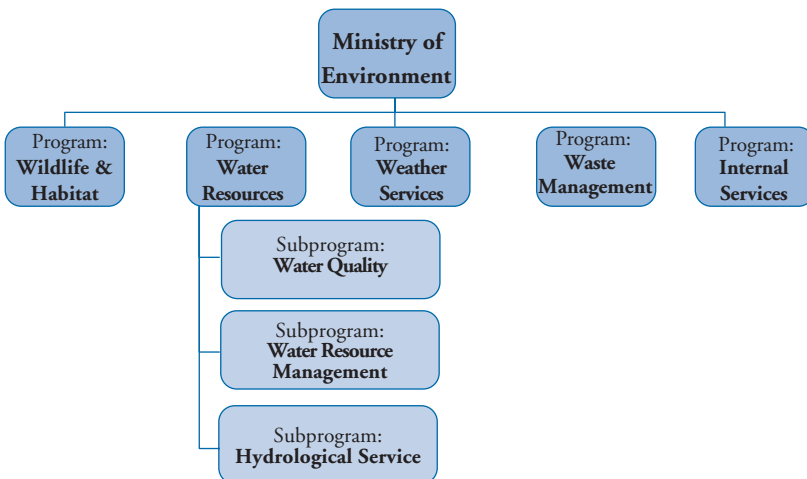


Figure 2. Canadian Program Classification Example (simplified)



to the hierarchical structure of program elements that prevails in any given country.

For ease, we assume – unless otherwise indicated – throughout this guide the existence of a simple two-level program hierarchy comprised solely of programs and subprograms. The merits of a more complicated structure hierarchy are, however, discussed toward the end of the guide.

Programs and subprogram budgets represent allocations of budgetary funding which are used for budget planning and control purposes. At the program level, budget allocations are in most countries set by parliament in the budget law. They therefore constitute legal appropriations that spending ministries must (subject to certain qualifications) legally respect. At the subprogram level, funding allocations – the amount planned to be spent on each subprogram within a program – are usually decided internally by ministries, rather than being specified in the budget law. However, these arrangements vary between countries, and the details of who controls program and subprogram allocations in a specific country's budgetary system do not affect the main point, which is that programs and subprograms are intended to be categories *in terms of which budgetary resources are managed*. This is, indeed, one of the key reasons that programs should cover *all* government expenditure, and not merely some portion of it.

Program classification is thus not merely a statistical/reporting classification of expenditure. That is, it is not a classification of expenditure that is intended to be used solely for reporting the composition of expenditure after the event. As emphasized above, programs are used for the planning and control of expenditure. This makes program classification completely different from statistical classifications like the “functional” Classification of the Functions of Government (COFOG) classification developed by the United Nations for international comparisons of expenditure composition.

Internationally, programs and their constituent elements go by many different names in different countries. Programs, for example, have been called “output classes,” “business lines,” “vote functions,” “strategic outcomes,” and a variety of other names, and a similar bewildering multiplicity of names can be observed for subprograms and (where they exist) lower levels in the program hierarchy. Sometimes, the names used are conceptually inappropriate and misleading – as, for example, in the use of the term “activity” to refer to sub-subprograms

in several countries. This terminological zoo is, however, of little or no consequence. Whatever the terminology used, the idea is broadly the same.

Although the broad idea of programs is the same throughout the world, many countries nevertheless make serious mistakes in the way they define programs. It is the objective of this guide to explain the proper way of defining programs and to explicitly identify the most common errors made, in order to assist countries to avoid these mistakes.

The most basic principle is that, to serve their intended purpose, programs should be results based, to the maximum possible extent. This means that they should be defined as groups of services delivered to external parties (“outputs”) or transfer payments which have common outcomes – “product lines” in the shorthand terminology used in this guide. By defining programs in this manner, the budget classifies expenditure in terms principally of services and the types of benefits those services are intended to generate. Basing programs on product lines makes the budget a useful tool for expenditure prioritization because prioritization is primarily about choosing how much to spend on tertiary education versus primary education, and how much to spend on preventative health interventions versus health treatments.

If program classification were simply a matter of applying the principle of results-based programs, a technical guide would need to be no longer than a couple of pages. However, in developing a program classification, it is necessary to take into account two important realities that, on one hand, influence the manner in which results-based programs are defined and, on the other hand, also force certain limited departures from the principle of results-based programs.

The first of these realities is the need to be able to accurately *account* for expenditure by program. Because programs are used to plan and control expenditure, it must be possible to monitor expenditure on a continuous basis by program so that, for example, ministries are able at any point during the financial year to know how much of a given program’s budget has been spent and how much remains to be spent. This means that the accounting system must record expenditure accurately, and in real time or frequent intervals, by program and subprogram. It is not sufficient, for example, to estimate program expenditure at the end of the year. This accounting imperative rules

out defining programs in a way that makes it impossible or impractical to accurately account for expenditure on a program basis.

The second reality is that programs cannot disregard the structure of their government, because budgets are implemented by assigning resources to organizational units to use for activities designed to produce outputs. Program budgeting does not mean that allocations of resources to programs *replace* allocations to organizational units, but rather that resources are allocated to *both* programs *and* organizational units. As explained below, in the case of certain organizational units that contribute to multiple product lines, it makes sense to assign control of resources to the organizational unit without restricting the way in which the unit allocates these resources between product lines. Where this is the case, program structure will need to diverge from the results-based principle.

Acknowledging that organizational structure requires some limited departures from the principle of results-based programs is, however, not the same as arguing that program structure should simply follow – or be “aligned” with, in the vague terminology which is often used – organizational structure. This is a proposition that this guide rejects. It does so on the grounds that:

- Forcing program structure to simply follow whatever organizational structure happens to be in place is inconsistent with the basic program budgeting objective of making budgeting as results-focused as possible.
- It is not true – as some would have it – that the need to budget in terms of both programs and organizational units requires that programs be the same as organizational units.

This guide commences by outlining the basic principle of results-based program classification. It then explains the accounting and organizational structure “realities” that must also be considered in developing a sound program classification. In the subsequent sections, the guide then discusses sequentially the key specific issues that arise in developing a program classification.

2. The Principle of Results-Based Programs

As indicated in the introductory section, the overarching principle guiding program classification is that programs should be, to the maximum degree possible, *results based*. This section elaborates the meaning of “results-based” programs.

Results-based programs are defined using the fundamental concepts of the *results chain* – also known as the *logical framework*. In this framework, *inputs* are used in carrying out *activities* in order to produce *outputs* and thereby achieve *outcomes*. Box 1 defines these concepts. (The reader may, however, find it useful to review the primer on these concepts provided in the manual *Performance-Based Budgeting*.)

Results-based programs bring together expenditures with a shared objective, the core of which is a common outcome which those expenditures are intended to achieve. Thus, for example, a *preventive health* program brings together a diverse range of outputs all of which aim at the outcome of the prevention of disease and injury. These

Box 1. Key Elements in the Results Chain

Inputs: Resources used in the carrying out of activities to produce outputs (for example labor, equipment, buildings).

Activities: Types or categories of work process undertaken in the production and delivery of outputs. Nursing and bus driving are examples of activities.

Outputs: A good or service provided by an agency to or for an external party. For example, a hospital’s outputs are patient treatments, and the public transport systems outputs are bus and train rides taken by passengers. Outputs are the “products” of government agencies.

Outcomes: Changes brought about by public interventions upon individuals, social structures, or the physical environment. A hospital’s outcomes include lives saved, and reduced air and water pollution are among the outcomes an environment agency seeks to achieve. Outcomes include what are sometimes referred to as “impacts.”

outputs might include sanitation promotion publicity campaigns; safe sex awareness campaigns; anti-diabetes television ads; antismoking pamphlets distributed in public health clinics; visits of nurses to schools to talk to children about healthy eating practices; the placement of notices warning people against swimming or washing in lakes or rivers with waterborne diseases; and the spraying of water sources that breed malaria-carrying mosquitoes.

As this indicates, programs are groups of outputs – that is, they group together a range of different types of services provided to external clients, which have a common intended outcome. For example, a *public transport* program brings together bus services, metro services, train services, and the regulation of taxi services, each of which is a different type of output. Similarly, a *vocational education* program brings together a range of vocational education outputs (formal courses, government support for apprenticeships etc) which all aim to ensure that the skilled labor requirements of the economy are met (the outcome). To be precise, results-based programs may include not only outputs, but also specific *transfer payments* made in pursuit of the program's objectives – a point we abstract from in this guide for the sake of simplicity.¹

The outputs grouped together under a program will often share not only a common outcome, but some other common characteristic such as a similar method of trying to achieve the outcome or a common client group. For example, a *school education* program has as its client group children in a specific age range.

A *results-based program* is therefore defined as *a group of different types of output and/or transfer payments that have a common intended outcome together, possibly, with other common characteristics such as a single target client group*. In this note, we also use the term *product lines* as shorthand to refer to groups of outputs which are related in this manner. This points to the analogy with the private sector, where for example a vehicle manufacturer might produce three product lines (programs) – namely, trucks, cars, and motor bikes – and within each

1. Transfer payments are payments to citizens such as social welfare benefits and industry subsidies. They are not outputs (which are services provided). However, just like outputs, transfer payments are also designed to achieve program outcomes, such as reduced poverty or the growth of an industry. Results-based programs may therefore include – or even be totally comprised of – specific types of transfer payments that are designed to achieve the program objective. Although this guide omits further reference to transfer payments, it will be clear that references to the outputs that comprise programs in most cases include transfer payments.

of these product lines would produce a number of different products (outputs). Thus, for example, the product line “cars” might cover five different models of car.

2.1 Programs and Intermediate Outcomes

In the results chain framework, a distinction is made between *intermediate outcomes* and *high-level* outcomes. Intermediate outcomes are the more direct or immediate outcomes achieved by the output, whereas the high-level outcome (sometimes referred to as the “impact”) is more like the ultimate result intended. Consider the example of school education. The most obvious direct outcome that school education aims to achieve is educated (that is, literate, numerate, and so forth) young people. However, by educating young people, government aims to achieve broader outcomes, including a more productive economy and higher living standards. “Educated young people” is therefore an intermediate outcome, whereas “economic productivity” and “higher living standards” are high-level outcomes.² Education also has other intended outcomes. It aims to directly contribute to *socializing* young people – that is, to increasing their respect for the law, the rights of others, and so forth. And to the extent that it achieves this intermediate outcome of socialized young people, it aims to contribute to the high-level outcome of a safer and more harmonious society.

The outcomes that define programs are intermediate outcomes. In other words, in saying that a program is a grouping of outputs with a “common intended outcome,” the outcome we are referring to is, in general, an intermediate outcome rather than a high-level outcome. Thus, the outcome of the school education program is appropriately defined as *educated and socialized young people*, and not as higher living standards and/or a safer and more harmonious society. This is because the more direct the outcome, the more specific it is to the program concerned. By contrast, high-level outcomes tend to be contributed to by multiple programs, and are therefore not specific to any individual program. For example, the outcomes of higher productivity and living standards are achieved not only through school education, but through a multiplicity of other government interventions in areas such

2. This distinction is, nevertheless, a matter of degree, and there is in fact a continuum of outcomes ranging from the most immediate to those that are higher level.

as support for science and technology, the provision of transport and other key infrastructure, support to particular industry sectors, and the provision of other types of education and training. It is good practice to make explicit the link between the intermediate outcome pursued by a program and the relevant high-level government-wide outcomes to which it is intended primarily to contribute. However, programs should in general be defined in terms of intermediate rather than high-level outcomes.

2.2 Results-Based Subprograms

In a program budgeting system, subprograms should also be results-based. That is, they should represent more disaggregated groupings of outputs within the program concerned. For example, a preventive health program might (purely illustratively) be broken into four subprograms: diabetes prevention, cancer screening and prevention, accident prevention, and infectious diseases prevention. Whereas a preventative health program typically brings together a large and diverse range of services and projects targeted at preventive health, subprograms bring order to this diversity by classifying the services into a number of specific types.

2.3 Results-Based versus Activity-Based Programs

It is important to distinguish clearly between a results-based program and an activity-based program. This distinction rests on the difference between outputs and activities. As noted above, an output is a good or service delivered by a ministry to an external party, whereas an activity is a particular type of work process performed in the production of an output. In a hospital, for example, anesthesia, nursing, medical records maintenance, and cleaning are activities, whereas the outputs are the complete treatments of various types that are provided to the hospital's patients. So if the hospital were to develop the program classification with a nursing "program," an anesthesia "program," and so forth, it would have developed an activity-based program classification rather than a results-based program structure. A key element of getting program classification right is to avoid the mistake of confusing activity-based programs with results-based programs.

An important part of the distinction between activities and outputs is the recognition that services that one part of a ministry provides to

another part of the same ministry – for example, when the education ministry’s human resources group recruits teachers for the primary school group – are activities rather than outputs. More specifically, they are *support services*, which cannot be considered to be outputs because they are services provided to an *internal* rather than external party.

The logic of insisting that support services are not outputs can be seen more clearly if we remind ourselves that an “output” is the equivalent of a private sector company’s “product.” In the private sector context, where products are sold to customers, the distinction between products and support services is very clear. For example, the product of a car company is, obviously, *cars*, and no one would say that services provided by, say, the car company’s human resources group were company “products.” In a government context, insisting that the focus in defining programs should be on outcomes and outputs rather than on inputs and activities means focusing on what the government is doing for citizens rather than focusing inwardly on activities for their own sake.

This means that when a government ministry includes a *support program* – that is, a “program” that covers all of the ministry’s internal support services – in its program structure, it has deviated from the principle of results-based programs in favor of an activity-based program. Notwithstanding this, is it common internationally for support programs to be included in program classifications and there are persuasive reasons to regard this practice as entirely appropriate. But this does not change the fact that a support program is not a results-based program.

Support programs are one of a strictly limited number of justifiable exceptions to the general principle that programs should be results-based. To keep these exceptions to the minimum, and to avoid unnecessary or even wholesale departures from the principle of results-based programs, it is crucial to explicitly recognize these distinctions and to be clear about why they are necessary.

The key theme of this section can be summarized in the form of a rule – indeed, the most basic rule –governing program classification:

Rule 1: Programs and subprograms should to the maximum possible extent be results-based, grouping together outputs with a common intended outcome. This principle should be departed from only in specific cases with clear justification.

2.4 Programs and Policy Priorities

Programs and subprograms are, as has already been emphasized, expenditure categories used for budget planning and control. The choice of programs and subprograms should therefore depend on the nature of the key expenditure prioritization choices facing the government concerned. For example, in a country in Sub-Saharan Africa that is faced with a serious problem of desertification, the government and parliament may wish to make an explicit decision about the level of funding that should be dedicated to attacking the problem. It would then be appropriate to include a *desertification program* within the country's program classification, whereas this would be entirely inappropriate in countries that do not face this problem. Similarly, a country that is facing a large-scale tuberculosis problem might choose to have an explicit *tuberculosis subprogram* within its preventive health program, whereas in most countries preventive measures in respect to tuberculosis would be included in the infectious diseases prevention subprogram.

Expressed differently, the choice of programs should reflect choices made by the government and parliament about the product lines in respect to which they wish to control expenditure. Analogously, and assuming (see above) that the allocation of budgets at the subprogram level is delegated to ministries, the definition of subprograms should reflect choices made by ministers and top ministry management about which of the ministry's more detailed product lines they wish to exert direct expenditure control over.

It is therefore inappropriate to define programs covering product lines that the government does not wish to exert direct control over but is happy to leave to the spending ministries concerned. Similarly, it is inappropriate to define subprograms that cover product lines that the relevant minister and top ministry management do not wish to control, but are prepared to leave to the relevant ministry directorates or subdirectorates to determine.

This suggests the following rule:

Rule 2: In countries where funds are appropriated in the budget law by program, programs should be defined only for those broad product lines that are of sufficient importance in government-wide policy priorities for the government and/or parliament to wish to determine centrally the total resourcing that will be made available to them, rather than leaving this to be determined by the budget allocation decisions of relevant ministries/agencies.

The pertinence of this rule is not affected by the fact that countries that appropriate by program typically allow ministries to undertake marginal reallocations of funding between programs (for example, up to 5 percent of program allocations) without parliamentary approval.

An obvious implication of these principles is that program classifications should to some extent vary between countries, rather than being the same everywhere. One would nevertheless expect a considerable degree of similarity in program structures in many cases. For example, the program structure of education ministries will tend to be quite similar in different countries, generally including separate primary education and secondary education programs.

3. Program Definition and Input Cost Allocation

The need to accurately account for expenditure by program and subprogram has implications for the program classification. This “reality” is the focus of this section. The essence of the section is that the following general rule should always and everywhere be followed when developing a program classification:

Rule 3: Programs should not be defined in a way that requires specific resources (inputs) – for example, specific employees or cars – to be split between several programs, unless it is feasible and practical to record the usage of these shared resources by each of the programs concerned with sufficient accuracy to produce reliable measures of expenditure by program in the accounting system.

This rule applies also to subprograms and any lower levels in the program hierarchy.

Why this caution about splitting the cost of specific inputs between programs? Essentially, it derives from the importance, under a program budgeting system, of being able to monitor and control expenditure by program during the financial year. As noted previously, this makes it essential that the accounting system record expenditure by program and subprogram on an ongoing basis.

Government budgets are to a large degree spent on the purchase of inputs, and program accounting therefore involves recording the expenditure on inputs against the program and subprogram for which the input is used. This is, at least in principle, not problematic when a specific resource is used wholly for a single subprogram and program. For example, if a particular health ministry employee works entirely on HIV/AIDS prevention, all remuneration is recorded against the infectious diseases subprogram, and therefore automatically scores as part of the expenditure on the preventative health program of which this subprogram is part.

The problem arises in respect to shared inputs. If a particular employee spends part of his time working for one subprogram and part working for another – or, in a more extreme case, shares his time

between different programs – then the only way to accurately account for the expenditure of the subprograms or programs concerned is to ensure that an accurate record is kept of the employee's time allocation, and to use this to allocate their remuneration costs between these subprograms/programs. This requires not only the maintenance of timesheets by all of the employees concerned, but also careful management monitoring to ensure that the timesheets are filled in accurately. The same applies to other shared inputs. For example, if a car is shared between a number of subprograms or programs, its costs would need to be allocated based on reliable usage records.

There is nothing conceptually difficult or unusual about the maintenance of such records of the use of shared inputs. It is frequently done in the private sector. For example, in law firms, lawyers routinely record in detail the allocation of their time between cases. However, the maintenance of such records – and in particular, management monitoring to ensure their accuracy – is time-consuming and therefore has significant costs. The costs of accurate shared cost allocation between programs vary, but can sometimes be particularly high if, for example, it is difficult for management to observe and verify how employees actually allocate their time.

Because the accurate allocation of shared inputs can be quite costly, organizations sometimes have recourse to simplifying assumptions – which may be quite arbitrary – about the way in which shared inputs are used. The assumption might, for example, be that any employee contributing to several subprograms allocates their time equally between these subprograms. Such an assumption makes the task of cost allocation an easy one. However, it has the downside that the resulting cost estimates are unreliable. In the program budgeting context, unless the accounting system produces reasonably reliable estimates of program and subprogram expenditure, the usefulness of the whole system is called into question.

If, then, programs are defined in such a way as to require significant allocation of shared input costs, the question will always arise as to whether it is justifiable to incur the costs required to accurately allocate shared costs between programs. If not, it is better to reconsider the program classification so as to avoid the cost allocation challenge.

A practical example of this problem arose several decades ago when the police ministry in a particular Australian state developed a program

classification that included a *reactive policing program* and a *proactive policing program*. The reactive policing program was intended to cover police work directly responding to crime – for example, intervening when an assault or burglary was in progress, or investigating such crimes after they were committed. The proactive policing program was intended to cover police work on crime prevention. This included police patrolling, police “walking the beat” at places and during events where their presence was likely to deter crime, and police anticrime educational work.

The practical problem to which this division between reactive and proactive policing gave rise was that the average uniformed policeman is typically engaged, during the course of any given working day, in both types of policing. For example, in the course of a daily “beat” on foot or bicycle, they would typically spend most of their time deterring crime by their presence (proactive policing) but would from time to time be required to intervene when they see a crime being committed or receive a call from the station (reactive policing). To accurately record expenditure against reactive and proactive policing programs, it was therefore necessary in principle to ensure that all officers maintain accurate records of the time spent on each of these two forms of police work. Note, again, that accuracy requires not simply that police fill in time records each day. These records have to be somehow monitored and checked by senior officers, because if this is not done, at least some policemen will find it easier to approximate – or even entirely make up – their time records.

In practice, the police ministry found that it was quite impractical to accurately record the allocation of police time between programs. After unsuccessfully attempting to do so, the ministry decided that it would take a survey of the way in which a small sample of police officers allocated their time over a three-month period and then use this as the basis for the accounting allocation of police remuneration between the two programs. What this necessarily meant, however, was that the reported expenditure on the programs was at best a rough approximation of the actual cost of the inputs devoted to each. It was therefore useless as a means of enforcing any budget planning decision about the level of resourcing to allocate to proactive versus reactive policy.

It would, under the circumstances, have been better to have avoided defining separate reactive and proactive policing programs. If, for

example, there had been a single *policing crime program*, this thorny shared cost allocation problem would not have arisen.

This example illustrates the inappropriateness of defining programs for which it is not feasible to account with reasonable accuracy. However, it should also be noted that the attempt to distinguish between the reactive and proactive work of police in the program classification probably also fails the test of desirability, which is discussed in the next two sections. In practice, the balance between the two types of work during the course of a policeman's day is arguably not something that police ministry management can or would wish to plan in advance. Rather, it depends on the actual occurrence of crimes which call for prompt reaction.

Finally, it should be noted that the "feasibility" of splitting input costs between multiple programs or subprograms does not simply refer to whether or not it is *in principle* possible to record the allocation of shared resources with reasonable accuracy. It is, rather, a question of whether it is worth the government's while to do so – in other words, whether the management benefits of having accurate cost information are considered to outweigh the costs of obtaining that information. In a low-income country, the expense involved in this type of management accounting is in general far harder to justify than in an advanced country. With a shortage not only of money, but also of trained accounting staff, low-income countries usually have more important priorities on which to spend their limited resources. This may lead to the adoption of a simplified approach to the relationship between program structure and organizational structure, which is discussed later.

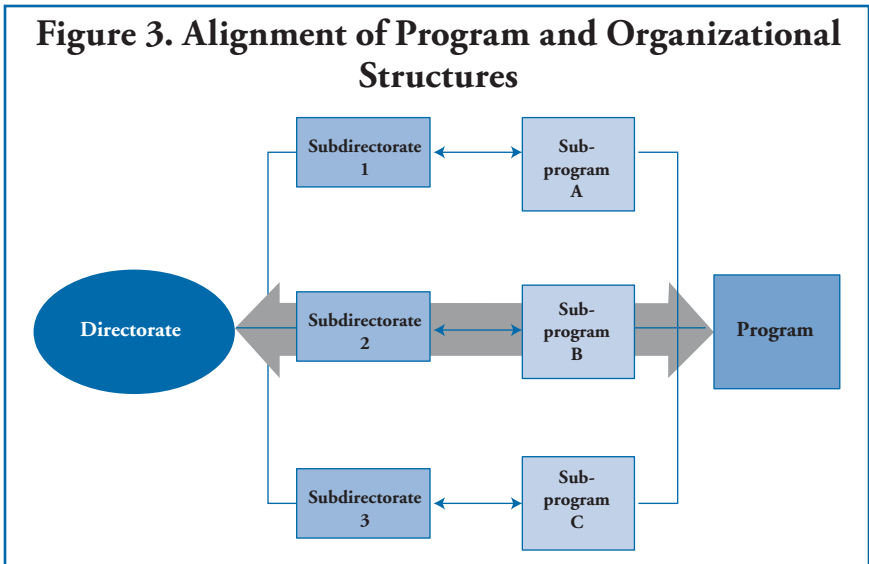
4. Programs and Organizational Structure

The question that gives rise to the most confusion and error in program classification is that of how program structure should relate to organizational structure. It is a key theme of this guide that program structure should not simply mirror organizational structure and programs should not simply be organizational units under a different name. Nevertheless, there are certain limited exceptions that should as a matter of principle be made to the principle of results-based programs in recognition of organizational structure. This part of the guide aims, first, to clearly define the nature of these exceptions and, subsequently, to explain why the proposition that program structure and organizational structure should be aligned is wrong.

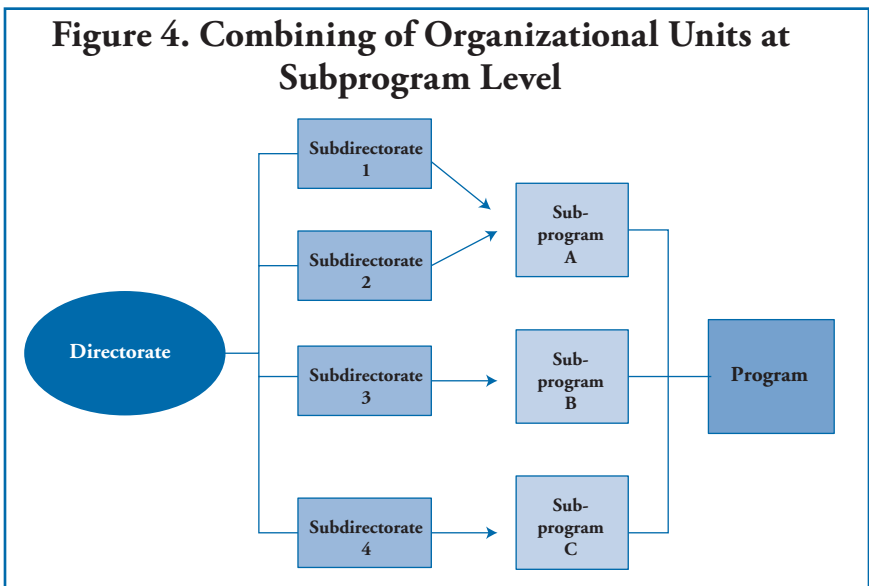
To aid the discussion, we will assume (as we will do throughout this guide) that the organizational structure of government is one in which there are a number of *ministries*, and within each ministry there are a number of *directorates* that are in turn comprised of *subdirectorates*. The proposition that program structure should be “aligned” with organizational structure means, in this context, creating a program for each directorate and, within the program, a subprogram for each subdirectorate. No directorate or subdirectorate would then ever be split between two or more programs and no subdirectorate between two or more subprograms. Each program and subprogram would also be the direct responsibility of one and only one manager (either a directorate manager, or a subdirectorate manager), thus creating very clear performance accountability. (There would, for example, be no programs that amalgamated two or more directorates, where managerial responsibility would be divided between two directorate managers.)

Alignment of program structures to organizational structures is illustrated in Figure 3. The figure shows alignment at the level of an individual directorate and program, which would apply also to all other directorates and programs within ministry.

Such alignment would result in some violations of the principle of results-based programs, because organizational structures are never completely results-based – that is, they are never organized entirely on the principle of *product lines*. In some cases, two or more directorates

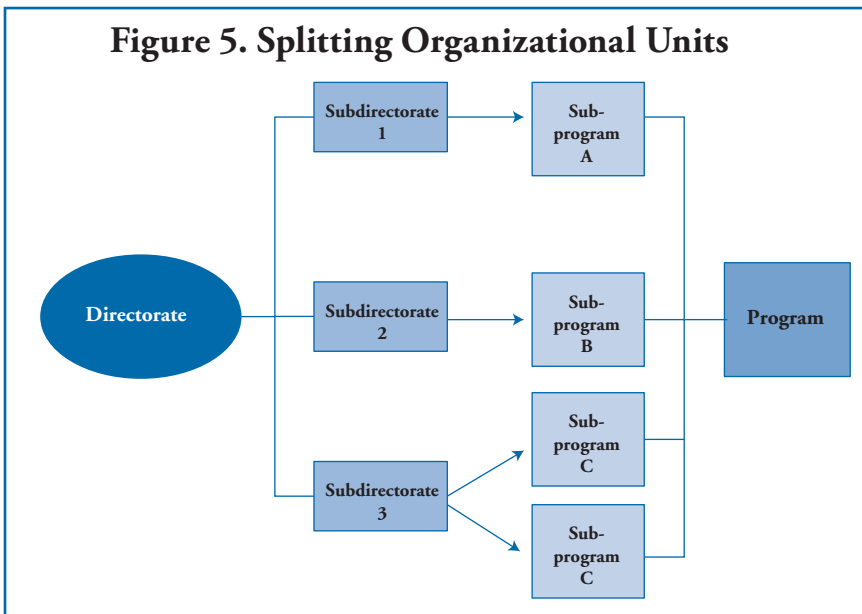


deliver the same or very similar product lines and the principle of results-based programs suggests that they should belong to the same program. The linking of two or more directorates to a single program – or two or more subdirectorates to a single subprogram – is referred to in this guide as the *combining* of organizational units. Figure 4 gives an example of such combining, at the level of subdirectorate.



Aligning programs to organizational structures does not merely violate the results-based program principle by preventing the combination of organizational units, where appropriate, into single programs or subprograms. It also prevents the *splitting* of organizational units between programs or subprograms. Yet it is not uncommon to find a single directorate or subdirectorate that delivers or supports the delivery of two or more product lines that are so different that they should, if the principle is faithfully observed, belong to different programs or subprograms. The principle of results-based programs suggests that, in these cases, the organizational unit concerned should be split, as illustrated in Figure 5.

This guide rejects the view, implicit in the “alignment” thesis, that the principle of results-based programs should always come second to the cause of fitting programs to organizational structure. The view taken here is that, where required to preserve the coherence and results orientation of programs, it is entirely appropriate to combine several directorates into a single program (or several subdirectorates into a single subprogram). In addition, there is nothing necessarily wrong in splitting a subdirectorate (or directorate) that contributes to several product lines between two or more subprograms or programs.



The combination of several directorates raises questions of management and performance accountability, which are discussed later in this guide. With respect to splitting, the proposition that there is nothing in principle wrong with splitting subdirectorates or directorates that contribute to several different product lines between subprograms or programs does not mean that such splitting is *always* desirable. There are, in fact, specific limited circumstances where splitting organizational units between several subprograms or programs is inappropriate as a matter of principle. In these limited circumstances, deviations from the principle of results-based programs are justifiable. Sections 4.1–4.4 detail the circumstances under which splitting is inappropriate.

4.1 Splitting Organizational Units between Programs

The circumstances where it is inappropriate to split organizational units between programs or subprograms are captured in the following general rule:

Rule 4: Organizational units should not be split between programs if:

- Neither government nor ministry management wish to plan and control the way in which the organizational unit directs its resources between the programs concerned, and/or
- It is not feasible to accurately allocate record the organizational unit's resource utilization by program in the accounting system.

The rule applies not only to programs, but also to subprograms and to any lower levels in the program hierarchy.

As noted previously, the adoption of a program budgeting system in no way changes the fact that, as in any budgeting system, resources are assigned to, and their use controlled by, organizational units. Ministries are given budget allocations to spend, and each ministry in turn assigns control and management of its available resources to internal organizational units. The fact that, under a program budgeting system, the budget law passed by the parliament will typically allocate funding to programs and not to ministries' internal organizational units is irrelevant in this context – ministries still need to allocate funding to their organizational units.

In a program budgeting system, the way in which organizational units use the resources under their control must therefore be consistent with

the allocation of the budget between programs. To ensure this, *program budgets must clearly map to the allocation of resources to organizational units, and vice versa*. This means, first, that it must be clear what portion of each program's budget is directed to each of the organizational units that will implement that program. Second, each organizational unit must know how much of the cost of the resources it manages is covered by each of the programs that finance it. The requirement of clear mapping between program budgets and organizational unit resources applies not only to programs, but also to subprograms.³

In this context, it has to be clearly understood that to split an organizational unit's resources between several programs (or subprograms) is to instruct the organizational unit that it must manage and control the use of the resources it controls so as to respect the program-specific allocations. Suppose, for example, that a specific organizational unit manages resources with a budget cost of \$3 million, and that it is told that \$2 million of that funding comes from program A and the other \$1 million from program B. This is equivalent to instructing it to ensure that two-thirds of its resources are used to deliver program A, and the other third to deliver program B. In other words, rather than being given a single pool of resources to use, it is being given two separate pools of resources for the two programs.

It immediately follows that it is only *desirable* to split an organizational unit between several programs (or subprograms) if and when the government or top ministry management wants to control the way the unit allocates its resources between the programs (or subprograms) concerned. Assume, for example, that the health ministry has an infectious diseases directorate and, within that directorate, an insect-borne diseases subdirectorate that has responsibility for the preventative programs to fight malaria, yellow fever, and other insect-borne diseases such as dengue fever. If this is the case, a simple and straightforward approach to program classification – which is entirely consistent with the principle of results-based programs – is to create an insect-borne diseases subprogram that maps directly to the subdirectorate. One would only wish to create a separate malaria subprogram if the minister and top ministry management wished to control the level of resourcing that the subdirectorate applies to malaria prevention as opposed to its other responsibilities.

3. And, if they exist, to any lower levels in the program hierarchy – for example, sub-subprograms.

Even if top management would like to control the level of resources applied specifically to fighting malaria, it can only actually do so if the ministry accountants are able to monitor the actual allocation of resources between malaria and other diseases by the insect-borne diseases subdirectorate. Whether this is practical largely relates to whether, as discussed in the previous section, shared resources are used. For example, do a significant number of the staff of the insect-borne diseases subdirectorate work on both malaria prevention and, say, yellow fever prevention? If so, then the practicality of accurate cost allocation will need to be considered before deciding to create a separate malaria subprogram. In an advanced country with substantial money and skilled accounting resources to devote to this task, such cost allocation may be quite feasible. In a developing country, this is much less likely to be the case.

The general principle, therefore, is that one should avoid splitting between several programs (or subprograms) any organizational units that deliver, or contribute to, several different product lines if it is not considered desirable to tell the organizational unit how to allocate its resources between those product lines and/or it is not feasible to allocate the organizational unit's costs between the product lines concerned.

In the case of the insect-borne diseases subdirectorate, if it is considered undesirable or impractical to split malaria prevention into a separate subprogram, no problem is created for the principle of results-based programs. The malaria prevention "product line" is so closely related to the yellow fever prevention "product line" that a single insect-borne diseases subprogram that includes them both in no way violates the principle of results-based programs.

The situation is different with respect to organizational units that contribute to several *distinctly different* product lines, and that should therefore – if the principle of results-based programs is to be completely respected – be split between several programs. The two most common examples of this are:

- Ministry-wide internal support service units – such as human resources management, information technology, and finances. These units are not based on products lines, because "product" lines refer to types of outputs (that is, services to external clients). Support services are instead activities that support the delivery of all of the various types of outputs delivered by the ministry.

- One-stop-shops – ministry client service centers, often regionally based, that deliver a diverse range of the ministry’s product lines at the same location.

Some people suggest that it is essential that the costs of these types of organizational units be split between the results-based programs they support. For example, in an education ministry with a primary education program, a secondary education program, and a tertiary education program, expenditure on ministry-wide support services would be allocated between these three programs according to the use made by each program of those services. Similarly, the costs of a local government regional customer service center (a type of one-stop-shop) would be allocated between town planning services, water/sewage issues, and the other key product lines of local government. The argument that is usually presented to justify this is that it is essential that programs cover the “full cost” of producing the outputs they cover.

However, splitting support services or one-stop-shops between the multiple product lines they support *in the budget* could only be justified if the government or top ministry management wished to plan and control the way these units allocate their resources between product lines. This may not, however, be the case. Rather, the preference may be that the organizational unit concerned should be able to respond flexibly during the year by allocating staff time to where it is most needed. If this is the case, then it is not *desirable* to split such services between product lines. This question of the desirability of splitting support service costs is a quite distinct issue from the question of whether it is *feasible* in accounting terms to do so, given a particular country’s capacity level.

It is these considerations that lead to the widespread creation under program budgeting systems of artificial “programs” – such as support services programs, or regional services programs – to cover these types of organizational units even though this is a breach of the principle of “results-based” programs. These constitute justifiable, but strictly limited, exceptions to the results-based programs rule. The existence of such exceptions should not, however, be regarded as opening the door to the wholesale distortion of the program structure to fit whatever organizational structure may exist irrespective of how far removed that organizational structure may be from rational organizational principles and a results focus. We therefore discuss these exceptions in detail before critically examining the often-heard proposition that

program structure should as a matter of principle be “aligned” with organizational structure.

4.2 Support Services and Programs

Support programs – also known by other names, including administration programs and corporate services programs – are very common within program budgeting systems.

4.2.1 *What Is a Support Services Program?*

Support programs group together a ministry’s internal support services and corporate overheads such as human resource management, information technology and communications support, internal financial management, and top ministry-wide management. They also cover all support services and supplies that are managed as a ministry-wide pool, the allocation of which between directorates is left flexible to be determined on an “as needs” basis during the year. The support program would include, for example:

- A ministry-wide training budget
- Office supplies if they are purchased and managed as a ministry-wide stock available to individual directorates during the year as needed
- A ministry-wide fleet of chauffeured cars, available to be used by all when required.

Support programs can sometimes also cover support services which support some, but not all, of the ministry’s programs. Consider a Ministry of Environment with three programs – environment protection, protection of wildlife, and forest management. Suppose that the ministry operates a laboratory/testing center that provides services to the environment protection program and also to the protection of wildlife program, but not to the forest management program. Notwithstanding that the laboratory’s support services are not provided to *all* the ministry’s programs, it would still be included within the support program.

Unlike other programs, support programs are not results-based programs. They are not, in other words, groups of outputs with a

common outcome. As previously explained, outputs are defined strictly as services provided by the ministry to *external clients*, whereas support services are services provided to *internal clients* within the ministry. For the same reason, support programs do not in general have program-specific outcomes. Instead, they contribute indirectly to achieving the outcomes of several or all of the other results-based programs of the ministry to which they provide support. Thus, for example, within the Ministry of Police, it is the “main” programs such as criminal policing that produce outcomes for the community such as lower crime rates. The services provided by the Police Ministry’s support services do not in themselves lead to lower crime rates or other police outcomes, but instead support the rest of the ministry in achieving this.

4.2.2 *Why Support Programs?*

The alternative to having a support program is to include budget funding for internal support services as part of the funding for the results-based programs for which they provide support. Thus, for example, the environment protection program of the Ministry of Environment would include its share of the Ministry’s human resources management budget, information technology budget, and so forth – as would the protection of the wildlife and the forestry management programs.

Including support service expenditure within the results-based programs they support would, obviously, create the need for cost allocation. It would become necessary, for example, to record how much of their time the human resource management staff of the Ministry of Environment allocate to filling job vacancies and providing other services for the environment protection program versus the other two programs. Information technology support staff would, similarly, need to keep accurate records of how much time they spend in providing assistance to staff in each of the three program areas. As discussed previously, ensuring the accuracy of such cost allocation records is not a trivial matter, and it may be beyond the capacity of many low-income countries. In the case of advanced countries, however, indirect cost allocation is generally possible if the government decides it is worth doing.

Some analysts regard the avoidance of indirect cost allocation as the only consideration potentially justifying the creation of support programs. On this basis, they readily accept that it is reasonable for low-income countries to create support programs, but hold that “best practice” – for

advanced countries with the technical and financial capacity to do so – is to eliminate support programs and to fully allocate all support service costs to results-based programs. From this point of view, support programs are seen as purely a stage in the evolution of a program budgeting system from its most simple form to a fully elaborated form.

However, this perspective misses an important consideration: namely, that for many support services, neither the government nor top ministry management wishes to decide in advance and control the way in which resources are allocated between the results-based programs they support. It is crucial, once again, to keep in mind that program budgeting is a system of *budgeting* by program, in which budgets are allocated to programs and the ministries and ministry organizational units that receive those program budgets are expected to stick to them. As previously emphasized, program budgets are not simply accounting measures of the cost of producing specific product lines. Thus, when the parliament approves a program budget, it is telling ministries that they are to spend no more than \$x on program A, \$y on program B, and so on. This means that if the expenditure of the ministry's support services is included in the \$x for program A, and the \$y for program B, the government is in effect instructing the ministry about the extent of the support the ministry's support services should provide to each of programs A and B.

Suppose, for example, the education ministry has only two programs – primary and secondary education – and no support program. Imagine, moreover, that the ministry's organizational structure consists of a primary school department and a secondary school department – each of which is budgeted internally by the ministry to receive 40 percent of the ministry's overall budget – and a support services department that is budgeted internally to receive 20 percent of the ministry's budget. Suppose further that it is estimated at the time the budget is prepared that the support services department will provide equal levels of support to each of the two main departments. Suppose then that, reflecting this, the *program* budget approved by parliament allocates one-half of the ministry's budget to each of the primary and secondary education programs, in each case including that program's share of expenditure on support services.

To ensure that neither program outspends its expenditure authorization, the education ministry will then need to make sure that the support services department does not devote substantially more than one-half of

its resources to supporting either of the two ministry programs. Herein lies the problem. Why would the political leadership or the ministry of finance wish to dictate the way in which education ministry support services allocate their efforts between supporting primary and secondary education during the year? If, for example, unexpected events mean that the primary school program has a greater than anticipated requirement for the support of the human resources group in staff recruitment during the year, shouldn't the ministry be left with the flexibility to shift the disposition of its support services accordingly?

If one believes that ministries should retain the flexibility to allocate support services to where they are needed during the year, then it makes sense *in principle* to have a support program, even if accounting cost allocation between the programs does not present an insuperable problem. The support program should include all those ministry support services which are generic and which can be flexibly reallocated during the year from supporting one output-based program to another to meet shifting support requirements.

Under program budgeting, programs cannot be expected to budget for, or be held accountable for, expenditure from common pools the allocation of which they do not control. They can only realistically be held accountable for the budgeting and use of support services that are theirs alone and over which they therefore have control.

These considerations point to the following rule:

Rule 5: Ministries should establish support programs that include support services and other corporate overheads where:

- It is desirable to maintain flexibility in the deployment of these support services between the support of the ministry's various results-based programs during the year, and/or when
- It is not feasible – that is, not regarded as possible at reasonable cost – to accurately allocate the support services costs between results-based programs in the accounting system.

It follows from this that only program support services that need to have flexibility in the way in which they allocate their assistance between “product lines” during budget execution should necessarily

have their expenditure allocated to the support program, and other multiprograms organizational units should – where the country is technical capable of doing this – have their expenditure allocated between the programs concerned.

Another implication is that support programs should only cover expenditure on support services which are ministry-wide or at least support several programs. Any support services expenditure that is focused on only one program should be included within that program. If within, say, the primary school education directorate of the Ministry of Education there was a small group of human resources professionals providing support services exclusively to the primary schools, they should be counted as part of the primary school education program, rather than included within the ministry-wide support program. Any expenditure directed toward support services that support one and only one program should be included within that program, and not within the support program. Similarly:

- If there is an aviation program run by the Aviation Directorate of the Department of Transport, and that Directorate plans next year to hire trainers to provide aviation-specific training to its staff members, this should be included in the budget of the aviation program.
- If the customs service within the Ministry of Finance, which operates separately and at a separate headquarters, has its own office supplies and its own car fleet, these should be included in the customs program rather than in the Ministry's support program.

The treatment of support costs therefore depends on whether they are considered at the time they are budgeted for as common resources or as earmarked program-specific resources. If they are common resources, they are part of the support program. If they are program-specific resources, they are part of the relevant program.

Another implication of the above is that, in small ministries with a single results-based program, there is no need for a support program. For example, an anticorruption commission might quite appropriately have only one program – an “anticorruption” program. Given that all of the commission's support services support this single program, no problems arise in relation to the feasibility or desirability of allocating these costs between several programs.

Rule 5 above should therefore be qualified as follows:

Rule 6: Ministries with a single results-based program do not need support programs.

There should, in general, be a single support program grouping together all of the standard support services found in all ministries. Support programs do not help central budget decision makers in making decisions about priorities in respect to the types of services to be offered to the public. There is therefore no advantage in fragmenting the support program into, say, an information technology and communications support program, a financial management program, and the like.

4.2.3 Support Subprograms

Within each program, there will always be some – usually much more limited – support services that are program-wide, or that at least cover more than one subprogram. The most obvious of these is directoratewide management in a program that corresponds to one directorate. In principle, therefore, the arguments presented above in relation to support *programs* also seem to justify creating *support subprograms* within each program. Some countries do precisely this.

Other countries, however, avoid support subprograms and instead employ an approximate solution – such as including such program overheads within the largest subprogram. This is quite reasonable where, as is usually the case, the support services expenditure concerned is quite small relative to the program's expenditure as a whole (in particular, where most of the support services such as human resources, information technology, and so forth are provided by the ministry as a whole, rather than at the program level). However, in cases where there are relatively large program-level support services or other overheads, a support subprogram should be used. Essentially, it is a question of what the accountants call the “materiality” of the expenditure concerned.

4.2.4 Allocation of Support Costs for Information Purposes

As noted above, a key argument for the allocation of indirect costs is the desirability of knowing the “full” costs of outputs. It is important to

emphasize that such cost allocation can be carried out even if support programs are in place. In other words, there is nothing to stop ministry accountants undertaking, at the end of the financial year, a management costing exercise to allocate the costs of the support program to the various results-based programs of the ministry. If the ministry does this, it is a pure reporting/management information exercise and has nothing to do with budgetary control over how the support services allocate their efforts during the year between the results-based programs they support.

This is exactly what the French government does. Even though France carries out the accounting allocation of support service expenditure between results-based programs for management information purposes, it nevertheless makes use of support programs.

4.2.5 Countries without Support Programs

There are a few countries that have program budgeting systems but that do not use support programs. Australia is one prominent example. How do such countries fit into the analysis presented above?

A key feature of the Australian system is that, by contrast to predominant international practice, Parliament does not determine the budgets of programs. Rather, the annual budget passed by Parliament allocates global amounts to ministries, and the program allocations shown in the budget papers placed before the Parliament are there only for information purposes. Ministries and the executive government have full authority to vary the allocation of the budget by program in whatever way they wish. This type of arrangement means that the inflexibility in the use of support services which would otherwise arise – if programs were legal appropriation categories – is avoided. In other words, the inclusion of support services costs within results-based programs does not mean that it is necessary to go back to the Parliament and ask it to amend the annual budget in order to permit any significant shift of support service resources between results-based programs.

Even so, it is not clear how useful the Australian practice is. Comparing reported with budgeted expenditure at the program level in Australia does not show the extent of variance that would be expected from the flexible use of support services during the year. The strong suspicion arises, therefore, that the accounting allocation of support services between results-based programs may not be accurate.

More generally, irrespective of whether the Parliament sets appropriations at the program level or not, the intention of the program budgeting system is that programs are budgeting categories and not merely accounting categories. Australian practice is not fully consistent with this objective.

4.3 Case Study: Education Inspection Services

In quite a few countries, education ministries have Inspectorate Directorates, which group together inspectors (usually experienced former senior teachers) who carry out on-the-spot monitoring of the classroom performance of practicing teachers. Some countries reflect this in their education ministry program classifications by creating a specific program covering inspection, often referred to as the *education quality* program. Clearly, however, such a program is not results based. Inspection is not an output, but rather a support service the role of which is to support the delivery of the actual output (students taught). Is it, then, appropriate to have such an education quality program, or should the inspection activity be incorporated within the relevant results-based education ministry programs? That is, should some of the expenditure upon inspection be included within the primary education program, and some within the secondary education program?

The analysis above suggests that the answer depends on the way in which the inspection activity is managed. If, within the Inspectorate Directorate, there are separate subdirectorates respectively covering primary schools and secondary schools – so that individual inspectors specialize in inspecting one type of school – then best practice is to incorporate those subdirectorates within the primary school program and secondary school program respectively.⁴ However, if the same inspectors inspect both types of schools, this will probably not be an appropriate solution. In this latter case, the question that arises is whether to create a specific program (like the so-called education quality program) for the inspection activity, or whether to simply incorporate it within the support services program of the ministry. There is much to be said for the latter solution, which minimizes the number of ministry programs that are not results-based. The design of

4. Senior management of the Inspectorate Directorate in any other (relatively limited) directorate-wide expenditure might then be included within the ministry-wide support program.

a ministry program structure is not simply an exercise in bolstering the self-importance of directorates by giving them their “own” programs.

4.4 One-Stop-Shops

A challenge that sometimes arises in developing a program classification is how to treat one-stop shops. A one-stop-shop is a client service center that provides all, or a diverse range, of the ministry’s services to the public in one convenient location. Often these are placed in regional centers for ease of client access. For example, a local government may operate regional one-stop-shops where citizens may come to request assistance with building approvals, waste and sewage management problem problems, road repair and maintenance issues, and any of the other range of matters that are the responsibility of local government.

A one-stop-shop is an organizational unit that is, by definition, not founded on the product line principle. Rather, its defining principle is geographic, and it delivers a diverse range of product lines. It is therefore not possible to assign a one-stop-shop to a single results-based program. In the local government case, for example, results-based programs might include a building and urban planning program, a road network program, a water program, and so on, and it is immediately obvious that the one-stop-shop fits into none of these.

The appropriate method of dealing with one-stop-shops depends first on whether these centers are using shared resources to deliver multiple product lines or whether, alternatively, they are using specialized resources. If, in the local government one-stop-shop, the same client service staff handle the full range of enquiries on diverse topics – perhaps referring the more complex cases to headquarters staff – then it will probably be undesirable to allocate their time and costs between the relevant results-based programs. Indeed, the amount of time they spend on each product line will depend upon client demand, and will not be something that management directly controls. Under these types of circumstances, it is appropriate to diverge from the principle of results-based programs and create a specific program for the one-stop-shop(s) or, alternatively, include them within the ministry-wide support program.

If, however, the one-stop-shop/regional center is structured around specialized client service staff who each deal with only one product line, then the matter is different. Imagine, for example, a regional office

of the agriculture ministry that provides agricultural extension advice (technical advice to farmers), veterinary monitoring and response services (in relation to animal disease outbreaks), and several other distinct services, each of which is provided exclusively by specialized technical staff. Thus, for example, veterinary monitoring and response services are provided only by the trained veterinarian who is part of the regional center's staff, and agricultural extension services only by designated agricultural extension officers. If this is the case, best practice would be to largely split the regional centre between the relevant results-based programs of the ministry so that, for example, the salaries of the agricultural extension offices would be attributed to the agriculture program. (This would leave some regional office overheads, which would appropriately be included within the ministry's support program).

This may be unduly complex for some countries, and they may therefore choose even in these circumstances to opt for the simpler solution of a specific regional services program or inclusion within the ministry support program. However, the fact that certain countries may adopt this approach for pragmatic reasons should not be taken as providing justification for a pseudo-principle that program structure should in the case of one-stop-shops/regional service centers *necessarily* follow organizational structure.

4.5 Should Programs Be Aligned to Organizational Structure?

The previous sections have argued for the appropriateness of limited exceptions to the principle of results-based programs in the interests of avoiding splitting certain organizational units between programs or subprograms. This is very different from the "alignment" proposition that program structure should *always* be made to follow organizational structure.

Proponents of the alignment proposition put forward three claims in defense of their stance:

- Organizational structure and product lines are very different, so that basing program structure wholly or primarily on results would lead to programs that diverge greatly from the organizational structure.
- It is not possible to budget both by organization structure and by program if these are significantly different.

- The alignment of programs with organizational structures is essential in the interest of clear managerial accountability for performance.

In this spirit, Schick (2007) asserts that programs and organizational structures are “fundamentally antagonistic bases for structuring budget allocations” and that budgeting by results-based programs “fails because it cannot dislodge organizations as the basic decision units in budgeting.”⁵

On the first point, it is important not to exaggerate the scale of the conflict between organizational structure and results-based classification. It is certainly true that organizational structure will always and everywhere diverge to some extent from a purely results-based program classification of expenditure. Nevertheless, the degree of overlap between the two is normally high. Organizational structures are usually to quite a significant extent based on categories of services delivered to the public or other external parties, and therefore typically correspond to quite a high degree to results-based programs. A typical example of this is an education ministry within which there will typically be separate directorates covering primary, secondary and tertiary education, which will map naturally to primary, secondary and tertiary education programs. Similarly, within an environmental ministry, there would usually be separate directorates for nature conservation and pollution control, and these again would correspond directly to programs.

On the second point, it is clearly untrue that, where program structure diverges from organization structure, it is not possible to budget – that is, control resource allocation – by both. Combining several directorates into one program, for example, raises absolutely no budget execution problems so long as each directorate’s share of the program’s budget is clearly specified. Nor is there a problem in splitting an organizational unit’s budget between several programs or subprograms, as long as the rules set out in the preceding sections are respected. It is in fact standard, even in developing countries, for certain of the resources controlled by directorates or subdirectorates to be “ring-fenced” for specific projects.

5. For a critique of Schick’s position, see Robinson (2013).

Obviously this is most common in relation to capital projects, but ring-fenced current projects are also very common. For example, the preventative health directorate of the ministry of health in a developing country may need to ring-fence a specific donor-funded project relating to a specific AIDS prevention intervention. Under these circumstances, it is necessary for the directorate or subdirectorate to control and reliably account for expenditure on the specific projects concerned, and to distinguish this expenditure from its other resource utilization. Splitting an organizational unit's resources between several programs or subprograms involved is in no way different from such ring-fencing of funding for specific projects – assuming, once again, that one avoids such splits in the specific circumstances outlined in this guide.

On the third point, it is clearly beneficial to have unified managerial responsibility and accountability for programs. However, it does not follow from this that program structure should be made to fit organizational structure no matter how badly designed the latter might be. It is commonplace in government for responsibility for the same product line to be inappropriately split between several organizational units either as a result of mandate creep (that is, units becoming inappropriate involved in areas which are the responsibility of others) or as a result of the pressure to create additional senior management jobs to accommodate the ambitious or politically connected. Under these circumstances, it is surely better to reform organizational structure to bring it closer to the product line principle than to distort program structure to make it fit the haphazard organizational structures which have arisen over time.

In many cases, divergences of organizational structure from product lines are unjustifiable and, where this is the case, program budgeting encourages – and should be seen as linked to – organizational restructuring. Chevauchez (2007) makes the point that in France, precisely this type of organizational restructuring has been a key by-product of the performance budgeting system adopted by Parliament in 2001. Ideally, such organizational restructuring should accompany the introduction of a program classification. In practice, this is rarely possible and it is better to introduce a sound program structure and aim to subsequently reform organizational structures.

Reform of organizational structures to bring them closer to results-based program structures is particularly important in the case under traditional,

inward-looking civil service systems. Rational organizational restructuring consistent with a client-orientation should not only include the integration of separate organizational units that deliver closely related products. It should also often (but not always) include the elimination of organizational structures based on types of activity (that is, professional competences/types of work process, such as engineering) rather than products. An example of this is a public works ministry that is structured organizationally around design, construction, and maintenance departments rather than around product line departments (such as a transport infrastructure department and a public buildings department).

This implies that one must accept that there will be some programs and subprograms for which no single organizational unit manager has responsibility. Expressed differently, maintaining the principle that programs should to the maximum possible degree be results-based means accepting that programs are not intrinsically *management* structures. One response to this – seen, for example, in France – is to appoint for each program a program manager who, when program structure and organizational structure diverge, will not be an organizational unit manager with hierarchical control over the whole program. This involves a type of matrix management structure under which these program managers have specific cross-cutting authority and powers over organizational units managed by others. However, not all countries with program budgeting systems have such arrangements.

4.6 A Simplified Relationship between Organizational Units and Programs?

Although the above discussion makes it clear that there is nothing wrong in principle with splitting organizational units between several programs or subprograms, to do so obviously increases the pressure on the accounting system because of the cost allocation work that it entails. In the case of developing countries with very limited financial resources and limited management accounting capacity – or countries that simply want to keep their performance budgeting system as simple as possible – the pragmatic decision is often made to avoid these complexities by opting for a simplified relationship between organizational structure and programs. This section explains how this works, while emphasizing that even under this simplified approach the program structure need not simply mirror the organizational structure.

Let's return for a moment to the example of the insect-borne diseases subdirectorates and the decision about whether to split the subdirectorates into several subprograms (including a malaria subprogram and one or more other subprograms) or whether, alternatively, to stick with a single insect-borne diseases subprogram. Countries that wish to minimize the cost allocation task simply rule out, as a matter of policy, this type of split by insisting that there be a single insect-borne diseases subprogram.

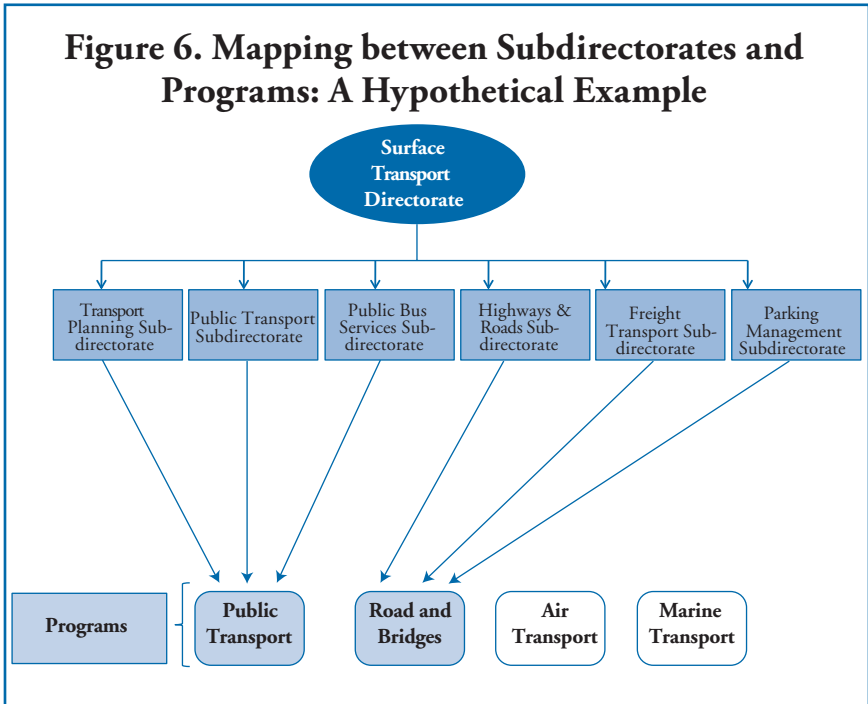
More generally – while continuing to assume a three-level organizational structure, in which ministries are composed of directorates and directorates in turn are composed of subdirectorates – the need to split the cost of organizational unit resources between programs and subprograms can be minimized by requiring that every subdirectorate is assigned to one and only one subprogram. This automatically means that each subdirectorate is assigned to one and only one program. If this is the case, then although directorates may map to several subprograms and even, in some instances, to more than one program, costing programs and subprograms will primarily be a matter of aggregating the costs of the subdirectorates which comprise them. In other words, once the accounting system has recorded expenditure by organizational unit, expenditure by subprogram and program follows automatically without any additional cost allocation work.⁶

This direct mapping of subdirectorates to subprograms and programs was illustrated abstractly in Figure 3. Figure 6 gives a concrete example of such a precise mapping between subdirectorates and programs in a hypothetical ministry of transport.

To ensure that subdirectorates never map to more than one subprogram, it will be necessary in some cases to deal with organizational units that deliver diverse product lines by additional departures from the principle of results-based programs and creating pseudo-“subprograms” and “programs” based on the organizational unit. In other words, this simplified approach will require additional compromises of the principle of results-based programs, over and above those such as the creation of support programs. However, it is

6. This simplifies the matter slightly, for expositional purposes, because some resources are controlled at the directorate-wide or ministry-wide level without ever being allocated to subdirectorates. Such resources will still need to be allocated to programs, although in many cases this will involve – and be greatly facilitated by – their allocation to support services programs and subprograms.

Figure 6. Mapping between Subdirectorates and Programs: A Hypothetical Example



possible in appropriate cases to avoid this by through organizational restructuring to split a multiproduct line organizational unit into two or more units associated with specific product lines.

This approach does not, importantly, rule out the combination of several directorates into a single program, and therefore does not constitute a full “alignment” of program structure and organizational structure. Even under the circumstances facing developing countries, there remains a compelling argument for combining directorates which deliver the same, or very similar, product lines into a single program.

This points to the following rule:

Rule 7: In countries that wish to keep the program budgeting system as simple as possible, it may be pragmatically acceptable to define program structures (and, where appropriate, modify organizational structures) so as to ensure that every “elemental” organizational unit is associated with one and only one subprogram and program.

“Elemental” organizational units means units at the lowest level of the organizational hierarchy, from which higher level organizational units are composed – subdirectorates in the case of a three-level organizational structure. Obviously, the above rule is formulated on the assumption of a two-level program hierarchy, in which subprograms are the “elemental” program units.

4.7 Ministry Boundaries and Programs

In most countries with program budgeting systems, programs do not cross ministry boundaries. Not only are all programs confined to specific ministries but with few exceptions (support programs being the most obvious), programs have distinctive names which mark them off from the programs of other ministries. This reflects, in part, the fact that in a well-organized administrative structure, ministries should not be duplicating one another's services. Rather, they should be carrying out distinctive roles, and this difference should be reflected in the programs that are defined for them. When the government makes prioritization decisions between programs, it makes choices between alternative expenditure options, and these are not facilitated if it faces programs with the same names in different ministries.

This does not mean, however, that it is always wrong in principle to have programs that cross ministry boundaries. To take a practical example, in certain African countries that have introduced program classifications in their budgets, there has been a deliberate decision for a rather different reason to introduce programs that are shared by several ministries belonging to the same sector. The system is, in other words, one of “sector”-based rather than ministry-based programs. To make this work, the legal appropriations in the budget do indeed specify the shares each of the ministries concerned has of the overall budget of the program.

The explanation of this system can be found in the fact that these countries have government structures characterized by a far larger number of ministries than exist in most countries around the world – for example, as many as 50 ministries. This is obviously undesirable, because the multiplication of ministries creates a huge problem of fragmented administration (for example, with three or four different ministries – say, including a medical supplies ministry – performing the role which would in most countries be carried out by a single health

ministry). It gives rise to a particularly severe problem of overlap of ministry roles – not to mention direct duplication, and it is this which has led to the creation of sector programs. To ensure coordination of their sector programs, these countries often create special program coordination mechanisms pursuant to which one ministry is given coordinating responsibility for the program as a whole.

Under the circumstances, this sector-based program approach is understandable. It is more important to ensure that expenditure of multiple ministries which is all directed to the delivery of the same product line is grouped into the same program than it is to insist that programs do not cross ministry boundaries. Obviously this is a second-best solution. Ensuring interministerial coordination of shared programs sounds fine in principle, but in practice is very hard to achieve. The best solution to the problem of fragmentation of programs between too many small ministries would be to radically reduce the number of ministries, eliminate duplication and have ministry-specific programs.

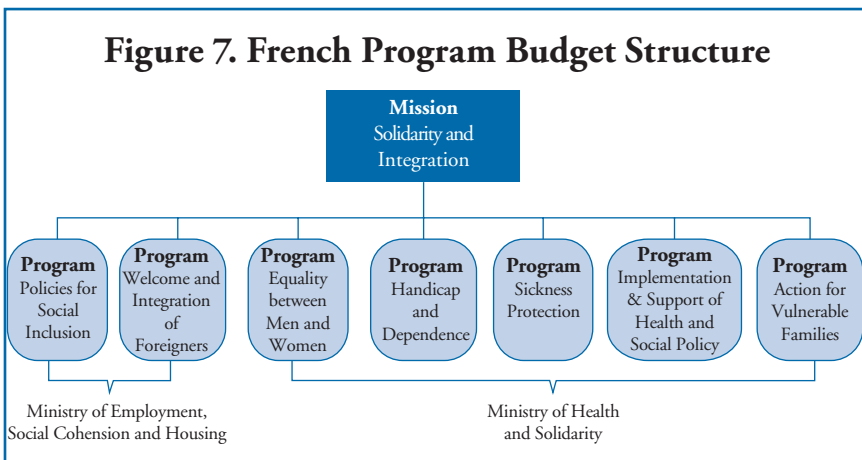
The conclusion to which this points is that it is best to structure a government around a limited number of ministries with clearly defined mandates which largely eliminate duplication, and on this basis to define ministry-specific programs. However, in practice those designing a program classification usually have to take the structure of government as it is, and do not have the luxury of simultaneously introducing programs and rationalizing ministries.

There are some who think that government-wide programs are desirable as a matter of principle. Often they have in mind the big-picture government “programs” that exist in some countries that encapsulate key high-level government outcomes, such as an anti-poverty “program.” A broad “program” of this type clearly must involve many ministries. Fighting poverty requires, for example, action from the economic ministries (agriculture, industry, economy, and so on) as well as from the education and social sector ministries. The fact that the term “program” is being used in this context leads people to believe that this is the type of program on which a program budgeting system should be based. However, the concept of a “program” in a program budgeting system is much more specific than a broad category such as anti-poverty expenditure. It is more specific precisely because programs are intended as a tool to enable government to make the most important decisions about resource allocation between competing

priorities. So what we have here is a terminological confusion between two very different types of “program.” If the term “program” is being extensively used by the government in a particular country to refer to broad campaigns such as “antipoverty,” it may be useful to re-think terminology to avoid any confusion with budgetary programs.

It might be objected that there is one country – France – that uses super-programs covering several ministries in an apparent effort to assist with inter-ministerial coordination. In France, programs are grouped into broad categories known as *missions*, an example of which is shown below. However, the primary role of the French missions is in fact a different and peculiar one, reflecting specifically French constitutional law governing the legal appropriation of expenditure. Missions are broad categories of expenditure which the Parliament is unable to change. The Parliament must, in other words, accept the budget allocations *for missions* which are proposed to by executive government, and has power only to vary the allocation *between programs* of each mission's appropriation. In short, the French device of “missions” primarily serves to limit the authority of Parliament over the annual budget law. This is an arrangement that is not only unique to France, but that is not necessarily to be recommended elsewhere. Moreover, it should be emphasized that in France also, the programs themselves are ministry specific.

In conclusion, this section has suggested that best practice is to keep programs ministry specific.



However, under the specific circumstances of a government structure with a large number of small ministries and/or significant duplication of roles between ministries it may be appropriate – at least as a second-best option short of full-scale administrative reform – to create multiminsty programs, subject to clear specification in the annual budget law of each ministry’s share of the program’s budget.

Rule 8: If the structure of government is based on a limited number of ministries with clearly delimited responsibilities, programs should not cross ministry boundaries.

4.8 The Program Hierarchy: How Many Levels?

An important question in developing any program classification system is how many levels to have in the program hierarchy. Should it be – as assumed through most of this guide – a two-level structure, confined to programs and subprograms? Should it, perhaps, be a three-level structure, adding on sub-subprograms? Perhaps four levels? (Note that in considering this issue here, we leave aside the separate question as to whether there should be “superprograms” grouping programs themselves into broad expenditure categories.)

The key consideration here is that, the more levels there are in the program hierarchy, the greater the complexity. If you have a program structure comprised of four levels, it is necessary to be able to follow budget execution – that is, to monitor expenditure via the accounting system during the year – right down to the lowest of those four levels. Suppose that we have a four-level program hierarchy and that each program is comprised of four subprograms, each subprogram of four sub-subprograms and, finally, each sub-subprogram of four sub-sub-subprograms. Such a four level program hierarchy involves classifying and monitoring expenditure in sixteen times as many categories as does a two-level hierarchy. The challenge of correctly recording expenditure is enormously increased, as is the scale of the technical challenge of dealing with indirect costs. Similarly, it becomes harder and harder to avoid splitting “elemental” organizational units between multiple sub-subprograms or even sub-sub-subprograms. Given the magnitude of the difficulties many developing countries face with their accounting systems, it will hardly come as a surprise to say that few succeed in successfully implementing such complex structures.

The complexity may not end there. It would generally be considered necessary to define objectives, indicators and targets for each and every level of the program hierarchy. The specification of objectives and the selection of indicators is a challenging technical task, and to multiply the task 16-fold is an act of great ambition.

There is much to be said for keeping it simple by having only a two-level program hierarchy (programs and subprograms). As a variant on this, one can do what the French did – have a compulsory two-level structure, but permit individual ministries if they wish to introduce a third lower level (sub-subprograms).

“Keep the program hierarchy simple” is good advice anywhere in the world. But it is particularly pertinent in developing countries, which should, given their limited resources and capacity constraints, keep their performance budgeting systems particularly simple. It is a remarkable fact, however, that low-income countries not infrequently seek to implement systems that are considerably more complicated than most of the performance budgeting models one sees in developed countries. One of many areas where this is true is the number of levels in the program hierarchies. Country after country in the developing world has tried to implement complex program structures consisting of four or even more levels to the program hierarchy. This contrasts with Organisation for Economic Co-operation and Development countries, which commonly opt for two-level structures or, at most, three-level structures.

One argument frequently advanced to program hierarchies of three, four or more levels is the supposed need to break every program right down to the constituent outputs of which it is composed. It is asserted that this is necessary to permit “output budgeting.” In output budgeting, as applied to programs, every program in every ministry is supposedly budgeted for by identifying the specific types of outputs the program produces, the quantities of those outputs, and their unit costs. For example, the funding requirement of the irrigation program would be estimated by multiplying the cost of building one village pump by the number of planned pumps, and then doing the same for the other types of irrigation services delivered under the program. Output budgeting is, in other words, a process of estimating budgets based on output unit costs.

The notion that program budgeting necessarily involves output budgeting – which is absolutely untrue – is, unfortunately, quite

widespread in some parts of the developing world. However, output budgeting is, for most public services either unworkable or impractical,⁷ and should not be used to justify the development of an excessively detailed program hierarchy.

Rule 9: Avoid too many levels in the program hierarchy – be cautious in going beyond a two-level hierarchy (programs and subprograms).

4.9 Number and Size of Programs

It is impossible to generalize about the appropriate number and size of programs, because this depends crucially on the size and number of ministries. All that can be said is that, because programs are the level at which central decisions about expenditure priorities will generally be made, they should provide sufficient disaggregation to facilitate broad priority choices while avoiding a more detailed allocation than central decision-makers wish to decide. This suggests that:

- **Creating one big program covering all or most of a ministry's expenditure is generally a mistake.** A program classification based on giant programs will be too coarse to permit central decision makers to make the type of spending reallocations such as, for example, the shifting of money from treatment health to preventative health. Expressed differently, programs should capture the distinct dimensions of the role of each ministry so as to permit central decisions about where the ministry's principle efforts should

7. For many types of public services, "output budgeting" is unworkable in principle because the outputs concerned do not have a stable unit cost. Take an extreme but illustrative case – police criminal investigations. The cost of one murder investigation can vary enormously from another, because the circumstances of the cases differ. Another example: emergency services in a hospital, where the cost for treatment of patients tends to vary greatly and unpredictably. More generally, how could one possibly fund an army, or a fire service, on the basis of unit costs of the outputs delivered? These are services that the government funds not so much for outputs actually delivered (wars fought, fires extinguished etc), but rather to maintain capacity to deliver those crucial outputs if and when they are needed. Moreover, even for those types of outputs where "output budgeting" is in principle possible, it is technically demanding and difficult to do, and is therefore something that low-income countries should be very cautious about (see Robinson 2007b, 2007c, 2013).

be directed. Of course, for small ministries with narrowly focused missions, a structure with a single program may be appropriate.

- **Too many small programs should be avoided.** Because central decision makers need to concentrate primarily on expenditure priorities between programs, a proliferation of very small programs runs the risk of unnecessarily complicating the central budget preparation process. Even in countries with large ministries, the largest of those ministries would rarely have more than, say, six programs.

In light of its own ministry structure, each country should formulate rules governing the number and possibly also size of programs.

Similar considerations apply to the number and size of subprograms.

5. Programs and the Functional Classification of Expenditure

As discussed elsewhere (Robinson 2011), there is a school of thought that insists that program classification should be made to fit with the COFOG system of “functional” classification of government expenditure. COFOG refers to the United Nation’s Classification of the Functions of Government, which is the standard international functional classification of government expenditure. As outlined in Box 2, it is a three-level hierarchical structure with “divisions” and below them “groups” and “classes.”

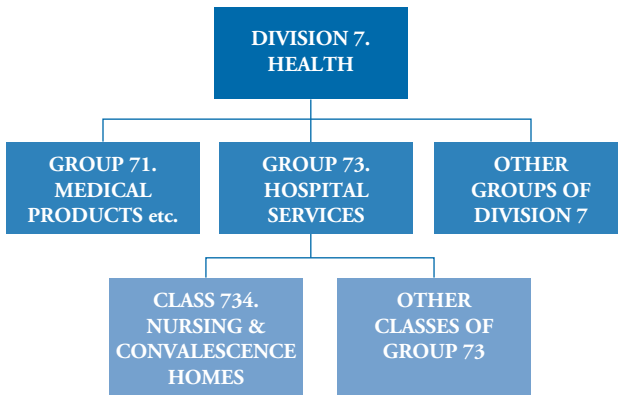
The insistence on the coordination of program classification and COFOG is mistaken. COFOG is not a budget classification of expenditure, but purely a statistical classification for ex post reporting. It is designed to permit, via a standardized classification of government expenditure, international comparisons of the allocation of resources between policy areas.

By contrast, the program classification of expenditure is intended to be an instrument to serve government to allocate money to the areas of public expenditure that are most important in the country concerned. As noted, this means that program classifications legitimately differ between countries, reflecting the different challenges governments face under varying national circumstances. It would therefore be quite inappropriate to insist that the program classification conform to COFOG or another other standardized international classification.

There are a small number of countries where a functional classification of expenditure – be it COFOG or some variant of COFOG – is indeed the basis of the budget classification. India is probably the most important example of this. This is, however a mistaken approach with unfortunate consequences. In particular, it generates an irresolvable tension between, on the one hand, a desire to bring the functional classification into full conformity with COFOG (as the international standard for functional classification) and, on the other hand, the need to ensure that the budget classification recognizes country-specific policy challenges to which identified funds need to be directly applied. Moreover, once the mistake of using the functional classification as part of the budget classification has been made, the introduction of

Box 2. The COFOG Functional Classification

The COFOG functional classification is a hierarchical structure of three levels. The top level (“divisions”) consists of four broad categories such as “defense,” “public order and safety,” “health,” and “education.” There are ten such divisions. Below this are two lower levels: “groups” and “classes.” Thus in the education division, the *groups* include: “pre-primary and primary education,” “secondary education,” “tertiary education,” and “subsidiary services to education.” And within, say, the “pre-primary and primary education” group, there two *classes*: “preprimary” and “primary.” Graphically, this hierarchical structure can be represented as follows, taken the example of health (Division 7). (The example shows only some of the groups under the health division, and just one example of the decomposition of groups into classes). Importantly, the “functional” classification is not the same as an output classification. Although most COFOG categories correspond to outputs (services delivered to the public), they are also internal support service categories such as “general personnel services.”



programs into the budget classification inevitably generates confusion about the relationship between functions and programs and why it is necessary to have both in the budget classification.

Some of those who insist on the coordination of program classification and COFOG ask only that programs should all fit within one or other of the ten broad COFOG divisions – with no programs permitted to cross the divisional boundaries. If this is all that is asked, then even though it serves no particular purpose, it at least does not usually create significant problems for program classification.

The real problem arises when more restrictive forms of “coordination” between programs and COFOG are insisted on, resulting in major distortions in the way programs are defined. A case study of this, in which programs were made to fit within the boundaries of the second-level functional categories (“groups” under COFOG), is outlined in the CLEAR manual *Performance-Based Budgeting* (Robinson 2011). This had the result of greatly, and quite unnecessarily, constraining the country’s flexibility in the development of the program classification, forcing programs to largely follow the COFOG categories.

A far worse example of the confusion between the program classification and functional classification principles arose in another developing country in the late 2000s. This country implemented, on the basis of “technical assistance” provided by an international organization, a budget classification based entirely on a functional classification (a modified version of COFOG), which it was told was a form of program budgeting.

Under this system, the same set of functional categories was used to define programs in all ministries. In other words, all ministries had to choose their programs from a standard “menu” of programs derived from the functional classification. To take an entirely representative example of what this meant, the Ministry of Agriculture and Food Security had forced upon it a “program” structure based on the following “programs”:

- 01 - Agriculture and Food Security
- 02 - Natural Resources and Environment Management
- 05 - Industry and Investment Promotion
- 07 - Health Services
- 08 - Education
- 09 - Community, Youth and Sports Development
- 10 - Transport, Building and Housing
- 11 - Information Communication and Technology
- 12 - Research and Development
- 14 - Economic and Financial Management
- 17 - Public Administration
- 18 - Employment and Labor Affairs

What is strange about this structure is that the majority of the ministry’s programs have no relationship to the types of outputs

it is responsible for delivering to the public. For example, it is not the role of the Ministry of Agriculture and Food Security to deliver youth and sports development services to the public, let alone health services. The explanation of this mystery was that these programs did not refer to services that the ministry was delivering to the public, but rather to services that it was delivering to its own employees. Thus “08 – Education” referred to training delivered to ministry employees, whereas “10 – Transport, Building and Housing” referred to internal support services covering these areas. This happened because what each ministry was asked to do was to classify the “functions” – that is, activities – that its staff carried out, without being asked to make any distinction between outputs and support activities.

The consequence of this was not only that most of the programs that ministries ended up with were irrelevant to the planning of expenditure priorities, but also that their program structures were dominated by a multiplicity of minor support service programs.

This illustrates the great danger in focusing on the “functional” classification principle rather than on the clear principle of “results-based” programs on which a true program budgeting system should be primarily based.

Conformity with COFOG is not a criterion that should be applied in the development of program classification. Instead, the focus should be on defining programs that capture to the maximum degree possible the real policy challenges and priority choices which face the country concerned.

In respect to a purely statistical classification of expenditure like COFOG, it is quite possible to leave the arithmetic until the financial year is over and to use a process of estimation which does not require all expenditure to be recorded by COFOG category in the accounting system. This is quite impossible in the case of expenditure by program, which – as noted above – needs to be accounted for and reported on a continuing basis during the financial year.

6. Conclusions and Rules

This guide provides practical direction on program classification, in recognition of the importance of getting the definitions of programs right if program budgeting is to deliver on its potential as a tool for expenditure prioritization and the promotion of improved government performance.

The central message of the guide is to focus always on the principle of results-based programs, and to diverge from this principle only in limited and defined cases, where there are good reasons for doing so. Under certain circumstances, organizational structure considerations and the problem of shared inputs justify such divergences. It is, however, inappropriate to design a program structure which simply mirrors organizational structure.

Although many aspects of program classification are matters not of rules but of judgment, taking into account the circumstances of specific countries, it is nevertheless possible to put forward key rules governing program classification. Here are the rules from this guide, put forth in one place:

Rule 1: Programs and subprograms should to the maximum possible extent be results-based, grouping together outputs with a common intended outcome. This principle should be departed from only in specific cases with clear justification.

Rule 2: In countries where funds are appropriated in the budget law by program, programs should be defined only for those broad product lines that are of sufficient importance in government-wide policy priorities for the government and/or parliament to wish to determine centrally the total resourcing that will be made available to them, rather than leaving this to be determined by the budget allocation decisions of relevant ministries/agencies.

Rule 3: Programs should not be defined in a way that requires specific resources (inputs) – for example, specific employees or cars – to be split between several programs, unless it is feasible and practical to record the usage of these shared resources by each of the programs concerned

with sufficient accuracy to produce reliable measures of expenditure by program in the accounting system.

Rule 4: Organizational units should not be split between programs if:

- Neither government nor ministry management wish to plan and control the way in which the organizational unit directs its resources between the programs concerned, and/or
- It is not feasible to accurately allocate record the organizational unit's resource utilization by program in the accounting system.

Rule 5: Ministries should establish support programs that include support services and other corporate overheads where:

- It is desirable to maintain flexibility in the deployment of these support services between the support of the ministry's various results-based programs during the year, and/or when
- It is not feasible – i.e. not regarded as possible at reasonable cost – to accurately allocate the support services costs between results-based programs in the accounting system.

Rule 6: Ministries with a single results-based program do not need support programs.

Rule 7: In countries that wish to keep the program budgeting system as simple as possible, it may be pragmatically acceptable to define program structures (and, where appropriate, modify organizational structures) so as to ensure that every “elemental” organizational unit is associated with one and only one subprogram and program.

Rule 8: If the structure of government is based on a limited number of ministries with clearly delimited responsibilities, programs should not cross ministry boundaries.

Rule 9: Avoid too many levels in the program hierarchy – be cautious in going beyond a two-level hierarchy (programs and subprograms).

Glossary

Activities: Types or categories of work undertaken in the production and delivery of outputs

Budget classification: Categories of expenditure used in the budget, particularly for the approval of expenditure.

Classification of the Functions of Government (COFOG): Functional classification of expenditure developed by the United Nations and incorporated into the International Monetary Fund’s Government Financial Statistics methodology.

Expenditure prioritization: The allocation of public resources to the programs that deliver the greatest benefits to the community for the money spent.

High-level outcomes: The more indirect outcomes of outputs, which arise as a consequence of the achievement of intermediate outcomes. For example, in education, the intermediate outcome of higher numeracy and literacy contributes to the higher-level outcome of better economic performance. Also known as “end” or “ultimate” outcomes.

Inputs: Resources used in the carrying out of activities to produce outputs (for example, labor, equipment, buildings).

Intermediate outcome: The more direct or immediate impacts of outputs. For example, in education, the student knowledge (for example, higher numeracy and literacy) is a key intermediate outcome.

Line-item budgeting: Budgeting in which agencies are provided with budget appropriations specified in terms of input categories (that is, by economic classification).

Outcome: Changes brought about by public interventions upon individuals, social structures, or the physical environment.

Output: A good or service provided by an agency to or for an external party.

Processes: The processes by which inputs are transformed into outputs. Same as activities.

Product line: Groups of outputs that have common outcomes and potentially other shared characteristics (such as the same client group).

Program budgeting: The systematic use of performance information to inform decisions about budgetary priorities between competing programs, based on the program classification of expenditure (see programs).

Program hierarchy: Multilevel program-based classification of expenditure, in which programs are broken into one or more lower-level categories (subprograms and so forth).

Programs: Categories of expenditure based on groups of outputs (or support services) with a common objective, which is usually an outcome.

Support program: Programs that cover overhead costs of a ministry or agency, such as central management and personnel services. Also known as administration programs or support programs.

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