

## Program and Performance Based Budgeting As an Approach to Rationalize Public Expenditure in Algeria

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### Abstract :

The variety of the functions of the state and the expansion of its activities led to the emergence of the phenomenon of public expenditure, which all countries suffer from .In Algeria, public expenditure has witnessed remarkable development since 2000 due to high oil revenues due to high prices, expansionary spending policies, and various developmental plans. The continued increase of the expenditure leads to thinking about the rationality of financial options in terms of the general budget, and the need to find new options to ensure the rationalization of public expenditure, and the Program and Performance Based Budgeting is the last wave of reforms of the state budget. Its implementation leads to rationalization of public expenditure through effective control, improved planning, monitoring, efficiency and efficiency in allocating resources.

#### Mots clés:

Rationaliser les dépenses publiques

Équilibrer programmes et performances

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**Le résumé :** La multiplicité des fonctions de l'État et l'expansion de son activité ont conduit à l'émergence du phénomène d'augmentation des dépenses publiques dont souffrent tous les pays, qu'ils soient développés ou en développement. En Algérie, les dépenses publiques ont connu une évolution remarquable depuis l'an 2000 en raison de l'augmentation des revenus pétroliers du fait de la hausse des prix du pétrole et de l'adoption par l'Algérie d'une politique Augmenter les dépenses et entreprendre divers plans de développement. L'évolution continue du volume des dépenses appelle à réfléchir à la rationalité des options financières par rapport au budget général et à rechercher de nouvelles options garantissant la rationalisation des dépenses publiques. Le budget des programmes et de l'exécution est une approche moderne qui permettra d'appliquer la rationalisation des dépenses publiques par Rationaliser les décisions gouvernementales, créer un contrôle efficace des dépenses publiques et améliorer la planification, le suivi, l'efficacité et l'efficience de l'allocation des ressources.

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**Introduction:** The public expenditure is considered as one of the financial policies pillars adopted by the Algerian government to achieve the economic, social and political goals. In this context, Algeria's relying on spending policy is not a random choice, but rather a condition imposed by the factors that shape the figure of the Algerian economy in general. The adoption of this process is due to what offers to the general public in terms of satisfaction and pleasure.<sup>1</sup> In fact, many factors had contributed to the rise of the public spending in Algeria, such as: the increase in the oil prices, the available of the financial surpluses, scheduled projects in the public expenditure programs, the rise in the imports' prices, the weakness of the productive capacity of the Algerian economy, the limitation of the private sector in Algeria which leads the public sector to hold the burden of the economic development, inflation resulting from rising costs of the production factors without any effective rise in the production capacity, weakness of the markets and the fragility of the financial institutions in Algeria which oblige the process of development to rely heavily on the public sector to achieve the aspirations of the economic and social life of the individuals.<sup>2</sup>

Therefore, what should be prioritized at the present time was the rationalization of public expenditure and the provision of various safeguards and requirements that would enable the rationalization process to be carried out properly. Considering that the state budget is the main means of actualizing the goals of fiscal policy in reality, the modernization of the budget system in Algeria is the gateway to rationalize public expenditure.

The aim of this research is to highlight the program and performance based budgeting as a modern method to provide fundamental solutions to some of the imbalances and shortcomings experienced by the budget system is ongoing in Algeria and built in accordance with the method of balancing items, and helps to provide the data and information necessary for decision makers to help them to use economic resources efficiently and effectively , Auditing public expenditures and eliminating unnecessary expenditures in the traditional budget, following the principle of priority in allocating resources, which is the essence of the rationalization process, and the question arises: **To what extent can the program and performance based budgeting contribute to the rationalization of public expenditures in Algeria?**

In order to answer this problem, we adopted the analytical descriptive approach in dealing with the research topics that are divided as follows:

**First:** general expenditure in Algeria and analysis of its development from 2000 to 2018.

**Second:** rationalization of public expenditure in terms of its concept and controls as well as the requirements of the success of rationalization.

**Third:** The Program and Performance Based Budgeting, its concept and advantages, and the method of preparation and the elements of the success of its application as a mechanism to rationalize public expenditure in Algeria.

## **1. Public expenditure in Algeria**

### **1.1. Classification of public expenditure by Algerian legislator**

Public expenditure is considered by the Algerian legislator to be burdensome to the budget. It is obligatory to implement it. The public expenditure is only provided by an explicit provision through the Finance Law. The Public expenditure also adheres to the principle of allocation. The funds or allocations for a particular type of expenditure may not be transferred to another type Except in very narrow limits and this for the balanced conduct of various interests<sup>3</sup>.

According to the Algerian legislator, public expenditure is divided into two parts: **administrative expenses and processing expenses**. This is in accordance with the distinction between the nature of expenditures. The expenses are similar and homogeneous in terms of their nature, role, impact and objectives.

**1.1.1. Management (administrative) expenses:** these expenses are allocated to the normal and natural activity of the State, which allows for the conduct of the State's activities and the proper application of the current tasks. Generally, these expenses are paid for public and administrative interests. Management expenses include user expenses and equipment expenses. According to the Algerian legislator, administrative expenses are divided into four sections:<sup>4</sup>

- Public debt burdens and deductions from income.
- Allocations of public authorities.
- Expenditure on means of interest.
- Public interventions.

**1.1.2. Processing (investment) expenses:** these expenses, which have the nature of the resulting investment, represent an increase in gross national product (GNP) and thus an increase in the country's wealth. Processing expenses are called the processing budget or the investment budget, which consists of structural economic, social and administrative investments, which are translated into productive investments in various sectors of agriculture, industry, tourism ... etc, to achieve comprehensive development.<sup>5</sup>

## **1.2. Analysis of the overall development of public expenditure**

To find out the evolution of the public expenditure in Algeria since 2000, the following table shows the evolution of both the total expenditure as well as the development of both the management expenses and the processing expenses until 2018.

**Table of Evolution of the Volume and Components of Public Expenditure in Algeria (2000-2018)**

Year	Total expenses	Processing expenses	Management expenses	Growth rate of expenditure
2000	1178.122	321.929	856.193	/
2001	1321.028	357.395	963.633	12.12%
2002	1550.646	452.930	1097.716	17.38%
2003	1639.265	516.504	1122.761	5.71%
2004	1888.930	638.036	1250.894	15.23%
2005	2052.037	806.905	1245.132	08.63%
2006	2453.014	1015.144	1437.870	19.54%
2007	3108.669	1434.638	1674.031	26.72%
2008	4191.053	1973.278	2217.775	34.81%
2009	4246.334	1946.311	2300.023	01.31%
2010	4466.940	1807.862	2659.078	05.19%
2011	5731.407	1934.500	3797.252	28.30%
2012	7058.256	2275.536	4782.623	23.15%

<b>2013</b>	6024.158	1892.632	4131.562	- 14.65 %
<b>2014</b>	6995.855	2501.458	4494.365	16.13%
<b>2015</b>	7656.387	3039.357	4617.056	09.44%
<b>2016</b>	6701.536	1894.204	4807.332	-12.47 %
<b>2017</b>	5978.514	1386.673	4591.841	- 10.78 %
<b>2018</b>	6854.968	2270.506	4584.462	14.66%

[http://www.ons.dz/IMG/pdf/CH12-FINANCES\\_PUBLIQUES.pdf](http://www.ons.dz/IMG/pdf/CH12-FINANCES_PUBLIQUES.pdf) Unit: Billion DZD Finance Laws : 2015- 2018

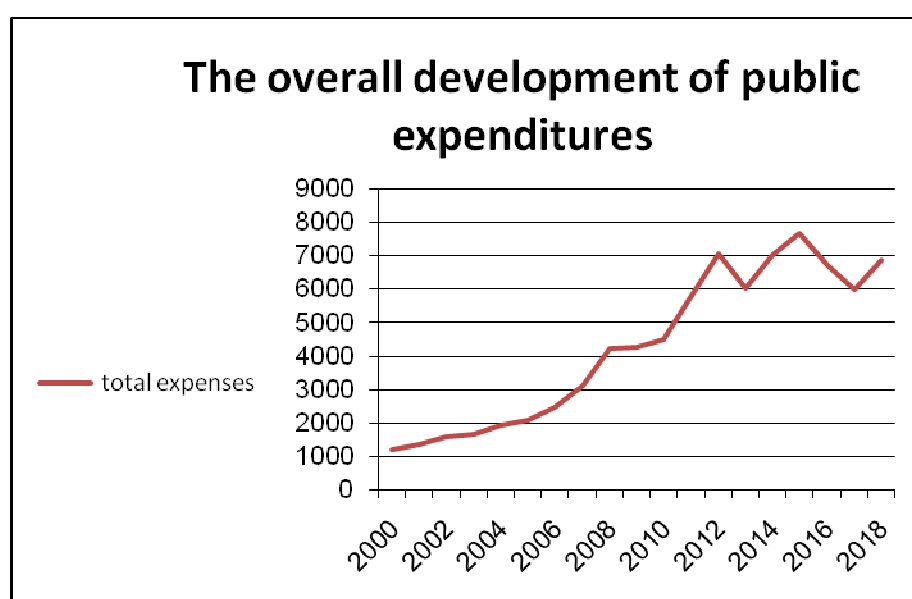
An accurate look at the table's data shows that we are witnessing a continuous development in the public expenditure of the State. In 2001, it amounted to DZD1321 billion, after it was about DZD1178 billion in 2000, a growth rate of 12.12%. The increase continued in 2002, 2003 and 2004 until to reach DZD1888 billion in 2004, an increase of 15.32% over 2003.

This period was characterized by the start of the economic recovery plan in 2001, which is a financial allocation distributed throughout the period 2001-2004 at varying rates, with a total value of about DZD525 million, about 7 billion dollars, which came within the framework of the fiscal policy that Algeria began to follow in the form of expansion of public spending in order to revitalize the national economy, especially after the decade of the nineties, which saw the decline of the national economy due to the political, economic and security conditions experienced by the country<sup>6</sup>.

After 2004, public expenditure continued to increase, with a record amount of DZD 2453 billion, DZD3108 billion and DZD 4246 billion in 2006, 2007 and 2009, respectively, with a significant increase of 31.81% in 2008. Of the supplementary program to support growth from 2005-2009 to DZD 4202.7 billion in the form of an expansion of spending on the ecclesiastical way, which aims primarily at modernizing and expanding public services, improving the living standards of individuals by improving the aspects affecting their way of life, to stimulate economic activity and raise growth rates.

The public expenditure, according to the data of the table, continues to record its highest value in 2015 by DZD 7656 billion, an increase of 9.44% over 2014, while in 2018 it reached DZD 6854 billion, an increase of 14.66% over 2017.

The high levels of spending during this period are due to the start of the five-year program 2010-2014, to which the State allocated DZD 21214 million , or about \$ 286 billion distributed in the form of financial allocations throughout the years of the program.<sup>7</sup> which confirms that doubling the volume of public expenditure in Algeria due to the direct state to many development plans aimed at economic development, , but the negative indicator in the past is the increase in the volume of expenditures from year to year of burdens on the public budget, which is difficult to maintain and adhere to, with the State's resources linked to oil as the sole source of public revenues, which requires review of the policy of spending so as not to spend spending target in itself, because it is unacceptable that this growing volume of spending does not lead to the desired economic diversification, and the subsequent chart summarizes the continuous evolution of the public expenditure from 2000 to 2018.



By the researcher, depending on the table data

The exceptions recorded in these increases were the years 2013, 2016 and 2017 with a decrease in the proportion of expenditure estimated respectively: - 14.66%, -12.47%, -10.78%, due to the oil shock in world markets and the oil prices witnessed in previous years of declines in international markets have led the government to warn against expansion in public spending, although its levels remained broadly high.

However, the government warned that this is a temporary solution to the growing volume of public expenditure and the level of the budget deficit. Therefore, a reform program aimed at reforming the current budget system must be launched, making it more transparent and effective in rationalizing public expenditure to serve the objectives of fiscal policy in particular, by taking advantage of modern trends in the field of modernization of the budget systems, which is the system of zero budget most recent and most important for the attention of many countries.

### **1.3. Analysis of the evolution of public expenditure components**

#### **1.3.1. Analysis of the evolution of management expenses**

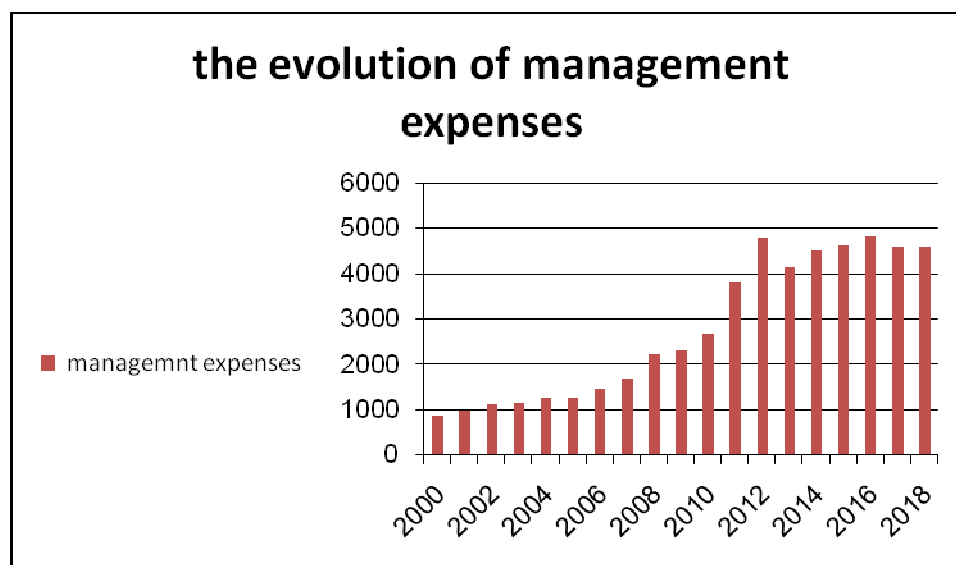
We see from the data of the previous table a continuous evolution in the volume of the management expenses starting in the year 2000, but this development reached its scope in 2016 recording a sum of DZD 4807 billion.

It is noted that the volume of management expenses did not exceed the limit of the year 2000, the limit of DZD 2000 billion, but starting from 2008 has reached unprecedented heights, for example in 2009, for example, DZD 2300 billion, jumps in 2012 to 4782 and remained until 2014 over the level of DZD 4000 billion, Reflecting the large inflation in size.

The successive increase in this type of expenditure is due to the high cost of the public service. Through the large expenditure programs during these years, the State has started to create jobs to reduce unemployment. For example, 728,500 jobs were created in 2001-2004, including 477,500 positions. The unemployment rate fell from 23% in 2003 to 17.7% in 2004. Unemployment continued to decline until 2012, reaching about 9.8%.

In addition to the increase in public service users, the increase in the management budget is due to the high level of wages, salaries, grants and management subsidies in general. During the period 2005-2009, the base wage rose to DZD 12,000 on January 10, 2007, after DZD 10,000 on January 10, 2004, and in January 2012, up to DZD 18,000 .

In 2008, the revision of the Public Service Law, which led to the revision of the basic laws of public servants, and the revision of the compensatory regulations and their retroactive payment as from January 1, 2008, contributed to the inflow of administrative expenses. The chart below summarizes the evolution of the management expenses from 2000 to 2018.



By the researcher, depending on the table data

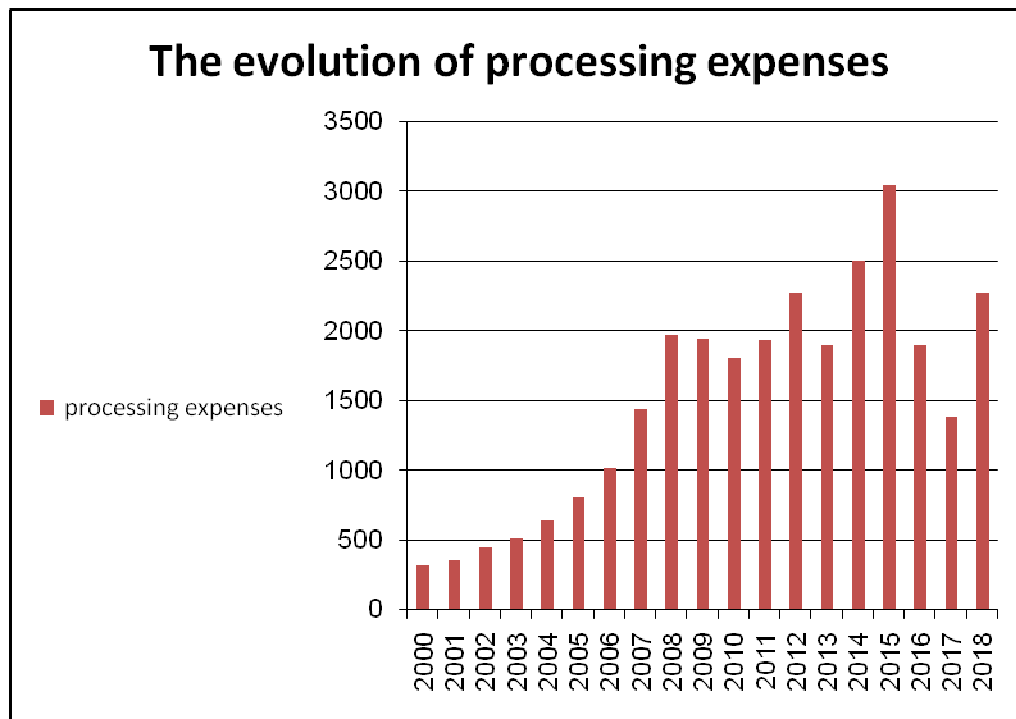
### 1.3.2. Analysis of the evolution of processing expenses

In the period 2000 to 2018, the cost of processing increased steadily, rising from DZD 321 billion in 2000 to 638 m in 2004 and exceeding DZD 2275 million in 2012 and continuing to rise. The highest value in 2015 is 3039, 2016 and 2017 to the limits of 1894 and DZD 1386 million respectively, due to the decline in oil revenues in recent years.

The large and continuous increase in the processing expenses since 2000 has been attributed to the large expenditure programs initiated by the State, starting with the economic recovery program 2001-2004, the supplementary program to support growth 2005-2009, and the five-year program of 2010-2014, which exceeded \$ 286 billion. The amounts of these programs to maintain the sector priorities such as the implementation of infrastructure projects such as roads, ports and airports and the advancement of the sectors of agriculture, irrigation and housing, and the establishment of service and educational structures and the establishment and support of small and medium enterprises to send the national product ... etc.

Therefore, the expansion of government investment expenditure through the implementation of previous development programs led to a continuous increase in the processing expenses, especially in view of the large amounts allocated to these programs. The evolution of the volume of processing expenses can be illustrated by the following chart :





By the researcher, depending on the table data

Thus, the summary of the analysis of the table data, and tracking the evolution of expenditure through the previous graphs, confirms that any economic reforms remain insignificant and ineffective if they are not accompanied by reforms in the state's fiscal policy by updating and modernizing the public budget systems according to the recent trends in this field, in order to move towards the rationalization of public expenditure in its various components, whether the management expenses or processing expenses, and thus overcome the problem of the budget deficit, which has become a feature of public finance in Algeria in recent years, and provide the necessary factors and requirements required by the process of rationalization and ensure its success.

## 2. Rationalization of public expenditure

### 2.1. Definition

Julien Freund defines rationalization as "the organization of life through a division and coordination of activities on the basis of exact study of men's relations with each other, with their tools and their environment, for the purpose of achieving greater efficiency and productivity"

Rationalization points at an efficiency increase by better use of existing possibilities: A same effect can with fewer means, or with same means to be

obtained. In the industry thereby frequently the replacement of manpower is designated by machines (rationalization investment). It is the reasonable, appropriate organization of operational conditions under changing conditions to increase with the goal, productivity and economy.<sup>8</sup>

## **2.2. Factors of rationalizing public expenditure**

There are various factors other than inputs and outputs that can affect the efficiency and effectiveness levels. These factors are institutional settings, structural framework conditions. Studies aimed at explaining overall efficiency levels need to take these exogenous factors into account. These environmental factors can be very multifaceted and it depend on the scope of the analysis .Defining borderline between direct influence factors (inputs) and such exogenous factors is not always straightforward. Within the public sector , the functioning of the public administration sits on this borderline .The public administration can be considered as an institution that affects the input, produces the output and has a significant impact on the outcomes of the government policies . The functioning of the public administration will therefore have an important influence on the efficiency and effectiveness of public spending. There is evidence showing that EU<sup>9</sup> Member States reformed their public administration in order to achieve efficiency gains. Based on the information efficiency enhancing reforms, most national reform initiatives tackle the following key aspects :<sup>10</sup>

- **Performance orientation:** Many countries have adopted a result-oriented approach to budgetary planning. A coherent consideration of all budgetary resources could be an important tool for improving public sector effectiveness and efficiency .
- **Organizational aspects:** In many Member States the roles and the responsibilities of the different governmental departments have been reviewed in order to simplify the organization of the public administration .The trend towards externalization of the public sector has also affected management practices within the public administration .
- **Human resource management:** The streamlining of the public administration has in many cases been accompanied by reforms of human resource management, including flexibility in recruiting, flexible working opportunities, performance pay and performance evaluation systems .
- **Encouraging the use of ICT tools:** Many countries use ICT tools to reduce administrative costs and enhance the quality of service delivered to businesses and citizens by creating the possibility for

interaction with the public via the internet, but also by optimizing internal processes through wider use of electronic information flows.

### **3. Program and Performance Based Budgeting**

#### **3.1. History and Definition**

Since at least the early 1990s, the majority of governments in OECD countries have been developing performance information. However, performance budgeting involves more than the development of performance information: it is concerned with the use of this information in budget processes and resource allocation. Despite the fact that the idea of relating performance to resources has been around since the early 20th century, there is no clear single agreed standard definition of performance budgeting. A set of terms and definitions are implied under the heading of performance budgeting: budgeting for results, performance-based budgeting and performance funding. In addition to this, however, there is no clear agreement concerning the kind of information or on the stage of the budget process when it should be introduced, nor if and how to relate performance information to resource allocation.<sup>11</sup> The program and performance based budgeting is a modern method of presenting and substantiating budgets, being underpinned by programs with vision, mission, goals, objectives and performance indicators. The program and performance based budget is an efficient budget management instrument, which assures priority-setting and decision-making in allocating resources depending on the performance (results) of the public programs.<sup>12</sup>

The program and performance based budgeting is a broad term of budgeting system used almost exclusively by public organizations such as branches of government and programs that government create.<sup>13</sup> It represents a form of budget that establishes dependence between allocated funds and measurable results. Taking into account that the main problem in the public sector, especially after the World War II became the efficiency of public expenditure, the way of development of PBB better responds to governmental aspirations. That is why it is mentioned that analysis of the implementation processes and practices of a number of countries shows that numerous questions regarding the program and performance based budgeting concept continue to remain open. There is no single agreed standard definition on performance budgeting regarding either the type of information that needs to be part of the performance budgeting or the stage at which performance budgeting should be introduced. There is no single model for PBB.<sup>14</sup> It aims to improve the efficiency and effectiveness of public expenditure by linking the funding of public sector organizations to the results they deliver, making systematic use of performance information. There are a set of models of performance-based budgeting that use different mechanisms to link funding to results. Some have very sophisticated

features and require the support of correspondingly sophisticated public .<sup>15</sup> Despite the fact that different countries adopt similar models of this concept, the approach used for its implementation differs depending on the national capacities, culture, and priorities. Nevertheless, there are three generally accepted major types of performance budgeting, which are the presentational, performance informed budgeting, and direct performance budgeting.

### **3.2. Advantages**

Program and performance based budgeting (PPB) have a set of advantages which are :

- It improved effectiveness in the use of public money, because we aim at achieving expected results, spending public money, at the same time, we aim at methods, techniques, concrete instruments that we will be used for achieving the objectives we aim at .
- Its process becomes more transparent, because there is wide participation of the civil society in its drafting, the relations with the public become closer, the community is more actively engaged in public policy making and in identifying priorities on budget resources allocation.<sup>16</sup>
- It's a good device for strategic planning and goals setting .
- It improves understanding of crosscutting programs in government .
- It provides an evaluation and accountability .<sup>17</sup>

### **3.3. Disadvantages**

Despite all its advantages, the performance based budget has a set of disadvantages :<sup>18</sup>

- performance based budget does not solve the problem of scarcity of funds, because its aim is not to raise revenues, and although the enhancement of budget spending efficiency can generate savings, these do not secure sustainability.
- performance based budget cannot eliminate the political components of the budget-drafting process.
- performance based budgeting cannot mitigate the impact of interest groups, which have the purpose of getting benefits for their members.
- performance based budgeting needs the existence of complex information (on the community, planning, indicators' setting, creation of a data base and its updating, etc.)

- It does not resolve the problem related to the lack of a direct link between performance and final outcome.

### 3.4. Basics of program and performance based budgeting

Performance based budgeting have three important basics in order to hold agencies accountable for what they achieve . They are as follows :<sup>19</sup>

- **Objectives** : agencies should develop strategic plans of what they intend to accomplish . These plans should have objectives depending on outcomes that the public values .
- **Performance measures** : depending on their strategic plans , agencies should develop specific, systematic measures of outcomes that can be used to determine how well agencies are meeting their objectives .
- **Linkage** : objectives and performance measures are integral parts of the budgetary process .Appropriations are linked to agencies results.

### 4. Conclusion

The goal of this research was to present the program and performance based budgeting as a modern approach that is a solution to the problem of rationalization of public expenditure in Algeria. After studying and analyzing , we reached the following results:

- Public expenditure in Algeria has been growing since 2000 due to the policy of expansion of public expenditure, which aims primarily at modernizing and expanding public services, improving the standard of living of individuals by improving aspects affecting their lifestyle and developing human resources and infrastructure to stimulate economic activity through various developmental programs aimed at creating the objective conditions for economic growth and strengthening it.
- One of the priority areas in Algeria at present is to adjust public finances to reform the budget system so that it is able to ensure continuity of public finances and achieve intergenerational justice while allowing public expenditure to be controlled and rationalized.
- Considering the general budget as the tool that enables the implementation of the objectives of fiscal policy, the modernization of their systems and the introduction of modern methods is an attempt to rationalize public expenditure in Algeria.

- Any economic reforms remain ineffective if they are not accompanied by parallel reforms in fiscal policy, especially modernization of the budget system and the application of the program and performance based budgeting as a modern approach in the field of public finance. This requires the conviction of representative in political and economic life of the benefits that this can entail in controlling and the rationalization.
- The performance and program based budgeting is a fundamental solution to some of the imbalances experienced by the budget system, which is currently operating in Algeria according to the traditional approach to budgeting. It also allows the presentation of information and financial data for government activity in a manner that helps to plan and distribute resources efficiently and effectively and control public expenditure.
- The completion of this project requires the endorsement of people who believe in the need for change in the financial policy of the country and the inevitability of financial reforms, and have a great deal of expertise and efficiency, in addition to the involvement of specialists in economic and financial policies of professors and frames of highly qualified, to find solutions to all the obstacles that hinder its implementation, and provide substantive legal and technical conditions to ensure its success.

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