

# Transformation of Institutions from Line-Item Budgeting to Program Budgeting in the Context of Expenditure Rationalization, Implementation of Planned Objectives: Prospects and Challenges

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## Abstract

*This research aims to examine the issue of rationalizing public expenditures in light of the recent transformations in budget preparation and execution methods, with a focus on the transition from the traditional operating budget to the program-based budget as a modern approach grounded in results and performance. The study addresses the role played by the program-based budget in improving the efficiency of resource allocation, enhancing transparency, and linking public spending to predefined objectives, while highlighting the prospects offered by this shift and the organizational, financial, and human challenges that hinder its implementation. The research adopts a descriptive-analytical methodology through the analysis of relevant literature and studies, leading to a set of findings and recommendations that can support the effectiveness of budgetary reforms and achieve sustainable development.*

**Keywords:** Rationalization of Expenditures, Operating Budget, Program-Based Budget, Performance, Governance, Public Spending.

Received: 03/04/2025

Accepted: 23/06/2025

Published: 20/07/2025

## Introduction

Public expenditure constitutes one of the most important instruments relied upon by the state to achieve its economic and social objectives, as it reflects its philosophy of public management and its capacity to respond to the requirements of comprehensive and sustainable development. The importance of this expenditure is evident in its role in financing essential public services such as education, health, infrastructure, and social protection. However, the continuous increase in public expenditures, in the context of limited financial resources and mounting economic and financial pressures, has created real challenges for governments, particularly in developing countries.

In this context, the concept of rationalizing public expenditures has emerged as an indispensable strategic option aimed at improving the efficiency of public resource use and reducing waste and misallocation, without compromising the quality of services provided to citizens. Rationalization of expenditures is considered one of the fundamental pillars of public finance reform, given its role in achieving fiscal sustainability, controlling budget deficits, and enhancing confidence in the management of public funds.

International experiences have shown that the traditional operating budget, based on line items and chapters, is no longer capable of keeping pace with the requirements of modern governance, as it focuses on controlling expenditures in form rather than substance and does not give due attention to measuring results or evaluating performance. This has prompted many countries to adopt the program-based budget

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as a modern approach to budget preparation and execution, based on linking financial allocations to objectives and achieved results.

Accordingly, this research falls within the framework of analyzing the relationship between rationalizing expenditures and the transition from the operating budget to the program-based budget, while highlighting the role of this shift in achieving predefined objectives, as well as reviewing the prospects it offers and the challenges that hinder its implementation within public institutions.

### *Research Problem*

The research problem is based on the following main question:

To what extent do rationalizing expenditures and the transition from the operating budget to the program-based budget contribute to improving the efficiency of public spending and achieving predefined objectives, and what are the main prospects and challenges associated with this transition?

This main question gives rise to several sub-questions, including:

- What is meant by rationalizing public expenditures?
- What are the shortcomings of the traditional operating budget?
- How does the program-based budget contribute to improving public performance?
- What are the necessary conditions for the successful transition to a program-based budget?

### *Importance of the Research*

The importance of this research lies in addressing a highly topical issue related to public finance reform and improving the efficiency of public spending, particularly in light of current economic challenges. It also contributes to enriching the academic literature on program-based budgeting and expenditure rationalization, and provides a theoretical and practical reference that can benefit public administrations, policymakers, and researchers in the field of public finance.

## **Research Objectives**

This research aims to:

- Deepen the conceptual framework of expenditure rationalization and types of budgets;
- Analyze the structural shortcomings of the traditional operating budget;
- Highlight the role of the program-based budget in improving spending efficiency and achieving objectives;
- Review experiences and prospects related to the implementation of the program-based budget;
- Diagnose organizational, human, and technical challenges;
- Propose practical recommendations to support the effectiveness of budgetary transformation.

## Research Methodology and Structure

The research adopts a descriptive-analytical approach through the analysis of theoretical literature and previous studies, in addition to examining the conceptual and applied framework of expenditure rationalization and program-based budgeting. The research is divided into three main sections, in addition to the introduction and conclusion.

### *Section One: Conceptual Framework of Expenditure Rationalization and Types of Budgets*

#### *First: The Concept of Rationalizing Public Expenditures*

Rationalizing public expenditures refers to the set of policies and procedures aimed at the rational and efficient use of public financial resources by achieving a balance between the volume of spending and the quality of the results achieved. It does not mean austerity or arbitrary spending cuts; rather, it focuses on improving spending efficiency and ensuring that expenditures are directed toward real priorities.

#### *Second: The Importance of Rationalizing Public Expenditures*

The importance of rationalizing expenditures lies in:

- Achieving fiscal sustainability;
- Reducing the budget deficit;
- Improving the efficiency of public services;
- Enhancing trust in public institutions;
- Supporting economic and social development.

#### *Third: The Operating Budget – Concept and Characteristics*

The operating budget is a traditional method of budget preparation that relies on classifying expenditures according to their nature (wages, equipment, services) and mainly aims to monitor compliance with financial appropriations.

#### *Fourth: Shortcomings of the Operating Budget*

- Focus on inputs rather than results;
- Limited managerial flexibility;
- Difficulty in evaluating performance;
- Lack of linkage between spending and public policies.

#### *Fifth: The Program-Based Budget – Concept and Foundations*

The program-based budget is a modern approach that involves grouping financial allocations within programs linked to clear strategic objectives, with the establishment of indicators to measure results.

#### *Sixth: Expenditure Rationalization in Modern Financial Thought*

Rationalizing public expenditures is no longer viewed merely as an accounting tool for controlling appropriations; rather, it has become a central concept in modern financial thought, closely linked to the

principles of good governance and public performance management. In light of global economic transformations and the growing social burdens on the state, the need has emerged to shift from a logic of “spending” to a logic of “value for money,” that is, achieving the maximum social and economic benefit at the lowest possible cost.

This orientation is grounded in the theories of new institutional economics, which emphasize that inefficiency in spending is linked less to resource scarcity than to weaknesses in management, oversight, and accountability mechanisms. Accordingly, rationalizing expenditures constitutes an entry point for reforming the state itself, not merely its financial tools.

### *Seventh: The Relationship Between Expenditure Rationalization and Fiscal Sustainability*

Fiscal sustainability is one of the strategic objectives of expenditure rationalization, as rational control of public spending helps preserve the major balances of public finance and ensures the state’s ability to meet its current and future obligations. This dimension is particularly evident in rentier states or those dependent on volatile resources, making expenditure rationalization an imperative necessity rather than a temporary option.

### *Section Two: The Role of the Transition from the Operating Budget to the Program-Based Budget*

#### *A) A Comparative Analytical Approach*

##### *1. Historical Roots of the Program-Based Budget*

The emergence of the program-based budget dates back to the 1960s in the United States of America, within the framework of what was known as the Planning–Programming–Budgeting System (PPBS), which arose as a response to the shortcomings of the traditional budget in linking expenditures to the state’s strategic objectives. This experience gradually spread to several developed countries, before being adopted by international organizations such as the International Monetary Fund and the Organisation for Economic Co-operation and Development as a reform model for public finance.

##### *2. Methodological Comparison Between the Operating Budget and the Program-Based Budget*

The program-based budget differs fundamentally from the operating budget in terms of philosophy, tools, and objectives. While the former focuses on results and impacts, the latter is confined to monitoring inputs and expenditures. Moreover, the program-based budget relies on performance indicators, medium-term planning, and managerial accountability, making it more consistent with the requirements of modern public management.

##### *3. Impact of the Program-Based Budget on the Behavior of Public Managers*

The adoption of the program-based budget contributes to changing the behavior of public managers from mere executors of appropriations to individuals responsible for achieving results. This transformation enhances initiative, reduces bureaucratic behavior, and encourages innovation in the provision of public services.

#### *B) Main Objectives of the Transition from the Operating Budget to the Program-Based Budget*

##### *1. Improving the Efficiency of Resource Allocation*

The program-based budget allows resources to be directed toward priority programs, thereby reducing unproductive expenditures and enhancing the effectiveness of public spending.

## 2. *Linking Spending to Performance and Results*

This approach relies on quantitative and qualitative performance indicators that make it possible to assess the extent to which objectives are achieved and to correct deviations.

## 3. *Enhancing Transparency and Accountability*

The clarity of objectives and results contributes to strengthening parliamentary and societal oversight and to consolidating the principle of accountability.

## 4. *Supporting Public Decision-Making*

Program-based budgeting provides accurate information to decision-makers, helping to improve planning and forecasting.

### *Section Three: Prospects and Challenges of the Transition from the Operating Budget to the Program-Based Budget*

#### *First: Prospects of the Transition*

- Improving financial governance;
- Enhancing the efficiency of public performance;
- Improving the quality of services;
- Supporting sustainable development.

#### *Second: Organizational Challenges*

- Complexity of administrative structures;
- Weak coordination among departments;
- Limited administrative autonomy.

#### *Third: Human Challenges*

- Lack of specialized competencies;
- Weak evaluation culture;
- Resistance to change.

#### **Fourth: Technical and Legislative Challenges**

- Weak information systems;
- The need to update the legal framework;
- Issues related to data reliability.

#### *Fifth: Ways to Overcome the Challenges*

- Continuous training;

- Modernization of information systems;
- Adoption of a gradual implementation approach.

#### *Sixth: Performance Indicators and Their Role in Rationalizing Expenditures*

Performance indicators constitute the core of the program-based budget, as they make it possible to measure the effectiveness and efficiency of public policies and to identify shortcomings and waste. These indicators also allow for temporal and sectoral comparisons, thereby supporting evidence-based decision-making.

#### *Seventh: Evaluation of Public Policies as a Supporting Mechanism*

The role of the program-based budget in rationalizing expenditures cannot be fully realized without establishing an effective system for evaluating public policies, whether prior to implementation (ex ante evaluation), during implementation, or after implementation. Such evaluation contributes to redirecting resources toward more effective programs and discontinuing programs with weak impact.

#### *Section Four: International Experiences in Implementing the Program-Based Budget*

##### *1) France's Experience in the Transition to Program-Based Budgeting*

France officially adopted the program-based budget through the Organic Law on Finance Laws (LOLF) of 2001, which brought about a profound transformation in public financial management. This experience demonstrated a noticeable improvement in transparency and in linking spending to objectives, despite the persistence of certain challenges related to the culture of evaluation.

##### *2) Lessons Learned from the Experiences of Developing Countries*

The experiences of several developing countries indicate that the success of the program-based budget is not linked solely to the legal framework, but also to the level of administrative preparedness, the quality of information systems, and the stability of the economic environment. These experiences also underscore the importance of a gradual approach to implementation.

#### *Section Five: The Reality and Prospects of Implementing the Program-Based Budget in Algeria*

##### *1) The Context of Budgetary Reform in Algeria*

The adoption of the program-based budget in Algeria comes within the framework of comprehensive public finance reform aimed at enhancing efficiency and transparency, particularly in light of declining oil revenues. This orientation has been enshrined in the Organic Law on Finance Laws, with a gradual approach adopted for implementation.

##### *2) Challenges Specific to the Algerian Context*

The most prominent challenges include a weak performance culture, a shortage of specialized competencies, limited coordination among stakeholders, in addition to technical challenges related to information systems.

#### *Section Six: Practical Recommendations to Enhance Expenditure Rationalization through Program-Based Budgeting*

- Strengthening specialized training in modern public finance;
- Developing integrated financial information systems;

- Entrenching a culture of evaluation and accountability;
- Supporting academic research in the field of program-based budgeting.

## Conclusion

This research concludes that rationalizing expenditures constitutes a fundamental pillar for the success of the transition from the operating budget to the program-based budget, and that this transition represents a strategic step toward improving the efficiency of public spending and achieving predefined objectives. However, the success of this process remains contingent upon the availability of a set of organizational, human, and technical conditions, in addition to the entrenchment of a culture of performance and results within public institutions.

Accordingly, the program-based budget is not merely a technical tool, but rather a comprehensive reform that affects the way public funds are managed, and strengthens the principles of good governance and sustainable development.

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