TECHNICAL NOTES AND MANUALS

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Fiscal Affairs Department

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Richard Allen and Dimitar Radev

This technical note[1] addresses the following main questions:

- What are the definition, classification, and typology of extrabudgetary funds (EBFs)?
- Why do EBFs exist?
- What are the problems created by EBFs?
- What are the criteria for evaluating and reforming EBFs? and
- What are the implications for analysis of fiscal policies and for public financial management (PFM)?

I. Definition, Data, Classification, and Typology of EBFs

Although the term extrabudgetary funds seems self-explanatory, in practice it refers to a diverse and often complex set of issues. Introducing a meaningful definition and typology is helpful in clarifying the concept of EBFs and distinguishing their many different varieties.

A. Definition of EBFs

The term "extrabudgetary" can be used in several ways, each emphasizing a different aspect of the issue. Extrabudgetary *transactions* are the broadest concept and include all revenues, expenditures, and financing that are excluded from the budget. Extrabudgetary *accounts* are the bank arrangements into which extrabudgetary revenues and expenditures are paid in and disbursed. Extrabudgetary *entities* (or units) are institutions that are engaged in extrabudgetary transactions, may use extrabudgetary accounts, may have their own governance structures and, often, a legal status that is independent of government ministries and departments.

In this note, **EBFs refer to general government transactions, often with separate banking and institutional arrangements that are not included in the annual state (federal) budget law and the budgets of subnational levels of government.**

The note especially focuses on institutional arrangements of EBFs when they are organized as separate government entities. However, such entities may not capture all extrabudgetary

[1]Based on "Managing and Controlling Extrabudgetary Funds" by Richard Allen and Dimitar Radev, published in OECD Journal on Budgeting, Volume 6 Issue 4, 2006; www.oecd.org/gov/budget/journal. This note benefited from valuable comments by colleagues from the IMF Fiscal Affairs Department, the World Bank and OECD, and also from the helpful research assistance of Mr. Dimitar Vlahov.