

# Change management and implementation of programme-based budgeting

## Context

The document overleaf is the executive summary of an evaluation of the Republic of Maendeleo Mazuri’s budget reforms six years later. The reform introduced programme performance-based budgeting, and it was led by Budget Director Simon Okomo, who had high hopes that the reform will result in better budget decisions against policy priorities.

You know the basic facts of the reform from the video you have seen. It involved:

- the introduction of a programme budget structure,
- coupled with medium-term budgeting,
- the development of performance information,
- guidance on improved budget processes in spending agencies, and
- much more extensive budget documentation.

The video however showed that in the first year of implementation, the reform resulted in much more work

for ministries, departments and agencies, as well as Director Okomo’s own staff, as they tried to deal with the extra information requirements. Yet, people were unsure exactly how and unable to do things differently otherwise. Some drew on consultants to help produce the budget submission documentation required, others farmed it out across their institutions just to get it done. At the same time, neither the political leadership in government, nor in the legislature, realised that they too had to deal with the budget differently. It appeared, by the second year, that incremental line-item budgeting was still alive and well.

We have learnt that since we last saw Director Okomo rushing out of his office, he has commissioned more detailed Guidelines, organized more training for accounting officers, financial managers, programme managers and parliamentarians, and sent his desk officers on several international training workshops on programme budgeting.

Let’s see whether Director Okomo’s further efforts made a difference to the budget outcomes of the programme performance-based budget reform.

## EXECUTIVE SUMMARY

### Evaluation of the programme performance-based budget reform in Maendeleo Mazuri

#### Introduction

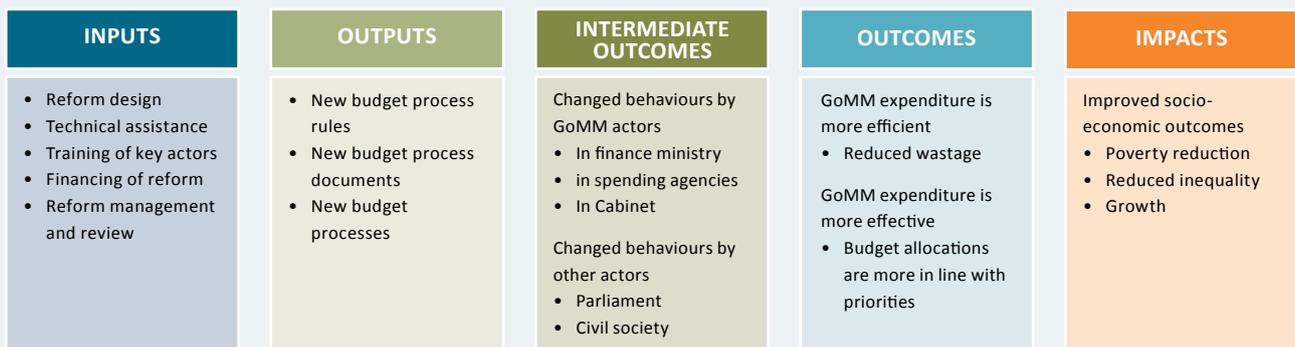
In 2012, the Republic of Maendeleo Mazuri implemented a programme performance-based approach to budgeting (the PB reform). The implementation was with the support of the Global Agency for Growth and Development (GAGD), a development partner. The reform was to address the difficulty the country had to shift its budgets to make space for new priorities. This evaluation was commissioned by the GAGD and the Government of Maendeleo Mazuri (GoMM). The task was

to track if the expected reform result chain set out in Figure 1, occurred in practice.

#### Main conclusions and supporting findings

The reform was relevant to address the gap between what GoMM agencies were routinely funding with their available resources, and what they should have been financing following the national plans. It was also relevant to address inefficiencies in budget use, such as key agencies spending money on

Figure 1: Expected result chain from the PB reform



staff and office expenses, but having no budget available to implement programme activities and deliver services. It was also shown that the GoMM had enough staff with sufficient skills in the finance ministry and across spending agencies, to implement the complex system required. The reform design, if the rest of the result chain had occurred, could have addressed these weaknesses.

The reform was however not effective. The evaluation found that there has been no change at outcome level. An analysis of the expenditure of selected agencies against policy objectives and plans found no significant change for most spending agencies in alignment in 2017 versus 2011.

Across actors, a continuation of old behaviours and patterns reinforced the pre-PB budget culture and practices.

- **Critically, at spending agency level, there was very little change in how decisions were made, who made them, and in decision criteria at spending agency level:**

- It made no difference to decisions that the budget was on a programme basis, or that performance information was asked.
- Very few entities reported that accounting officers led an organization-wide process to make trade-offs between policy priorities and their associated programmes and costs.
- Most entities interviewed instead reported an internal budget process which looked much like pre-PB processes. The core budget decision-making process still involved the financial manager asking line managers what was needed and then adding the cost of requests to the previous year's budget. In order to fit this process to the budget

submission requirements, financial managers then looked for line items to cut across programmes, to fit the base budget request within ceiling.

- Any other trade-offs made – usually by the financial manager – were still by division and line items. For example, choices were between whether a car for division 1 was considered more important than a new programme officer for division 2 without considering links to policy priorities. This meant that divisions who spoke loudest, or first, got the funding.
- Most financial managers said that they would more often consider which unit's work environment was more constrained than whether one programme was more important than another. Generally, they understood all programmes to be equally important.

A notable exception was one of the spending entities sampled, the Agency for the Promotion of Competition in Trade (APCT), which succeeded in changing its culture and the behaviour of its staff (see box 1). Their practices were, however, not shared with other spending agencies.

- **Finance ministry officials did not change their criteria for assessing budget proposals:**

- Spending agencies reported that they could not see value in changing their processes, as finance officials still assessed their submissions on line items and did not pay attention to how inputs were justified against policy objectives. Hearings were still on whether agencies were, for example, spending too much on consultants or not budgeting fully for utility costs.

### Box 1: Mini case study: The story of the Agency for the Promotion of Competition in Trade

The APCT accounting officer said that she believed PB to be an opportunity to deliver on their mandate and to address their experience of having chronic money shortages. At the start, the APCT formed a PB implementation team, that met regularly to review whether PB was working.

The accounting officer and her PB team agreed that their toughest task was to change the culture of the organisation. It required changing the mind-set from being about 'cannot deliver because there is no budget', 'I need better office furniture' to one in which everyone cared about making the private sector competitive, even when resources were limited. In implementing the reform, the APCT line managers had to formally commit to prioritise the programmes that would deliver on the most important outcomes within the constraints of the budget.

The organisational culture that budgeting was for financial managers, also had to change. Previously, people in the organisation believed that budgeting was about costing and financial programming and not about policy choices.

To engineer this culture change, the accounting officer and the ACPT PB team sat down with key staff to discuss a new internal budget process, in line with Finance Ministry guidance. It was a two-day planning session that started by considering why the budget process did not work for the APCT, and then sought ways to address problems. Important was that each division had to consider also its own processes and the organisation as a whole discussed how processes would link together at the centre. They also realised they had to map their programmes to their divisions, and make clear for each programme or sub-programme, who would manage the process for that programme. Senior staff were tasked with communicating changes to all staff.

A central resulting innovation for the APCT was kicking off the budget process each year by bringing the senior management team together for a full day to launch the budget process, set deadlines and identify the APCT's priority service delivery challenges. This session was important in directing decisions about budgets for the remainder of the process.

In the first year of implementation, the accounting officer said she made sure that only budget requests formulated in terms of how they would address service delivery challenges were allowed to be considered for funding. Any

requests that did not do so, were not considered. The budget process hinged on a day-long retreat in which the senior management team reviewed requests and worked with the financial manager to decide what would be financed and where funding would be cut. This has also now become standard practice.

The accounting officer said that even when they had all agreed in the first year that divisions will have an internal process to discuss their trade-offs, not all managers took this seriously. 'It was clear that they did not believe that I was serious about us using a different approach to decide the budget. They could not see how the Minister would be prepared not to have his preferred projects funded, no matter what the priorities were.' She realised halfway during the process in the first year that this was indeed still a problem. She sought to address the issues that year by singling out the managers who had taken the new approach seriously, and favouring their proposals for funding. In the subsequent year, she asked the Minister to join the priority-setting session. 'This did make the session more difficult, as people were not willing to speak out in front of the Minister, which meant I had to take the lead and argue against some projects he wanted on the agenda, which were not a priority.' But it had the benefit of getting the Minister on board.

She also got the line managers who had changed practices to sit down in the second year with those who had not and review their work. 'This had two benefits, firstly the non-compliant managers did not like this, so they were forced to change. And, we actually ended up including a peer review in the process for all because people are better at identifying savings in other managers' programmes than in their own.' She also noted that part of the problem was getting some line managers to accept the additional programme management responsibilities that came with PB, and managing cross-division responsibilities. 'Even now we still struggle to get people to work jointly in the one case where two of our smaller divisions are financed by one programme.'

A final innovation for the APCT was that each year, after their budget hearings, they held a backward-looking discussion on that year's process. 'This has actually helped us to keep the process on track,' one senior member of the APCT PB team said. 'Two years ago, for example, when we asked programme managers to identify their budgeting problems, it emerged that we did not have good administrative data on the types of complaints we receive.' The manager explained that they realised they were setting priorities still based on where they thought supply gaps were. To change this, the APCT have now spent money on a complaints management information system, which has allowed them to beef up capacity based on demand-side needs.

- There were some exceptions. Some desk officers were reported as trying to get to know their policy area and paying attention to the policy analysis that ministries submitted with their budget proposals before submitting their recommendations to the Budget Director.
  - These officers said however that despite the policy priority rhetoric and the additional documentation, the Finance Ministry's real preferred criteria for allocating funding had not changed much. The first concern is whether at an aggregate level economic item costs are low and whether the balance between economic items is right for the fiscal framework.
  - This was on account of input-based fiscal framework conditions from another large donor on its budget support programme. Specifically, there was a limit on personnel expenditure.
  - The evaluation found that ownership and understanding of the PB reform was low outside of the Budget Office, and that other divisions did not believe it to affect their processes or be their concern. Even within the Budget Office, after the PB advisor left, there was not a clear team or process to manage the reform for success.
- **Cabinet and MPs have not changed their behaviour for the budget:**
    - The evaluation found that political office holders have not changed how they interact with the budget. While the process includes formal approval by Cabinet on the budget before submission to Parliament, individual Ministers still routinely issue instructions for spending to their Ministries outside of the formal process, bringing new policy priorities.
  - The evaluation found that the two Finance Ministers who have been in office since the start of the reform in 2012, did not present the budget in Cabinet or engage with their officials in the Finance Ministry on the budget any differently because of PB.
  - Most spending agencies said they have not been asked by Members of Parliament about their performance targets and results relative to spending since the introduction of PB.
- **Other important stakeholders have not harmonised their processes with a programme approach:**
    - The evaluation found that the Planning Ministry still chose between projects from different agencies for capital funding, and the Civil Service Ministry between additional staffing for agency 1 rather than agency 2, based on criteria that had little to do with how these two economic categories of spending may contribute to a single agency policy objective.
    - This resulted in spending agencies still being forced to think not in terms of programme-objectives, but rather about trade-offs within economic categories.
- There has been no significant change in behaviour despite reform inputs and outputs being delivered according to plan.

The evaluation found that for all intents and purposes, reform inputs were delivered on time by the Finance Ministry, and that outputs occurred as planned.

The key assumption of the Finance Ministry, that formal changes in rules, processes and documents would automatically result in better budget outcomes, was wrong. When the reform was first implemented, the GoMM did not explicitly formulate that an intermediate result would be that all the key actors will have to change their behaviours. It assumed that a change in budget rules, processes and documents would automatically result in improved budget planning, and more accountability

for the policy results from budgeting and spending. This has however not happened.

### Recommendations

In view of the findings, the evaluation has resulted in one main recommendation, which breaks down into several sub-recommendations. The main recommendation is that in the next phase of reform, the GoMM must revise its reform approach to put managing the required change in mindset, culture and behaviour centre stage of its reform strategies. This means the following: ...

## The case

The evaluation team leader fell ill before she could finish writing up the recommendations for the evaluation. Can you assist?

As a team, please formulate a set of recommendations for Budget Director Okomo on the actions he should take, in terms of reform inputs and outputs, to ensure that the behaviour of key reform actors change. Consider the following questions in your deliberations:

1. Which actors' behaviour is key, how would you prioritise them if you were Director Okomo?
2. What strategies would you have to change people's mindsets and behaviours (inside and outside the Finance Ministry)? How would you prioritise these into clear steps?
3. What are specific incentives that your top three actors face? What would your strategies be to address these?

## Acknowledgments

This publication is funded in part by the African Development Bank and the Swiss State Secretariat for Economic Affairs. The findings and conclusions do not necessarily reflect their positions or policies.



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