BUDGETING FOR RESULTS:

Moving towards performance budgeting

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TABLE OF CONTENTS

LIST OF TABLES AND FIGURES

Tables

Figures

LIST OF ACRONYMS AND ABBREVIATIONS

BSIP	Budget System Improvement Programme
CABRI	Collaborative Africa Budget Reform Initiative
CAEMC	Central African Economic and Monetary Community
DRC	Democratic Republic of Congo
EU	European Union
GBO/OBM	*gestion du budget par objectifs/*objectives-based budget management
JCCS	joint country case study
MDG	Millennium Development Goal
MINECOFIN	Ministry of Finance and Economic Planning
MoF	ministry of finance
MP	member of Parliament
MTBF	medium-term budget framework
MTEF	medium-term expenditure framework
OBL	organic budget law
OECD	Organisation for Economic Co-operation and Development
PBB	programme-based budgeting/performance-based budgeting
PEFA	*Public Expenditure and Financial Accountability*
PFA	*public finance act*
PFM	public financial management
PI	performance indicator
PPB	programme and performance-based budgeting
PPBB	programme performance-based budgeting
SAI	*supreme audit institution*
SSP	*sector strategy plan*
WAEMU	West Africa Economic and Monetary Union

FOREWORD

This, the 8th Annual Seminar publication – *Budgeting for Results: Moving Towards Performance Budgeting* – adds to the substantial body of knowledge on public financial management reforms produced by the Collaborative Africa Budget Reform Initiative (CABRI). The publication presents relevant country case studies, opinion pieces and articles that were prepared by leading public financial management (PFM) experts for the seminar held in South Africa in 2012. In keeping with our networking tradition, this publication also reflects the opportunity that CABRI provided to senior budget officials to exchange views and to learn from the varied experiences of their peers.

Many African countries have adopted or are in the process of adopting programme and performance-based budgeting (PPB) reforms. Given the many challenges that countries face to ensure that these reforms are functional and affect budget outcomes positively, CABRI undertook several activities to support the design and implementation of PPB. The first of these activities was a joint country case study (JCCS) in Mauritius, which took the form of a peer review of PPB. The peer review countries that participated in the Mauritius JCCS were Ethiopia, Kenya, Rwanda and South Africa. The JCCS findings and recommendations are available on the CABRI website.

Following the 8th Annual Seminar, CABRI undertook a JCCS in Namibia, where Botswana, Kenya and Sierra Leone were the peer review countries. In addition, CABRI studied PPB reforms in Burkina Faso, Uganda, Mozambique and Tunisia, and surveyed an additional 15 African countries. CABRI's work in supporting African countries with the formulation and implementation of PPB will continue, and will be undertaken largely in a collaborative manner with regional and international institutions that provide technical and financial assistance in this reform area.

On behalf of the highly committed and talented team at the CABRI Secretariat, I hope that this publication adds value to the existing knowledge on PPB reforms.

Neil Cole
Executive Secretary

SECTION A

1

FRAMING THE ISSUES:
SHIFTING FROM LINE-ITEM TO PROGRAMME AND PERFORMANCE-BASED BUDGETING

1

1.1 Achieving effective programme and performance-based budgeting: Lessons from Africa and elsewhere

Alta Fölscher

Introduction

Programme and performance-based budgeting (PPB) comprises budgeting by programmes, while taking into account the performance of the programmes and their associated public sector institutions, given allocations. Together with medium-term budgeting, PPB reforms have been adopted by, or are promoted in, African countries as key interventions to improving budgetary outcomes.

The 2012 Open Budget Index survey showed that 16 out of the 30 African countries surveyed reflected expenditures against individual programmes for at least a portion of the budget.[1] Although only 7 of these countries also presented non-financial performance to Parliament, 14 of the 26 countries in the CABRI/OECD Survey on Budget Practices reported using performance measures in the budget process.[2]

In performance-based budgeting, the aim is to improve the efficiency and effectiveness of public expenditure by linking the funding of public sector organisations to the results they deliver, making systematic use of performance information (Robinson & Last 2009). This may be done more or less formally: the most basic form of a performance-based budgeting system is one which aims to ensure that, when formulating the government budget, key decision-makers systematically take into account the results to be achieved by expenditure. At its most formal, in direct or formula performance budgeting, the amount of resources allocated to a programme or institution would be tightly linked to targeted and actual performance.

Performance-based budgeting depends to a significant degree on a budget that is structured by programmes. Allocating budgets according to programmes allows budgetary decision-makers to fund priority objectives and make trade-offs between objectives, notwithstanding the mix of inputs required to fund those objectives. In a traditional line-item administrative budget, allocation according to the government's objectives and priorities is difficult, as it is not apparent what underlying activities are being funded and how these relate to the objectives. Programme budgeting requires the additional classification of government expenditures into groups of similar services with similar objectives that relate to the government's long-term mandates. Being able to see from the budget classification what service areas the government is funding, notwithstanding which administrative unit is delivering services and what inputs the government is purchasing, is critical to improving allocative efficiency.

Countries adopt programme budgeting at different levels: a true programme budget refers to the Appropriation Act or Finance Law being structured according to programmes. Many countries, however, still appropriate to administrative structures and line items, but reflect the budget against programmes.

1 See http://survey.internationalbudget.org/
2 See http://webnet.oecd.org/budgeting/Budgeting.aspx

While the underlying idea of PPB is simple, its implementation is challenging. It is not merely about restructuring the budget and developing performance measures and targets for reflection in budget documentation – in itself a challenging task. Critically, the functionality of PPB is predicated on sound macro-fiscal planning and basic budget credibility. Furthermore, it also requires a fundamental shift in budget-preparation institutions, as well as in budget execution, accounting, fiscal reporting and audit. In most cases, governments have to change their organic public financial management (PFM) legislation and restructure themselves, and states have to build the capacity of budgetary actors in the executive, Parliament and the supreme audit institution. It also requires effective and meaningful planning mechanisms, and functioning systems for collecting, storing and analysing non-financial performance information. In short, a functional PPB system requires a multifaceted, government-wide paradigm shift and significant change in how the government functions and connects.

The 8th Annual CABRI Seminar, held in Pretoria from 9 to 11 May 2012, focused on PPB in response to many requests from CABRI member and participating countries for a seminar to share learning on designing and implementing PPB reforms from different starting points. To this end, the seminar brought together technical experts and country practitioners to facilitate information sharing for countries contemplating PPB and countries already in the implementation phase. While the programme placed emphasis on the performance aspects – as reflected in the title *Budgeting for Results: Moving Towards Performance Budgeting* – issues involving a shift to budgeting by programmes were highlighted in most presentations.

This publication serves as a record of proceedings, while also acting as a resource on the subject for practitioners in Africa. As in previous years, this volume contains write-ups of individual sessions, as well as more in-depth papers on session themes. These are collected in Section A. Country contributions are reflected as question and answer box inserts in the main articles, or in mini case studies. This year, however, CABRI has added a Section B, which contains longer country case studies as presented by senior budget officials closely involved with the reforms. The purpose of these case studies is to present PPB reforms from the perspective of finance ministries, and to understand the rationale and mechanisms selected. As sequencing of PPB implementation remains a challenge, these case studies pay some attention to the history of the reform to date, challenges and planned interventions to address these mid-stream challenges.

This post-seminar publication, does not attempt to cover all the seminar presentations and discussions. For example, given the link in principle and in practice between PPB and medium-term budgeting, the 8th Annual Seminar included a practice session on medium-term planning, a session on the PPB-related experience of the West Africa Economic and Monetary Union (WAEMU) and a session on the value of randomised evaluations as a tool for impact measurement and evaluation. Readers who are interested in these additional areas can find the full seminar programme and all presentations on the CABRI website (www.cabri-sbo.org).

For this volume, we have selected seminar themes that are at the core of effective implementation of a PPB system. In Section A, the second chapter looks at the conditions necessary for the implementation of PPB and the third deals with its presentation in PPB documentation and discusses the use of performance information in the budget process. The fourth chapter delves deeper into the public sector implications of PPB reform, focusing on the sequencing of implementation and organisational change considerations. It is important to note that the inputs presented in the chapters do not necessarily reflect the opinion of CABRI, but are to be regarded as important analyses and arguments in an ongoing learning process about the issues covered.

PPB implementation: conditions

The main paper in this chapter by Ian Lienert, PFM expert and consultant to CABRI, identifies important conditions for an effective shift to performance-informed budgeting. Before looking at specific institutional conditions for PPB, he emphasises that PPB reforms are most unlikely to succeed unless the existing 'traditional' budget system is prepared and executed in a credible manner. Specific preconditions are then identified for each main actor in the budget cycle. Attention is paid to the differences between countries with an anglophone administrative inheritance, and countries that have francophone systems. One important difference is that in the francophone system a

PPB reform cannot proceed without the organic budget law being reformed to underpin its introduction. In anglophone systems governments are able to, and in practice do, proceed with institutional reforms prior to adapting the legal framework.

Mr Lienert also emphasises the need for political ownership of the reform, both in Parliament and in the council of ministers, and recommends that a high-level ministerial committee (or the full council) has oversight over important aspects of the reform (e.g. what changes will be made to how the budget is presented). Other necessary conditions include: a comprehensive macro-fiscal framework; the integration of recurrent and capital

Performance information and budget design

A key element of an effective PPB system is the publication of allocations and associated performance measures, usually as a PPB statement submitted to Parliament for each main spending agency. Not only does such documentation build transparency and accountability, it also constitutes a demand for reliable information in the budget process, as it is published, will be subject to external scrutiny and, in some cases, is audited. Countries have very different approaches to documentation, however. In the first article of the third chapter, Anke Braumann from the CABRI Secretariat presents documentation for three sample countries and reflects on the reactions of participants to the documents during the 8th Annual CABRI Seminar. Using the examples of Mauritius, Mali and South Africa, Ms Braumann draws on the session discussions to demonstrate trade-offs between the coverage and depth of information, between summary table formats and longer narratives, and between approaches to performance measures.

In the next article, Alta Fölscher, PFM expert and consultant to CABRI, unpacks key distinctions between concepts and terms used in performance-oriented management approaches in the public sector, highlighting how not paying attention to these issues when implementing a performance-orientation in budget can be damaging to the success of the implementation. A key implementation mistake highlighted is that finance ministries often pay more attention to the design of performance formats and measures, rather than to how and by whom they will be used in the budget process, leading to data for many indicators being collected as if they are all equally important at all management levels, without their being consistently or usefully monitored. This is not only costly, with little benefit, but can quickly lead to deterioration in the quality of performance budgeting to the point where it becomes empty compliance. Overall, quality performance measures emerge when there is a measurement and performance culture in public institutions: this can only be built over time. Key good-practice lessons highlighted are that quality performance measurement starts at the institutional level, that governments should focus on a few high-quality indicators as a signal of performance rather than trying to measure all dimensions of everything, and that institutions must develop systems to manage performance information. It is critical that finance ministries design practical mechanisms for systematically considering performance information in the budget process and build the capacity to do so, as well as sequence the introduction of performance information with necessary complementary reforms.

Ms Fölscher discusses the value of publishing measures, targets and actual outcomes as an effective way of improving their quality. However, many countries find it challenging to design comprehensive but accessible PPB statements.

The question and answer input by Emmanuel Bor, United Nations Development Programme advisor to the finance ministry in Mauritius, usefully discusses the role that performance information plays at each point in the budget cycle. He highlights four types of risk associated with performance budgeting, namely that of distortion linked to the limited scope of indicators, that of creating the wrong incentives, causing spending agencies to present only the information and targets that appear favourable or achievable to them, and that of the investment in time and resources to produce performance measures having no benefit beyond presentational progress in budget documentation. Mr Bor notes that countries should be wary of considering making performance measurement a priority in budgeting, when there are more significant and fundamental PFM weaknesses to address. Mechanisms to address risks include limiting the number of performance measures by programme, using comprehensive spending reviews in addition to indicators, and empowering budgetary actors in Parliament and the executive to hold institutions to account for their performance.

PPB sequencing and organisational change

In the main article in this chapter, PFM consultant Ronald E Quist supports the central notion that PPB reforms can only result in a functional results-oriented system if significant effective PFM human resource and system capacity is in place across the budget cycle. He also highlights, underpinned by analysis of countries' actual experience and progression, that apart from their PFM systems, the political economy and administrative complexity of countries are important factors to consider when designing a PPB implementation. Where basic PFM systems are weak and countries have centralised governments with long bureaucratic chains from funding programmes to implement services, a PPB reform should be expected to take between 15 and 25 years to implement. Mr Quist identifies three main sequencing phases: strengthening PFM performance; creating an enabling context (which includes establishing committed fiscal frameworks, strengthening strategic planning and monitoring, and first attempting a link between functional classification and performance); and implementing core PPB reforms. Illustrating the points made, aspects of the ways in which Morocco and Burkina Faso are implementing PPB are highlighted in text boxes in the chapter.

PPB is unlikely to be functional unless the government can engineer a paradigm shift in the public sector, instilling a culture of measurement and performance in institutions, rather than a culture that is solely concerned with due process and administration in terms of the law. In the second main article of the fourth chapter, John Channon, a PFM consultant, takes up this theme and sets out important aspects of engineering such a shift.

Firstly, PPB is unlikely to succeed unless countries practice effective medium-term budgeting. Under an annual budget, the incentives limit the degree to which performance can matter in the budget process. One aspect of effective medium-term budgeting is the capacity to cost current and new policies so that forward estimates become more meaningful: this is also crucial for PPB, which, at some level, utilises performance information to assess the costs and benefits of different spending choices.

Secondly, Mr Channon looks at the links to broader public sector reforms. He identifies PPB as a subset of broader public administration reforms geared towards a result-orientation in government, and notes that the performance management of institutions and individuals, and how this links to PPB, are important aspects of PPB design.

Thirdly, the organisational change aspects of PPB must be considered up front. This includes that programme structures must be aligned with organisational structures, that human resource and system capacity must be built, and that managerial thinking and processes within spending agencies must be changed. In order to achieve these changes, it is necessary to think about incentives that strengthen performance budgeting, including incentives that relate to public recognition, programme funding and managerial discretion.

Finally, the article highlights how changes in budget process can facilitate organisational change through PPB.

The points made in the article on the value of a more incremental versus a big-bang approach are illustrated by way of text boxes, contrasting the approaches of Mauritius and South Africa. The experience of South Africa reflects practice in some OECD countries where a more incremental, bottom-up and lengthier process to implement PPB allowed for the approaches to performance information and budgeting to be better tailored to the different needs of different sectors (Curristine 2007). This is very much in contrast to the top-down, once-off design approach taken in reform programmes in Africa.

Country case studies

The second part of this publication takes a country perspective through country-drafted case studies on PPB reforms. Three case studies are presented, namely Rwanda, Tunisia and Mali.

These are not the only case studies in the book, however; highlighted case studies feature throughout, including one on Mauritius, a country that has made significant progress on PPB over the last five years. CABRI has been following the introduction and strengthening of PPB in Mauritius, publishing a case study undertaken by a peer group of senior budget official and the CABRI Secretariat, which will be followed by a briefing note setting out progress since (see Shall 2010).[3]

The case studies presented here, however, are drafted by ministry of finance staff from the respective countries, and reflect specifically on the design and implementation challenges of PPB reforms.

The Rwanda case study provides a good example of the

3 Senior budget officials from Kenya, Rwanda and South Africa joined the CABRI Secretariat in undertaking the original case study. The brief was prepared in 2013 by the Ministry of Finance in Mauritius. Both documents are available on the CABRI website (www.cabri-sbo.org).

type of measures that a government needs to undertake when initially PPB is implemented on the basis of a grand design, which may not take into account fully the base PFM and capacity conditions. As Bright Ntare, Director of the Project Management and Monitoring Unit within the National Budget Directorate of the Ministry of Finance and Economic Planning reports, despite the progress made since initial implementation in 2001, challenges exist in PPB, including the poor quality of performance information, weak and unstable programme structures, and inadequate linkage between programme structures and the actual cost of delivering services. Currently, the Rwandan government is in the process of restructuring the programme budget, streamlining and improving the quality of performance information, improving the budget documentation and reports, and building capacity.

Sidiki Traoré, Budget Advisor from the Ministry of Finance and Economy, discusses Mali's PPB reforms, initially undertaken in 1998. He points to the parallel nature of the PPB exercise and the lack of a legal base as key factors affecting the ability of PPB to affect budget outcomes significantly. However, he argues that the reform has been an important factor in building a base of capacity that will now benefit the system as it implements the WAEMU directives. Similar to Mauritius and Rwanda, the streamlining and reduction of performance measures, and improvement in the alignment of programmes and national development and sector plans, are receiving attention.

In the final case study, Nawrez Ben Ticha, Director in the Budget Reform Unit at the Tunisian Ministry of Finance, sets out the institutional structures and reform steps that the country is going through in its shift to PPB. As in the Morocco case study in the fourth chapter, and above in Mauritius and Mali, the Tunisian government opted to first pilot reform in selected ministries in order to adapt designs, before rolling it out to a larger number of institutions. Tunisia, like Mali, Rwanda and Mauritius, has also set up a clear structure, which includes political and technical representation, to steer the implementation of PPB.

Conclusion

PPB reforms promise much. They can provide more and better information on government goals and priorities and on how budget expenditure contributes to these goals; they can encourage a greater emphasis on good planning; they can bring more rationality to the budget process; they can sharpen the result focus in government; they can improve transparency and accountability; and they can demystify the budget for external stakeholders. Overall, governments have great expectations of the allocative and operational efficiency gains promised by a PPB system.

In practice, however, PPB often does not deliver. Designing the reform is already laden with challenges: designing durable, practical programme structures and aligning them with administrative structures is difficult; measuring performance in the public sector is highly challenging; creating valid and reliable linkages between agencies' performance measurements and resource allocations is not only challenging but also risky; and overcoming entrenched line-item administrative budget practices in the budget preparation process requires skills development and political commitment.

Adding to this complexity is working out how the reform needs to be linked to wider system development and change not only in the PFM system but also in the broader public sector, what any individual country needs to build in terms of basic budgeting capacity before attempting PPB, and what the legal framework and organisational changes are that need to accompany it.

The contributions in this volume provide a wealth of practical learning on PPB design and implementation, and represent a significant addition to CABRI's growing resource base on the subject.

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2

IMPLEMENTING PERFORMANCE-BASED BUDGETING:
PRECONDITIONS, CO-CONDITIONS AND DESIGN

2.1 Preconditions for programme and performance-based budget reform

2

Ian Lienert

Introduction

Many African countries have begun, or are considering, some form of programme and performance-based budgeting (PPB). In some cases, local 'champions of reform' have been keen to implement PPB reforms, which are perceived to be an essential feature of modern budget practice. Foreign advisors, financed by multilateral or bilateral donors, have encouraged African countries to introduce PPB reforms that have been adopted in some Organisation for Economic Co-operation and Development (OECD) countries and that are assumed to be transposable to African countries.

The rationale for introducing PPB reforms is understandable. For many years, African countries have been drawing up medium-term planning documents laying out government macroeconomic, sectoral and social development strategies. These high-level strategic documents set out objectives in specific sectors, including the possibilities of attaining Millennium Development Goals (MDGs). It is natural, then, to consider replacing the inherited 'input-oriented' budget system with a PPB system that focuses on outputs and/or outcomes of specific budget programmes. Under PPB, some targets and performance indicators (PIs) could be linked directly to MDGs.

To link planning and budgeting, it is believed that the PPB systems needed in Africa should be linked to a medium-term expenditure framework (MTEF). It is conceivable that a PPB system could be introduced solely to improve annual budget processes. However, in many African countries, MTEFs are being introduced at the same time as PPB systems.[4]

The introduction of PPB and MTEFs is a huge task, especially if both reforms are undertaken simultaneously. Nearly all OECD countries now present multi-year spending estimates to their legislatures, and about three-quarters of these countries include non-financial performance information in their budget documents (see OECD 2007a, 2007b). In some laggard OECD countries, such reforms are only just starting.[5] Also, one-third of OECD countries do not have multi-year expenditure targets or ceilings in their budget documents, and direct/formula performance budgeting (see Table 2.1.1) is used only in specific sectors of a few OECD countries (see OECD 2007a, 2007b).

Given that PPB systems and MTEFs continue to evolve in OECD countries, the following questions may be asked:

4 The 2007 CABRI/OECD Budget Practices and Procedures survey showed that 15 out of 26 countries (with anglophone countries representing about 60 per cent of the sample) included medium-term estimates in budget documents submitted to the legislature (CABRI 2009). The survey also indicated that a high proportion of countries prepare multi-year expenditure targets or ceilings, but do not submit them to the legislature for approval. The majority of countries prepare multi-year targets or ceilings at ministry or line-item level (CABRI 2009).

5 Under their EU-IMF financial-support programmes, Greece, Ireland and Portugal are required to introduce medium-term budget strategies and expenditure targets. The latter two countries are contemplating introducing a PPB system.

What type of PPB system is best for African countries? When should such reforms be introduced? How should PPB and other budget reforms be sequenced? The main aim of this article is to identify a set of preconditions for successful implementation of PPB systems. Section 2 examines different types of PPB system and proposes that a 'performance-informed' system be the standard against which preconditions are developed. Section 3 discusses different approaches to examining the necessary preconditions. In section 4, 17 preconditions are proposed, and the main actors in budget processes for implementing them are identified. The 17 preconditions are tentative and are put forward to stimulate debate and questions as to their pertinence, priority and comprehensiveness. As a final introductory comment, 'preconditions' could be subdivided into 'pre'-conditions and 'co'-conditions. The former are actions that need to be fully completed before the first steps of introducing PPB are undertaken, whereas the latter are actions that commence before PPB begins to be implemented and which continue after the first steps to introduce a PPB system are undertaken. While such a distinction is important, in most instances, this article limits itself to considering both types of 'precondition' simultaneously.

What type of PPB is under consideration?

The forms of PPB vary considerably. It follows that the preconditions for a simple PPB system are different from those for more complex PPB systems. In francophone African countries, the form of PPB is fairly uniform, as France's PPB model is the underlying basis of PPB systems being introduced in these countries. This is partly a result of the fact that the regional bodies of the CFA franc monetary zone – the West Africa Economic and Monetary Union (WAEMU) and the Central African Economic and Monetary Community (CAEMC) – have issued directives for a particular model to be used (see organic budget laws, below). It also is partly a result of the training in France of francophone African officials, who are exposed virtually exclusively to France's recent experience with its PPB system.

In contrast, anglophone African countries have a more eclectic approach. Although they may look to the PPB models used in Australia, New Zealand, South Africa, Sweden and the United Kingdom, those countries' PPB systems vary between themselves. Also, as with other OECD countries, these 'models' are continuing to evolve (e.g. New Zealand's PPB system is becoming more focused on outcomes, rather than outputs and, like Australia, its attachment to the 'purchaser-provider model' has weakened over the past two decades). Partly because of the further changes being made in the PPB systems of 'advanced' countries and the lack of uniformity amongst them, anglophone African countries' PPB systems are likely to be more diverse than those of francophone African countries. It is possible that the PPB systems in anglophone countries will be better adapted to local constitutional, institutional and organisational arrangements.

At a different level of analysis, based on the experience of its member countries, the OECD has identified three types of PPB system, from the least to the most extensive form (see Table 2.1.1).

Table 2.1.1: Three types of PPB system

Type	Linkage between performance information and funding	Planned or actual performance	Main purpose in the budget process
Presentational	No link	Performance targets and/or performance results	Accountability
Performance-informed budgeting	Loose/ indirect link	Performance targets and/or performance results	Planning and/or accountability
Direct/ formula performance budgeting	Tight/direct link	Performance results	Resource allocation and accountability

Source: OECD (2007b: Table 1.1)

Few countries have adopted 'full-fledged' or direct/ formula PPB systems, and then only in selected sectors. In general, it is difficult to establish strong links between budget PIs and annual budget programme allocations (OECD 2007b). The difficulties in establishing such links are acute when outputs of government programmes are intangible and/or difficult to measure (e.g. for 'regulation' and 'policy advice' outputs).

In this article, the standard for considering the preconditions of PPB is 'performance-informed budgeting'. This is the 'highest' form of PPB that could be implemented in most African countries at the present time. This PPB model is broadly in line with the 'basic model' of PPB for low-income countries discussed in Robinson and Last (2009).

Preconditions in each phase of the budget cycle

Although PPB is a budget reform, it is not limited to actions to improve budget preparation. Programme-based budgets need to be traced in the budget execution and government accounting systems, and results ('performance') need to be analysed and evaluated *ex-post.* This suggests that it is useful to examine the preconditions for PPB at each stage of the budget cycle.

The overarching precondition: Get the basics right[6]

The most important issue regarding the budget cycle is to first get the basics of annual budgeting right. Prior to beginning PPB reforms, it is essential that the existing 'traditional' budget system is prepared and executed in a credible manner. One approach is to group the fundamental budget and PFM reforms in a 'platform 1' focusing on improving the credibility of the annual budget. The government and donors would agree on completing 'platform 1' actions prior to later 'platforms', of which one of the last would be 'introducing a PPB system' (OECD 2006).

One way of assessing a country's readiness for introducing a PPB system would be to examine Public Expenditure and Financial Accountability (PEFA) indicators relating to the credibility of the annual budget, notably indicators PI-1 to PI-4.[7] Alternatively, a threshold could be set for a more comprehensive subset of PEFA indicators (e.g. all indicators relating to the budget cycle: PI-11 to PI28). In contrast, countries with very weak PFM systems would be strongly encouraged to first address the most glaring dysfunctions in their annual budget systems. The box on key features of good PFM elaborates on what this might entail.

Some countries with widespread weaknesses in annual budget management practices have taken steps to introduce PPB systems. For example, the Democratic Republic of Congo (DRC) adopted a new law in 2011 that requires, over the next seven years, programme-based budgets and MTEFs at both central and provincial/sub-provincial levels. In view of the low scores in the DRC's 2008 PEFA assessment, the development of budget management capacity for PPB at all levels of government is likely to be extremely challenging.

6 The CABRI Status Report on Programme-Based Budgeting (2013, forthcoming) extensively covers the notion of 'getting the basics right'.

7 PEFA (2011) describes the framework for assessing a country's PFM system. Indicators PI-1 to PI-3 relate to how revenues and expenditures in executed budgets compare with those projected in the annual budget law adopted by Parliament. Indicator PI-4 measures payment arrears.

Preconditions for each actor in budget processes

This section examines the most important preconditions to be met prior to the introduction of a PPB system. It examines the preconditions to be fulfilled by Parliament, the government (council of ministers), the central budget management ministries (plan, budget and finance),[8] the civil service ministry (or agency), spending ministries, the supreme audit institution and international financial partners (donors).

2

Parliament

Condition 1: Adopt a new budget system law

In francophone countries, the adoption of a new public finance law is an essential precondition. Reflecting the colonial inheritance, it would be inconceivable to introduce reforms without first revamping the legal framework, notably the organic budget law (OBL). The OBL would specify that the new law would be fully applied after a transitional period, the duration of which is stated in the 'transitional dispositions' of the law. The OBLs in francophone Africa specify the appropriations structure (with programmes as the unit of vote by Parliament) and, in the annual budget documentation, the required PIs. Many francophone African countries are guided by the directives for OBLs issued by WAEMU and CAEMC.

In contrast, while anglophone countries may consider adopting a new public finance act (PFA) before the introduction of a PPB system, in practice the reform could take place before revising the existing PFA. In such countries, a new PFA could be considered an optional precondition. The new provisions could require changing the format of the annual budget's estimates of expenditures (by output or outcome), as well as new *ex-ante* and *ex-post* reporting requirements on budget objectives and performance.

8 Institutional arrangements for planning, budgeting and finance vary in African countries, from 'super-ministries' fulfilling all three functions to three separate ministries (e.g. DRC) to various intermediate combinations of ministerial/agency organisation. In this article, a generic 'ministry of finance' (MOF) is used to indicate a 'super-ministry' or combinations of ministries that cover all three functions.

Key features of good PFM

> *It would be foolhardy to entrust public managers with complete freedom over resources when they have not yet internalised the habit of spending public money according to prescribed rules* (Schick. 1998: 127).

Developing a managerial culture that promotes compliance with formal rules and reducing corruption in budget processes are overarching features. More specific aspects of good basic annual budgeting include the following.

Strong budget preparation, execution, reporting and audit

- A well-prepared and -executed traditional line-item budget, with few deviations from plans.
- Developed medium-term strategic planning and budget frameworks.
- Realistic revenue forecasts and adequate institutions for developing the annual fiscal framework.
- No opaque extra-budgetary mechanisms.
- Transparent public procurement rules that are respected in practice.
- Clear and predictable budget execution procedures and internal controls, so that payment of public funds is for intended purposes.
- Effective government cash management and cash planning, including control by the minister of finance over all government bank accounts, under a treasury single accounting system.
- Adequate coverage, quality and timeliness of monthly fiscal information. Publication of fiscal data – actual outcomes compared with budgeted amounts – on the ministry of finance website.
- Regular reconciliations of banking and accounting data.
- Effective external audit, including timely publication of the audit report on consolidated annual accounts and follow-up of audit recommendations by Parliament.

Strong tax governance

Few deficiencies in tax administration systems, including low corruption, little abuse and misapplication of provisions for tax exemption, no political interference and adequate capacity.

- A low level of tax evasion in both the formal and informal sectors, for small and large taxpayers.
- A taxpaying culture, achieved by invariable application of penalties and educational campaigns.
- Transparent arrangements for natural resource taxation (clear rules for contracts, royalties, reporting the flows and use of revenues, etc.).

Effective management of external resources, public debt and financial assets

- Aid to be on budget, using harmonised aid management. Avoid use of multiple systems (development partners have an important role to play here, by providing governments with comprehensive, timely and reliable information on aid commitments and disbursements).
- Effective public debt management, with a clear legal framework and a medium-term debt strategy, clear mandates to issue debt, and adequate risk management for debt guarantees.
- Debt policy co-ordinated with macroeconomic and fiscal policy.
- Accurate recording and reporting of public debt, contingent liabilities and financial assets.

Sources: CABRI (2011); CABRI, AFROSAI & ATAF (2011)

Francophone and anglophone countries have quite different approaches to the importance of law and the role of Parliament in approving the 'rules' of PPB systems. Their budget system laws differ substantially in content. In francophone countries, OBLs are heavily oriented towards budget preparation and budget approval by Parliament (including an ex-post budget execution law). In francophone countries, by adopting the OBL, Parliament determines the format of annual budget appropriations – by administrative units and economic nature (the 'classical' budget nomenclature) or by programme.

In contrast, anglophone African countries' public finance laws are heavily oriented toward budget execution and accounting. In a number of cases, external audit provisions are also included in the PFA. The public finance laws delegate to the government or, more specifically, the minister of finance, the responsibility of defining the format of the budget estimates. For example, in terms of Article 5(1)(b) of Tanzania's Public Finance Act of 2001, the minister is 'to advise the Government on the total of resources to be allocated to the public sector, and the appropriate level of resources to be allocated to individual programmes within that sector'.[9]

Despite the law's reference to 'individual programmes', the estimates of annual spending are still adopted by Tanzania's Parliament using the traditional 'recurrent' and 'development' categories. This is because the choice of appropriations structure and the timing of its introduction have been delegated to the minister of finance.[10] No such delegation exists in the OBLs of francophone countries.

Condition 2: 'Ownership' of the PPB system by Parliament and minimum parliamentary capacity for budget analysis

A PPB system provides information on the objectives and performance targets for spending programmes. However, if the legislature prefers a detailed line-item budget – especially if members of parliament (MPs) can affect spending in their constituencies – the PPB system may fail in its reallocation objectives (as it has in the United States).[11] Also, one purpose of providing performance-related information to MPs, related to enabling performance accountability, is to allow budget decision-makers to reallocate proposed spending (should budget amendment powers allow this) to programmes where performance and value-for-money is greatest. To do this, Parliament needs support services for analysing the government's annual budget proposal. In this context, a parliamentary budget office (PBO) would be helpful, but the creation of a PBO should not be considered a prerequisite for PPB.

9 See http://bunge.parliament.go.tz/PAMS/docs/6-2001.pdf

10 Unlike francophone countries' OBLs, Tanzania's PFA does not include transitional provisions that indicate the phasing in of the application of various articles of the law.

11 Although performance information and tools have been used to improve efficiency within federal government agencies, the use of performance information by Congress has been very limited (Shea 2008).

Council of ministers

Condition 3: 'Ownership' of the PPB system by the government, preferably with a 'champion of reform' at the political level

For PPB to succeed, the council of ministers needs to be made aware of the PPB's objectives, advantages and costs compared with maintaining the 'classical' budget system. Some ministers may see PPB as a technical issue, whereas others may be fearful that their ministries' budgets will be reduced. High-level politicians may argue that expenses for 'sovereignty' or 'national security' should be excluded from the intensified responsibility of defending annual spending outcomes before Parliament, as required by a PPB system. For these reasons, efforts are needed to convince the political authorities that the PPB system is in the national interest, as it is intended to result in a better allocation of scarce budgetary resources. A strong 'champion of reform' in the council of ministers is most helpful. In Mauritius, for example, the prime minister provided strong support and several ex-ministers of finance from other countries that had implemented PPB were brought in to meet with the Cabinet (Ba 2010). This was a practical way of attaining political commitment to the new system. In Mali, the budget director and a minister of finance were the 'champions of reform'; in Ethiopia, it was the minister of finance, with pressure for change coming from the prime minister (Robinson & Last 2009).

Unit/directorate responsible for strategic economic and budget planning

Condition 4: A comprehensive macro-fiscal framework, with medium-term fiscal targets and reliable projections, especially for the annual budget

Since a programme-based budget seeks to reflect an optimal allocation of resources, it is important that all resources – domestically-raised revenues and external budget support and project aid – are included in the annual budget and the medium-term budget framework (MTBF). All off-budget revenues and spending should be included in the overall fiscal framework. Medium-term targets need to be established for key fiscal aggregates such as the overall fiscal deficit (with and without grants) and aggregate spending (inclusive of spending from a contingency reserve). Fiscal rules can be helpful, but are not essential. The targets and spending priorities for the annual budget law would be more detailed than for the MTBF, and would

2

need to be described clearly in annual budget documentation. These features lay the foundation for programme-by-programme description of the annual budget once PPB is introduced. A key challenge for budget comprehensiveness in African countries is to put external aid on budget.[12]

A programme-based budget system does not necessarily need to be accompanied by medium-term projections for each budget programme (i.e. programme-based MTEFs). While such projections can be very helpful, when macro-fiscal stability is not achieved and the MTBF changes quite substantially from year to year – because of external shocks, uncertainties in foreign aid inflows, underperformance of revenues or under-costing of spending – medium-term budget projections do not provide certainty for funding spending programmes over a three to four year time horizon. Until the macro-fiscal framework is stable, MTEFs can be regarded as an optional precondition for the introduction of PPB.

Condition 5: An annual budget that integrates current and capital spending (the budget and planning functions)

The difficulties associated with having separate recurrent and development (or current and investment) budgets are well known.[13]

The integration of two budgets is a prerequisite, since a PPB system requires programme managers to be responsible for preparing and executing all spending of their budget programmes, both current and capital. Ideally, each of the four dimensions of budgetary integration – legislative, institutional, presentational and managerial – need to be addressed (see Webber 2007). In practice, a pragmatic approach could be adopted, given the political constraints on bringing about institutional integration. In countries where there is a multiplicity of ministries responsible for one sector, collaboration and integration is needed. For example, until recently, in Niger there were five separate ministries involved in agriculture and rural development. When institutional fragmentation occurs, it is very challenging to draw up and execute budget programmes consistent with the sectoral strategy.

Regarding the 'presentational' aspect of budget integration, the scope for streamlining strategic planning documents is also an important issue to address prior to, or during, implementation of PPB.

12 See CABRI Aid on Budget programme outputs (www.cabri-sbo.org).

13 Fragmentation and other relevant issues are discussed fully in CABRI (2005).

Unit/directorate responsible for preparing the annual budget

Condition 6: Create a budget reform committee and/or a specialised reform unit

The decision to move to a PPB system requires considerable planning and piloting. The creation of two reform committees may be necessary, one at political level (chaired, for example, by the finance minister), which would make high-level decisions (e.g. approve the new programme structure of the annual budget and nominate budget programme managers).[14]

The 'political' committee would endorse detailed plans formulated by a second committee, or specialised unit, in the budget directorate-general of the finance ministry. This committee or unit would be the driving force for reforms, designing the details of the reform strategy, its various implementation steps and technical issues (see Condition 7 below).

Condition 7: Plan the phase-in period for the PPB system

Prior to the introduction of PPB, the reform committee or unit would prepare a phase-in strategy, with annual action plans and benchmarks to be accomplished. These would include the following:

- *Preparing explanatory guidance notes* that define and explain new concepts (programmes, sub-programmes, outcomes, outputs, performance indicators, etc.) for public servants implementing the reforms, especially budget managers in spending ministries and agencies.
- *Proposing changes in budget documentation (including the budget proposal, budget execution reports and annual performance reports)* consistent with the new legal framework and the government's budget strategy and spending priorities.
- *Assisting spending ministries to prepare for the reforms*, including the identification and nomination of budget programme managers, and the guiding of ministries as they draw up their budget programmes, sub-programmes and activities.
- *Deciding on whether a gradual phase-in or a 'big bang' approach is desirable.* Since PPB is a complex reform and it imposes several new requirements and responsibilities on ministries and government

14 As an alternative to creating a political-level committee, all PPB decisions requiring political decisions could be made by the council of ministers.

agencies, it is important not to be overambitious. A long period would normally be required for implementation.[15] Some countries may prefer to pilot a few 'fast-track' ministries before generalising PPB to all ministries. Even if this is done, it is desirable to prepare, adopt and execute the annual budget on both the traditional basis and the programme basis, as an experiment for at least one fiscal year.[16]

- *Adapting the implementation speed to the management capacity in spending ministries.* Francophone countries have a disadvantage in that they inherited a highly centralised budget management system. This resulted in spending ministries playing only a minor role in budget management.[17] When account is taken of weak budget management capacity in spending ministries, francophone countries may need to plan on a lengthy period (of perhaps ten years) to introduce PPB.[18]
- *Redefining roles and responsibilities for ministers, heads of spending ministries and budget programme managers.* These new roles and responsibilities could be specified in regulations that supplement the provisions of new OBLs or PFAs.
- *Preparing training materials and running seminars/ training courses* to familiarise all government and parliamentary actors with PPB, not only the officials in spending ministries who will operate the PPB system.
- *Adapting computerisation.* To introduce PPB, it is necessary to adapt existing computerised budget management systems, especially in spending ministries, and to plan and purchase new hardware and software where needed.

15 Mauritius, which chose a 'big bang' approach when introducing PPB, was an exception. This was partly because of the very strong drive of the 'champions of reform' and partly because of reasonable management capacity in spending ministries to implement the reforms.

16 Some countries (e.g. Mali) have got stuck at this point: the PPB budget allocations are shown in an annexure to the annual budget law, which continues to be adopted according to the 'classical' budget nomenclature.

17 Budget management in francophone African countries is even more centralised than it is in France, where spending ministers have been *ordonnateurs* for a long time. Despite this, France allowed itself five years to plan and introduce its PPB system.

18 Mali began introducing PPB in selected ministries in 1997 (Robinson & Last 2009). More than ten years later, the annual budget law adopted by the national assembly was not being adopted by programme. Part of the delay in fully implementing PPB in some West African francophone countries was due to hesitancy to adopt PPB in advance of the WAEMU Directive for OBLs, which was not finalised until 2009.

Condition 8: Enhance budget management responsibilities in spending ministries

Prior to introducing performance-oriented budget management, spending ministries need to acquire expertise in managing their own budgets. This is easier in anglophone African countries, where 'accounting officers' – usually heads of spending ministries – are responsible for preparing and executing their budgets and may be held to account before a parliamentary committee (Lienert 2003). Steps to enhance ministerial budget management include:

- Appointing programme budget managers and clearly specifying their responsibilities. If necessary, new 'contractual' relationships between ministers who deliver outcomes and programme managers who are responsible for delivering (measurable) outputs would have to be decided at government level. New decrees would clarify the delegation of authority and the nature of the accountability of the 'agent' to the 'principal'.
- Preparing spending ministries to make projections of budget programmes on the basis of accurate costing of inputs, using the 'old' classification of budget spending.
- Preparing and using cross-walk tables that show spending by both the new and the old budget classification systems.
- Preparing ministries/agencies to manage PPB, to execute their programme budgets and to prepare annual performance reports for Parliament (and the public).

Condition 9: Establish meaningful expenditure ceilings early on in the annual budget preparation process and assure their respect during budget execution

Discipline is required in the traditional annual budget preparation and execution processes – adhering to top-down ceilings decided by the Cabinet of ministers early in budget preparation. Otherwise, the problems of not respecting spending limits, reallocating spending non-transparently, and frequent recourse to supplementary budget laws will continue to occur under a PPB system.

Condition 10: Review the annual budget preparation calendar and revise if necessary

More information is required to operate a PPB system than is the case with a traditional budget system, as forward-looking non-financial performance indicators are needed on top of the financial estimates. More time is also needed to prepare meaningful performance targets linked to budget projections. With devolvement of budget

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responsibility to spending ministries, the budget 'ministry' or 'directorate general' henceforth plays a new role – that of 'challenging' the estimates made by spending ministries. Although this role may have been played by finance ministries under traditional budgets in anglophone African countries, it is a new role for francophone countries' budget departments, which often were dominant in preparing the budget estimates of spending ministries. In both zones, to justify programme-based estimates of spending, more time may be needed for budget arbitrages at technical and political levels. A second reason for revising the budget preparation timetable lies in the fact that a pre-budget debate in Parliament has often been introduced along with a PPB system.

Units/directorates responsible for annual budget execution and cash management

Condition 11: Ensure that expenditure controls are functioning well

A 'classical' budget system needs to be well executed prior to the introduction of a PPB system. For this to occur, the expenditure control system needs to function well, which involves:

- controlling spending commitments;[19]
- respecting procurement procedures (no corruption in government procurement);
- verifying the delivery of goods and services (quantities and prices are accurately recorded and there is no over-invoicing or under-delivery);
- limiting exceptional or 'emergency' spending procedures and not abusing them (e.g. ensuring that cash advances are not used for purposes other than those for which they were authorised); and
- ensuring that payments are actually made to final beneficiaries, in full and on time.

Condition 12: Government cash management and banking arrangements need to be effective and transparent

It is important that the rolling cash management plans associated with the 'classical' budget are credible and that no payment arrears arise because of abuse of budget execution procedures or poor cash planning. If not, the same problems will arise under a PPB system. Similarly, if non-transparent government financial transactions take place outside a treasury single account system (TSA) in the 'classical' budget system, the introduction of PPB will not obviate the problem of hidden off-budget spending.[20]

Ideally, this spending should be included in a budget programme under PPB. Excessive bank float and discrepancies in revenue/spending accounting data and bank statements would also remain. In some African countries, such discrepancies are large.

Condition 13: Address shortcomings in government accounting and fiscal reporting systems and adapt government accounting systems for PPB reforms

If there are long delays or poor quality and coverage of monthly and annual accounts in the 'classical' budget system, these will not disappear when PPB is introduced. There are two areas of prerequisites:

- *improving the existing accounting system* (e.g. quality, timely monthly fiscal reports; adequate, comprehensive and timely annual statements; and, in francophone countries, closed accounts within the legally mandated complementary period); and
- *preparing the accounting system to record PPB budgets* – including the capacity to trace the programme structure in budget execution data and fiscal reports; the alignment of the new budget classifications with the chart of accounts; if necessary, a change in accounting standards; building accounting skills; and clarifying the roles of the central accounting office of the MOF, public accounting networks (francophone countries) and accountants in spending ministries (anglophone countries) for the preparation of programme-based accounts and consolidated annual accounts.

19 Khemani and Radev (2009) provide guidelines for a well-functioning commitment control system.

20 A TSA is a system of government bank accounts whose pinnacle account is the sole account open at the central bank, into which all revenues flow and out of which all spending is made, usually via transit accounts (at the central bank or in commercial banks) that are zero-balanced at the end of each working day. For guidelines on good practice, see Pattanayak and Fainboim (2011).

Unit/directorate responsible for centralised human resources management

Condition 14: Prepare to delegate management of human resources, especially the public finance aspects, to spending ministries

A PPB system transfers budget management responsibilities to spending ministries, which may be authorised to choose their inputs including staff numbers and remuneration levels.[21]

Inflexibility in personnel management reduces budget managers' freedom to choose inputs to reach programme objectives. In African countries, where civil service remuneration and promotion rules are usually based on seniority, rather than performance, and internal organisational hierarchical structures can be quite rigid, it would be useful to loosen these rules prior to PPB reforms. Some aspects of personnel management authority could be delegated to spending ministries, once minimum capacity for such management is established.

Spending ministries

Condition 15: Develop capacity in spending ministries to prepare a PPB annual budget, monitor it in execution, and report on annual performance

Whether a PPB system is functional or not depends largely on the capacity in spending agencies to use programme-based budgets in linking policy priorities to expenditure, and making trade-offs between priorities. While capacity is built through doing, the implementation of a PPB system needs to include explicit requirements and support for line ministries to develop sectoral or ministry-wide strategies, to define outcomes, outputs, actions, projects and inputs, to prepare programme structures and to develop linked programme performance information. This *ex-ante* capacity needs to be supported by in-year and *ex-post* responsibilities and capacities, such as clarity on in-year responsibility for budget management, the delegation of spending responsibilities and the extent and nature of finance ministry oversight and controls, as well as modification of reporting on budget outcomes, in order to require ministries/sectors to explain why programme budget outcomes were better or worse than expected.

Supreme audit institution

Condition 16: Develop capacity in the external audit office

The main precondition is to ensure that the external audit office (or court of accounts) has adequate capacity to conduct a financial audit of the annual accounts, to point to deficiencies in budget execution procedures, and to make pertinent recommendations for change. The ability to prepare performance audits for each spending ministry is not a precondition for PPB; this can be developed once PPB has been adopted. However, a first step towards auditing performance is to require the external auditor to audit the integrity of performance information.[22]

Multilateral and bilateral donors

Condition 17: Donors need to be circumspect when promoting PPB systems and their use in African countries

In OECD countries, PPB is far from universal. For example, Germany has not begun such a reform, even though it conducts evaluations of spending policies (this could be considered an essential feature of a PPB system). Only eight – less than half – of the G20 countries adopt their annual budgets using a programme classification (or equivalent).[23]

The OECD (2007b) reports that: under PPB, improved programme management and efficiency has been limited to selected ministries and agencies; only a few countries use performance information to assist in budget reallocation exercises; and there is no evidence to support the thesis that performance budgeting directly impacts on aggregate fiscal discipline. Given these findings, and also the fact that PPB systems in 'advanced' countries are still evolving, the donor community needs to be cautious about advocating the use of PPB in low-income countries with limited capacity to implement these complex reforms. A first priority is to develop a performance mentality in budget management.

21 Some countries with highly decentralised PPB systems (e.g. Scandinavian countries) have liberalised central control over personnel and experimented with incentives to motivate changes in the behavior of civil servants, in order to inculcate a performance management mentality. Partly because of anticipated resistance to delegated management of personnel, some OECD countries (e.g. France) have not delegated full responsibility for human resources management to spending ministries.

22 This has been the approach used in Mauritius. See Ba (2010).

23 These countries are: Australia, Brazil, France, Italy, Japan, Korea, South Africa and the United Kingdom.

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Necessary conditions may depend on who is demanding reform

Ed Hedger

The list of commonly-stated requirements or conditions for performance-based budgeting is long and challenging. Most countries would struggle to satisfy it. Does that mean we should disregard the idea in developing countries? The answer possibly depends on who is demanding it – if only external donors, then probably yes; if senior domestic political actors, then perhaps not.

Formally, programme budgeting and performance budgeting can be defined as follows:

> Performance-based budgeting is a *'public sector funding mechanism and process designed to strengthen the linkage between funding and results, through the systematic use of formal performance information, with the objective of improving the allocative and technical efficiency of public expenditure'*. (Robinson 2007)
>
> Programme budgeting may be considered a subset involving *'objective-based classification of expenditure; and systematic use of performance information to inform decisions about budgetary priorities between competing programmes'*. (Robinson 2007)

However, there are manifold forms and degrees of programme performance-based budgeting. Let us say that we are concerned with the budgetary use of performance information, which is the use of performance information to improve expenditure efficiency and effectiveness. Two interconnected, but also distinct, emphases may be associated with performance-based budgeting: improved expenditure prioritisation (linked to allocative efficiency or strategic resource allocation); and improved programme efficiency (linked to operational efficiency). Let us further assume that we are concerned about both and want performance-based budgeting to support the two objectives.

Returning to the question of what the most plausible pre-conditions for performance-based are, how might we define, categorise and recognise them? For these purposes, critical success factors can be grouped in three clusters: political and governance; technical and bureaucratic; and external factors.

Key political and governance factors

- Commitment from the political executive to a greater results focus on the implementation of stated policy priorities and associated reforms (notably, by the president or prime minister and finance minister) is a sine qua non for the introduction of performance-based budgeting. This may be signalled by institutional arrangements such as cabinet committees. It does not necessarily mean a commitment towards these exact reforms, but implies at least a commitment to the implementation of stated policies.
- An identifiable and credible set of government policy priorities, typically specified in a policy framework. Without this, it is difficult for all sets of actors to contemplate improvements in expenditure prioritisation and to link performance indicators towards a greater objective. Donor-led (development) strategies do not replace the overarching government frameworks necessary for a successful implementation of performance-based budgeting. Similarly, the Millennium Development Goals, especially for fragile states, cannot replace government-driven priorities.

Technical and bureaucratic factors

- A crucial factor from a technical perspective is to have reasonable aggregate fiscal control, namely a hard budget constraint, which may also be cascaded to sector- or ministry-level ceilings. One might even argue that this, in itself, can be considered a performance budget element.

2

- There is also a necessity for basic credibility in the budget process and budget implementation, such that there is reasonable correspondence between original budget appropriations and actual expenditure. Unless the budget is a reasonable predictor of actual expenditure and is seen to have that quality, a preparation process based on policy frameworks and performance information will not be credible. This is also closely linked to the factor of political commitment.
- Capacity and motivation of staff, particularly those based in the budget office, is another critical factor. Staff in the finance ministry must focus on budget and policy analysis, think differently about the information provided and present a 'challenge function' to line ministries. This requires additional skills, as well as motivation. A co-condition for this point is, of course, the corresponding capacity in sector ministries. The need for the correct staff on the level of the finance ministry is important, but this carries the risk of overreaching by the ministry taking over the work of staff on the sector-ministry level. This, sometimes, is a compensating mechanism where there is a lack of capacity, but this sort of reform in a country is largely a sector concern and, therefore, requires the corresponding capacity to succeed.
- A final technical factor that is not to be assumed is the availability of decent disaggregated data on budgeted and actual expenditure (however classified) as well as on service delivery.

External factors

- A desirable external factor would be the absence of (unrealistic) donor deadlines and targets. Evidence shows that where reforms are prescribed on the basis of external 'good practice models', are driven by conditionality and are linked to aid flows, they do not succeed. That is not to say that external actors do not play a helpful role. It needs to be recognised, however, that the driving force for reform needs to come from within.
- An additional important factor is the availability of information on 'non-traditional' aid/investment flows to sectors (for example, from China). Without this full knowledge, certain sectors – notably infrastructure – may not be subject to the proper resource allocation process and may not be bound by the disciplines of performance.

What other conditions would be supportive, if they were achievable? The list here relates to complementary reforms and conditions in the public sector:

- programme budget classification;
- multi-year budgetary framework; and
- others – sector strategies, sector/ministry budget ceilings, revised organic budget law, external audit, engaged parliamentarians and systematic programme review.

Countries that proceed with performance budget reforms in the absence of these conditions run several risks, including the displacement of scarce political commitment and bureaucratic capacity, as well the risk of loss of credibility.

However, despite the ambition and the risks, there is an argument that basic performance budgeting is consistent with a 'basics first' approach to public financial management (PFM) reform. The question then is whether it has the potential to initiate and lock in a virtuous circle, namely a positive reform dynamic that can start to instil a culture of greater performance and PFM discipline.

The following core questions need to be considered for the implementation of PFM reform:

- What is necessary to initiate reforms?
- What is needed to take the reforms forward, to start deriving the full benefits from the reforms once implemented?
- How do we know when we have succeeded? What is a reasonable objective for the implementation of performance-based budgeting? When is 'good' good enough?

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Q&A: Programme performance budgeting reform in the context of South Africa's transition

What were the necessary preconditions for the South African programme budgeting reform? Kay Brown provides her thoughts.

2

Q Which political and governance factors was it important to have in place in South Africa to support the reform?

A The shift to programme performance-based budgeting (PPBB), which started in the 1999 budget was a next step in a series of reforms that modernised the South African budgeting system. The reforms were enabled by an overall context of change stemming from the democratic transition and the 1996 Constitution. The clear need to establish control over the allocation of funds, shift funding into social services and prioritise the budget to fund services for all South Africans equitably provided a political and technical driving force for the reforms. At the intra-sector or intra-vote level, PPBB similarly enabled us to interrogate budget baselines better against spending priorities, enabling us to go beyond merely the proportion of the budget broadly spent on each priority. Within this framework, the PPBB reform was championed by the minister of finance and carried broad political support.

Q Which technical and bureaucratic factors were critical to the progress South Africa has made? Were these preconditions, or were they important to develop as the reform progressed?

A There were several interrelated technical and bureaucratic factors that supported the initial reform and the improvements over the past 12 years.

Firstly, PPBB at the national level was embedded in South Africa from the budget year starting 1 April 2001,[24] as required by the then new Public Finance Management Act 1 of 1999 (which had become effective from 1 April 2000). The Act required that the national and provincial legislatures appropriate to 'main divisions within a vote', in other words to the programme level, and that all government institutions develop 'measurable objectives' per programme. The implementation of the Act was a deliberate, high-profile process, with departments developing implementation plans for compliance with the Act and presenting and reporting on these to Parliament. Parliament immediately allocated to the new programmes, which then became the units of budget implementation; this helped greatly.

Secondly, through the earlier implementation of a top-down medium-term budgeting framework in 1997, South Africa had established budget credibility by the time the PPBB reform was introduced. The appropriations, therefore, were not ceilings, but actual guarantees of funding in the budget year to implement programmes, at least at the national level. At the provincial level, particularly with regard to the distribution of expenditure, there

24 From this point onwards, PPBB was embedded in the core budget system, with allocation to programmes accompanied by an extensive Estimates of National Expenditure document, in essence a programme performance budget statement by each department. For 1999 and 2000, however, the government had already moved towards programme budgeting, with the National Expenditure Survey, which was a parallel document that provided, at an aggregate level, a programmatic and strategic view on the underlying administrative/line-item allocations.

was greater variance, which made a programme approach to budgeting more about complying with procedures and formats, and less about changing the functionality of budgeting.

Having meaningful forward aggregate and programme expenditure projections per vote is important to make a PPBB reform functional (in other words, offering a vehicle for reprioritising expenditure). In South Africa, the forward expenditure estimates already include allocations for rolling out new programmes, and offer institutions some certainty on forward funding, without being set in stone because future estimates are not appropriated yet. Having this forward projection allows shifts to be phased in over time, without disrupting services. Thus, a functioning and credible medium-term expenditure framework (MTEF) is important.

Thirdly, South Africa undertook a chart of accounts reform, specifically including the introduction of a programme segment. The National Treasury put considerable effort into building capacity across the government for using the new chart of accounts. This helped to ensure that expenditures were more likely to be correctly classified, not only by programme, but by economic item too. So, over time, we had a more reliable information base upon which to analyse and prepare budgets.

Finally, the National Treasury was reform-minded and approached the reform partly as a change-management process. For example, we put some effort into presenting and explaining the new budgeting format to Parliament.

However, I also think that there were some areas, such as building-capacity for the development and use of performance information in ministries, that as a government we should have put more effort into, particularly as performance information became increasingly important for planning and budgeting purposes. It is only now that the quality and coverage of performance information is becoming a critical focal point. Since 2007, the National Treasury has taken steps to provide support and better guidance to institutions. However, institutions have big capacity gaps in this regard and we have not made the progress we had ideally hoped for.

Currently, we are working on new support efforts, together with the Department of Performance Monitoring and Evaluation in the Presidency and with the Auditor-General's office. We also continue to work on improving programme budget structures and on aligning them better with organisational structures. We have realised that working on embedding PPBB is a long-term process – the performance side of it, in particular, is tricky and will need constant attention. As with the countries that are at advanced stages in terms of performance management, we strive to find the correct balance between insisting on compliance for audit purposes and allowing institutions to be ambitious and innovative in their performance intentions.

Q Did external factors play a key role in South Africa to create an environment conducive to the reform?

A Donor expenditure on South Africa is a very small proportion of the budget. Categorically, the impetus for budget reform in South Africa came entirely from within the country.

Q If you had to advise your fellow senior budget officials, what would you say are the three most important preconditions to have in place before embarking on programme-budgeting reform? What would you say is the most important complementary reform to undertake?

A My choice of important preconditions would be: (1) a credible and functioning MTEF in which the forward estimates are binding to some degree; (2) an integrated multi-dimensional and well-implemented chart of accounts, a financial management system that can manage the programme/administrative interface during budget execution, and accounting systems that generate reliable and timely data; and (3) the demand for effective budget performance to address service delivery priorities. I would also add that coherent, meaningful strategic and performance plans and coherence in government about managing programme performance is important.

If you have these things in place, I think the most important complementary reform to undertake is to focus on the development of monitoring and evaluation systems within institutions, with a strong budgeting and performance orientation. This includes having the administrative systems in place within institutions to collect, manage and report on programme performance information.

Q&A: Central African Republic: Credible budget preparation and implementation first

Implementing programme and performance-based budgeting (PPB) reform in an environment where budget credibility is still low is challenging. Germain Wamoustoyo and Amélie Behorou from the Central African Republic discuss their approach to a future PPB reform.

Q How important would it be for the Central African Republic to move to PPB? What shortcomings in the current system would drive this choice?

A To change over to PPB in the Central African Republic, certain preliminary conditions must be met. Our country, thus, committed itself to a first-generation reform process that included the following key steps:

- the LOLF (organic budget law) was promulgated on 3 July 2006, clearly setting the conditions under which the state budget is to be prepared, adopted, implemented and monitored;
- the RGCP (general government accounting regulations) were enacted in terms of the LOLF on 12 July 2007, reiterating the fundamental principles for public accounting and specifying the mechanisms for making available to decision-makers and the public financial information that is accurate, reliable and comprehensive;
- the unification and new nomenclature of the state budget was adopted in 2008, which included administrative, functional and economic classifications, allowing for budget implementation to be monitored and making it possible to measure the government's efforts in a given sector; and
- the new expenditure process was adopted in April 2008, which shortens the public expenditure implementation cycle and makes it possible to avoid the exceptional procedures that were common, owing to the length of the previous circuit.

The system, however, has remaining shortcomings that hinder the successful implementation of PPB, particularly with regard to:

- the legal framework, which still needs to be aligned to the Central African Economic and Monetary Community (CEAMC) directives;
- the government and Parliament taking ownership of this new concept;
- the creation of a budget reform commission and/or a special reform department in order to plan the gradual introduction of the PBB system;
- the improvement of line ministry accountability for budget management; and
- building capacity in the line ministries in order to draft an annual budget based on PBB, to monitor it during the implementation phase and to assess annual performance.

Q What are the key public financial management (PFM) shortcomings, if any, that should be addressed or improved as a priority before attempting a PPB reform?

A The main shortcomings are in the budget cycle. It would be better to first improve the 'traditional' budget system, which should be prepared and implemented in a credible way, before moving on to PPB reforms. It would be important to ensure that expenditure controls work properly.

Q Do you think it would be necessary to move to a programme format for budget allocation and approval purposes before you could introduce performance information?

A At this stage, the Central African Republic is emphasising the Priority Action Programme (PAP) of the second-generation Poverty Reduction Strategy Paper (PRSPII). It allows the state budget to be aligned to a strategic framework based on priorities in order to improve appropriations and the use of resources. This instrument could already be used as a framework for results-based management with the current budget.

Q What elements of a PPB reform would you consider essential to making it effective in the Central African Republic, given your technical and political budgeting environment?

A The elaboration of the PAP and establishment of the budget classifications so that it can be implemented were essential. The classification combinations make it possible to identify budget operations; for example, classification according to functional purpose allows for the integration of all actions into programmes. Furthermore, the integrated system for public financial management, which is being established in the Directorate General of Budget and Treasury, allows the budget to be prepared and implemented right up to payment.

Within the framework of these reforms, four sectors with sectoral strategies have been designated as pilot sectors: education, health, rural development and infrastructure. The Central African Republic is considering the following key choices in designing a PPB reform: piloting or rolling out across government; presenting performance information in the budget or only using it internally; and using a PPB format for budget preparation purposes only and not disbursing funds against programmes.

3

PERFORMANCE INFORMATION AND BUDGET DESIGN

3.1 Country programme and performance-based budget documentation in practice

Anke Braumann

3

Performance measures can enhance transparency and accountability only if they are published, usually in budget documentation. When including performance measures in the budget documentation, it is important to bear various aspects in mind. A key issue, for example, is the capacity of line ministries to use performance measures effectively in planning, costing and monitoring, supported by appropriate devolution of power and assignment of roles within ministries. Also, ensuring that parliamentarians, the media, civil society and the private sector are well informed and able to use performance measures when engaging on public budgets, can pay dividends in building accountability.

However, although the implementation of a programme and performance-based budget needs to take into account various elements, such as what process needs to be put in place in the institutions involved, how to manage performance information, and what the relationship between different institutions is, this article looks only at the design of budget documentation in different countries, based on discussions at the 8th CABRI Annual Seminar. A session at the seminar allowed participants to scrutinise actual examples of programme performance budget statements and to engage delegates from the sample countries on their statements.

Programme and performance-based budget design

Formally, a programme budget refers to a budget in which the available revenue is allocated and voted by Parliament to programmes, rather than line items or different layers of administrative classification. In principle, though, there are not that many countries in Africa that already appropriate to programmes. Most still use administrative allocations and line-item classifications, but present a parallel document with the budget, which details the budget by programme. In practice, therefore, a programme budget has come to mean both the use of programmes as main divisions for appropriation in the appropriation act (or finance law) and also just the reflection of the budget by programmes.

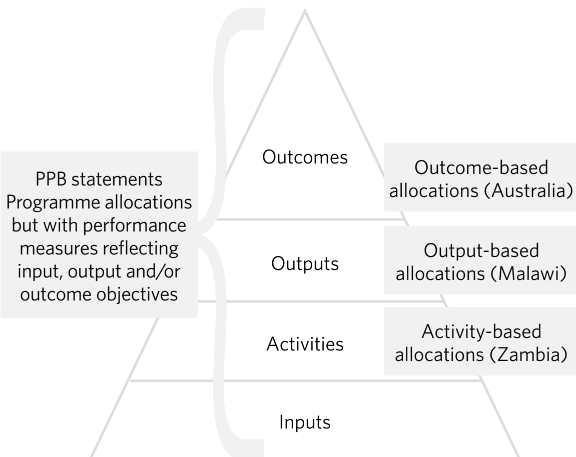
Programme budgets can be presented in greater or lesser detail, depending on which levels of the input, output, outcome results-chain are reflected in terms of performance measures and information.

An example of a programme budget that reflects activity-level allocations is the Zambian activity-based budget document, which shows how money is used for activities. In Malawi the budget documentation has included an output-based budget since 2011, which reflects how funds are allocated against outputs.

Some developed countries (such as Australia) not only reflect spending against outcomes, but also use outcomes as the legal basis for allocating expenditure (for example, a formulation of an outcome could be ‘reducing the queues for dental services’). The Australian budget documentation includes portfolio statements, which show allocations by outcome and different agencies.

A more common form of reflecting the relationship between budget allocations and expected performance is through PPB statements. Several African countries, such as South Africa and Mauritius, make use of this system. This means of documentation allocates funds within a main 'vote' (i.e. by ministry) to groups of objectives that are clustered into programmes. The document shows programmes and sub-programmes with associated objectives and performance measures, but does not link the funds to outputs specifically.

Figure 3.1.1: Different options for reflecting the relationship between allocations and performance



Country budget documents

PPB statements take various forms, with varying degrees of depth and coverage, in terms of both financial and performance information. Seminar participants looked at documentation from Mauritius, Mali and South Africa, and offered recommendations for improving the documentation. We briefly describe each of the statements, with illustrative extracts, and discuss the seminar findings.

Mauritius

Mauritius divides its programme-budget statements into four parts: (a) an overall statement of objectives and financial resources; (b) a performance statement; (c) a breakdown of the financial information; and (d) information on human resources. We use the budget of the Ministry of Education to illustrate these components.

(a) Ministry overview: Mauritius uses the ministry overview to report on programme performance to date, listing achievements at the level of outcomes (e.g. increase in pass rates), outputs (e.g. schools built) or activities and processes (e.g. policy processes undertaken). The achievements are listed briefly, in bulleted point form. The report on past performance is followed by a discussion on major constraints and challenges by programme, which leads into setting out the strategic direction of the ministry over the medium term and the priorities, objectives and major services that it will fund over the medium term. The final part of the overview is two tables that provide a summary of financial resources budgeted for the current year (in other words, the statement provides no information on past actual expenditure), the budget year and two outer years, and a summary of staff positions by programme, with the same coverage by years.

(b) Services to be provided and performance information: The second part of the statement sets out the performance information by vote. It provides a baseline (performance in the current year), and targets for the budget year and two outer years, as illustrated in Figure 3.1.2. In particular, every programme has a formal outcome statement, and at least one outcome indicator for the programme overall, with further indicators (which can be at the input, output or outcome level depending on the service standard targeted) by sub-programmes and 'delivery units' (or administrative heads). For each delivery unit a simple statement of the services to be provided is given, and the performance indicators are presented as 'service standards'.

(c) Financial resources: This section begins with a summary of the budget by economic categories and by programmes, providing the previous year's estimates, estimates for the budget year and planned estimates for the two outer years (see Figure 3.1.3). Following this, the budget for each programme is divided by economic classification, after which the budget for each sub-programme by economic classification is provided (see Figure 3.1.4). Thus, stakeholders can obtain significant detail on budget allocations from the budget documentation. However, no information on past actual spending is given. In earlier forms of the PPB statements, Mauritius opted to provide information on the budget estimates for the year under implementation (the current year), a mid-year estimate on actual expenditure, the budget year estimate and one outer year.

Under capital expenditure, Mauritius breaks down the expenditure by major project; for example, in education, the construction costs of specific schools are listed.

(d) Human resources: In the final component of the PPB statement, Mauritius provides details on the budgeted posts per programme and sub-programme, as illustrated in Figure 3.1.5.

Figure 3.1.2: Mauritius – statement on non-financial performance targets

<table>
<tr><td colspan="7">PROGRAMME 423: Primary Education
Outcome: Children leave primary schools literate, numerate and IT familiar, with enriched learning experiences and are ready for secondary schools.</td></tr>
<tr><td colspan="3">Outcome Indicator</td><td>2011 Actual</td><td>2013 Target</td><td>2015 Target</td><td>2022 Target</td></tr>
<tr><td colspan="3">Transition rate from primary to general secondary education.</td><td>71%</td><td>73%</td><td>75%</td><td>85%</td></tr>
<tr><td rowspan="2">DELIVERY UNITS</td><td rowspan="2">SERVICES TO BE PROVIDED</td><td colspan="5">PERFORMANCE</td></tr>
<tr><td>Service Standards (Indicators)</td><td>2011 Actual</td><td>2013 Target</td><td>2014 Target</td><td>2015 Target</td></tr>
<tr><td>Zone Directorates</td><td>S1: Supervision of delivery of primary education.</td><td>SS1: System to monitor implementation of recommendations from inspections. Set up (2013), implemented (2014), and assessed (2015).</td><td>–</td><td>Jun</td><td>Jan</td><td>Jun</td></tr>
<tr><td colspan="7">SUB-PROGRAMME 42302: Public Primary Schools</td></tr>
<tr><td>Public Primary Schools</td><td>S1: Provision of primary education</td><td>SS1: Certificate of Primary Education examinations pass rate of public schools.</td><td>66.9%</td><td>68.0%</td><td>69.0%</td><td>70.0%</td></tr>
<tr><td colspan="7">SUB-PROGRAMME 42303: Private-Aided Primary Schools</td></tr>
<tr><td>Private-Aided Primary Schools</td><td>S1: Provision of primary education.</td><td>SS1: Certificate of Primary Education examinations pass rate of private-aided schools (RCEA).</td><td>69.0%</td><td>69.5%</td><td>70.0%</td><td>71.0%</td></tr>
<tr><td colspan="7">SUB-PROGRAMME 42304: Zone d'Education Prioritaire Schools</td></tr>
<tr><td rowspan="2">Zone d'Education Prioritaire Unit and schools</td><td rowspan="2">S1: Provision of learning and other support to pupils in Zone d'Education Prioritaire (ZEP) schools.</td><td>SS1: Certificate of Primary Education examinations pass rate of ZEP Schools.</td><td>35.6%</td><td>36.4%</td><td>36.8%</td><td>37.5%</td></tr>
<tr><td>SS2: Pupils' attendance rate in ZEP schools.</td><td>88.3%</td><td>90.0%</td><td>90.5%</td><td>91.5%</td></tr>
</table>

Advantages of the format

Participants noted that Mauritius submits to its Parliament a comprehensive and systematic budget document, which provides good coverage and depth of financial and non-financial information without providing too many indicators. Participants liked the strategic statement up front, which enables accountability to external stakeholders such as the public. Fellow senior budget officials appreciated the systematic coding of budget heads, saying that it made the document easy to understand and follow. These codes, linked with the chart of accounts, would also allow for following up on expenditure by programme, sub-programme and economic classification. Because the whole document follows a programme structure, the allocations for different programmes are also easy to compare with the key strategic objectives noted in part A of the document. What is also positive is that general expenditures (such as water and electricity costs) are reflected on the budgets of sector ministries, instead of allocating all within the Ministry of Finance because they may be centrally paid – which, again, increases transparency.

Recommendations

The participants made the following observations and recommendations:

- *Narrative*: In order to understand the strategic ideas behind the structure of the budget and make it more accessible to the general public, a short guideline on the different parts of the budget could be included (e.g. What is the objective of the strategic note?). The achievements and outputs should all be defined at a higher level and be linked to the objectives set out in the budget.

Figure 3.1.3: Mauritius – summary of financial information

PART C: INPUTS - FINANCIAL RESOURCES

1. SUMMARY BY ECONOMIC CATEGORIES

Code	Economic Categories	Rs 2012 Estimates	Rs 2013 Estimates	Rs 2014 Planned	Rs 2015 Planned
21	Compensation of Employees	3,974,041,000	4,419,550,000	4,527,369,000	4,571,451,000
22	Goods and Services	438,815,000	425,443,000	423,833,000	423,873,000
24	Interest	-	-	-	-
25	Subsidies	-	-	-	-
26	Grants	4,340,240,000	4,923,085,000	5,061,000,000	5,091,690,000
27	Social Benefits	-	-	-	-
28	Other Expense	725,495,000	846,140,000	849,840,000	855,040,000
31	Acquisition of Non-Financial Assets	1,165,500,000	1,045,950,000	963,800,000	544,100,000
32	Acquisition of Financial Assets	120,000,000	120,000,000	120,000,000	-
	Total	**10,764,091,000**	**11,780,168,000**	**11,945,842,000**	**11,486,154,000**

2. SUMMARY FOR YEAR 2013

Code	Programmes	Rs Compensation of Employees [code 21]	Rs Goods and Services [code 22]	Rs Subsidies/grants [codes 25-28]	Rs Acquisition of Assets [codes 31- 32]
421	Policy and Management for Education and Human Resources	162,424,000	56,114,000	6,940,000	1,950,000
422	Pre-Primary Education	1,650,000	-	199,500,000	-
423	Primary Education	2,331,054,000	219,676,000	639,945,000	331,700,000
424	Secondary Education	1,910,324,000	148,645,000	4,061,545,000	821,300,000
425	Technical and Vocational Education and Training	-	-	395,400,000	-
428	Special Education Needs of School Age Children	11,383,000	10,000	30,400,000	11,000,000
429	Human Resource Development	2,715,000	998,000	435,495,000	-
	Total	**4,419,550,000**	**425,443,000**	**5,769,225,000**	**1,165,950,000**

- *Detailed financial information*: Some participants felt that countries should be cautious not to provide too much detail. For the Mauritian document, it could be argued that the cost descriptions of the budget are too elaborate, as they require footnotes and appendices, which makes the document quite large and less likely to be read in full.
- *Non-financial data*: The structure of the document can make it challenging to link financial allocation with non-financial data, which renders it difficult to know how many funds are allocated to the achievement of one particular outcome. Some participants felt that the document could have been structured by programme, rather than by type of information. Participants also noted that there is no baseline for some of the non-financial indicators, which means that one cannot compare the *status quo* to a previous point in time or know what the future projections are based on. Others noted that the high level of the measures made it difficult to connect allocations, services to be delivered and the service standard. They felt that, in the context of performance

Figure 3.1.4: Mauritius – detailed financial information by sub-programme and economic item

Item No.	Details	Rs 2012 Estimates	Rs 2013 Estimates	Rs 2014 Planned	Rs 2015 Planned
Sub-Programme 42301: Management of Primary Education					
21	**Compensation of Employees**	**-**	**88,367,000**	**90,058,000**	**90,962,000**
21110	Personal Emoluments	-	82,367,000	84,058,000	84,962,000
21111	*Other Staff Costs*	-	5,200,000	5,200,000	5,200,000
21210	Social Contributions	-	800,000	800,000	800,000
22	**Goods and Services**	**-**	**49,325,000**	**49,325,000**	**49,325,000**
22010	Cost of Utilities	-	1,943,000	1,943,000	1,943,000
22020	Fuel and Oil	-	96,000	96,000	96,000
22030	Rent	-	9,771,000	9,771,000	9,771,000
22040	Office Equipment and Furniture	-	320,000	320,000	320,000
22060	Maintenance	-	300,000	300,000	300,000
22070	Cleaning Services	-	240,000	240,000	240,000
22090	Security	-	760,000	760,000	760,000
22100	Publications and Stationery	-	825,000	825,000	825,000
22120	Fees	-	29,010,000	29,010,000	29,010,000
	of which:				
22120025	*Fees to Oriental Language Teachers*	-	*28,000,000*	*28,000,000*	*28,000,000*
22900	Other Goods and Services	-	5,660,000	5,660,000	5,660,000
	of which:				
22900935	*Summer/Winter School Programme*	-	*5,000,000*	*5,000,000*	*5,000,000*
26	**Grants**	**-**	**62,200,000**	**62,800,000**	**63,300,000**
26313	Current Grant to Extra-Budgetary Units	-	61,400,000	62,000,000	62,500,000
26313034	*Mauritius Examinations Syndicate*	-	*61,400,000*	*62,000,000*	*62,500,000*
26323	Capital Grant to Extra-Budgetary Units	-	800,000	800,000	800,000
26323034	*Mauritius Examinations Syndicate*	-	*800,000*	*800,000*	*800,000*
	Total	**-**	**199,892,000**	**202,183,000**	**203,587,000**

management, it would be difficult to hold people to account.

- *Programme level*: Some participants felt that grouping general expenditure under a programme called 'Policy and Management' means that it remains unclear what the actual costs of substantive programmes are, as these are overheads.
- *Indicators*: Participants liked the limited number of indicators and their clarity. Similarly to the amount of programmes in a budget, the indicators should be kept to a minimum. A ministry working towards a smaller number of objectives streamlines workflow and enhances overall impact and performance.
- *Funding sources*: Depending on whether this is applicable, it could also be useful to include the different sources of funding (government, development partners, etc.) in a budget, thereby enhancing government transparency and accountability in an easy way.

Figure 3.1.5: Mauritius – information on the allocation of human resources by programme and sub-programme

Salary Code	Position Titles	In Post	Funded Positions		
		2012	2013	2014	2015
Programme 422: Pre-primary Education		-	-	-	-
Programme 423: Primary Education		**6,349**	**6,989**	**6,989**	**6,989**
Programme 42301: Management of Primary Education		**222**	**221**	**221**	**221**
02 45 67	Assistant Secretary	4	4	4	4
06 00 88 06 00 84	Director	2	2	2	2
06 75 82	Assistant Director	1	1	1	1
06 75 82	Assistant Director - Primary	1	1	1	1
06 35 62	Liaison Officer /Senior Liaison Officer	2	2	2	2
05 46 62	Senior Library Officer	1	1	1	1
01 54 64	Assistant Manager, Financial Operations	1	1	1	1
01 48 59	Senior Financial Operations Officer	2	2	2	2
01 41 55 01 29 49	Financial Operations Officer/Assistant Financial Operations Officer	10	10	10	10
08 41 55	Higher Executive Officer	2	2	2	2
08 37 51	Office Supervisor	2	2	2	2
08 34 55	Confidential Secretary	9	8	8	8
08 31 51	Senior Officer	28	28	28	28
08 18 48	Officer	107	107	107	107
18 17 44	Word Processing Operator	41	41	41	41
26 20 48	Draughtsman Assistant	1	1	1	1
24 13 36 24 13 31	Driver	2	2	2	2
24 10 30	Office Care Attendant	5	5	5	5
24 09 29	Watchman	1	1	1	1
Programme 42302: Public Primary Schools		**5,601**	**6,239**	**6,239**	**6,239**
06 65 75	Principal School Inspector	8	8	8	8
06 58 68	Senior School Inspector	12	12	12	12
06 54 65	School Inspector	43	48	48	48
06 58 68	Senior Supervisor (Oriental Language)	4	4	4	4
06 54 65	Supervisor (The Arts)	2	2	2	2
06 42 60	Assistant Supervisor (The Arts)	2	2	2	2
06 54 65	Supervisor Oriental Language	5	5	5	5
06 47 61	Assitant Supervisor (Oriental Language)	34	37	37	37
06 45 67	Educational Psychologist	4	3	3	3
06 49 63 06 47 61	Head Master	102	185	185	185
06 44 58 06 43 56	Deputy Head Master	747	758	758	758
06 44 58 06 43 56	Deputy Head Teacher (Oriental Language)	152	173	173	173
06 43 56	Health & Physical Education Instructor	32	31	31	31
06 35 58	Mentor	42	42	42	42

Mali

Mali took its first steps towards implementing programme-based budgeting in 1998. Today, it still has a parallel system: the programme budget is *presentational*.

The budget of the Ministry of Justice will be used to illustrate how the programme document of Mali is structured. In contrast to Mauritius, Mali has opted for a relatively simple instrument; whereas the Mauritius budget document for the education ministry is 36 pages in extent, Mali's Ministry of Justice budget is a comparatively short 10 pages.

The document is divided into two parts. The first part shows the overall mission and objectives of the ministry. It also depicts the allocated costs per programme for the medium-term expenditure framework (the budgeted year as well as the previous year and the next year). The document provides only high-level financial allocations reflected by programme (detailed estimates by administrative head and economic item are provided in the Finance Law itself): the allocations are broken down by programme and for the budget year by main items of economic expenditure (personnel, goods and services and capital expenditures, as illustrated in Figure 3.1.6). The number of programmes per ministry is limited to 10: the Ministry of Justice has five programmes.

The second part provides detail on the activities that the ministry will be undertaking in the budget year, by programme. A brief description of each programme includes objectives, indicators and expected outcomes for the following year, as well as key activities to be undertaken. Targets and past performance information against the indicators are not given.

Advantages of the format

Participants noted that the programme budget document shows a well-established mapping of programmes. Restricting

3

Figure 3.1.6: Mali – overview of ministry programme budget

MINISTRY OF JUSTICE

1. MISSIONS

The Justice department has the mission to develop and implement the Government's policy on justice and seals of the State

2. OVERALL OBJECTIVES

- Improve the performance and credibility of the justice public sector
- Strengthen the independence of the judiciary
- Improve the accessibility of justice to the general population

3. TABLE OF EXPENDITURE BY PROGRAMME

220 MINISTRY OF JUSTICE

PROGRAMMES	STAFF	CURRENT	CAPITAL	TOTAL		
				2011	2012	2013
01 General administration, coordination and monitoring	419 811 000	3 002 888 000	2 010 000 000	5 432 699 000	5 039 242 000	5 068 244 000
02 Development of the State legal and judicial policy, management of the Magistrates' careers	3 953 246 000	201 612 000	50 000 000	4 204 858 000	3 829 296 000	3 982 962 000
03 Development and monitoring of the legislation in civil, commercial and criminal matters	67 405 000	301 819 000	0	369 224 000	364 914 000	367 580 000
04 Strengthening and modernising the penal institutions and the education	364 706 000	1 057 259 000	0	1 421 965 000	1 171 467 000	1 189 032 000
05 Judicial staff training and dissemination of the law	1 373 735 000	234 860 000	115 000 000	1 723 595 000	922 564 000	961 548 000
TOTAL	**6 178 903 000**	**4 798 438 000**	**2 175 000 000**	**13 152 341 000**	**11 327 483 000**	**11 569 366 000**

Figure 3.1.7: Mali – extract from detail provided in ministry programme budget document

DESCRIPTION

This program aims to improve the civil, social, commercial and criminal legislation in accordance with the guidelines of the Government in justice matters and the country political, economic and social developments.

SPECIFIC OBJECTIVES

1. Monitor the implementation of the laws by the courts
2. Improve the legislation in civil, social, commercial, criminal matters as well as the community and international law

2011 EXPECTED OUTCOMES	2011 INDICATORS
1.1 The proper monitoring of the application of the laws is ensured	1.1.1 Number of monitoring missions
1.2 Poor litigants have access to justice	1.1.2 Number of internal controls carried out 1.2.1 Number of judicial assistance offices set up
2.1 The civil, social, commercial and criminal legislative texts are reviewed and implemented	2.1.1 Number of reviewed legislative texts 2.1.2 Number of compliance control missions regarding the seals and coat of arms in use
2.2 National legislation complies with the community and international law	2.2.1 Number of harmonised legislative texts

2011 ESTIMATES

2011 RELEVANT ACTIVITIES
1.1.1 Organisation of the monitoring missions for the implementation of the legislative texts by the courts and verification of the effectiveness of the judicial assistance offices
1.1.2 Development of the monitoring of courts reports
1.1.3 Creation and computerization of the national register of criminal records
1.1.4 Organization of missions in Nantes and Dakar regarding the criminal records to learn from the French and Senegalese experiences
1.1.5 The appointment and establishment of criminal mediators within the public prosecutor's office, TPIs (*Tribunaux de première instance* – Courts of First Instance), JPCEs (*Justice de paix à compétence étendue* – Cantonal Court) in the context of mediation in criminal cases (alternative management framework on court records)
1.1.6 Organisation of ambulatory hearings to promote the civil status
1.1.7 Definition of a methodological framework setting out the process and the period of drawing up the legislative texts
1.2.1 Operationalization of the plan of action on the accessibility policy to justice
2.1.1 Reviewing of the national bills submitted (13 legislative texts)
2.1.2 Organization of fact-finding trips in the context of the reviewing of the criminal records
2.1.3 Reviewing of the criminal records
2.1.4 Organisation of compliance control missions regarding the seals and coat of arms in use
2.1.5 Monitoring of the implementation of the laws on the seals of the State and the coat of arms
2.1.6 Carrying out studies on nationality and surname changes

the budget document to a maximum number of programmes, enables a good overview and makes the document more accessible. Each programme has set line items referring to the nature of expenses (including staff, for example), which indicates clearly what is being spent on certain objectives. The document also shows a multiannual (3-year) approach to expenses, which provides more rounded information on budget decisions and national planning.

Recommendations

Participants thought that while the document structure is already a first step towards programme budgeting, the listing of activities may not be sufficient to make it much of a performance budget. It would require some additional (performance) information. In this regard, the five set programmes and their objectives could be linked more obviously to public policy objectives. Similarly, the link between programmes and the overarching objectives mentioned in the budget document could be elaborated on to clarify allocation and expenditure decisions.

Many activities of the ministry seem to repeat themselves across the three years presented in the document, which suggests that these could be streamlined. In terms of wording, the activities represent a focus on general intentions, more than on tangible actions. The formulation of concrete activities in the programme document would play a contributing role in increasing performance and the measurement thereof.

South Africa

The South African Estimates of National Expenditure – essentially a PPB statement by main vote or department – contrasts with both Mauritius and Mali insofar as: it provides a far more extensive narrative on actual activities of the past budget year, the strategic intent of each department and programme and an analysis of main expenditure trends; it is comprehensive in its inclusion of 'mini' programme budget statements for each of the entities associated with a department; and it provides information on audited expenditure for the past three years, the budget estimates, adjustment estimates and expected outturn for the year under implementation, estimates for the budget year, and forward estimates for two outer years (seven years of information altogether).

The document is set out as follows:

(a) Summary: The first part of the document provides a summary financial table for the budget year and estimates for the two outer years, and summary statements on the aims of the department and for each of the programmes.

(b) Strategic overview and performance measures: The next two sections in combination provide a statement on the department's strategic policy intentions. Firstly, a narrative strategic overview is given for the seven years for which financial information is reflected; and, secondly, a table of selected performance indicators is provided. Over the years, South Africa has presented performance indicators in different ways. Since 2008, the National Treasury has been working to systematise and systematically improve performance indicators. The policy is to use only quality indicators for which reliable data that can be audited is available. This means that the coverage of indicators in terms of programmes and sub-programmes is still being built up. It is worth noting that the supreme audit institution in South Africa, the Auditor-General, now formally audits performance information and expresses an opinion on it. Departments, therefore, have to account to the public accounts committee in Parliament on the quality and reliability of performance information. The performance measure table for the Ministry of Home Affairs in 2012 is shown in Figure 3.1.9. In the 2013 budget document, performance measures have been disaggregated by programme.

(c) Revenue and expenditure trends overview: The next three sections provide aggregate information on expenditure estimates by programme and economic classification (two tables), on departmental receipts (e.g. for fees charged for citizenship documentation, which for now is paid into the national revenue fund), on budget posts and salary levels, and a narrative discussion on main expenditure trends and strategic interventions of the department. Comparable information is provided in these tables for the full seven-year period.

(d) Disaggregation by programme and sub-programme: Having dealt with aggregate information, the document then moves onto information by programme. Each programme is reflected in aggregate, by sub-programme and economic classification. This is followed by a breakdown of each sub-programme by economic classification. Note that each programme's objectives and performance measures are provided (in narrative form), after which the sub-programmes are set out with a short description of what activities take place in each programme and its use of monetary resources and personnel. The section ends with a discussion of programme expenditure trends.

(e) Public entities: The next section of the document covers the public entities associated with the department. A narrative strategic overview is provided for each of the public entities, together with a performance-measures table, and tables that set out expenditure by entity objectives and economic items of expenditure. As the entities undertake accrual accounting, the format of the tables is accrual-based, which differs from those of the departments, which are modified cash-based. Figures 3.1.11 and 3.1.12 show the level of transparency for entity funding (including all revenues) and expenditure.

(f) Additional tables: The final section of the department chapter provides standardised additional tables, including on training expenditure and infrastructure expenditure (by project), and on donor funding receipts and utilisation. The latter is reflected by budget programme, donor and donor programme, and main economic classification.

Advantages of the format

Participants noted that the information included in the South African Estimates of National Expenditure document is extensive. It comprises details on audited outcomes for three past years and expected outturn for the current year, whereas most African countries include only the information on the current year and forward estimates. The level of detail drilling down programme levels is also strong: this is true for financial information and for programme descriptions and discussions. The level of detail on economic classification of expenditure is also significant.

The document contains a performance indicator table, which reflects information for a seven-year period, including three past years, the current year, and targets for

3

Figure 3.1.8: South Africa – summary statements

Home Affairs

Budget summary

	2012/2013					2013/2014	2014/2015
R thousand	**Total to be appropriated**	**Current payments**	**Transfers and subsidies**	**Payments for capital assets**	**Payments for financial assets**	**Total**	**Total**
MTEF allocation							
Administration	1 674 107	1 618 942	1 797	365	53 003	1 766 765	1 933 619
Citizen Affairs	3 067 809	2 106 350	961 459	–	–	3 894 581	3 975 124
Immigration Affairs	554 353	554 057	296	–	–	596 481	627 875
Total expenditure estimates	**5 296 269**	**4 279 349**	**963 552**	**365**	**53 003**	**6 257 827**	**6 536 618**
Executive authority	Minister of Home Affairs						
Accounting officer	Director General of Home Affairs						
Website address	www.dha.gov.za						

Aim:

Efficiently determine and safeguard the identity and status of citizens. Regulate migration to ensure security, promote development and fulfil South Africa's international obligations.

Programme purposes

Programme 1: Administration

Purpose: Provide leadership, management and support services to the department.

Programme 2: Citizen Affairs

Purpose: Provide secure, efficient and accessible services and documents for citizens and lawful residents.

Programme 3: Immigration Affairs

Purpose: Facilitate and regulate the secure movement of people into and out of the Republic of South Africa through ports of entry, determine the status of asylum seekers and regulate refugee affairs.

the budget year and two outer years. Another element of reflection on previous performance is a narrative section on achievements at programme level and sub-programme level. This would be found in other often less accessible documentation in the case of many other countries. In addition to looking back, the document links the expenditure tables to a section on expenditure trends, which explains figures and highlights significant developments.

An element increasing transparency is the availability of a personnel information table, showing the number of people employed per ministry by salary level, which can also be linked to the personnel expenditure table, presented as an annexure.

Lastly, participants appreciated that, in addition to expenditure, the South African document contains information on departmental receipts, showing what ministries are collecting in terms of revenue.

Recommendations

Participants observed that the level of detail in South Africa's programme-based budget statements, especially for a first-time reader, can be overwhelming. To counteract this, some countries have started to put more extensive data online for external stakeholders, in addition to providing only aggregate or high-level strategic information in the budget document, which is targeted at a broader audience. South Africa noted that the departmental chapters that are bound in a consolidated Estimates of National Expenditure book are abbreviated versions of the full documents. The full documents, in the form of booklets by department, are available online. Lately, the National Treasury has provided the expenditure tables in a spreadsheet format.

A concern is that economic classification information is presented only at programme level and not sub-programme level. What is available, however, is more disaggregated economic classification information for sub-programmes, although these are not reflected in the Estimates of National Expenditure document. Participants felt that it is important to see sub-programme information in the budget document, but acknowledged that this, again, would make the document lengthier and less likely to be read in full.

Figure 3.1.9: South Africa – performance measures in budget documentation

		Past			Current	Projections		
Item No	**Programme**	**2008/2009**	**2009/2010**	**2010/2011**	**2011/2012**	**2012/2013**	**2013/2014**	**2014/2015**
Percentage of machine readable passports (manual process) issued within 24 days	Citizen Affairs	28 days	29 days	24 days	95% (692 948)	95% (651 577)	95% (610 206)	95% (568 835)
Percentage of machine readable passports (live capture process) issued within 13 days	Citizen Affairs	–	–	12 days	97% (341 302)	97% (434 385)	97% (456 104)	97% (477 977)
Percentage of identity documents (first issue) issued within 54 days	Citizen Affairs	60 days	90 days	60.5 days	95% (1 164 000)	95% (1 105 800)	95% (995 220)	95% (1 042 990)
Percentage of identity documents (second issue) issued within 47 days	Citizen Affairs	56 days	40 days	49.6 days	95% (1 261 000)	95% (1 197 950)	95% (1 078 155)	95% (1 129 906)
Percentage of births registered within 30 days of the birth event against an stimated 1.1 million births per year	Citizen Affairs	–	–	46% (500 524)	48% (528 000)	54% (594 000)	58% (638 000)	62% (682 000)
Percentage of permanent residence permits issued within 8 months	Immigration Affairs	12 months	6 months	–	70% (2 000)	75% (2 500)	80% (3 000)	95% (3 600)
Percentage of temporary residence permits: work, business and corporate: issued within 8 weeks	Immigration Affairs	6 weeks	4 weeks	–	70% (116 900)	75% (109 600)	80% (110 300)	95% (111 000)
Number of permanent and temporary residence permits issued per year	Immigration Affairs	85 227	117 436	–	193 000	190 000	195 000	200 000
Number of arrivals and departures cleared per year	Immigration Affairs	28 402 263	29 524 175	33 953 583	35 564 904	36 987 500	38 467 000	40 005 680
Number of illegal foreigners deported per year	Immigration Affairs	261 950	72 394	55 825	70 000	75 000	80 000	85 000

1. Measuring tool in 2010/2011 was inappropriate as the system was not configured sufficiently to measure timeframes.

3

Conclusion

There is no one correct way of presenting a performance-based budget document, yet four common considerations can be derived from the discussions on the preparation of a PPB statement:

1. It is important to find a balance between presenting a wealth of information and making a (performance) budget document more accessible for stakeholders, ranging from the ordinary citizen to economic analysts. Countries can look more into drawing distinctions between information that is published in hard copy, and information that is provided online.
2. Limiting the number of overall programmes per ministry or department makes it easier to follow plans and to structure departmental work plans accordingly. If the budget is appropriated by programme, this allows departments greater discretion in managing their programmes. It also allows for government expenditure programmes to

link better to overall development plans. Using sub-programmes, then, would still provide for transparency.

3. The link between the budget and the overall national development plan of a country needs to be clear. Including a long-term view (at least a medium-term expenditure and performance framework) in the performance budget documentation, and using objectives and indicators consistently, puts programme information into context with broader country development aims.
4. Whether indicators are formulated at the programme or sub-programme level, they need to be clear, concise and measurable. This facilitates following the plans as well as reporting on the indicators for the departments implementing the budget. It is important to limit the number of indicators, but to be systematic in ensuring coverage and linkage to objectives.

Figure 3.1.10: South Africa – extract from programme expenditure estimates table

Expenditure estimates							
Subprogramme	**Audited outcome**			**Adjusted appropriation**	**Medium-term expenditure estimate**		
R thousand	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Citizen Affairs Management	27 359	16 312	14 516	24 640	32 840	25 293	26 830
Status Services	97 294	213 118	378 716	408 765	85 562	90 608	95 400
Identification Services	327 590	269 540	364 728	249 552	241 874	262 158	277 565
Access to Services	48 123	79 160	101 820	116 453	101 255	110 541	117 735
Service Delivery to Provinces	1 064 067	1 292 641	1 418 016	1 540 521	1 645 459	1 741 018	1 846 181
Film and Publication Board	33 519	39 797	56 187	65 458	69 372	73 038	77 373
Government Printing Works	137 425	334 822	97 228	129 002	135 219	142 505	–
Electoral Commission	1 039 393	937 233	1 437 940	839 788	756 228	1 449 420	1 534 040
Total	**2 774 770**	**3 182 623**	**3 869 151**	**3 374 179**	**3 067 809**	**3 894 581**	**3 975 124**
Change to 2011 Budget estimate				280 527	9 688	6 869	(143 243)

Economic classification							
Current payments	**1 416 802**	**1 789 196**	**2 128 576**	**2 330 570**	**2 106 350**	**2 228 946**	**2 362 999**
Compensation of employees	948 319	1 252 071	1 350 639	1 616 882	1 738 212	1 838 164	1 947 348
Goods and services	468 483	536 900	777 937	713 688	368 138	390 782	415 651
of which:							
Administrative fees	*5 657*	*6 062*	*4 155*	*2 712*	*2 676*	*2 833*	*2 972*
Advertising	*6 226*	*230*	*100*	*1 540*	*1 381*	*1 521*	*1 615*
Assets less than the capitalisation threshold	*10 267*	*6 450*	*911*	*10 235*	*8 584*	*9 171*	*9 770*
Bursaries: Employees	*–*	*(3)*	*493*	*–*	*–*	*–*	*–*
Catering: Departmental activities	*4 191*	*2 829*	*3 831*	*4 180*	*4 126*	*4 364*	*4 622*
Communication	*40 682*	*48 451*	*50 600*	*12 913*	*12 618*	*13 580*	*14 349*
Computer services	*31 260*	*35 504*	*42 599*	*29 569*	*36 446*	*40 249*	*42 662*
Consultants and professional services:	*4 624*	*4 364*	*144*	*602*	*573*	*633*	*671*
Business and advisory services							
Consultants and professional services:	*16*	*–*	*–*	*–*	*–*	*–*	*–*

Figure 3.1.11: South Africa – entities expenditure tables (by objectives)

Programmes/activities/objectives
Table 4.9 Film and Publication Board

	Audited outcome			Revised estimate	Medium-term estimate		
R thousand	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Research	2 024	432	1 280	4 567	5 421	5 719	6 062
Child protection	1 829	2 343	2 521	11 854	12 214	14 128	14 976
Compliance and registration	9 288	7 654	10 798	9 017	11 513	12 146	12 875
Classification	8 316	3 468	7 267	7 509	9 539	10 064	10 668
Governance	2 063	765	1 500	3 644	5 120	5 402	5 726
Support services	30 021	37 438	38 168	38 868	36 111	37 108	39 334
Total expense	**53 541**	**52 100**	**61 534**	**75 459**	**79 918**	**84 567**	**89 641**

Figure 3.1.12: South Africa – entities expenditure table (by economic classification)

Expenditure estimates
Table 4.10 Film and Publication Board

Statement of Financial Performance	Audited outcome			Revised estimate	Medium-term estimate		
R thousand	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Revenue							
Non-tax revenue	**11 365**	**9 325**	**8 968**	**10 209**	**11 050**	**12 180**	**12 618**
Sale of goods and services other than capital assets	10	–	–	–	–	–	–
of which:							
Sales by market establishments	10	–	–	–	–	–	–
Other non-tax revenue	11 355	9 325	8 968	10 209	11 050	12 180	12 618
Transfers received	33 927	39 797	56 187	65 250	69 274	72 762	77 373
Total revenue	**45 292**	**49 122**	**65 155**	**75 459**	**80 324**	**84 942**	**89 991**
Expenses							
Current expenses	**53 541**	**52 100**	**61 534**	**75 459**	**79 918**	**84 567**	**89 641**
Compensation of employees	22 376	25 589	27 461	32 613	36 356	39 820	42 209
Goods and services	26 756	22 955	33 570	40 894	41 600	43 400	46 185
Depreciation	4 332	3 498	460	1 952	1 962	1 347	1 247
Interest, dividends and rent on land	77	58	43	–	–	–	–
Total expenses	**53 541**	**52 100**	**61 534**	**75 459**	**79 918**	**84 567**	**89 641**
Surplus / (Deficit)	**(8 249)**	**(2 978)**	**3 621**	**-**	**406**	**375**	**350**
Statement of financial position							
Carrying value of assets	6 530	3 926	4 423	4 916	4 654	3 677	2 822
of which:							
Acquisition of assets	3 443	996	1 518	2 445	1 700	370	392
Receivables and prepayments	1 888	833	355	147	245	521	521
Cash and cash equivalents	1 001	47	2 956	1 073	2 262	4 478	5 648
Total assets	**9 419**	**4 806**	**7 734**	**6 136**	**7 161**	**8 676**	**8 991**

3.2 Entrenching performance measures in the budget process

Alta Fölscher

Introduction

By 2007, almost two-thirds of Organisation for Economic Co-operation and Development (OECD) countries included non-financial performance information in their budget processes (Arizti et al. 2010). Similarly, of the 61 non-OECD members that had completed the 2007/2008 Budget Practices and Procedures Survey, 69 per cent had developed output measures and 66 per cent had developed outcome measures by that time, and 39 per cent had linked more than 60 per cent of their expenditure to performance objectives and targets (OECD 2007). Yet, while many countries reported the existence of performance-based institutions in their budget cycles, the type of performance information and the way in which it is used in the budget process differs significantly among countries, presenting a continuum of practices.

Across the board, however, the shift to using performance information in the budget process has been in response to the shortcomings of line-item, input control-oriented budget formats and practices (Shah & Shen 2007; Robinson & Last 2009).

Entrenching performance measures and a performance orientation in the budget process requires progress in terms of two building blocks of performance budgeting: the availability of quality performance information; and the effective use of this information in government budget processes. These two are interdependent: quality performance measures are unlikely to emerge unless the information is used in some way. At the same time, performance information will be used only if it is relevant, reliable and timely.

This article looks at: useful conceptual and practical distinctions to demarcate and describe performance budgeting and performance measures; key issues that countries face in entrenching performance measures in the budget process; and good practices to address these issues and ensure both the availability and effective use of performance measures in the budget process.

Key distinctions and issues in performance budgeting

Performance management and performance budgeting: Performance budgeting is not the only performance innovation in public management to improve government outcomes. Performance management and contracting are often seen as complementary reforms that serve to entrench a performance culture in government together with performance budgeting. A first useful distinction within this overall field, therefore, is between performance budgeting and performance management.[25]

25 Some authors see performance-based budgeting (PBB) as a sub-set of activities under performance management. For Scott (2008), for example, the objective of PBB is improving the performance of government, as is the case with performance management overall.

What are performance measures?

Performance budgeting is strongly associated with the use of performance measures linked to expenditure allocations. Performance measures can be conceptualised as a sub-set of performance information. They are the quantitative metrics or indicators for targeting and tracking:

- business processes such as compliance with rules or the activities targeted/required to achieve a result;
- results, such as the use of inputs, outputs produced or policy goals achieved; or
- more complex ratios, such as efficiency, productivity, effectiveness and cost-effectiveness (Ketelaar, Manning & Turkisch 2007).

In the international literature, the term 'performance measure' is used interchangeably with 'performance indicator'.

Arizti et al. (2010) argue that in order for a set of indicators to be seen as performance measures, they would need to be more than just indicators of inputs and would include relevant indicators of outputs and outcomes (and the relationships between them).

Quality performance measures should be specific, measurable, achievable, relevant and time-bound (captured in the often-used acronym SMART). In addition, the data used to calculate performance measures should be reliable and sufficiently recent to be relevant to the policy and budget process.

In performance budgeting, performance measures are closely associated with strategic planning practice and language. Performance measures, therefore, are related to spending programme objectives in respect of inputs, outputs and outcomes (and impact). Performance measures on their own, however, are unable to tell an institution or central budget agency enough about programme performance; they should be supplemented with periodic programme or institutional expenditure reviews.

3

Performance budgeting refers to the instrument employed by the government for decision-making processes aimed at the effective and efficient use of resources in achieving political, economic, policy and/or organisational goals (World Bank 2005), so that the funding of public sector organisations is linked to the results they deliver, making systematic use of performance information (Robinson & Last 2009). Performance management, on the other hand, refers to a system for political, corporate and individual management in the public sector, using performance information, monitoring, reporting, assessment and evaluation (World Bank 2005), and which may include information contracting. While there must be linkages between these two systems – as the budget process should reflect the same political and corporate priorities that drive performance management processes – countries differ in the degree to which these linkages are formalised.

Performance measures can be used for several purposes, each with its own logic, dynamics and incentives: Performance measures – evidence on the performance of a policy or expenditure programme or institution – can be used for different purposes in the public sector; examples include controlling, budgeting, motivating, promoting, learning and improving, evaluating and holding to account. Each of these usages of performance information has a different logic and determinants (Van Dooren & Van de Walle 2008); for example, using performance information for learning and improving public service delivery will evoke different responses/carry different incentives in respect of the producers of information than would using it for budgeting and accountability purposes. Countries that set up performance-budgeting systems need to be aware of how different uses of performance information impact on its identification and quality and of exactly how and when related, but distinct, uses of performance information will interact in the budget cycle.

Performance information can be qualitative or quantitative: The type of performance information required is also affected by its intended use. In general, performance information can be qualitative or quantitative: commonly, countries that implement performance-budgeting systems pursue the systematic production of structured, more quantitative performance measures so that changes in performance are measurable and can be targeted to justify or inform resource allocations, and so that spending can be compared in relevant dimensions.

The use of performance measures in the budget process can be more or less tightly linked to allocations: However, not all performance budgeting systems operate on a narrow, direct link between resource allocation and performance targets. Azirti et al. (2008) define performance budgeting as occurring when there is the expectation that *the dialogue in the budget process will be informed by performance information*. This expectation can be expressed either as a formalised link, where budget holders are given the resources to achieve targets, or informally where in practice the dialogue around resource allocation is underpinned by information about the performance of programmes and institutions.

In deriving good-practice lessons from the array of performance budget practices in the world, Robinson and Last (2009) make a useful distinction between *performance-informed budgeting* – as a basic version of performance budgeting – and more sophisticated systems of full-fledged performance budgeting. Azirti et al. (2008) call the most formalised systems 'formula-based budgeting', in terms of which an increase in resources is linked to increased outputs.

In performance-informed budgeting, the system seeks to ensure that 'when formulating the government budget, key decision-makers systematically take into account the results to be achieved by expenditure' (Robinson & Last 2009: 2). In order for this to be assured, information should be available about the objectives and results of government expenditure (in the form of indicators and some form of programme evaluation), and the budget process – even if still allocating funds to budget holders and inputs – needs to facilitate the use of this information.

More advanced forms of performance budgeting allocate funds to objectives and outputs and/or set performance targets to be achieved with available funding. The Australian and New Zealand performance-budgeting systems operate with such formal links. These systems require fully functional performance information management systems to be in place as part of an entrenched measurement culture to deliver reliable performance information and, generally, should not be attempted in the early years of a performance-budgeting system. They also often rely more on *ex ante* than on *ex post* performance information.

Performance budgeting often relies on more than just performance measures to inform allocations: The targeting and monitoring of performance through structured, systematic performance measures is not the only information stream associated with performance budgeting. Robinson and Last (2009) highlight the importance of some form of systematic programme review, which makes use of routinely collected performance information, but which also can generate specific once-of information for the purpose of the review. In most OECD countries, including Canada, Sweden, the United Kingdom, the Netherlands and South Korea, spending programmes are reviewed periodically in this way.

Performance measures provide both too little and too much information: A key trade-off in selecting performance information for performance-budgeting purposes concerns the difficulty of selecting a comprehensive set of performance information without too much information creating cognitive overload or paralysis. Van Dooren and Van de Walle (2008) argue convincingly that no set of performance information can ever be comprehensive enough to budget for or control all aspects of public expenditure; thus, in practice, the coupling in of performance information systems between the information and its use in decision-making may be looser than the outward appearance of systems suggests. On the other hand, one of the biggest challenges in the development of performance-based budgeting (PBB) is keeping 'performance information simple, affordable and usable' (Robinson & Last 2009: 4). When first adopting PBB (or performance management), many countries are more concerned about the production of information than its use, developing sophisticated systems (often externally financed and consultant-designed) over a short period of time, while lacking the skilled resources to maintain the systems (Van Dooren & Van de Walle 2008; Robinson & Last 2009).

Performance measure frameworks are often designed without sufficient clarity regarding purpose and end-user: When performance-budgeting reforms prioritise the production of performance measures in the absence of a clear understanding of how the information will be used in the budget process, the result is a large number of performance indicators. While all of the indicators would be valid in terms of the performance footprint of the programme, presenting such a large number when reporting on a programme makes it difficult for any one user to form a judgement on programme performance. Some countries use summary indicators to overcome the cognitive limits of multiple relevant indicators. The United States of America, for example, has used a programme assessment rating tool that rates the performance of all federal spending programmes as 'effective', 'moderately effective', 'adequate', 'ineffective' or 'results not demonstrated' (Robinson & Last 2009). The assessment draws on established performance indicators and programme evaluations. Another option is to develop a weighted performance index. A workable alternative is to develop a performance measure framework at the institutional level that arranges indicators in a hierarchy, ensuring that only the necessary measures are provided for any specific purpose, while ensuring that the needs of all users are covered.

Some sectors or types of government service lend themselves better to the use of performance measures: Performance is easier to measure in certain sectors than in others. Sectors and institutions that deliver frontline services to the population, such as health, education, water, roads and civic services, usually have concrete outputs and outcomes that can be measured and used to target, assess or describe sector performance. In other sectors – those that provide policy, administrative or regulatory services – it is more difficult to design performance measures that effectively signal performance (or lack thereof). For example, outputs in health differ substantially from the outputs of an organisation responsible for planning, which are few and the production of which does not signal performance in the same way as do numbers of immunisations done. Additional criteria can be used to measure the production of output. Schacter (2006) notes in respect of policy documents, for example: the use of assessments of adequate consultation; whether the purpose is articulated clearly; whether the output is internally consistent; whether the viewpoint is balanced; whether a range of options is presented and argued; the presentation quality of the document; and whether its advice or proposals are feasible.

The use of performance measures in budgeting occurs throughout the budget cycle, but this has a central budget agency, a spending agency and an external stakeholder dimension: Performance measures can inform decision-making and drive activities in each phase of the budget process, from budget preparation, approval, execution, accounting, reporting and monitoring to audit and oversight. Within the budget process, performance measures can be used to justify, target or reprioritise the allocation of resources, improve the transparency of the budget for the legislature, improve programme effectiveness, monitor the quality of spending and/or hold people or organisations to account. These various uses play out differently for different actors in the budget process. For example, while the ministry of finance may be interested in using performance measures to drive budget allocations (and, therefore, would be interested in output-related measures), at spending agency level the greater concern might be about improving service delivery (resulting in interest in appropriate outcome-related measures).

Important co-systems for entrenching performance measures in budgeting: Performance-budgeting systems are often part of a reform package that includes a shift to budgeting by programmes and the modernisation of the budget and accounting classification systems, the use of a medium-term perspective in budgeting within a top-down MTEF process; and (at least in name) the decentralisation of budgeting and easing of external, *ex-ante* input controls on budgets, in favour of internal controls and output- or performance-based *ex post* accountability (Shah & Shen 2007; Robinson & Last 2009; Arizti et al. 2010). The existence and use of an integrated financial management information system also contributes to performance-budgeting success. However, while PBB is facilitated and strengthened by these complementary reforms, not all are essential for it to exist in a basic (or even more advanced) form. For example, in Canada, where strong performance-budgeting institutions have been established for some time, the concept of 'earned delegation' only came into consideration at the end of the 2000s (McCormack & Stacey 2008). In Mali, the budget is still allocated to institutions and by input, while a parallel budget document sets out linked programme performance information (Taiclet & Murara 2011). However, there is consensus among commentators that the feasibility of the effective use of performance measures in the budget process increases with each complementary component that is put in place.

Outcome measures are problematic, but are important in assessing spending effectiveness: Several authors note difficulties with the use of outcome measures. A key reason for this is that the causal link between the policies, spending choices, activities and outputs of public institutions and the achievement of an outcome is difficult to prove. In most cases, an outcome is the result not just of a specific intervention, but of a set of factors. A reduction in crime, for example, may be associated with increased policing, but could also be related to greater availability of educational and skills-building opportunities or to improved macro-economic circumstances. Similarly, when an outcome is not achieved, various factors in addition to or even despite the monitored intervention may be to blame. For this reason, a country may choose not to have outcome measures in its performance-budgeting systems. However, performance-budgeting systems that do not include outcome measures do not engage sufficiently in an evidence-based dialogue about expenditure effectiveness.

'Gaming' of the performance-budgeting system is common: When programme budgeting more formally links performance measurement to allocations or individual promotion, incentives are created to 'game' the system. For example, underlying performance records that will negatively influence a performance indicator can be suppressed or not taken into account; or, inappropriate but achievable indicators may be selected or targets set deliberately low so that they are met or exceeded. This undermines the value of performance measures in budgeting and, more significantly, also its value in learning and improving programme design and implementation.

Overall quality performance measures emerge when there is a measurement and performance culture in public institutions: The introduction of performance budgeting is not just about developing and publishing performance measures against the budget structure. It requires a culture-change in government, as well as different skills sets and processes. While the introduction of measures is relatively easy, achieving this culture-change has proven difficult.

Good practices for functional performance measures

The observations above highlight a key problem in the move to performance budgeting, particularly in developing countries: while the 'form' of performance budget institutions is achieved, 'function' can lag significantly.[26]

In Africa, for example, 67 per cent of the 24 responding countries in the 2007/08 OECD Budget Practices and Procedures database reported having developed output measures, while 71 per cent reported having developed outcome measures. The 2008 IBP Open Budget Index data, however, show that of 27 countries assessed in Africa, only one presented non-financial information for all expenditure programmes in the budget documentation, while 16 did not present any non-financial data at all (OBI 2010). It is difficult to see how performance information can be used effectively in the budget process if it is not supported by the incentive of also publishing the measures. Furthermore, not one assessed African country's non-financial information was found to be 'very' useful for assessing programme performance; and only three of the 27 assessed countries were found to present data that were 'mostly' useful.

In at least some cases, performance measures are developed primarily to comply with the legal or regulatory requirements of formal performance budget systems; in reality, these measures are not used to underpin dialogue or inform decisions in the budget process. Closer inspection of measures also often points to poor design, while there is little assurance of data quality.

The key question, then, is which mechanisms in a performance-budgeting system engender quality measures and their effective application to improve the use of resources and accountability. This section of the article provides a discussion of key institutions and good practices judged to support the achievement of functionality in performance budgeting.

Setting up quality performance measures

Quality in performance measures starts at the institutional level: This means that the identification of performance measures for programme budgeting is primarily an institutional function. The knowledge needed to develop indicators that are relevant to improving an institution's programmes and spending quality is located in the institution, not at the centre of government. Prescribing indicators from the centre rarely produces quality data or effective performance budgeting. This is not to say that central finance ministries cannot engage an institution to ensure that the indicators and targets it presents strike the right balance between feasibility and stretch. However, the development and ownership of the measures should reside with the institution.

This means that performance measures should add value to the institution's own management, evaluation and resource-allocation processes. The framework of performance measures for an institution must be developed from the perspective of the institution.

Build on what is in place, using the institution's existing experience with indicators, start small and focus on quality rather than quantity: Most institutions in developing countries already have indicators (sometimes a large number) which they use or report against. Before developing new performance measures for programme-budget purposes (which may overlap with existing measures and increase the cost to the institution without adding

26 For a discussion of form and function in PFM reforms in Africa, see *Andrews (2008, 2010).*

commensurate value), a good starting point is to map existing indicators systematically against institutional performance-management and programme-budgeting needs, and to assess them against standard quality and performance-budgeting and institutional criteria/needs. The principle should be to ensure quality measures for core institutional performance information needs, rather than ensuring full coverage of all needs with indicators that are not relevant or useful, or for which quality data sets do not exist.

Institutions should develop performance information frameworks: A performance information framework is a mechanism that allows an institution to collect, classify, filter and vet all indicators in use against the institution's own and external stakeholders' needs. It is simply a database of all the indicators used in an organisation, structured by the purpose of the indicator, the programme/policy it measures, its type, its quality, and so on, against defined criteria, and with metadata for each indicator. A well-constructed framework helps to identify which indicators provide reliable, relevant data on performance and exposes gaps where aspects of the institution's activities are not monitored. It allows institutions to rationalise indicators, while ensuring that institutional performance is covered in all key policy areas, against institutional values and for different levels in the structure of the organisation. It allows institutions to measure what is important, rather than to 'make important what can be measured' (Evans & Richardson 2009: 16).

An institution should decide on the number of indicators that are manageable at the executive level: Manageability of performance information is an important factor in deciding how many indicators should be used. As a rule of thumb, at the highest level, about 20 indicators should be monitored regularly. A final set of a few more indicators might still be manageable within review and decision-making processes, but it needs to be recognised that, in general, the greater the number of indicators used, the less the time available for monitoring each of them, the higher the cost of collection and reporting, and the weaker the indicator system.

A proxy measure for which reliable data can be sourced is worth more than the ideal measure for which records are not kept or poorly kept: A key part of vetting existing measures against performance information needs is the availability and quality of underlying data sets. If the data to compute the measure of choice are not available, managers should look at designing proxy measures for which reliable information does exist and can be sourced. If these are not available and the indicator measures a critical part of budget or programme performance, then introducing the indicator and collecting data for it should be prioritised in an institutional plan to improve performance information.

Organisations should build institutions to manage performance information and have a strategy for systematically improving their set of performance measures: Improving performance measures may involve designing new indicators to monitor performance in areas (for example, a sub-programme, a value or an objective) that are not covered by the indicators already in use, or enhancing the reliability of the underlying administrative datasets by upgrading record management. It could also mean developing a performance information system to ensure that performance against the performance measures in use is systematically recorded, verified and protected against tampering. This does not necessarily imply sophisticated information technology systems; it can be as simple as an excel file with restricted access and an audit trail of access.

Institutions should develop systematic monitoring and evaluation instruments such as indicator dashboards and scorecards, regular reports or quarterly performance review meetings. Performance measures that are not used have no function and their maintenance represents fruitless expenditure.

Supreme audit institutions can play an important role in ensuring the quality of performance measures: When performance information is included in the audit mandate of the supreme audit institution (SAI), it creates incentives for organisations to ensure the reliability of their performance measures and performance information management systems. Therefore, countries should use the SAI strategically to improve the quality of performance measures. The audit of performance information, however, is not risk-free for the performance information system – when the introduction of performance information into the budget process is largely about compliance, and performance measures are not used by the institution itself or in any real way within the budget process, and the information is audited, the development and maintenance of measures becomes about getting clean audits rather than about performance. This could lead to the choice of indicators that are less than ideal for organisational purposes, but which comply with SAI requirements.

Ensuring the use of performance information in the budget process

Central budget institution changes are as important as developing performance measures: When central budget agencies introduce performance budgeting, the budget process itself must include changed arrangements or new mechanisms to actively use performance information. If the rules of the game do not change, performance budgeting is likely to be about mere compliance.

Primarily, the budget process should shift away from a concern with inputs, to a focus on results. This means that the basis for dialogue with spending agencies on the bulk of spending should not be about personnel cost, the use of consultants or capital versus recurrent allocations, in the first place; it should be about whether the expenditure programme is achieving its objectives and how funding and the mix of inputs support this process. When savings are sought within the budget process in a performance-budget system, again the primary dialogue should not be about which line item has relatively high spending compared to other institutions, previous years or other line items. Rather, it should be about which programmes and projects are lower priority and can be cut.

A useful way of approaching the introduction of performance measures is to be clear on how they will be used in each phase of the budget process. For example, what are the mechanisms in strategic budgeting and budget preparation that will ensure their deliberate and meaningful use? Will budget hearings include a formal review of programme performance and an effort by the central budget agency to understand how funding affects performance? Or will joint-sector working groups review performance annually, so that every part of a sector is reviewed from a programme performance perspective on a rolling basis, as an input into the central budget dialogue?

Capacity-building is important, starting with the central budget agency: Performance budgeting requires skills different to those needed for input-based budgeting. This is true at all levels of the budget process. Building the capacity of officials, executive officers and parliamentarians to learn the language of a performance-based dialogue, and to work with performance information, should form a significant part of performance-budget reforms.

Be cautious about formalising the link between allocations and performance: Countries introducing performance information into the budget process would be better off in the long-term if the link between performance information and budget allocations were not direct and formal early on in the reform. The link should not be formalised without a full understanding of how the cost of government relates to different programmes and spending objectives. In fact, some commentators argue that this link should never be formalised, and nor should the link between individual performance and institutional performance measures. Linking either institutional or individual rewards to performance measures increases the incentives to game the system and undermines the possibility of using performance measures to improve programme performance and service delivery or to instil a learning culture.

Be transparent about performance and performance measures: Many countries have performance measures in the budget process, but do not publish performance information as part of their budget documentation. This means that the incentives for actors in the budget process to change their behaviour, and for quality performance information, are weakened. The publication of performance measures, while essential for fostering a measurement and performance culture in government, will be an effective check only if the information is provided in useful ways. For example, just counting the number of court buildings that have been renovated in a budget period and publishing the number on its own has little use; it only becomes meaningful if it is compared with previous periods, with the number that were supposed to be renovated, or with the number that require renovation.

Complementary PFM reforms

Performance budgeting requires a culture change in government and the budget process, but on its own it is unlikely to initiate a culture of analysis, measurement and performance. The following are key complementary aspects to consider:

- *Programmes and organisational structures*: While it can be argued that the shift to programmes is essential for the effective use of performance measures in the budget process, as resources are then allocated to spending purposes rather than the administrative divisions that control money, it cuts across holding institutions and individuals accountable, the result of organisationally based allocations. Addressing this may mean undertaking major administrative reforms, so that implementing agencies' accountability and management structures are in line with budget programmes. Robinson (2012) argues, however, that the problem can be overcome when the chart of accounts and financial management system allow spending agencies to internally map programme budgets to organisational units.
- *Financial management information systems*: A functioning financial management information system is an important complement to a shift to

allocating by programme and the use of performance information in the budget process.

- *Medium-term frameworks and top-down budgeting*: The use of a medium-term fiscal and expenditure frameworks enables top-down budgeting for spending agencies to make trade-offs within spending envelopes and to manage policy implementation over the medium term.
- *Change in budget responsibility and expenditure controls*: Similarly, when the central budget agency makes sector-level budget decisions, and financial management controls are external and input driven, performance measures will continue to take a back seat in budgeting. Spending agencies cannot be held accountable for performance when they are not in control of their spending decisions, and have little flexibility in budget implementation.
- *Simplifying budget structures*: Performance budgeting is often accompanied by a reduction in the number of lines in the appropriations structure. The argument is simple: agencies acquire more flexibility to manage their resources for performance if their allocations are to broad, rather than detailed, objectives. It can be argued, however, that this shift should occur only if the wider governance context enables accountability and is concerned with policy performance.
- *Strengthening SAIs and parliamentary budget oversight processes*: The basis for holding institutions to account in the budget process, needs to be broadened to include performance. Providing resources to SAIs to develop their capacity to audit performance information and performance would be important. Similarly, the capacity of parliamentary researchers and committees to use performance information when overseeing expenditure needs to be formalised through the introduction of specific instruments and mechanisms.

It should be noted here that it would be difficult to introduce performance budgeting successfully unless the annual budget is credible and the underlying PFM systems are functional in a culture of compliance with the formal rules of the game and the expectation of accountability.

The use of performance measures to improve the quality of spending, however, will not succeed without an overall shift to the management of performance in government. This has a political as well as administrative dimension: at the centre of government, executive officers should be held accountable for performance; parliamentary oversight should be about performance; and there should be formal processes of targeting, measuring, monitoring, reporting on and evaluating institutional performance.

Implementing performance budgeting

Finally, how performance measures are introduced in the budget process matters.

Work with willing agencies to demonstrate success first: Country experience has highlighted that, unlike medium-term expenditure management reforms, performance-budgeting reforms can be introduced piecemeal, as the quality of performance measures is dependent on agency commitment to and leadership for performance.

Move slowly, establish building blocks, and balance budget-process changes and efforts to ensure the quality of information: Effective performance budgeting is dependent on having reliable and relevant information to work with. More formalised forms of linking performance and expenditure should not be attempted without experience in the relationship between agency cost and performance.

Aim for limited, manageable and quality information: Performance-budgeting systems do not need to be elaborate, but they do need to be deliberate and systematic. The central budget agency should assist spending agencies in developing focused performance-information systems, with a limited number of high-quality indicators, appropriately assigned.

Develop transparent performance-monitoring and reporting systems: Performance information should be monitored with a purpose, have consequences in the dialogue with agencies and be reported to Parliament and the public from early on in the introduction of a system.

Political leadership is important: Performance budgeting that is introduced as a technical reform only is unlikely to be successful. A strong minister of finance who can change the budget discussion at the political executive level to one on performance, and who consistently and publicly supports and promotes performance in budgets, is essential.

Avoid parallel systems: A lot of energy has been wasted in developing elaborate performance-budget documentation (often consultant-managed and produced), without any real change in how the budget is discussed and allocated. This has little value and may even be adverse to a performance orientation in budgeting in the long term, as actors' experience with the system is negative.

Conclusion

Introducing the use of performance measures in budgeting is important for improving the quality of budgeting and public services. However, if the shift occurs too fast, without the proposed measures being relevant and reliable, if performance information is produced without deliberate and explicit mechanisms for its use in the budget process; if the information is not published and used outside of the executive, or is not used as part of a larger programme of monitoring and evaluation, and if the processes and documentation of performance information are not part of the core budget process, governments can waste a lot of energy and resources that result in useless or unused performance information being made available (sometimes at great cost). In designing programme and performance-based budgeting systems, countries would benefit from an early, deliberate focus on the construction and management of performance-information frameworks.

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Q&A: Demand for performance measures important

Emmanuel Bor, technical advisor to the Ministry of Finance and Economic Development in Mauritius, discusses examples of country institutions to illustrate how performance measures can be used in public budgeting and management.

Q What do you believe to be the role of performance measures in budgeting/budget management?

A Performance measures play a different and critical role at each step of the budget cycle.

First, during the phase of budget preparation, formulating performance measures and targets provides an incentive to take into account public service delivery when allocating funds and to focus on the priority areas that will bring the most important results. Performance measures are helpful in conducting budget analysis, analysing the effectiveness of past expenditure and reprioritising expenditure in the next budget.

Second, during the phase of Parliament's review and appropriation of budget resources, performance measures increase the information available to politicians, adding transparency as to how the funds will be used and facilitating decisions on the basis of both past and planned efficiency of public expenditure.

Third, during the budget execution phase, performance measures are necessary to monitor the achievement of key results during the year and to take the corrective actions deemed appropriate, provided an adequate monitoring system is in place.

Fourth, in the phase of budget reporting and *ex post* external control, performance measures are used by Parliament and national audit offices to make ministries and managers accountable for actual results, which is all the more necessary when budget reforms have increased flexibility and autonomy in budget execution by increasing the level of budget authorisation (reduced number of budget lines) and lightening the transfer rules.

Q What country examples illustrate your points?

A Mauritius is an example of a country that is actively using performance measures as an incentive to improve public service delivery. Ministries and departments are requested to include in their budget bids only indicators for which progress in service delivery can be expected over the next three years. Consequently, ministries and departments are regularly invited to identify new areas in which they can improve the efficiency of public expenditure. Indicators for which no significant progress is noted are progressively eliminated from the performance-based framework.

The use of performance measures in parliamentary budget processes has been relatively limited. According to an Organisation for Economic Co-operation and Development (OECD) survey conducted in 2005, only 19 per cent of legislatures and 8 per cent of legislative budget committees in OECD countries used performance information in decision-making. Although recent budget reforms have strengthened the supply of performance information in many countries, most of these reforms have not formally integrated the review of performance measures into the parliamentary budget approval process. Nonetheless, in Mauritius, performance information tends to be used increasingly by members of Parliament during the budget hearings, including by the opposition to challenge the government.

The experience of the Prime Minister's Delivery Unit (PMDU) in the UK (2001–2010) provides a good example

3

of how performance measures can be used during budget execution to monitor closely progress towards strategic objectives and take corrective action when necessary. The PMDU was established in June 2001 to strengthen the British government's capacity to deliver its key priorities across education, health, crime and transport. The unit reported to the prime minister through the head of the civil service (the Cabinet secretary). A key role of the PMDU was to ensure targets remained prominent for the entire public-sector system. Performance-monitoring tools used by the PMDU included three types of instrument: monthly notes (a succinct summary of progress, current and emerging delivery issues, and key actions required); stocktakes (quarterly meetings to review and discuss performance for each priority area in depth); and delivery reports (in-depth assessments provided to the system leader every six months on the status of all of the system's priority areas). As Prime Minister Tony Blair wrote in his 2010 memoirs, 'the Prime Minister's Delivery Unit was an innovation that was much resisted, but utterly invaluable and proved its worth time and time again'.

The Evaluation and Control Mission (MEC) established at France's National Assembly is an example of how performance measures can contribute to strengthening external control of the use of public resources. This mission is co-chaired by an MP of the ruling party and an MP of the opposition. The MEC uses performance information provided by budget reports, as well as other traditional means, such as public hearings, to conduct in-depth investigations on sector policies and to report on the efficiency of public spending in specific areas, such as preventative health care (in 2012) or the fight against social fraud (in 2011).

Q What are the risks associated with the use of performance measures in budgeting/budget management?

A Using performance measures in budgeting and budget management includes various types of risk that can be grouped into four categories.

First, the introduction of performance measures in budgeting processes creates a risk of distortion linked to the limited scope of indicators. Performance indicators may focus the attention of managers on the few targets that have been identified in the budget documentation, while letting aside other important objectives, which may not be covered by the performance measures. For example, performance measures often focus on new initiatives, whereas most of the budget resources are used for recurrent expenditure, which is not subject to the same level of scrutiny.

Second, the integration of performance measures in the budget process may create the wrong incentives for line ministries to present only the type of performance information and targets that appear favourable or achievable to them and to hide sensitive areas from the ministry of finance. This risk is all the more important as there is an inherent discrepancy between the amount and quality of sector information available in a line ministry and what is available at the level of the ministry of finance.

Third, there is a risk that the investment in time and resources to produce performance measures simply leads to presentational progress in budget documentation with no notable impact on expenditure prioritisation or on the efficiency of public services. This might be the case when managers are not really accountable to results, or when policy-makers and managers are overwhelmed by too many (or too insignificant) indicators, or have limited power to make changes during the budget-appropriation and budget-execution phases. As an example, a recent study of the finance committee of the Parliament in Estonia showed that legislators made only limited use of performance information, because the legislative budget process was too time-constrained and Parliament had a limited role in making substantive changes to the budget.

Fourth, there is a risk of losing sight of the key priorities in public financial management (PFM). The integration of performance information in the budget process should not be considered a priority when, for example, country assessments under the Public Expenditure and Financial Accountability (PEFA) framework demonstrate that the most serious issues lie with budget execution or audit procedures.

Q How can countries mitigate these risks?

A First, countries need continuously to improve the quality, and limit the quantity, of indicators used in budget documentation. For example, after four years of budget reform implementation in France, a restricted list of key indicators at the level of missions (which have a larger perimeter than programmes) was introduced in the budget documentation as from the 2010 budget to provide a more synthesised vision of performance.

Second, comprehensive spending reviews in specific sectors should be organised regularly to review performance outside of the budget process. This should help to reduce the information gap between line ministries and the ministry of finance, and to limit the distortion created by performance targets linked to budget resources.

Third, countries need to put in place the legal and regulatory frameworks needed to empower both MPs and senior managers in the public sector to use performance information in budget appropriation and execution. It is only when managers have some actual flexibility in budget execution that a change from a culture of administration to a culture of results can occur.

Fourth, countries should carefully evaluate the various challenges faced by their PFM systems prior to involving all ministries and departments in complex performance-measurement systems. To avoid the data cemeteries that have flourished in many cases in recent budget reforms, it seems wise to clearly prioritise PFM needs and to make sure that fundamental accountability frameworks are in place.

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Q What advice would you provide to a country that has invested heavily in the development of performance-information frameworks and formats for programme performance budgeting, but finds that it has made no material difference to the budget process?

A Frameworks and formats for performance information are necessary but not sufficient to ensure that performance information is actually used in the budget process.

When massive efforts have been geared towards the right supply of performance information in the budget process with no tangible results, and provided the distortive aspects of performance measures have been kept at acceptable levels, it is worth exploring whether the demand side of performance information is functioning well.

There are several ways to stimulate the demand for performance information from the main stakeholders. It may mean organising workshops with MPs to increase their understanding of the use they can make of the new performance information available in budget documentation. This was done, for example, in Togo in the context of 2009 directives on public finance adopted by the West African Economic and Monetary Union. It may also mean establishing high-level performance review committees at ministerial level, chaired by the minister or the supervising officer, which would meet regularly to review performance and take corrective action. Stronger demand for performance information could also be supported by external audit institutions, provided they have the appropriate human resources and legal framework to conduct performance auditing and publicise their findings and reports. Lastly, there may be a need to sensitise the media and civil society to the wealth of performance information available in budget documentation.

Another avenue is to work on incentives to take performance targets seriously. One practical way of doing this could be to establish, in a few appropriate areas, performance incentives linked to financial rewards. As an example, Rwanda has established a large-scale programme that gives bonuses to health-care providers that provide a higher quality of care to more patients. A 2012 World Bank evaluation of this programme found that the incentives had a large and significant effect on the health of children. The study also referred to similar positive results from pay-for-performance schemes in the Philippines (for hospital-based doctors) and Indonesia (for health-care centres in villages).

4

IMPLEMENTING PERFORMANCE-BASED BUDGETING:
SEQUENCING AND ORGANISATIONAL CHANGE

4.1 The sequencing and timetable of programme-based budgeting reform

Ronald E Quist

In the last decade, many Organisation for Economic Co-operation and Development (OECD) countries have reformed their budget procedures in order to transfer focus from inputs to results. In recent years, several African countries have also decided to implement programme-based budgeting (PBB), to adopt a results-based approach to budgeting and move away from the traditional line-item approach.

The experience of OECD countries and some African countries that have already implemented such budgetary reforms demonstrates areas of significant success. The successful areas of budget reform would seem to include the reclassification of the budget and the multi-annual estimates on the basis of programmes or output areas. However, areas of concern remain, including the use of performance information in the budget process, the alignment of programmes with the administrative structure and the presentation of performance information in budget documentation (Kraan n.d.).

Many developing countries are currently grappling with how to design and implement PBB reforms. It is important to consider the current status of their public finance management (PFM) and governance systems. Developing countries can benefit from the lessons learned through the experiences of OECD countries. It has been argued that PBB reform should not be considered in countries or states with poor PFM and governance systems (Robinson & Last 2009). Once prerequisites are met, it is important to implement a reform with appropriate sequencing and roll-out. In this article, a model based upon the application of Public Expenditure and Financial Accountability (PEFA) framework scores is used to assess whether adequate prerequisites have been met to implement PBB in a given country. Further, it provides a framework for sequencing budgetary reforms.

4

Undertaking PBB reform with caution

The international donor community has been a major driving force behind PBB reforms in developing countries. Experience in the introduction of other new public management reform initiatives suggests that developing countries exercise a degree of caution in undertaking PBB reform.

PBB imposes substantial burdens, particularly on budget execution, where the number of institutional elements involved may extend horizontally across dozens of ministries, departments and agencies, and vertically down to possibly many thousands of service delivery units. The degree of decentralisation or deconcentration influences the likelihood of successful PBB implementation. This is a particularly important consideration in the case of countries with considerable capacity constraints. Further, the limited devolution of expenditure management away from the centre in developing countries (either through decentralisation or sector deconcentration) has resulted in acute budget implementation challenges. This is due to the very long expenditure-management pathways between the central ministry and the sector ministry headquarters, regional or provincial offices, district offices and, finally, the frontline service delivery units. Typically, these pathways are plagued by the limitations of weak financial administrative networks – the banking networks, the postal systems, the communications networks and, in some cases, even electricity supply.

To illustrate the variations that may occur as a result of different levels of decentralisation on expenditure management, we note that South Africa, which is viewed as having successfully implemented PBB at the national level, reports that approximately 7 per cent of its budgetary outflows are classified as expenditure managed through internal controls, the balance being transfers and inputs, such as personnel.[27] This compares to Ghana, a country currently undergoing reform of its budgetary systems towards a PBB approach, which reports that approximately 75 per cent of its budgetary flows are classified under expenditure management.[28] These distinctions matter when PBB reforms are considered, and lead to different degrees of challenge with respect to budget implementation under a PBB regime.

It is of some interest to note that small island states are not faced with the challenges of very long expenditure management pathways, even where expenditure management remains highly centralised. This observation suggests that small island states may be faced with significantly fewer difficulties with respect to the challenges that PBB places on budget execution. The same argument may be applied to federal systems.

Criteria for assessing PBB reform as successful

The value of adopting a particular budgeting approach should not be gauged solely by its promise of better policy implementation, transparency and accountability. A more appropriate test would be based also on the credibility of the budget a country can reasonably be expected to achieve, given its current performance status in strategic planning, monitoring and evaluation, and PFM.

Such credibility can be measured by considering: the effective matching of comprehensive budgetary resource allocations in accordance with strategic objectives and development plans; the achievement of budget implementation outturns (i.e. expenditure, outputs and outcomes) that match budget allocations and targets; and the achievement of accurate, regular and timely measures of expenditure, outputs and outcomes.

Transitioning from line-item budgeting to PBB

A comparison of the budget management requirements for implementing line-item budgeting versus PBB provides a framework for considering a transition between the two forms of budgeting. Table 4.1.1 shows that reform from a traditional line-item approach to PBB requires:

- the adoption of a multi-year budgetary perspective to permit the incorporation of strategy into the budget process;
- a transformation of the institutional arrangements to properly establish lines of accountability for all of the results chain elements;
- an expansion of the dimensions of and scope for budgetary releases and expenditure controls, while transforming from input control (principally dictated by the ministry of finance) to output control (left primarily in the hands of the sector ministries);
- a reconfiguration of the chart of accounts for financial reporting on the basis of all four classification dimensions; and
- the setting up of effective, accurate and timely monitoring systems for measuring and evaluating outputs and outcomes.

The table further demonstrates the magnitude of the difference in complexity of managing a budget that is founded on the programme-based approach compared to one founded on a line-item approach. There are other areas of reform, not captured in Table 4.1.1, that must be associated with the introduction of PBB. These include the shift to a greater focus on performance-based auditing and the need for a more complete measure of resource allocation (as might be achieved through the introduction of accrual accounting).

PBB reform experience

Countries that have successfully made the transition from line-item budgeting to PBB include Canada, Denmark, France, Singapore, the United States, New Zealand, Australia, South Africa and Vanuatu. The experience of introducing PBB in practice has been mixed and varied.

Mauritius introduced an indicative programme-based budget alongside the traditional line-item budget in

27 See South Africa PEFA Assessment, 2008
28 See Ghana PEFA Assessment, 2009

Table 4.1.1: Comparison of budget management requirements for implementing line-item budgeting versus PBB

Results chain element	Classification dimension	Institutional lines of accountability		Estimate/Allocate		Control		Financial report		Monitor	
		Line item	PBB	Line item	PBB	Line item	PBB	Line item	PBB	Line item	PBB
Inputs	Administrative	✓	✓	✓	✓	✓	✓	✓	✓		
	Economic	✓	✓	✓	✓	✓	✓	✓	✓		
	Programme		✓		✓		✓		✓		
	Functional		✓		✓		✓		✓		
Outputs/ Outcomes	Programme		✓		✓		✓				✓
	Functional		✓		✓		✓				✓
Multi-year perspective	Administrative		✓		✓		✓		✓		
	Economic		✓		✓		✓		✓		
	Programme		✓		✓		✓		✓		✓
	Functional		✓		✓		✓		✓		✓

2007/08 as a starting point. Subsequently, a full-fledged programme-based budget set within a three-year medium-term expenditure framework (MTEF) (2008/09 to 2010/11) was implemented in the budget year 2008/09. In some respects, the accelerated PBB implementation may have resulted in a simple change in budget presentation rather than a true integration of programme budgeting. It is important to note that prior to implementing PBB Mauritius already had successfully implemented a computerised financial management system.

In the case of South Africa, the institutional arrangements of government reflect the programme/sub-programme structure and, thus, permit clear lines of accountability for delivering on the budgetary programmes. The advantages include relative simplicity and the facilitation of the incorporation of posts directly into programmes. The disadvantages, however, appear to be a pressure to institute new administrative structures with the introduction of new programmes, and the special challenges that are sometimes presented in defining meaningful output and outcome indicators. In the case of South Africa, as was the case for Mauritius, it is also important to note the presence a strong, computerised financial management system.

Mali has expressed its intention to move forward and to have its results-oriented budget fully operational between 2012 and 2015, in line with West Africa Economic and Monetary Union (WAEMU) legislation. Burkina Faso has moved towards PBB since 2000, and intends to add a results-oriented budget appendix to the draft budget for 2013 and to submit it to Parliament as additional information.

Experience appears to suggest that:

- a more gradual approach, one that incorporates careful sequencing, appears to be an important element of PBB reform success;
- a corresponding institutional reorganisation to accommodate PBB is an important element for effective PBB reform;
- the support of political and administrative leaders is vital for reform implementation; and
- strong PFM, including the successful implementation of computerised financial management systems, is an important factor.

Considering an appropriate approach to introducing PBB reform

In considering the introduction of PBB reform, as is the case for many other areas of PFM reform, several distinct elements need to be addressed. These are:

- the current status of budgetary performance (a minimum performance level in planning and monitoring and evaluation, as well as PFM must be met);
- the sequencing of reform steps, dictated by broad reform platforms and functional inter-linkages;
- the roll-out of the reform steps, both horizontally

across the different sectors and vertically through the levels of sector headquarters, regional or provincial offices, district offices and frontline service delivery units;
- the current levels of capacity, including the status of the financial administrative network;
- the resources available for carrying out the reforms;
- the political economy and macroeconomic contexts; and
- the institutional arrangements set up for managing the reform efforts.

Adopting a model for the achievement of sound PFM performance affords us a basis for defining platforms for reform sequencing (Quist 2009). We may outline a platform sequence as: (a) the achievement of fiscal discipline; (b) the achievement of efficient service delivery; and (c) the strategic allocation of resources. This sequencing rationale suggests that PBB, which is associated with the strategic allocation of resources, should be pursued only when fiscal discipline and efficient service delivery are sufficiently functional.

Sequencing of PBB reforms

PBB reform requires the introduction of programme-based budget classification and a corresponding transformation of the institutional arrangements of public administration away from administrative heads to programme managers.

Instituting a new budget classification constitutes a fundamental structural change to the budget process. It implies revisiting: the budget release structure; virement rules based on programmes rather than on an economic classification; commitment control based on programmes; and in-year budget reporting also based on programmes. To accommodate these fundamental changes, related areas of PFM might need to be reformed concurrently, even where such areas are currently functioning well. This, therefore, makes it a requirement that sequencing be considered very carefully when PBB reforms are intended. Further, it suggests that a gradual approach may be more productive than a 'big-bang' approach, as the interlinkages between PBB and other areas of PFM are accommodated. Indeed, this approach is supported by the PBB reform experiences of countries such as Canada and Singapore, for which reform was sequenced over periods of close to a decade.

A careful consideration of the sequencing and roll-out requirements for PBB reform identifies three main phases to be addressed. These are, in order:

1. Strengthening of basic PFM systems to ensure that an adequate level of PFM performance has been achieved. The PEFA tool provides a basis to both guide the sequencing of PFM reforms and identify at what point sufficiently robust basic PFM systems have been achieved to undertake the next phase.
2. Creation of a PBB reform enabling context. These reform steps may be guided by a consideration of the requirements for a transition from line-item budgeting to PBB. We note that the creation of a PBB enabling environment includes the introduction of computerised expenditure management and the institution of a treasury single account.[29] The successful implementation of this phase can facilitate the implementation of a programme-informed budget process that guides the allocation of resources between sectors on the basis of measured results.
3. Implementation of PBB with a reform of the institutional arrangements for budget management, and the introduction of a programme-based budget classification. The reform of budget formulation, budget execution and financial reporting is guided by a sequencing rationale based on PFM linkages. The technique involves identifying activity chains that represent the PFM linkages, and sequencing the reforms by starting with the shortest activity chains and progressing to the longest activity chains.

Strengthening of PFM systems – a prerequisite for PBB reform

The first step in undertaking PBB reform is strengthening the PFM system, especially those areas of PFM that serve as prerequisites for successful PBB implementation. What prerequisites are necessary for the successful implementation of PBB? Is there a way to determine with reasonable reliability whether implementing PBB is technically and operationally feasible?

The prerequisites for the successful implementation of PBB may be categorised under: (a) planning and monitoring and evaluation; (b) budget formulation; (c)

29 Several currently implemented integrated financial management information systems (IFMIS) are better characterised as computerised payment systems rather than expenditure systems (for example, the case of Liberia). The distinction is that an expenditure management system would include effective control of commitments (which occur at the level of spending units) rather than simply controlling the payment component of the expenditure cycle (which may be addressed centrally). Successful PBB relies upon PFM systems being able to align expenditure with budgeted activities and projects. This, in turn, requires effective commitment control.

budget implementation; and (d) financial reporting. These prerequisites refer to the achievement of adequate performance levels. The PEFA assessment (which, as of mid-2011, had been carried out in over 93 per cent of sub-Saharan Africa) serves as a source for measuring the current levels of PFM performance (Lawson & Fölscher 2011). The prerequisites and the corresponding PEFA performance sub-indicators are as follows:

- The achievement of fully costed (investment and forward linked recurrent cost) strategies and an effective debt-management strategy prioritised within firm, reliable fiscal-resource forecasts. A measure of performance may be obtained by considering PEFA sub-indicators PI-12(i), PI-12(ii) and PI-12(iii).
- The implementation of a credible monitoring and evaluation framework to cover all key sectors. The PEFA assessment includes no direct measures of the credibility of monitoring and evaluation, but some indication may be available from planning and sector reports.
- A credible multi-year macro-fiscal framework, which can serve as an effective instrument of top-down budgetary discipline, and the effectiveness of which is not undermined by large, unpredictable subsidies and donor flows – see PI-12(i).
- A credible budget process that results in close matches between expenditure outturns and budget estimates for revenue and aggregate and sector expenditure. In particular, it is important that the PFM systems are capable of effectively curbing the accrual of expenditure arrears – see PI-1, PI-2, PI-3, PI-4(i) and PI-4(ii). Where there is substantial donor participation in the budget, the integration of programme and project aid into the budget becomes very important to the PBB process – see D2 (i) and D2 (ii).
- The budget classification must reflect at least administrative and economic classifications – see PI-5.
- A budget-preparation process that allows adequate time to fully incorporate bottom-up inputs that reflect service delivery requirements, and which integrates political considerations at the beginning of the budget preparation cycle – see PI-11(i) and PI-11(ii).
- A budget-release mechanism with an horizon sufficient to ensure effective commitment control across all spending units, effective debt management, sound public procurement and good payroll management – see PI-16(i), PI-16(ii)), PI-20(i), PI-17(i), PI-17(ii), PI-18(i), PI-18(ii), PI-18(iv), PI-19(i) and PI-19(ii).
- An effective focus on output control of expenditure by the sector ministries, rather than input control by the finance ministry. An almost certain requirement for meeting this standard is the implementation of computerised financial management systems with complete coverage of expenditure and the capacity to monitor expenditure down to the level of the service delivery units – see PI-23.
- The accurate and timely in-year financial reporting of budget implementation, as well as the preparation of comprehensive, accurate and timely financial statements – see PI-24(i), PI-24(ii), PI-24(iii), PI-25(i) and PI-25(ii).
- The assurance of sustained effectiveness, accuracy and timeliness of these systems through effective risk management and systems audit – see PI-21(i).

4

Table 4.1.2: Summary results of analysis of meeting prerequisites for PBB implementation

Number of prerequisites for implementing PBB				**32**
Number of prerequisites met:				
	Number	**Adjusted**	**%**	**Remarks on adjusted figures**
Mauritius 2011	27	27	84%	
Norway 2008	27	28	88%	It may be argued that PI-21(i) applied to Norway is inappropriate
South Africa 2008	26	28	88%	Given the very small amounts of donor aid D2(i) and D2(ii) scores may not be critical
Mauritius 2007	25	25	78%	
Burkina Faso 2010	19	19	59%	
Botswana 2008	17	19	59%	Given the very small amounts of donor aid D2(i) and D2(ii) scored may not be critical
Ghana 2009	10	10	31%	
Mali 2010	9	9	28%	
Lagos State 2008	7	7	22%	

- Effective external scrutiny and audit – see PI-26 (i), PI-26(iii)) and PI-28(i).
- Effective policy debate and oversight by Parliament, with approvals made prior to the start of the fiscal year – see PI-11 (iii) and PI-27(i).

An analysis of whether a country has met the minimum PFM performance level, based upon the criteria listed above and using the PEFA scores, was performed on seven countries and one state. South Africa, Mauritius, Norway, Botswana, Ghana, Mali and Burkina Faso and Lagos State were selected on the basis of their having adopted PBB (or performance-based budgeting) or being in the process of doing so. A summary extract of the results is presented in Table 4.1.2.

The results suggest that Mauritius, Norway and South Africa substantially meet the prerequisites for successfully implementing PBB. Out of 32 prerequisites, these countries meet between 25 and 28. In contrast, the analysis suggests that Burkina Faso and Botswana, with 17 to 19 out of 32 pre-requisites met, need to undertake considerable strengthening of their basic PFM systems before initiating PBB reforms. Botswana is currently designing a PFM reform programme; it is recognised that many prerequisites must first be met, and the PBB initiative has been sequenced to start five years into the reforms. Burkina Faso is pursuing a gradualist approach and intends to move to a programme-based budget only as an appendix to the 2013 appropriations bill. The analysis suggests that it would be premature to introduce PBB at this time in the case of Ghana, Mali and Lagos State. In all three, there is evidence to suggest the timetable for introducing PBB may be the result of donor pressure. In the case of Lagos State, the PBB initiative is supported by the Department for International Development (DFID) through the State Partnership for Accountability, Responsiveness and Capability (SPARC) programme, under which a PBB pilot programme was introduced in 2010. Mali is responding to its treaty obligations under WAEMU legislative requirements. Ghana did not foresee a PBB reform initiative under its original Ghana Integrated Financial Management Information System (GIFMIS) project, but this was introduced in response to IMF disbursement conditionality.

Creating an enabling context for PBB

The creation of an enabling context for the introduction of PBB may be guided by a consideration of extending traditional line-item budgeting through a step of enhancing performance-informed budgeting, as illustrated in Table 4.1.3. In such an approach, outputs and outcomes are monitored and used to inform the strategic planning process. Resource allocations are made according to sector. The strategic sector allocations enter budget formulation through a selection of projects on a functional classification basis (using mapping tables). Budget implementation remains on a line-item basis, but reporting is done on a functional basis to permit a comparison of

Table 4.1.3: Comparison of budget management requirements for implementing line-item budgeting versus PBB

Results chain element	Classification dimension	Institutional lines of accountability		Estimate/Allocate		Control		Financial report		Monitor	
		Line item	PBB	Line item	PBB	Line item	PBB	Line item	PBB	Line item	PBB
Inputs	Administrative	✓	✓	✓	✓	✓	✓	✓	✓		
	Economic	✓	✓	✓	✓	✓	✓	✓	✓		
	Programme		✓		✓		✓		✓		
	Functional	✓	✓	✓	✓	✓	✓	✓	✓		
Outputs/ Outcomes	Programme		✓		✓		✓			✓	✓
	Functional		✓		✓		✓			✓	✓
Multi-year perspective	Administrative		✓	✓	✓	✓	✓	✓	✓		
	Economic		✓	✓	✓	✓	✓	✓	✓		
	Programme		✓		✓		✓		✓	✓	✓
	Functional		✓	✓	✓		✓	✓	✓	✓	✓

resource allocation by sector against output and outcome achievements.

Table 4.1.3 helps to define a sequence of budget reform steps, the five main sequenced initiatives of which are as follows:

1. Introduce effective multi-year forecasts of fiscal aggregates, with full political backing, to inform the resource envelopes applied to strategic planning, as well as to serve as an instrument of budgetary top-down discipline. Introduce sector forward-spending estimates to facilitate the incorporation of sector baselines in the macro-fiscal forecasts. Fiscal forecasts must be comprehensive and include revenues, expenditures and transfers, as well as net borrowings. A reliable net borrowing profile, in turn, requires strict adherence to a politically backed debt strategy.
2. The next step in instituting a PBB reform-enabling context is to strengthen strategic planning at both national and sector levels, and to specify sector output and outcome targets. It is desirable to cover at least the major sectors – health, education, roads and transport, and agriculture. The approach typically involves a pilot programme with one or two sectors, and then a rolling out of the process to other sectors, which may take three to four years. Strategic planning depends on an effective prioritisation of programmes. This, in turn, requires the prior achievement of a firm and realistic fiscal forecast capability.
3. Tied closely to the strengthening of strategic planning is the strengthening of monitoring and evaluation, to measure actual output and outcome achievements. This component of creating a PBB-enabling context is not critically dependent on the development of either effective multi-year fiscal frames or strategic plans, so should be started as early as is practicable. The outcome indicators commonly involve sophisticated statistical sampling and the establishment of baselines; thus, this process can take several years.
4. The next step is the direct linkage of policy to the budget. This requires that both effective, politically backed multi-year fiscal frames and effective strategic planning have first been achieved. If so, then the country can introduce a multi-year perspective to budgeting on a rolling, annual basis by linking multi-year forecasts to budget ceilings. Further, it can link budgets to sector plans on a sector basis, using functional mapping tables, based on a prioritised selection of projects and available fiscal space, and taking into account investment costs and forward-linked recurrent charges.
5. Ultimately, budget execution can be reformed to reflect a functional structure, in line with the budget-formulation and strategic-planning structures. This may be reflected in the structure of budget release, and in the organisation of financial reports. In anticipation of the layer of complexity imposed on budget execution and financial reporting by the introduction of PBB, it is necessary to introduce computerised expenditure management and a treasury single account to manage budget releases effectively.

Undertaking core PBB reforms

Going through the five steps listed above to prepare a PBB reform-enabling context could take as long as a decade, depending upon the political economy – with respect to both country political commitment to reform and development partner practices regarding participation in the budget process. The schedule of implementation will depend, of course, also on capacity and resource constraints. Once these steps have been achieved, the core elements of PBB can be considered and the proper work of PBB reform begun. This requires a consideration of the sequencing and roll-out requirements. The sequencing rationale is based on PFM linkages that are impacted by the introduction of a programme-based budget classification. These include the following steps:

1. The first step in the core PBB reform process is a review of the legal and regulatory framework centred on the budget law and possibly the introduction of a fiscal responsibility act. This requires a realignment of related regulations, manuals and reporting formats. In Mauritius, for example, the implementation of full-fledged PBB was preceded by the enactment of the Finance and Audit (Amendment) Act of 2008, the enactment of the Public Management Debt Act 2008, and accompanying changes in the Financial Management Manual.
2. The second step involves operationalising the law. This step includes the reform of the institutional arrangements for managing a programme-based budget. For some countries, this may include first integrating a separate recurrent budget and development budget into a single budget division. These institutional changes must be rolled out to all sector ministries. Pragmatic considerations require that this step aligns closely with the existing administrative organisation. However, too timid a

reform initiative can lead to a PBB implementation that merely reflects PBB classification but, in essence, does not transition from an input focus to a results basis.

3. The third step addresses restructuring the budget systems and procedures to accommodate PBB. We note that the core PBB reform is typically implemented initially as a pilot project involving two or three ministries, and then, on the basis of lessons learned, it is rolled out to other sector ministries over a period of several years. In the light of this, the reform of systems and procedures must adopt an approach that accommodates both the current and the reformed budget systems. This step begins with a reform of the chart of accounts. The subsequent degree of transaction codification complexity makes it particularly challenging to manage accounts manually. Nevertheless, something often ignored is that in developing countries (excepting small island states and federal systems), even where computerised expenditure management has been implemented successfully, not all spending units are covered. In such circumstances, a simplified chart of accounts is required that can compile transactions consistently at least at an aggregate level. This step also entails redesigning the payroll ledgers on a programme basis.
4. The fourth step entails redesigning the formats of the budget documentation, budget call circular, monthly and quarterly expenditure returns and the annual financial statements. It also includes revisiting the classification basis for pro-forma cash-flow requests by sector ministries, procurement plans, and warrants or authorities to incur expenditure.
5. The fifth step, which represents the first implementation step, looks to address the budget release procedures to permit the timely release of resources on a programme basis, rather than on an administrative/economic classification basis. These steps, along with the implementation of a chart of accounts that reflects a programme classification, facilitate the reflection of budget virement and budget releases on the basis of programmes rather than economic classification. This step also entails the implementation of commitment-control systems based on programmes and sub-programmes.
6. The sixth step must be closely co-ordinated with the previous step. It involves the issuance of a budget call circular that specifies sector and programme ceilings, timed in such a way as to ensure that the PFM systems can manage budget releases and control on the basis of a programme classification in the fiscal year to which the budget circular corresponds.
7. The seventh step entails introducing in-year and annual financial reporting on the basis of a chart of accounts that incorporates the PBB classification.
8. The final step, once PBB is implemented, is to reform audit to include performance-based approaches and techniques.

On the time required and scheduling of PBB reform

Clearly, from the considerations outlined in the previous sections, the time required to implement PBB successfully very much depends upon a country's current status of PFM performance, and what steps it has already taken towards creating a PBB enabling context. The time required will also be influenced by whether it is a small island state, a federal system or a country with highly decentralised or deconcentrated expenditure management, or whether it is a country with a centralised financial management administration. The status of the financial administrative network is a further influence. Table 4.1.4 presents time-schedule estimates based on an analysis of a selection of countries' circumstances, and illustrates that the timeframe for implementing PBB can never be less than five years.

Table 4.1.4 Estimates of the time required to implement PBB reforms

Total time required for PBB reforms			
	Small island state	**Federal/ Decentralised government**	**Centralised government**
Basic PFM systems remain weak	12–15 years	12–18 years	15–25 years
Basic PFM systems are sufficiently strong	8–10 years	8–12 years	10–15 years
A PBB enabling context has been effected	5–7 years	5–7 years	7–10 years

Discussion and conclusions

While PBB offers the promise of markedly improved decision-making, effectiveness, efficiency, transparency and accountability in budget management, it can provide such improvements only when successfully implemented. Lessons to be derived suggest that great caution should be exercised in deciding on whether a country should undertake PBB reform, and how it should do so. It is well recognised that PBB reform is only appropriate where adequate PFM performance and governance has been achieved. This article demonstrates that the PEFA assessment provides a basis for determining if a country meets the prerequisites for undertaking PBB reform.

Three main sequencing phases are identified. The first seeks to strengthen basic PFM performance. The second seeks to create an enabling context for the implementation of the core PBB functions; this phase is guided by a process of enhancing performance-informed budgeting. The third introduces the core PBB functions, the sequencing of which is guided by PFM functional linkages.

PBB reform requires revisiting many elements of PFM practice; this warns against the narrow view of PBB reform that some countries adopt, which focuses principally on a redesign of the budget call circular and, possibly, a modification of the chart of accounts. The linkages between budget formulation, budget execution and financial reporting, which are especially strong in the case of PBB, point to a consideration of activity chains as a productive method for sequencing (Quist 2009).

The long implementation periods, which are advisable for the reform, question the rationale of making PBB reform implementation a conditionality of donor aid and loan disbursements covering a period of five years or less.

It is worthwhile to be reminded that sequencing and prioritising are not the same, and their respective consideration often leads to a completely different ordering of reform steps. MTEFs, PBB, and accrual accounting are often toted as priorities in budgetary and financial management reform and, thus, are made the early focus of reform. However, such a perspective is prudent only if the proper sequencing is applied, and proper sequencing considerations would place these priorities towards the back of a sequenced schedule.

The analysis considered in this paper points to the following further conclusions:

- Countries should undertake PBB reforms only if they meet a sufficient PFM performance level; otherwise between three and seven years should be added to the process for addressing PFM basics.
- The existence of weak financial administrative networks in many developing countries suggests different risk profiles for different types of country in terms of the impact that the implementation of PPB has on budget execution. Increased risks can be expected for countries with highly centralised expenditure management systems.
- PBB should be taken on only if there is sufficient achievement of effective strategic sector planning, and monitoring and evaluation.

Given the complexity of PBB, successful implementation requires a careful assessment of the current PFM performance status, and an ascertainment of the achievement of a number of key PFM steps, and then a gradual implementation of PBB elements. Given the current status of PFM performance for a number of African countries, such an argument would suggest excluding many African countries from PBB reforms for several years yet. However, it is possible to achieve a degree of performance-informed budgeting through strengthening PFM, by way, for example, of a transition to a more medium-term macro-fiscal budgetary framework and the progressive adoption of a more output-focused approach to budget formulation and monitoring. It is worthwhile to note that Botswana maintained its position as the fastest growing economy in Africa for decades on the basis of line-item budgeting coupled with an effective planning process. So, it should be possible for countries to start now, and to make determined and sequenced, but gradual, steps towards a successful implementation of PBB.

4

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PBB reform supported by co-reforms

Morocco's introduction of programme-based budgeting (PBB) and management has been rolled out slowly across the government, allowing capacity to develop. Also, it is supported by the simultaneous introduction of a multi-annual budget framework.

Nature of reforms

Performance budgeting and management are at the heart of Morocco's programme of budget reform, initiated in 2002 (Touimi-Benjelloun & Chafiki 2007; Karim 2008), with the other pillars being the introduction of a multi-annual budget framework and budget decentralisation with contracts between the centre and line.

Sub-aspects of the Moroccan reforms are:

- shifting to a programme structure in the budget;
- delegating spending authority to ministries and putting in place performance indicators;
- modernising control systems to facilitate initiative by managers;
- experimenting with innovative partnerships across traditional administrative boundaries between NGOs, local authorities and central authorities, for example, in sectors like health, education, transport and water management; and
- significantly improving systems to manage expenditure data. (OECD 2010)

The purpose of the reforms was to bring greater clarity to the strategic choices in budgeting. The delegation of decision-making powers was aimed at creating incentives for managers to be more responsive to service delivery needs. The introduction of performance information, in particular, was seen as a way to build logical connections between objectives, allocations and results, and to establish a culture of transparency, performance and accountability (Karim 2008).

The use of performance information in the budget and management process has been built up through trial and error in ministries. The system in Morocco rests on the use of quasi-contracts to manage performance. The first layer of an agreement is between the finance ministry and the main national ministries, where the finance ministry grants spending authority and flexibility to the ministries, in exchange for the commitment to deliver a specific amount and quality of services. At the centre, each ministry would then structure similar agreements between itself and its programmatic units, local offices and authorities. This has required the merger of ex ante and ex post controls and the development of a financial information management system that makes information on commitments available to all parties as soon as a manager has made the commitment (OECD 2010).

Performance information is not used to determine allocations by the finance ministry as such; rather, it is used so that budget managers can make better decisions about priorities for managerial decisions on programmes (OECD 2010).

Implementation approach

Morocco took into account that the pace of implementation of reforms would be constrained by capacity in the government. It, therefore, chose to proceed incrementally, not in terms of the sequencing of elements of the reform, but rather in rolling out reform across the government. Implementation was aimed at learning by doing and culture change, with most changes introduced at the same time, to ensure that different aspects complemented one another. Initially, participation by ministries was voluntary and experimentation was encouraged, allowing for lessons to be learnt before a main implementation phase from 2004 onwards (OECD 2010).

Thereafter, implementation sites for the programme budget and the development of indicators were selected, so that by 2009 altogether 30 departments, including the largest ones, worked with a PBB and had a set of performance indicators.

Morocco initiated the changes in practice, with little adjustment of the legal framework. A new organic budget law, however, was in design in 2010 (OECD 2010), in order to create a more conducive legal environment for the reforms, such as aligning the annual finance law with a medium-term approach to budgeting.

Impact of reforms

According an OECD (2010) case study on the reforms, the benefits of the approach were particularly visible in the quality of the budget negotiations between the finance ministry and spending agencies. There have also been particular cases of service delivery improvement on account of the new budget management context and incentives for performance. Departments that had invested in switching the focus in their internal budget negotiations from the cost of running administrative units to the objectives of programmes and the resources required to reach goals have noted that this investment has paid off in improved discussions with the finance ministry. In this way, the incremental approach has worked well: it has allowed the development of capacity and skills, together with a knowledge base on what works and what does not.

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PFM reform based on WAEMU directives

4

In Burkina Faso, the introduction of programme budgeting, a medium-term expenditure fiscal framework and the use of information on results were part of a 'second phase' of reforms (initiated at the end of the 1990s) that stressed results. This followed an earlier wave of reforms that focused on creating a unified budget management system for the finance ministry and stabilising budget execution, by automating the chain of expenditure, creating unified expenditure controls, closing private accounts in the budget system, strengthening Treasury management and accounting, and creating a centralised fiscal framework (Lawson, Chiche & Ouedraogo 2012).

This second phase of reforms included the introduction of several analytical, planning and budgeting tools, a programme budget (1998), regular public expenditure reviews (PERs) and a global medium-term expenditure framework (in 2000).

Nature of the reforms

The nature of reforms in Burkina Faso was significantly influenced by the six directives on public financial management (PFM) of the West Africa Economic and Monetary Union (WAEMU). These directives were updated in 2009, incorporating modern PFM concepts, with the aim of increasing control, transparency and accountability in budgeting. Besides including aspects of accrual accounting, enhancement of parliamentary debate, strengthened powers for the supreme audit institution and the use of treasury single accounts, they also provide for a set of measures aimed at programme-based, medium-term, results-based budgets. These measures, in turn, include the delegation of spending authority to spending ministers and the use of a programmatic classification system as the basis for appropriation in the finance law (Kone 2011).

Burkina Faso is highly committed to implementing these changes within its budget systems. (Lawson et al. 2012).

Implementation

The implementation of programme and performance budgeting can be seen as occurring in two phases. The first decade (from 1999 to 2008) was characterised by some confusion over the process. In 1999, with World Bank support for PFM reform, programme budgets were launched, initially in pilot ministries, but were rolled out to all ministries in 2000. However, sector ministries 'misunderstood the objectives' (Lawson at al. 2012), grasping the opportunity to argue for additional funding rather than seeing it as an approach to reprioritising all spending. When a fiscal framework was introduced in 2001, with top-down ceilings for ministries, the use of programme budgets to submit wish lists was curbed. However, ministries still were not using the formats to assist in budget management, even by submitting them in parallel to traditional administrative input-based budgets to the ministry of finance.

In 2008, the finance ministry formed a review committee to develop a revised approach to programme budgeting. The need for clear guidance on programme structure, indicator selection, the elaboration of medium-term budgets and the use of programme performance budgets to monitor expenditure implementation was recognised, and methodological guides were developed in 2011, based on pilots of the new approach in 2010 in seven ministries. In 2011, the pilot programme using the new guides was rolled out to a further nine ministries. The intention was to have a fully formulated programme budget as an annexure to the finance law by 2013 (Taiclet & Murara 2011).

Impact of programme performance budgeting

By the late 2000s the impact of programme performance budgeting on budget formulation and management in Burkina Faso was seen by many authors as limited (Lawson et al. 2012; Ouedroago 2008; World Bank 2005). While ministries produced notional programme performance budgets, these were not used in reaching decisions on allocations and were, in 2005, not adjusted to reflect decisions in the core budgeting process, which was still constructed around the administrative input-based budget. Taiclet and Murara (2011) consider the revived programme to have had some success, but point out the need to make the programme-budget format the core budget format for appropriation and reporting.

According to Lawson et al. (2012), the low impact of programme budgeting in the first ten years of implementation was because the initial implementation did not take into account the complexity of programme budgeting, and the difficulties that would be encountered in the absence of a fiscal framework and uniform programme classification in the chart of accounts. Ouedroago (2008) points to the legal status of programme budgets and insufficient capacity-building as further contributing factors to the low impact of the reform up to 2008, despite good results in some ministries. The presentation of the budget in Parliament remained in the administrative input-based format, with the result that most effort in the budget process continued to be directed at this format of budget preparation and submission. Other factors highlighted by a cross-country study of performance budgeting and management (World Bank 2005) include high turnover of staff who dealt with performance budgets in spending agencies, poorly formulated targets and a lack of good data to monitor performance against spending.[30]

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30 For more information on Burkina Faso's PBB reform process, please refer to the CABRI Status Report on PBB in Africa (forthcoming).

4.2 Considerations for undertaking performance-based budgeting reform: Organisational and technical requirements

John Channon

Many African countries are gradually moving towards performance-based budgeting (PBB) – and a greater focus on outcomes and results – within the wider framework of more strategic budgeting. PBB should operate as a policy- and decision-making tool that demonstrates what is being accomplished with public funds and that the funds have been used for approved purposes. PBB should improve service delivery in the public sector. PBB is frequently implemented within a programme-budgeting structure, which many African countries are also establishing. At a more advanced stage, these reforms may incorporate explicit performance measures and systems of performance assessment, including higher-level accountability with associated sanctions and rewards.

This article begins by looking at the gradual move towards the adoption of some kind of performance-related budgeting within the overall frame of the adoption of more strategic budgetary planning, based on international experience and best practices. Consideration is then given to the required organisational changes, linked to the adoption of new approaches and methodologies, fundamental conceptual shifts in thinking, and new management practices and styles. This approach acknowledges that implementing a PBB reform is not only a technical matter. While there are the challenges involved in introducing major systemic changes to the budgeting system itself, there are also challenges linked to transforming the behavioural attitudes and practices of those tasked with managing and administering the new system. Associated difficulties and obstacles will be noted. Thus, the focus of the article is on the changes required in *institutional, organisational and management terms* for the implementation of such reforms, with specific attention to changing the behaviour of key actors in the process so as to encourage them to use performance information.

PBB as a sequenced PFM/budget reform

Before we move on to discuss PBB, we need to locate it within the public financial management (PFM) reform process, since there are some basic prerequisites for PBB that follow logically from necessary earlier reform steps.

Medium-term budgeting

It is generally recognised that medium-term budgeting, programme budgeting and performance budgeting are all associated budget reforms relating to the move away from traditional one-year input-based budgeting . The move from annual to multi-annual budgeting is itself an important learning process. Aspects commonly required for effective implementation of medium-term budgeting include:

- reliable macro-fiscal projections and a comprehensive aggregate expenditure ceiling;

- a new and more detailed system for budget preparation;
- new formats for preparation and submission of requests from line ministries to ministries of finance (MoFs);
- a specific unit within the MoF, which is tasked with the preparation of the medium-term budgeting process – medium-term expenditure framework (MTEF) or medium-term budget framework (MTBF), preparing annual ceilings for each sector for three or four years, on the basis of policy priorities agreed by the government (within a country development strategy or something similar).

This determines how much of the overall amount will be allocated to each sector, which is then passed down to the sector line ministry or relevant government agency – the so-called 'top-down' part of the process, which helps to instil notions of fiscal discipline, since the sector cannot submit requests that go beyond the envelopes of resources as set down within the sector ceiling.

These reforms all stem from the need for strategic budgeting, where budget allocations (within a hard overall expenditure ceiling for different sectors) are dictated by policy priorities as set down and approved within a country development strategy covering the medium to long term. These allocations will then be prepared over the medium term (usually for a three- or four-year period), according to a rolling cycle. This enables amendments to be made to expenditure allocations, taking into account new policies and/or exogenous factors (such as repercussions and shocks from an international financial crisis), and ensures that the multi-year cycle is constantly updated.

The introduction of programme budgets

The introduction of medium-term financial planning is premised on the assumption that requests for funding from sector line ministries and/or government agencies will be based on a group of activities that address a specific policy priority for the sector. Such a group of activities is commonly called a programme, hence the term 'programme budgeting', whereby budgetary funds are allocated to programmes. By allocating funds to programmes and sub-programmes, it is assumed that all funds necessary to implement the programme will be included in the allocation, of both recurrent and capital expenditure, in order to reflect the full cost of the programme and to allow for trade-offs to be made between activities within the programme. This is a fundamental difference from traditional budgeting, which allocates these items separately, line by line. Programme budgeting allows more flexibility in the use and mix of inputs towards achieving the desired outputs and outcomes.

Programme budgets also facilitate the development of some kind of performance-based budgeting (PBB), principally by the addition of more elements to the basic programme-budgeting structure. While PBB does not require other budget reforms, such as medium-term budgeting and programme budgeting for its operation, the chances of it achieving the success that was intended through its introduction is far higher if these other reforms are implemented and PBB evolves logically from such reforms.

Instruments and capacity to cost programmes

As part of the process of medium-term budgeting, sector ministries and government agencies have to learn to develop sector strategies that are costed. Only once programmes are costed can they be properly prioritised to ensure that there are sufficient funds available within the ceiling.[31] If resources are requested over and above the ceiling, this has to be fully justified in terms of the programme's contribution to the agency's strategic objectives, so that the request can be properly considered by the ministry of finance or similar body. Thus, the reform process becomes output and outcome oriented. Sector ministries need to be trained in these new procedures, formats and submissions, so that there is sufficient capacity within line ministries and government agencies to undertake strategic planning, costing and budgeting.

Links to broader public sector reform

PFM reforms themselves are a subset of public administration (and civil service) reforms, and success is more likely when such reforms are all fully harmonised. PFM reforms need to be integrated, but with the finance ministry becoming the focal point and leader for PFM reform. PBB aims to improve the efficiency and

31 Each activity will need to be costed with the expected outputs, which will then enable the anticipated outcomes to be achieved. For the policy objectives to be achieved, it is imperative that the outcomes of these activities and programmes contribute to achieving the overall results expected.

effectiveness of public expenditure by linking the funding of public sector organisations to the results to be delivered, making systematic use of performance information. Such mechanisms do not need to be overly complicated or sophisticated. PBB should be seen not only as part of the overall evolution of the PFM budgetary reform process, but also within the broader reform context, designed to focus public management more on the results that need to be delivered (sometimes termed 'managing for results') and not just on the technical processes. Such a broader array of reforms would include public administration and civil service reforms, designed to increase the motivation and incentives of public employees, organisational restructuring to increase the focus on service delivery and improve co-ordination, and institutional and oversight changes to strengthen public accountability for performance.

Moving from programme to performance budgeting

The move from programme budgeting to some kind of performance-oriented budgeting needs to include the following:[32]

- *More information on objectives and results*: Systematic information on the efficiency and effectiveness of public expenditure is the most basic tool of performance-budgeting systems. The biggest challenge is to keep this information simple, affordable and usable. Such information is generally expensive to collect and requires skilled human resources to interpret. Experience suggests that most countries should aim initially to develop only a handful of key performance indicators for each ministry and, subsequently, each programme.
- *The use of performance information in budget preparation*: For PBB to influence budget allocations, reconsideration of spending priorities and programme performance needs to be formally integrated into the budget-preparation process. These routines need to be timed so that they consider performance information in an organised and progressive manner, taking account of broad policy priorities in the early (strategic) budget phase, an expenditure-review process (to review existing programmes) and a process for ensuring that only top-priority new programmes are approved for funding.

32 These issues are also discussed at length in the third chapter, Performance Information and the Budget Process.

- *Appropriate monitoring criteria*: In order to assess whether the programme and activities have been successful, it is necessary to develop appropriate monitoring criteria (both quantitative and qualitative). These will enable judgements to be made as to how well a programme is performing. Aspects of monitoring include realising when, understanding why and instituting appropriate mitigating measures when: progress is slower than anticipated; external factors, which could not be anticipated, have unduly affected performance; and progress has been faster than expected and resources are now available for reallocation to other programmes or to new ones.
- *Greater managerial freedom and accountability*: A reduction in the number of controls over line-item budgets to which managers must adhere, leaving them responsible for choosing the most appropriate input mix to efficiently deliver services within a programme allocation. As a general rule, the relaxation of such controls should not proceed as far in developing countries as has been the case in advanced countries, due to the absence of adequate financial controls and weak accountability. For instance, it is often considered appropriate to maintain limits on employment levels and line items particularly susceptible to abuse (such as travel and allowances), or to limit shifts from capital to recurrent expenditure.
- *Changes in legislation*: This is not a necessary requirement for programme budgeting but, in some countries, programme budgeting links programmes to specific budget allocations in law, as, for instance, in countries where the annual budget law passed by Parliament specifies the allocation of expenditure between programmes. Elsewhere, however, programme allocations are left to the government (in practice the ministry of finance or ministry of economics and planning), which then allocates to each sector/line ministry an aggregate amount determined by the total amount required for its programme allocations.

Institutional and organisational change requirements

In terms of basic organisational change, it is imperative that reforms – for example, budget reforms – are co-ordinated with functional reviews, so that when ministries and government agencies are being restructured, it is appreciated that departments/divisions need to be operational within each spending unit within the following areas: budget (finance); policy; and monitoring. These are the key areas that are essential for strategic budgeting over the medium term, linking budget allocations closely to national policy priorities with the expertise and skills necessary for the development of monitoring indicators that can measure progress. Thus, the starting point is to ensure that PFM reforms are harmonised with other public administration reforms.

By and large, the above involves institutional change – providing the appropriate structure for government ministries and agencies to be able to carry out the new activities and an MTEF unit within the MoF. The latter can ensure that appropriate staff are trained within the MoF, line ministries and government agencies in the new processes and formats, explaining, through both formal training sessions (seminars and workshops) and on-the-job continuous training, the purpose and rationale of the new budget process, how it works and the role and function of organisations and individuals within it.

Programme structure should be aligned with organisational structure

One problem that has been identified in some countries is the need for the programme structure to be aligned with the organisational structure. Difficulties can emerge if this is not adequately addressed. The case of Mauritius is instructive in this context. It is generally recognised that it is difficult to change the organisational structure of a ministry, and this fact has important implications for accountability and responsibility. In the Ministry of Public Infrastructure, Land, Transport and Shipping, due to the programme design, a director and deputy-director of a particular unit were placed in different programmes. The lines of reporting were confusing, as the deputy-director felt that he was accountable to his director and not to the programme manager, who he felt did not have the technical knowledge to be his manager. Similarly, in the Ministry of Education, Culture and Human Resources, the organisation is structured according to zones which are not aligned to the programme structure. This means that it is difficult to appoint programme managers, as the programmes cut across zones. To overcome the problem, a particular person was assigned to the position of programme manager, but this placed additional responsibilities on the person, making it difficult for tasks to be carried out effectively (CABRI 2010).

Overcoming capacity constraints, organisational change and managerial thinking

While programmes and activities are judged on outcomes, results and performance, this can be developed further to include staff involved in these programmes, so that their own individual staff performance is linked to results and outcomes associated with their work. This, however, is a huge step forward, since most staff are not used to a performance-oriented career structure, and in most countries it is important to move gradually and to ensure that institutional capacity is adequate for what is being attempted. Moving too far too fast may lead to staff disillusionment and demotivation. Support for the successful development of the process is critical.

There is no agreement in the literature on the necessity or even wisdom of linking individual performance management explicitly to budget programme performance management. In the former, the objective is the motivation of the individual to achieve and her/his accountability for those achievements, sometimes linked to monetary reward. This creates a set of incentives to undertake only what is measured, or to game the system to increase the appearance of performance. The objective of programme and performance-based budgeting is to improve the quality of expenditure and to learn which approaches to public services work more effectively. When individual performance is linked to programme performance, the incentives the individual faces may undermine programme performance and learning. Thus, the commander of a police station, for example, might not enter all cases into the system so as to injcrease the successful case detection rate, in order to get a bonus, as has occurred in South Africa.

Initially, the most important factor for staff within government ministries and agencies is the organisational changes that are needed, but this also requires a new mode of thinking and, in terms of providing guidance, new management practices for staff at senior levels. When PFM systems are compromised – through weak management, prevalent informal systems, corruption or nepotism – the move towards a more objective, professionalised system (with achievement and promotion based on merit) is not easy to achieve.

The existence of staff capacity to address these institutional requirements is a key institutional prerequisite; consequently, capacity constraints need to be addressed initially and as PBB is introduced. In essence, staff will need to become outcome- and results-oriented in thinking about processes and procedures, and organisations will need to operate in different ways. Instead of controlling inputs, managers would be required to monitor outputs. This requires changes in the procedures that agencies follow to manage activities, and often new posts or retraining of existing staff.

Management thinking needs to change, too, and a new management culture must be developed. If staff are to be rewarded for success in meeting targets and/or in achieving outcomes more effectively and efficiently, then career structures with specific targets and objectives will be required.

Overall, the change-management process needs to design processes and mechanisms that create incentives to work in a results-oriented manner, while building the capacity of officials to perform in such an environment. This requires co-operation between the central ministries, namely the finance and public administration ministries, as well as high-level political offices.

Change management through the budget process

At its simplest, PBB aims to ensure that those with responsibility for formulating the government budget take into account, in a systematic fashion, the results that are expected to be achieved by expenditure. When this does not happen, PBB merely becomes a question of 'going through the motions' of designing and reporting on performance objectives. This section looks at the technical requirements for creating an environment within which performance information can be used.

- *Build performance information management capacity*: Although performance information is critical to the success of programme budgeting, such information is often inadequate or missing in developing countries. Both resources and capacity are required to select appropriate programme indicators, identify good baseline data and ensure systematic and routine data collection and verification processes. This information then needs to be used in a regular review process to influence the management and budgeting of programmes. While performance targets are a common feature of programme budgeting systems, these should be introduced gradually, since they require good baseline data and a thorough understanding of the programme concerned.
- *Use performance information in the budget process*: A disciplined and predictable budget process that uses performance information is critical. This does not necessarily mean a mechanical, formula-type linking of allocations to output targets; it may be as simple as an annual hearing on programme performance prior to undertaking detailed financial programming. If parliamentarians are capacitated to use performance information in overseeing budgets and line ministry performance, this also creates conducive incentives. A key aspect is the integration of capital and recurrent budgets in the medium-term performance framework; this may require the merger of ministries of planning and finance, or explicit measures for their co-operation.

4

Incentives to strengthen performance budgeting

In a study on performance budgeting in developed countries, Curristine (2007) discerned three different types of mechanism available to the finance ministry to motivate performance: funding, flexibility and public recognition. Funding mechanisms include increasing the funding to the agency (or not cutting funding), providing bonuses to management and/or employees, or increasing staff or overhead budgets as reward for agencies that perform. Alternatively, agencies that perform can be rewarded by giving them more flexibility to manage their budgets; for example, the finance ministry could allow performing agencies to retain or carry over funds, allow more virement flexibility or exempt the agency from some reporting obligation. An option is also (or rather) to use sanctions, such as cutting funding, executive pay or staff budgets, forcing the return of all funding, reducing flexibility or increasing reporting requirements/ordering management audits. The third set of mechanisms is about publicly praising performing or shaming non-performing agencies. Countries can use these mechanisms in combination or independently.

Source: Curristine (2007)

- *Reporting against programmes and performance measures*: When countries cannot report in a timely manner against programme performance allocations, it likely that performance information will not be used effectively. This requires: a review of the chart of accounts, in order to capture expenditure on a programme basis; strong internal controls by programme, supported by a modern accounting framework; and information technology infrastructure. The chart of accounts needs to be designed so that it is possible to present all revenues and expenditures according to different budget classification systems (administrative, economic and functional).
- *Utilising appropriate programme structures*: Agreement on an appropriate programme structure is one of the most difficult aspects of introducing a programme-budgeting system, since there is no single best programme classification. As a general rule, programmes need to be capable of being monitored through the accounting system, and must be consistent with the organisational structure of government for managerial and accountability purposes. They also need to be manageable in number.[33] Programmes need to be more accurately costed, although initial efforts can concentrate on achieving a better estimation of the costs for individual budget lines.
- *Introducing programme monitoring*: Since performance-monitoring information provides the basis for allocating resources between programmes and assessing programme performance, it is important to ensure that all central agencies with an interest in developing monitoring systems are involved in the implementation of programme budgeting. In many developing countries, the collection of key performance data is often quite limited, and different central ministries can have different requirements. It takes considerable time and effort to build the systems necessary to capture and verify performance indicators on an ongoing basis. Thus, the scope of any monitoring and evaluation system should be manageable and affordable, with performance targets being introduced gradually.

Non-technical changes required

Certain non-technical changes are also required for PBB to be effective. Most importantly, perhaps, there needs to be the political will to introduce and support such reform, since this encourages and provides important incentives for change within the country. This requires building a broad base of support among leaders and stakeholders on the need to reform the budgeting system in this particular way, and the support needs to be sustained over time, in order to achieve the political, organisational and technical shifts required. Political will is critical to the implementation of results-based accountability, both within the executive and within the legislature. Even a basic system can achieve a great deal if there is the political will to use it; likewise, the most sophisticated system will achieve little if there is not the political will to use it.

Conclusion

In summary, there are several reasons why the introduction of PBB within a carefully managed budget reform process can produce a more efficient and effective use of public funds, and can provide increased motivation for individuals working within the system to improve their own performance:

- Taking account of results in a systematic manner within the budget-preparation process can help to improve expenditure prioritisation (by allocating limited resources to where they will be most effective) and encourage line ministries to spend more efficiently and effectively by making them aware that their performance will influence their funding. In practice, if certain programmes are not delivering the intended outcomes, or are doing so at a much higher cost than anticipated, then budget decision-makers might consider whether the programme should cease, be scaled down or be restructured fundamentally.
- Basic PBB can help to improve aggregate fiscal discipline, since improving prioritisation – and focusing on where money is best spent – can create more 'fiscal space' for funding new programmes without needing to increase aggregate expenditure. It also helps to focus spending cuts on the least effective programmes (fiscal consolidation).
- PBB requires the availability of reliable and timely information on the results being delivered; consequently, every spending agency has to define the outcomes that its services (outputs) are expected to deliver and provide key performance indicators to measure the efficiency and effectiveness of its services to the ministry of finance (or equivalent).
- PBB allows spending ministries and programme managers more flexibility in the administrative process,

33 In general, the number of programmes should not exceed ten with a general administration programme, although this varies according to the size of ministry and government agency.

to reduce employment of civil servants in some (low-priority and less-efficient) areas and to move posts to other areas, though how far this can be done depends on quality of governance and also requires important retraining and capacity-building efforts.

- PBB also has the potential to reduce political interference in budget execution, while improving political engagement up front, as the links between priorities and spending become clearer and, in budget execution, managers have more discretion.

This article has highlighted important features of effective PBB. This, critically, includes keeping it simple. Initially, performance information must be kept simple, affordable and usable, while only a small number of key performance indicators should be developed for each ministry (and for each programme), recognising financial and human resources constraints. Similarly, while evaluation is important initially, a fairly simple monitoring and evaluation process should be used, such as a 'desk evaluation'. A second critical aspect worth highlighting is the need for performance information to be used in the budget process

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Approaches to implementing performance-based budgeting: Mauritius

It is instructive to look at some of the challenges that have been faced by Mauritius, which initially attempted a so-called 'big bang' approach, where performance-based budgeting (PBB) was introduced in all ministries and agencies simultaneously (CABRI 2010). This, however, resulted in frequent changes during implementation, with the need to simplify the processes and generally make the adoption of procedures easier. Such a mode of PBB implementation posed a challenge to its successful introduction, since it caused confusion and misunderstanding of what was required by those involved in the process. Thus, an important lesson emerged for other countries considering the adoption of PBB. It needs time to be introduced and there might well be a process of trial and error; therefore, it is best to focus considerable effort on the preparatory phase, so as to 'get it right from the start'. Once the basic building blocks of public financial management (PFM) are in place (which is fundamental to such budget reforms), there is a need for a well-thought-out implementation strategy and plan, identifying the steps that need to be followed and in what sequence. This strategic-planning phase should ensure agreement on terminology, concepts and formats, as well as appropriate capacity-building for all those involved in the implementation. Capacity also needs to be developed to enable analysis to be undertaken of whether ministry budgets reflect policy priorities, whether programmes are efficiently costed relative to intended performance and whether the projected performance is achievable.

However, in the case of Mauritius, PBB has helped to develop a more collaborative and interactive relationship between the various institutions involved in the budgeting process, where the staff not only prepare budgets but also comment on them and assess their quality. In fact, the implementation of PBB has seen both an increase in the quantity of information and an improvement in its quality. The PBB process has also helped to provide line ministries with greater flexibility to determine and manage their own budgets, while PBB increases the overall awareness of performance and the need to monitor the achievement of targets. Debates in government are now focused on targets and achievements rather than on line items, while it has been noted that, in some ministries, PBB improves accountability, and chief executives have begun to use PBB as a management tool.

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Approaches to implementing performance-based budgeting: South Africa

South Africa's progress towards results-oriented budgeting has been seen as representative of 'best practice' within developing countries, because of its sequencing of budget reforms, which were gradually phased in over five years (Andrews 2003). It has been noted that this move to performance-based budgeting (PBB) led to an increased emphasis on outputs alongside spending plans, which provided a basis for assessing the 'value for money' of expenditure and its alignment with government objectives. While the structure of the budget was changed to accommodate programmes and sub-programmes, subsequent changes – which proved more challenging – needed to be introduced to foster a results-oriented accountability culture and results-oriented incentives for managers and political figures.

'Performance' had to be mainstreamed into the budget to ensure that performance targets were relevant, understandable and realistic, and to identify who was responsible for performance and the institutions that had to enforce accountability relationships (both managerial and political). The importance of sequencing to the success of PBB is emphasised by Andrews (2003: 41) who notes that 'a bad performance-based reform is probably worse than a good line item budget'.

Yet, even best-practice countries still have some way to go in fully implementing PBB, and a major – and typical – problem in the South African case was accountability within the public sector. Accountability relationships are important and should be clearly identified, so that everyone within an institution can see the relationships and better understand the roles within a performance-based organisation or inter-related institutions. Such an understanding then forms the basis for a managerial strategy (Andrews 2003). The South African case demonstrates that budget reforms entail many changes within institutions and that it is essential that new capacities are developed to facilitate the transformation from what has been called 'the traditional process and control-based accountability structures' to new 'performance-based accountability structures' (Andrews 2003: 41).

Since the late 2000s, South Africa's National Treasury and the Presidency have put considerable effort into systematising performance information and linking departmental information to national priority objectives, and improving the quality of information. One part of this effort has been the introduction of an outcomes approach by the Presidency, which defined 12 priority outcomes that cut across levels of government and departments, and their associated outputs over the medium term. These have been integrated into the medium-term budget by using the outcomes framework as a budget-prioritisation tool. A second leg of the effort has been the systematic development of reliable performance measures, reported in the budget documentation. A third leg has been the introduction of annual performance information audits by the auditor-general, which audit the quality and reliability of measures used in strategic plans and reported in annual reports.

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SECTION B

5

COUNTRY CASE STUDIES

5.1 Rwanda: Tackling PBB challenges with the Budget System Improvement Programme

Bright Ntare

Despite the headway made since the implementation of programme-based budgeting (PBB) in Rwanda in 2001, some challenges remain. The historical problem is that previous 'reforms' have attempted to relate the budget to the results of expenditure, commonly (and too simplistically) described as 'relating inputs to outputs'. The vehicle for this was a programme budget. However, the technical choices made in structuring the budget appear to have resulted in a budget in which 'programmes' do not always do what they are supposed to do, and the format of the budget (what the budget looks like) does not always reflect the intentions behind its design. At the same time, the government has tried to operate a system of medium-term budget planning. The basic purpose of budget planning, such as is effected through a medium-term expenditure framework (MTEF), is to manage the fiscal deficit on the expenditure side over time, while also managing the allocations of revenue to budget objectives in a way that is consistent with government priorities and with fiscal policy.

In Rwanda, once the basic budget systems on which a better planning structure can be based have been established, it will be necessary to make significant changes to the current system of budget planning, particularly to the budget format and structure.

Addressing budgeting weaknesses

To address the existing weaknesses in the budget process, the Ministry of Finance and Economic Planning (MINECOFIN), via the National Budget Directorate (NBD), is aiming to execute a Budget System Improvement Programme (BSIP) over the next two years. In recent years, several reports have been commissioned, and most of them suggest that previous reform efforts have created budgeting requirements that are derived from views of budgetary instruments that are not realistic for Rwanda and, in some cases, are too theoretical. MINECOFIN now wants to focus on feasible reforms, taking into account existing resources and circumstances, and concentrating on budget outcomes rather than elegant systems. In other words, the focus is to be on real-world outcomes and the impact of budgetary systems on the efficiency and effectiveness of implementation. The content, pacing and sequencing of work in the next two years will aim at getting the system to perform basic tasks well.

This reform process, which was initiated by the government of Rwanda in 2012, directly addressed weaknesses in the PBB process. Some of the major weaknesses were that:

- there was a disjuncture between planning and budgeting, caused by the often poor quality of performance information and the fact that it provides little information on efficiency or cost-effectiveness;
- the previous programme structure was often influenced by donors and, therefore, fulfilled donor funding needs, not governmental objectives;
- line ministries changed programmes often with little regard for the budget structure;

- instabilities in the programme structure meant that MTEF projections were not reliable and that there were also variances between the approved and the implemented budget;
- there was a lack of clear accountability and it was difficult to link particular programmes to particular managers or budget agencies;
- there were considerable capacity challenges in line ministries in developing programme-based budgets; and
- the linkage between costing and the programme structure was weak, with costs (particularly salaries and wages) not allocated against the particular programmes in which they were incurred.

In the light of the above, the BSIP, which consists of the following interrelated action areas to strengthen capabilities in planning, management and control, was introduced in 2012:

- budget format and appropriation;
- fiscal reporting and accounting; and
- fiscal planning and budget allocation

Revising programme structures

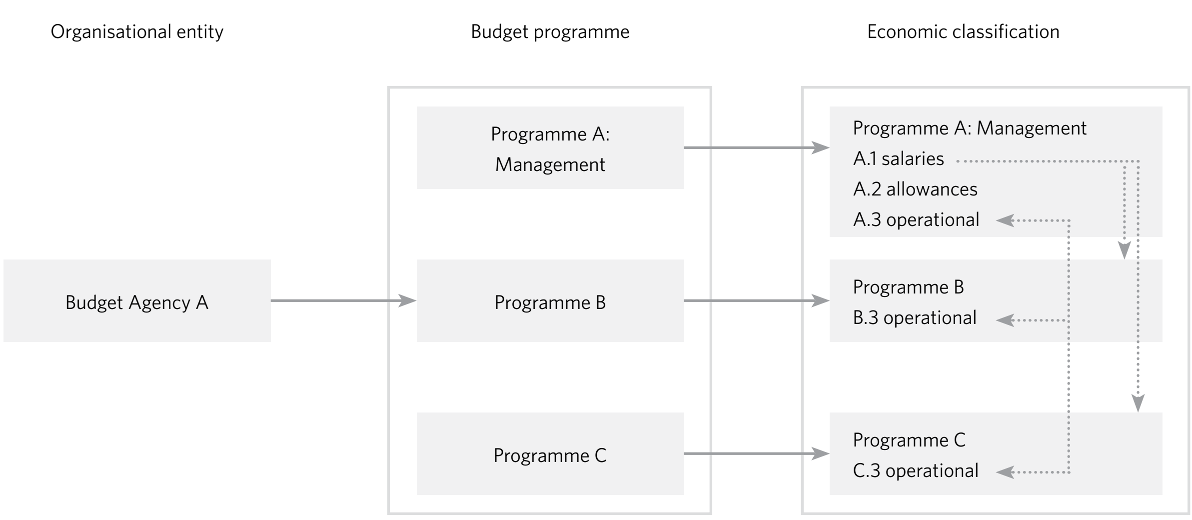
In principle, a programme combines all the costs of an objective into one grouping. Given that the programme is centred on the achievement of a stated objective, the budget estimates book should also articulate the measurements by which the achievement of the objective is to be judged.

The present programme structure in Rwanda is not able to achieve this, because:

- the majority of programmes do not contain salary elements;
- the programme-budget structure does not clearly reflect the institutional mandate;
- in some instances, the allocation of funds is not in line with priorities; and
- it is difficult to monitor the use of funds within each programme in terms of: what activities and outputs most of the funds are being spent on, whether this is aligned with priorities, how much it costs to provide a particular service/good, and whether there is a more cost-effective way to provide it?

Figure 5.1.1 illustrates graphically how programmes do not reflect the full cost of achieving their associated objectives, and do not provide funding vehicles for priorities. Budget Agency A has three programmes: Programme A contains all salaries, while the other two programmes only feature some operational costs. At the same time, the activities that are funded under Programmes B and C are managed by staff across programmes, and they may cut across organisational boundaries, each being implemented by the same department. This mismatch between organisational structure and programmes is the reason why all salaries were combined in Programme A. The full costs of

Figure 5.1.1: Standard current programme structure



Programmes B and C, therefore, are not shown, and it is not possible to analyse the programmes properly, particularly in terms of their staff.

In 2012, the BSIP focused on the revision of the current budget programme structure to address the weaknesses identified above. The process included conducting a thorough review of where the current programme structures created ambiguity in accountability and excess complexity in relation to capacity and utility. This involved mapping accountability for budget expenditures in each agency, co-ordinating with budget agencies to gauge improvements that would make the budget work better, and assessing performance information and management by activity and programme in each agency.

Although the revised programme structure will be implemented only in the 2013/14 financial year, some immediately discernible benefits are:

- the consolidation of programmes based on organisational mandate, structure and strategic objectives;
- the management of a single (sub-)programme by a single organisational entity (department, unit), ensuring that both responsibility and accountability for programme management are strengthened; and
- the inclusion, as far as possible, by all (sub-)programmes of all the costs associated with the objective of the (sub-)programmes.

Improving performance information

Performance information originates in the Economic Development and Poverty Reduction Strategy (EDPRS). The EDPRS II is critically important, as it states the developmental goals to be achieved. The sector strategy plans (SSPs) and organisational action plans turn the high-level goals into concrete sector objectives. The SSPs and action plans, thus, will set out how the outcomes and impacts will be achieved through the production of specific outputs at programme level. However, performance information is currently not included in the budget of Rwanda, due primarily to the general lack of credible, high-quality performance data that are consistent over time. The quality of indicators is often poor, and this is frequently because they have been selected without a proper organisational process and the data used to calculate them for baseline and reporting purposes are not available or are unreliable. Performance information will be linked, however, to the budget and budget programmes through the planned reforms in 2013/14 of the financial and non-financial reporting framework.

A key principle of the budget reforms is that the format of the budget and affiliated documentation (such as sector strategy plans, action plans and reports) should show the readers of the budget documentation as clearly as possible what each component of the budget costs, what it is to achieve and whether it is on course to do so or not. This entails the ability to relate financial information to non-financial performance through the in-year reporting mechanisms. Therefore, the budget documentation will provide information on planned expenditure and revenue per programme and sub-programme. The strategic-planning documentation will provide planned indicators and outputs per programme and sub-programme, and the reporting mechanisms will provide information on whether in-year expenditure, revenue and targets are being achieved or not.

Finally, the reform will improve the transparency, comprehensibility and utility of the budget book, without significantly increasing its size; it will also clarify and, where necessary, propose revisions to the budget appropriation format (the role of Parliament) and approval format (local government).

Other reform areas

As noted above, the BSIP covers two further reform areas – fiscal reporting and accounting, and fiscal planning and budget allocation. Reforms in these areas are to be implemented in the 2013/14 fiscal year.

Fiscal reporting and accounting

Rwanda has shifted from the 1986 to the 2001 Government Financial Statistics (GFS) reporting standards, but there remain some difficulties in budget execution, accounting and reporting that the programme will address.

Reform processes will focus on cash-flow training and systems development across government, including supporting the preparation of cash flows for activities and programmes in each agency, and linking, where possible, activity implementation to cash-flow peaks to reduce short-term borrowing. A second area is the identification of all transfers, setting the appropriate rules for how they are budgeted, disbursed, recorded and accounted for. Thirdly, the programme will undertake analysis of present financial reports and consolidated statements to determine what needs to be done to make budget analysis easier for both internal and external audiences. Fourthly, related to the improvement of programme performance budget formats and processes, non-financial reporting will be introduced. This will also require a performance structure to be put in place in order to provide a base for the reports, commensurate with institutional capacity and taking into account administrative burdens. Finally, the programme will develop a defined accounting policy, so that future intentions on the treatment of transactions (modified cash/accrual) are set out.

Fiscal planning and budget allocation

There is a need to increase the level of co-ordination between the planning and budget departments. Presently, strategic (non-financial) planning dominates the process, with little or no resource-based financial planning. The strategic plans issued by most ministries do not seem to prioritise across a wide range of aspirations within the financial constraints. The MINECOFIN recognises that budget policy strategy is the key to reducing aid dependency, and will also contribute to better execution of the planning component.

To this end, the BSIP aims to create capabilities that are needed to begin to implement an effective MTEF, such as:

- Designing a programme of research on the realities of the MTEF as it stands today.
- Setting up a programme of work with each budget agency (including local governments) to ensure that each agency sets in place methods for costing their activities. These methods will need to be tailored specifically to agencies; for example, in some cases, normative unit costs per output can be developed, while in other cases more item-based cost structures might be optimal.
- In relation to the above, developing selective zero-based costing, and deriving the cost of priority programmes in each ministry and district, as defined by the MINECOFIN for use in the 2013/14 budget preparation.
- Building a cost database, in order to establish a system to identify, develop and maintain normative costs for the main components of the budget. This will involve understanding cost variations across the country and targeting regional and national average costs.
- Advising on revisions to the planning and annual estimates circulars to rationalise the financial calendar between its multi-annual planning and annual estimates stages. The aim should be to arrive at an efficient budget base over the next few years, preparing for a system of expenditure projections. These guidelines will need to be adjusted to demand submissions within the floor allocations, and to create a process of ‘bidding’ for extra resources.
- Making detailed proposals for the refocusing of budget strategy/planning in the budget directorate and the relationship between budget and strategic planning.
- In each of the budget agencies, analysing the relationship between strategic planning and the budget, and preparing proposals that will improve budget strategy within a stronger strategic framework.

Conclusion

As was noted in the 2010 Public Expenditure and Financial Accountability (PEFA) assessment, the government of Rwanda has established many of the core structures and requirements for a modern and efficient public finance system in a relatively short time. The changes in the PEFA scores from 2007 to 2010 indicate clearly that the government is devoting substantial attention to the development and enhancement of the budget system in Rwanda. The BSIP will build on this base as part of a concerted and co-ordinated approach by the government of Rwanda to improve its approach to PFM . Therefore, it is aligned with the revised Organic Budget Bill, which is currently being finalised, and with the wider public finance management strategy being implemented by the government.

5.2 Mali: Second phase of reform supported by WAEMU directives

Sidiki Traoré

Programme budgets, based on the Canadian model, were first instituted in Mali in 1998 on the recommendation of the National Assembly. The purpose of the reform was to fill the gaps between strategies defined at sector policy level and budget allocations by departments and institutions. The goal was to move from a management system based on resources to one based on results and performance, while keeping in mind costs, inputs and outputs.

Early reforms

In implementing programme budgets since 1998, Mali has developed results-based management tools. However, these tools have been running parallel to the state budget, which follows the precise provisions of the organic budget law. For the entire period since 1998, the programme budget document has been submitted in the form of an annexure to the Finance Law. The absence of a legal base for programme performance budgeting, related to the absence of financial regulations in the West African Economic and Monetary Union (WAEMU) dealing with results-based management, meant that in practice the reform did not achieve fully the results expected at its introduction.

However, some legal and technical changes were made to support the reform. For example, the budget nomenclature was first modified in 2003 to include a programme classification in the codification of budget line items or expense appropriations. As a result, a key achievement has been better mechanisms for control of the strategic framework for growth and poverty reduction through the state budget. Key to this was the expansion of the planning and budgeting system at the sector/institutional level from a line-item input-based budget, which was formulated often in the absence of sector plans, to a budgeting system based on various sector programmes, with programme-budgeting processes, medium-term expenditure frameworks (MTEFs) and associated drafting methodologies used in all ministerial departments.

From the point of view of governance and transparency, the programme-based budgeting exercise is comprehensive, inclusive and well co-ordinated, involving all ministries and institutions. The drafting process involves a large number of senior officials in each ministry and institution, thus causing the largest number to take ownership of the reform and the new methods. The Directorate General for the Budget, in the Ministry of Finance , has developed a common framework within which the ministries can conduct their internal activities. It also exercises active oversight and review in order to improve and align documents.

Furthermore: annual reviews of programme budgets, projects/programmes and sectoral policies have become institutionalised; programme-budget steering committees have been established in ministries and institutions; an overall MTEF has been drawn up; the drafting of MTEFs has been rolled out to all ministries; and a budget steering debate is organised every year. Underpinning these improvements is the programme-based budget classification that has developed.

Overall, the reform has enabled a culture of evaluation and monitoring of activities to enter Mali's administration through the mechanism of active oversight. Relatedly, programme budgets have enabled a better level of budget debate in Parliament, which now not only looks at accounting data but also at the outcomes of public policies and activities. Finally, the programme budget has enabled the institution of performance contracts between the state and national public institutions, in particular in the agricultural sector.

Current programme performance budget reforms

Recently, the shift to programme budgeting has been stimulated by the implementation of the new, harmonised WAEMU public finance framework directives, which means that programme budgets will be the new way in which public budgets are legally presented, adopted and implemented in Mali. Mali is now busy adapting its financial regulations to the new WAEMU directives on public finances. A most important innovation within this shift would be the formal integration of results-based management into the public finance management (PFM) system.

With technical assistance from the International Monetary Fund's West Africa Technical Assistance Centre (Afritac West) and the United National Development Programme (UNDP), the Ministry of Finance carried out a review of the programme budgets of all ministries. The purpose was to ensure that programmes are consistent with the objectives of the government and that they are viable from the point of view of effective management within the framework of implementing WAEMU directives. Three aspects of the programmes were considered:

- *the scope and relevance of programmes*: verifying that the ministries' programme-based budget structures correspond to the strategies of the ministries, and ensuring consistency across departments that constitute a programme;
- *the programme performance framework*: verifying the consistency and relevance of the expected results, indicators and activities associated with programmes; and
- *programme governance*: assessing the administrative and financial management of programmes.

This review has made certain recommendations on each of these aspects. On the scope and relevance of programmes, the review found inconsistencies between sector policy documents, programme budgets and MTEFs. These need to be addressed. It, furthermore, recommended that the government should evaluate whether to maintain programmes of little financial significance and which apply to a disparate collection of departments (i.e. ensuring greater alignment between administrative and programme structures).

The review found that it was necessary to reconcile the logical frameworks of strategic documents and programmes to align objectives, expected results, indicators and activities, and accordingly modify programme structure. Besides alignment, the review found that the number of activities and indicators listed in association with programme budgets would need to be reduced, to give a more strategic dimension to programme budgets. The review further found that target values should be allocated to indicators in programme budget documentation.

On programme governance, the review identified the need to establish an interministerial mechanism to review budget programmes and to formally designate senior programme officials.

As part of preparing the budget for 2013, the government has started implementing these recommendations by: ensuring consistency of public policy documents (the strategic framework for growth and poverty reduction) with programme budgets; defining result indicators with target values; and reducing the number of indicators and activities.

Furthermore, in order to improve the quality of information and indicators, each ministry or cluster of ministries (depending on sector grouping) has been provided with a planning and statistics department. Therefore, the Ministry of Finance, through the Directorate General for the Budget, has a mechanism for monitoring indicators, which is known as active surveillance. In addition, feedback on performance (during programme budget review workshops) provides the Directorate General for the Budget with an information verification framework.

Implementing the reforms

In 2006, Mali drew up the three-year Government Action Plan for Improvement and Modernisation of the Management of Public Finances (PAGAM/GFP 2006–

2009). The plan is now in its second phase (PAGAM/GFP II) and is a broad agenda for public finance reform in Mali. A public finance reform support unit (CARFIP) has been entrusted with piloting reforms. This unit falls under the Minister's Office in the Ministry of Finance. The structures involved in implementing the plan are expenditure chain structures, revenue-collection departments, the National Assembly, monitoring institutions including the Court of Auditors of the Supreme Court, and the Office of the Auditor General.

The heart of the institutional mechanism to implement the Action Plan is the Technical Committee, chaired by the General Secretary of the Ministry of Finance. The committee consists of senior officials from the technical structures detailed in the Action Plan, as well as representatives of civil society and of the technical and financial partners.

The Technical Committee is supported by a technical secretariat provided by CARFIP. The secretariat is the executive body of the Technical Committee and provides operational support to the senior technical officials under the Action Plan. It oversees the overall consistency of actions undertaken by these senior technical officials.

For this purpose, the PAGAM/GFP II steering system has introduced a new category of committees known as technical co-ordination committees. The mandate of these committees, which is closely aligned to the responsibilities of existing structures, is to assist the technical secretariat in co-ordinating cross-cutting aspects of the Action Plan. They provide additional support with regard to the consistency, effectiveness and efficiency of the plan.

The technical secretariat also centralises Action Plan performance data and reports to the Technical Committee within the framework of an Annual Output Report.

Reform sequencing

In Mali, significant reform support conditions included strong involvement of the most senior officials and the confluence of public finance reform and administrative reform within a methodology based on a gradual institution of the key stages of reform and the implementation of the national results-based management policy.

The goal of the first PAGAM/GFP action plan was to bring the public finance monitoring and management systems of Mali to a level of reliability that qualified them for international certification and prepared them for a shift from project aid to budget support. With this in mind, the plan aimed at improving the existing system, modernising financial governance and achieving a results-based management approach. Its intervention structure consisted of five thrusts arising from the synthesis of a series of diagnostics carried out until 2005 on public finance management in Mali. In September 2009, an external evaluation was done on the plan that was implemented during the three-year period 2006–2008 (subsequently extended to the end of 2009).

The external evaluation report as well as various recent analyses provided valuable subjects for consideration and specific recommendations for continuing with the reform programme.

The achievements of the first reform action plan – for example, linking the public expenditure chain, capacity-building for public service employees in terms of training, and continued efforts to broaden and manage the tax base – led to the development of a second action plan.

Four strategic decisions were adopted by the government: state revenues should be optimised in a sustainable manner; the quality of drafting and implementing the budget should comply with international standards and should make it possible to roll out budget support; financial governance systems should hold role-players accountable, and increase transparency and predictability in PFM; and delegation and decentralisation should be strengthened by an adequate PFM system.

The second PAGAM/GFP action plan, in turn, is based on four strategic government pillars: the transition from a customs-based tax system to a tax system focused more on domestic resources; an expenditure system operating on a programme-budget basis; a systemic reform of executive, legislative and judicial monitoring; and the strengthening of local authorities.

Within the second pillar, the reforms are sequenced in accordance with the annual action plans of PAGAM/GFP II, as developed and approved by the Technical Committee. Each structure is responsible for the implementation of reforms proposed in its own annual action plan. At the end of each quarter, a meeting of the technical committee evaluates the implementation of the annual action plan and makes recommendations.

5.3 Tunisia: Objectives-based budget management and sector MTEFs piloted within a national MTEF framework

Nawrez Ben Ticha

For Tunisia, establishing programme-based budgeting is an irreversible choice, consolidating in the country the principles of good governance, upheld by a strong political will. The organic budget law has been amended to recognise the principle of allocating funds based on 'missions', 'programmes' and 'sub-programmes'. Tunisia has also expanded its piloting of programme budgeting to 20 ministries. At a Select Council of Ministers meeting, chaired by the head of government and held on 7 June 2012, the new *gestion du budget par objectifs* (GBO) or objectives-based budget management (OBM) approach was confirmed. The meeting listed a certain number of achievements to be attained in order to facilitate the transition to programme-based budget preparation and execution. GBO will be rolled out from 2014. *34*

Institutional framework and the reform piloting framework

Tunisia set up an institutional framework to pilot the GBO reform in 2007. Key components of this framework are:

- the *Comité Ministériel pour la Coordination et la Conduite du Projet de R*éforme (Ministerial Committee on the Co-ordination and Conduct of the Reform Project, or CI-GBO), which oversees the reform, chaired by the Prime Minister and consisting of 13 ministers including the four pilot ministries.
- the *Commission de Suivi et D'évaluation* (Monitoring and Evaluation Commission), which monitors the reform and is chaired by the minister of finance or his representative.
- the GBO unit established within the Ministry of Finance, which is responsible for co-ordinating GBO system at national level.
- tector units, which were established within the ministries involved in the first pilot phase (these units were responsible for executing the proposed GBO reforms within the Ministries of Agriculture, Health, Education and Training, and Higher Education and Scientific Research.
- thematic groups, which were established to consider the main components of the reform, such as monitoring, accounting, information systems, budget nomenclature, the legislative and regulatory framework, the medium-term expenditure framework (MTEF) and the performance framework.

Sequencing the reform

The roll-out of a programme budget across the government in Tunisia was preceded by piloting the reforms in three ministries. This was supported by Tunisia's partnership with the European Union (EU). During the initial meeting to negotiate the EU programme in Brussels in 2006, it was agreed that the pilot of the GBO would only cover three programmes in three

34 More information on Tunisia's reform path is available in CABRI's Status Report on PBB in Africa (forthcoming).

ministries; this decision was approved by the Inter-ministerial Council in the same year.

Between this meeting and the meetings to negotiate the performance-based budget management support programme, the pilot was extended significantly. In 2008, the CI-GBO approved the new budget orientation and programme structures of the ministries involved in the pilot projects.

Moreover, the pilot ministries appointed programme leaders, nominated GBO unit heads and members, and established in-house committees chaired by their minister to approve the objectives and programme performance measures. The budget classification of the Ministry of Agriculture was adjusted to a programme and sub-programme format as a pilot.

The work by the ministries involved in the pilot phase was developed using the approved methodology handbooks and utilising support from international experts and Tunisian teams. Every year, the budget preparation circular, issued by the head of government and distributed to all ministries, introduced further refinements. Since 2008, this circular has required the pilot ministries to present their budgets in dual form: the conventional form and the GBO form. In 2012, a circular by the Prime Minister on public policy performance was issued together with the budget circular, with the purpose of preparing the ministries involved in the pilot-projects for the change-over to programme-based budget implementation.

From 2008, the pilot ministries have gone through the exercise of preparing programme-based budget formats, objectives and programme performance measures and sector MTEFs, using tables prepared by the GBO unit in the Ministry of Finance. At the same time, work on drafting the comprehensive MTEF continued within the General Directorate for Financial Resources and Equilibrium, which falls under the Ministry of Finance.

Currently, the pilot ministries have taken full ownership of processes, including:

- breaking down the ministries into programmes and demarcating their scope (a programme map);
- formulating programme objectives and choosing performance indicators (a performance framework);
- formulating sector MTEFs; and
- negotiating consensus within ministries between the central, regional and field level on programme structures and performance information, as part of a management dialogue (in some cases, ministries have opted to support the new orientation by entering into contracts, such as those between the Ministry of Higher Education and Scientific Research and the universities (management dialogue).

The work has been the subject of various meetings and consultation/feedback seminars between programme leaders (at central level) and ministries' regional and field levels (or operators in the field, regional directorates, various establishments, etc.). This has enhanced the work done at central level, particularly in determining objectives and the choice of performance indicators.

Throughout the process, the work by the central Ministry of Finance on a comprehensive MTEF, and the sector ministries' work on programme budgets, performance measures and sector MTEFs was overseen, monitored and assessed by technical experts from various technical assistance projects.

For the 2011 budget proposal, this initial pilot phase led to the pilot budgets being presented in dual form to the government, the National Assembly and the Chamber of Councillors, for purposes of illustration.

This year, a conference on the performance framework was initiated between the pilot ministries and the various sections of the state budget management committee. The budget proposal finalised after the budget and performance conferences was submitted to the Council of Ministers for their consideration and approval.