

**8<sup>th</sup> ANNUAL SEMINAR: BUDGETING FOR RESULTS: MOVING TOWARDS  
PERFORMANCE BUDGETING**

***Plenary Session 3: Preconditions for programme and performance-based  
budget reform***

Ian Lienert

***Introduction***

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

The rationale for introducing PBB 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 lay out objectives in specific sectors, including the possibilities for attaining Millennium Development Goals (MDGs) ([www.un.org/millenniumgoals](http://www.un.org/millenniumgoals)). In striving to reduce poverty, enhance education, improve child and maternal health, etc., it is natural to consider replacing the inherited “input-oriented” budget system with a PBB system that focuses on outputs and/or outcomes of specific budget programmes. Under PBB some targets and performance indicators (PIs) could be linked directly to MDGs.

To link planning and budgeting, it is believed that the PBB systems needed in Africa should be linked to a Medium Term Expenditure Framework (MTEF). It is conceivable that a PBB system could be introduced solely to improve annual budget processes. However, in many African countries, MTEFs are being introduced at the same time as PBB systems.<sup>1</sup>

The introduction of PBB 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

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<sup>1</sup>The 2007 CABRI/OECD survey showed the 15 out of 26 countries (of which Anglophone countries represented about 60% of the sample) include medium-term estimates in budget documents submitted to the legislature (CABRI, 2009, Table 4, p. 8). 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, Table 5, p. 8).

information in their budget documents.<sup>2</sup> In some laggard OECD countries, such reforms are only just starting.<sup>3</sup> 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 1 below) is used only in specific sectors of a few OECD countries.<sup>4</sup>

Given that PBB systems and MTEFs continue to evolve in OECD countries, the following questions may be asked: “What type of PBB system is best for African countries?”, “When should such reforms be introduced?” and “How should PBB and other budget reforms be sequenced?” Only some of these questions will be answered in this paper, which does not examine the important issue of sequencing budget reforms, not even within the various types of PBB systems (see section 2 below).

The main aim of this paper is to identify a set of preconditions for successful implementation of PBB systems. Section 2 examines different types of PBB systems 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, seventeen 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. Section 5 contains questions to guide discussions.

As a final introductory comment, “preconditions” could be subdivided between “pre”-conditions and “co”-conditions. The former are actions that need to be fully completed before the first steps of introducing PBB are undertaken, whereas the latter are actions that commence before PBB begins to be implemented and continue after the first steps to introduce a PBB system are undertaken. While such a distinction is important, in most instances, this paper limits itself to considering both types of “preconditions” simultaneously.

### ***1. What type of PBB is under consideration?***

The forms of PBB vary considerably. It follows that the preconditions for a simple PBB system are different from those for more complex PBB systems. In African Francophone countries, the form of PBB being introduced is fairly uniform, as France’s PBB model is the underlying basis of PBB systems being introduced in those countries. This is partly a result of the fact that the regional bodies (WAEMU and CAEMC) of the CFA franc monetary zone have issued Directives for a model to be used (see section 4A below on Organic Budget Laws). It also is partly a result of the training of francophone African officials in France, who are exposed virtually exclusively to France’s recent experience with its PBB system.

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<sup>2</sup> See OECD (2007a) question 16 and OECD (2007b) p.18.

<sup>3</sup> Under their EU-IMF financial-support programmes, Greece, Ireland and Portugal are required to introduce medium-term budget strategies and expenditure targets. The last two countries are contemplating introducing a PBB system.

<sup>4</sup> See OECD (2007a) question 20 and OECD (2007b) p.21.

In contrast, Anglophone African countries have a more eclectic approach. Although they may look to the PBB models used in Australia, New Zealand, South Africa, Sweden and the United Kingdom, those countries’ PBB systems vary between themselves. Also, as with other OECD countries, these “models” are continuing to evolve (e.g., New Zealand’s PBB system is becoming more focussed 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 “advanced” countries’ PBB systems and the lack of uniformity amongst them, Anglophone African countries’ PBB systems are also likely to be more diverse compared with the Francophone African countries. In Anglophone countries, it is possible that their PBB systems 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 PBB systems, from the least to the most extensive form (Table 1).

**Table 1. Three types of performance budgeting systems**

Type	Linkage between performance information and funding	Planned or actual performance	Main purpose in the budget process
<b>1. Presentational</b>	No link	Performance targets and/or performance results	Accountability
<b>2. Performance-informed budgeting</b>	Loose/indirect link	Performance targets and/or performance results	Planning and/or accountability
<b>3. Direct/formula performance budgeting</b>	Tight/direct link	Performance results	Resource allocation and accountability

Source: Table 1.1 of OECD (2007)

Few countries have adopted a “full-fledged’ or “direct/formula” PBB systems and then only in selected sectors. In general, it is difficult to establish strong links between budget performance indicators (PIs) and annual budget programme allocations (OECD, 2007). The difficulties of 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 paper, the standard for considering the preconditions of PBB is “performance-informed budgeting”. This is the “highest” form of PBB that could be implemented in most African countries at the present time. This PBB model is broadly in line with the “basic model” of PBB for low-income countries that is discussed in Robinson and Last (2009).

## **2. How should the preconditions be categorised?**

There are three main options for presenting the preconditions of any PBB system:

1. Essential versus optional preconditions.
2. Preconditions for each stage of the budget cycle.
3. Preconditions for the budget processes undertaken by each actor.

Regarding essential versus optional preconditions, this option arises when it is uncertain as to what type of PBB system is being targeted. In view of the discussion in section 2 above, this paper confines itself to examining all *essential* preconditions for a “performance-informed” PBB system. It is considered outside the scope of this paper to consider the *optional* preconditions for a “direct or formula-based” PBB system. In many African countries, the “essential prerequisites” for a performance-informed PBB system, discussed in section 4 below, are likely to be quite challenging.

Although PBB is a budget reform, it is not merely 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 PBB at each stage of the budget cycle.

## **3. The overarching precondition: Getting basics right**

The most important issue regarding the budget cycle is to first get the basics of annual budgeting right. Prior to beginning PBB 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 public financial management reforms in a “platform 1” focussing 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 PBB system” (OECD, 2006, p. 66).

One way of assessing a country’s readiness for introducing a PBB system would be to examine the four PEFA indicators relating to the credibility of the annual budget, notably indicators PI-1 to PI-4.<sup>5</sup> 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 PI-28). Countries that score at least “C” for a certain threshold (e.g., over half of the chosen PEFA indicators) could begin introducing PBB reforms. In contrast, countries with very weak PFM systems would be strongly encouraged to first address the most glaring dysfunctions in their annual budget systems. Box 1 elaborates on what this might entail.

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<sup>5</sup> PEFA (2011) describes the framework for assessing a country’s public financial management 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.

### Box 1. Key Features of Good Public Financial Management

*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) p. 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:

#### *Strong budget preparation, execution, reporting and audit*

- Traditional line-item budget is well prepared and executed, with few deviations from plans.
- Medium-term strategic planning and budget frameworks are in place.
- 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 MOF 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 coordinated with macroeconomic and fiscal policy.
- Accurate recording and reporting of public debt, contingent liabilities and financial assets.

Source: CABRI (2011), CABRI, AFROSAI and ATAF (2011).

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

#### 4. *Preconditions for each actor in budget processes*

This section examines the most important preconditions to be met prior to the introduction of a PBB system. It successively examines the preconditions to be fulfilled by Parliament, the Government (Council of Ministers), the central budget management ministries (plan, budget and finance<sup>6</sup>), the civil service ministry (or agency), spending ministries, the supreme audit institution, and international financial partners (donors).

##### A. Parliament

**Precondition #1: Adopt a new budget system law.** In Francophone countries, the adoption of a new public finance law is an essential precondition. Reflecting its colonial inheritance, it would be inconceivable to introduce reforms without first revamping the legal framework, notably the Organic Budget Law (OBL). In contrast, in Anglophone countries, the introduction of a PBB system could take place before revising the existing Public Finance (PF) Act. In such countries, a new PF Act could be considered an optional precondition.

- *In Francophone countries, parliament would adopt a new Organic Budget Law after much preparatory work in the Executive branch of government.* The OBL would specify that the new law would be fully applied after a transitional period, whose duration is stated in the “Transitional Dispositions” of the OBL. 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 West (or Central) African Economic and Monetary Union (or Community) -- WAEMU and CAEMC respectively (Table 2).
- *Anglophone countries may consider adopting a new Public Finance Act before introducing PBB in government ministries.* It is also conceivable that a new PF Act would be adopted during the course of implementing PBB. The new provisions could require a changed 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.

Francophone and Anglophone countries have quite different approaches to the importance of law and the role of parliament in approving the “rules” of PBB systems. Their budget system laws differ substantially in their contents. In Francophone countries, OBLs are heavily oriented towards budget preparation and budget approval by parliament (including an ex-post Budget Execution Law – *Loi de Règlement*). In Francophone countries, by adopting the OBL, parliament

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<sup>6</sup> 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). There are various intermediate combinations of ministerial/agency organisation. In this paper, a generic “ministry of finance” (MOF) is used to indicate a “super-ministry”, or combinations of ministries, that cover all three functions.

determines whether the format of annual budget appropriations: by administrative units and economic nature (the “classical” budget nomenclature) or by programme (row 1, Table 2).

**Table 2. Legal Provisions for Programme and Performance Budgeting in Organic Budget Laws of francophone countries**

	<b>WAEMU zone</b>	<b>CAEMC zone</b>	<b>DR Congo</b>	<b>FRANCE</b>
<b>Directive or Law</b>	<i>Directive N°06/2009/CM/UEMOA</i>	<i>Directive N°001/11-UEAC-190-CM-22</i>	<i>Loi Organique des Finances Publiques (LOFIP)</i>	<i>Loi Organique relatif aux Lois des finances (LOLF)</i>
<b>Structure of spending appropriations in annual budget law</b>	Ministries→ programmes→ economic nature	Ministries→ programmes→ economic nature	Ministries→ fonctions→ programmes→ economic nature	Missions→ programmes→ economic nature
<b>Unit of parliamentary vote</b>	Programme	Programme	Programme	Programme
<b>Are programmes required to be projected for three years?</b>	Yes	Yes	Yes	Yes
<b>Ceilings on employment in annual budget law?</b>	Yes	Yes	Yes	Yes
<b>Who appoints budget programme managers?</b>	Spending minister	Spending minister	Not specified in LOFIP	Not specified in LOLF
<b>Are appropriations for both spending commitments and cash payments?</b>	Yes	Yes	Yes	Yes
<b>Are all appropriations binding upper limits or are there exceptions (<i>crédits évaluatifs</i>)</b>	Exceptions	Exceptions	Exceptions	Exceptions
<b>Can programme spending be swapped between ministries?</b>	Yes, upon decision by Council of Ministers	Yes, upon decision by the Minister of Finance	Yes, upon decree by Prime Minister	Yes, but only if spending purpose is the same
<b>Can spending of ministries' programme be swapped</b>	Yes, upon decision by the Minister of Finance and spending Minister	Yes, upon decision by the Minister of Finance	Yes, upon decision by the Minister of Budget and spending Minister	Yes, the LOLF authorizes this.
<b>Can spending on salaries be increased by swapping with non-salaries within programmes?</b>	No	No	No	No
<b>Is centralized ex ante spending control maintained?</b>	Yes, by the MOF's "financial controllers"	Yes, by the MOF's "financial controllers"	Yes, by the Budget Ministry's "budget controllers"	Yes, by the MOF's "financial controllers" (by a 1922 Law)
<b>Are Annual Performance Reports required to be attached to the Budget Execution Law?</b>	Yes	Yes	Yes	Yes
<b>Role of Court of Accounts</b>	Audits of effectiveness, economy and efficiency	Audits of effectiveness, economy and efficiency	Judging accounts of public accountants	Certifying annual accounts

Sources: The websites for laws are: WAEMU, [www.uemoa.int/Pages/Home.aspx](http://www.uemoa.int/Pages/Home.aspx); CAEMC, [www.cemac.int](http://www.cemac.int); DRC, [www.leganet.cd/JO.htm](http://www.leganet.cd/JO.htm) ; France, <http://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000000394028>



In contrast, Anglophone African countries' PF laws are heavily oriented toward budget execution and accounting. In a number of cases, external audit provisions are also included in the PF Act. The PF 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 Tanzania's PF Act 2011 (Article 5 (1) (b)), 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" (see [www.parliament.go.tz/polis/pams/docs/6-2001.pdf](http://www.parliament.go.tz/polis/pams/docs/6-2001.pdf)) 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.<sup>7</sup> No such delegation exists in Francophone countries' OBLs.

**Precondition #2: "Ownership" of the PBB system by Parliament and minimum parliamentary capacity for budget analysis.** A PBB 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 PBB system may fail in its reallocation objectives (as it has in the United States<sup>8</sup>). Also, the purpose of providing performance-related information to MPs 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, Parliaments need some 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 as a prerequisite for PBB.

## B. Government: Cabinet of Ministers

**Precondition #3: "Ownership" of the PBB system by the Government, preferably with a "champion for reform" at the political level.** For PBB to succeed, a majority of ministers of the Council of Ministers need to be made aware of the PBB's objectives, advantages and costs compared with maintaining the « classical » budget system. Some ministers may see PBB 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 responsibilities for defending annual spending outcomes before parliament, as required by a PBB system. For these reasons, efforts are needed to convince the political authorities that the PBB 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 Cabinet of Ministers is most helpful. In Mauritius, for example, the Prime Minister provided strong support

<sup>7</sup> Unlike Francophone countries' OBLs, Tanzania's PF Act does not include Transitional Provisions that indicate the phasing in of the application of various Articles of the law.

<sup>8</sup> 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, p. 12).

and several ex-Ministers of Finance from other countries that had implemented PBB were brought in to meet with the Cabinet of Ministers (Ba, 2010, pp. 61, 63). This was a practical way of attaining political commitment to the new system. In Mali, a Budget Director and a Minister of Finance were the “champions of reform”; in Ethiopia, it was the Minister of Finance, with the pressure for change coming from the Prime Minister (Last and Robinson, 2009, p.11).

**C1. “Ministry of Planning» or unit/directorate of the MOF responsible for strategic economic and budget planning**

**Precondition #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, even if transparently budgeted by processes parallel to the annual budget law, 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 not essential. The targets and spending priorities for the annual budget law would be more detailed than for the MTBF and would need to be clearly described in annual budget documentation. These features lay the foundation for programme by programme description of the annual budget once PBB is introduced. A key challenge for budget comprehensiveness in African countries is to put external aid on budget.<sup>9</sup>

**A programme-based budget system does not necessarily need to be accompanied by medium-term projections of each budget programme,** i.e., programme-based MTEFs. Medium-term projections of budget programmes based on existing policies can be very helpful for inciting budget managers to plan their budget programmes beyond the upcoming 12 month period. Such projections are also useful for assessing: (1) the recurrent costs of budget investment spending, and (2) the cost of new policies – either by expanding existing programmes or by introducing new programmes (or new sub-programmes or activities within sub-programmes). However, when macro-fiscal stability is not achieved and the MTBF changes quite substantially from year to year – either 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 3-4 year time horizon. Until the macro-fiscal framework is stable, MTEFs can be regarded as an optional precondition to the introduction of PBB.

**Precondition #5: An annual budget that integrates current and capital spending (the budget and planning functions).** The difficulties associated with having separate recurrent and

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<sup>9</sup>For a discussion of selected African country experiences, see 2008 Rwanda conference papers [http://cabri-sbo.org/index.php?option=com\\_content&view=article&id=85:working-session-presentations&catid=3:programmes](http://cabri-sbo.org/index.php?option=com_content&view=article&id=85:working-session-presentations&catid=3:programmes).

development (or current and investment) budgets are well known.<sup>10</sup> The integration of two budgets is a prerequisite since a PBB 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 (Webber, 2007) – need to be addressed. In practice, a pragmatic approach could be adopted, given the political constraint for bringing about institutional integration. Whereas some African countries have merged ministries of finance and planning, others have not. In Mozambique, for example, recurrent spending is the responsibility of the Ministry of Finance and investment projects fall under the Ministry of Planning and Development. However, the two types of spending are brought together in a single budget, which is prepared within a single directorate. Such integration at central ministry level may be adequate to allow PBB to be introduced, whose main actors are spending ministries. In this context, in countries where there is a multiplicity of sectoral ministries, 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 (concerning overall macroeconomic and social development), MTEF documents and sectoral strategies is also an important issue to address prior to, or during, implementation of PBB.

## **C2. “Ministry of Budget” or unit/directorate of the MOF responsible for preparing the annual budget**

### **Precondition #6: Create a Budget Reform Committee and/or a specialised reform unit.**

The decision to move to a PBB system needs considerable planning and piloting. The creation of two reform committees may be necessary: one at political level<sup>11</sup> (chaired, for example, by the Minister of Finance), which would make high-level decisions (e.g., approve the new programme structure of the annual budget and nominate budget programme managers). The “political” committee would endorse detailed plans formulated by a second committee, or specialised unit, in the budget directorate-general of the MoF. 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 precondition 7 below).

**Precondition #7: Plan the phase-in period for the PBB system.** Prior to the introduction of the PBB, the reform committee or unit would prepare a phase-in strategy, with annual action plans and benchmarks to accomplish. These would include:

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<sup>10</sup> Fragmentation and other relevant issues are discussed fully in CABRI (2005).

<sup>11</sup> As an alternative to creating a political-level committee, all PBB decisions requiring political decisions could be made by the Council of Ministers.

- *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* consistent with the new legal framework and the government's budget strategy and spending priorities. Changes would also be made in budget execution reports and annual performance reports of (major) budget programmes would need to be prepared. In Francophone countries, such documents would be attached to the draft budget execution laws presented to the National Assembly.
- *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 budget programmes, sub-programmes and activities for their ministries.
- *Deciding on whether a gradual phase-in or a big bang approach is desirable*. Since PBB is a complex reform and it imposes several new requirements and responsibilities on ministries and government agencies (including the production of nonfinancial performance information not previously prepared), it is important not to be overambitious. A long period for implementation would normally be required.<sup>12</sup> Some countries may prefer to pilot a few “fast-track” ministries before generalising PBB 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 programme basis, as an experiment for at least one fiscal year.<sup>13</sup>
- *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. In particular, the Minister of Finance has been the unique *Ordonnateur* responsible for authorising spending at all pre-payment stages (commitments and payment order issuance). This task can be delegated to the Budget Director in the MOF. This has resulted in little role being played by spending ministries in budget management.<sup>14</sup> When account is taken of weak budget management capacity in

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<sup>12</sup> Mauritius, which chose a “big bang” approach to introducing PBB, 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 PBB reforms.

<sup>13</sup> Some countries e.g., Mali, have got stuck at this point: the PBB budget allocations are shown in an annex to the annual budget law, which continues to be adopted according to the “classical” budget nomenclature.

<sup>14</sup> Budget management in Francophone African countries is even more centralised than in France, where spending ministers have been *Ordonnateurs* for a long time. Despite this, France allowed itself five years to plan and introduce its PBB system.

spending ministries, Francophone countries may need to plan on a long period (perhaps 10 years) to introduce PBB.<sup>15</sup>

- *Redefining roles and responsibilities for Ministers, heads of spending ministries (Secretary-Generals, Permanent Secretaries, etc.) and budget programme managers.* These new roles and responsibilities could be specified in regulations that supplement the provisions in new OBLs or PF Acts.
- *Preparing training materials and running seminars/training courses* to familiarise all actors, not only the officials in spending ministries who will operate the PBB system, but also briefings to the Government and the Parliament (both MPs and parliamentary committees). Such training would continue even after initial steps of PBB implementation had begun.
- *Adapting computerisation.* To introduce PBB, there is a need to adapt existing computerized budget management systems, especially in spending ministries, and to plan and purchase new hardware and software where needed..

**Precondition #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 being held to account before a parliamentary committee (Lienert, 2003, Box 2). Steps to enhance ministerial budget management include:

- Appointing programme budget managers and specifying clearly their responsibilities. If needed, new “contractual” relationships between Ministers who deliver outcomes and programme managers who are responsible for delivering (measurable) outputs would need to be decided at government level -- new decrees would clarify the delegation of authority and accountabilities of the “agent” to the “principal”.
- Preparing spending ministries to make projections of budget programmes budget based on accurate costing of inputs, using the “old” classification of budget spending. There is a need to ensure accuracy in the estimates of spending on salaries, other current expenses, and investment spending.
- Preparing and using cross-walk tables that show spending by both the new and old budget classification systems.

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<sup>15</sup> Mali began introducing PBB in selected ministries in 1997 (Last and Robinson, 2009, p. 11). More than 10 years later, the annual budget law adopted by the National Assembly was not being adopted by programme. Part of the delay in fully implementing PBB in some West African Francophone countries was due to hesitancy to adopt PBB in advance of the WAEMU Directive for OBLs, which was not finalised until 2009.

- Preparing ministries/agencies to manage PBBs, to execute their programme budgets, and to prepare Annual Performance Reports for parliament (and the public).

**Precondition #9: Establish meaningful expenditure ceilings early on in the annual budget preparation process and assure their respect during budget execution.** There is need for discipline 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 PBB system.

**Precondition #10: Review the annual budget preparation calendar and revise if needed.** A PBB system requires more information to operate than 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 responsibility to spending ministries, the budget “ministry” or “director general” henceforth plays a new role: that of “challenging” the estimates made by spending ministries. Although in Anglophone African countries this role may have been played by MOFs under traditional budgets, it is a new role for Francophone countries’ Budget Departments, which often were dominant in preparing 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. Prior to introducing a PBB system, it is therefore essential to re-examine the budget preparation calendar so as to provide more time for spending ministries to carefully prepare the costs of existing budget programmes and projects, as well as to cost any new spending proposals. 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 the PBB systems. The idea here is to give Parliament an opportunity to debate, at an early stage in the parliamentary budget approval calendar, the Government’s revised annual and medium-term budget outlook and the new policies the Government is considering to propose in its detailed annual budget.

### **C3. Ministry of Finance - units/directorates responsible for annual budget execution and cash management**

**Precondition #11: Ensure that expenditure controls are functioning well.** A classical budget system needs to be well executed prior to the introduction of a PBB system. For this to occur, the expenditure control system needs to function well. This involves: (1) controlling spending commitments<sup>16</sup>; (2) respecting procurement procedures (no corruption in government procurement); (3) verifying the delivery of goods and services (*verification du service fait*): quantities and prices are accurately recorded and there is no over-invoicing or under-delivery; (4) limiting exceptional or “emergency” spending procedures and not abusing them (e.g., cash advances are not used for purposes other than for what they were authorized); (5) ensuring that

<sup>16</sup>Khemani and Radev (2009) provide guidelines for a well-functioning commitment control system.

payments are actually made to final beneficiaries, in full and on time; for example, the amounts budgeted for school-teachers are accurate and all teachers in active service (but no “ghosts”) are paid in a timely manner.

**Precondition #12: Government cash management and banking arrangements need to be effective and transparent.** It is also 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 PBB system. Similarly, if non-transparent government financial transactions take place outside a treasury single account system<sup>17</sup> in the classical budget system, the introduction of PBB will not obviate the problem of hidden off-budget spending. Ideally, this spending should be included in a budget programme under PBB. Excessive bank float and discrepancies in revenue/spending accounting data and bank statements would also remain. In some African countries, such discrepancies are large.

**Precondition #13: Address shortcomings in government accounting and fiscal reporting systems and adapt government accounting systems for PBB 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 PBB is introduced. There are two areas of prerequisites:

*Improve the existing accounting system*

- Ensure monthly fiscal reports are of adequate quality, coverage and timeliness (e.g., four weeks after the end of the month).
- Ensure annual consolidated financial statements are adequate (auditable by the supreme audit institution and audited without long delays), coverage (include all externally-financed and extra-budgetary spending) and timely (e.g., three months after the end of the fiscal year).
- For Francophone countries, ensure accounts are closed within the legally-mandated complementary accounting period.

*Prepare the accounting system to record PBB budgets*

- Ensure that the new programme structure of the budget can be traced in the budget execution data, monthly fiscal reports and annual accounts.
- Align the new budget classification system with the chart of accounts.
- If judged necessary, change government accounting standards (full accrual accounting is not needed for performance-informed budgets).

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<sup>17</sup> 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 into 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).

- Enhance accounting skills, including for cost accounting in government ministries and the unit of the MOF responsible for consolidating government accounts.
- If needed, clarify 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.

#### **C4. Ministry (Agency) of Civil Service - unit/directorate responsible for centralised human resource management**

**Precondition #14: Prepare to delegate management of human resources, especially the public finance aspects, to spending ministries.** A PBB system transfers budget management responsibilities to spending ministries, who may be authorized to choose their inputs including staff numbers and remuneration levels. Some countries with highly decentralised PBB systems (e.g., Anglophone OECD countries and Scandinavia) 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.<sup>18</sup> Partly because of anticipated resistance to delegated management of personnel, some OECD countries (e.g., France) did not delegate full responsibility for human resource management to spending ministries. 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-related, and internal organizational hierarchical structures can be quite rigid, it would be useful to loosen these rules prior to PBB reforms. Some aspects of personnel management authority could be delegated to spending ministries, once minimum capacity for such management is established.

#### **D. Spending ministries**

**Precondition #15: Develop capacity in spending ministries to prepare a PBB-based annual budget, monitor it in execution, and report on annual performance.**

##### *Ministries' ex ante budgets*

- Develop sectoral or ministry-wide strategies of budget priorities.
- Define outcomes, outputs, programs, subprograms, actions/projects, and inputs.
- Prepare programme structures consistent with sectoral/ministry strategies. The "budget ministry" would scrutinise and validate the proposed programme structure.

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<sup>18</sup> Such incentives can include: (1) performance related pay; and (2) incorporating program performance as one criterion in the programme manager's or staff member's annual performance review with (senior) managers.



- Develop programme objectives and performance indicators (PIs) (this could be considered both a precondition and a “co”-condition <sup>19</sup>).
- Establish links, if possible, between PIs and annual budget allocations.

*Monitoring ministries’ budgets during the year*

- Specify spending ministers’ and ministries’ responsibilities in budget management.
- Clarify the extent of delegation of spending responsibilities to programme managers, including for authorising spending at different stages of budget execution.
- Clarify the extent of MOF oversight -- ex-ante or ex-post controls.<sup>20</sup>
- All of above requires improved capacity – training, materials etc.

*Ministries’ ex-post budget reports*

- Improve computerisation of budget execution and accounting in spending ministries, to enable ex-post reports to be obtained.
- Modify documentation for reporting budget outcomes, especially to require ministries/sectors to explain why programme budget outcomes were better/worse than expected – both financial and nonfinancial (PIs).

**E. Supreme Audit Institution**

**Precondition #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 PBB; this can be developed once PBB is adopted. However, a first step towards auditing performance is to require the external auditor to audit the integrity of performance information.<sup>21</sup>

**F. Multilateral and bilateral donors**

**Precondition #17: Donors need to be circumspect when promoting PBB systems and its use in African countries.** In OECD countries, PBB is far from universal. For example, Germany

<sup>19</sup> After developing PIs, country experience indicates that there is an ongoing need to refine PIs in the light of using them so as to ensure that they are the most pertinent and parsimonious set of PIs for a budget programme.

<sup>20</sup> Francophone countries’ PBB systems are retaining “budget controllers” under the central authority of the MOF. Such controllers are outplaced in spending ministries and they approve expenditures at the commitment stage. Francophone countries also have a General Financial Inspectorate, also often under the MOF (Wynne, 2011) for ex-post control distinct from the external audit function. In contrast, Anglophone countries tend to place these responsibilities under Internal Audit Units in spending ministries, although the MOF may also maintain authority over the cadre of internal auditors.

<sup>21</sup>This has been the approach used in Mauritius. See Ba (2010) p.66.

has not begun such a reform, even though it conducts evaluations of spending policies (this could be considered an essential feature of a PBB system). Only eight -- less than half - of the G20 countries adopt their annual budgets using a programme classification (or equivalent).<sup>22</sup> OECD (2007) reports that: (1) under PBB, improved programme management and efficiency has been limited to selected ministries and agencies; (2) only a few countries use performance information to assist in budget reallocation exercises; and (3) there is no evidence to support the thesis that performance budgeting directly impacts on aggregate fiscal discipline. Given these findings, and also the fact PBB systems in “advanced” countries are still evolving, the donor community needs to be cautious in advocating the use of PBB in low-income countries with limited capacity to implement these complex reforms. A first priority is to develop a performance mentality in budget management.

### ***Issues for discussion***

From the experience of introducing PBB – or contemplating its introduction -- in your country:

- Do you agree that in countries with weak capacity and budget systems, before beginning to consider whether a PBB system should be introduced, efforts should first be directed towards improving the credibility of the annual budget? If so, could PEFA indicators, e.g., those pertaining to budget credibility (PI-1 to PI-4) or the budget cycle (PI-11 to PI-28) be used to establish a minimum threshold beyond which the introduction of PBB could be entertained, e.g., PBB should not begin until at least a C score is obtained for many of these indicators.
- This paper has identified 17 preconditions for introducing PBB – some with several components. Do you consider that some are not prerequisites? If so, which ones? Could they be considered “co”-conditions?
- Which preconditions are the most difficult to achieve? Which are the easiest?
- Is the list of preconditions approximately correct? If “no”, should some of the proposed preconditions be omitted? If “yes”, what are the implications for the adoption of PBB reforms in African countries? Alternatives to consider are: (1) not introducing PBB at all, as the preconditions are too numerous or too difficult; (2) introducing only a very basic form of PBB, e.g., only a “presentation PBB”, not a “performance-informed PBB” (see Table 1); or (3) endeavouring to meet all preconditions and introduce a full-fledged PBB.
- Do you agree that perhaps a 10 year period is required to fully implement a PBB in some countries? What has been your country’s experience so far?

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<sup>22</sup>These countries are: Australia, Brazil, France, Italy, Japan, Korea, South Africa and the United Kingdom.

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