Preconditions, Prioritization and Sequencing of Performance Budgeting

ITP Course on Program and Performance Budgeting

**International Monetary Fund
Fiscal Affairs Department**

Holger van Eden
Senior Economist
Public Expenditure Management Division II
Fiscal Affairs Department
E-mail: hvaneden@imf.org

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Introduction (I)

Most countries that have successfully introduced PB have features in common:

- Recognition that PB involves shifting the entire budget cycle: planning, allocation, budget preparation, budget implementation, reporting and evaluation.

- A systemic change to performance and results orientation in public management

- A requirement of a cultural change in all layers of bureaucracy

- Change is required not just to business practices but in institutional structures, legal framework and even in human resource base.

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Introduction (II)

Introducing PB involves

- Fundamental change in motivation and the way performance is conceived and regulated
- Lengthy, staged implementation process; advanced on a number of fronts
- Careful planning and measured implementation over longer term
- Usually requires reinforcement and refinement to be effective

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International Lessons (I)

Preconditions for introduction of PB should be met:
- a solid existing PFM base:
  - Aggregate fiscal control
  - Solid reporting, monitoring and control of expenditure within appropriations
  - Reasonably accurate budget estimates versus outturns
  - A well-defined economic classification
  - Some form of strategic planning
- consensus that PB is needed to enhance efficiency and effectiveness of govt spending
  - Within Legislature and Executive, and especially MoF

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International Lessons (II)

- PB is a major investment requiring substantial human and financial resources
- Successful implementation requires careful planning on the supply and demand side:
  - On the supply side, need for teams of dedicated technical specialists
  - On the demand side, need to cultivate demand for reform by major stakeholders
  - Large implementation and maintenance costs, but traction and benefits are longer-term

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Importance of sequencing and pace

- Need to find the appropriate balance
- Danger in advancing too timidly – easy to lose momentum
- Equally, risks in advancing too quickly – staff have limited capacity to absorb change. Needs to be carefully staged
- Appropriate pace and sequence depends on environment in each country

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Pre- and co-conditions for PB reform

- Essential precondition: PB reforms should be based on solid/basic PFM platform, sustained by stable, credible institutions
- Low capacity in PFM systems needs to remedied ahead/along with PB reforms
  - Three areas in particular:
    - Weak internal control systems in line ministries and agencies
    - Poor IT systems capacity to meet heavier demand for information, particularly performance information
    - Poor accounting capacity for full costing of all govt activities and programs
- Must have carefully planned and executed implementation strategy, including cultural change strategy
- Must have visible political support
- Must have access to appropriate technical resources
- Must have well-thought-out management structure

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Pre- and co-conditions: financial management & control systems

Internal financial management & control systems
- A key feature of the PB approach is to let managers manage:
  - devolving detailed resource management decision-making to operational managers
- In moving from centralized control systems, need assurance that agencies' internal systems are adequate to control financial risk.
  - Internal Audit also needs capacity to assure integrity of performance measurement and reporting
- Needs a shift in auditing methodology of the supreme audit institution:
  - External audit must have capacity to undertake devolved IC audits, and performance audits, VFM audits

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Pre- and co-conditions: PB information

- PB a heavy information user
- Detailed and robust financial data required to track costs of operations, and performance information required to relate these costs to outputs and outcomes
- To collect and collate performance information efficiently, this implies the integration of financial systems with operational systems
- This is a major IT systems undertaking:
  - requires robust IT platform and infrastructure
- Major systems changes required to manage, on a multi-dimensional basis, budget formulation, budget execution, reporting and evaluation
  - Particularly within MTEF
  - Particularly within accrual framework

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Setting up PB Information systems

- Must have agreement on identification of relevant performance measures (outputs, outcomes), then agreement on methodology for collection and collation of performance data
- Implications for qualitative data systems design:
  - Need assurances of timeliness and quality of data
  - Can be costly to develop: issue of cost vs. decision-value of data

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Pre- and co-conditions: Costing and MIS

- Must have systems capable of fully costing programs, activities and outputs so that costs can be matched with results, in order to judge program performance
- Establishing platform to fully cost programs and outputs will have implications for the introduction of accrual accounting
- This in turn implies consequences for the implementation of FMISs
- Accounting systems must also have capacity to supply relevant performance information to various stakeholders
- Ideally: integration of FMIS and MIS >>> This implies a govt.-wide Executive Information System
- All these platform requirements add layers of cost and time to the project

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Pre- and co-conditions: Cultural Change Strategy

- Well observed phenomenon that all major institutional reform programs meet resistance, which weakens as reforms become "institutionalized":
- Adoption of PB substantially increases the workload of civil servants
- Overcoming resistance depends critically on change management planning and execution

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Cultural Change Strategy

Change Management strategy:

- Development and promulgation of overarching philosophy of change:
  - to build consensus on need for change and chosen strategic direction
- Visible high level commitment at the political level
- Empowered reform team led by "champion"
- Education, training and cultural change programs
  - From legislators down to program managers and staff

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Changing management culture

- PB model assumes that civil servants will cease being administrators of public funds and become "output/outcome" managers
- Transformation requires substantial investment in human resources

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Changing management culture

- Traditional managers responsible for correct use of inputs; now held responsible for delivery of results
  - Compliance culture does not naturally foster PB skills
  - Need training in financial management, project management etc.
  - Also need new incentive scheme: new mechanisms needed to reward good performance, sanction poor performance

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Changing culture from top to bottom

○ Strategy is to apply pressure from above to encourage managers to change;
○ While increasing capacity from below to allow them to change
○ From above: detailed program evaluations by MOF, market testing, benchmarking, efficiency dividends which force managers to find savings and increase efficiency
○ From below: empowered, devolved management in agencies, promulgating best practice management, management training, linking pay to performance, retention of savings etc.

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Providing a more certain environment for line ministries and agencies

○ PB empowers managers to plan resourcing to deliver outputs and outcomes:
  • however difficult to achieve this within a one-year horizon
○ MTEF provides:
  • Macro fiscal plan and sectoral envelopes for forward years
  • Establishment of rolling baselines – relative certainty of future year funding envelopes
  • Enables forward year program planning and commitment of resources
  >>>Still need for central management of agencies' (forward) commitments (register/monitor/ approve)

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Pace and sequencing of reform (I)

○ Realistic timeframe and careful sequencing of reform elements critical for success
○ For countries with resource and capacity constraints, a gradualist approach is preferred.
○ Management capacity must be progressively strengthened:
  • Give organizations time to absorb each stage of reform before embarking on next stage
  • Otherwise, high risk of "reform fatigue"

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Pace and sequencing of reform (II)

- The gradualist approach can sometimes appear to lack coherence and momentum.
  - To avoid this, important to promulgate clearly articulated migration plan and timetable for the whole reform program; be public about deadlines
  - All stages can begin as pilots or partial implementations
- Timing in annual budget cycle and overall fiscal cycle also important:
  - Key players should be free of distractions of ongoing annual cycle, and free of distraction of fiscal crises.
  - Also easier to implement PB in a resource-rich environment

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Key Issues for PB Introduction (I)

- Entity coverage –Central or General Government
- Temporal coverage – annual, MTEF?
- Separation of controlled and administered?
- Definition of programs and O/O structure
- Program classification/structure + introduction policy
- Virement rules
- Strategic planning methodology
- Performance indicators (price, quant, qual (incl. timeliness)/%change/time
- Documentation/form of Estimates, budget, reporting
- Timetable of management cycle
- Accountability mechanisms: alignment of organizational structure with program structure, or additional or joint responsibilities, performance agreements

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Key Elements in PB Introduction (II)

- Accounting basis, cost attribution methodologies, accounting capacity
- Data source & data collection methodology
- Linkage of fin. and qual. Data – FMIS /MIS design
- Audit of O/O data, cost attribution – audit methodologies IA and external
- Reporting cycles – intra Govt., intra agencies
- Evaluation mechanisms
- Mechanisms for linkage of performance data to resource allocation

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Reform sequencing

- In process of evolution, some things disappear and are replaced, other things are extended.
- In planning the sequence of events, key task is to identify dependencies (elements which must be in place as platform for introduction of other elements)
- Elements which are mutually reinforcing can be introduced at same time
  - But need to be mindful of organizations' capacity to absorb several reform elements at same time

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Sequencing – Broader Context
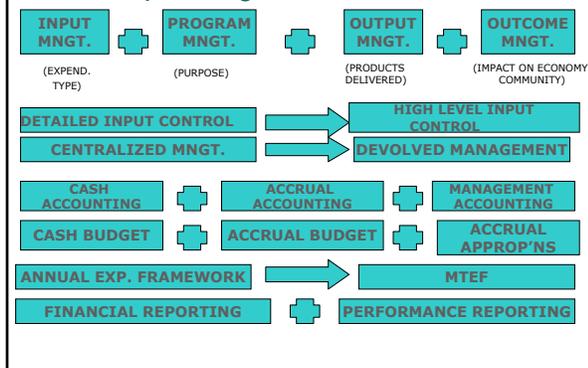
Key Implementation Tasks

- Develop and disseminate philosophy of change: drivers, objectives, deliverables
- Undertake detailed scoping study: determine overarching policies, scope, structure, context and sequencing
- Establish project governance structures: SC, advisors, consultative groups, project teams, QA and audit
- Establish communication and training program
- Develop/adopt accounting standards/policies (if moving to accruals basis)
- Pass financial legislation
- Specification, selection, design, construction of FMIS/MIS
- Data conversion from existing systems

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Creating enabling environment

- Some institutional change is sometimes required:
- Collocating central responsibility for recurrent and capital budget formulation
- Alignment of org. structure with O/O structure
- Separation of "controlled" and "administered" items to reinforce line agencies' performance responsibility and accountability
- Separation of service delivery and policy formulation elements within agencies: creation of new service delivery agencies e.g. welfare payments agency and social policy department
- Key elements of new performance platform may be codified in legislation

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Summing Up (I)

- Introducing PB is a challenging and resource-intensive task
- Can be multiple components and multilateral staging, with dependent and mutually reinforcing elements
- Pre- and co-conditions:
  - **Solid existing PFM base**
  - **PFM capacity building in areas of weakness**
  - **Articulation of overarching reform philosophy and agenda**
  - **Achieving consensus for change**
  - **Political ownership and support**
  - **Adequate technical resources**
  - **Promulgation of clear phased strategy**
  - **Well designed cultural change strategy**
  - **Establishing enabling legal and institutional environment**

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Summing Up (II)

- Broad range of international experience to draw upon
- No standard prescription for timing and sequencing
  - Depends on country environment
  - Most implementations undergoing continuing refinement
- Successful implementation in many countries has generated, over time, significant improvements:
  - efficiency, effectiveness, transparency and accountability

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Change Process in The Netherlands

Lessons learned in Implementation Process:

1. Lots of attention on communicating new methodology to line ministries
2. Plan timeline and decision-point for system change
3. Provide adequate resources for system change (In NL costs were approx. 100 mln Euro in five years)
4. Use a trial period and continue improvement after introduction
5. Monitor and report on progress
6. Ultimate responsibility for budget structure, budget format and indicators with line ministries
7. Use performance indicators with restraint and as an additional instrument
8. Do not use change process to reorganize

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Questions

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Thank You!