

Working Paper 203

**Managing Public Expenditure for Development Results
and Poverty Reduction**

John Roberts

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The author takes full responsibility for the conclusions reached in the paper, and for the interpretation in it of the messages of the country studies and the synthesis of OECD practice.

Acronyms

CDF	Comprehensive Development Framework
CWIQ	Core welfare indicator questionnaire
FCUBE	Free, comprehensive, universal basic education (Ghana)
GPRS	Ghana Poverty Reduction Strategy
HIPC	Highly Indebted Poor Countries
I – PRSP	Interim Poverty Reduction Strategy Paper
LSMS	Living standard measurement survey
MDG	Millennium Development Goal (UN)
M&E	Monitoring and evaluation
MFPED	Ministry of Finance, Planning and Economic Development (Uganda)
MTEF	Medium term expenditure framework
PAF	Poverty Action Fund (Uganda)
PAP	Priority Action Programme (Cambodia)
PEAP	Poverty Eradication Action Plan (Uganda)
PPBS	Programme Planning and Budgeting Systems
PRSP	Poverty Reduction Strategy Paper
PUFMARP	Public Financial Management Reform Project (Ghana)
SAFCO	Financial Administration and Control System (Bolivia)
SISER	System for the Evaluation of Results (Bolivia)
SWAp	Sector – wide approach (to aid management)
UNESCO	United Nations Education and Scientific Organisation
UNICEF	United Nations Children’s Fund
WHO	World Health Organisation

Executive Summary

Definitions and concepts

Results-oriented (or ‘performance’ or ‘output’) budgeting is the planning of public expenditures for the purpose of achieving explicit and defined results. These results may be aspirational policy objectives (‘outcomes’), or the ‘outputs’ of routine public service activities intended to contribute to policy goals, or ‘intermediate outcomes’ which represent major stepping stones in service delivery towards these goals.

Performance budgeting and management help to (i) clarify policy priorities, (ii) focus expenditures more tightly on priorities, (iii) (allegedly) inform and motivate programme managers and service providers, (iv) identify the causes of good and bad performance and thereby reduce waste and increase impact, and (v) facilitate cross-institutional working. They are easiest to apply and most fruitfully applied to the production of services for the public.

Performance budgeting allocates budget resources to spending ministries and agencies on the basis of reviews of past performance and statements of future strategy, and in return for commitments to achieve defined results.

Performance management consists in using performance evaluation feedback to improve the efficiency and effectiveness of expenditure programmes. It works best when programme managers have devolved powers and some flexibility in resource allocation and management so that they can take early advantage of opportunities to reduce costs and increase impact. Traditional rules – based financial management culture in the civil service inhibits the devolution of management powers to lower levels. Devolved management, however, requires probity and commitment, and *ex post* verification through recording, reporting and audit.

An important check on service providers is the assessment of beneficiaries, and the political pressure that user groups can bring to bear on policy makers and providers to improve service quality and curb abuse. Another common procedure for sustaining, extending and improving service provision is the use of contracts that define service level targets. Contracts are easiest to apply to services which are well defined and easily monitorable.

Fears are voiced that results-focused management of public expenditure gives rise to unnecessary bureaucracy, causes distortions in the implementation of policies, and ignores the subtleties and complexities of public service provision. These fears are not groundless, but the dangers can in practice be mitigated, if not eliminated.

Research hypotheses

Several authors have recently expressed scepticism about the applicability and usefulness of performance-oriented approaches to development in low income countries. Their grounds for scepticism relate in the main to weaknesses in these countries’ institutional settings, administration, budget management and governance. The principal points made are that:

- budget financing of spending agencies’ programmes is unpredictable, and funds released may be misapplied, making the pursuit of defined results unrealistic
- spending agencies lack the administrative capacity to set targets, evaluate results and make use of performance assessments in their resource allocation and management decisions

- contracts are unenforceable in institutional settings characterised by ‘informality’, rendering the hiving-off or outsourcing of public service delivery functions to autonomous public or private sector agencies impractical

ODI–CAPE launched a programme of seven case studies of low income countries with PRSPs to establish how far performance budgeting and management are used in practice, and to relate these findings to features of macroeconomic and budget management, accountability structures, and administrative structures and practices. The countries in the sample, chosen for their geographical spread and for the known diversity of their budgetary practices and success in implementing reforms, are Bolivia, Burkina Faso, Cambodia, Ghana, Mali, Tanzania and Uganda.

International experience

Following reforms in the 1980s and 1990s most OECD countries now apply performance budgeting procedures. However, their approaches have been very diverse, and only loosely inspired by the Planning, Programming, Budgeting Systems approach pioneered in the US. In some countries the approach has been decentralised, with executive agencies and devolved authorities left to devise their own objectives-based performance frameworks; in others initiatives have been centrally directed. In some the focus has been on the national budget which has become programme-based; in others the focus has been more on reforms in service delivery functions, policies and organisations. In most countries reforms have been piecemeal, and have followed empirically evolutionary paths.

The same pattern is observable in middle income developing countries that have adopted performance budgeting. The frontrunners were Singapore and Malaysia which have built their present-day systems of results-focused programme budgeting, administrative autonomy and performance accountability over a period of 30 years. Chile has more recently introduced its system of performance accountability for public agencies by degrees, only linking it formally to the budget in recent times. South Africa introduced a relatively comprehensive system of results targeting and programme budgeting in 1999 which still, however, lacks explicit linkage between funding and specific programme targets.

It is hard to establish the practical benefits of these systems for service delivery in the absence of controlled experiments and well defined counterfactuals. It is clear, nevertheless, that they make administrations and public service providers more accountable – to beneficiaries for service provided, to political leaders for policy implementation, and to ministries of finance and taxpayers for cost-effectiveness in public expenditure. Accountability is the foremost objective of results-based management in Canada.

Case study countries

The seven case study countries’ experiences of, and success with, performance budgeting and management are various.

- Tanzania and Uganda have made sustained and successful, multi-sectoral, endeavours to implement a results focus into both budgeting and performance management at both central and local levels.
- Bolivia and Ghana have made extensive and repeated efforts to introduce a results focus, but have been at least partially frustrated by implementation failures and political factors.
- Burkina Faso and Mali have begun systematically to introduce results-based programme budgeting and to deconcentrate and decentralise hitherto highly centralised administrative

structures, but progress in institutionalising a focus on results is limited by shortages of experienced staff and information.

- In Cambodia there is impending public financial management reform. Initiatives for performance budgeting and management are still mainly confined to education and health. Responsibility for much service provision lies with provincial authorities which enjoy *de facto* autonomy of decision.

None of these countries has created a fully comprehensive performance budgeting and management system, but all have introduced and are developing elements which are actually or potentially producing benefits of a kind which can contribute strongly to the implementation of their respective poverty reduction strategies. Their experiences seem to disprove the thesis that a results-orientation has no part to play in the management of public expenditure in poor countries.

Preconditions

The case studies give credence only to weak versions of the contentions of those authors who have argued that results-oriented budgeting and performance management will not work unless there are already sound standards of macroeconomic, budgetary and public expenditure management, functional institutions including contract enforcement, and public administration governed by rules. They show that significant elements of performance budgeting and management can take root and be at least locally effective in countries where there are significant shortcomings in these areas. Mitigatory techniques exist to shelter priority programmes from the effects of poor cash management, cash budgeting and resource flows that are unpredictable in timing and amount. There is some scope for performance improvement, even in the absence of larger and more predictable budget funding, given the current inefficiency and waste in much public service provision.

Nevertheless, these shortcomings have a demonstrably negative effect on the generalisation of good practice outside ‘islands of excellence’, and can lead to a cynical disregard of disciplines involved. The cases of Bolivia and Ghana are instructive in this regard, the former for governance reasons and the latter because of macroeconomic instability. Public expenditure management and institutional reforms should proceed in parallel with – and as a function of – performance management and budgeting.

The studies help to identify other conditions that favour the implantation of a results culture and results-oriented practices. These include political leadership, unified central direction of performance budgeting and management initiatives. The dispersion of responsibility between various central authorities leads to loss of direction and momentum and failures in lesson learning and in the application of performance assessment information to allocation decisions.

Entry points

The case studies consistently show that results-oriented sector development strategies supported by donors through sector-wide approaches (SWAs), particularly in health and education, have been the first point of entry of current results-oriented management initiatives at national level. These have been important building blocks and exemplars used in the elaboration of performance-related medium term public expenditure frameworks (MTEFs) which now exist in five of the seven countries in the sample, and which have taken the other decisive step on the road to the successful institutionalisation of performance budgeting. Medium term expenditure planning has not always taken root. Ghana’s initial attempt was not pursued. But even in Ghana it focused government-wide attention for a time on results, as never before.

Bolivia chose a third entry point, that of institutional and public service reform. Its difficulties in implementation confirm an observation found also in the studies of other countries that the instigators in government of institutional reform – whether civil service ministries or special purpose institutes – tend to lack the authority and clout in government that is required to drive through at consistent speed a thoroughgoing reform in working practices. Ministries of finance are best placed to wield the appropriate mix of leadership, direction and coercion.

PRSPs have been a fourth potential entry point. However, they have not played this role in the case study countries. The reasons for this relate to (i) the nature of the results that they seek – intermediate outcomes selected for their relevance to poverty reduction, (ii) the institutional divorce between governmental entities responsible for the budget (and MTEF) and those charged with the responsibility for the PRS process, leading to (iii) inconsistencies between the PRSP and the MTEF and (iv) implementing agencies' preference for, and stronger ownership of, MTEFs' statements of objectives and targets.

Decentralisation

The cases of Cambodia, Tanzania and Uganda show how important a clear results framework is in overcoming principal-agent problems in implementing political and administrative decentralisation in ways which are consistent with the pursuit of a nation-wide pro-poor agenda. In Cambodia provincial governors have *de facto* wide discretion in their use of grants from the treasury and are not accountable for results. Results accountability in locally managed programmes in education and health is only achieved through central ministries' control over human resources and of special funds for priority programmes. In Tanzania and Uganda local authorities' expenditure is largely funded by central government which systematically releases funds in exchange for local authorities' monitored undertakings to pursue results that contribute to national pro-poor development strategies.

Weak links

Contrary to the belief of some authors there is no lack of usable performance information on key indicators in the case study countries. Performance information is available, and is often compiled and published, even where reliable information on actual programme expenditures is lacking. The weakest link in the performance management chain lies in the comparative evaluation of the information produced and its interpretation for the benefit of decision makers. Some instances are mentioned in the case studies of league tables comparing the performance of different comparable service providers. In some cases the evidence is used as the basis of management and resources allocation decisions. But these are a rarity. In general the process is one of measurement without management follow-up.

The weakness of performance management is in good part a consequence of weak domestic pressure for results accountability – from service users, auditors, parliament and civil society, and even from ministers. Only in Ghana and Uganda are there accounts of growing parliamentary interest in whether targeted results have been achieved. Even here the diagnostic basis for scrutiny is inadequate because national audit offices do not yet undertake performance audits, though Ghana and Tanzania are taking steps to do so. There are also weaknesses in the planning and evaluation departments of sectoral ministries and in performance evaluation at the centre. But this reflects demand as well as supply. Where these services are in demand, capacity is strengthened. The case

study on Tanzania comments on the competence of the Technical Working Group on research and analysis, one of four such teams set up by that country's Poverty Monitoring Steering Committee.

Benefits from performance budgeting

Benefits in the planning and management of service delivery are already perceptible in countries that have adopted performance budgeting and management most successfully. There is:

- greater policy focus and prioritisation in resource allocation, programme planning and management, because bids for resources and their allocations have to be justified in terms of national and sectoral strategies,
- better coherence between achievement aspirations and resources available, and greater realism in target setting, achieved, over time, through experience of difficulties and the obligation to render account of performance,
- stronger motivation on the part of line managers and service providers, thanks to consultation about target setting, clearer communication of objectives and targets to be met, and the obligation on service providers to report results,
- more effective diagnosis and treatment of cases of underperformance due to more systematic monitoring and evaluation of results.

The recent experience of Tanzania and Uganda is also showing how the principal-agent problems arising with decentralisation can be significantly mitigated through a results-oriented approach to financing local government by the central government. Both countries have implemented systems of planning and reporting by local authorities focused on their poverty reduction strategies that have developed quickly, albeit unevenly. These systems have spread awareness of programme strategies and targets to officials and politicians at district and sub-district levels, and have elicited constructive responses in the form of district plans and budgets. Without such a framework it would be difficult to implement poverty reduction strategies, given that local authorities are now responsible for providing a great many of the public services needed for poverty reduction.

Tanzania and Uganda would be unable successfully to cater to the expansion in primary school enrolments consequent on the abolition of school fees without these systems for performance budgeting and management linking central government and local authorities.

The overall conclusion of the research programme is that low income countries are practising performance budgeting and management, in some cases to useful, if unspectacular, effect. They have, with modest external support, been finding their own solutions to the problem of how to translate public expenditure into pro-poor development results. They face many challenges, and in some cases their experiments have not wholly succeeded. Nevertheless, in this highly empirical field of activity, they have been willing to learn from their own experiences and from those of others. Their initiatives will play a vital role in the successful implementation of their poverty reduction strategies. They accordingly deserve strong external interest and encouragement.

Implications for donors

Donors have a strong interest in the success of performance budgeting and managing in poor countries. It may be a *sine qua non* condition of 'managing aid for results'. It can, and should, be an important part of the infrastructure underpinning the achievement of PRSP goals targets for public service delivery.

Some implications are that donors should:

- acknowledge, encourage and support countries' own initiatives, recognising that they will take time to bed down before yielding tangible performance improvements, and giving credit for process reforms as well as to improvements in indicators of poverty reduction,
- offer support in the form of expertise in performance management, especially in diagnosis and performance assessment,
- avoid initiatives of their own which engender competing systems and institutions with overlapping mandates, or which undermine the unity of purpose and direction of countries' performance budgeting and management systems, and
- encourage the demand for results accountability by parliament and civil society.

Chapter 1 Introduction

This paper is a survey of the practice of results-oriented – or performance-based – public expenditure management in low income developing countries. It is based on seven country case study working papers commissioned by the Centre for Aid and Public Expenditure at the ODI with a view to comparing and contrasting the experience of countries of broadly similar size and per capita income, and to identifying factors conducive to at least some elements of performance budgeting. The paper also draws on a commissioned working paper which surveys recent descriptive and interpretative literature on programme and performance budgeting in OECD countries, and on ODI-CAPE desk studies on public expenditure and aid issues in education and health and local government finance and performance management. These documents are listed on page (ii).

The sample of countries whose budgeting and performance management practices have been reviewed consists of Bolivia, Burkina Faso, Cambodia, Ghana, Mali, Tanzania and Uganda. These countries were chosen for their low incomes, their geographical spread, the diversity of their budget and public expenditure management practices, and the fact that they have drawn up one or more interim or final Poverty Reduction Strategy Papers which lay out their priority development objectives and the means they intend to deploy. Countries with federal constitutions which divide responsibility for public service delivery between federal and state governments were not included because some of these countries are large enough to merit separate research programmes in themselves and because of the expected difficulty in making meaningful comparisons between the experiences of federal and unitary states.

This body of research has been undertaken at a time when there is mounting concern, in both developing countries and in donor countries, to achieve visible, tangible and sustainable development ‘results’. At the top of the international development agenda lie re-invigorated endeavours to reduce poverty in the world, and in particular in the low income countries where most poor people live. The international community committed itself at the Special Session of the UN General Assembly held in July 2000 to achieving the Millennium Development Goals for poverty reduction, including halving the 1990 rate of income poverty by 2015, achieving Education for All by 2015 and halving the 1990 rate of child mortality by 2005.

Also symptomatic of the new urgency in the development community to achieve development targets is the vigorous follow-up given, under the leadership of UNESCO and UNICEF to the commitments undertaken at the Dakar Education for All Forum of 2000. Progress towards the set quantified targets is to be the subject every year of extensively researched monitoring reports based on a revitalised effort of data collection and compilation.

The new sense of urgency has been captured by the governors of the World Bank at the meetings of the Development Committee held in April and September 2002. In April the Committee endorsed a Bank plan to ‘fast track’ support to primary education in a number of developing countries needing to accelerate their progress to meet the goals of universal primary education by 2015. In September 2002 the Development Committee adopted a proposal that the Bank should strengthen its development results-orientation, focusing on the MDGs.

In parallel with initiatives to define and pursue international development targets is the ambitious sequel given to the provision of multilateral debt relief to Highly Indebted Poor Countries consisting of the invitation, first to the HIPC countries, and then to all IDA beneficiaries, to prepare Poverty Reduction Strategy papers (PRSPs). These governmental papers, the fruit of domestic consultation and debate with stakeholder groups, identify poverty indicators, define targets for poverty reduction and public service delivery, and outline policies and strategies for achieving the

defined objectives. The tabulations of objectives included in PRSPs comprise indicators of longer term outcome, medium term output, and intended resource inputs, activity levels and process reforms. In some cases resource requirements are defined using norms of unit cost. PRSPs, thus bring together, in respect of poverty reduction priority programmes, estimates of required public expenditure, efficiency norms and public service delivery results.

A comprehensive desk study in ODI of PRSPs¹ shows that the countries that have prepared these documents have sharply increased their interest in longer term poverty reduction outcomes, and in many cases have developed medium term plans for public expenditure which are associated with explicit targets for increasing the outreach and standards of poverty-reducing public services. However, these outcome and output targets are often not systematically translated into corresponding input and activity level targets, and the costs of achieving them are often not firmly established. There may thus be mismatches between resources mobilised and results sought.

The purpose of this paper is to consider the role of performance budgeting in low income countries, and the contribution of these results-oriented processes to the achievement of the poverty reduction and development results that the international development community is now seeking. The paper is structured as follows:

- Chapter 2: the meaning of performance budgeting and performance management, and the purposes for which they are suited,
- Chapter 3: the hypotheses that the programme of study set out to test,
- Chapter 4: international experience of performance budgeting,
- Chapter 5: profile of the seven case study countries,
- Chapter 6: whether, where and when performance budgeting works in poor countries to improve the efficiency and effectiveness of service delivery,
- Chapter 7: weak links in the chain
- Chapter 8: conclusions and next steps.

The empirical methodology used in the country case studies was non-formal. Fact-finding missions, guided by common terms of references, were mounted to explore the validity of a common set of initial hypotheses. The missions, consisting of mixed teams of expatriate and local consultants, reviewed documentary evidence and conducted interviews with key informers.

The overall conclusion of the research programme is that low income countries are practising performance budgeting and management, in some cases to useful, if unspectacular, effect. They have, with modest external support, been finding their own solutions to the problem of how to translate public expenditure into pro-poor development results. They face many challenges, and in some cases their experiments have not wholly succeeded. Nevertheless, in this highly empirical field of activity, they have been willing to learn from their own experiences and from those of others. Their initiatives will play a vital role in the successful implementation of their poverty reduction strategies. They accordingly deserve strong external interest and encouragement.

¹ Booth and Lucas (2002)

Chapter 2 Results-Oriented Public Expenditure Management – meaning, purpose, implementation and debate

2.1 Definition of ‘results’

Results-oriented (or ‘performance’ or ‘output’) budgeting is simply the planning of public expenditures for the purpose of achieving explicit and defined results. The results in question are generally identical with, or closely linked to, policy objectives. Budgetary allocations and the conditions on which they are made form part of governments’ strategies for achieving their policy aims. Spending ministries and agencies are expected to commit themselves to making organisational and administrative reforms and to allocating resources so that desired targets are reached within defined timeframes.

‘Results’ may be longer term ‘outcomes’ – which are policy objectives, but which arise from combinations of strategic interventions and other factors uncontrolled by policy; or they may be the short- medium-term ‘outputs’ of public programmes which are under the control of public authorities, are useful in assessing efficiency, but are not in themselves the objects of policy. A third category of results has been termed ‘intermediate outcomes’. These indicate the likely impact and success of strategies; they generally materialise over the medium- long-term and are also largely under the control of service providers; but they may fail to lead on to final outcomes in the presence of adverse circumstances outside policy control. Box 1 gives an example of these three categories of ‘result’, drawn from education where the final outcome of higher labour productivity is obviously affected by factors exogenous to the education sector, and where even the intermediate outcome of having all children complete their schooling can be affected by uncontrolled demand side factors.

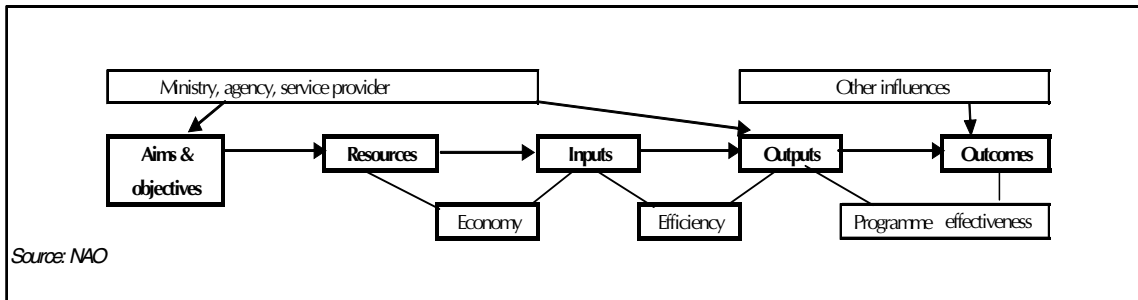
Box 1: Indicators and Targets by Level: Education Example

	Indicators & Targets	
	Quantitative	Qualitative
Input	Funds for and supply of teachers, learning materials, schoolrooms, administrative resources	Quality of teachers, textbooks, buildings
Activity/Process	Schools open, classes taken	Teaching quality
Outputs	Enrolments Drop outs; repetition	Parental assessment (via surveys)
Intermediate outcomes	Completion, test scores	Parental assessment
Final outcomes	Employability, higher labour productivity	

To produce ‘results’ public authorities mobilise ‘inputs’ of financial resources – recurrent and capital – and personnel. These are combined in production ‘processes’ or ‘activities’ to produce the ‘outputs’ of expenditure programmes. Targets set in results-oriented budgeting relate both to

‘efficiency’ – the ratio of outputs to inputs or unit costs – and to ‘effectiveness’ – the rate at which outputs are transformed into intermediate or final outcomes (cf Figure1). These ratios may be hard to quantify; some results are intrinsically qualitative. Even when results are quantifiable they are often known only approximately, though accuracy of measurement improves with experience and programme evaluation.

Figure 1: Relationship of Inputs, Outputs and Outcomes



In results-based budgeting budget allocations for programmes are made on the basis of unit costs in the light of targets fixed and intended efficiency gains. Performance is measured by reference to output targets, about whose feasibility service deliverers and programme managers are consulted.

This approach to achieving policy objectives and producing results is often described as ‘linear’ and deterministic, assuming that inputs produce outputs via productive processes, and that outputs contribute to outcomes and the achievement of policy goals. In reality, however, if properly and sensitively applied, it is circular – with a feedback loop informing process and strategic choices² – and it admits the importance of understanding exogenous and random influences. Production processes, and *a fortiori* the links between outputs and outcomes are known to be in some degree indeterminate or ill-defined because of ignorance and random factors. Planners, in particular only know statistically how beneficiaries are going to react to service provision, and whether they will demand services provided. Results-oriented management in practice, therefore, involves trial-and-error, and course correction based on continuous performance assessment.

2.2 Rationale

The advantages of result-based management are said to be that:

- a. it helps to clarify national, sectoral and institutional priorities, and to diffuse knowledge of these throughout the hierarchies of actors concerned with their implementation and down to the end beneficiaries of programmes;
- b. it serves the important purpose of focusing public expenditure programmes, and the energies of programme managers, on the policy priorities of governments. All programmes should be consistent with public policy, and higher priority programmes should receive additional resources, at least in part, from inter- and intra-sectoral transfers from lower priority programmes.
- c. It enhances both the effectiveness and the efficiency of public expenditure, and thus to improve the likelihood of attaining policy goals.

² cf section 2.3 below

- d. it assigns roles, and through processes of cascading and consultation, it aligns the objectives of individuals and service delivery entities with those of sectoral and national strategies; in so doing it mitigates principal-agent problems arising from divergent, multiple or conflicting agendas;³
- e. It facilitates cross-organisational working on cross-cutting programmes;
- f. by recognising and rewarding performance in implementing individuals' and units' contributions to strategic objectives (as defined by targets) the approach aligns incentives with objectives. (Rewards can be symbolic, reputational and promotion-based, as well as material); clarity about what agents and agencies are expected to produce is in itself an incentive to perform.

The focus on results also makes spending agencies – line ministries, programme managers and front-line service providers – accountable not only for how they spend their budgets but also for the results (outputs or intermediate outcomes) they achieve.⁴ In performance budgeting ministries accompany their budget bids not only with statements of strategy and future targets and objectives but also with accounts of their recent performance relative to earlier targets.

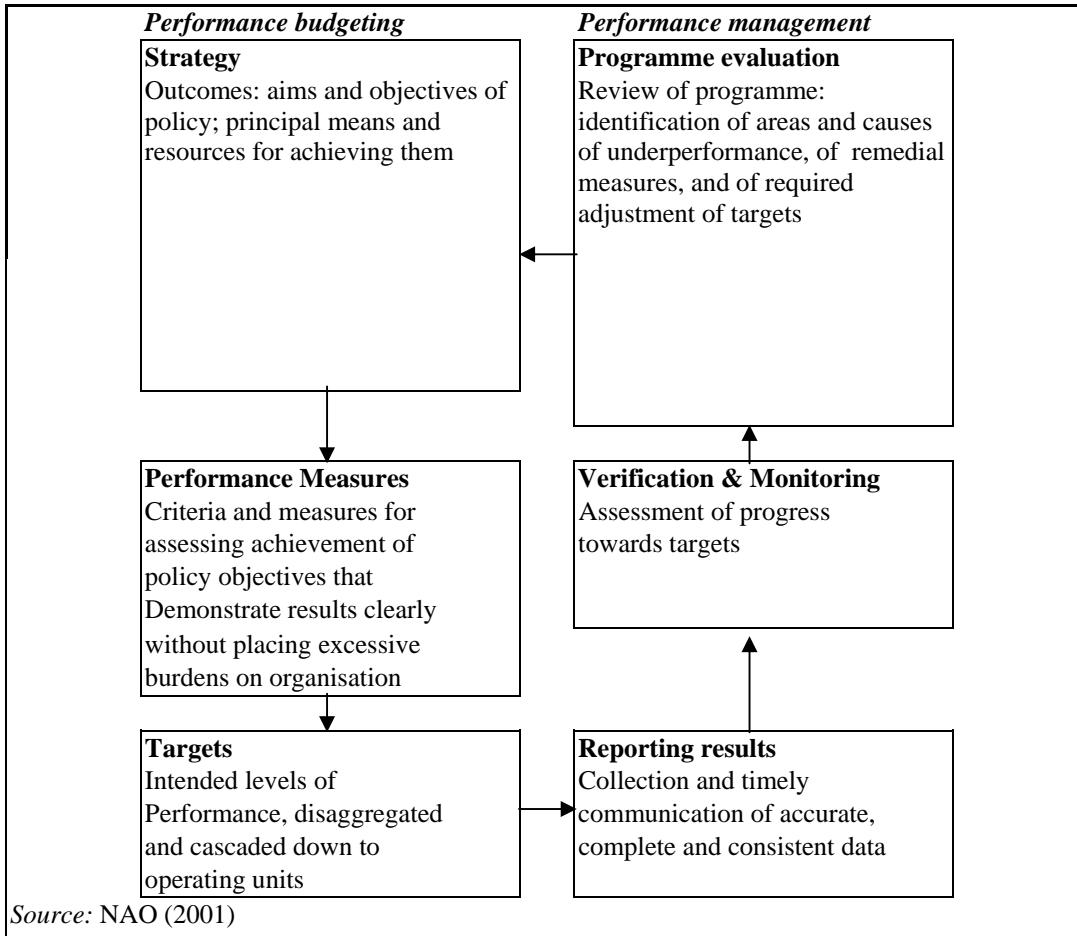
2.3 Performance management

The benefits of performance budgeting may be limited to focus and accountability unless there is also active performance management at all levels. Performance management consists of the assessment of past results relative to targets, using management information and survey data, identification of areas of under-performance, diagnosis of the causes of poor performance, and the application of remedial measures and/or the correction of targets previously set on the basis of faulty premises. Its symbiotic relationship with performance budgeting is illustrated in Figure 2. Programmes are closely monitored with respect to both their implementation and their results, areas of under-performance are identified, and administrative and financial remedial action taken. Remedial measures may take the form of disciplinary or other management action, improvement in personal incentives, and the redirection of resources.

Management for performance should in theory occur at all levels – from front-line providers of public services to the ministries of finance that allocate budgetary resources to the agencies which run public programmes. This implies that there should be a hierarchy of discretion for managers appropriate to their levels of responsibility, and expenditure management decisions should be decentralised and devolved to programme managers and the directors of service delivery units (schools, clinics etc). Managers should be fully accountable for their use of resources, and should have the freedom and authority to alter their input mix to reduce costs and raise levels of efficiency. This may involve changes in or reductions of staff complements, and the outsourcing of functions to non-governmental providers. Managers may then, as an incentive, have authority to allocate savings to enhance future programme impact.

³ cf section 2.5 below

⁴ Accountability to Parliament and the public is the prime rationale for results-focused management in the Canadian public services, cf Auditor-General of Canada (2002) and Rose (2002) Chapter 4

Figure 2: Performance Budgeting and Management

In practice, the functions of performance evaluation and planning required for taking strategic decisions are time consuming and resource-intensive, and they are usually fulfilled as staff operations separate from, but as a service to, line management.

2.4 Two stages of civil service and public expenditure management reform

The devolution to line managers of some responsibility for resource allocation, as well as expenditure management, in the pursuit of results, implies a significant change in civil service management culture. The adoption of results-based budgeting with active performance management implies a transition from centralised ‘autocratic’ and ‘bureaucratic’ styles – as defined in Figure 3, to a more decentralised, results focused, approach, with more scope for local initiative. In developed countries the transition has occurred in two stages; some developing countries seek to make the transition in one jump.⁵

Autocratic management of public funds is untrammelled by rules of public expenditure management and financial accountability. It is often associated with clientelistic governance. Budgets are the unaccountable personal financial fiefdoms of ministers, deployable on their personal authority, sometimes with limited regard for the objects of expenditure specified in voted estimates.

⁵ Kevin Brown (personal communication)

Reforms to enforce respect and accountability for the objects of expenditure specified in line-item budgets are characteristically 'bureaucratic'. These reforms aim to instil expenditure discipline and to repress misappropriation. Strict rules are applied to the uses of funds, and there are penalties for their misapplication and for over-commitment, as well as for misappropriation. Virement between economic categories (wages, other charges etc) and between programmes is restricted and subject to authorisation at the higher levels. Line managers execute their budgets, but have no authority within the rules to manage resources imaginatively. Expenditure authorisations, even for minor sums, require the endorsement of higher authority. Audits verify not only that funds are spent as provided for in voted estimates but also that procedures have been respected.

Results-based management, in its fullest expression, requires the jettisoning of the procedural rigidities and the centralisation of decision taking associated with traditional line-item budgeting, and the vesting of greatly enhanced powers of decision and discretion in the hands of (often junior) line managers. To prevent the abuse of these powers it requires effective accountability and stronger internal and external financial – as well as performance – audit. It requires managers to acquire business management skills, including consultation and communication skills and the ability to analyse and use of performance assessment information. Reforms needed to bring about these changes of attitude and procedure have been referred to as a 'second generation' of governance reforms.⁶ It is a characteristic of these reforms that they may occur and thrive in 'islands of excellence' in otherwise dysfunctional public administrations.

Figure 3: Management Styles

	Centralised	Decentralised
Formal	Bureaucratic: Actions limited by rules and procedures; formal accountability	Results-focused: Managerial flexibility; Delegated responsibility Accountability based on results
Informal	Autocratic Leaders: Decide agendas and methods; no formal accountability	Collective: Agendas set by individual initiatives; performance judged by peer review

2.5 Contracts and incentives

There are two distinct institutional approaches to results-oriented expenditure management.⁷

- a. *Internal-hierarchical* – where intended programme results are, first the subject of internal discussion and review about feasibility and resource requirements, and then, once they are fixed through the budgetary process, are disaggregated and cascaded down through programme managers to the front-line staff who implement them.
- b. *Contractual* – where service providers are at arms length from policy makers and are required to implement prescribed service-level requirements within the budgets that they negotiate with purchasing authorities.

⁶ Grindle (2002)

⁷ Petrie (2002) summarised in Rose (2002)

In the former model, service delivery duties coincide closely with civil servant programme managers' individual and group performance targets. Performance management involves aspects of staff management and motivation, as well as ability to allocate and direct resources used in service delivery.

With explicit contracts, service providers are autonomous public or private agencies, or personnel, which are contracted by governments to provide carefully defined and costed services whose quantity and quality are prescribed *ex ant* and independently verified *ex post*. Shortfalls may give rise to some form of sanction, including non-renewal of contract.

The contractual approach – which includes the devolution of responsibility for service delivery to executive agencies in the public sector or their outsourcing to private sector suppliers – is most suited to services of unchanging character where performance levels are visible, quantified or otherwise impartially ascertainable. It has undoubtedly helped to raise and to make more uniform the quality of public services provided by contracted agencies, and to improve their cost-effectiveness. On the other hand, contract management and enforcement may pose a significant challenge to the technical and governance capabilities of public service managers in developing countries.⁸

In other cases where the achievement of policy objectives is not wholly under government control and where services are harder to define in advance results-oriented budgeting takes the form of implicit contracts between the source of finance (treasury, sector ministers' central staff) and service providers (line ministries, managers of individual programmes, local authorities). Informal, implicit, relationships are often best where inputs and outputs are hard to cost and quantify, and where their characteristics may change with circumstances. Ministries are expected to be clear about their policy objectives and programme outputs, but the relationship with funding is looser, and managers are unlikely to be held rigorously to account for failure to achieve outcomes.

The value of this arrangement lies more in aligning the objectives of programme managers on institutions' goals and objectives and in increasing results-accountability than in improving cost-effectiveness. The problem with it – one common to all hierarchical organisations where products are produced by junior staff under the supervision of senior staff – is that of creating incentives for junior staff to be creative and improve their performance. There is an open debate about what sort of incentives – moral, material, reputational or promotional – suit which situations.

2.6 Principal – agent relations

Both the hierarchical and contractual approaches to performance management pose 'principal-agent' problems. Principal-agent problems arise when programmes or contracts are executed by service providers or agencies which do not share the same interests and agendas as their 'principals' – central or line ministries, programme managers etc. For instance, private sector external agencies contracted to fulfil parts of government programmes are likely to have as their main objective to make a profit and to develop their business. They will arrange to minimise the cost to them of fulfilling the government contract. They will not plan to over-perform unless there is a material incentive for them to do so. In hierarchical work relationships where there is no formal contract between manager and agent similar problems of motivation arise: without incentive the agent has no motive to make the changes in effort or working practice, or to acquire the skills, needed to implement the programme. Principals, on the other hand, seek to maximise the output that their agents produce with the budget they are given.

⁸ Campos E & Pradhan S (1996)

Relations between central and local governments are another case in point, particularly with the decentralisation to local governments of responsibility for the delivery of front line public services – education, health, water etc., that is now being implemented in many poor developing countries. Local government authorities have their own political agendas and priorities that do not wholly correspond with those of central governments which provide the bulk of their budgetary resources. How then are central government principals to fulfil their poverty reduction strategies if their local government agents are unwilling to carry them out?

The principal–agent problem of divergent interests and agendas is resolved by ‘contracts’ or other arrangements which align agents’ incentives with their principals’ purposes in the fulfilment of the task in hand. These arrangements are more effective if (i) the principal can determine the agent’s effort/activity, (ii) the principal can observe the agent’s output/achievement at reasonable cost, and (iii) both parties share the same good knowledge of the ‘state of the world’. If the agent has knowledge, and makes decisions on effort that are hidden from the principal there is asymmetric information. Unexpected variations in the ‘state of the world’ give rise to uncertainty. High levels of uncertainty and asymmetric information about activity and output, inputs, activity levels and outputs which are hard to define and observe, and high monitoring costs make formal, arms–length, contracts for service delivery unworkable.⁹ Under these circumstances informal management hierarchy relationships between principal and agent based on proximity and trust are likely to be more fruitful.

Whether principal-agent relations are formal (arms-length) or informal good practice in performance budgeting and management requires that:

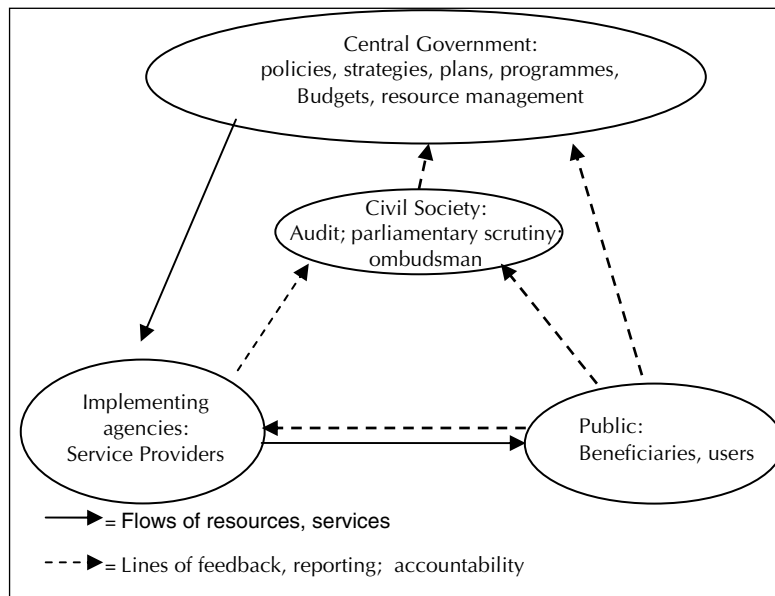
- the nature, quantity and quality of services to be provided by the agent should be made as explicit as possible by the principal,
- there should be incentives for good performance – inducements and sanctions (such as prospects of follow-on contracts or for promotion), and
- agents should be in no doubt that their performance will be monitored and evaluated.

2.7 Delivery of Services and Accountability for Results

In OECD countries results-oriented management of public expenditure techniques have been most widely applied to the delivery of services to the public where quantitative and qualitative objectives and targets are fairly easy to define and monitor and where, for electoral reasons, there are consumers to satisfy. This, as will be shown in Chapters 4, 5 and 6, is also the focus of results-oriented budgeting in developing countries.

With the principal-agent model in mind, political scientists have presented public service provision and accountability for results as a triangle with government, service providers and beneficiaries at the apex, and institutions of verification, control and complaint investigation in the middle, as illustrated in Figure 4.

⁹ Ibid

Figure 4: Public Service and Accountability¹⁰

The implication of this representation of the politics of public service provision is that the system is maintained in equilibrium and on track by political pressure from beneficiaries and user groups on legislators and governments, and on service providers, backed up by independent technical analysis by auditors and non-governmental advocacy organisations. This inference is given weight by experience in OECD countries.¹¹ In the absence of these forces, service production by the public sector and its agencies would tend to become self-regarding, self-serving and unaccountable in terms of this efficiency of its use of resources and for the quality and usefulness of the services provided.

A characteristic of developing countries, noted in the reform of education services in Latin America,¹² but also present in the seven case studies of countries that are the subject of this report,¹³ is that political accountability linkages and the audit services that support them are weak. The success of results-oriented public expenditure management in delivering better pro-poor services depends, therefore on the initiative of the government and of officials, and on their willingness to apply functional disciplines and incentives.

2.8 Essential ingredients of performance budgeting

McGill¹⁴ has advanced four criteria that performance budgeting systems should meet. There at least should be:

- § a framework of strategy, priorities and objectives covering public expenditure programmes,
- § performance criteria for efficiency, effectiveness and impact which are regularly monitored,
- § annual reports of outputs and outcomes informing budget decisions,
- § programme budgeting, with allocations based on performance and desired results.

¹⁰ Elaborated from the diagram in World Bank (2002), Chapter 2

¹¹ cf. Chapter 4

¹² Grindle (2002)

¹³ cf. Chapter 7

¹⁴ McGill (2001)

These criteria omit performance management – the use of feedback from monitoring and evaluation to use budgeted resources more efficiently. As will be shown in Chapters 5 and 6, poor developing countries are able to introduce, operate and gain some benefit from systems satisfying most of these conditions, and some are using them to improve the quality of public expenditure.

Later chapters will also throw light on the current practice of programme budgeting in case study countries where it is being implemented, on its feasibility and on the need for it.

2.9 Criticism of performance budgeting and management

Critics of results-oriented management¹⁵ make three main points:

- a. objective indicators of performance which become used as targets become subject to statistical manipulation, or cause behavioural change, and so lose their force as objective indicators (Goodhart's Law);
- b. targets are either few in number – in which case they tend to distort incentives and resource allocation by privileging programmes or service characteristics for which targets are set; or they are numerous, covering all facets of service delivery – in which case they become unmanageable, and box-ticking and indicator manipulation replace concern for quality service delivery;
- c. as public services are complex, adaptive and evolving organisms which are responsive to many and changing demands, their tasks cannot be boiled down to achieving an (even lengthy) array of targets, and their required character will be undermined by attempts to do so.¹⁶

The first criticism is valid, but can be guarded against, e.g. by triangulation, monitoring and performance audit. If public services in developing countries are ill-directed and unfocused on poverty reduction it may even be desirable that the setting and close monitoring or a limited set of targets distorts existing patterns of expenditure in the direction of pro-poor programmes. If services are already appropriately focused the distorting effect of using of indicators as targets can be offset by using surveys of beneficiary usage and satisfaction to provide complementary evidence on performance.

The second criticism has force, especially when targets are set unimaginatively and mechanically. Even then, management with objectives and targets is likely to be preferable to management without. When results-oriented management is introduced sensitively, and the functionality of targets is kept under periodic review, perverse incentives can be identified and removed.

The final criticism is a counsel of unnecessary despair. If policies, or circumstances, change the objectives and targets of the institutions which implement policy must also change. Targets as means of guiding and motivating action are still needed, but they will now be different from before, following a process of change management. Needless to say, given the costs of institutional change and the time it takes, policy or circumstantial changes which are too frequent tend to undermine institutional morale, motivation and effectiveness.

¹⁵ cf Maxwell (2003)

¹⁶ Chapman (2002)

Other commentators, while accepting that budgeting for, and the measurement and management of, performance is essential in an accountable public sector, note some real and abiding difficulties in introducing common prescriptions and techniques.¹⁷

- the benefits of better performance are diffused among programme beneficiaries and politicians in the governing party and the legislature, and they are difficult to quantify and attribute; the sometimes considerable costs in terms of record keeping and reporting are rapidly apparent to increasingly resentful administrators and service providers;
- the techniques are more readily applicable to the usually quantifiable activities of front – line service providers than to headquarters organisations concerned with often unquantifiable policy and resource allocation issues, aggravating potential resentment of service providers;
- most individual and group incentive systems have consequences that are potentially perverse in terms of the objectives of policy; (costs centres that reduce costs often are rewarded with a share of the savings, but should not be if the objective is to re-allocate funds to more deserving programmes);
- performance measurement may be dysfunctional, especially where managers insist on over-ambitious performance reports from unmotivated staff; the management of contracts for outsourced service may impose a heavy burden of compliance monitoring.

These themes of skill, motivation, application and applicability recur frequently in the country case studies.

¹⁷ Bouckaert and Peters (2002)

Chapter 3 Results-Oriented Budgeting and Performance Management in Poor Countries: Research Hypotheses

3.1 Previous assessments

A number of authors – political scientists and development economists – have questioned the applicability and usefulness of results-focused expenditure management in developing countries. They argue that low standards of financial accountability and programme management in line ministries and agencies, poor performance data, the weaknesses of parliaments and civil society organisations in holding governments to account for service delivery and patrimonial politics conspire to negate its potential advantages. Until these problems are substantively tackled performance budgeting and management should not be attempted.

Allen Schick argues that ‘informality’ and unpredictability in the behaviour of public administration militates against the adoption of New Zealand style ‘government by contract’ in which even the operations of central policy ministries and the headquarters functions of line ministries are subject to formal contractual specification of performance levels (outputs).¹⁸ He points to low rates of pay in the civil service in developing countries, absenteeism and moonlighting, corruption and the evasion of rules of conduct, leading to low commitment to official responsibilities. The operation of civil service must first become formal and respective of rules of conduct and financial management¹⁹ ‘as a precondition for adopting elements of the New Zealand model’.

Schick also identifies other preconditions, viz.

- willingness and ability in spending ministries and agencies to execute budgets as voted and to control expenditure,
- sound financial accountability, the respect of financial management procedures and internal financial controls, and
- the operation of ‘integrated and centralised [government] departments’.

The rationale for the latter requirement is that it is necessary to learn management disciplines in centralised civil service systems before setting up accountable autonomous agencies.

Bale and Dale²⁰ also stress the desirability of

‘a tradition of politically neutral, relatively competent, civil service, little concern about corruption or nepotism, a consistent and well enforced legal code including contract law, a well functioning political market ...’

before accountability for results can become practically effective.

Helleiner²¹ argues on similar lines that performance measurement approaches are irrelevant for low income countries, and that continuing effort to measure policy change and performance has been driven mostly by the needs of the donor community. Elliot Berg²² endorses the view that the priority at present is to promote institutional change and governance reform, and not to insist on results-focused approaches.

¹⁸ A Schick (1998)

¹⁹ cf Figure 3

²⁰ Bale M and Dale T (1998)

²¹ Helleiner (2000), World Bank (2003 forthcoming)

²² Berg (1999)

Writing of the social service ministries in countries with PRSPs Grindle²³ stresses their administrative and technical weaknesses which, by implication, are barriers to effective management for results:

‘these ministries tend to be politically and administratively weak. [They] also tend to suffer from severe capacity limitations – they are often inefficient, they may be colonised by unions of service providers, they are frequently bereft of information or the means to acquire information, their procedures are arcane complicated and centralised. [They experience] very real problems ... in delivering services to poor and often remote locations – the fragility of their administrative and monitoring systems, the lack of staff capacity, the lack of resources and the other weaknesses commonly suffered by services providing ministries’.

A case-study based programme of research in ODI on the introduction of effective poverty focus into public expenditure plans²⁴ in a sample of five African countries identified a number of shortcomings in current budgetary and public expenditure management practice, requiring ‘fundamental reforms’ to make results-orientation effective. The main problems found in, at least in some countries, were that:

- budgeting practice at the centre is too haphazard and often behind timetable, and, with cash budgeting still practised for macroeconomic reasons, resource flows are late and uncertain,
- these uncertainties are aggravated by (i) the non-consolidation of aid receipts into budgets, (ii) unrealistic revenue estimates, (iii) poor cash forecasting, and (iv) deficient commitment controls and the accumulation of arrears,
- financial discipline remains too lax, with too many unsanctioned opportunities for the misuse of funds and too much corruption, leading to persistent divergence between funds voted and funds actually spent by ministries and within programmes,
- longer term poverty reduction strategies and medium term resource planning are not yet integrated into the preparation of the annual budget, leading to inconsistency and incoherence,
- physical targets set in planning documents are unrealistically high, given resources and implementation capacities,
- targets have proliferated in confused fashion, through a succession of superimposed strategy planning exercises – culminating in the PRSP – and have not been rationalised,
- performance management – monitoring, evaluation and programme review – capacity is low, with limited consultation of and input from civil society,
- staff commitment at the working level – in administrations and service delivery units – is low as a result of imperfectly implemented administrative reforms, inadequate budgets, low pay and unclear objectives,
- budget managers lack the flexibility and command over resources to deliver improved results,
- the culture of performance assessment is still nascent, and the desire at working level to internalise and make use of available qualitative and quantitative evidence of performance remains fragile.

In spite of these negative assessments of the opportunity and effectiveness of results-focus in development policy and strategy in poor developing countries results-orientation was included among the four ‘principles’ of the Comprehensive Development Framework (CDF) approach to development support propounded by the World Bank in 1999. In its forthcoming evaluation of the CDF²⁵ that Bank finds that implementation of the results principle has been weaker than that of the

²³ Grindle (2002)

²⁴ Foster et al. (2002)

²⁵ World Bank (2003 forthcoming) Chapter 3

other three principles (country ownership and initiative, a holistic approach to development and long term perspective), but that there has been progress. The progress has been both on the donor side – most donors now agree on the results focus – and among the developing countries reviewed in the evaluation.²⁶

3.2 ODI–CAPE Research programme

The present programme of research was launched against this generally discouraging background of advice on the feasibility and value of results-orientation in public expenditure management in poor countries. Its purpose was to establish, in a sample of mostly low-income countries, with varying institutional backgrounds and in varying stages of institutional reform, whether elements of performance budgeting and performance management exist, and if so what elements, where and to what effect. The research also set out to explore the current constraints and limitations on performance management and budgeting and actions in train to overcome them.

The explicit hypotheses explored in the seven country case studies were that:

- a. Countries already have at least embryonic performance management systems; they have articulated in their PRSPs objectives, targets and strategies for ‘pro-poor’ expenditure programmes, and have incorporated these into medium term expenditure frameworks (MTEFs), which in turn exert some influence over annual budgetary allocations.
- b. Implementation is impaired where there are cash budgeting and extra-budgetary expenditures, and in the absence of programme budgeting.
- c. Implementation remains frustrated because targets are uncostered and unrealistic, and/or because they are not appropriately cascaded to the operational level, and because programme managers lack the authority to redeploy their resources to raise efficiency and effectiveness.
- d. Incentive and motivation to perform remain impaired by inadequate, late and inaccurate performance reporting and weak programme evaluation and review, and weak arrangements for internal and external audit and public scrutiny by parliament and civil society.
- e. The extent and effectiveness of performance contracts, decentralisation and outsourcing is impaired by inexperience of contract management and the ineffectiveness of legal and administrative sanctions.
- f. Sectors where donors have encouraged reforms which they have supported with SWAps have made more progress in performance budgeting and management than other sectors.

These hypotheses did not all withstand the test of empirical investigation. The relationship between results-orientation and budgeting in service delivery, in particular, is found to be looser than originally supposed. Chapters 5 and 6 summarise the findings of the country case studies and the lessons to be drawn from them.

²⁶ Bolivia, Burkina Faso, Côte d’Ivoire, Ghana, Pakistan, Romania, Uganda, Vietnam

Chapter 4 International Experience with Performance Budgeting

4.1 OECD countries²⁷

Results-oriented public expenditure management is now very widely practised in OECD countries. Its current extent is quite recent, with a major expansion of the use of the techniques only occurring in the 1990s.

Results-oriented budgeting has long antecedents, dating back to financial management practices (programme, planning, budgeting systems – PPBS) pioneered at the national level in the US during the Second World War.²⁸ Since then US administrations have conducted successive experiments in budget reform designed to bring together under a common budget head expenditures by diverse agencies on priority programmes and to define roles (programme budgeting, PPBS), to combat incrementalism (zero-based budgeting), and to focus on efficiency, effectiveness and service quality (results-based budgeting and management). With their varying emphases and implementation techniques these initiatives all sought better to relate expenditure to policy objectives and to results achieved.

For some decades PPBS was treated with some scepticism in the US and was little followed in other OECD countries. It seemed to be a very bureaucratic book-keeping exercise which produced limited tangible benefits. The fault lay in excessive centralisation, top-down implementation of unpiloted systems and the uncritical importation into government of private sector budgeting practice based on the compilation of quantified minutiae. The system's 'managerial' premise (responsibility for firm budgets devolved to local managers with little interference from above) was not translated into the organisational practice of politicised public institutions with uncertain budgets.

However, practices derived from PPBS have now taken root in most OECD countries with parliamentary democracies where they serve the purpose of enhancing the transparency and accountability of public services as well as promoting their efficiency and effectiveness. Australia and New Zealand have, with particular comprehensiveness and thoroughness, adopted two rather different approaches, Australia's being more hierarchical, based on achieving policy outcomes, and New Zealand's being systematically contractual, focusing on output targets.

The systems in place are still evolving in the light of experience, and they differ widely in emphasis. Some focus on the budgetary process (programme budgeting in France), others on devolving service delivery to executive agencies (UK, Nordic countries); some reforms are incremental (France, Netherlands), others comprehensive, covering all arms of government (New Zealand, Canada, and now UK); some keep firm central control over the results framework (UK), others give executive agencies leeway to define their own results (Finland, Netherlands); New Zealand uses firm and explicit performance contracts at all levels (including for the chief executives of ministries), but in other countries agency heads' performance contracts are less formal.²⁹

Rose's review of the literature on results-oriented budget practice in OECD countries identifies issues arising in these countries which are also relevant to the introduction of these practices into developing countries. The principal ones are:

²⁷ based on Rose (2003)

²⁸ cf Rose (2003) Chapter 2

²⁹ OECD (1997) Chapter 1

- *Role of the state.* An important issue to resolve at the outset is the intended role of the state – whether as provider, purchaser or regulator of public services. Performance budgeting and management will fail if prior policy and structural questions are not resolved.
- *Public service ethos.* If public services are ‘autocratic’, or ‘bureaucratic’ (as defined in Figure 2.3), or worse still corrupt and predatory, they will require reform before or alongside the introduction of performance budgeting. However, this need not take place all at once. OECD countries have tackled dysfunctional public services by piecemeal restructuring and reform.
- *Outcomes or outputs?* OECD countries (except New Zealand) take policy and programme outcomes as their focus, because exclusive concern with agency-defined outputs may lead to outcome – irrelevant allocation decisions. However, programme managers control outputs, but generally not outcomes. So they can only be help accountable for the former. The rigour of output accountability and penalties for non-performance are variable, though under-performing agency chief executives are likely to lose their jobs. Sound results frameworks should comprise both intended outcomes and proximate outputs, with clear explanations of how the latter will lead to the former.
- *Role of the central budget office.* Budget offices at the centre have had to be strengthened to enable them to evaluate past performance of and to guide spending ministries in the preparation of their performance plans for the future, and to base their allocation decisions on strategy and performance.
- *Ex ante accountability.* Budgets should be set to permit the realisation of intended programme outputs. This means that programmes should be accurately costed. However, if the objective is to achieve efficiency gains target costs should be lower than historic unit costs. Full performance budgeting may therefore only be possible where there has been detailed performance analysis. Otherwise targets implying efficiency gains can only be advanced on a ‘best endeavours’ basis, and any other targets will mask inefficiencies.
- *Measuring the performance of headquarters organisations.* Headquarters organisations which advise on policy, allocate resources, monitor outcomes and regulate activities, but do not themselves deliver services do not fit readily into quantitative results frameworks focused on outputs. Their performance can often only be assessed on the basis of the priority focus of their inputs and the quality of their activities; their success in achieving policy goals is contingent on uncontrolled factors. Headquarters organisations are thus not a suitable starting point for introducing performance budgeting, and should be brought into the frame at a later stage when the system is mature.
- *Roles of the legislature and of national audit.* The initiative to introduce performance budgeting usually comes from government, particularly from governments committed to controlling public expenditure and/or improving public services. Performance budgeting stands the best chance of becoming institutionalised if the legislature demands it, and finds it a valuable means of holding the government to account for its policies and for the effectiveness and impact of its programmes. The legislature’s ability to interpret performance budgets and reports depends on the interpretative and investigatory support that it receives from the office of the auditor-general.
- *Programme budgeting.* Most OECD countries have adopted ‘programme’ or ‘output’ presentations of their budgets, either in replacement of or in addition to the traditional input or line-item presentation. In so doing they both rationalise their budget allocations in line with political priorities and make their decisions more transparent to parliament and civil society.
- *Accrual budgeting.* Countries that have used performance budgeting to achieve efficiency gains have introduced accrual (or ‘resource’) budgeting so as better to measure the full cost-capital as well as recurrent – of producing public services. This calls for cost-accounting skills not previously in demand in public service management.
- *Central-local government relations.* Countries such as the UK which, under central government direction, devolve the delivery of many public services to local governments and authorities, but which wish to see the quality of services improved, have imposed detailed frameworks of

objectives and targets on these lower tiers of government. In other OECD countries such as the Netherlands the initiative for introducing results-accountability has been bottom-up.

4.2 Developing countries

Simultaneously with the spread of performance budgeting practices in OECD countries various middle income developing countries, have, in the face of academic scepticism, successfully adopted and institutionalised similar approaches. They were encouraged in this direction in the 1960s by the UN, at a time when PPBS was fashionable, and before disillusionment with it set in. The UN issued a *Manual for Programme and Performance Budgeting* in 1965.³⁰ Successful adoption, however, occurred later, in the 1980s and 1990s.

Chile has taken a lead in Latin America introducing results-oriented budgeting in incremental fashion, starting on a pilot basis after the restoration of democracy in 1990, but with rapid extension after elections in 1994 brought in a government committed to improving public services.³¹ A system of performance indicators was developed which government agencies were invited voluntarily to use.

By 1998 some 70 out of a total of 100 agencies had developed their own performance indicators. Legislation now makes it mandatory for all central government agencies to produce annual performance reports – showing the state of programme implementation and the fulfilment of performance agreements on efficiency and service quality – that are laid before Congress. The Budget Directorate supervised the extension of performance reporting, providing technical guidance and quality control.

On the budgetary side a system of voluntary performance reporting has evolved into one of formalised performance agreements which are discussed and agreed in the context of agencies' budget bids. At the same time a system of independent performance evaluation by outside expert panels has been introduced to review and assess expenditure programmes.

Chile has introduced, and is still extending, these emergent performance budgeting and management arrangements. It is doing so without abandoning line item budgeting and at a time when it acknowledges that it still has public financial management deficiencies – in respect of medium term budgeting, accounting and management information – and administrative rigidities, e.g. in respect of staff complements and remuneration.³² It nevertheless claims to have achieved early efficiency and service quality gains.

Singapore and Malaysia have been pioneers among Asian developing countries in introducing performance budgeting, introducing programme performance measures alongside traditionally presented line-item budgets and focusing public expenditure on service delivery priorities and client satisfaction.

Singapore has constructed its present sophisticated performance budgeting system piece-by-piece over the last 30 years.³³ Programme and performance budgeting was first introduced in replacement of line-item budgeting in the 1970s. This was complemented in 1989 by the delegation of authority to ministries to manage their budgets without referring expenditure decisions to the Ministry of Finance, and in 1991 by the introduction of a computer-based management accounting and

³⁰ Rose (2002), Premchand (1993)

³¹ Marcel (1998)

³² Marcel (1999)

³³ Seth Jones (1998)

information system permitting accrual accounting and effective cost centre management. These changes set the scene for the launch in 1991 of Budgeting for Results.

The features of Budgeting for Results include:

- the use for all programmes of performance indicators and targets – covering inputs, costs and activity levels, outputs and outcomes;
- the conversion of programme cost centres into autonomous agencies – subject to output-based budgeting, and with full flexibility in resource deployment;
- performance incentives in the form of the right of agencies to retain half of their unbudgeted efficiency gains;
- ‘zero-based’ value-for-money audits of expenditure programmes by the Auditor-General’s Office.

In contrast to executive agency practice in the UK and New Zealand, however, Singapore’s autonomous agencies have no formal performance contracts, and the purchaser-provider dichotomy is less clear-cut.

Malaysia’s budget reforms have been compared with those of Australia.³⁴ Both introduced reforms in the mid- late-1980s with a view to making public services more cost-effective. Malaysia’s Modified Budgetary System built on the same base of programme and performance budgeting used in Singapore, and introduced: greater fiscal certainty for planning purposes, devolution of financial responsibility, programme agreements with results-orientation and cycles of programme performance reviews. The Malaysian budget process is in two parts: first an examination of performance achievable with a ‘base’ budget with unchanged policies, then the performance and expenditure effects of new policies.

South Africa, like Chile, has introduced results-oriented budgeting incrementally.³⁵ It took a major step forward in 1999 with its Public Finance Management Act which required spending ministries and agencies to submit to parliament statements of their objectives, output measures and targets. Expenditure estimates have to be presented in programme format, as well as in traditional line-item form. Outputs and targets are defined for each programme and sub-programme. As yet, however, the allocation of funds to achieve intended output budgets, and the agency responsible, are not specified.

4.3 Implications of experience

The implications of experience with performance budgeting and management in OECD and middle income developing countries are that there is no blueprint nor obligatory sequence for introducing these processes, and that is possible, and often desirable, to introduce them progressively and pragmatically. The ways in which they are introduced depend on what pressures there are for change and what priorities have been identified for management reform, accountability and service quality improvement. The nature and extent of the results-oriented practices adopted depend on administrative capabilities and resources, inside and outside government and on the complex of incentives – internal, external, political, personal material etc – that can be created locally to define and sustain the quest for better public services. The more thoroughgoing the systems adopted, and the more attention paid to performance management, the more profound the change in culture and service quality improvement is likely to be. However, the evidence from middle income developing

³⁴ Xavier (1998)

³⁵ Andrews (2002)

countries is that performance budgeting alone, particularly if introduced voluntarily or with the active participation of agencies in its development, can alter the ethos of public service management and improve performance.

Chapter 5 Results-oriented Budgeting in Case Study Countries

Though all seven case study countries have results-focused PRSPs their experiences of and success with performance budgeting and management are very different from one another. At the risk of some over-simplification they can be divided into four groups:

- Tanzania and Uganda, which have made sustained and successful, multi-sectoral, endeavours to implement a results focus into both budgeting and performance management at both central and local levels,
- Bolivia and Ghana, where extensive and repeated efforts to introduce a results focus have been at least partially frustrated by implementation failures and political factors,
- Burkina Faso and Mali, which have begun systematically to introduce programme budgeting and to deconcentrate and decentralise hitherto highly centralised administrative structures , but where progress is limited by shortages of experienced staff and information, and
- Cambodia, where initiatives for performance improvement are very recent and take place against a background of impending public financial management reform and some imprecision about existing administrative and financial powers and responsibilities.

None of these countries has created a fully comprehensive performance budgeting and management system, but all have introduced and are developing elements which are actually or potentially producing benefits of a kind which will indubitably contribute to the improved implementation of their respective poverty reduction strategies. Their experiences disprove the thesis that a results-orientation has no part to play in the management of public expenditure in poor countries.

This chapter summarises what the country case study working papers have to say, country-by-country, about the financial, economic and administrative context of results focus practice, the performance budgeting and management reforms that have been introduced and the present practical limits of these reforms. Chapter 6 considers the collective experience of these countries and draws thematic conclusions about the how these countries have introduced results-orientation and its drivers, the areas where, and purposes for which, these practices can be fruitfully applied, given institutional and governance shortcomings, and the practical limits to what is at present achievable.

5.1 Group I

*Tanzania*³⁶

Having achieved approximate macroeconomic stabilisation Tanzania embarked on a multi-faceted set of budget and public administration reforms in the late 1990s. These included the introduction in 1998 of performance budgeting, a public finance management reform, the decentralisation of responsibility of delivering basic services to local government, the launch of a performance management system for the public services and a PRSP. At about the same time Tanzania devolved to accountable executive agencies responsibility for delivering a range of public services, including road maintenance, civil aviation, statistics, and business registration.³⁷

In Tanzania there is strong political and administrative support for the strategy of poverty reduction and for the performance budgeting and management processes that support it. The governing party,

³⁶ Rønsholt et.al. (2003)

³⁷ Caulfield (2002)

as well as the government itself, keeps close watch on developments. Strong coordination of the poverty monitoring and of programme performance assessment is provided by a well staffed inter-ministerial technical committee.

On the *budgetary* side Tanzania still operates a cash budgeting system, but protects priority poverty-reduction programme expenditures from in-year expenditure cuts. It thus operates a quasi-programme budget. Most aid inflows, however, other than budget support remain unconsolidated. Annual budgets are derived from annually updated medium term expenditure frameworks. Ministries' budget bids must be accompanied by annual reports on past performance, statements of medium term programme objectives and targets for the future, and annual action plans. The latter concentrate on input and activity levels. Performance budgeting, in this sense of routine accountability and planning for performance as well as for expenditure, has become part of the culture.

There remain, however, inconsistencies between announced expenditure *strategy* (*PRSP*) and budgets. Allocations in budgets to poverty priority sectors are lower than corresponding allocations shown in the PRSP. Targets for performance in the MTEF may be different from the corresponding ones in the PRSP. This arises because the government regards the PRS as an evolving process not specifically linked to the annual budget cycle, and because the Vice President's office plays the central role in the preparation of the PRSP while the Ministry of Finance is responsible for the budget. Sometimes MTEF targets cover different aggregates from the PRSP, making performance monitoring difficult.

The local government reform gives local councils powers of operational decision over the provision of public services, but they remain dependent on central government for the bulk of their finances. In return for the revenue grants that it makes to them the central government expects local councils to draft annual statements of their objectives, strategies and targets, showing the performance indicators on which they will report. This system has begun to work, even though sector ministries have not satisfactorily disaggregated national targets to the local level. Local governments make reports on their service delivery achievements, but capacity strains are apparent in the districts where it is applied and the reports may be of questionable accuracy. The reform of local government also required local authorities to conduct surveys of satisfaction with service delivery. These take place, and in some districts their results have influenced strategic plans.

Tanzania has been evolving its set of poverty indicators since it drafted its National Poverty Eradication Strategy – a precursor to the PRSP – in the mid 1990s. Successive poverty monitoring policy documents have identified core indicators for regular monitoring and reporting – including by local governments. The PRSP identifies 52 such targets. Performance targets, disaggregated by district, have now been set for most of these.

Performance against these targets is measured through routine performance data collection supervised by line ministries, but little analysis is done on it, and no use is made of performance evaluations in adjusting budget financial allocations and physical targets. The executive agencies have also neglected their contractual obligation to report regularly on performance. The situation is likely to improve:

- Of the four Technical Working Groups under the Poverty Monitoring Steering Committee set up to coordinate the PRS process the group on research and analysis is the strongest. It has already produces a first annual Poverty and Human Development Report analysing household budget survey and other data to establish causal linkages in patterns of poverty. It has the expertise needed to interpret performance reports at the sector level. The working group on routine data systems is, however, not yet operational.

- The Auditor-General now has legislative authority to conduct value-for-money audits of expenditure programmes and the Ministry of Finance has established a government-wide internal audit. These services still lack capacity, but will in time exert additional pressure for timely and accurate performance reporting and for efficiency and effectiveness in public service delivery.

The reform that has yielded least benefit for performance budgeting and management is the public administration reform planned and implemented by the Civil Service Department. This introduced a performance management system into the main central policy and sectoral ministries, which provided for regular appraisals of the performance of individual civil servants and surveys of customers' satisfaction with public services. To date relatively few public servants are covered by staff appraisals, and service delivery surveys have only been conducted on a pilot basis in central ministries.

The results-oriented reforms carried out in Tanzania have not yet been implemented in full. The decentralisation has left a legacy of some imprecision between the centre and districts about duties and responsibilities, personal incentives to perform have not been reinforced as planned, and monitoring, evaluation and performance management still have many technical weaknesses. There are still deficiencies in budget management giving rise to in-year cuts for non priority expenditures and late releases. Nevertheless, the sense of purpose and responsibility for delivery in central and local government has been reinforced, and will become stronger still as reforms are further implemented.

*Uganda*³⁸

In the late 1990s, having achieved broad and sustained macroeconomic stability, the Ugandan government successfully launched an array of mutually supporting strategic, budgetary and administrative reforms designed to refocus public expenditure on poverty reduction and to improve access to and performance in public services.

On the strategic front, the government published in 1997 its Poverty Eradication Action Plan (PEAP) – subsequently updated in 2000 and 2003. The PEAP – a PRSP *avant la lettre* – specified poverty reduction outcome targets, and defined (and costed) priority action programmes, notably in roads, education and health, where there were targets for public service activities and outputs.

On the *budgetary front* 'output-oriented budgeting' (OOB) was launched in 1998, and has been subsequently adjusted and reinforced. The key ingredients of OOB were (i) a medium term framework for public expenditure planning which was consistent with macroeconomic policy constraints and objectives, (ii) a Poverty Action Fund – a budget within the budget giving high priority (against a background of the continued use of cash budgeting) to designated pro-poor programmes, (iii) budget framework papers prepared by sector working groups (coordinated by line ministries) in the context of each annual budget exercise which annually review past performance and define short- and medium-term sectoral achievement targets.

These reforms do not comprise programme budgeting, however results are loosely linked to sector allocations within line item budgeting. Budgets are still presented and voted in terms of inputs. They are still not completely comprehensive – though previously unbudgeted aid receipts are now increasingly captured in budget documents. Nevertheless, sectors involved in implementing expenditure programmes have clear and carefully considered statements of the service delivery results which they will seek to achieve, directly or through devolved agencies.

³⁸ Williamson (2003)

There have also been recent improvements in standards of and rules governing *public expenditure management*. Commitment management has been tightened, so reducing outstanding arrears, and regular expenditure tracking audits are helping to reduce misreporting and other reasons for the variance between expenditure estimates and actuals. In recognition of better financial management practice spending ministries and agencies are allowed to vire between expenditure items within programmes. This facilitates the flexibility and decentralisation of resource management required in results-oriented systems. However, line ministries and service providers in central government still have little or no flexibility on staff complementing and deployment on which the Ministry of Public Services has sole power of decision.

Uganda's approach to *poverty reduction strategy planning* has been commendably coherent and purposeful. There is consistency between sector development strategies (in health, education, roads) devised in the context of donor-supported sector-wide development programmes, sector strategies and objectives propounded in successive PEAPs and ministries' objectives and targets as given in medium term and annual budget documents. The Ministry of Finance, Planning and Economic Development exercises paramount authority over these processes.

Performance management is facilitated by good vertical communication within ministerial hierarchies and between sector ministries and local government authorities about objectives and targets. Targets are sub-divided between districts and implementing agencies and duly cascaded down to them. Central pressure on devolved institutions to perform have recently been strengthened by means of 'conditional grants' provided to local authorities in return for service delivery commitments. Uganda has also instituted lines of performance reporting from front-line service providers – including local authorities – that enable the budget, planning and evaluation departments of sector ministries to receive timely information on results achieved.

Intra-agency performance reporting is complemented by external assessments through periodic surveys – of public service usage (Demographic and Health and household budget surveys), satisfaction (beneficiary assessment surveys) and needs (participatory poverty assessments, core welfare indicator surveys). The poverty monitoring unit in the MFPED ensures that these surveys occur fairly regularly, and that the information is analysed.

At present, Uganda is experiencing problems with information management, with too many reports required containing information of uncertain quality. Nevertheless, there are signs not only of performance reports being used to assess performance but also of the use of performance assessments to take resource allocation and planning decisions. Additional grants are used to encourage and reward good performance, and, on occasion, additional resources have been made available to assist in cases where public services have deteriorated due to exogenous shocks.

Individual incentives for public employees to perform have been strengthened through the system of results-oriented management introduced by the Ministry of Public Services in 1997 – piloted initially in 7 ministries and 5 districts. This system, soon to be complemented by an open system of staff appraisal, should encourage individual officials to pursue institutional objectives by appraising the former on the basis of their contribution to the latter. However, early results have been disappointing for lack of commitment by senior officials in the pilot agencies.

A notable feature of results-oriented expenditure in Uganda is that it provides the sinews of the administrative decentralisation which was implemented simultaneously, in the later 1990s, with the other budget, planning and administrative reforms. District governments now bear responsibility for delivering most basic services, but some 90% of their resources comes in the form of grants from the centre. Seventy-five percent of these grants are now 'conditional'. Districts prepare annually (with assistance from the Ministries of Finance and Economic Development, and of Local

Government) 3-year rolling investment plans and results-focused budget framework papers. The targets set combine those required by central government ministries (to help deliver their national poverty reduction objectives) with those desired locally. The system functions reasonably coherently and without endemic friction and conflict. Front line service providers under district administrations are aware of the service delivery results expected from them and of their reporting obligations.

The success of performance management in Uganda is due largely to senior officials. The strength of performance budgeting and management derives ultimately from political commitment at senior levels in the government and administration, and from the orderly way in which its diverse elements have been introduced. Roles and responsibilities are by-and-large well understood by the main actors at the political and service delivery levels. In common with many other countries, Uganda's arrangements for external performance audit and parliamentary review are still weak and ineffectual, although parliament is becoming increasingly interested and proactive. In civil society, however, the Uganda Debt Network and other NGOs have acquired interest and expertise in monitoring progress in PAF-supported programmes. This will be a valuable source of pressure on officials and ministers if ever service delivery standards are allowed to slip for lack of internal rigour and commitment.

It is not easy to attribute successes to recently introduced budget and management systems which are still evolving and bedding down. However, there are three recent policy successes to which these systems have undoubtedly contributed:

- Decentralisation would probably not have proceeded so smoothly in Uganda in the absence of a results framework linking the districts and central government.
- Central government's decisive shift of budgetary resources towards PAF-supported programmes may not have continued in the absence of the performance reporting and review elements of Uganda's output-oriented budget system.
- The abolition of primary school fees in 1998 which gave rise to a 50% increase in enrolments was characterised initially by planning failures – shortages of premises, staff and teaching materials – leading to deterioration in the learning environment. The failures were pin-pointed and corrective action promptly taken thanks in part to performance reporting and management systems.

5.2 Group II

*Bolivia*³⁹

Bolivia has the longest experience of seeking to implement results-oriented public expenditure management on a nation-wide basis of all countries in the sample. A key decision point was the adoption in 1990 of the ambitious law on financial management and control (SAFCO). The country study concludes that implementation, though impressive in some areas, has on the whole been unsuccessful because of a lack of political will and the persistence of politicisation and patronage systems in civil service appointments and management. These problems have been compounded by the lack of overall oversight, control and enforcement of performance budgeting and management reforms, and thus by the reluctance of ministries and agencies to accept the requisite disciplines. A series of subsequent reform initiatives, including a major, donor-supported Institutional Reform project of 1999, have also yielded disappointing results because they have projected technocratic solutions onto a screen of unreceptive political economy.

³⁹ Montes (2003)

The reforms provided for decentralised decision taking on service delivery, subject to rules about financial accountability and results reporting and planning. They applied to central ministries and agencies, different tiers of local government, and personnel. Each of these is supposed to prepare annual operating plans – specifying objectives and targets – in support of their budget bids or performance contracts. The annual budget is ostensibly approved on programme lines. However, in reality, the authority of the Ministry of Finance is weak, ministries' performance plans are poorly prepared and not taken seriously, releases of funds by the Ministry of Finance are by line item, not programme, and releases are prone to arbitrary delay and reduction for political and macroeconomic management reasons. Ministries vire funds between line item and programme in contravention of (on paper) rigid rules.

The Institutional Reform project sought to induce performance improvement (measured efficiency, effectiveness and transparency) through 'contracts' concluded voluntarily with participating agencies – including ministries and agencies responsible for Agriculture, Housing, Roads, Revenue and Customs. It set up an evaluation and monitoring unit within the Ministry of the Presidency. Among the inducements offered to agencies to participate were salary supplements. The result was further to devalue the role of the Ministry of Finance, to undermine professional ethos in the civil service and to fragment responsibility for performance budgeting and management reforms.

The central M&E office collects poor data from line agencies which see little advantage in going out of their way to assist it, does not publish its reports, and makes no contribution to performance management. The national Audit Office, though in principle required to conduct performance audits, brings little pressure for attention to results as there is no demand for this in Congress to which it reports.

There are, nevertheless, some areas of real – if precarious – success in implementing a results-orientation in public expenditure programmes in Bolivia. The country case study draws attention to the progress made in the education and health sectors, and in the customs agency. Health sector reform, in particular, has contributed to impressive improvements in service delivery. This progress is due in good part to donor assistance focused on these sectors. Health and education have, for some years, had strategy plans and targets which have been refined and, especially in health, the subject of consultation with local service providers and regional management. Performance indicator sets have been agreed with donors, data is collected from operating units, and aggregate results are used in joint monitoring. The sector authorities make use of performance information, e.g. using league table comparisons, for the purpose of evaluation and problem diagnosis. The quality of internally produced data is imperfect – in education reporting systems produce contradictory evidence – but there are initiatives to subject it independent audit and to make increasing use of survey data from demographic and health surveys and (published) beneficiary satisfaction surveys.

In this fragmented and poorly directed scene the PRS process has been a source of pressure for performance monitoring and management, at least in 'pro-poor' programmes. The case study observes that Bolivia's PRSP largely draws on pre-existing sector strategies and programmes, but it has had the merit of raising the profile and credibility of performance targets given in operating plans for sectors such as roads, rural development, the environment and microfinance, as well as for health and education.

An important feature of Bolivian experience is the institutionalisation of participation and monitoring by civil society. Laws on 'popular participation' and 'dialogue' have been enacted which require central and local government institutions and agencies to invite civil society representatives to join 'monitoring committees'. They have also set up a national ombudsman's

office to receive and investigate complaints of maladministration. These institutions for popular participation are imperfect – political parties have muscled into monitoring committees. However, the reforms have nevertheless had the salutary effect of making the bureaucracy more transparent and open with the public, and with an increasingly investigative press.

The seeds of effective results-oriented expenditure management – along Chilean lines – have been sown in Bolivia. But, to fructify they await effective public service and institutional reform.

*Ghana*⁴⁰

Ghana is a country with extensive background in elaborating results-focused sectoral and national development strategies and which is endowed with considerable sophistication in its appreciation of budget management issues. In 1998 it embarked on an ambitious public financial management reform project (PUFMARP), which comprised a results-oriented medium-term budget (1999), an integrated financial management system and a revamping of the audit service. The medium term expenditure framework (MTEF) was successful as a planning exercise because of the active participation of ministries and agencies in its compilation, but, like the other components in PUFMARP, it fell down on implementation, follow-up and follow-through.

Ghana's problems in implementing performance budgeting and management have lain not in a lack of conviction in the need for these disciplines but in (i) a lack of political will and of administrative initiative to pursue them, (ii) macroeconomic instability and a perennial problem of containing the fiscal deficit, (iii) low morale and a lack of culture of achievement and accountability in many parts of the civil service connected with the superimposition of successive policy and strategy initiatives, and (iv) the fragmentation of responsibility for the strategy, management and performance of public expenditure programmes.

On the *political* side there was a general election and change of government in Ghana in 2001, less than two years into the MTEF process. Prior to the elections ministers' attention was trained on the immediate task of achieving re-election. The new government wanted an in-depth review of the plans and strategies pursued by its predecessor. It decided that its top priority was to act to correct macroeconomic imbalances and the manifold technical deficiencies in Ghana's budget preparation and public expenditure management and accounting. It launched a financial management reform action plan to streamline processes, attend to unfinished business in reforming the chart of accounts, and improve standards of accounting, record keeping and accountability. These necessary reforms diverted the spotlight for a time from the government's previous focus on performance and results.

Erratic *macroeconomic management* throughout the 1990s had a deleterious effect on the planning and quality of public expenditure in Ghana. High rates of inflation, episodes of hyperinflation, and high and variable interest rates on mounting domestic public debt made it well-nigh impossible to give spending ministries budget allocations of known purchasing power. The amount of cash releases, and their timing, became uncertain. Spending ministries led a hand-to-mouth existence which bred cynicism about ambitious reform plans and undermined commitment to achieving results. The approach of the 2000 election unleashed a new bout of inflationary spending that required corrective action by the in-coming government.

Defects in Ghana's *public expenditure management* were highlighted in the 'tracking' studies carried out in 24 HIPC countries in 2001 and 2002 jointly by the IMF and the World Bank. The purpose of these studies was to establish the likelihood that the additional resources to governments from HIPC debt relief would, as promised, be devoted to higher levels of expenditure in pro-poor

⁴⁰ Oduro (2003)

programmes. Countries' fiscal accountability was scored on the basis of nine criteria. Ghana's score was the lowest of the 24 countries. On only one criterion were its practices judged satisfactory. This was not for lack of systems, but was the result of a widespread laxity in their implementation.

This tallies with a recurrent finding of the country case study of results-oriented expenditure management in Ghana that there is a lack of performance culture in public administration of which an important symptom is confusion and imprecision about personal and group objectives and success criteria. It also helps to explain the half-hearted implementation of reforms.

The *results-oriented medium term expenditure framework (MTEF)* initiative started well, with spending ministries and agencies preparing statements of objectives and results, the best of which – in Transport, Health, Education and Agriculture – were based on existing, well-honed, multi-year, results-oriented sector strategies, often supported by donors. These strategies were strongly 'owned' by the sector authorities concerned – at least at the senior level. All spending ministries and agencies were required to present their expenditure plans under programme heads. However, the impetus of the MTEF initiative, which was to have been annually updated, was lost because macroeconomic instability made infeasible the smooth translation of a medium term framework into successive annual budgets. The MTEF then became overlaid in 2000 by Ghana's PRSP – the Ghana Poverty Reduction Strategy (GPRS).

Responsibilities for the GPRS and for the MTEF lay in different hands. The Ministry of Planning and Regional Integration, the successor of the National Development Planning Commission was made responsible for the GPRS, while responsibility for, and direction of, the MTEF process lay with the Ministry of Finance. GPRS targets were not the product of a new round of deep consultation with sector authorities. They were proposed by the GPRS secretariat, were not wholly consistent with MTEF targets, and lacked sector authority ownership. Sector authorities interviewed by the authors of the country study were unable to state what the GPRS meant for them. Sector ministries are said to hold the Ministry of Planning in low regard.

Efforts are now underway in Ghana to repair the damage done to performance budgeting by past incoherence in successive development strategy and expenditure planning initiatives. The MTEF is being revived and reconciled with the GPRS. However, responsibility for implementing performance budgeting and management remains bicephalous – and in the case of monitoring and evaluation, even more diffuse. The Ministry of Planning shares responsibility for monitoring the GPRS with a new unit in the Office of the President, while the Ministry of Finance remains in charge of MTEF processes, including performance against stated targets.

The country study finds that the quality and assiduity of *performance reporting and monitoring* varies greatly between sectors, but that there is a general failure to evaluate performance properly and to make use of feedback from performance assessments in policy and operational planning. In education, health and interior there are statistical units which publish regular reports on standard indicators of input, activity, output and outcome. Ghana also has relatively copious data from statistical surveys – living standard measurement, core welfare indicators, and beneficiary assessment. However, there is little political demand for analysis of this data.

Ministries have policy, planning and M&E departments which are often under-staffed and under-resourced, but which ought to play an essential role in the circuit of performance management. In a few cases comparative performance tables are compiled, e.g. in education and health. But there is a conspicuous lack of reflection of the causes of policy failure, such as the failure of the results-oriented Free, Compulsory, Universal Basic Education initiative of 1986 to deliver its promised benefits.

Ghana is, in common with many other countries, pursuing a policy of decentralising the provision of basic services to local government (district assemblies). There is a District Assemblies' Common Fund endowed with a 5% share of budget revenues which provides block grants mostly for the construction of local roads and water supply projects. The Ministry of Local Government inspects these projects, but has no agreement with district assemblies about objectives, targets and performance reporting. There is a Local Government Services Bill to formalise arrangements for fiscal decentralisation. But this remains without effect. Most local services are still supplied by deconcentrated units of sector ministries and agencies.

In Ghana, therefore, results-oriented approaches to public expenditure management are not new, and are certainly not alien. But they have failed to produce results because of contextual factors, and are now viewed with widespread cynicism. However, the knowledge, instruments and data to make them work exist – or can quickly come into being. The present government's renewed attempt to implement PUFMARP and its revival of the MTEF may mark the beginning of a revival of self-confidence about achieving results in public programmes.

5.3 Group III

*Burkina Faso*⁴¹

Burkina Faso, with Uganda, was among the first countries to complete an interim and a full PRSP. It had previously announced its commitment to a results focus in public expenditure with the adoption with effect from the 1999 budget of the practice of programme budgeting – initially in 6 ministries responsible for the bulk of public expenditure such as education, health, transport and communications, water and agriculture.

These budget and planning reforms, remain at an early and incomplete stage of implementation. Moreover, they were introduced at a time when Burkina Faso had broad macroeconomic stability, but when this was maintained by fiscal adjustments – often in-year. These adjustments translate into cuts in spending programmes on the quality of spending programmes, on staff morale and on the integrity of medium – term expenditure programming.

Budgetary processes conform, formally, to the donor-sanctioned model in which a medium term expenditure framework, consistent with macroeconomic perspectives and reflecting PRS priorities, guides annual expenditure programmes which form part of the budgetary package voted by the National Assembly. Practice, however, remains imperfect, though improving. The first MTEFs (2000 and 2001) were produced too late to influence annual budget preparation, covered aid inflows only partially, and had no effect on sectoral expenditure allocations which remained based on traditional shares and incrementalism. Indeed, expenditure aggregates in annual budgets were different from those in the MTEF. There is still no procedure for the formal approval of MTEFs by parliament.

The practice of *programme budgeting* in annual budgets remains incomplete and largely ineffective. Programme budgets are prepared by the finance and planning departments of the 6 pilot ministries. They are pluriannual and present ministries' goals, responsibilities, programmes, targets and performance indicators. However, programme budgeting was introduced into Burkina Faso too hastily, with too little preparation and without training. Objectives and targets are not always well defined or costed, nor are they the subject of discussion with ministries' regional directorates. Programme outputs are not adjusted when ministries' budget bids are cut back prior to annual

⁴¹ Mesplé-Somps *et al.* (2003)

budget approval or when approved budgets are cut in-year. Expenditure cuts are commonplace because of over-optimism in revenue forecasts. MTEFs still do not present expenditures in programme form – using instead the traditional classification of outlays by input type and spending ministry/agency.

Programme budgets do not cover activities financed by local authorities from their own resources and their corresponding outputs.

Programme budgeting at least presents achievement *targets* that are consistent with those shown in PRSPs. In basic education, health, transport and agriculture targets were derived from work done previously in the context of 10-year sectoral development programmes benefiting, in some cases, from sector-wide donor assistance. These performance indicators were used in the agreement of 1997 with the EC on budget support. The same targets and indicators – mostly relating to activities and outputs – were reproduced and added to in successive PRSP documents. In ministries without sector programmes new performance targets were set by their finance and planning departments with little consultation with line departments or regional directorates. Front line staff are often uninformed of their specific roles in delivering sectoral and sub-sectoral programme targets.

Implementation is subject to time-consuming, multi-layer, *ex ante* expenditure controls (for procedural conformity, budget authority and with cash availability) which distract programme managers' attentions from the efficiency and effectiveness of expenditures for which they are responsible.

The number of performance indicators now used is now too large relative to resources available for *programme monitoring and evaluation*. There is no reporting on programme budget execution, either financial or in terms of physical achievement. There is routine annual performance data collection by ministries on outputs and outcomes in health and education, but doubts remain about (and there are few incentives for) timeliness and accuracy. (Delays in data production aborted the 2002 PRSP joint monitoring review; PRSP pressures seem to have aggravated delivery problems). There are also periodic household budget, demographic and health and CWIQ surveys, but the institute of statistics is poorly equipped to interpret them for policy purposes.

The material exists to build a fairly comprehensive and regionally disaggregated picture of performance, at least in education and health. However, there is still little capacity to analyse the data and to interpret movements in indicators. There is therefore no effective feedback from performance to policy and programme. There is also no performance audit, external or internal, of government programmes. The half dozen public expenditure reviews performed over the last few years offer no effective substitute because they report too long after the event.

The authors of the country study on Burkina Faso conclude that it is too early to look for successes from results-oriented budgeting. Priorities in making the system produce benefits in terms of service delivery include better incentives for timely reporting of results, integrating the monitoring of sector programmes, programme budgets and PRSPs, and strengthening capacity for data analysis and performance assessment.

*Mali*⁴²

Mali introduced programme budgeting in 1998. As a HIPC country it made an early start on preparing an interim PRSP in 2000. It has also made progress with, though it has not yet fully implemented, a medium term public expenditure framework. The country study of Mali, however,

⁴² Raffinot *et. al.*(2003)

makes it clear that these initiatives have not yet given rise to effective performance-based expenditure management. New budget classification and management systems have not superseded previously existing ones, but have grown up in parallel, and have not displaced historical practice. The adoption of results-oriented approaches has also been impeded by a generalised shortage of resources of finance and trained staff in public administration and the public services, and by rigidities and over-centralisation in traditional expenditure management.

The annual *budget* is still prepared on an input basis, with the results-oriented programme budget appended as an annex. Recurrent and capital expenditures are planned in separate departments of the Ministry of Finance where spending ministries' bids are fitted within the overall budget envelope. However, the resulting adjustments made to ministries' expenditure bids are not reflected properly in the programme budget. Programme targets and budgets may thus be inconsistent. In any case there is poor downward communication within spending ministries and their agencies and regional offices about actual allocations and agreed targets.

The programme budget is based on longer-term programme strategies and is defined over a three-year operational planning period with annual tranches. However, in the absence of a reliable medium term macroeconomic and expenditure framework the outer years are based on only notional estimates of resource availability. Moreover, the budget is excessively complex and unmanageable. It has 99 programmes for which there are around 1000 performance indicators – mainly of input and activity nature, and for many of which there are no quantified baseline data. The programme budget is only loosely related to the PRSP – though its performance indicators are consistent with the ones in the PRSP, which are and still provisional and narrower in scope.

A besetting problem with budgeting in Mali is the lack of certainty about receipts and resource availability. Budget preparation tends to over-optimism about fiscal receipts, and suffers from imprecision about the large inflows of donor assistance – even of budget support – on which public services and public investment depend. The programme budget is based on resources passing through the national budget, and performance targets take no account of unbudgeted donor assistance.

The consequence is that there is little knowledge, let alone 'ownership', of programme performance targets among programme directors at the centre and in the regions. However, as in many other countries, the education and health sectors are exceptional. These sectors have benefited from sector-wide donor support and have comprehensive, results-based, 10-year strategies with annual operational plans which antedate the advent of programme budgeting, and which take into account estimates of all resources likely to be available – both external and internal. The PRSP and programme budgets for these sectors derive their targets and performance indicators from these plans. Unlike the programme budget health and education sector strategies give objectives broken down by region – which is essential in a large country where patterns of poverty and deprivation are regionally differentiated.

The country study also points to serious weaknesses in *monitoring and evaluation*. Six ministries are endowed with statistical units – which propose performance indicators for use in programme budgets. However, programme managers and front-line unit directors have few resources and incentives for accurate and timely reporting. There is no verification of performance reports. The statistical units themselves, with the notable exceptions of the ones in education and to a lesser extent in health, are unable effectively to analyse performance data and to draw policy conclusions from them. The national institute of statistics is poorly endowed, and external survey information about the performance and availability of, and access to, public services has been scanty. Neither is there any civil society monitoring of the PRSP and public services. Budgets have therefore hitherto

been largely insensitive to actual performance patterns, and have been allocation on pre – existing notions of need.

Change, however, is occurring. Since 2001 some ministries have started to organise annual workshops at divisional level in the context of programme budget preparation in which staff are invited to reflect on past performance. Their assessments, based on whatever data is available, are now starting to influence the setting of targets for the outlook period. This promising initiative will, nevertheless, not achieve its full potential until more attention is paid to remedying the current staff training deficit in the analytical skills required for performance assessment and management.

The case study of Mali illustrates the need for careful preparation for the introduction of results-oriented budgeting, including the involvement and training of personnel in front–line units and middle management, and the reform of procedures and practices that threaten to undermine its practical effectiveness. The study also warns donors to be circumspect in their use of outcome indicators as a tool in managing aid for results. Malian officials are reported as fearing that donors are beginning to use evidence of below target performance as an excuse to reduce aid. In a heavily aid–dependent country this could result in perverse incentives and could subvert progress towards effective performance management.

5.4 Group IV

*Cambodia*⁴³

The terrain in Cambodia is *prima facie* unpropitious for a results-oriented approach to expenditure management. Though the country has overcome the worst of its macroeconomic management problems cautious fiscal management has led to unpredictability and excessive restraint in expenditure planning and cash releases. Cambodia combines formally centralised expenditure management procedures with, in practice, a very decentralised and unmonitored approach to the provision of services and the handling of public funds. Budget procedures are complex and responsibilities overlapping and ambiguous. Nevertheless, as the country case study shows, Cambodia has not only produced a credible PRSP but has, in the education sector and to a lesser extent in health, managed to institute creditable systems of results-focused budgeting and performance management.

The national budget is not consolidated. The recurrent and capital budgets are prepared separately, respectively by the Ministries of Finance and Planning. There are multiple channels for financing the same service or programme – and there is more than one gateway for aid inflows. Responsibility for resource allocation and accountability is fragmented and ambiguous: a significant proportion of sector expenditure by–passes line ministries and is disbursed by provincial authorities; yet budget bids for sector funding do not necessarily involve the provinces. The focus of public expenditure management is on cash availability: arbitrary and backloaded cash releases lead to significant variances between actual expenditures and budget estimates. There is still no medium term expenditure framework, except for two ministries on a pilot basis.

The main recurrent budget for line ministries is managed in highly centralised fashion with time-consuming *ex ante* item-by-item central payment authorisation. With donor support a parallel budget – the Priority Action Programme (PAP) – has been created with decentralised responsibility for expenditure authorisation and using *ex post* expenditure controls. By means of the PAP line ministries have re–established influence over the provinces’ sector budgets – notably in education.

⁴³ Dom et.al. (2003)

However, with its radically different financial procedures the PAP has added to the complexity and ambiguity of the Cambodian budgetary process.

A major financial management reform programme is in preparation to consolidate public finances, and to modernise and rationalise procedures for expenditure planning, budget preparation, resource allocation, expenditure authorisation, cash management and accounting. When implemented, this will permit effective medium term planning for both expenditures and results.

Provincial governors, meanwhile, retain local revenues and have *de facto* discretionary powers over the allocation of both local and central government resources within their provinces: their priorities are not necessarily close to those of the central government poverty reduction strategy. In 2002, furthermore, Commune councils started to be given allocations of unearmarked funds for use by them in the provision of local basic services. Operations conducted at provincial and commune level are not subject to rigorous *ex post* audit, nor performance assessment.

Against this background a medium term planning perspective and significant elements of programme and performance budgeting have been introduced in education and health. This has been achieved by the sector ministries' use of the Priority Action Programme financing instrument which enables them, on their initiative, though with the agreement of the provincial authorities, to channel funds (with more timely release) directly to designated programmes. In education the sector ministry's authority is further strengthened through its monopoly of the deployment of professional personnel in province – run schools.

The education sector, thus, has a medium term strategic plan (2002 – 06) with a fully elaborated set of input, activity, output and outcome performance targets, supported by SWAp–type external assistance passed through the PAP. The Ministry of Education has effective Educational Management Information System (based on annual school surveys) generating standard educational performance information with, in parallel, reporting systems on aid and other financing flows and on the deployment of teaching personnel. The Ministry has plans for a full financial management information system that will capture not only its own expenditure but also that of provincial governments. The Ministry is practising a measure of performance management: it is using data from its MIS and from beneficiary assessment surveys to adjust its strategy and make resource allocation and other operational decisions. These systems are, with some external assistance, under continuous review and improvement. The sector strategy, for example, will be based on more solid foundations when the government's MTEF is fully operational.

The health sector is heading in the same direction, although it is less advanced. Its 5–year sector strategy was adopted in August 2002 – with eight sub–strategies, each with performance targets and indicators. There is already a wealth of regular information systems – such as the Ministry's own health information system and financial reporting system – and of surveys, such as the Demographic and Health Survey (2000). Despite these, the Ministry of Health still has an incomplete picture of resources available in the sector because of the fragmentation of funding sources. So far the use of this information for performance management is less advanced than in education. The Ministry practises line – item, incremental, budgeting of the resources under its control and has difficulty in adjusting strategic objectives to focus on poverty – reduction priorities.

The country case study identifies a major gap in the failure so far to develop operational plans for health, at the national and provincial levels, that translate strategic indicators and targets into funded activities. The growing role of provincial health departments (which run health centres and referral hospitals), and of the communes, in resource allocation and management (even of PAP resources), and political pressure to decentralise, are complicating factors.

The Cambodia case shows that major progress in the direction of the effective use of performance budgeting and management techniques is possible against a background of generally confused and ambiguous rules and practices governing the national budget and public expenditure management, and with civil service pay and management conditions that encourage informal charges for services and other rent-seeking. It also illustrates well the costs to sector managers and service providers of the persistence of these practices. Cambodia, like Bolivia, shows how, in these circumstances, effective results-oriented practice at the sector level is heavily reliant on the continuous support of external donors, and thus precarious.

5.5 Concluding remarks

Case study countries have approached performance budgeting and management in different ways and with differing success. Although in receipt of external advice and support the solutions they have found have been largely of their own devising. There is clearly no standard recipe or sequence of actions to undertake – no so more in poor countries than in wealthier middle-income countries and developed countries in OECD.

The question of whether there are necessary and sufficient preconditions to be satisfied before results-oriented budgeting will work will be considered in more detail in the following chapter. The case studies do however indicate the importance – at least in unitary countries – of purposeful central direction and follow-up of whatever systems are put in place, backed up by political commitment. Management for results will not work unless there is a strong desire from the top to make it work, and clear procedural guidelines and timetables for concerned actors.

Another general conclusion highlighted by the case studies is the valuable role played at the sector level of donor-supported sector-wide results-oriented strategic planning, particularly in education and health. The linking of budgets to physical outputs and, *a fortiori* outcomes, is an art, not a science. There are no hard-and-fast coefficients, and the use of standardised unit costs, though convenient, pre-empts the scope for cost-effectiveness gains. SWAp-supported sector programmes, many of them initially unsuccessful, have been the test-bed in which lessons have been learned about planning techniques, resource management, and the practical and political obstacles to improved performance. Small wonder, therefore, that the education and health sectors have been exemplary when government-wide budgeting for performance has been introduced.

The case studies illustrate practical difficulties encountered in re-casting traditional, line-item, budgets in programme form to establish a direct and explicit link between outlays and policy objectives. They also cast doubt on the immediate need for full-blown programme budgeting. Ministries of finance are reluctant to abandon traditional tools of centralised expenditure control – which they are still restoring to working order. Full programme budgeting requires the diffusion of deficient expenditure planning and management skills to the middle echelons of public administration. Half-way-house solutions, equating ‘programmes’ with spending ministries and agencies or major cost-centres therein, hold out the most immediate promise.

Finally, it is apparent that some progress is possible in results-orientation, even in generally unpropitious circumstances. It appears not to be generally true, as other authors have argued, that, in order to make a start, high standards of budgeting, public expenditure management and governance need already to be in place. However, these aspects are germane to the smooth operation and ultimate effectiveness of the disciplines concerned.

Chapter 6 Whether, Where and When Performance Budgeting Works in Poor Countries

The programme of research underlying this paper asks under what conditions a results-orientation can come into existence, become accepted institutionally, and become effective in improving the delivery of public services needed for poverty reduction. This chapter pulls together the lessons from the country studies in the form of thematic commentaries on the research hypotheses and the other propositions in the literature about the feasibility and usefulness of performance budgeting which were summarised in Chapter 3. It starts by asking if hypothesised preconditions – on macroeconomic and budgetary management, financial accounting and governance are really prerequisite. It finishes with a review of the entry points of performance budgeting in the case study countries.

6.1 Precondition 1: Macroeconomic management and budget

An important initial pre-supposition was that results-oriented approaches to public expenditure would be found ineffectual in countries experiencing macroeconomic instability and, for this or other reasons, with defective budget and expenditure management practices. Examples of negative influences would be:

- high inflation rates, making the purchasing power of budget allocations unpredictable,
- overestimation of revenue and other receipts, leading to the over – budgeting of expenditures,
- uncontrolled and unpredicted growth in debt service payments,
- poor cash management, leading to delays and unpredictability in releases of expenditure allocations to spending ministries and agencies.

The evidence generally confirms a weak version of this hypothesis, viz. that unpredictability in public expenditure detracts from the credibility of results focus, but does not prevent its introduction and successful application. All countries in the sample have weaknesses in either macroeconomic stability and/or in budgeting, cash and expenditure management. However, in only some cases have these features seriously undermined their efforts to make a start on performance budgeting and management, and negated the benefits achieved by implementing elements of performance management practice.

Macroeconomic instability

In countries with floating exchange rates the rate of inflation provides evidence of the extent of macroeconomic stability. Of the seven countries in the sample all, except Mali and Burkina Faso which belong to the Union Économique et Monétaire Ouest–Africaine (UEMOA) and which uses the CFA Franc, have floating (or, in Bolivia, crawling peg) exchange rates. In the most recent 4 – year period rates of inflation⁴⁴ in the seven countries have been as follows:

Table 1: Inflation rates

Bolivia	Burkina	Cambodia	Ghana	Mali	Tanzania	Uganda
3.9%	2.1%	4.1%	19.1%	1.2%	7.6%	4.0%

Source: IFS; for Uganda and Tanzania Article IV consultation reports

⁴⁴ Average annual rates of consumer price inflation 1998-2001

Of the seven countries, Ghana has experienced the highest and most unstable rate of inflation - exceeding 30% in 2001. This has arisen from the monetisation of fiscal deficits in excess of aid inflows and the accumulation of domestic debt serviced at high rates of interest, and has been amplified by rapid exchange rate depreciation. These circumstances have made results-related public expenditure planning very difficult. With unpredictable inflation the purchasing power of budgeted expenditure allocations has been unpredictable. The prime focus in fiscal management has been on stabilisation. Allocations have been subject to in-year cuts whenever it appeared necessary in order to preserve the balance of the macroeconomic programme.

Macroeconomic management problems were largely overcome until very recently in Bolivia, and they have not seriously upset public expenditure management. Treasury releases can however be erratic because, the country case study explains, of political and expenditure management factors, rather than macroeconomic ones. Cambodia, Tanzania and Uganda, also, have broadly managed to hold to their macroeconomic programme in recent years, resisting the effects of climatic and commodity price shocks.

In Burkina Faso and Mali, the two countries with fixed exchange rates,⁴⁵ the main instrument of macroeconomic adjustment is fiscal, and economic fluctuations are rapidly reflected in budgetary resource availability. Nevertheless, real levels of public expenditure in these two countries have often been sheltered from serious macroeconomic management and exogenous economic shocks.

Budget management and cash budgeting

Macroeconomic adjustment and stability in most case study countries has however been achieved with the use of the blunt fiscal management instrument of cash budgeting. Cash budgeting means that in-year treasury releases are tailored to the availability of resources from domestic revenues and external assistance so that 'ways and means' borrowing is prevented or reduced to a strict minimum, and to maintain strict limits on the volume of outstanding Treasury Bills. The implication of cash budgeting is that spending ministries have no guarantee that they will receive their budget allocations in full, and that there is a good chance that releases will be delayed. Delayed releases are the common experience of all case study countries. Some countries, though, have coped better than others, with evident benefits for the pursuit of performance objectives.

The most successful in this respect have been Tanzania and Uganda which have ring-fenced priority, pro-poor, expenditure programmes within (mostly social) sector budgets, making them exempt from in-year cuts. Substantial aid inflows in support of these programmes have facilitated this process. The country studies describe the action of Uganda's Poverty Action Fund and of priority sector allocations in Tanzania, showing how, in Tanzania, the extent of protected sectors has widened as the economy has stabilised and as cash forecasting and cash management have improved. Tanzania and Uganda have significantly raised the share of public expenditure devoted to their priority programmes. The price paid for greater predictability in protected sectors, however, has been greater uncertainty about the timing and magnitude of releases in non-priority sectors.

Tanzania and Uganda have also, as explained in Chapter 5, constructed increasingly sophisticated and coherent systems of performance budgeting and management at the national level, and have institutionalised credible MTEF procedures. This is a tribute to their success in stabilisation, and in mitigating the harshness of cash budgeting.

⁴⁵ The CFA Franc has an exchange rate fixed to the Euro

In other countries cash budgeting has been more detrimental to the introduction of results-based approaches, but not wholly inhibiting of it.

Very late and unpredictable treasury releases are characteristic of Cambodia, and affect even releases from the donor-supported Priority Action Programme which lies outside the main budget. This arises unpredictability about domestic revenues and receipts from donors, from a still uncertain hand in aggregate expenditure management, and an excess in precaution. However, this has not prevented notable recent progress in constructing performance budgets and management systems in education and health. Cambodia's recently formulated results-oriented 5-year sector development plans in education and health have attracted donor support – some direct and in project form, some in programme form channelled through the Priority Action Programme.

Bolivia has benefited from many years of donor support, albeit often in project form, for sectors such as education, health and customs, which have in consequence experienced relatively predictable funding, and where effective results-oriented management systems has been put in place.

In Burkina Faso and Mali, public expenditure programmes have suffered from over-optimism in fiscal planning, and from a tendency for revenues to fall below budget estimates. Stabilisation has been bought at the price of frequent in-year cuts in sector ministry allocation in Burkina Faso. In Mali, where over-estimation of receipts is less endemic, the country study notes common recourse to expedients such as in-year reductions of capital expenditure, or even supplementary budgets, to accommodate shortfalls in receipts and expenditure overruns. These two countries have nevertheless developed long-run, performance-based, strategies for their health and education sectors which they regularly update and which form the basis of the results frameworks contained in their Programme Budgets and PRSPs. In Burkina there is a sector strategy for agriculture, which however lacks the specificity about activity and output levels found in the strategies for education and health.

Ghana's budget planning problems arising from macroeconomic instability have aggravated, and been aggravated by, shortcomings in forecasting and cash management. There results great unpredictability about treasury releases. Yet, this has not prevented Ghana's spending ministries from formulating medium term strategies – as in education, health, and roads. Nor has it prevented the incorporation of these in 1999 into a medium term expenditure framework. It has however severely reduced the value of the MTEF as a guide to annual budgets' expenditure programmes, prevented the rolling forward of the MTEF in subsequent years, and eroded the commitment of spending agencies' to the implementation of their plans.

Only in Ghana has the provision of external assistance on a sector-wide basis in basic education and health – in programmes dating back to the late 1980s and early 1990s – not prevented macroeconomic instability from disrupting results-based sector strategies. In Ghana's case, however, donors' concerns about sector performance added to uncertainty about the real value and timing of treasury releases.

The research hypothesis that budget management should be able to assure spending ministries and agencies of flows of real resources with medium term predictability as an absolute pre-condition for meaningful results-oriented planning and resource management is thus not strictly borne out by country experience. These countries have been able to embark on programme budgeting (Mali, Burkina), or results-oriented/output/performance budgeting (Tanzania, Uganda, Bolivia) without the benefits of very high standards of overall budget management. They have managed to institutionalise processes, either in priority sectors alone (Cambodia, Bolivia) or more generally, for choosing and regularly reporting on performance indicators and for setting and monitoring

performance targets. The unpredictability of resources has been a handicap, particularly in Ghana, but external assistance has successfully mitigated this in other cases, supplemented in Cambodia, Tanzania and Uganda by sheltered treatment for priority programmes.

Table 2: Characteristics of macroeconomic and budget management

	Budget resource predictability	Fiscal consolidation	Cash management and treasury releases
Bolivia	Annual budgeting. Releases subject to political influences	SWAp aid consolidated, but earmarked	Treasury releases may be subject to in-year manipulation for political reasons
Burkina Faso	Revenue forecasting inaccurate, with inconsistencies in estimates shown in different budget documents (MTEF, Budget summary, Finance Bill)	All resources consolidated, but use of HIPC receipts planned separately from that of domestic revenues and budget and project aid	Cash management problems have reduced actual expenditure/estimates ratio
Cambodia	Domestic revenues approximate to budget estimates but subject to a margin of uncertainty. Treasury exercises caution about releases which are effectively cash-limited.	Capital and recurrent expenditures planned separately, PAP separate from ordinary budget; aid may enter either through the PAP, or the capital budget, or as direct support to provinces; provinces' revenues unconsolidated	Ordinary budget releases heavily back-loaded and unpredictable in amount; PAP releases somewhat delayed, but surer in amount
Ghana	Real resource availability made very uncertain by unpredictable inflation and debt service charges; donor flows subject to interruption on conditionality grounds	Project and sector aid receipts not consolidated	Cash releases uncertain in amount and timing
Mali	Over-optimism about revenues => over-budgeting	In principle all resources are consolidated, but MTEF does not cover donor resources	In-year cuts and supplementary budgets common
Tanzania	Low, overestimated, domestic revenues	Progressive consolidation of aid via Tanzania Assistance Strategy agreements, but much aid still outside budget	Cash budgets with quarterly releases; priority programme releases can be relied on; non – priority programme expenditures subject to late releases and the vagaries of cash budgeting
Uganda	Aggregate resource predictability good, with disbursements averaging over 97% of allocations 1997 – 2002 (but with higher variances at vote level). PAF disbursements protected.	Progressive integration of aid into budget; some project aid unconsolidated; central control over district expenditure due to be relaxed with fiscal decentralisation	Strict cash budget, with quarterly commitment and monthly disbursement limits. PAF and other politically supported votes have first call on resources.

External assistance has well-documented shortcomings from the perspective of recipient countries, including (i) the policy-contingent nature of some assistance, (ii) donors' failure to notify recipient governments fully of their projects and intended resource flows, (iii) the extra-budgetary character of some of their financing, and (iv) the lack of harmonisation of their conditionalities and procedures. All countries in the sample have had to cope with these problems, and to integrate into their sector expenditure planning the proceeds of extra-budgetary project aid as well as budgeted forms of assistance.

These features of aid have, however, not been sufficiently serious in the six of the seven countries in the sample to prevent external assistance from mitigating the shortcomings of domestic budget management and of anchoring results-orientation.

6.2 Precondition 2: Programme budgeting

The practice of programme budgeting features in McGill's short list of necessary characteristics in performance budgeting systems.⁴⁶ The country studies demonstrate that valuable progress can be made in performance budgeting and management well before national budgets formally adopt a programme format.

The two most successful users of performance budgeting, Tanzania and Uganda, have yet to convert their line-item budget systems to programme budgeting. Uganda's Output-Oriented Budget is only a loose framework for bringing results-accountability by spending ministries and agencies into consideration alongside medium term and annual spending plans.⁴⁷ The two countries will, in the near future, institutionalise limited programme budgeting when they have implemented new charts of accounts and computerised integrated financial management systems. They will keep ministries and agencies as the main accounting units. Burkina Faso and Mali are formally practising programme budgeting, but the studies of these two countries show that it has been introduced in haste and without sufficient preparation. It still lacks practical effectiveness for resource allocation purposes and for results accountability. Voted budgets are still not promulgated in programme form.

The absence of programme budgeting means that it is harder to calculate efficiency, by programme, in the use of resources. Under current arrangements, however, it is possible to track the efficiency of sectoral and sub-sectoral institutions, and thereby of the programmes they are responsible for managing.

6.3 Precondition 3: Financial accountability and audit

A third hypothesis is that, unless there are reasonably high standards of financial management, in the accounting, reporting and audit of expenditures, and of procurement practice, there can be no presumption that funds have been spent as intended in the intended programmes, nor that they have been spent with regard to value-for-money. In the absence of good financial management practice it is impossible to measure and meaningless to promote efficiency in public expenditure.

Financial management and accountability standards leave much to be desired in case study countries:

⁴⁶ Mc Gill (2001). cf. also Chapter 2, section 2.7 above

⁴⁷ Williamson (2003), Chapter 3

- The IMF and World Bank have collaborated on two expenditure ‘tracking’ reviews of financial accountability in HIPC countries, including Bolivia, Burkina Faso, Ghana, Mali, Uganda and Tanzania.⁴⁸ The first assessment, in 2001, was that only 2 of the 25 countries would be able to carry out satisfactory expenditure tracking and reporting within one year, and that 16 countries had expenditure management systems in need of serious upgrading. The second assessment, in 2002, concluded that 9 out of 24 countries reviewed would meet at least 11 of 15 criteria of good public expenditure management practice with some upgrading of their present systems. These countries included Burkina Faso, Mali, Tanzania and Uganda. However, 15 countries, including Bolivia and Ghana, would require substantial upgrading. Ghana, according to the assessment, satisfied only one of the 15 criteria. The criteria used included: budget consolidation, reliable functional and/or programme expenditure classification, use of medium term expenditure frameworks, control of arrears, internal and external audit and timely reporting and closure of accounts.
- The country studies confirm the general technical weakness and lack of consideration of internal and external audit arrangements (though there is incipient use of performance audit in Ghana and Tanzania), and they exemplify the limited progress made so far towards the operational (as opposed to presentational) use of programme budgeting. They show that commitment control has been strengthened in Tanzania and Uganda, but that controlling payment arrears remains a problem. Arrears are much more of a problem in Ghana, where they built rapidly at the time of the 2000 election. Burkina Faso, Mali and Cambodia are countries with multi-stage *ex ante* (‘concomitant’) expenditure controls that have the effect of centralising expenditure authorisation, or, with deconcentration, of raising it to higher levels in the hierarchy, and thus of diluting cost-centre and programme managers’ responsibility and margin of manoeuvre. They are time-consuming and often short-circuited, but if followed with rigour and propriety have the effect of diverting attention from performance and results to conformity with input-based budget stipulations.

However, the country studies also make it clear that it has been possible to make a start on performance budgeting and management in the absence of satisfactory standards of financial accountability and management, and in some cases to develop these to a fairly high level.

Ghana and Bolivian are towards the lower end of the spectrum of financial accountability. These two extreme cases, taken in the round, tend to confirm, the hypothesis of incompatibility between results-focus and poor financial accountability. A culture of non-accountability, in these countries, has evidently affected both financial management and the effective pursuit of better performance. Nevertheless, islands of (relative) excellence in performance budgeting and management have been able to survive – in education, health and the customs – and to constitute solid building blocks for the PRSP.

The main reason why performance budgeting can coexist with imperfect financial management is that data on performance is captured by different systems from those used in financial reporting, and can be – and is – verified by different methods, such as inspections and surveys. Performance evidence is more visible to more people – including beneficiaries – than financial accounts. It is therefore possible in some degree to hold programme managers and service providers to account without knowing exactly what resources they have spent in the process. Indeed, performance management may be a useful instrument in detecting the misapplication of resources and in correcting financial mismanagement. This was done in Uganda when the ministry of education noticed that only a small proportion of non-wage recurrent budget allocations was actually reaching schools. The authorities informed the population of the physical provision of learning materials they

⁴⁸ IMF/IDA (2001), IMF/IDA (2002),

were entitled to expect, whereupon the misappropriation of funds by district-level programme managers ceased.⁴⁹ Pressure to demonstrate performance has also been instrumental in Uganda in changing procurement practices for school construction.

Another reason for not waiting for satisfactory financial accountability before embarking on performance budgeting and management is that there are major technical and allocative inefficiencies in most public expenditure programmes. If these are tackled through planning management action, it is possible to increase programme outputs without pro rata increases in resources. Unit costs may thus be reduced, and resources may be mobilised internally for high impact programmes. The very act of setting performance targets, provided they are within reach, and of agreeing them with service providers and beneficiaries, can inspire better performance without the need for larger budget allocations. The Uganda country study contrasts two otherwise similar districts – Bushenyi and Iganga – which achieve very different levels and standards of service provision with similar resources from central government. The main difference between the two districts lies in political commitment and management style.

Thus, even though financial controls are weak and expenditures are reported inaccurately and late, service delivery performance is measurable, can be related to expenditure allocations and is usable in a first approximation in performance diagnosis, and also as a tool in expenditure audit. Public services can be, and are, held accountable for their results through separate channels from those used in financial accountability. Given the scope for raising efficiency finance is not necessarily excuse for non-performance.

These conclusions do not imply that performance budgeting and management can, or should, remain for ever divorced from financial reporting and accountability. The two are mutually reinforcing in the longer term. The point here is about sequencing.

6.4 Precondition 4: Governance standards

Chapter 4 summarised the verdict of Schick and other that results-accountability cannot work in countries characterised by ‘informality’ in regard to management styles, respect of financial procedures and policy guidelines, financial accountability and contract compliance. In addition, the authors cited argue that accountability for results based on contractual relations between principal and agent will not work in countries where there are no reliable means of contract enforcement.

Country case studies provide nuanced evidence on the Schick thesis. The simple hypothesis that results-focus and accountability for performance cannot be made to work in poor countries with imperfect governance is clearly untenable in view of the proliferation of results-focused initiatives and of their progressive solidification and institutionalisation, even in the least propitious country circumstances. This paper and the country studies point to solid achievements in Tanzania and Uganda in spite of their endemic corruption and nepotism, and in spite of irregularities in administration. The hypothesis ignores the ingenuity of motivated leaders and managers, and the ability of public organisations to create islands of good practice from which dysfunctional institutions and practices are in some degree excluded.

The country study of Bolivia gives particular prominence to the role of governance factors in frustrating results-oriented administrative reforms. It attributes to the ‘informality’ of the system of politico-administrative appointments and preferment the failure of the SAFCO law of 1990, which was intended to establish results-based management in the whole of the public service. The

⁴⁹ Reinikka and Svenson (2000)

intention of the law to create a unified, depoliticised, merit-based, civil service subject to established rules of conduct and reward never received proper effect, despite several subsequent attempts to implement the reform. In terms of Figure 3, the SAFCO reform and more recent Institutional Reform Project sought to move Bolivia from an ‘autocratic’ state characterised by a lack of rules and accountability to a ‘bureaucratic’ state based on rules and procedures, but with decentralisation and features of ‘results-based’ administrative culture also. As a result of the reform the forms of results-accountability were institutionalised – with annual performance agreements with the Ministry of Finance for all ministries and agencies, and with personal performance agreements for key managers – but these formalities were soon treated with disdain and the quality of documents enshrining performance plans has generally been low. Personal preferment in the persistently patronage-based administrative culture has been based on relationships, not assessed performance.

Yet, notwithstanding these governance failures, there have been successes in implanting results-based approaches in donor-supported ‘islands of excellence’, principally in education, health and customs.

The studies also fail to confirm the hypothesis that formal contract-based forms of results accountability will be difficult to implement for reasons of culture, and lack of enforcement and contract management capacity. Case study country administrations, both central and local, routinely handle contract negotiations with service providers – with technical assistance if need be. Contract management and monitoring are more of a burden, but one which not so onerous as to preclude efficiency and effectiveness benefits from contracts for services. The absence of the rule of law and formal enforcement mechanisms - problems highlighted by Schick and Bale and Dale – are compensated by informal moral suasion.

In the mid-1990s Tanzania⁵⁰ set up 8 executive agencies modelled on the UK’s ‘next steps’ agencies. They are charged with functions such as road construction and maintenance, meteorology, cartography, revenue collection and airport operation. They are in the public sector, but outside the civil service and thus able to offer better salaries to professional staff. They are subject to annual performance agreements and are required to render annual performance reports. They have been a qualified success. Their parent ministries pay too little attention to managing their performance – to assessing past results and crafting incentive targets for the future. Performance reports by the agencies tend to be late and non-compliant with contractual requirements. In roads, however, a sophisticated performance management system is in operation (see Box 2). There are hints of clientelism in appointments. Nevertheless, the agencies by-and-large perform the functions for which they were established.

⁵⁰ Caulfield (2000)

Box 2: Tanzania Roads Sector Performance Management⁵¹

In Tanzania funds for road maintenance are collected by the Road Fund which enters into annual performance agreements with TANROADS for national and regional highway maintenance, and with the local government division of the President's Office for urban and rural feeder roads. The performance agreements specify in detail: policies and criteria to be followed, works to be undertaken, costs and budgets. The executing agencies produce quarterly and annual reports on the utilisation of funds and on physical progress. Performance is subject to technical audit by consultant, as well as to financial audit by the National Audit Office. Annual reports are discussed in Parliament by the Sector Committee on Infrastructure.

There are as yet unresolved disagreements between the Road Fund and the executing agencies in respect of allowable unit costs, and over the formula for distributing funds between local government areas.

In Bolivia, too, where the Latin American tradition of assigning administrative responsibilities to semi-autonomous agencies is more deeply anchored, there are good (and less good) examples of contractual relationships with results accountability. The country study pays tribute to the recent institution of effective performance management in the Customs agency.

Ghana's experience with contracts is less successful. Ghana has a longer experience than most other African countries of running public services through public agencies at one remove from government. The Ghana Education Service and the Ghana Health Service are cases in point with their origins in the 1980s. Both have had the benefit of large-scale sector specific support from donors and some years of experience with devising and implementing results-focused sector strategies. However, these services seem to have lost strategic focus, and their technical apparatus of monitoring and performance assessment has been allowed to deteriorate. The fault lies largely with the principals (sector ministries) rather than the agencies. As the country study notes, the health sector regularly collects and compiles health and health facility performance records through its management information system, but, in the ministry, the relatively well staffed policy, monitoring and evaluation department is characterised by weak management and low morale. Since the change of government the ministry has been unable to complete a new 5-year work programme with new targets and indicators reflecting the new government's policy options.

The Ghana country report also mentions the long experience of the State Enterprise Commission in entering into performance contracts with public sector corporations. The Commission monitors and reviews performance on the basis of quarterly and annual reports and agrees the corporate plans of each corporation. This has however, not prevented generally poor performance by public sector enterprises and some notable cases of mismanagement.

In Mali, as in other Francophone African countries, the practice of outsourcing municipal services such as cleansing and rubbish collection to private contractors is commonplace. These arrangements are regarded as leading to higher standards of service than municipal departments themselves would provide. Contract management is by the municipalities. Norms of competitive procurement are doubtless not fully respected, and incumbents are at an advantage when contracts are renewed. Results are nevertheless achieved and monitored.

In Uganda, the country study notes that NGOs commonly enter into contractual relations with district authorities to operate schools and health centres. The results are mixed. NGO providers do not always live up to the standards of cost-effectiveness and output quality expected of them

⁵¹ Rønsholt et al (2002), Annex C

because contracts do not clearly stipulate service delivery requirements. However, in view of the limited competition to supply these services districts are unable to exercise sanctions for below-standard performance.

To summarise:

- The evidence from case study countries confirms the view that ‘informality’ in the politico-administrative culture inhibits the spread of results-accountability, but it does not prevent its emergence in islands of excellence. Public institutions, with the right leadership and support, can mitigate the perverse incentives created by clientelism and patronage.
- Contractual and quasi-contractual arrangements are also found to be capable of working more or less satisfactorily, even when sanctions imposed by principal on the agent for non-performance are blunted because the agency under contract is in the public sector or because there is little private sector competition. The reasons for this often lie in political leadership, the personality and professional ethic of agency managers and the existence of external support, for example in contract management. These factors that can, and do, counteract negative features in the institutional and governance environment. Moral suasion may be a weak incentive for contract compliance compared with the prospect of non-renewal of contract, but its existence and not infrequent efficacy should be recognised.

6.5 Getting started with performance budgeting and management

The country case studies make it possible to identify the main entry points for results-focus practice in poor developing countries, and about the conditions under which initiatives are most likely to survive, viz:

- sector strategies
- MTEF performance budgets
- PRSPs
- results-based civil service reform.

Sector strategies

In all countries a focus on measurable service delivery and results began at the sector level, in sectors which have traditionally attracted donor support, when this support broadened out into sector- or sub-sector-wide programmes. Sector authorities, especially in education and health, but also in roads, water and agriculture, stimulated by the donors or by the prospect of assistance, have drafted strategy documents articulating their policies, objectives, targets for outcomes and outputs and intended levels of input and activity. The mobilisation and deployment of financial and human resources believed to be necessary for attaining agreed policy goals lie at heart of these strategies. Inputs and activities are their main concern. In the absence of close prior analysis of achievable efficiencies and of how different service outputs contribute to policy outcomes, strategy documents initially made unreliable and often exaggerated prognoses about results achievable. Years of experience and iteration, prompted by joint monitoring with donors have now brought better understanding of the processes and costs involved in producing outputs, and of required inputs mixes.

These sector strategies have fed directly into all countries’ programme/performance/output budget and PRSP statements of medium term objectives, targets and indicators, and of resource requirements. But the direction of influence has not been all one-way. In Cambodia, Tanzania and

Uganda – countries with ring-fenced, donor-financed, budgets for pro-poor priority programmes central initiatives have also caused a rebalancing of sector strategies.

In Bolivia, Cambodia, Mali, Burkina Faso, where results-oriented budgeting at the centre is still of limited operation effectiveness results-focused sector strategies maintain an autonomous and often effective existence, one which is not dependent on the stimulus of centrally directed initiatives on public expenditure management. Their external stimulus comes instead from the presence and involvement of donors - through prior review of strategies and plans, the monitoring of programme implementation and of results, and the assurance of financial support. Donors' treatment of these processes is often unsystematic, unharmonised and uncoordinated, yet it has been a useful substitute for formal results accountability to central ministries in countries where the centre's capacity to monitor and manage performance has been inadequate. The donor stimulus has also provided a learning opportunity for local officials which has been transferred in some cases from the sector to the national level.

MTEFs and Programme budgets

Five out of the 7 countries in the sample – Burkina Faso, Ghana, Mali, Tanzania and Uganda – practice medium term performance (or programme, or output) expenditure budgeting. In return for medium term indications of resources available for them spending ministries and agencies are formally required (i) to state their mission and longer term policy objectives, (ii) to account for their performance over the recent past, (iii) to state the outputs and outcomes they intend to achieve over the outlook period, and the indicators to be used in monitoring, and (iv) to justify their resource requirements in terms of these targets. In Bolivia operational performance agreements with spending agencies are annual, but the principle is the same. Cambodia is preparing a medium-term, performance-based, framework in the context of its impending budget reform (though its MTEF remains at the pilot stage). In Mali and Burkina Faso programme budgets (not MTEFs) fulfil the role of medium term performance planning. Expenditure plans, justified by objectives, are presented by programme⁵², as well as by traditional line item. In other countries expenditure plans are presented by agency or institution, each one of which has its defined objectives.

The success of the MTEF process in generalising and anchoring results-oriented processes in public expenditure management depends on the reasonable credibility of the macroeconomic framework and of the resource indications on the basis of which spending ministries define their plans. Subject to this, the annual updating of (generally 3–year) rolling expenditure programmes provides the occasion for regular reviews of both performance and of strategies and targets. These reviews occur both within spending agencies and in discussion with the centre (ministry of finance or other central performance monitoring units). They should be an essential part of the learning process whereby performance budgeting becomes progressively more realistic and a more powerful tool in promoting strategic focus, efficiency and effectiveness in expenditure programmes.

These processes have bedded down most successfully and are taken most seriously in Tanzania and Uganda. Under strong leadership and discipline from the centre (ministry of finance) a results 'culture' has been established, backed up by the implication that budget bids will be looked on more favourably if backed by a solid, policy-consistent, performance prospectus. Elsewhere, results-based central budgeting looks more precarious because taken less seriously. In Bolivia, agencies' annual performance agreements with the ministry of finance are pro forma – not treated seriously either by the ministry of finance (which is more interested in macroeconomic balance than in efficiency and effectiveness in expenditure programmes), or by spending ministries (which know that resource allocations and cash releases will pay little heed to performance plans). In Mali and

⁵² There are 99 programmes in Mali's Programme Budget

Burkina, though budget bids have to be justified in terms of programme results, the results focus is lost in the allocation process at the ministry of finance. The country study on Burkina notes that programme budget bids by the six ministries required to submit them are ill-prepared and costed, with poorly defined objectives, and based on rather shallow (though deepening) consultation within sector hierarchies and with regional and provincial officials.

In Ghana a major effort went into the preparation of the first MTEF in 1999 for which all spending ministries and agencies had to present their medium term plans by programme, specifying targets and performance indicators. But this was not updated in the following years, as it should have been, because of mounting macroeconomic instability and the approach of elections. In 2003 there will be a second attempt at institutionalising a results-oriented budget backed by a medium term framework linking service delivery performance with resource allocation.

Even in those countries where results-oriented budget processes are most firmly established – Tanzania and Uganda – there is an element of *trompe l'oeuil*. Budget allocations are not really decided as a function of fully and reliably costed results. They tend to be incremental, even if apparently justified by results. The major shift of resources to pro-poor programmes (through the PAF in Uganda and the priority programme system in Tanzania) occurred before output/performance budgeting was formalised.

Nevertheless, these two countries' MTEFs represent an important step forward in making spending ministries and agencies accountable for service delivery in their sectors to central ministries. The central ministries are now strengthening their performance monitoring and assessment capabilities, and thus their capacity to press spending ministries to remedy the causes of performance shortfalls. Sector ministries in these countries have reproduced this pattern of results-accountability in their relations with local government authorities in the districts which have constitutional responsibility for much front-line service delivery. Districts are required to justify their bids for grants from central government with service delivery targets and medium term, performance-based, expenditure plans, and to report regularly on results achieved.⁵³

In other countries programme performance assessment at the centre is less effective and more remote from budgetary preparation and review. In Bolivia central monitoring and evaluation comes under the Minister of the Presidency, and does not provide feedback to spending ministries either through budgetary or administrative channels. In Mali and Burkina it is appropriately located in ministries of the economy and finance, but these ministries lack resources and capacity for the task. In Ghana, the survival of the process will depend heavily on overcoming dysfunctional divisions of responsibility for monitoring at the centre, and on strengthening the monitoring capacity of central authorities and evaluate sectoral performance and their willingness to use evidence of performance in budget allocation decisions.

PRSPs

The PRSP process has lent weight and momentum to the movement towards results-based budgeting because of the important role in most of them of pro-poor public service delivery – in education, health, water supply, transport etc. It has not however been an entry point in the countries under review. Its relationship with medium term budgeting has been awkward in a number of countries. Indeed, in most countries PRSPs lie outside the budget process and are at least partially inconsistent in respect of physical targets and financial allocations with budget documents.

⁵³ cf. Section 6.6 below

The inconsistency is most marked in Ghana where the Ghana Poverty Reduction Strategy (GPRS) was produced little more than a year after the implementation of the first MTEF but with inconsistent statements of objective and targets which are compared and contrasted in the Ghana country study. MTEF targets had higher recognition and ownership in sector ministries and agencies than those of the GPRS. Nevertheless the GPRS was seen by the government as superseding the MTEF and it thus contributed to demise of the first MTEF. Care is being taken in the MTEF now being prepared to ensure consistency with the poverty reduction strategy.

Uganda conceived its first Poverty Eradication Action Plan (PEAP) in 1997. This was revised in 2000, and again in 2003, and has become accepted as Uganda's PRSP. The initial PEAP acquired a high policy profile in Uganda and with donors. It was rooted pre-existing sector strategies for education, health and roads. However, its targets, when costed, were found to be out of reach in terms of the aggregate resource envelope calculated for the first MTEF produced in 1998.⁵⁴ In Uganda, unlike Ghana, there has been a positive symbiosis between the two parallel planning exercises. The PEAP was considered as setting the strategic direction, while the sectoral budget framework papers which prepared the MTEF defined the achievable rate of progress towards PEAP objectives.

In Tanzania the poverty reduction strategy is regarded as an evolving guideline rather than as a blueprint for action. The country study draws attention to the loose (and loosening) relationship between the MTEF and the PRSP – with, as in Uganda, budget allocations below levels needed to meet PRS targets.⁵⁵ The shortfall is made up to an unknown extent by the relatively large element of donors' assistance that remains extra-budgetary. The relationship between MTEF and PRS service delivery targets is more cloudy in Tanzania than in Uganda, as the two parallel documents express equivalent targets at different levels of aggregation. This has been a complicating factor in PRS monitoring, requiring ministries and agencies to present performance data in different ways for different audiences.

The countries where the PRSP process fits most harmoniously with that of the MTEF are Burkina Faso and Mali. In these countries the MTEF and programme budgets share the same objectives, targets and monitoring processes as the PRSP, and are conceived of as instruments for giving effect to the poverty reduction strategies. Even here, the PRSP came later, drawing on objectives and targets found in existing sector strategies and programme budgets. In Bolivia, by contrast, the well regarded PRSP rests on shaky foundations in the absence of the stiffening of a disciplined budgetary process with a medium term perspective.

Civil service reform

Results-based management reform in the civil service has played a useful complementary, but subordinate, role to reform of public expenditure management and to performance management at the sector level. Its implementation has been patchy, even in the best cases.

Tanzania and Uganda quite appropriately embarked on programmes of results-based management reform at approximately the same time as they formalised results-based budget practice. The two reforms are complementary in that results-based budgeting seeks to commit organisations to achieve results though their expenditure of public funds, while results-focused personnel management offers rewards and incentives to employees who make effective contributions to their organisations' declared objectives. Both are techniques for overcoming divergence of objectives and motives between principal and agent. The logic of the two reforms is that responsibility for financial and resource management decisions should be devolved to front-line managers, subject

⁵⁴ Williamson (2003), Chapter 3

⁵⁵ Rønsholt (2003), Chapter 4

only to prior agreement on the results to be achieved, the resource envelope available for achieving them, and the rules governing the processes used.

Bolivia has used civil service reform as its main vector for results-orientation and performance enhancement. The SAFCO law of 1990 introduced annual personal performance plans for civil service managers and annual operating plans, with targets, for ministries. However, ministerial operating plans are largely disregarded in the budgetary process. Performance targets for ministries, though, have been revived under the Institutional Reform Project (2000). These reforms have sought to regularise civil service recruitment, create a professional cadre, and institute merit-based promotions within a framework of results-focused institutional management. Unfortunately, they have been poorly implemented: institutional objectives and targets, with notable exceptions, have not cascaded down and annual personal performance plans tend to be disregarded. The tradition of clientelism in appointments and preferment has persisted.

The Bolivian civil service reform has lacked central direction and consistent implementation. In a process that bodes ill for sustainability and coherence with results-oriented reforms, the Institutional Reform Project, staffed by consultants reporting to the Vice President, usurped some of the responsibilities of central civil service management (Superintendency of the Civil Service and National Service of Public Administration) by concluding ad hoc 'reform agreements', including donor-funded pecuniary incentives, with the ministries and agencies that accepted its support.

The reforms of the civil service and of public expenditure management have lost the unifying thread with which they were originally tied. Budget reform has been a dead letter. As a consequence good practice in performance budgeting and management has remained confined to a few externally-supported 'islands of excellence'.

In Tanzania the Civil Service Department started promoting its ambitious and wide-ranging 10-year Public Service Reform Programme in 1999 in which personnel management reform featured centrally, alongside strategic planning, performance budgeting, service delivery surveys and M&E. This was initially introduced into central ministries – President's Office, finance, civil service, local government – and later extended to other central government institutions. Staff appraisal procedures were introduced, with the prospect of accelerated promotion for good performance. 'Selective salary enhancements' financed out of a centrally managed Performance Improvement Fund were offered as an additional personal incentive. Implementation of this programme so far has been patchy. It has yet to be extended to all government agencies, and rigorous staff appraisals are still the exception rather than the rule.

In Uganda a Results-Oriented Management initiative was launched in 1997 by the Ministry of Public Service, initially in 7 ministries and 5 local government districts. Its pursuit was left to the senior managers of the agencies concerned who were encouraged to produce 'annual performance plans' outlining strategic objectives and output targets. The latter include process improvement targets, as befits institutions charged with resource allocation and regulatory, but not direct service provision, responsibilities. Training facilities have been offered. The initiative has been implemented with some enthusiasm in the Ministry of Health, but not so elsewhere, as in the Ministry of Finance. Its patchy implementation has been one weakness of Results-Oriented Management. Another weakness is that it has been rarely cascaded down to line managers and is rarely used for assessing and managing their performance. The initiative, though not linked to the budget process, is however congruent with performance budgeting and has strengthened ministries' ability to construct results prospectuses that are consistent with their medium term resource expectations.

A feature common to all countries examined is that managers of front-line services and their hierarchical programme managers still in principle have very little flexibility in resource deployment. Virement authority is vested is rarely devolved below the level of ministers or the heads of agencies, and in some cases remains with the ministry of finance. Staffing and complementing decisions remain the prerogative of central civil service management. Local managers are not empowered on their own authority to alter prescribed staffing levels or grades in order to improve the cost-effectiveness of service delivery, nor can they readily switch funds between staff and non-staff items of expenditure in order better to satisfy local needs or unanticipated requirements. One of the basic principles of results-based management – that of the accountable devolution of responsibility for resource deployment to local managers – remains widely violated, at least on paper. Practical flexibility is often achieved through unauthorised or concealed adjustments to budget allocations.

Conclusion on entry points

Experience in countries in the sample suggests that the most promising starting points for introducing performance-based expenditure management are medium- or longer-term results-focused sector strategies which are progressively woven into the fabric of medium term expenditure framework-based performance budgeting at the national level. This can be lubricated and reinforced by results-based personnel assessment and management practices, but only as and when a demand for these emerges from top management in government ministries and agencies.

Administrative rigidities will continue to place limits on the devolution of resource management responsibility to lower levels in the hierarchy. However, a good start can be made in performance budgeting and management without this, based on (i) the powers of decision and the accountability for results of the heads of ministries and agencies, and (ii) the deepening and widening of consultation of staff in agencies and service beneficiaries about needs and the feasibility of satisfying them.

6.6. Decentralisation makes performance budgeting/management imperative

Most countries under review practise, or aspire to practise, a significant degree of political and administrative decentralisation. The purpose of decentralisation is to bring service provision closer to the people and to make it better adapted and more responsive to local needs. This means that the front-line public services that are vital for poverty reduction are, or will be, provided not by central government agencies but by local governments. As much of the funding for local government comes from central government (90% in the case of Uganda) sector ministries in central government perform the role of principal, and local governments that of agent. SWAps first, and now the PRSP process, make governments to a degree answerable to donors for the poverty reduction and public service delivery results achieved from public expenditure and donor support.

Where financing is centrally managed, but service delivery responsibility is decentralised to elected local authorities, the resulting principal-agent problem has to be solved by agreements on strategy and service levels between central and local governments, backed up by associated, results-based, flows of resources and perhaps sanctions for non-performance. The country studies show examples of successful practice of this kind; they also illustrate forms of decentralisation which make it difficult for central governments to be sure of delivering their poverty reduction objectives.

The countries in the sample can be grouped as follows on decentralisation:

- *Burkina Faso and Mali.* These countries inherit a tradition of centralised political power, with degrees of ‘deconcentration’ i.e. the administration of centrally directed programmes through regional and local directorates. Elected local authorities in municipalities and communes operate certain services, such as water supply, drainage, refuse collection, but these are outside the purview of central programmes and of centrally agreed policy objectives and targets. Elected local officials are involved, but only in a consultative role, in formulating local bids for funding centrally-provided services under programme budgeting.

In Mali there is a growing number of successful village community-based primary schools and health centres which provide accessible, if basic, services to users. The mayors of the communes where these establishments are located provide some funding and exercise general supervisory responsibilities. Central government and donors provide other resources. But there are no performance guidelines from sector ministries and the community based establishments are out-competed on professional staff salaries by the state sector.

In Burkina Faso the approach to target setting in government-run services (education, health, agricultural support etc.) has hitherto been predominantly top-down, but involvement of deconcentrated officials is increasing. The trend to deconcentration is strengthening, too, in responsibility for programme management and financial control. In Mali the country study notes the common failure of agreed programme budgets to disaggregate targets to the regional and provincial levels at which services are managed by deconcentrated levels of administration.

- *Ghana.* Ghana is yet to implement its Local Government Services Bill which will decentralise responsibility for basic services to district assemblies. Education, health, main roads and agricultural services are still administered at the local level by deconcentrated local offices of central ministries and agencies. District assemblies, nevertheless, receive block grants, constitutionally fixed in aggregate at 5% of domestic revenues, for the provision of local services such as access roads and local water supplies. The Ministry of Local Government and Regional Development administers the grants and inspects the projects and book-keeping of district assemblies but does not tie grants to results, nor does it seek to enlist the assemblies into the realisation of a nationally-devised framework of targets for service provision.
- *Bolivia.* Bolivia has actively promoted the decentralisation of responsibility for local services, including basic education and health, to municipalities. Municipalities are subject to the same requirement that they produce annual operational and performance plans as other levels and branches of government. Practice remains uneven, but the country study notes that the quality of activity planning and budgeting in local governments is improving. In education and health, where sector ministries are committed to achieving results and have set up performance management systems, targets are disaggregated and there is active coordination with local government service providers, who are assisted with finance, professional guidance and the provision of staff. Results are reported, monitored and subject to analysis (such as in performance league tables) in sector ministries.
- § *Cambodia.* In Cambodia the provinces and municipalities, under appointed governors, have acquired a high degree of *de facto* discretion in the implementation of national policies. The country study notes, nevertheless, that there was no formal consultation of the provinces in the preparation of Cambodia’s PRSP. The provinces receive grants from the national budget, as well as having their own local revenue sources. Most grants, to cover recurrent and capital expenditure, are earmarked by central government to sectors and expenditure heads, but in practice they are used fungibly. Most public services are provided by provincial governments, often through their district pro-poor level offices. The government is now also promoting the role of newly-elected lower-tier councils (in communes and sangkats), to which it makes block grants

from an earmarked fund within the national budget.

The country case study describes how the ministries of education and, to a lesser extent, health have, nevertheless, managed to institute systems of performance targeting, reporting and management in collaboration with decentralised local government-run providers. To achieve this they have used the leverage given them by purpose-specific Priority Action Programme grants that they administer, and by their role in the national deployment of professional staff.

§ *Tanzania and Uganda.* Tanzania and Uganda have, since the late 1990s, instituted still evolving, but sophisticated and systematic, systems for decentralising to elected district (and lower tier) administrations responsibility for providing most basic (pro-poor) services – education, health, infrastructure. Both countries have, with some success, integrated local government into their national systems for results-oriented budgeting and performance management.

Local governments are made well aware, though consultation and information, of national and sectoral objectives and targets, and they are required to prepare, for sector ministry approval, their own performance-based medium-term plans and budgets. They are free to take their own operational decisions and, within limits, to adapt targets and provision quality to local needs and preferences. They monitor and report their results according to schedules agreed with sector ministries' statistical services. (In Uganda district health services are acquiring some proficiency in performance management). These data are fed into sector management information systems, and form the informational basis for the annual performance reports prepared by sector ministries as part of the annual budget cycle. Implementation of these reforms is still on-going, and district level performance varies widely.⁵⁶

In Uganda quite serious principal-agent problems were experienced in the early stages of decentralisation when block grants from the centre to district governments were found to be subject to extensive 'leakage', i.e. they were not reaching the service providers for which they were intended. The central government has responded by making its grants 'conditional', i.e. only released on the production by districts of approved results-accountable plans and budgets. There are now 20 conditional grants accounting for 75% of central government's financing of local governments. Sector ministries (in particular education) have also publicised the service delivery levels that local communities should expect, given the amount of their directed funding of districts' services. They have encouraged a non-governmental association, the Uganda Debt Network, in its monitoring of Poverty Action Fund-financed activities.

The principal-agent problem in seeking to deliver national targets through decentralised local government authorities has thus considerably mitigated through a combination of: (i) the articulation and communication of national objectives and targets, (ii) directed grants whose magnitude may be varies as a function of planning, budgeting, implementation and reporting performance, and (iii) stimulation of monitoring and political pressure by beneficiaries and civil society monitoring groups.

The general conclusion to draw from these examples of decentralisation is that it is possible and beneficial to decentralise the implementation of pro-poor public expenditure programmes to elected local government bodies provided that this takes place within a performance-based framework with incentives sufficient broadly to align local government agents' agendas with those of sector-level or central government principals. There are no ideal formulae for this. Tanzania and Uganda have, however, laid the foundations of systems which, though burdensomely bureaucratic and with some incentive to embellish reported results, have begun to prove their worth in spreading good practice

⁵⁶ The Uganda country study compares and contrasts resource mobilisation and management and service delivery in two otherwise similar districts, Bushenyi and Iganga.

and implementing pro-poor policies. Because of their strategic importance these systems lie at the heart of performance budgeting and management in these two countries.

Chapter 7: Weak links in the chain: performance management and accountability

For all their variety, and with all their differences in administrative culture, the case study countries exhibit the same or similar areas of weakness, albeit in different degrees, in monitoring and evaluation, performance management and the demand for performance-accountability. The hypotheses on these matters entertained at the start of the research programme are largely borne out by the evidence. The lack of demand for evidence on results with which to hold governments to account lessens the pressure on both service providers and performance management and budgeting systems for improvement in results and for higher quality and more timely evidence. It poses a threat to sustainability.

7.1 Monitoring, evaluation and performance management

Table 3 summarises the findings of the country case studies on the topics of monitoring, evaluation and performance management, i.e. the feedback activities on the right-hand side in Figure 2.

Performance indicators

In general there is no lack of performance indicator data. The management information and statistical services of social sector ministries have been collecting and reporting this data for decades, as requested on health by WHO and on education by UNESCO. The data is often not timely, nor sufficiently disaggregated and cross-referenced to information on financial and human resources to be usable for efficiency studies and policy analysis. It can, however, be improved in coverage and depth when this is demanded. The proof of this is the proliferation of proposed performance indicators sparked off by the advent of performance budgeting. A common complaint is now that there are too many indicators calling for excessive effort in reporting. (Programme budgeting in Mali has spawned 1000 indicators). Professionals and programme managers have seen strategic value in drawing attention to their functions by providing more activity and output evidence about them.

The challenges ahead for the production of performance data are:

- Re-formulating reporting requirements so that data collected is suitably filtered and rendered meaningful for vertical and horizontal accountability, publication, performance assessment and policy analysis purposes.
- Focusing on short lists of strategic indicators which are highly representative of progress in service delivery and poverty reduction – for use in policy and performance analysis at the centre, and for PRS monitoring.
- Insistence on the timely production of data, using material incentives as appropriate.
- Institutionalising data verification, e.g. by spot checks, sample surveys and triangulation with data provided by surveys conducted by national statistics offices.

Table 3: Reporting, monitoring, evaluation and performance management

	Performance data	Surveys	Evaluation, Planning and Audit	Benefits of Performance Management
Bolivia	Sector performance data is recorded and reported but not published	Household budget	At sector level there are isolated cases of use of data for performance analysis; at centre Ministry of Presidency has M&E unit to which sector ministries send data, but it is held in low regard	Local and limited to sectors like education and health practising performance management
Burkina Faso	Main sector ministries collect data, but behind schedule (delaying PRSP monitoring)	Demographic & Health survey; LSMS (3 rounds); annual health and education delivery surveys; CWIQ (planned)	Spending ministries have functioning Evaluation and Planning departments; data analysis by ministries and national institute of statistics regarded as weak; no performance audit; no use of benchmarking	Little evidence so far
Cambodia	Largely limited to education and health where management information systems are operating well; coverage and disaggregation being increased; sample verification surveys being conducted; there is weak linkage between physical and financial performance evidence	Demographic & Health and household budget surveys exist and are to be used in poverty monitoring, but not specifically for expenditure programme monitoring	Impact and beneficiary incidence analysis in education and health being improved and exploited at sector level	Sector ministries are using performance analysis for policy purposes; plans exist to improve availability of performance data to programme managers at provincial level to inform local decisions, and to strengthen horizontal accountability to users
Ghana	Sector ministries have competent reporting arrangements and statistical units, but performance reports are often late	LSMS (4 rounds); CWIQ; beneficiary assessment surveys	a. Policy, planning, monitoring and evaluation departments in spending ministries often under-valued and under-resourced;	Little effective use made of long – standing evidence of failure of sector strategies (e.g. FCUBE) to reach objectives

	Performance data	Surveys	Evaluation, Planning and Audit	Benefits of Performance Management
			<p>b. performance evaluation at centre split between Ministry of Planning and Office of Vice – President and under – resourced;</p> <p>c. performance audits by Audit Office planned; team being trained</p> <p>d. no effective internal audit</p>	
Mali	Sector ministries collect performance information, but there are unreconciled discrepancies, e.g. in health	Sparse, outdated, survey information prior to 2001; Statistics Institute lacks capacity	Sector ministries statistics and finance departments use performance information to justify programme budget bids, but not as a diagnostic tool for policy analysis and resource management	
Tanzania	Sector ministries collect routine data for statistical purposes; local governments required to report performance data (mostly inputs);	Household budget survey 2001 will provide poverty monitoring baselines; pilot service delivery survey;	<p>a. Poverty monitoring technical working groups at centre, including research and analysis</p> <p>b. Most MDAs lack evaluation and performance management capability</p> <p>c. Local governments track service delivery</p> <p>d. Controller-Auditor-General has authority to conduct performance audits</p> <p>e. Treasury has set up Technical Audit Unit to stimulate internal audits</p>	Weak feedback into strategies, plans and operations
Uganda	Abundant sector performance data (now in need of rationalisation)	Demographic & Health Survey; Household budget survey; Participatory Poverty	Effective Poverty Monitoring Unit; Value-for-money audits planned but not implemented; financial audit still	Cases reported of the use of performance data and beneficiary assessments in resource

	Performance data	Surveys	Evaluation, Planning and Audit	Benefits of Performance Management
		assessments; Service delivery surveys; selective expenditure tracking surveys	weak, but supplemented by tracking surveys	allocation and service design in local government and sector ministries; but managers lack experience in this

Source: Country studies

Performance assessment and analysis

There are serious weaknesses in all countries in the use that they make of performance data for diagnostic purposes, and for informing decisions on policy and resource allocation and management. The collection and reporting of performance information is still regarded as a statistical exercise conducted at the behest of donors – for the purpose of sector performance monitoring – or because it is a requirement of programme or performance budgeting.

At the sector level ministers and senior officials are unsure what to do with the (now abundant) information that they receive, particularly because the channels of their accountability for results are narrow and obstructed. In Tanzania ministers have little interest in the achievements against targets of executive agencies, although they sit or are represented on their boards.⁵⁷ The programme evaluation departments of sector ministries are usually not strong, notably so in Ghana. Their voice in planning and budgeting decisions is usually overlaid by tactical considerations connected with annual bids for budget resources, and by the power of professional and other vested interests. Major resource reallocation decisions – such as the priority given to pro-poor programmes in Tanzania and Uganda or these countries' decision to abolish primary school fees – have been taken more on the basis of conventional wisdom, than on from internal evidence of policy and programme effectiveness and unmet needs.

Nevertheless, there are examples in the case studies of the use of performance information *at the sector level* to reflect on the reasons for the failure to achieve policy targets and to take appropriate action. This has occurred in the health sector in Uganda. Sector ministries are making more common use of comparative performance league tables and beneficiary assessments to identify cases of good and bad performance as a basis for reflection on how to raise the standards of poor performers. The ministry of health in Bolivia performs this analysis. Ugandan sector ministries use benchmark standards in their assessment of districts' sector plans, rewarding the better districts, as an incentive and example to others, with higher conditional grants.

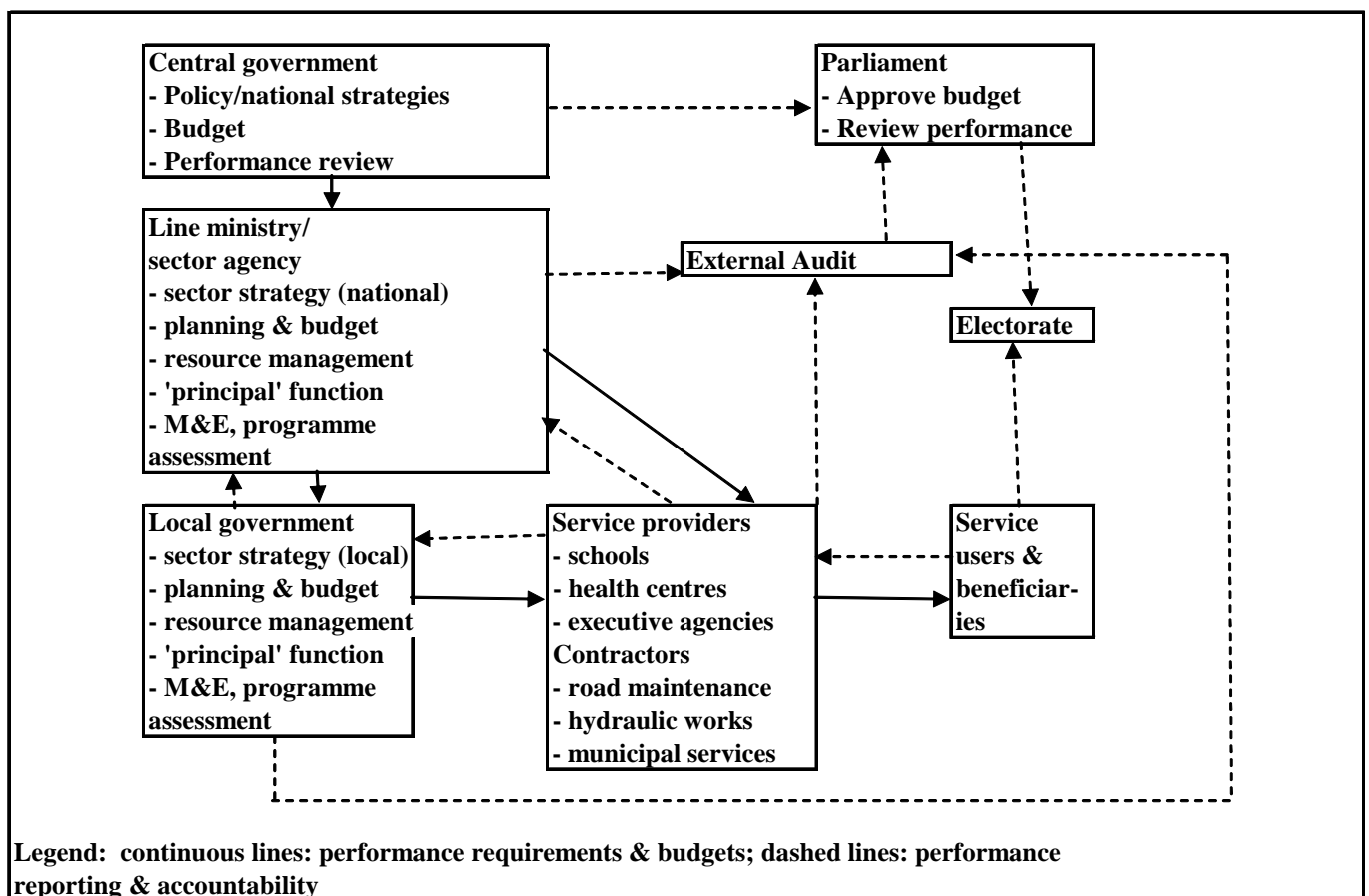
Performance management *at the centre*, by the various agencies charged with MTEF performance monitoring and PRSP monitoring gives greater grounds for concern. Spending ministries and agencies are required to justify their budget bids with performance reports as well as plans and targets, but ministries of finance and planning typically are unequipped to assess the performance information with which they are showered. Bolivia has set up a special central performance monitoring agency (SISER) in the Ministry of the Presidency, but its effectiveness is questionable because it receives poor quality information, is secretive about its conclusions and has no responsibility for, or channel through which, to influence resource allocation and administrative decisions. There will be a weakness at the heart of performance budgeting until central ministries and agencies find the willingness and resources to hold spending ministries effectively to account

⁵⁷ Caulfield (2002)

for their past performance and to take consequential decisions, i.e. until they acquire a capacity for performance management.

Ironically, it appears to be in some *local governments* that there are most encouraging signs of the routine use of evidence on performance in taking administrative and budgetary decisions. Most of the instances are in Tanzania and Uganda where performance budgeting is becoming the defining principle of relations between central and local government. Local government politicians and programme managers in Uganda are aware that sector ministries are monitoring their plans and results for the purposes of allocating conditional grants. The loss of grant through dereliction of duty has led politicians to lose their seats at local elections. There are thus political incentives to understand and deal with the causes of poor performance where this occurs. Uganda has plans for a Fiscal Decentralisation Strategy with stronger and more equitable rewards for cost-effectiveness in local government services than have existed hitherto. In Bolivia, citizens monitoring committees set up by the Participation Law are most representative and effective at local government level.

Figure 5: Performance management: budgets and lines of accountability



7.2 External accountability

A common characteristic of all countries in the sample is the relative weakness and ineffectiveness of accountability of service providers to service users, external auditors and democratic scrutiny. The weakness of political demand outside government – in parliament, local councils and non-governmental pressure groups – for better public services and for evidence and analysis of performance has resulted in the under-development of performance audit by national audit

institutions, and in a generally quiescent civil society. Exposure by audits, tracking studies and expenditure reviews of financial mismanagement and of the failure of expenditure programmes to attain their objectives rarely sparks off acrimonious debate. Party and elective politics are mainly about achieving and distributing power, not about the clash of alternative visions of the way to manage and deliver public services.

Earlier in this paper⁵⁸ there was reference to the role of external accountability in sustaining the impetus of and pressure for results-oriented processes in government. The lines of external performance accountability typical of case study countries are depicted in Figure 5 – a more elaborate representation of the relationships shown in Figure 4.

The case studies make it clear that, though accountability relationships on the left-hand side, previously described, linking service providers to central government via local authorities and sector ministries are becoming formalised and strengthening, those on the right-hand side linking service beneficiaries to providers, local and central government, national audit and parliament are weaker and more haphazard. The consequence of this is that most pressure for performance improvement is internal to the central and sectoral bureaucracy. Where this is led by strongly motivated and driven officials performance budgeting and management has made strides and achieved effectiveness; elsewhere it tends to degenerate into a formality without great meaning or effect.

However, there are instances where the instruments and practices of external accountability are starting to take root. The country case studies identify some of these.

Horizontal accountability

Bolivia has taken the most deliberate steps in institutionalising beneficiary participation in planning and budgeting and performance monitoring. The Participation Law of 1994 requires public administrations – at the central, regional and local levels, to establish ‘juntas de vigilancia’, civil society liaison and monitoring committees. The country case study indicates that these bodies work best at the local level, in villages and small municipalities, where physical access to these committees is easiest and their membership is most democratic. At higher tiers of government representation tends to be dominated by political and special interest groups. Whatever its limitations this exercise in horizontal accountability has fostered a new culture of openness and a willingness to share information in administration and service provision.

The studies on Uganda, Ghana and Mali refer to service providers’ outreach to user groups, particularly in education where parent–teacher associations are common. Schools in Uganda value the support they receive from their PTAs in their bids for budgetary resources.

In Uganda, too, there are active NGOs such as the Uganda Debt Network, which are committed to monitoring the implementation and achievements of the poverty reduction strategy. The government has given these groups good access to the analyses of the Poverty Monitoring Unit prepared for PRSP monitoring and to sector performance information prepared for output budget presentations.

National audit and parliamentary scrutiny

The country studies show that performance and value-for-money audits are still very little practised, although provided for in the SAFCO law of 1990 in Bolivia, and in Tanzania’s Public Finance Act

⁵⁸ Chapter 2, section 2.7

of 2001. In Ghana the public financial management reforms initiated in 1998 provided, *inter alia*, for the Ghana Audit Office to undertake performance audits, after re-structuring. The proximate causes of slow progress revealed in the studies are shortages of trained staff and funding. Ghana has received support from the EC to develop its expertise in this area.

A more fundamental cause is that, at least in Anglophone countries and in Bolivia, controllers and auditors-general report to parliament, but that parliaments pay little heed to the financial and administrative shortcomings that audit reports may reveal. There has been little tradition of using audit reports as bases for calling government ministers and officials to account for their revealed performance failures or maladministration. The Bolivia study notes that Congress has little stomach for the scrutiny of the, now technically improved and more timely, reports of the audit office. However, another product of Bolivia's reforms of the 1990s was the institution of the office of public ombudsman (Defensora del Pueblo) with responsibility for investigating cases of maladministration. Though without immediate bearing on results accountability this office plays a complementary role in further reducing the immunity of public administration from public scrutiny.

However, there are encouraging signs of change. In Uganda not only does the Public Accounts Committee scrutinise and comment on the Auditor-General's reports with some alacrity, but MPs in general are becoming increasingly interested in sector performance. Ministers are requested to make annual statements to parliament about the performance of their ministries. It remains, however, for sector select committees to exert the authority and influence that they could wield were they to have at their disposal critical independent assessments of ministerial performance and of sector service delivery.

Ghana is another country where MPs are beginning to take a deeper interest in the performance of public services and in progress in the poverty reduction agenda. If pursued and sustained, this interest should result in a more focused approach to performance management and reporting in central and sectoral ministries and agencies.

The country study of Burkina Faso notes that, though it lacks standing machinery to investigate public accounts and the administration's performance, the National Assembly's committees are used to conducting enquiries on specific issues.

Chapter 8 General Conclusions: How Does Performance Budgeting And Management Start, And Does It Improve Poor Countries' Performance?

This survey casts serious doubt on the theses that poor countries cannot succeed in implementing results-oriented budgeting and performance management because of macroeconomic instability, poor budget management, the 'informality' of institutions or laxity in fiduciary standards of public expenditure control. However, it provides evidence in support of a more nuanced interpretation that shortcomings in these areas are bound to limit the effectiveness of managing public expenditure for results, particularly in sectors and institutions where there are no countervailing forces that mitigate the damage that general policy and institutional failures can do.

The country case studies summarised in this paper show that low income countries are able to make serious, and in some cases sophisticated and ingenious, attempts to introduce results-oriented budgeting. In the countries reviewed, moreover, the initiative for and planning of these exercises has been largely indigenous, unlike the better known adoption of poverty reduction strategies, which received high pressure international support from the International Financial Institutions and the donors.

8.1 Entry points

It is apparent from the cases that there have been several 'entry points' through which countries have acquired familiarity. These include donor-supported sector-wide programmes with a results-focus, the adoption by central government of medium-term budget and expenditure frameworks – often with the encouragement of the World Bank, the introduction of performance management into civil service management practice, in both central and local government, and political and administrative decentralisation.

There is no obviously logical sequence of events or policy initiatives in introducing performance budgeting and management. However, it is a matter of repeated historical fact in all the case study countries that sector strategies and programmes in education and health supported by SWAPs have played a defining and formative role in developing comprehensive results frameworks – which spell out means, priority actions, and outputs, as well as policy goals and outcomes – and in correcting these in the light of experience. This experience has been of great importance because results management is a highly empirical science in which changing relationships between inputs and outputs, and between outputs and outcomes, cannot be known *a priori* and have to be discovered by, and projected on the basis of, experience.

Sector-level experience of budgeting and managing for results is however precarious and ultimately unsustainable unless buttressed by and integrated into performance budgeting and management at the national level. Donors cannot for ever be relied on provide two important ingredients for sustainability, viz. (i) predictable, if conditional, financing, and (ii) a powerful interlocutor, external to the sector, who looks critically at both past achievements and future objectives and targets and hold sector authorities to account. Ministries of finance are best placed to fulfil this role.

In adopting results-oriented MTEFs and programme budgets ministries of finance in five out of the seven case study countries have capitalised on the prior SWAP-supported sector strategy work, borrowing targets and indicators from sector strategies where these exist, and using their example as

a template for practice in other sectors. They have imposed a common framework and common procedures through which they can, and on some cases do, exercise a necessary leadership and directing role.

Public expenditure reviews were common practice in many countries prior to the introduction of results-oriented MTEFs or programme budgets. They were variable in quality and approach – some routine, superficial and generally unaudited accounts of past years' expenditures, others in-depth, insightful, investigations of particular programmes. The country case studies show that these played only a limited formative role in performance budgeting. Investigative reviews have been too tardy for performance management purposes. The habit of routine accounting for past expenditures by programme has, however, helped to prepare spending ministries for the requirement of performance budgeting that they render account each year in their budget bids for their past stewardship.

The PRSP process has not been an entry point for results-oriented budgeting and performance management in most of the countries in the sample. In Bolivia, Burkina Faso, Ghana and Mali PRSPs were drafted after, in some cases years after, the first steps in performance budgeting were taken. In Tanzania and Uganda precursor poverty reduction strategies grew up in parallel with new budget practice, but drawing on pre-existent sector strategies. Even in Cambodia, a latecomer, results-oriented planning and management had made strides in the education and health sectors well in advance of preparations for the recent full PRSP.

PRSPs tend to focus on policy goals and intermediate outcomes whose realisation is subsequent to the medium term horizon of budgetary planning. Their matrices of actions to be undertaken in the short- medium-term are selective, and not always consistent with actions and results stipulated in MTEFs. Uganda's first PEAP's operational (as opposed to strategic) usefulness was limited by the fact that its targets required resources in excess of those provided in the MTEF. The PRSP process is also often managed and monitored by governmental bodies – whether inside or outside the ministry of finance – which are distinct from those in charge of the budget. Insufficient coordination between the two gives grounds for concern in some countries. The PRSP process should give a fillip to performance budgeting and management because improved standards of service delivery for poor people depends in good part on the effectiveness of performance enhancing practices. It is important now to strengthen the administrative junction between the two, and to avoid rivalry.

Civil service reforms focusing on personal and institutional performance have been yet another angle of attack in the introduction of performance management into several of the case study countries. Of all the influences, as Bolivian experience shows, it seems to have had the least impact. The main reason for this is that the reforms have been promoted by agencies – often the civil service ministry – with limited political clout, and decisions on whether to adopt the disciplines and practices promulgated have been left to ministers, heads of agency and senior officials in individual ministries and agencies. There has been no explicit or implicit incentive – budgetary or otherwise – to adopt these practices. The link with performance budgeting requirements has been too weak and uncoordinated.

8.2 Preconditions

In Chapter 7 it is argued that previous authors have exaggerated the difficulty of the conditions that must be fulfilled before countries can make a meaningful start on introducing results-oriented practice. The evidence of the country case studies shows that it is not vital that there should be high standards of macroeconomic stability, budgetary predictability and discipline, programme budgeting, fiduciary management, the rule of law and contract enforceability, and even 'formality' and accountability in administrative appointments and culture before introducing performance

budgeting and management reforms. It is not even necessary to have programme budgeting, nor that budgets should be ‘hard’, i.e. immutable in-year. Indeed, the implication from the case studies is that full-blown programme budgeting may be unmanageable as well as unnecessary. A half-way-house is preferable and more feasible in which responsibility rests with the heads of established ministries and agencies with prime responsibility for programmes for delivering programme results. This avoids the complex and unsettling need to reorganise administration around programmes.

The evidence does however confirm that sound budget management, financial accountability, disciplined administration and the rule of law are important, and that the full benefits of performance management – in terms of focus, efficiency, effectiveness and accountability in the programming and management of public expenditure – depends on parallel action to raise standards in their regard. The studies show that budget predictability and a public service ethos of accountability and recognition of performance are particularly helpful. They also give examples of the considerable ingenuity exercised by officials, at the sector and national levels, in overcoming the institutional and governance shortcomings with which they are surrounded.

The studies also show that a precondition for successful introduction of results-oriented practice at the national level is that there should be an unified central driving force – generally a ministry of finance – which lays down the procedures and practices to be followed by spending ministries and agencies, dictates timetables – in general in step with the annual budget calendar – and is in a position to offer rewards or apply penalties as an incentive to compliance. Budget reform should be closely coordinated and congruent with public administration management reform and poverty-reduction strategy initiatives. Alongside central commitment there is a need for political commitment within the government to the achievement of results and the delivery of pro-poor services. This is all the more important because of the relative weakness of voices in parliament and civil society demanding accountability and results. The central driver should be in charge, at the apex level, not only of planning and budgeting for results, but also of monitoring, evaluation and results management. Where these responsibilities are diffused among several central agencies – as in Bolivia and Ghana – there is a loss of momentum and direction.

8.3 Other conditions for success

There are other characteristics of well-functioning and sustainable systems of performance management and accountability.

First, the existence of machinery for systematic results evaluation and lesson learning. Management for results is an evolutionary process. Countries should evolve their own management systems and solutions – learning from good practice elsewhere, but not necessarily copying it, but above all learning from their own experience. In all systems, however, some basic elements should feature, viz.

- SMART⁵⁹ targets based on clear and consistent strategies supported by
- predictable funding arrangements, and
- effective and reliable monitoring and evaluation of programmes filtering and interpreting information from indicators, and providing feedback into pro-active performance planning and management.

Spending agencies and central ministries need strong programme evaluation, analysis and planning/budgeting departments, and also line managers, able to draw lessons from experience and

⁵⁹ Specific, measurable, attainable, relevant and time-bound

to reallocate resources and adjust strategies if need be. The case studies show that practice of performance management is still scattered and tentative in the countries under review, often confined to performance comparisons based on league tables, and that the work of planning and evaluation departments is undervalued.

Second, the presence of a demand from parliament and the public for information and results-accountability. Where it exists, as in OECD countries, it can be a powerful source of pressure on governments to 'deliver' and to demonstrate that they are delivering results. In the countries studies the reports universally note weaknesses of performance audit and parliamentary scrutiny of ministries' and agencies' achievements. It turns out, however, that, though desirable, this is not a necessary condition provided that there is professionalism and commitment to achievement within public administration.

Third, the devolution, within rules, of management responsibility for personnel and other resource management decisions to line managers. In case study countries civil service and financial management regulations allow line managers little leeway to spend their budgets to best effect. Staffing, remuneration and complementing decisions are taken centrally, and programme managers have little discretion to vire between line items in budgets, even for services and supplies, without reference to higher authority. This has not prevented managers from improving their performance because many of them have been operating well within their efficiency frontiers. Nevertheless, it has significantly limited local managers' room for manoeuvre and scope for innovation. (Conversely, decentralisation of financial and personnel management without rules and norms of personal conduct – leading to tolerance of rent-seeking by officials and their oppression of public service clients, and reducing accountability to a charade – is the worst of all worlds. Better the rigidities of rule-bound bureaucracy than untrammelled unaccountability).

Fourth, the introduction of integrated financial management systems is of great assistance in performance management because it permits the close analysis of costs by programme, sub-programme and location, rendering efficiency measurement and monitoring significantly easier and more accurate. By encouraging financial accountability it will in due course also permit greater devolution of managerial discretion in the quest for performance-improving solutions.

The case studies of countries which have adopted results-management with some success show how these features come into existence progressively, pragmatically, in no defined order, and as a result of sequential decisions based on local felt needs. In all cases these processes are incomplete. But this has not prevented an early harvest of benefits from results-management.

The case studies all looked into the use made of material and other performance incentives for achieving results. They found few attempts to give individual managers and staff pecuniary incentives and rewards. Where this is done in Bolivia under the Institutional Reform Project the results are judged to be dysfunctional rather than helpful – encouraging staff to seek posts carrying salary supplements rather than to achieve results. On the other hand, Uganda shows that conferring or withholding conditional grants to local authorities is a powerful instrument for aligning an institutional agent's objectives with those of the (governmental) principal. The loss of grant because conditions are not met is the cause of recrimination among local politicians and officials. With formal performance contracts concluded with executive agencies or private (or NGO) contractors there is in principle the incentive of contract termination for non-performance. In case study countries, however, there is little contest in markets for the supply of public services and the sanction of contract termination is little used.

8.4 Benefits from results-orientation

Budgeting and managing for results are tools in the service of policy. They are not policy in themselves. Unlike other tools, they become sharper with use – just as their use advances the objectives of policy. There should, therefore, be a fruitful symbiosis between results-oriented budgeting and poverty reduction strategies if the former is put in the service of the latter. Conversely, in the absence of clear strategic guidelines and objectives and commitment to their implementation the technical apparatus for delivering results withers through under-use and demoralisation.

The case studies reveal that it is no easier in poor developing countries than in OECD countries to identify tangible benefits from performance budgeting. ‘With-and-without’ statistical analysis using control groups, or cross-country or time-series regression analysis, is made virtually impossible by the nature of the phenomenon under study. The institutional and procedural changes associated with performance budgeting are fragmentary, and occur over prolonged periods. They only become fully effective, if ever, after a learning period of variable length, when a critical mass of parallel, supporting, reforms are simultaneously implemented, and so long as they are subject to strong leadership and to political pressures for accountability and results. Analysis of effectiveness has thus to rely on the imperfect tools of historical inference and the opinions of key informants.

Using these tools the case studies tend to confirm that poor countries can use, and are beginning to use performance budgeting and management as instruments to raise standards of front line public service delivery. As the Uganda study points out, however, application to headquarters functions is more challenging and not seriously attempted.

In the planning and management of service delivery the advantages of results-oriented budgeting mentioned in the literature and summarised in Chapter 2 are now clearly visible, in some degree, in successful low income country adopters. There is:

- greater policy focus and prioritisation in resource allocation, programme planning and management, because bids for resources and their allocations have to be justified in terms of national and sectoral strategies; the shift of the balance of public expenditure to pro-poor programmes in Tanzania and Uganda has been maintained,
- better coherence between achievement aspirations and resources available, and greater realism in target setting, achieved, over time, through increasing experience of difficulties and how to overcome them,
- stronger motivation on the part of line managers and service providers, thanks to consultation about target setting, clearer communication of objectives and targets to be met, and the obligation on service providers to report results,
- more effective diagnosis and treatment of cases of underperformance due to more systematic monitoring and evaluation of results.

The recent experience of Tanzania and Uganda is also showing how the principal-agent problems arising with decentralisation can be significantly mitigated through a results-oriented approach to financing local government by the central government. Both countries have implemented systems of planning and reporting by local authorities focused on their poverty reduction strategies that have developed quickly, albeit unevenly. These systems have spread awareness of programme strategies and targets to officials and politicians at district and sub-district levels, and instituted the requirement to report results. They have elicited constructive responses in the form of results-oriented district plans and budgets – greatly assisted in Uganda’s case by conditional grants. Decentralisation without such a framework, as in Cambodia, makes it difficult to implement

coherent and efficient national poverty reduction strategies, given the likelihood of divergences between the agendas of the central principal and provincial agents.

A particular case in point is primary education. Both Tanzania and Uganda have recently decided to abolish primary school fees to accelerate their progress towards the goal of universal primary education. In Uganda the abolition of fees in 1997 was followed by an explosive 50% increase in gross primary school enrolments, from 85% to 130% of the primary school age group. Enrolment for Grade 1 classes reached 200% of the corresponding age group as many over-age children enrolled. This increase in the demand for school places placed enormous strains on the school system, requiring a large schoolroom construction programme and the recruitment of many new teachers. The magnitude of increase in demand was not predictable with any accuracy. Uganda is grappling successfully with this challenge thanks to effective evidence-based resource planning and performance management. Enrolments are being monitored and resources allocated to areas of unmet need, and at the same time the cost-effectiveness of local authorities as service providers is being checked and measures taken to reduce unit costs of buildings and learning materials.

Without these tools of resource management at its command Uganda might have experienced the education policy setback experienced by Tanzania in the 1970s and 1980s. Tanzania, on that earlier occasion, abolished primary school fees, experienced an immediate increase in enrolments, but failed to provide the resources needed to maintain education quality standards. The result was that standards fell, and enrolments declined to around their previous levels before fees were restored.

The lesson is that major pro-poor policy change can be implemented successfully in poor countries with the aid of the informational, analytical and resource management tools provided by the prior adoption of results-oriented practices.

8.5 Implications for aid donors

Aid donors have played a valuable role in planting the seeds of many of the budgeting and expenditure management practices not to be found in low income countries that have been discussed in this paper. But their role has generally been to stimulate, not to direct. In only some cases (Bolivia) have their interventions confused by promoting too many conflicting initiatives.

The donors have a strong interest in the success of poor countries' performance budgeting and performance management. It constitutes an essential transmission belt in their project to manage development assistance for results. The donors should now broaden their perspective on public expenditure management systems to encompass not only (as now) matters of financial management and accountability but also management and accountability for results.

The role and contribution of performance budgeting and management deserves particular recognition by donors in the context of the poverty reduction strategies and the Millennium Development Goals. The poverty reduction objectives pursued in these processes are, quite rightly, outcomes or intermediate outcomes – towards which public expenditure programmes make major, but not exclusive, contributions. The effectiveness of public programmes in reducing poverty depends on the efficiency with which expenditures are allocated and used to produce programme outputs, as well as on the appropriateness and effectiveness of programme outputs in producing poverty reduction outcomes. The disciplines and practices involved in managing public expenditure for results, and in thereby delivering requisite public services, constitute the infrastructure on which progress towards poverty reduction is built. This infrastructure cannot be taken for granted. It needs to be recognised, understood and fostered. Without it public services tend to be wasteful, ineffective and at the limit dysfunctional.

On this point it is worth repeating a conclusion of the Mali country case study that donors should not rush to judgement about countries' commitment to poverty reduction on the basis of perhaps chance movements of outcome indicators. If there are problems in the engine room of managing public expenditure for results the road to poverty reduction may well lie in the repair and renewal of the machinery involved.

One important lesson for the donors from case studies for donors who acknowledge the importance of results-oriented budgeting is that even poor countries can seek, and find, their own viable, empirical, solutions to the problems of managing expenditure for results. Donors should recognise, encourage and support these quests for solutions, not seek to impose their own pre-packaged answers. They should avoid actions and initiatives that undermine constructive indigenous initiatives, such as the creation of divided, duplicative and competing systems comprising institutions with overlapping mandates and confused reporting lines. There is a thirst for knowledge among officials at all levels about what is being done in other ministries and other countries, and about how they can exert more influence and responsibility in delivering results. Regional and national workshops are well attended. Facilitation of learning and diffusion of knowledge and experience are important tasks for the donor community. Some country case study authors have made contributions of these kinds in the course of this research project.

The case studies underline the importance of unity of purpose and direction at the apex regarding the results to be sought, and the budgets and institutional and civil service management reforms needed to achieve them. They also confirm that, to be effective in policy terms, assessments of past performance should be made and used centrally by the budget authority to guide future expenditure strategy and budget allocations. This has implications for the appropriate locus of PRSP elaboration and monitoring, and suggests there should be the fullest possible consistency, in process and content, between results-oriented MTEFs and PRSPs.

Another lesson is that results-oriented systems take time to bed down and deliver 'real world' results. Donors should give credit for effort, ingenuity and perseverance in constructing systems and building the capacity to make them work, as well as for the real results when they materialise. Understanding why public expenditure programmes do not always yield results and do not always benefit target groups often calls for time, and considerable investigative and diagnostic skills and experience. Donors should help to build technical capacities for diagnosis, on the understanding that their counterparts in the government will tackle the vested interests and institutional bottlenecks that diagnosis reveals.

Finally, the case studies have noted the common weakness of 'external' or public accountability for results in most countries. This threatens the sustainability of results-oriented systems by making their integrity heavily dependent on 'internal' demand for results by the bureaucratic and political hierarchy. If the action of donors can lend greater strength and voice to the institutions of parliamentary and civil society investigation and performance review and, locally to the organisation of user groups, it will strengthen the demand for results accountability, and so entrench the institutions and practices that supply it.

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