

Some Observations on the Concepts and the State of the Art in Performance Budgeting

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I have been asked to speak this morning about the concepts of performance budgeting, the state of the art as practiced and the institutional arrangements for the production and use of performance information. My views derive from my experiences in state sector reform twenty years ago and since in New Zealand¹ and from fifteen years of international consulting.

What I will cover are:

1. some observations on the state of the art
2. the issues I see around the concepts, practice and implementation of performance budgeting – particular the role of finance ministries
3. the implications of these for practitioners and reformers
4. some thoughts on how performance budgeting should develop in both high and low capacity countries

I do not want to spend more than a few minutes summarising material you can read for yourselves and many of you will already be familiar with. A considerable literature on performance budgeting has been produced that covers the concepts, current practices, costs, benefits, challenges and guidelines for implementation. The 2007 report by the OECD² brings together all this for the developed countries. The International Monetary Fund has published a recent volume on the subject³ and there are many reports by other various international financial institutions and many academic papers.

Definitions of performance budgeting

The OECD's recent report on performance budgeting defines performance budgeting as relating funds allocated to measurable results in terms of outputs and/or outcomes and

¹ My views on the New Zealand reforms can be found in: Graham Scott, "Public Management in New Zealand: Lessons and Challenges", Australian National University Press, 2001. This can also be viewed at the website http://www.nzbr.org.nz/documents/publications/publications-2001/public_management.pdf

² Performance Budgeting in OECD Countries; OECD 2007

³ IMF, Performance Budgeting Linking Funding and Results, Marc Robinson (ed), Palgrave 2007

evaluations. It also notes that there is no single model and points to the diversity of approaches. So performance budgeting is a theme about using the budget to promote performance rather than a specific technique such as program or output budgeting.

This wider view is reflected in a definition used by the World Bank in the paper it is circulating at our conference, which is the appropriate use of performance information by key actors at each stage of the budget cycle to inform their decisions concerning resource allocation and to improve efficiency of resource usage. This definition applies to a potentially wide range of processes and methods for applying performance information to budgeting.

The theme of my presentation today might imply a further definition of performance budgeting: it is the work of a budget system that promotes performance improvement through all its components. I think any definition of what the budget can do for performance that narrows the focus to questions about the place of performance information is making too many unstated assumptions about how budget decisions are made and how the budget is executed. Much of the information in a budget system is embodied in the people who run the system and reacts with information that is more in the nature of a commodity. Those people's use of information is largely determined by the environment they are in and the capabilities they have. All this detail really matters to whether performance budgeting performs.

Performance budgeting today

Performance budgeting has quite a long history. The OECD dates the attempts to link budgets and performance data back to the early twentieth century. The 1960s saw the program budgeting techniques developed in the USA spread to many countries. Today the US remain a leader in aspects of performance budgeting. The UK, New Zealand and Australia pioneered various measures for performance improvement in the 1980s in different ways and Canada emphasised evaluation methods. By the early 1990s a majority of OECD countries had some form of performance information but it is more recent that linking this to the budget has been the focus. France introduced a budget reform in 2001. This is field of continuing experimentation and development with a lot of variation among countries.

Recent years have seen an upsurge of interest from developing countries⁴ and many transition countries are working to introduce various concepts. There has been widespread interest and much activity in the area in Latin America and Asia.

It has become a world wide movement.

What all attempts at performance budgeting have in common is the attempt to increase the influence of policy analysis, strategic decision support, performance information in the budget system. Some methods also employ incentives. Within the history of budgeting it rests on stronger foundations of institutional analysis and greater acceptance

⁴ John Roberts, "Managing Public Expenditure for Development Results and Poverty Reduction," February 2003, ODI Working Paper 203.

of the incremental and political nature of budgeting than some previous reform efforts. These include PPBS and zero-based budgeting that sought to impose rational analysis of resource use on budgeting in other ways.

Performance budgeting in context of wider performance improvement

The OECD report notes that the introduction of performance information into budgets “has been linked to larger reform efforts to improve expenditure control and/or public sector efficiency and performance”. I think it is important to consider just what those linkages are. It matters whether a performance budgeting initiative is an incremental adjustment to the budget law and process or whether it is a component of a more comprehensive reform program. An example is the impact on performance of governance arrangements for hospitals, schools and state enterprises, which have implications for the method of funding and the returns for effort in performance budgeting.

In the OECD governments, and other countries that have reformed public management in the last two decades, governments have developed a variety of methods for bringing concepts of performance management into the public sector. Some governments have tried to add a performance cycle on top of existing institutions – often without much success. Others have reformed the structures and processes and even the functions of government through mixing and matching elements of a very long list of reforms that have been executed in the name of performance improvement⁵.

The length of this list together with the wide diversity of circumstances in which reforming governments around the world chose their reform programs explains why there was such diversity in public management reform programs⁶. It reminds us of the variety of performance enhancing programs available and hence the variety of wider reform contexts in which a ministry of finance may find itself when making plans for performance budgeting.

In all countries, but especially developing and transition countries, capability is the critical constraint on performance improvement. Civil service reform is necessary for some performance improvement almost regardless of the budget system.

The power of the budgetary authorities and their core business

Power matters and budget authorities display a wide range of powers among countries.

⁵ Civil service reform; Corporatization; Privatization; Creation, governance and operation of semi-autonomous agencies; Local government reform; Institutional reorganizations to match services better to organizational forms and to create better transparency and incentives such as purchaser-provider separations; Performance incentives; Governance reforms including changes to legislative procedures; Audit reforms and anticorruption institutions; Reorganizing and improving Cabinet procedures; Creating special policy advisory units around PMs or presidents; Building requirements and capability for policy advice and evaluation; Customer/client commitments and feedback; IT enablers of policy processes, service design, delivery and feedback; Strategic planning and management methods ;and of course budget reform

⁶ See the following for a comparison of the perspectives behind some reform programs: Donald F. Kettl, *The Global Public Management Revolution*, Brookings Institution Press, Washington D.C., 2000

The potential of any ministry of finance to push for better performance is going to depend on a lot of local detail about its formal role and its actual influence in government decision making. A finance ministry with a mandate as broad as that of the UK Treasury has a lot more instruments to use than say the Ministry of Finance in Turkey, which shares responsibility for the overall budget system with the State Planning Office and the Treasury.

It is notable that many of the leaders in performance budgeting over twenty years have been governments – national and state – with powerful finance ministers leading effective ministries (UK, New Zealand, Australia, Victoria, Chile). It is also my impression that governments that did not drive performance improvements out of the finance ministry, made use of other platforms for their initiatives. (Next steps agencies in the UK, Synergia in Colombia, performance agreements in Kazakhstan, decentralization and devolution in many countries including Vietnam, management reform in the name of ‘reinvention’ in the USA, IT initiatives in many state and local governments.)

In any government there is a limit to the scope for the ministry of finance to expand its mission into the performance specification, service delivery and evaluation of the work of other ministries. While more powerful finance ministries will get further than weaker ones, mission creep by the finance ministry is not a reliable prescription for government wide performance improvement. Excellence in its core business however is.

The authority of a minister and ministry of finance comes from the core business of budgeting and fiscal policy. This is its primary duty and whatever it is doing about performance must always fit well with this duty. The focus of performance budgeting has to be on the performance of the budget system itself besides considerations of its contribution to other government management systems. The accepted conventions about indicators of the performance of a budget system are:

1. Control of aggregate expenditure in relation to macroeconomic stability and the burden of the state on the productive sectors of the economy
2. Allocation to the expressed priorities of society
3. Efficiency in the implementation of government policies

The conversation about performance budgeting seems rather focused on the third of these. But, as Jim Brumby⁷ in the IMF volume on performance budgeting has written, these are all ultimately about efficiency and closely interwoven. In a nice turn of phrase he describes a government as “A labyrinth of (hard to measure) formal and informal contracts, executed in a space protected from the self-correcting powers of the market.” In pursuit of these three performance criteria a ministry of finance has a lot of work to do in focusing simultaneously on these three goals.

The use of fiscal rules

Regarding performance in terms of aggregate fiscal performance targets the use of fiscal rules is of interest. Since the pioneering Fiscal Responsibility Act in New Zealand in 1994 there has been an explosion of interest internationally in fiscal transparency, fiscal

⁷ Jin Brumby, “Improving Allocative Efficiency” in IMF op. cit. Chapter 9

rules and institutional arrangements to constrain short term fiscal opportunism by governments. The EU fiscal rules have had a huge influence on these developments.

The track record is mixed. While some of these countries have run surpluses others have broken their rules and we have yet to see how these countries' fiscal policies develop now that an unprecedented period of economic growth is faltering. Any failure to successfully achieve macro-fiscal goals will seriously undermine the other goals of performance budgeting. It is already clear that several emerging market economies that have experienced recent booms are in trouble on this score. It is urgent that corrective action is taken in these and ideally it should be done by building stronger fiscal institutions for the future.

For the longer term the experience of fiscal rules is showing up weaknesses in these conceptually, as they were neither designed with a specific concern for managing the aggregate size of the state nor value for money in government spending. They were primarily focused on the deficit, whereas in the long term it is the size, role and effectiveness of the state that determines its macro-fiscal impact. Fiscal performance principles should cover not only deficits and debt but the level and stability of tax burdens, intergenerational transfers and the protection of investments for the future.

Melding the constitutional traditions of budgeting with modern management techniques

The archetypal budget systems used in the modern nation states come from long and tortured histories over centuries of struggle balancing the powers of monarchs, nobles, parliaments and governments. Wars have been fought over these arrangements giving weight to deeply embedded principles and conventions such as:

- The principle of no taxation without representation
- The requirement of governments to have their budgets approved and put into law by the legislative branch of the state.
- The supreme audit institutions that report to legislatures on whether the government has spent money in accordance with the budget law and investigate misuse of public money

These traditions are manifest in a mixture of conventions, regulations and laws. The way this is done differs markedly between the Commonwealth tradition that relies on unwritten conventions and considerable flexibility for the government in executing its budget and the German-French (and also Spanish- Portuguese) tradition that relies much more on detailed laws and regulations.

Everywhere there has been a common emphasis on procedure, precedent and detailed control of expenditure by input category. Ministries of Finance over saw these rules and ran highly formalized almost ritualistic budget process in which they were positioned to provide detailed advice on any small item of public expenditure. These rules did what they were intended to do and were easy, if tedious, to implement. They were economical in the sense of constraining expenditures on administration, but not necessarily efficient, in the sense of returns to investments or value for money.

Finance ministries do not change these traditions lightly, which may be an explanation why some performance budgeting practice is little more than including performance indicators in budget annexes.

This conservatism is easily understood. In the hierarchy of needs that governments have for their budget systems meeting the traditional performance requirements comes first:

- contributing to the maintenance of sound fiscal policy,
- providing a stable and predictable process for government decision making about the budget and for accountability to the legislature
- ensuring that the budget is executed as intended.

These are a precondition for augmentations to promote performance in terms of better allocations of scarce public funds to competing ends and better services.

Building performance budgeting has been about adapting these time-honored constitutional arrangements to the requirements for improved performance in accordance with contemporary management philosophies and methods. This can be a clash of cultures, which provides a difficult environment for agreeing on practical new techniques that bridge the gap.

Traditional budgetary practices have features which must remain in any regime of performance management including: legislative authority for all public expenditure; execution of the budget in accordance with the purposes that were represented in the budget appropriations law; and accountability for all public expenditure down to small input details especially those that are politically sensitive – salaries, reimbursements of personal expenses, travel expenses, motor cars etc. The process of government budgeting is long and cumbersome. As soon as one budget is finished the preparation for the next one begins.

Besides the entrenched provisions of the budget system there are similarly entrenched provisions about public sector personnel management, governance, accountability arrangements and more.

By contrast, modern management methods seek to lift performance through establishing accountability for results by managers who are deeply empowered to make decisions about how to go about achieving those results. The emphasis is on the personal abilities of leaders and systems that empower people to innovate. Business results are well specified and closely monitored using the latest IT. The contemporary global company feeds real time information about results to head office. It is expected that managers relate closely to their customers and make decisions without reference back to head office on daily operational matters.

The frontier of budgetary practice is known as ‘beyond budgeting’ and many traditional budgetary methods are being dropped in the pursuit of performance. In fast moving companies there is no strategic planning process and investment decisions do not wait for

the annual budget process. Investment and other strategic decisions are made in real time by upper echelons of management. Inputs are purchased at the going market prices for what is needed to perform as required.

Given the very different governance and accountability structures of the public sector it is impractical to adopt many of these practices, such as year round budget approvals. So while the pursuit of performance can adopt many practices from the private sector, performance management in the public sector is necessarily constrained and shaped by its unique governance and accountability arrangements.

The ministry of finance should focus on excellence in its core business as an essential platform for performance enhancing augmentations. There is not much point in feeding a lot of performance information into a poorly functioning budget process e.g. one that is endlessly subservient to short term political priorities and not concerned with rational analysis of spending options.

Systems approach to performance improvement

There is some tendency for budget reformers to launch performance budgeting initiatives across the board in the hope that it will yield results. This helps to explain the comment in the OECD report that there is no systematic cost benefit analysis on performance budgeting measures and the problem in managing expectations. It helps also to explain that when finance ministries take the lead in performance improvement you get budget reform. Other sources of leadership use other instruments. So perhaps there is a further definition of performance budgeting: what finance ministries do when they take the lead in pressing for performance improvement.

I think the quest for improved performance sector by sector requires a systems analysis in search of the causes of performance weaknesses and of the most efficient solutions to them, whether they relate to the budget or not. The performance information that can usefully go into the budget can then be derived from the overall solution to the particular performance issues. This will always be only a fraction of the total performance information relevant to the service providing budget user and it should be fully aligned with the respective roles of the finance ministry and budget user within the budget process of the government in question.

This is some insurance against the risk that performance budgeting transforms the budget system into a kind of courier service that provides pick up and drop off points for performance information but does not do much processing of it en route and the ministry of finance has little engagement in the decisions the information is intended to inform. I am aware of countries where this is essentially what is happening.

Setting performance goals and managing for outcomes

At the heart of any performance management system are the institutional arrangements that establish the roles and decision rights of the actors in the system, the information flows between them, the incentives on these actors and their capabilities. Any initiative to raise performance can be seen as adjusting these in some way to get better results. What

do we mean by better results and how to decide what adjustments to make to get them? I would like to cover a few issues relating to this that in my experience deserve our attention.

What should the performance goals be and by what process should they be set? Most papers on performance budgeting argue that performance improvement entails a shift from input controls to outputs and outcomes. They also usually argue – as the OECD paper does – that outputs are unsatisfactory as performance measures because they may introduce distortions and that outcomes are the desirable performance goal. So the advanced practitioners have spent years searching for ways to manage for outcomes.

In my observations the lessons from that experience have been that firstly, outcomes are a difficult concept of performance to make operational in many important areas of government and that outputs have made a comeback. A close examination of the actual performance specifications used in countries that are committed to managing for outcomes reveals that amongst the outcome indicators are smatterings of outputs, so-called ‘intermediate outcomes’, process indicators and even inputs as a response to the practical difficulties of using outcomes as performance indicators. The experience with the Government Performance and Results Act in the USA has shown some evidence of this. Problems with a lot of existing performance measures are shown in a report by the Australian National Audit Office⁸.

Secondly the solutions to the problem of managing for outcomes are very demanding, and largely unattainable in low capacity governments.

At the level of managing basic services in municipal government outcome management is conceptually easy and good practice management methods for achieving them have been developed. In the USA for example, the management system known as “Citistat”⁹ was pioneered in the city of Baltimore and successful in raising the quality and access of services. It is a leadership method in which the heads of service delivery units are continually held to account for meeting specified performance standards in outcome terms and is informed by a rich real time data base.

The finance department is not central to this method, which relies on leadership, the availability of competent and well motivated managers, IT capability, reliable support systems etc. Also the actors do have a large influence on the outcomes, they know how to configure and deliver the services needed to improve them and the resources to do so and full control over the delivery of those services. They can meet the standard of filling every pothole that is reported in forty eight hours if they manage well and work hard.

But there are a lot of areas of a national government where these conditions do not apply and managing for outcomes gets much harder. In some of the areas of greatest concern to

⁸ Australian National Audit Office, Audit Report No.23 2006–07, Performance Audit Application of the Outcomes and Outputs Framework

⁹ Robert D Behn, “What all Mayors would like to know about Baltimore’s Citistat Performance Strategy”, IBM Center for the Business of Government .

governments many, and in a lot of cases none, of these conditions apply. In these areas outcomes are vague and hard to define, it is not obvious what outputs services are needed to meet them, multiple government organizations might make a contribution to them, they are influenced by forces beyond the control of any government organization and even the performance indicators that reflect the outcome are highly disputable.

For example, the governments of Peru, Kazakhstan, New Zealand, Australia and I guess many others have raising international competitiveness to enhance economic growth as a crucial desired outcome. What outputs their ministries have to produce to achieve this is highly contentious. Some will argue that subsidies and protection for industry will promote growth while other will argue that it will damage it. It is common to see applied to this outcome such targets as speeding up regulatory processes, having one stop shops, encouraging foreign investment and suchlike. But a government could do all this and still find its competitiveness deteriorating, either because other features of its economy overwhelmed these benefits or because other governments achieved more.

So the state of the art appears to me to be that managing and budgeting for outcomes in practice occurs as special cases but the holy grail of applying it across a whole government is just that – an unattainable myth. Firstly, this is because there are a lot of activities that can be presented as contributing to multiple outcomes, which is not helpful for budgeting or performance management.

Secondly a lot of high level outcomes statements, and the objectives they derive from, are not of much operational value. For example the government of New Zealand has set three grand objectives of Economic Transformation, Families Young and Old and National Identity. While these are intuitively insightful in terms of where New Zealand is at this time in its history these are of little practical value for performance management and budgeting. The Cabinet would have no idea whether shifting money between export promotion, negotiating trade access, subsidizing venture capital or trade training would get it closer to its outcome of “economic transformation”. The outcome is too high level to provide any insight as to budget priorities.

Similarly I doubt the operational value of the outcomes for defense spending in the Australian Federal budget: “Australia’s national interests are protected and advanced through the provision of military capabilities and the promotion of security and stability” and “military operations and other tasks directed by the government to achieve the desired results”.

It would not help either if a cabinet were inclined to ask itself the question, should it take money being spent in pursuit of its outcome of “national identity” to increase spending on “families young and old”. At the ministry level there is not much information in the statement by New Zealand’s very well run tax department that it contributes to these three government objectives by collecting the revenue and making social welfare payments¹⁰. This kind of high level statement may be elegant and of some intuitive

¹⁰ Inland revenue Department, Annual report 2007 page 12

meaning, but the information content is very low. It is hard to see how such outcome statements meet a test of providing criteria for making choices.

Thirdly, there are many important services provided for which the connection to an outcome is intuitively obvious, but incapable of attribution or measurement. For example finance ministries usually see themselves contributing to the outcome of improved performance of the economy and rising standards of living, or at least contributing to sound fiscal policy which serves this outcome. I think it is very helpful for a finance ministry to think about how it contributes to economic performance and to look to outcome statements or objectives regarding the economy for insight as to what services it should produce and what indicators of volume, quality and processes it uses to gauge its performance.

But this is not managing for outcomes in the same sense as filling potholes. The ministry cannot be held accountable for whether the economy performed or not – only for the outputs it produced that were intended to contribute to this in the form of policy advice and running a sound budget system. The outcomes have only informed a performance management system driven to produce outputs and have helped to derive performance indicators. They help to make broad judgments about the performance of a finance ministry but not to hold it tightly to account.

This situation applies to so many aspects of government service production that I think the term “performance informed budgeting” from the OECD report is entirely appropriate to describe much of what performance budgeting is about. This is injecting performance information into the budget process with the expectation that this will improve judgments taken within a fog of uncertainty, about whether services are making a valuable contribution and how they could be more effective.

It is for this reason that I and my colleagues have found that most productive way to get started in building a performance management system is to identify the outputs or services being produced rather than begin with trying to define high level outcomes and associated objectives.

This alternative approach begins with high level outcome statements, then dissects them into contributory outcomes in several layers. It then allocates them to ministries and finally to subordinate service delivery units as performance targets. Then budgets are attached to them. This has some superficial intellectual appeal to some, although to me it seems like the ghost of twentieth century central planning – particularly when the outcomes encompass the private sector. More importantly in my experience it does not work as a methodology, because the outcomes are not mutually exclusive and the set of outcomes does not exhaust all the activities that government spends money on. So it is no use as a budget classification. What happens next is that designers invent outcomes for everything money is spent on, which reverses the desired causality between outcomes and budgets.

The process by which performance targets are set is as important as the targets themselves. A lot of valuable learning comes from a good process for doing this. If a city mayor says she wants to set a performance indicator for clean streets, a dialogue with the relevant department can expose the potential and the constraints for satisfying this indicator. In higher level public service delivery such dialogue raises important questions about policy and demands for policy analysis and evaluation to inform the discussion about what are the issues and the solutions.

The use of the word “agreement” in accountability documents in New Zealand and the UK is intended to reflect that the performance targets had come from a process of dialogue about possibilities and captured a mutual commitment to meet them by the government and the ministries. The process of arriving at the piece of paper is often as important as what is on the paper.

Role of the finance ministry

One of the pathologies of failure in performance budgeting is ministries of finance taking it on themselves to set performance targets for other ministries. This never works, both because the finance ministry lacks the sector knowledge to be able to do this properly and because there is no ownership of the targets by the line ministries. Any sophisticated line ministry can figure out how to manipulate targets it does not agree with. It can also be very distorting. For example I have seen a situation where hospitals were being rewarded for patient bed days so they kept the patients over the weekend even though the doctors were not there.

I think it is essential that a ministry of finance gets its appropriate role in a performance management system agreed and sticks to it. While there will be variations in the mandates and powers as I have noted, I do not think that a finance ministry should take onto itself the responsibility for setting everyone else’s performance targets unilaterally. It should set up the process for setting targets if there is not another central agency doing this. It should be the centre of expertise about how to go about it and how to link targets to budgets. It should have a view about whether particular proposals for targets meet these criteria.

In doing this it is holding up a mirror to budget using organizations to provoke self examination in the form of such questions as “Is this really what we want to achieve? Will these services really get us there?” The finance ministry is providing the process for this and the discipline to do it correctly, but stopping short of telling a ministry of education for instance what the performance targets for the country’s education system are.

For the more complicated policy goals governments set, this process of deciding what services need to be produced to meet outcome goals is very demanding. There are methods such as logical analysis and other methods of policy analysis and evaluation to do this, but they are technically demanding and the results are sometimes ambiguous. They are often beyond the capability of low capacity countries. For example to answer the question of what investments in human capital are the most effective in contributing

to raising economic competitiveness requires a lot of technical knowledge and professional judgment.

Often these problems require the cooperation of several parties whose actions will together influence outcomes. Creating a successful process for bringing these people together and reaching consensus is demanding. Often it involves coordinating not only government agencies but civil society. For example New Zealand had problems with underperforming public schools in low socio-economic communities. The Ministry of Education could not on its own resolve the issue. They were successful in some communities finally by establishing a forum with the parents and the community and other government organizations to define and agree to commitments by each of the parties to contribute to a joint response.

Performance budgeting only sits in the background of this particular example of performance improvement – illustrating my point again that a lot of performance improvement activity is remote from the budget, which adds little to contribute.

A colleague and I have a vision for the future position of a finance ministry in well-functioning performance budgeting system when all the basic institutions are in shape. We would like to see a ministry of finance in the role of investment adviser to the government. Its dialogue with a line ministry or service unit should be about whether its strategy is worth investing in. This dialogue should be supported by a kind of prospectus with all the information and assurances necessary for the government to make a sound decision about the investment, which would usually be over a period of years. It would be about the value of a whole interrelated package of services to be provided and the results expected from them. The expenditure reviews in the UK and advanced practices in evaluation have some of the content but it is the process also that would be important.

Budget classifications and financial controls

But what are some of the characteristics of the budget system that can drive better performance? I have mentioned already how important the micro detail of how players and the process work is crucial and want to touch on two general features of importance – classification and controls.

Performance budgeting cannot function without a budget classification that relates to performance in a clean, transparent way and is the basis for appropriations, which enhances accountability. Generally this means program budgeting or output budgeting. Given my views about managing for outcomes I do not think they are a suitable concept to underpin a budget classification.

While a government can maintain fiscal discipline and drive the allocation of spending to its priorities with a system of central control, some relaxation of central control is essential if local managers are to use local knowledge and their professional judgment to meet performance targets. How much relaxation and in what way is very dependent on circumstances, but a manager cannot display his skills if he is bound up in controls. The

central controller does not have the skills and knowledge to drive performance improvement from the center.

One of the pathologies of failed budget reforms is ill-conceived relaxation of controls. Modern management is not about removing controls but devolving the responsibility for applying some of them. Budgeting for outputs does not mean there is no control over inputs, just that it has been devolved to the service delivery organization. Finance ministries can only give away their controls once and they must make sure that they get what they want in return, by way of performance accountability and effective financial management within the service organization. They must continue to monitor the effectiveness of financial management.

Low capacity countries and donors

For low capacity countries, I think budgeting for sensible aggregations of services linked to costs with indicators of quantity and quality can add value where the conceptual challenges discussed here are not severe.

There are important insights in the performance budgeting experience for donors providing direct budget support. I see some promise in using cut down version of OECD practices to help strengthen the accountability of governments for the delivery of services that donor resources fund. This is an evolution of conditionality practices and there are some interesting initiatives being taken or considered.

In countries where the ministry of finance is very weak, or has other agendas besides performance, the only path to improved performance using donor funds may be some of the methods that have been tried in various fragile states to bolster the capacity of the finance ministry and strengthen accountability. ‘Hot-wiring’ the system temporarily to deliver badly needed services directly to citizens in particular areas maybe an alternative although, to minimize the damage this inevitably does, these hot-wires should model as far as possible the performance budgeting system that might in time be installed. Either way the experience that is accumulating globally about practical ways to implement the concepts of performance budgeting can add value to these initiatives.

Concluding remarks

There are many examples of performance budgeting in action at national, state and local levels. There is a lot of outstanding documentation of good practices covering all aspects of the art. This body of experience makes it possible for late starters and middle income countries with a platform of sound traditional budget practices to build performance features on top of these.

But I must add a note of caution. Most of the literature on performance budgeting is about the concepts and the stories of how people implemented it. The literature evaluating the results is much thinner. Expectations have often been disappointed. There has been remarkable performance improvement in many areas of government during this era of budget reform. Some can be clearly attributable to budget reform but some cannot.

There are some important points I suggest to keep in mind:

- Performance budgeting should be about budgeting above all and not about finance ministries turning the budget into a comprehensive public management system or setting and managing performance targets for the rest of the government. In the pursuit of performance budgeting finance ministries must not lose focus on their primary responsibility for the performance of the budget itself
- All the attention to the micro details of performance information will be overwhelmed if the macro fiscal management fails
- Fiscal performance principles should cover not only deficits and debt but the level and stability of tax burdens, intergenerational transfers and the protection of investments for the future
- In any government the budget is a political process that is rational in a different sense than is implied by performance budgeting – expectations must allow for this. The governments where patronage, informality and short term political opportunism drive a lot of budget decisions are the places where performance budgeting is needed most and least likely to be adopted.
- Institutional details matter, for instance in Westminster governments whether there is a cabinet subcommittee on expenditure and what professional advice is being fed to it can be crucial for budgetary outcomes
- Performance information is not going to contribute much unless it is embedded in a comprehensive system of public management that is oriented to performance and this involves a lot more than the budget.
- The information that belongs in the budget should only be that which is important to the actual budget decisions being proposed. This is a small subset of the performance information relevant to any service provider and should reflect closely the proper roles of the parties within the budget institutions
- The power and position of the ministry of finance should be a strong influence on the scope and content of a performance budget reform. This is not about applying ‘best practices’ but doing what is achievable.
- The drive for outcome based performance seems to emerge as an endless search for deeper learning and evidence about what produces results. This perspective is well described in an official paper based on New Zealand’s experience¹¹.

The process of adapting international practices and innovating to improve performance in any government requires a lot of judgement about what will work, a lot of learning and a lot of cooperation across the government. But the rewards to careful diagnosis of performance issues and the application of the right methods and behaviours can be very large.

After listing guidelines that include a lot that is on the soft non-technical side of management development (leadership, cooperation, managing expectations, evolution,

¹¹ Getting Better at Managing for Outcomes: A tool to help organisations consider their progress in results-based management and identify development objectives. State Services Commission and The Treasury, Wellington, June 2005

and recognition of the limits of performance information) the OECD states¹² that “the journey is as important as the destination”. I agree and I hope I have explained why. I think the proper perspective on performance improvement in government is holistic and evolutionary. Even in the simple exercise of filling pot holes in Baltimore it turns out that leadership is the key essential.

¹² Op. cit. p79.