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# Performance Budgeting: Global Trends and Implications for Developing Countries

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# Performance-based Budgeting

- 📌 Performance-based budgeting is one form of Performance management movement in the public sector.
- 📌 Definition: Procedures to enhance link between spending and outcomes/outputs through the use of formal performance information.



# Purpose of Performance Budgeting

- 📌 Accountability tool
  - As participatory democracy advances, public sector is under heavier pressure to explain what it achieved with public money
- 📌 Management tool
  - To improve management of budgetary programs
- 📌 Budgeting tool
  - To utilize performance information for the purpose of budget allocation



# Global Resurgence of Performance Budgeting

- 📌 Resurgence of performance budgeting in many OECD countries since late 1980s
  - Recently it is gaining renewed momentum in some OECD countries, such as Canada and the United States
  - Some countries, such as Austria, Korea, France, Mexico, Spain, Portugal, Russia are joining the movement
- 📌 In some non-OECD countries, performance budgeting is also adopted
  - China, Brazil, Chile, Columbia, Poland



# Background of Performance Management Movement in the Public Sector

- After development of procedural control, performance management becomes an important issue in many advanced countries.
- With advancement of democracy, political accountability of public sector becomes an issue.
- With progress of information technology, management of performance data becomes feasible.



# New Public Management

Control over Input and Procedure



Control over Performance

**Administration**



**Management**

Passive Participation of Citizens



Active Participation of Citizens



# Characteristics of Recent PB reforms in OECD Countries

- 📌 Outcome-oriented PB
  - Use of outcome indicators rather than output indicators
- 📌 Introduction of performance monitoring system is popular
  - Use of performance indicators in a comprehensive way
- 📌 Link between performance indicators and budget allocation is indirect in most countries
  - Focus is given more to program improvement



# Building Blocks of PB

- 📌 Program budgeting
  - Restructure budget structure to accommodate program goals
- 📌 Accounting System
  - Appropriate distribution of overhead to each program is necessary to have relevant cost information
  - Accrual Accounting
- 📌 Medium term expenditure framework
- 📌 Performance Information and IT investment
- 📌 Managerial & Financial Flexibility
  - Top down budgeting
  - Multiyear budgeting
  - Discretionary room for carry-over



# Sequence of introducing PB

## 📌 Infra structure for PB

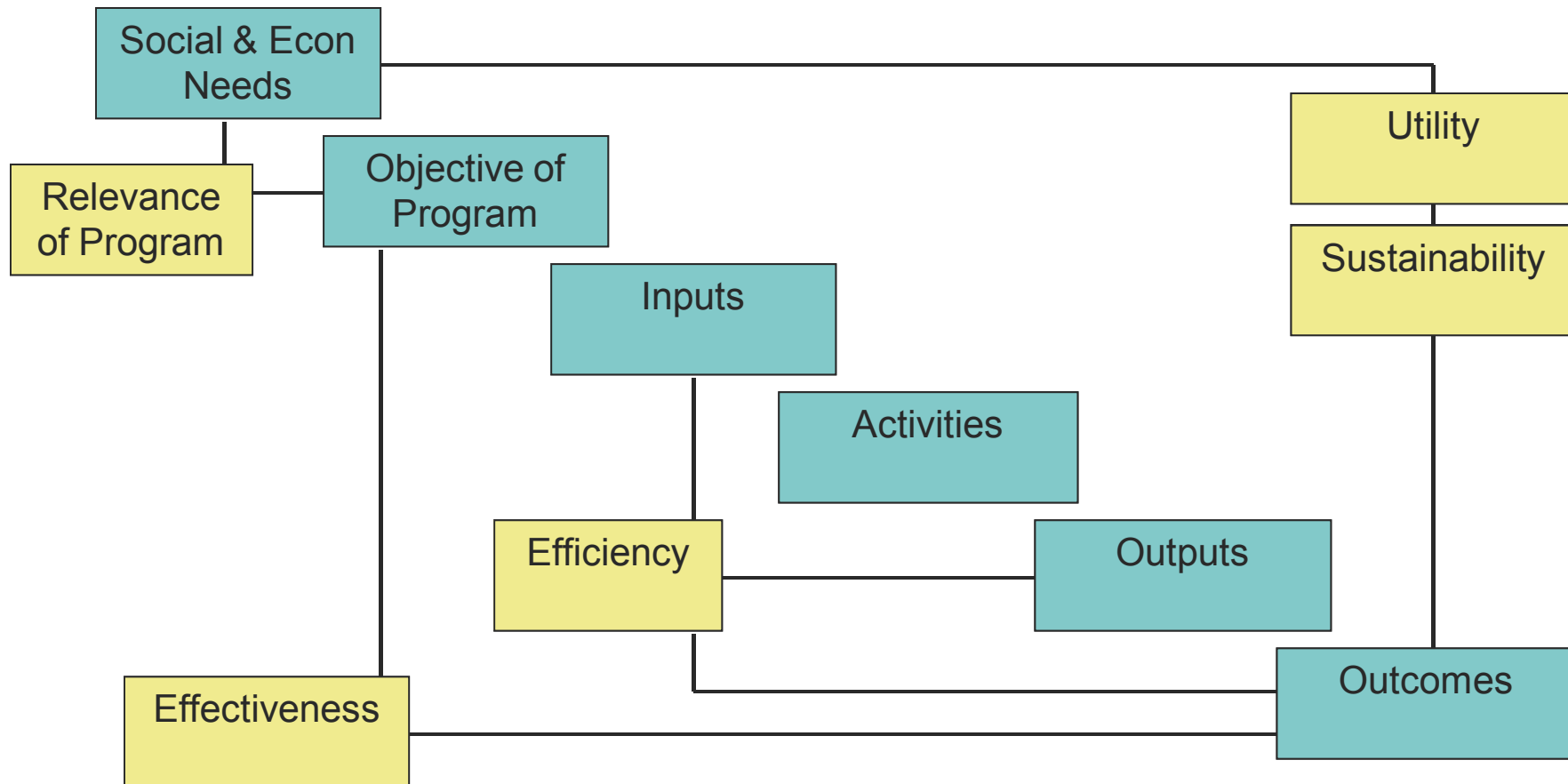
- Program structure
- Cost accounting
  - Distribution of overhead cost to programs
  - Accrual accounting (?)
- IT system
- Performance information

## 📌 Supporting/complementing element for PB

- Medium term expenditure framework
- Financial and managerial flexibility



# Focus of Performance Management





# Elements of PB



## Performance Information

- Strategic planning
  - Mission, vision, strategic goals, performance goals
- Performance measurement
  - Performance indicators and targets, program review, program evaluation



## Use of performance information

- Budget allocation
- Program improvement
- Performance contract
- Open to public
- Rewarding more flexibility to line ministries



# Tools for Performance Budgeting

## Performance Monitoring

- Monitoring based on the performance indicators
- Utilize small number of indicators
- Works like traffic signal and not much information on “why?”

## Program Review

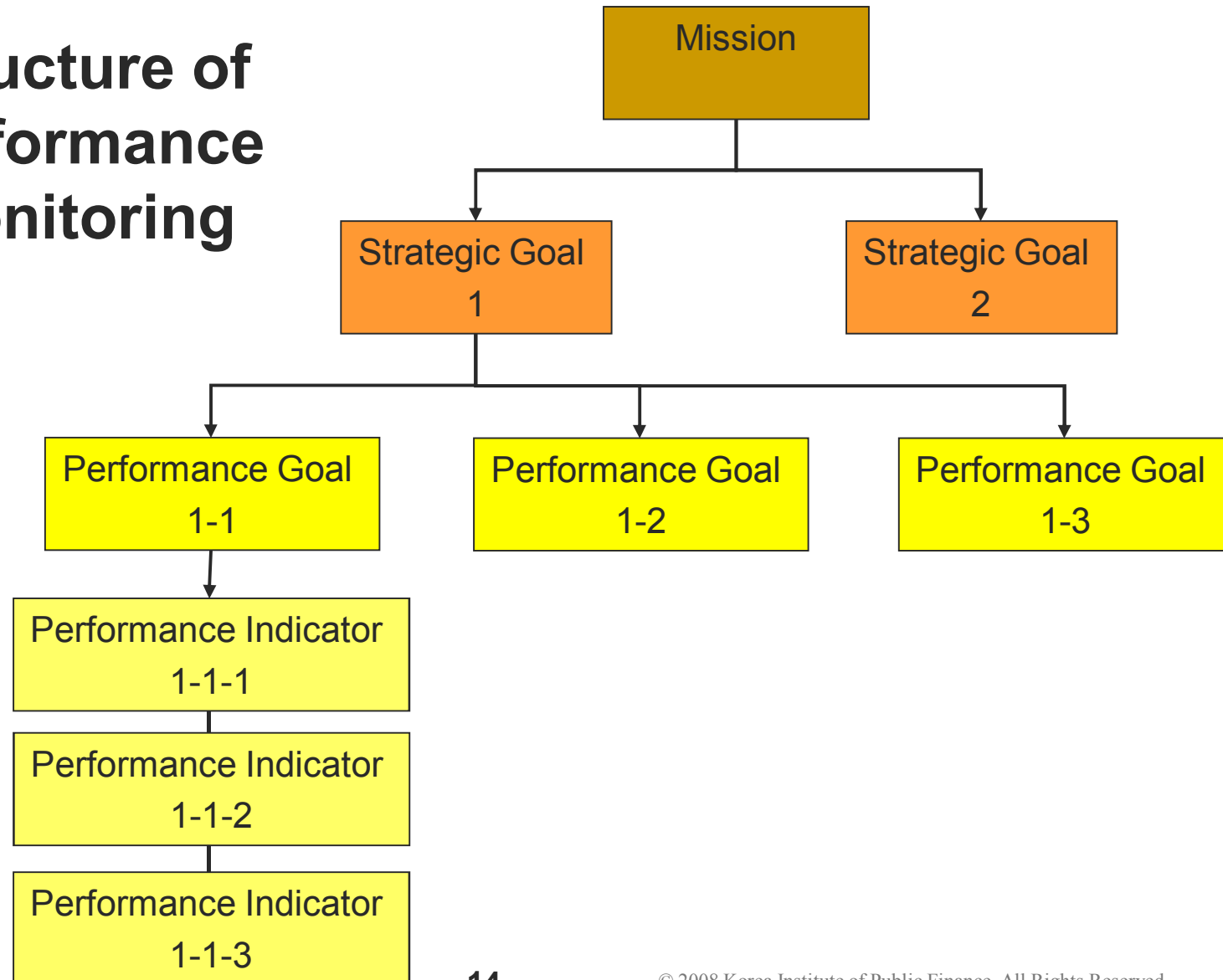
- Review self-assessment of program by line ministries
- Contains information on the rationale, planning, performance management system, and performance achievement.

## Program Evaluation

- Utilize the most detailed information on program



## Structure of Performance Monitoring





# Elements of Performance Monitoring

- 📌 Strategic plans
  - Cover 3-5 year plans, should be updated at least 3 years
- 📌 Annual performance plans
  - Cover each program activity in the agency's budget
- 📌 Performance reports
  - Include actual program performance results for the 3 preceding fiscal years



# Elements of Performance Monitoring -Contents of Strategic Plans

- 📌 A comprehensive mission statement for major functions and operations of the agency
- 📌 General and outcome related goals
- 📌 A description of how the agency will achieve the goals and the operational process and resources required
- 📌 A description of how the goals relate to annual performance plan goals
- 📌 An identification of key factors external to the agency that could significantly affect the achievement of goals
- 📌 A description of program evaluations, with a schedule for future program evaluations



# Elements of Performance Monitoring

## - Performance Plans

- 📌 Establish goals that define the level of performance to be achieved by a program activity
- 📌 Express goals in an objective, quantifiable, and measurable form
- 📌 Describe the operational processes and resources required to achieve goals
- 📌 Establish performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity
- 📌 Provide a basis for comparing actual results with the established goals
- 📌 Describe the means to be used to verify and validate measured values



## Elements of Performance Monitoring - Performance Reports

- 📌 Review how successfully performance goals were achieved
- 📌 Evaluate the performance for the current year relative the performance goals achieved during the fiscal years covered by the reports
- 📌 Where goals are not met, explain and describe (a) why the goals were not met, (b) plans and schedules for achieving the goals, and (c) if the goals are impractical or infeasible, why that is the case and what action is recommended
- 📌 Include the summary findings of program evaluation completed during the fiscal year



# Program Review

- 📌 Budgetary authority reviews self-assessment of programs by line ministries/agencies
- 📌 Budgetary authority provides standardized questionnaire for reporting self-assessment
- 📌 Questionnaire contains questions on design, performance management system, implementation, and actual performance
- 📌 A certain proportion of programs are reviewed each year
  - In Korea, 30% of programs are reviewed each year
- 📌 Benefit
  - Provide more detailed information on programs
- 📌 Shortcomings
  - If line ministries/agencies do not have the capacity to evaluate their program, this exercise will be useless.



# Program Evaluation

- 📌 Based on social science approach
- 📌 Evaluation refers to the activity of **systematically collecting, analyzing and reporting information** that can then be used to change attitude or improve the operation of a project or program
- 📌 Purpose of evaluation
  - Challenge
  - Improvement
- 📌 Issues of evaluation
  - Rationale, Measurement, Attribution
- 📌 Benefit: Provide the most detailed and reliable info
- 📌 Shortcoming: Expensive and takes long time



# Suggestions for Developing Countries



# Institutional Preconditions for Performance Budgeting

- 📌 Sound public finance management system needs to be in place since outcome-oriented PB is an advanced requirement
  - A realistic budget that is implemented with few significant deviations from plan
  - Low level of corruption in public expenditure
  - High transparency in public finance
  - Reported expenditure corresponds to actual expenditure
  - Reliable external and internal controls
  - Spending units have reasonable certainty as to the funds that will be available
  - A managerial culture that promotes compliance with formal rules



# Some Strategic Considerations

- 📌 Use of **output-oriented** performance information can be desirable for some countries or sectors
  - Output information is cheaper to obtain and readily acceptable to program managers
  - If connection between output and outcome is clear, output information can be useful
  - For developing countries, output-oriented PB can be useful and practical
- 📌 Introduce PB to selective areas where its impact can be big
  - For example, service delivery area rather than policy developing area



# How to Implement Successful PB

- 📌 Leadership is a key factor for the success of performance-based budgeting.
  - Top decision maker's interest and leadership in using PB system is a deriving force in many countries where PB is in full swing.
- 📌 Development of performance management system takes time and investment.
  - Sound traditional budget system should be in place.
  - Development of cost accounting is desirable.
  - Development of program budgeting is desirable.
  - Developing reliable performance data system takes time and investment.



*Thank you !!*