



## Moving towards a Strategic Advisory Approach on the Introduction of Results-oriented Budgeting:

What Can Development Cooperation Learn from OECD Experiences?

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Published by

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## Content

Acronyms .....	4
Abstract.....	5
1. Introduction.....	6
2. Background and Drivers of Reform.....	8
2.1 Reform Objectives .....	8
2.2 Building Blocks of Reform and their Objectives.....	9
2.2.1 Programme Budgeting .....	12
2.2.2 Performance Budgeting .....	13
2.3 Stakeholders of Reform .....	15
2.4 Summary .....	17
3. Results-oriented Budgeting in OECD countries .....	18
3.1 Approaches of Results-orientation in OECD Practice .....	24
3.2 Objectives and Drivers of Reform .....	25
3.4 Sequencing Issues .....	26
3.5 Measuring Performance/ Reporting .....	27
3.6 Challenges .....	28
4. Case Studies .....	30
4.1 Case Study Germany: National and Subnational .....	30
4.1.1 Legal Background of Reform .....	30
4.1.2 Experiences from the National Level.....	31
4.1.3 The Sub-national Level - Background and Objectives of Reform .....	33
4.1.4 Drivers of Reform.....	34
4.1.5 Management of Reform .....	38
4.1.6 Sequencing and Financing of Reform .....	39
4.1.7 Measuring Performance – the Formulation of Indicators .....	41
4.1.8 Audit, Control and Reporting.....	42
4.1.9 Lessons Learnt .....	43
4.2 Case Study UK.....	45
4.2.1 Background of Reform .....	45
4.2.2 Drivers of Reform.....	46
4.2.3 Sequencing and Financing of Reform .....	48
4.2.4 Managers of Reform and Capacity Development.....	49
4.2.5 Measuring Performance.....	51
4.2.6 Control and Audit .....	54
4.2.7 Lessons Learnt .....	55

5. Conclusion .....	59
6. Literature .....	63
7. Draft Check List.....	67

## Acronyms

BC	Budget Committee
BMF	Bundesministerium der Finanzen
CSOs	Civil Society Organizations
CSR	Comprehensive Spending Review
FC	Finance Committee
EU	European Union
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
HMT	Her Majesty's Treasury
HGRG	Haushaltsgrundsätze-gesetz
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communications Technology Systems
IDASA	Institute for Democracy in South Africa
IFIs	International Financial Institutions
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
ISODEC	Integrated Social Development Center
MoF	Ministry of Finance
MPB	Ministry of Planning and Budget
MTEF	Medium Term Expenditure Framework
NAO	National Audit Office
OECD	Organization for Economic Cooperation and Development
PAC	Public Accounts Committee
PASC	Public Administration Select Committee
PEFA	Public Expenditure and Financial Accountability
PEM-PAL	Public Expenditure Management – Peer Assisted Learning
PFM	Public Financial Management
PI	Performance Information
PMDU	Prime Minister's Delivery Unit
PSAs	Public Service Agreements
SAI	Supreme Audit Institutions
SBO	Senior Budget Officials
UK	United Kingdom

## Abstract

The international trend with regards to budget management – the shift away from the classical input-oriented budget system towards the more complex results-oriented budgeting – has also influenced several of our partner countries. However, the debate of whether and how to introduce results-oriented budgeting in partner countries is controversial.

Aim of this study is to make use of the findings from OECD countries' reform experiences for the development cooperation context. The reform experiences examined in this study show that even in OECD countries reforms were difficult and expensive to implement. This demonstrates that it is important to be realistic about what partner countries can accomplish.

This study gives an idea on how to reduce the complexity of introducing results-oriented budgeting, highlighting two ways of doing so:

- On the one hand it shows that the introduction of results-oriented budgeting includes different building blocks of reform, and that it is not always necessary to implement the complete reform programme in order to achieve certain objectives.
- In cases where countries introduce the complete reform package a reduction of reform complexity is also possible by reducing the number of programmes and by simplifying performance indicators.

Accordingly, this study argues that the design of a reform package for the introduction of results-oriented budgeting has to take into account the context specific situation in the respective country taking into consideration the partner country's reform capacities. The final goal is to develop a checklist that offers an advisory approach on the introduction of results-oriented budgeting.

## 1. Introduction

There is an international trend in budget management: to shift away from the classical input-oriented budget system towards the more complex results-oriented budgeting – this trend has also influenced several of our partner countries. However, the debate of whether and how to introduce results-oriented budgeting in partner countries is controversial. As a consequence, German Development Cooperation in its role as a partner in reform activities is confronted with the difficulties many countries are facing. While modernization of the administrative systems is crucial in most of these countries, the technicalities of introducing the different budgeting tools for results-orientation as well as the management of the reform process do have the potential of overstressing capacities of budget divisions in ministries of finance. Thus, the debate of whether and how to introduce results-oriented budgeting in partner countries is controversial. Moreover, there are several variations of results-oriented budgets and different actors use different definitions for similar approaches which further complicate the debate. To be able to provide partner countries with effective support in deciding on the scope of reform and its possible implementation, GIZ on behalf of the Federal Ministry for Economic Cooperation and Development is developing an advisory approach for the introduction of results-oriented budgeting.

Why results-orientation in budgeting? The conventional system of input-oriented budgeting used to deliver only limited information on the future impact of today's decisions. Instead of orienting on the impact of service delivery, this system concentrates on the use of resources. As a result, the incentives for effective and efficient management of resources are limited. The expected advantages of introducing a variation of results-oriented budgeting sound convincing: more transparency, increased efficiency of public service delivery, orientation on results to be achieved, improved monitoring, better allocation of scarce resources and finally improved fiscal discipline as it allows better prioritization. However, several drawbacks have been observed during reform processes in the past: high costs, high effort, generation of more information than the legislative is willing or even able to handle, few success-stories, loss of political backing along the way of introducing a variation of results-oriented budgeting. The study aims at drawing conclusions from OECD experiences for a practitioner's guide to strategic advisory on introducing results-orientation in budgeting in our partner countries. For this purpose, the reform processes in OECD countries are being analyzed and examined in the light of the question how much can development advisors learn from these experiences and make use of them in their advisory service to Ministries of Finance.

The central question is whether the advantages of the several variations of results-oriented budgeting are outweighing the drawbacks and under which preconditions the introduction of results-oriented budgeting would make sense. We approached the issue by clustering the variations of results-oriented budgeting, examined examples of the introduction of different models in the OECD context, and then drew preliminary conclusions for the development context. These conclusions will be revised in a follow-up study that will focus on the relevant reform experiences of partner countries.

Chapter 2 examines the different forms that exist under the umbrella of results-orientation in budgeting. It makes clear which functions of the budget ought to be strengthened by which form of results-oriented budgeting. The chapter does not promote one variation, but is based on the different possible key features of reform processes.

The third chapter provides an overview in the form of a desk study of the various forms of results-oriented budgeting in OECD countries addressing the questions: Where and when has result-oriented budgeting been introduced? What was the rationale behind the reform? What were the objectives of reform? Which variation of the different opportunities for introducing results-orientation has been chosen and why? What were the core features of the reform?

Chapter 4 is dedicated to the case studies of budget management in two OECD countries. Firstly, budget management in Germany is examined as well as the different solutions applied at the national and the sub-national level. In a second step, the results-orientation in budget management in a good practice country within the OECD is analyzed. The UK experience has been chosen for that case study since the reform process is relatively well advanced. Chapter 4 follows the same questions as chapter 3, but puts more emphasis on the different reasons for reform and the context in which the core features of the specific reforms evolved.

The final chapter is dedicated to the question what development advisors can learn from the experiences of OECD countries. The perspective of the applicability of OECD experiences for the development context is taken. In addition to the focus on technical reform issues, a special focus is set on the political economy of the reform like the reform's rationale and driving forces. A first checklist with relevant questions, approaches and instruments is developed which will be the basis for an examination of advisors' experiences in development cooperation. This checklist is to be tested in the context of our partner countries. As mentioned above, the reform experiences of three partner countries are to be analyzed in a second step (Study 2). The final goal is to develop a checklist that offers an

advisory approach on the introduction of results-oriented budgeting. This checklist aims at supporting development advisors and partner countries in developing a tailor-made reform approach for the country context.

## 2. Background and Drivers of Reform

In this chapter, types of results-oriented budgeting and their main objectives are illustrated. This constitutes the theoretical background of the debate and it focuses on technical issues of budget reform. First, a clear explanation of the distinct terminologies of results-oriented budgeting is offered. One aim is to define the different constituents of result-oriented budgeting and to analyse which of these constituents are necessary for the introduction of result-oriented budgeting in a certain context. We will call these different constituents „building blocks of reform“. For our advisory approach, “results-oriented budgeting” is used as the umbrella encompassing all variations. Key features of the reform building blocks and their objectives are then identified as well as key actors. Our hypothesis is that it is not necessary to introduce the whole reform package in every country but that specific country objectives can be achieved with some of the building blocks only.

### 2.1 Reform Objectives

The next step is to identify specific reform objectives. Countries may have embarked on budget reform for different reasons and may have implemented it in different ways, but they share some common objectives. Five broad objectives can be identified:<sup>1</sup>

- Managing the efficiency and effectiveness of agencies and ministries and/or the internal control and accountability within individual ministries
- Improving budget planning
- Improving decision making in the budget process and/ or the allocation of resources and accountability of ministries to the MoF
- Improving external transparency and accountability to parliament and the public
- Achieving savings

How features of budget reform contribute to the achievement of reform objectives will be discussed in the following part of the study.

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<sup>1</sup> See similar suggestion by OECD 2005:132.

## **2.2 Building Blocks of Reform and their Objectives**

The table below illustrates which objectives can be achieved with which building blocks of reform and shows the corresponding objectives. The theoretical link between building blocks of reform and objectives is demonstrated. In practice, certain political economy factors can interfere and influence the achievement of the objectives (e.g. the use of performance information by the parliament affects the level of accountability). We come back to these interfering variables in chapter 4, where different ways of introducing results-oriented budgeting are discussed in two case studies.

### **Table 1: Building Blocks of Reform**

Building block of results-or. budgeting	Key Features of Building Blocks	Objectives	Stakeholders/ Users	Supporting Reforms
Programme Budgeting  (= Product Budgeting)	<p><b>Planning</b></p> <ul style="list-style-type: none"> <li>- Streamlining of line items to Programmes and Sub-programmes (OECD Benchmark 30-40 Programmes)</li> <li>- Definition of Programme Objectives (any level possible: financial/non-financial activities/output/outcome/impact)</li> <li>- Programme objectives may be derived from Development Strategies, Sector Strategies, Ministerial Strategies and/or Medium Term Expenditure Frameworks</li> <li>- Programmes do not have to be comprehensively covered by the budget.</li> </ul> <p><b>Preparation</b></p> <ul style="list-style-type: none"> <li>- Capital and recurrent budget combined in programmes</li> <li>- Programme classification is the main vehicle for budget preparation between line ministries and MOF</li> <li>- Review of last years' programmes may serve as an input</li> </ul> <p><b>Approval</b></p> <ul style="list-style-type: none"> <li>- Programmes may be legally binding (voted in the budget law or passed by decree) or serve informational purpose only</li> <li>- Parliamentary programme debate may focus on programme objectives or programme allocations</li> <li>- Programmes may be approved, modified or rejected by the legislature, depending on its power</li> </ul> <p><b>Execution</b></p> <ul style="list-style-type: none"> <li>- Programmes may integrate various economic categories (salaries/wages, investment, recurrent, etc.).</li> <li>- Allocations may be fixed or virements may be possible between economic categories/programmes with or without notification/approval of MoF/Parliament.</li> </ul>	<p><b>Improved Planning</b> Priority setting</p> <p><b>Improved decision making</b> Evidence-based policy making Strategic decision making</p> <p><b>Improved accountability and transparency</b> Improved legibility of the budget</p> <p><b>Improved efficiency and accountability</b> Managerial function: Improved efficiency, value for money</p>	<p>Ministry of finance – planning unit/ ministry of economic planning/presidencies</p> <p>Ministry of finance/ line ministries</p> <p>Parliament (budget or public accounts committee and sector committees)</p> <p>Different levels of hierarchy in ministries: programme managers (ministerial staff) in MoF and line ministries</p>	<p><b>Strategy Development</b></p> <p><b>Medium Term Budget Framework (MTBF)?</b></p> <p><b>Accrual Accounting?</b></p>



### 2.2.1 Programme Budgeting

Programme budgeting<sup>2</sup> refers to the reclassification of line-item budgets (input oriented) according to programmes/ products leading to a significant reduction in the number of line-items. Usually, each spending unit (mostly the line ministry) is responsible for a limited number of programmes. While the responsibility for one programme is generally appointed to a single manager (e.g. director) within a spending unit, different spending units can be incorporated into the implementation of an individual programme. However, overlapping responsibilities, especially between different line ministries, are problematic so that in practice reclassification has sometimes led to a reflexion on the organizational structure of ministries and the division of tasks between ministries (OECD Kraan 2007:5). To avoid increased administrative costs hidden in programme structures, some governments have exempted administrative budgets of core ministries from programme classification or have maintained separate line items for administrative budgets in general. Administrative budgets consist of staff pay and office equipment (OECD Kraan 2007: 8). Formation of a programme requires that objectives be defined which means that the programme classification is based on outputs.

Table 1 shows the theoretical expectations going along with the introduction of results-oriented budgeting. The following describes the different expectations more in detail. One key objective of reform is strengthening the planning process through governmental prioritization of policy objectives derived from development strategies like: Poverty Reduction Strategy Papers; growth and development strategies; sector strategies; ministerial strategies; and/or Medium Term Expenditure Frameworks (MTEFs). During budget preparation, the formation of programmes could be used to strengthen the decision making process. In negotiations between line ministries and the ministry of finance policy objectives in form of 30-40 programmes are discussed rather than several thousand inputs ranging from the number of pencils to the number of chairs needed. Moreover, programme budgets usually combine capital and recurrent budgets, thereby providing a better overview of total state expenditures which supports evidence-based policy making.

Another possible objective is improving accountability and transparency. Parliamentary debate tends to focus on programme objectives rather than inputs and the executive is accountable primarily for results as opposed to the amount of expenditures. Programmes may be legally binding or may be added to the input-oriented budget to serve for informational purpose only. In both cases, the expectation is that the programme budget

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<sup>2</sup> In this paper, used synonymously with product budgeting

reveals the government's political programme and improves legibility of the budget. The scope of ex-post control of the parliament depends on the scope of external auditing. Performance auditing does not take place in every country that has introduced results-oriented budgeting. However, external control of the achievement of results would lead to more accountability and add value to the budget process.

Improved efficiency and accountability of the executing agencies could be an objective of programme budgeting during the execution phase. The manager is accountable for results in the execution of his/her programme as opposed to expenditures. To fulfil this task he/she is provided with more flexibility. As a consequence, efficiency gains and strengthened accountability are expected.

Programme budgeting is usually introduced in the context of the introduction of performance budgeting since performance indicators offer a measurement of the achievement of programme objectives. However, this chapter illustrates that certain features of programme budgeting serve certain objectives even without the use of performance indicators. I.e. programme budgeting alone might be a way to address a country's aim to strengthen its planning process towards (development) objectives.

Another key question to be examined in this study addresses the necessity for complementary reform efforts such as the introduction of medium-term planning and accrual accounting. Earlier paradigms led many countries to undertake medium term planning alongside the introduction of programme budgeting. The study therefore examines whether there are alternatives to this option. Accrual accounting is also usually introduced in conjunction with programme budgeting. Further, subject of examination is whether or not this option adds value to the reform in any circumstance.

### **2.2.2 Performance Budgeting**

The OECD generally defines performance budgeting as a system of „budgeting that links the funds allocated to measurable results“(Anderson 2008:3). A core concept of performance budgeting is the generation of performance information (PI) and its integration into the budgeting process.

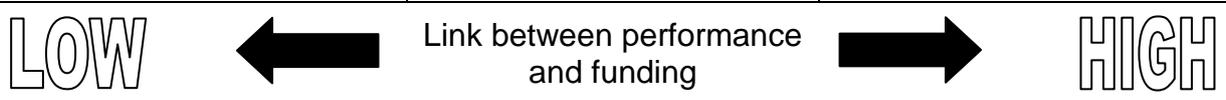
Performance information as used in this study refers to all information generated by formulating and measuring performance indicators and targets. While performance indicators refer to the measurement of performance against a set of objectives, with the objectives being medium and long term goals, targets on the other hand indicate the level of

performance of a particular activity. Secondly, while performance indicators quantify an organization's progress, targets set a specific goal.<sup>3</sup>

PI is used in budget negotiations along with other information on fiscal factors and political priorities. As one factor of the decision-making process it is generally used to inform budget allocations (PUMA/SBO 2002:12). PI considerations do not necessarily require the reclassification of line-item budget according to programmes: rather the reclassification according to programmes is often combined with the formulation of PI in the form of programme progress indicators.

The OECD has grouped approaches of integrating PI into the budgeting process into three categories (cf. OECD Kraan 2007, Anderson 2008). The table below illustrates the link between performance and funding decisions between different types of performance budgeting:

**Table 2: Key Features of Performance Budgeting**

Presentational Performance Budgeting	Performance-informed Budgeting	Direct Performance Budgeting
LOW		HIGH
PI available in the budget document	PI linked to programmes	Resource allocation based on achieved results

In presentational performance budgeting, the link between performance and funding is low or non-existent because PI appears in the budget document only as background information. The main objective of adding background information to the budget is to enhance governmental accountability for reaching policy objectives. The idea is also to increase transparency in budgetary priority setting for parliamentary approval.

Both performance-informed budgeting and direct performance budgeting are based on programme budgeting and are designed to also offer all benefits mentioned above. In performance-informed budgeting, programme objectives are based on performance indicators. Here, PI is important in the decision-making process as well as for monitoring the efficiency of public services delivery. The decision-making process is potentially strengthened by having binding performance indicators in the budget. However, it does not necessarily determine the amount of resource allocation. And since the government can be held accountable for achieving results, another expectation is that accountability is fostered.

<sup>3</sup> Definition in accordance with HM Treasury, Choosing the right FABRIC.

The closest link between PI and the funding decision exists in direct performance budgeting where resource allocation is based on achieved results (OECD 2005:114f). Direct performance budgeting links allocation decisions directly to outcomes, thereby presuming to strengthen the decision-making process. A core expectation of direct performance budgeting is that incremental budgeting will be avoided, thus leading to improvements in the planning process. Accountability is expected to be highest compared to the other two forms of performance budgeting since the achievement of results directly influences the allocation of resources. Nevertheless, an automatic link between outcomes and resource allocation does not look at the *reasons* for the failure of achieving the expected outcomes. It might set contradictory incentives, as the person responsible has no room to explain the failure and is automatically confronted with budget cuts.

As mentioned before, performance budgeting usually goes along with the reclassification of the budget according to programmes. However, a programme structure is not a prerequisite for performance budgeting. In some cases it might be helpful to add PI into the budget documentation, i.e. if parliament or civil society demand more accountability and/or transparency regarding the achievement of certain results.

### **2.3 Stakeholders of Reform**

The core player of budget reform is the ministry of finance (MoF). The MoF, however, cannot be perceived as one homogenous actor but act in collaboration with other reform agents. Central agents of reform could also be the state secretary<sup>4</sup>/secretary to the treasury<sup>5</sup>, maybe even supported or pushed by the president/prime minister. There is a wide variation in the formal role played by central agencies in OECD countries in the development and implementation of performance approaches to budgeting and management; there are countries where the MoF has no involvement and there are others where it is the main designer and manager of the performance system (OECD Curristine 2005:6).

There are two approaches for the initiation of the reform process; the top-down and bottom-up approach). In countries where there is the political will for reform, the process is usually initiated by the political decision makers and imposed on the MoF and the spending agencies (Top-Down Approach). The reform could also be triggered by middle management levels of the MoF; in an attempt to modernize the processes, middle management levels could develop their own concepts and try to gain support at senior management and political levels (Bottom-Up Approach). The following two chapters will show that both approaches carry

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<sup>4</sup> Referring to a senior management official in the ministry.

<sup>5</sup> Depending on the country system and law tradition.

benefits and risks. For instance, very little political involvement could mean that there is no pressure to change, but too much political pressure without taking along the administration may result in people doing just enough to comply with the new rules rather than actually improving performance. For each country, the relative risk of having too much or too little central involvement is influenced by the existing institutional structure, e.g. the level of decentralization of a country.

Within the MoF, there are different divisions involved in the reform process. While the budget division will usually be the main actor, some MoFs have planning divisions in charge of the capital budget's preparation. In some countries, development planning is even outsourced to an independent ministry, such as the ministry of economic planning. As mentioned before, capital and recurrent budget are often combined if results-oriented budgeting is introduced and this might lead to conflicts of interests between the two divisions or ministries.

A special reform unit in charge of steering the budget reform process is frequently formed (budget reform unit/ public financial management reform unit). Here, the relation of this unit to other divisions is a major issue. While we argue that it is generally supportive for a reform unit to report directly to senior management levels (i.e. directly to the state secretary), those units are often placed at a normal unit level within a department. The difficulty is that the unit coordinating the reform depends on the instructions of the department which has to be reformed.

Other stakeholders involved in budget reform are the spending entities; which in this study, refer to line ministries. It is possible that line ministries in some cases might even introduce some form of results-oriented budgeting before a corresponding decision is made by the MoF. In many cases, the MoF initiates the reform and has to convince the line ministries to comply, but they do sometimes volunteer to rollout the implementation of the reform .

Another key actor is the parliament, especially the budget/public accounts committee and some sector committees. A major reform like the introduction of results-oriented budgeting will usually need the approval and support of parliament, especially since one main benefit of reform is supposed to be increased accountability. Thus, the parliament often has the power to reject the reform project. In most legal systems, all money spent from the public treasury has to be subject to legislative authorization. Thus, parliament needs to approve the resources for reform in the context of the annual approval of the national budget. For approval of the budget the plenary usually follows the recommendations of the budget committee.<sup>6</sup> One of the questions to be addressed in this study is whether the introduction of

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<sup>6</sup> Might have a different name depending on the specific country context.

results-oriented budgeting leads to a power shift from the budget committee to sector committees and if this is a factor influencing the committee's position on budget reform.

Further actors of reform are the supreme audit institution (SAI) and civil society. With the shift to a results-oriented budgeting system, the role of the Supreme Audit Institution may change. While the SAI's task of ensuring that taxpayers' money is fully and properly accounted for still remains, under a more outcome-oriented system there is less call for SAIs to perform their traditional role of tracing each item of expenditure back to an enabling appropriation. At the same time, the shift in emphasis away from accountability for the appropriate use of public resources toward accountability for the effective use of public resources creates opportunities for national audit institutions to develop themselves into the guardians of taxpayer value (Hughes 2008:16). The parliament's (public accounts committee) ex-post control on the achievement of results generally depends on the scope of audit by the SAI. If it does not undertake performance-audits, the achievement of government's results cannot be scrutinized by parliament. Civil society also has an important role in scrutinizing the government for its results. In some countries, there are some civil society organisations (CSOs) that are actively involved in budget reform processes of their governments. Depending on the specific country context, the involvement of CSOs in the reform process is important to increase awareness of the reform process among citizenry. It also helps to initiate and foster public debates which could lead to valuable input from the public.

In the development cooperation context, donors are also major stakeholders to be considered. In the context of OECD countries reform the role of donors is not relevant.

## **2.4 Summary**

Besides identifying the main reform actors, this chapter showed that results-oriented budgeting comprises several variations or building blocks (mainly programme budgeting and performance budgeting). These building blocks serve certain objectives. It will be shown in chapter 3 and by the two case studies that countries usually tend to introduce comprehensive standard reform packages comprising reclassification to programmes, formulation of performance indicators, accrual accounting and medium-term financial planning. However, it is also illustrated that this approach is complex and complicated. Therefore, it is an important finding from this chapter that the different building blocks also make sense by themselves. For the advisory approach, it will be of importance to carefully assess the partner country's reform objectives and if possible avoid overburdening the administration and then try reaching these goals without introducing the whole reform package implemented by other countries

### 3. Results-oriented Budgeting in OECD countries

This chapter provides an outline of a desk study conducted on the introduction and ongoing reform processes of results-oriented budgeting in OECD countries.<sup>7</sup> The central aspects for each member country's reform process are presented in table 3. Additionally, relevant literature regarding results-orientated budgeting has been examined in view of the following questions: What different approaches of results-orientation have been/are being implemented? Who initiated the reform? What role do central actors play in the reform process? What are the objectives for the reform? How are reforms integrated in the legislations? What are the reporting procedures? What difficulties arose in the reform process?

It is argued below that there is a lack of evidence in literature to assess the success of these reforms. Also, there is limited information on the obstacles and challenges in the reform process across OECD countries. Findings presented in this chapter are more generic that is why good practices as well as potential risks and obstacles are identified and addressed in detail in the case studies found in chapter 4. The conclusions and lessons drawn from chapter 3 and 4 will be addressed in the checklist in chapter 6.

#### Table 3: Characteristics of Reform in OECD Countries

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<sup>7</sup> OECD member countries are: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Spain, Sweden, Switzerland, Turkey, the UK and the US

OECD Country	Key Feature of Reform	Objective of Reform	Driver of Reform	Timing	Changes in Legal Framework	Accrual Accounting introduced	Financial & Performance Reporting
Austria	<b>Performance informed budgeting</b>	<b>Accountability / Efficiency / Planning</b>	budget administration within the MoF	Started in 2007 Ongoing	Amendment of the constitution	X	X
Australia	<b>Performance informed budgeting</b>	<b>Accountability / Efficiency</b>	National Commission of Audit	Started in 1996 Ongoing	Financial Management and Accountability Act; Commonwealth Authorities and Companies Act; Auditor-General Act	X	X
Belgium	Not introduced						
Canada	<b>Performance informed budgeting</b>	<b>Planning / Accountability</b>		Started in late 1970`s Ongoing	Federal Accountability Act (2006)	X	X
Chile	<b>Direct performance budgeting</b> in selected sectors	<b>Accountability/ Efficiency</b>	The National Budget Office of the MoF	Started in 1994 Ongoing			X
Czech Republic	Not introduced						
Denmark	<b>Presentational / Performance informed budgeting</b>  <b>Direct</b>	<b>Planning / Efficiency</b>	MoF (Modernising Government Division)	Started in 1983, Ongoing	Guidelines issued by the MoF	X	X

	<b>performance budgeting</b> in selected sectors						
France	<b>Performance informed budgeting</b>	<b>Efficiency/ Accountability</b>	Parliament	Started 1998, Ongoing	2001: Constitutional Bylaw on Budget Acts	X	X
Estonia	Introduction Planned						
Finland	<b>Presentational Performance budgeting</b>  <b>Direct performance budgeting</b> in selected sectors	<b>Efficiency/ Expenditure Control</b>	MoF	Started in 1988, Ongoing	Partial establishment of reforms in law	X	X
Germany	Not introduced						
Greece	Not introduced						
Hungary	Not introduced						
Iceland	<b>Presentational Performance Budgeting</b>  <b>Direct performance budgeting</b> in selected sectors	<b>Accountability</b>					
Ireland	<b>Presentational Performance budgeting</b>	<b>Efficiency/ Accountability</b>	EU/IMF (Programme of support)	Started in 2006 Ongoing	Planned: <i>Fiscal Responsibility Bill</i>		X
Israel	Not introduced						

Italy	Not introduced						
Japan	<b>Presentational Performance budgeting</b>	<b>Efficiency</b>	Government (Prime Minister)	Started in 2001 Ongoing	No legal definition No requirements	X	X
Korea	<b>Performance informed budgeting</b>  <b>Direct performance budgeting (10% Cuts)</b>	Expenditure control	Ministry of Planning and Budget (MPB)	Started in 2000, implemented in 3 phases Nicht abgeschlossen	No legal definition New Bill with comprehensive, updated definition of the budget system	X	X
Luxembourg	No information available						
Mexico	<b>Performance informed budgeting</b>	<b>Accountability / Efficiency</b>	Government	Started in 2006 Ongoing	General Fiscal Accounting Law	X (by 2012)	X
Netherlands	<b>Presentational Performance budgeting</b>	<b>Accountability / Efficiency</b>	Parliament Supported by MoF	Started in the 1970s Failed Reconsideration in the 1980s Ongoing	Second level legislation "order on performance data" 2002	X	X
New Zealand	<b>Performance informed budgeting</b>	<b>Accountability / Efficiency</b>	Government	Started in 1984: New Public Management Ongoing	Legislative basis 1989: Public Finance Act	X	X
Norway	<b>Presentational Performance budgeting</b>  <b>Direct performance budgeting in selected</b>	<b>Accountability / Efficiency</b>	Government MoF	Started in 1986 Ongoing	No legal definition Requirements to develop PI	X	X

	sectors						
Poland	<b>Performance informed budgeting</b>	<b>Accountability/ Efficiency</b>	Government: The Chancellery of the Prime Minister	Started in 2006 Ongoing Expected to be finished in 2012	Change of law 2006	X	X
Portugal	<b>Programme Budgeting</b>  <b>Direct performance budgeting</b> in selected sectors	<b>Efficiency/ Expenditure Control</b>	Government	Started in 2006 3 Steps implementation Ongoing	2006 State Budget Law	X	Financial reporting
Spain	<b>Programme Budgeting / Presentational Performance budgeting</b>	<b>Accountability / Efficiency / Planning</b>	Ministry of Economy and Finance	Started in 1984: Ongoing	Reform of Organic Budget Law in 2001, 2003 & 2006	X	X
Slovakia	<b>Performance informed budgeting</b>	<b>Planning / Efficiency</b>	Government	Started 2004 Ongoing	Change of law and particular acts		X
Slovenia	<b>Performance informed budgeting</b>	<b>Efficiency</b>		Started 2000 Ongoing	Public Finance Act no. 79/99	X	X
Sweden	<b>Presentational / Performance informed budgeting</b>  <b>Direct performance budgeting</b> in selected sectors	<b>Planning / Efficiency</b>	Government	Started in 1996 Ongoing	No legal definition letter of appropriation	X	X

Switzerland	No information available			Started in 1990		X	
Turkey	<b>Presentational / Performance informed budgeting</b>	<b>Accountability / Efficiency / Planning</b>	MoF	Started in 2005	Public Financial Management and Control Law	X	X
UK	<b>Presentational performance budgeting</b>  <b>Direct performance budgeting</b> in selected sectors	<b>Efficiency/ Accountability</b>	Treasury	Started in 1998 Ongoing	No legal definition	X	X
USA	<b>Performance informed budgeting</b>	<b>Accountability / Efficiency / Planning</b>	Office of Management and Budget	Started in 1993 Ongoing	Legislation Government Performance and Results Act (1993)	X	X

### 3.1 Approaches of Results-orientation in OECD Practice

Results-oriented budgeting has been a widespread and long-term trend across OECD countries. While programme budgets are suitable to strengthen certain budget functions like planning and efficiency (see chapter 2), Table 3 shows that most OECD countries have moved to a type of performance-budgeting aimed at linking allocated funds to measurable results. So far, with 26 out of 34 of OECD countries have introduced government-wide reform initiatives that can be classified as performance budgeting. The approaches applied in Spain and Portugal are, in accordance with chapter 2, to be categorized as programme budgeting. Still, both countries have implemented components of performance budgeting. Only a minority of OECD countries has not introduced any kind of results-orientation budgeting at national level, namely Belgium, Czech Republic, Germany, Greece, Hungary, Israel and Italy. Table 3 illustrates which type of performance budgeting - as defined in chapter 2 - has been introduced in OECD countries:

*Presentational performance budgeting:* Nine member countries, equivalent to one third, use presentational performance budgeting. As described in chapter 2, PI is included as background information only and serves mostly for improving transparency and accountability. In most of these countries, the approach of presentational performance budgeting can be seen as a preliminary stage in the transition to performance informed budgeting. They have reported to struggle with developing sophisticated performance measures but seek to increase the use of PI in the budget process (OECD 2005:100f).

*Performance informed budgeting:* The table illustrates that current practice in OECD countries is performance informed budgeting. 14 of the reviewed countries can be classified under this category. In these countries, performance information (PI) is one factor in the decision-making process and it is generally used to inform budget allocations. Answering an OECD questionnaire in 2005, about 30% out of 28 of member countries stated that they use PI as part of the budget discussions between the MoF and all spending ministries. The remainder uses PI in budget discussions with at least a part of their spending ministries (OECD 2005:103). Usually, information on poor performance serves as a trigger for the MoF to more closely monitor or review agencies and programmes (Aristovnik/ Seljak 2009:5).

*Direct performance budgeting:* Direct performance budgeting is currently hardly in use across OECD countries. Korea applies direct performance budgeting in a comprehensive manner, announcing an automatic 10% budget cut for programmes not reaching their targets (OECD 2007:48). Still, some countries have applied direct performance budgeting in certain sectors.

A typical sector for direct performance budgeting is higher education. In Chile, Denmark, Finland, Norway and Sweden, funding for university teaching is based on a formula in which performance is the key element. Chile, Denmark and Norway use this approach in the health sector. The precondition for use in these sectors is to have clear and easily quantifiable measures for outputs and outcomes (OECD 2005:104ff).

The three types of performance budgeting do often mix in practice. OECD countries have adopted a variety of methods and approaches and even within countries, the approaches adopted can vary by sector and by sub-national agencies. An example is Germany; although results orientated budgeting has not been introduced at national level several sub-national states have implemented it (see chapter 4.1).

### **3.2 Objectives and Drivers of Reform**

Although countries may have different reasons for embarking on budget reform, and may have implemented these reforms differently, they do however share some common objectives. An overview of table 3 shows that more than 80% of OECD countries which implemented the budget reforms sought to improve the efficiency and effectiveness of government's service delivery. Another 70% want to strengthen transparency and accountability to politicians and the public and one third aim at strengthening the planning function. In general, the budget reform has often been linked to larger reform efforts to improve public expenditure control and public sector efficiency and performance.

Across OECD member countries, there have been different key actors pushing countries' reform efforts forward. Table 3 shows that in one third of OECD countries, the key driver of reform has been the MoF (or corresponding ministry). In another third, the driver of reform is only specified as "the government". Two countries reported that parliament has been the driving force. There are also few cases, where reforms were triggered by other institutions like the Treasury or the Supreme Audit Institution.

As seen in chapter 2.3, the agency responsible for designing performance budgeting initiatives has generally been the MoF, although its role in the implementation of resulted oriented budgeting widely varies. On the one hand, there are countries like, Chile and the United Kingdom that have adopted a top-down centralised approach in which the MoF plays a strong and active role in developing and implementing these reforms. On the other hand, countries such as Iceland and Denmark which operate a bottom-up decentralised approach in which the MoF has a low level of involvement and it is the responsibility of individual ministries to implement these reforms. In a more decentralised systems, the role of the MoF

tends to be limited to giving guidelines and advice. (OECD 2007:34). The degree of MoF involvement in the development of performance measures and setting of performance targets in individual spending ministries also vary across countries. In about one third of these countries, spending ministries develop their own performance measures and set their own targets without any involvement of the MoF. Another third do set both targets and measures in consultation with the MoF (OECD 2005:92f). Additionally, nearly 50% of the countries require MoF's approval for a redistribution of funds from one output to another (Rose 2003:1).

There is a longstanding debate among OECD member governments as to the appropriate role of the Supreme Audit Institutions with regards to PI. MoF generally hold the view that audit should be limited to financial information whereas audit offices typically would like to have a stronger role like the control on performance achievement. In a 2000 PUMA/SBO survey, half of the countries stated that PI was audited for most or at least some programmes. The other half reported that PI was not audited at all (PUMA/SBO 2002:2f).

### **3.4 Sequencing Issues**

The table above addresses some sequencing issues regarding the timing; changes in the legal framework and whether or not countries have introduced accrual accounting as an accompanying reform.

An analysis of the time frame of reforms towards results orientation showed that it is rather an ongoing process than a short or medium-term project. The majority of OECD governments have made efforts on developing an individual framework for more than a decade. Most countries have introduced at least two or three subsequent reform initiatives, mostly seeking to develop and improve the use of PI in the budget process (OECD 2005:90). Some countries like Korea and Portugal chose to implement reforms in sequential manner. Others, like the Netherlands, failed with the reforms on the first attempt, rowed back and reconsidered the implementation at later stage. Generally, the introduction of results orientation across OECD countries seems to have been a process of trial and error. Although having been working on the implementation for a long time, none of OECD members claims to have completely finished the reform process so far.

Regarding the reform of the legal framework, governments have to decide on how to establish PI in their budget systems. About two thirds of OECD countries have introduced reforms through legislation, either at constitutional level or in second level legislation, i.e. the organic budget law. The remainder has not enacted the reforms in legislation, instead the

MoF issues formal requirements and policy guidelines for the spending ministries. The need for legislation depends on the legalistic tradition of each country and the nature of the public administration system. In some countries, legislation is the necessary prerequisite for introducing any reform initiative; in others, like the UK or Japan, it is not necessary. The institutionalization of reforms through legislation ensures compliance and some form of permanence by making it easier for reforms to continue if there is a change in government, although the enactment of the legislation for reforms is no guarantee that they will actually be implemented (OECD 2008:3).

As mentioned before in chapter 2, the transition to accrual accounting does not have to be an integral part of reform design considerations, nevertheless, it is a possible accompanying reform of results-oriented budgeting. More than 80 percent of OECD members have moved to, or are still in the process of moving towards accrual accounting. The pros and cons of accrual accounting have received a great deal of attention from experts in the field of budgeting (e.g. Diamond 2002, Athukorala/Reid 2003). The greatest advantage to accrual accounting is that it offers a comprehensive means of measuring governmental assets and liabilities (Diamond 2002:5) and therefore provides more information about the government's current financial situation. Another argument for the introduction has been better comparability of costs and therefore fostered competition (PUMA/SBO 2002:8). However, the reform can involve major problems like enormous costs and large technical requirements (see case studies, chapter 4), which could be the reason for the long duration of the reform process. It has been suggested that an accounting system change should follow rather than lead general budget reform (Diamond 2002:10, 17). A significant disadvantage in the context of development cooperation is the difficulty and expense of implementation (Athukorala/Reid 2003:25).

### **3.5 Measuring Performance/ Reporting**

Table 3 shows that all OECD countries that have introduced performance budgeting, systemically report both financial and performance information. Around 70 percent include PI into most programmes whereas the remainder includes the information for a limited set of programmes (PUMA/SBO 2002:2ff). Many OECD countries faced difficulties with the formulation process; the main problems are, finding clear objectives, obtaining sufficient data of high quality, and designing measures for specific activities. Many OECD countries have been struggling with these challenges after the first five years which indicates that it takes time to develop meaningful measures and to collect relevant data of sufficient quality.

Furthermore, the revising and updating of performance measures is a continuous process because needs and priorities are constantly evolving (OECD Curristine, 2005:97). Performance indicators write down the political aims and targets in the programmes measurable and are, thus, the basis for improved decision making and enhanced accountability.

The measurement of performance is a precondition for financial and performance reporting. The common performance measurement used in nearly all OECD countries is outputs and outcomes.<sup>8</sup> However there is the tendency for countries at the initial stages of reform to concentrate on outputs and to develop outcomes at a later stage (OECD 2005:90f). In the current stage of transition, half of all member countries stated to apply a combination of outputs and outcomes to most or some of their programmes (PUMA/SBO 2002:3f).

PI can be reported in different formats and documents and can relate to the budgeting and accounting procedures. It is predominantly included in the budget documentation delivered to parliaments in OECD countries. In a few countries, each ministry prepares its own report and some present targets in separate government wide reports (PUMA/SBO 2002:4ff). Since the formulation and measurement is an essential issue regarding the introduction of results-oriented budgeting, it is taken up more in detail in the UK case study.

### 3.6 Challenges

The majority of OECD countries have been struggling with the move towards results-orientation. While each country experienced problems arising from their individual reform approach and/or their individual institutional and political structure, there are certain challenges that seem to arise independently from the country and its individual conditions. (SBO 2006:4f). Member countries listed the following as the main challenges they have been facing during their reform processes:

*Measurement:* Performance measures are more easily applied to certain types of functional and programme areas than others. Problems tend to rise especially with regard to intangible activities such as policy advice. Other challenges related to measurement include setting clear objective and having good systems of data collection. At the MoF level, problems occurred mostly with developing capacity to analyze and evaluate the information received from different spending ministries.

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<sup>8</sup> *Outputs* are the services which government bodies provide for citizens, business and/or other government bodies. *Outcomes* are the effects on or the consequences for the community from the outputs or activities of the government.  
Source: "Outcome-focused Management and Budgeting", *OECD Journal of Budgeting*, Volume 1, Number 4.

*Resistance from involved actors:* Motivating key actors to move away from traditional and familiar budget practices is difficult. Resistance may occur at all levels, from staff to managerial and even ministerial level. Politicians have an important role to play in promoting the development and use of PI in the budget process. The idea is to have politicians set clear goals and objectives for agencies and to create formal mechanisms with which to monitor progress in achieving these goals. For performance budgeting, the key issue is whether and how politicians use PI when making budgetary decisions. However, politicians in many cases tend to complain about receiving too much information of variable quality and relevance. Politicians in the legislature and in the executive have different informational needs, so for the information to be useful it needs to be tailored to their requirements. (OECD 2007:68ff)

Although there is broad consensus about the theoretical benefits of results-oriented budgeting, literature on empirical assessment of success is scarce. The lack of empirical evidence derives from the inherent difficulty of linking financial reform with outcomes and measure objectives such as accountability and efficiency. Reasons are that - among other things - results-oriented budgeting is mostly part of a broader set of other Public Financial Management reforms which influence the reform outcome. Furthermore, the success of the reform does not exclusively depend on its technical design. Actually, other important contextual factors such as the political and institutional system, the political culture and the fiscal environment play an important role in the implementation process (Robinson/Brumby, 2005:4). The fact that research is limited and most of the research has focused on budget officials' perception of reforms (Klase/Dougherty, 2008:277) underlines the difficulty of empirical assessment.

It is striking that despite the fact that reform efforts towards results oriented budgeting in OECD countries have in general been time-consuming and expensive, hardly can any clearly quantifiable success from these reforms be observed.

## 4. Case Studies

### 4.1 Case Study Germany: National and Subnational

As mentioned in chapter 3, Germany decided not to introduce results-oriented budgeting at the national level; however the German experiences at the sub-national level provide good examples on the different possibilities to introduce results-oriented budgeting. Drawing from the interviews with the relevant administrative staff and the analysis of available literature, this chapter will describe the experiences of two German states (*Bundesländer*), Hessen and Berlin. The federal state also pursued the idea of introducing results-oriented budgeting but stopped its efforts in 2010. Therefore this chapter starts with a brief overview of the approach at the federal level, and then gives a more focused analysis of the experiences in Hessen and Berlin.<sup>9</sup>

#### 4.1.1 Legal Background of Reform

Germany has a national government and 16 state governments. Following the history of the German federal system, the decision whether to introduce results-oriented budgeting in Germany was made by each of the 16 states. Article 109 in the federal constitution of Germany (*Grundgesetz*, GG) states: „government at the federal and the states level are independent in the elaboration of their budgetary system“.<sup>10</sup> This gives the states the autonomy in defining their yearly budget *process*, but does not mean anarchy with respect to the underlying budget *system*. The budget system is defined by a set of laws at the federal, and states level; including the federal budget code (*Bundeshaushaltsordnung*) and the basic budget law (*Haushaltsgrundsätze-gesetz*, HGrG) that define the legal basis for budgeting at the national level and in all German states (see Heuer et al 2001). These basic legal requirements in turn have to be specified by the budget code of the states (*Länderhaushaltsordnung*), where the 16 states define the specific organization of their budget process and classification.

With respect to the budget classification scheme, the HGrG until January 2010 obliged all states to adhere to a line item structure in the preparation of their budget. The HGrG also included a “flexibility clause” (HGrG § 7a, old) allowing the states to decide if they want to introduce a parallel results-oriented structure. This possibility was used by some of the states but had the consequence of having to write the budget plan twice. As a result, Hessen and

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<sup>9</sup> The chapter is based on findings from interviews with Bundesministerium der Finanzen, Hessisches Ministerium der Finanzen and Senatsverwaltung der Finanzen Berlin in March/April 2011. We gratefully acknowledge the support of these institutions.

<sup>10</sup> Translated by authors from: „Bund und Länder sind in ihrer Haushaltswirtschaft selbständig und voneinander unabhängig“.

Hamburg started an initiative and pressed for reform of the HGrG in 2006 to allow the introduction of results-oriented budgeting without maintaining the input structure (BMF 2007b). At the same time, the national supreme audit institution recommended a push for reform and the national MoF started its own reform project to introduce results-oriented budgeting (see 4.1.1). This dynamic environment called for a reform of the HGrG (see BMF 2009), which passed parliament and entered into force on the first of January 2010. The reform of the HGrG in 2010 deleted the flexibility clause but explicitly provided each of the 16 states with the possibility to choose between an input and a results-oriented budget structure (HGrG § 1a).

#### 4.1.2 Experiences from the National Level

To start with the experience at national level, it is helpful to understand a central feature of the national budget in a federal political context, illustrated by the German example: At the central level of government up to 80% of the budget are „run through items" (*Transferleistungen*) that are directly transferred to the sub-national level or to the service of interest rates. Only the remaining part of the budget, ca. 20%, would be affected by the reorganization from input to results-oriented budgeting. This does not mean it is needless to reform central budgets in a federal political system, but costs and advantages of reform have to be assessed carefully, taking into account the possible high ratio of „run through items" at the central budget level.

In 2006, the federal MoF introduced a project group<sup>11</sup> in its federal budget division to work on reform options for the introduction of results-oriented budgeting in Germany.<sup>12</sup> Considering the shift from the traditional input-based line item budget to results-oriented budgeting, the MoF reacted to the international and sub-national trend of increased use of results-oriented approaches to budgeting (BMF 2007a, BRH 2006). Also, the federal supreme audit institution (*Bundesrechnungshof*), who accompanied the evolution of reform ideas, had recommended the introduction of results-oriented budgeting (BRH 2006).

The reform project was then initiated and pushed by the MoF. The MoF with support from a consulting firm, and in consultation with the budget committee in Parliament, the line ministries and the SAI, drafted a concept for the modernization of the budget and accounting system (*Feinkonzept zur Modernisierung des Haushalts- und Rechnungswesens*; (BMF

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<sup>11</sup> Projektgruppe „Modernisierung des Haushalts- und Rechnungswesens", for a brief summary of the way to the reform project see BMF, 2008.

<sup>12</sup> The project group also considered possibilities to reform the accounting system and of top-down fiscal steering. As this paper focuses on results-oriented budgeting we will not further review these two aspects (for further information see BMF, 2007).

2008a). The main objectives were seen in light of an enhanced results orientated budget allocations, and an increased steering competences and transparency by reducing the more than 5400 existing line items of the German federal budget (BMF 2007b and 2008a). The concept was proposed to reduce the line item structure to a minimum level, and subject it to the product structure in the new budget design (*produktorientierter Teil des Haushalts*). The products would constitute the obligatory part of the budget, which means that parliament would have to vote on the product structure instead of the line item structure. It was further proposed to keep the existing division in sections (*Einzelpläne*) and chapters (*Kapitel*). As a result each section should basically consist of three chapters: 1) ministry, 2) political programmes, and 3) downstream areas. The products should then be assigned to the different chapters, whereas the “1) ministry” is entitled to only one product, the “3) downstream areas” should have one product for each of the downstream agencies (BMF 2008a: 5). The new budget design was set to have a maximum of 1000 products in total, and only the line items within a product would be coverable. Furthermore, the concept by the MoF required the linking up of the products with performance information and operating figures (*Kennzahlen*) to make the results achieved measurable. However, there was no information indicating that noncompliance with the targets set would have an automatic consequences for budget allocation. The introduction of results-oriented budgeting at the national level should have followed a gradual approach, testing the approach described with a three year phase of pilots before starting to roll out the modernization efforts in all agencies (BMF 2008a:16ff.). According to the reform of the accounting system, the introduction of accrual accounting (*erweiterte Kameralistik*) was suggested to better calculate the resources spent for a certain product (BMF 2008a:8ff.). The costs for the introduction of accrual accounting were however estimated to range around 126 million Euros between 2008 and 2018, plus 243 million Euros between 2008 and 2023 for current costs (BMF 2008a:18f.).<sup>13</sup>

To secure broad political support, a steering committee on the level of secretaries of state from the different line ministries was created to meet twice a year and discuss options of introducing results-oriented budgeting. This was seen as a helpful tool to gain support at the high executive level. Initiated by the MoF and in cooperation with the legislative branch a group comprising of members of the budget committee (*Berichterstattergruppe*) was organized to lobby for the reform project in parliament. Convincing the parliament of the potential benefits of reform turned out to be the most difficult part of reform. As would be discussed in detail in chapter 4.1.3, the interest of parliament to maintain its input-control of

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<sup>13</sup> For the introduction and current costs of accrual accounting (*Doppik*) were estimated around 251 million Euro and 314 million Euro respectively (BMF 2008a:18f).

the budget can collude with the motivation to reform. In the case of Germany, the Budget Committee in the national Parliament (*Haushaltsausschuss im Bundestag*) seems to have seen more risks than advantages and froze the assets directed to the modernization of the budget structure in 2010. The MoF therefore decided to stop its efforts to introduce results-oriented budgeting (BRH 2010:63f).<sup>14</sup>

All in all, the example of the federal level illustrates the importance of dealing with the interests of different actors, and the difficulties of reform even in a highly developed environment.

#### 4.1.3 The Sub-national Level - Background and Objectives of Reform

Differently to the national level several sub-national states decided to implement results-oriented budgeting.<sup>15</sup> As the decision to introduce results-oriented budgeting was decentralized and lies within the competence of the states, the ways of implementation varied a lot. In practice every state that decides to implement results-oriented budgeting, chooses its own implementation design. Hessen and Berlin serves as examples of two different possibilities. Berlin as a small state (*Stadtstaat*) is somewhat of a special case: It focused on the introduction of results-oriented budgeting at the decentralized level (*Bezirksebene*). As would be explained in chapter 4.1.3, the challenge then was to create a consensus between the different representatives from the decentralized level (*Bezirke*).<sup>16</sup>

The objectives of reform in Berlin and Hessen, as defined in the interviews, are basically the same and reflect the objectives mentioned in Table 1, Chapter 2: effectiveness and efficiency of the budget process, transparency, accountability, informed decision making, and justice of budget allocation.<sup>17</sup> Berlin additionally pursued the objective of expenditure control and benchmarking.<sup>18</sup> This is possible due to the implementation at decentralized level and the possibility to compare budgets and results in the different units (*Bezirke*).

<sup>14</sup> See also: <http://www.manager-magazin.de/politik/deutschland/0,2828,724410,00.html> and <http://www.government2020.de/blog/?p=219>.

<sup>15</sup> As of 2009 Baden-Württemberg, Berlin, Bremen, Hamburg, Hessen, Niedersachsen, Nordrhein-Westfalen und Rheinland-Pfalz were engaged in the introduction of results-oriented budgeting (BMF 2009).

<sup>16</sup> This chapter does not follow in any means the aim to judge the different approaches. The different reform contexts of Hessen and Berlin make a comparison difficult anyway. The idea of this chapter is to describe two different possibilities of how results-oriented budgeting can be introduced.

<sup>17</sup> The latter objective referring to justice was explicitly mentioned by the staff in Berlin. For more information on Hessen see:

[http://www.hmdf.hessen.de/irj/HMdf\\_Internet?cid=0dd7f29e7f0386761274ad879c331d1e](http://www.hmdf.hessen.de/irj/HMdf_Internet?cid=0dd7f29e7f0386761274ad879c331d1e).

<sup>18</sup> See: <http://www.berlin.de/sen/finanzen/haushalt/bezirke/index.html>, including links to the publication „Was kostet wo wieviel?“ (“What are the costs in different units?”; own translation). A “run to the bottom”, resulting from an exaggerated focus on efficiency and the underestimation of quality and

While the objectives are similar in Hessen and Berlin, the ways chosen to achieve these objectives differ in central aspects. The following passages of this chapter give an idea of the two ways of implementation with the aim of showing the different practical experiences of how to implement results-oriented budgeting.

### **Clarification of terms**

To understand the differences in the two German states it is essential to briefly look at the terms used in Hessen and Berlin to specify results-oriented budgeting. They already reflect central aspects of reform that differ in the two reform approaches

#### **Clarification of terms:**

- Product or program budgeting (*Produkthaushalte*) in Hessen: Hessen introduced results-oriented budgeting by including programs and performance information as obligatory parts of the budget, which are therefore objects of parliamentary vote. In OECD-terms this would be close to the category of performance-informed budgeting (see chapter 2).
- Product or program oriented steering of the budget (*produktorientierte Steuerung des Haushalts*) in Berlin: Berlin introduced results-oriented budgeting with programs and performance information not being an obligatory part of the budget, but supplementary information. Parliament in that case did not have to vote on the programmes; rather the administration operationalized the programmes in line items which were then approved by parliament. In OECD-terms, this would be close to the category of presentational performance budgeting (see chapter 2).

The classification described in the box is important concerning the acceptance of reform by the legislative power. This point would be elaborated on with an example in the next paragraph on “Drivers of Reform”, more specifically in the passage on “Political factors – Interests of the different stakeholders”.

#### **4.1.4 Drivers of Reform**

The reform processes in both Berlin and Hessen started in the 1990s and had a broad range of actors supporting it. The force behind the reforms included high political representatives such as the prime minister in Hessen and the mayor of Berlin<sup>19</sup>, delegates in the parliament and managers as well as administrative staff in the sub-national Ministries of Finance (MoF). The drivers of reform / or the motivation to initiate the reform differ in the two states and show

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effectiveness, that critics of benchmarking fear, has not been experienced in practice so far (interview).

<sup>19</sup> Berlin (as Hamburg and Bremen) is a state comprising only one city (*Stadtstaat*), instead of a broader regional territory with different municipalities. The highest political representative is the mayor (*Regierender Bürgermeister*).

context specific reasons that generated ownership for change. While in Hessen the political actors pushed for modernization of the budgetary system (Hessische Landesregierung 2005), in Berlin it was reported that the changing circumstances after the end of the Cold War created an „advantageous situation“ (*situative Günstigkeit*) to line up the different actors needed to push for reform:

Motivation for reform in Hessen	Motivation for reform in Berlin
<p>The initial impulse in Hessen came from the parliament supported by the supreme audit institution. Strength was given to the process by a political campaign run by the then governing party, which lobbied for Hessen to be the most modern and efficient of German states.<sup>20</sup> Following the impulse of the parliament and the idea of modernization, the government called for a commission to elaborate a draft on the modernization of the budgetary and the accounting system. Following the decision of the Cabinet the government outlined a basic concept for the modernization project, which was approved by parliament.</p>	<p>The initiation of reform in Berlin was strongly fostered by an „advantageous situation“: After the end of the Cold War and the reunification of Germany and Berlin, the budget of Berlin had to deal with a strong reduction of financial resources. These had been granted during the Cold War from both superpowers to support their respective allies in the eastern and the western part of Berlin. The fact of having to deal with a new situation which also concerned the budget gave way for a broad support in politics and administration for a reform expectedly leading to a more efficient and just allocation of the budget.</p>

Even though the introduction of results-oriented budgeting was supported by a broad range of actors, it must not be forgotten that the different actors pursued diverse interests and therefore put forth different priorities with respect to the objectives they expect to get from the reform. The interests of the actors involved in the reform process are a crucial political issue when looking for motivation and acceptance for the envisaged change; the subsequent sub section therefore contains a brief illustration of the different interests, possible problems and ideas of how to handle the latter.

### ***Political factors – Interests of the different stakeholders***

The core objectives of reforming the budget system to results-oriented budgeting are mentioned above. These objectives can differ in priority depending on the interests of the different actors. However, putting the focus on the actor’s perspective does not mean that

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<sup>20</sup> “Hessen Vorn” Campaign. The reform was not limited to the budget structure but comprised the idea of modernizing the whole public service (*Neue Verwaltungssteuerung*), see Jock 2006/2007: 185-232..

certain actors will always follow the same interests. Examples from the German experience further illustrate the issue of differing interests:

- *Parliament:* In Hessen parliament mainly hoped to improve the transparency of the budget and the accountability of government (interview and Jock 2006/2007:207). Differently, at the federal level it seems that the interest of parliament to maintain input-control over the budget was stronger than the hope to increase transparency.
- *Administration in the MoF:* The administration in the MoF aimed at improving the efficiency and effectiveness of budget procedures. As the shift from input to results-oriented budgeting brings new working procedures, political support and top-down management was reported as key for the change in administrative behaviour in all three cases (interviews with MoF in Hessen, Berlin and at national level).
- *Line ministries:* The line ministries mainly hope to improve their managerial flexibility and autonomy in defining the inputs to achieve a certain political objective written down in a programme. Nevertheless the administration could also have reasons to see its interests endangered and block reform (also see chapter 3). In Berlin for example, it was reported that staff feared a cutback of their posts, if they could not argue for a certain amount of programmes to be established under their responsibility. The responsible managers and politicians reacted to these fears by, assuring the maintenance of the existing jobs.

As the last example shows, the interests of the different actors in certain contexts have to be dealt with. The experiences in Hessen and Berlin provide further ideas of what possible conflicts of interests could be and how they could be handled:

- With regards to transparency and accountability different needs can evolve from administrative staff on one side and the parliament on the other: According to the interview with the MoF of Hessen, while the administration's interest is to have a detailed data base to accurately design the implementation steps for certain policies, in parliament difficulties could arise with regards to understanding and working with the very detailed and comprehensive information provided. Transparency in this case does not enhance the readability of the budget and hinders parliament to transform the provided data into accountability measures. To handle the challenge, Hessen went through a process of developing an adequate format for reporting. A special unit was attached to parliament with the task to pre-process the information reported to parliament in order give it a readable synthesis. The pre-processing of information bears the potential for distorted information and can therefore have a negative effect

on transparency. How this looks like in practice has to be carefully looked at in the respective situation.

- As the reform process at the federal level indicates, another possible conflict of interest can be pictured regarding the increase of managerial flexibility as a result of shifting the input-control from the realm of parliament to the competences of the administrative unit in the respective line ministries: With the reorganization from input to results-oriented budgeting the parliament can lose the control over the single line items and the definition of inputs. Parliament's task would then be to only vote on the programmes elaborated and on the aggregated financial resources dedicated to each one of them. The definition of the specific inputs to implement the programmes is left to the discretion of the manager responsible in the respective line ministry. This can lead to more managerial flexibility and expectedly more efficient management of financial resources. On the other hand, it means that parliament, as the representative of the people, has no power to decide on what inputs best serve the achievement of the programme's objectives (also see the OECD experiences in chapter 3). The case of Berlin gives one example on how to handle this challenge. As already mentioned in the paragraph on the clarifications of terms, Berlin introduced results-oriented budgeting with programmes and performance information not being an obligatory part of the budget, but "only" supplementary information. This means that the administration first uses the programmes as a guide for informed decision making and then operationalizes the programmes in a line item structure that is afterwards voted on by parliament. Thus, parliament keeps its input-control, while the administration, with the elaboration of programmes and related indicators, has an instrument to guide its decision making process.

This example underlines the importance of the role of parliament. Especially in jurisdictions, where parliament also had to change its focus from inputs to results and will in future not vote on inputs but on programmes (as in Hessen), it is important that the reform is backed by representatives of the legislative power. In jurisdictions where the input-control of parliament is not challenged, as was the case in Berlin, the active backing of reform is not as essential, even though a broad consensus always helps to push a reform.

To conclude: Even when there is a broad alliance of actors pushing the reform, it is important to analyse possible differing or even conflicting interests and approach them with adequate measures in the context given. The divergence of interests might evolve over time, it is thus important to continuously be aware of arising problems.

#### 4.1.5 Management of Reform

In both states the MoF was the main designer of reform. In Berlin and Hessen special budget reform units were installed within the MoF and seen as very useful instruments to guide the reform process (interviews in Hessen and Berlin):

- Hessen created a budget reform unit<sup>21</sup> in the budget division within the MoF. The unit was dissolved in 2011, but the responsibility currently lies within the unit for basic questions in the budget division within the MoF.
- Berlin created a budget reform unit in the MoF, which was directly responsible to the secretary of state (interview).

Berlin being a small state (*Stadtstaat*) with a decentralized administrative structure and a decentralized management of public financial resources, focused on the introduction of results-oriented budgeting at the decentralized level (*Bezirksebene*). However as mentioned earlier, the challenge then was reported to lie in the process of creating consensus between the different representatives from the twelve units at decentralized level (*Bezirke*). Therefore a central task of the reform unit within the MoF was the moderation of a participative process on the elaboration of a catalogue on programmes and indicators, compulsory for all decentralized units, to later allow the provision of performance information. This was however reported to be a very time consuming process, for instance the definition of the numbers of products in the catalogue followed a typical trial and error pattern: it was very high at first, but was then reduced and again expanded to make it fit the needs that the administration faces in practice (also see example in 4.1.6, and for the importance of time chapter 3 and 4.2).

- In Hessen the MoF adopted a top-down management approach and introduced a system of objectives (*Zielsystem*); see box below. The challenges were however related to the definition of products, which is not always easy to validate, e.g. in the realm of administrative steering or legislative actions (see Jock 2006/2007:211).

#### ***Processes of the system of objectives (Zielsystem) in Hessen***

To be able to focus more on results than on inputs the connection between political aims and the budget is the central aspect (Hessisches Ministerium der Finanzen 2010). Hessen and Berlin therefore introduced a system of objectives (*Zielsystem*), which will be described here following the

<sup>21</sup> "Gesamtprojektleitung Neue Verwaltungssteuerung, GPLNVS"

example of Hessen<sup>22</sup>. The Government of Hessen formulates the political aims, which are part of the yearly budget plan. The line ministries then set targets for their respective sector, relating them to the political aims. These sectoral targets have to be agreed with the MoF, which has the right to put a veto, forcing the line ministries to review the target. The targets in a third step are disaggregated in products and in a fourth step operationalized in inputs (see Jock 2006/2007: 213f). The products also have to be attributable to the political aims and sectoral targets; they constitute the steering element for the administration and are the basis for financial allocation (see Land Hessen 2006).

The budget with the defined political aims gets approved by parliament. A specialty in Hessen is the role of the supreme audit institution of the state (*Landesrechnungshof*). The SAI of Hessen implements a process-oriented audit of the elaboration of the sectoral targets and the allocation of budget. The SAI therefore does not only serve as a controller but also as an adviser,<sup>23</sup> and is seen by the administration as a helpful actor in the process of elaborating targets and products (interview in Hessen).

An important aspect of the reform process in both Berlin and Hessen was the enormous effort made to communicate the reform internally. In Berlin, a “reform press” was initiated, and in Hessen regular newsletters were written to inform staff about the procedures and status of the reform process (interviews in Hessen and Berlin).

#### 4.1.6 Sequencing and Financing of Reform

Sequencing as understood in this study refers to order and time of reform and relates to accompanying reforms like accrual accounting and Medium Term Expenditure Frameworks (MTEFs).

Regarding time, the German sub-national examples are in line with the OECD experiences summarized in chapter 3; both processes started in the 1990s and took years to implement the shift to results-oriented budgeting.<sup>24</sup> The implementations show lots of trial and error processes and consume a lot of time for communicating the advantages to the different actors and dealing with the risks evolving (see above “political factors – interests of different actors”). For instance, the debate in Berlin on how the elaborated indicators for each

<sup>22</sup> This does not implicate a superiority of one system; the case of Hessen is simply better documented than the case of Berlin. For more information on Berlin, see: <http://www.berlin.de/verwaltungsmodernisierung/index.html>

<sup>23</sup> See: <http://www.rechnungshof-hessen.de/index.php?seite=aufgaben.php&selected=1&selected2=45>.

<sup>24</sup> In Hessen the Programme Budget (*Produktthaushalt*) is used since 2008 and was installed according to the timetable (Jock 2006/2007: 211), still the reform process continues in forms of adaptations, e.g. concerning the reporting format. In Berlin the first results-oriented budgets were implemented in 2001: <http://www.berlin.de/sen/finanzen/haushalt/bezirke/index.html>.

programme could meet up to certain ideal of quality and how “quality” was defined<sup>25</sup> took approximately three years. As we will see more explicitly in the case study on the UK (chapter 4.2), it is very difficult to estimate a timeframe for the introduction of results-oriented budgeting as it is often combined with other reforms, e.g. accrual accounting.<sup>26</sup>

Regarding the order of reform, there is no one best way of implementing results-oriented budgeting. Berlin and Hessen for instance exhibit certain similarities in their approach of initiating the reform. Both states were reported to have followed a gradual approach of implementation: Pilot areas of implementation were defined and the successful pilots were then communicated to the areas where the reform should take place. Also, both states chose a top-down process, guided by the special reform unit in the MoF.

Accrual accounting and MTEF are often mentioned as reforms accompanying the introduction of results-oriented budgeting. The question remains whether this is necessary or not. The answer from the German experience is clear: Neither accrual accounting nor MTEF is a necessary prerequisite for results-oriented budgeting. Hessen introduced accrual accounting supported by the software SAP and observers see this as a helpful step on the way to modernize the public budget process (Jock 2006/2007:205ff). In contrast, Berlin did not introduce accrual accounting, in the sense of managerial accounting, but a simpler form of accounting (*Kostenleistungsrechnung*) also including capital consumptions but without a full balance sheet was introduced. Even though Hessen and Berlin provide different examples it was reported from both states that accrual accounting is not necessary for results-oriented budgeting. As a prerequisite, a functioning accounting system, following cash flow or more advanced calculation of assets, was mentioned. Further both states report that costs rise disproportionately with the introduction of IT-supported accounting systems. Concerning the need of MTEF the feedback from the interview in Berlin was that commitment appropriations also serve to assure financial means for programmes lasting more than the year covered by the budget.

Looking at costs it is not easy to give a concrete amount as the reforms are still ongoing. What is already clear, and was reported from Berlin and Hessen, is that the technical and IT-demanding reforms, for example accrual accounting, are the most costly. Costs in this area do not only emerge from the software needed, but also from the need to train the staff in new IT-tools. The costs for the elaboration of programmes and related indicators are smaller, here

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<sup>25</sup> E.g.: When is the treatment of a park qualitatively satisfying? Or: When does the equipment of a primary school meet the ideas of sufficient quality?

<sup>26</sup> The same is true for Hessen and Berlin, where two different types of accrual accounting (*Doppik* in Hessen and *Kostenleistungsrechnung* in Berlin) are being introduced.

the bigger challenge is to seek political consensus on the way of implementation and train the different stakeholders in dealing with the new organization of the budget and in handling the information provided (see “political factors – interests of different actors”). As can be seen, the cases of Hessen and Berlin confirm the experiences from OECD countries that cost as well as time are regularly underestimated.

#### 4.1.7 Measuring Performance – the Formulation of Indicators

Beneath the questions of sequencing and financing, another important aspect for the introduction of results-oriented budgeting (especially concerning performance budgeting) is the elaboration of performance indicators. To implement performance budgeting, the formulation of performance indicators is essential. As mentioned in chapter 3 many OECD countries faced difficulties with the formulation process; reporting that the main problems were finding clear objectives, obtaining sufficient data of high quality, and designing measures for specific products. In Hessen the plan was to formulate indicators that are able to measure not only one dimension (e.g. the efficiency), but ideally more dimensions (such as effectiveness, quality, satisfaction of the customers or others). Obviously, the more dimensions are put to the indicators, the more complex and time consuming it gets to implement them; this was the case in Hessen (see box below). Seeing these challenges it gets clear that it can be very helpful to think about how complexity can be reduced in the implementation process of results-oriented budgeting. We want to provide two examples:

##### **Possibilities of reducing complexity in the implementation of results-oriented budgeting**

- In Hessen complexity was dealt with by reducing the number of operating figures (*Kennzahlen*) defining different dimensions of one indicator.<sup>27</sup> After starting with five dimensions of operating figures (effectiveness, efficiency, activities/inputs (*Leistungsmerkmale*), quality of process and satisfaction of the customers), they reduced the number to three dimensions (effectiveness, efficiency, activities/inputs).<sup>28</sup> It has to be noted that the political steering control diminishes with the reduction of the dimensions of operating figures.
- The MoF of Hessen is not only in the process of introducing and adapting results-oriented budgeting in Hessen, but through GIZ, it also gives advice to other countries in their effort to introduce results-oriented budgeting: With advice from Hessen the MoF in Montenegro reduced the no. of programmes per administration unit to three<sup>29</sup> (and therefore reduced the no. of

<sup>27</sup> For more information see:

[http://www.hmdf.hessen.de/irj/HMdf\\_Internet?cid=3f71f334fe8813863214f1252f46ffa7](http://www.hmdf.hessen.de/irj/HMdf_Internet?cid=3f71f334fe8813863214f1252f46ffa7)

<sup>28</sup> Berlin for example looked at the possibility of introducing operating figures but decided not to follow up for the high complexity of introduction (interview).

<sup>29</sup> The usual figure turns around 30-40.

indicators that have to be elaborated). Important here is the role of the administrative costs (staff and steering costs). To avoid blowing up the size of the other programmes, it might be useful to create one extra programme per administration unit for these costs. If benchmarking is wanted, it is further possible to compare these staff and steering programmes and see if there are big differences between different ministries and other units.

These examples show that the right balance between the reduction of complexity and needed information details for adequate political steering is crucial. This holds especially true for countries with weak administration capacities. Hence as has been reported from the advising experiences of the MoF in Hessen, it is paramount to find a good balance between detailed information to improve political steering and feasibility of reform.

Relating the cases of Berlin and Hessen to the three forms of performance budgeting as defined by the OECD and explained in chapter 2, neither state has formal sanctions in place against the non-compliance of set targets, as defined in the programmes; there are no direct budget cuts as a consequence for failing to reach a target set. Thus, as most of the OECD countries, Hessen and Berlin do not support the idea of direct-performance budgeting, but opted for performance informed and presentational performance budgeting respectively (see box in 4.1.3).

#### **4.1.8 Audit, Control and Reporting**

In Germany, the SAIs at the national and sub-national level are independent and not attributable to one of the three state powers: they neither have executive, legislative nor judicial powers, but serve as controllers and advisers to the government and the parliament. As mentioned in 4.1.4., the SAI of Hessen played a special role in the introduction of results-oriented budgeting. It followed the reform process closely and has been involved in the elaboration of products, by implementing a process-oriented audit of the elaboration of the sectoral targets and the budget allocation. It had to adapt its focus from the inputs audit to an audit focused on results. Referring to its regular procedures, the SAI implemented a financial and value for money audit which at the end of the fiscal year is presented to the parliament. Beyond that, the SAI can inform parliament about important audit results at anytime. It serves therefore not only as a controller, but also an adviser to parliament and government.<sup>30</sup> Its recommendations are one basis for political decision making. The SAI in Berlin was not explicitly involved in the reform process, but follows its regular functions. It implements

<sup>30</sup> See: <http://www.rechnungshof-hessen.de/index.php?seite=aufgaben.php&selected=1&selected2=45>.

financial and value for money audits that are presented to parliament at the end of the fiscal year. The audit includes the twelve decentralized units in the jurisdiction of Berlin.<sup>31</sup> In both states the yearly report by the SAI is made public.

In Hessen, parliament decides on the programmes, and allocated budget. It also has the right to ask for reasons, if a target defined in a programme has not been met, and discusses consequences for the respective administration unit. In practice this possibility is not yet used very often, but as reported by the MoF in Hessen respective activities are perceived to be rising. In Berlin, although parliament has the right to ask for reasons, if a target defined in a programme was not met, in practice, the process stays more within the administrative branch of the executive. This is due to the special structure of Berlin as a “*Stadtstaat*” and the focus of reform on the decentralized level. The MoF with its decentralized structures use the programmes and indicators as a guide to discuss the allocation of the budget. As mentioned earlier, they then transform the programmes into a line item structure and seek approval from parliament. Following the OECD logic, Hessen can be attributed to the performance-informed budgeting and Berlin to the presentational performance budgeting. In Hessen, reports on the status of the indicators are due every three month from the ministerial administration to the parliament (Jock 2006/2007:207). A special unit was introduced that pre-processes and aggregates the reports in order to make them readable for the delegates (see example in 4.1.3, “Political factors – Interests of the different stakeholders”). In Berlin a special budget commission was introduced to meet every second week and deal with the data reported.

#### **4.1.9 Lessons Learnt**

The experiences from Germany give insights into how different ways of implementing results-oriented budgeting can look like, and an idea of the issues that should be kept in mind when introducing results-oriented budgeting. It also shows that reform processes need to be adapted to the specific context. It is therefore possible to learn from other countries’ experience, but it does not allow the implementing actors of adapting the lessons learnt to their context.

To conclude, a brief overview of the lessons learnt from the German experiences are listed below:

- In Germany, the sub-national level was a strong actor who pushed for reform. They were the avant-garde in introducing results-oriented budgeting and together with the national SAI the main driver to review the legal basis for the German budget system. This shows

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<sup>31</sup> For more information see: <http://www.berlin.de/rechnungshof/wir-ueber-uns/aufgaben.html>.

that it is not impossible to start implementing results-oriented budgeting at the sub-national level without the active support of the national level, as long as the legal and constitutional basis does offer flexibility in terms of budget structures, which will mostly be the case in federal or decentralized political systems.

- There is no one best way to pursue the implementation of results-oriented budgeting. The implementations in Hessen and Berlin followed their specific objectives and were influenced by the different stakeholders involved. During implementation both states looked for ways to approach the different interests present, going through long adaptation processes. The central lesson here is: Different settings require different ways of implementation. Respect this and try to deal with the different needs arising.
- The experiences from the national level in Germany prove that the support of parliament can be of importance to the reform process. It became clear that high political support is important, but simple top-down implementation does not work in a complex environment with differentiated power structures. Especially where the input-control of parliament is being challenged the need for legislative acceptance is crucial.
- Implementation of results-oriented budgeting in Hessen as well as in Berlin did include a mixture of top-down management and trial and error processes. This helped to find context specific ways of implementation, but that is also very time consuming. Adaptations of the different elements of results-oriented budgeting are still being undertaken, like in the case of Hessen, approximately 13 years after the beginning of the reform.
- The introductions of budget reform units within the sub-national MoF helped to structure and guide the implementation process of results-oriented budgeting.
- Neither accrual accounting nor MTEFs is a prerequisite for the introduction of results-oriented budgeting. A precondition for reform is a functioning accounting system, whether this is cash or accrual accounting. According to over-year-planning, appropriation commitments can be as practicable as MTEFs and are less prone to overcharge the reform capacities of the respective administration.
- Do not underestimate the formulation of performance indicators. A precondition to work with PI is the availability of high quality data. This data is needed to evaluate the indicators elaborated to operationalize a program/product and assess the achievement of results.
- Less can be more: Look at the administrative capacities. Try to find ways of reducing complexity and to avoid overcharging the administrations' capacity for change. It is

paramount to find a good balance between detailed information to improve political steering and feasibility of reform.

## 4.2 Case Study UK

While the Germany case study provides a good example of a country that decided against the introduction of results-oriented budgeting at the national level even though it introduced it at the sub-national level, the UK is among the countries that are often referred to when it comes to good practice models for reforms at the national level. This chapter on the UK reform process is based on desk research as well as on interviews with stakeholders who were involved in the reform process.<sup>32</sup>

### 4.2.1 Background of Reform

The UK in 1998 introduced a variant of performance budgeting which falls under the category of *presentational performance budgeting* (see table 3, chapter 3). It is important to stress that performance budgeting in the UK was introduced as a result of an administrative reform which was meant to improve public service delivery through the shifting of focus from inputs to outputs and outcomes. The shift to performance budgeting was led by the generation of information on the performance of public service delivery which was attached to the budget. This was the case although the performance information was at no point relevant for funding decisions but was used for informational purposes only. One may therefore argue that performance budgeting was rather a by-product than the main aspiration for the reform in the UK. At any rate, it is difficult to separate the two reform processes.

In order to understand the UK reform, it is important to understand the political dimension behind it. In 1997, the newly elected Labour government aimed at increasing the spending on public service delivery which implied that additional resources were provided for that. To maintain the taxpayer's confidence and to hold departments to account for results achieved with the additional resources, the UK government attempted to initiate a change in the administrative culture by focusing on outputs and outcomes (performance). The instrument for doing so was the introduction of *Public Service Agreements* (PSAs) in 1998 which specified public service delivery objectives. This regime was improved constantly over the next twelve years, including consultation processes with the public to adapt the targets to the people's need.

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<sup>32</sup> The chapter is based on findings from interviews with staff of the HM Treasury and Ray Shostak, former Head of the Prime Minister's Delivery Unit and Performance Management and Member of Treasury Board. We gratefully acknowledge this support.

The current coalition government which came to power in 2010 seems to have taken a different approach: the system of PSAs was abolished soon after the new government took office. With the UK facing high budget deficits and recovering from the financial crisis more slowly than was expected, the new government proclaimed a new focus on accountability for value-for-money; it is hoped that this may be achieved by strict input controls and transparency on department's spending activities rather than by focusing on outcomes (performance).

Even though the UK's performance management framework introduced in 1997 is now no longer being used, it is interesting to learn from the UK's reform experiences. Hence, this chapter discusses the development of the performance management framework which was in place from 1997 through early 2010.

PSAs were first introduced in the *1998 Comprehensive Spending Review (CSR)* which set around 600 performance targets for around 35 areas of government.<sup>33</sup> The 1998 CSR set three-year budgets in advance for government departments breaking with the annual budgets (Smith 2007:212). It will be demonstrated in this chapter that the reform process in the UK – as the budget process in general - was mainly driven by the executive branch. The government's main objectives of the reform were strengthening public sector efficiency and performance delivery, to improve departmental accountability and to strengthen accountability of the government to the public on the results achieved with additional resources for public service delivery. The government required each department to prepare a PSA that lays out its aims and objectives as well as performance indicators to measure the objectives (OECD 2004:421). The PSAs were then negotiated between the Her Majesty's (HM) Treasury (here: the Treasury) and spending departments. The Treasury aimed at having more control over the performance of departments. The departments involved favored the introduction of PSAs since they aspired greater operational autonomy and freedom from externally-imposed input controls. PSAs were perceived as a multi-year 'contract' between the citizen/ taxpayer and the government for the delivery of a set of specified outcomes which can be used by citizen/ taxpayers means of control.

#### **4.2.2 Drivers of Reform**

The reform process in the UK can be classified as a top-down centralized approach in which the Treasury played a strong and active role in developing and implementing these reforms (see chapter 2). However, the support of the Prime Minister (PM) was central in the implementation process, showing strong leadership and political commitment for the reform.

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<sup>33</sup> <http://www.parliament.uk/documents/commons/lib/research/briefings/snpc-03826.pdf>

While the PM himself pushed for the introduction of results-oriented budgeting, the approach of PSAs was developed jointly by the Treasury in the driver seat and several national stakeholders like the National Audit Office, Cabinet Office, and Office for National Statistics (Webber 2007:8). Another key stakeholder in the reform process was the Prime Minister's Delivery Unit (PMDU), although it was set up at a later stage of the reform process in order to support the management of reform. We will therefore discuss the role of the PMDU in more detail in chapter 4.2.4 (management of reform).

In fact, the budget reform served the aims of the Treasury to increase its control over the results of other department's performance and, thereby, strengthened the Treasury's role in the policy-making process (OECD Scheers/Sterck/Bouckaert 2005:143). As mentioned before, departments aspired greater operational autonomy and freedom from externally-imposed input controls. Therefore, the reform gained support from the majority of implementers. High-level political engagement in the new PSA framework was secured by basing many of the initial performance objectives on the commitments set out in the newly-elected Labour Government's *1997 Election Manifesto*. In this way, the motivation of officials to improve the performance of public services was squarely aligned with ministers' desire to be reelected (Hughes 2008:7).

Unlike other OECD countries like France or Germany (as explained in chapter 4.1) the parliament was not a key actor in the UK reform process. The role of parliament in the UK reflects the historic relationship with the Crown, namely that the sovereign sought parliament's approval and authority to raise taxes for spending. The parliament has very few powers in the budget approval processes, especially amendment powers are limited (OECD 2004:407). I.e. it cannot change the format of the annual estimates of spending (Lienert 2010:8). It also did not take on an official oversight role over PSAs; however, the assessment of performance against these targets in the departments' annual reports provided an important tool for parliament in its role of scrutinizing the executive. The committee in charge of examining the quality and standards of administration within civil service is the Public Administration Select Committee (PASC). Even though, parliament had no official oversight role, the PASC undertook an inquiry into government targets in 2003 which concentrated in particular on the performance targets set for public services.<sup>34</sup>

The intense involvement of the supreme audit institution, the National Audit Office (NAO), is a remarkable characteristic of the UK's reform process. Even before the introduction of PSAs it had, alongside its statutory duties to audit the accounts of government departments,

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<sup>34</sup> [www.parliament.uk/briefing-papers/SN03826.pdf](http://www.parliament.uk/briefing-papers/SN03826.pdf)

always played some role in evaluating the efficiency and effectiveness of public expenditure. The introduction of the PSA framework presented an opportunity for the NAO to play a more systematic role in scrutinizing the government's performance in improving outcomes, e.g. by evaluating the data systems for the government's target set (Hughes 2008:16).

Public participation was also fostered in the PSA regime due to the *Devolving Decision-Making review* in July 2003.<sup>35</sup> The review was conducted jointly by Treasury and the PMDU in order to take stock and learn from the considerable achievements made in delivering public services since 1997. One major finding was that developing a new and more integrated approach to targets and other controls will require increased local consultation. Consequently, consultation processes with civil society at the local level started and led – in some cases – to major changes in some of the targets.

#### **4.2.3 Sequencing and Financing of Reform**

In general, there seems to be limited public information as far as the sequencing of reform is concerned. It is our understanding that the idea to introduce PSAs with the 1998 CSR was fairly short notice suggesting that the wider reform did not follow an elaborate master plan. The UK reform is probably better described as one originating from a clear political agenda with the details of implementation being worked out as the reform goes. In particular, there was no comprehensive reform strategy in the beginning, lining out timeframe and reform steps, instead, evaluations took place with the aim of improving the PSA regime. This explains the long transition period from input to output targets (1998-2007) and why the originally large set of PSAs and targets were reduced to a manageable size (see chapter 4.2.5). Nevertheless, there is evidence that the Treasury was convinced that this learning process was necessary in order to change the administrative culture towards results orientation since the performance management approach was a novelty for all stakeholders of reform.

Although the process started in 1998, there were still constant reviews leading to the reduction of targets and the adaptation of principles and processes of the reform until 2010 when the PSA regime was abolished by the new government. An OECD review on the use of performance information in the budget process showed that the UK was among the countries that needed more than 10 years for setting the performance measurement system in place (OECD Curristine 2005:4). This demonstrates that a comprehensive reform is difficult to conclude within a given timeframe and is rather an ongoing process. It is also difficult to

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<sup>35</sup> [http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/media/9B9/26/devolving\\_decision1\\_409.pdf](http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/media/9B9/26/devolving_decision1_409.pdf)

measure improvements on the short-run: Particularly when a new data set has been created for the purposes of monitoring a recently established outcome-based target, it can be difficult to know without a back series, whether monthly or quarterly fluctuations are due to seasonal changes or underlying improvement in the quality of the service being provided (Hughes 2008:11).

It is also difficult to separate the budget reform from accompanying reforms. In the context of the shift to performance budgeting, the UK (like the majority of OECD countries, see chapter 3) also introduced accrual accounting in 2000.<sup>36</sup> Medium term planning was introduced alongside performance budgeting since the PSAs addressed a three year horizon, intending to offer departments more medium-term certainty within which to plan reforms (Smith 2007:212).

OECD countries experiences showed that the costs of the introduction of results-oriented budgeting and accompanying reforms have often been underestimated. The UK was aware of the fact that sufficient resources had to be available for the implementation of the reforms. Such reforms increase the volume and the complexity of processes, as a chain reaction arises from budgeting through accounting to auditing. Consequently, the UK invested heavily in the development of the framework, know-how and expertise, in information and communications technology systems (ICT) and in external communication (OECD Scheers/Sterck/Bouckaert 2005:153). It turned out to be difficult to estimate the costs of reform in advance or even ex-post. According to the information available, an estimation of reform costs does not exist.

#### **4.2.4 Managers of Reform and Capacity Development**

In chapter 2, it is demonstrated that the role of the central agencies in OECD countries in the development and implementation of performance approaches to budgeting and management varies a lot. As mentioned before, the reform process in the UK was mainly driven by the executive branch with the legislative playing a minor role only. When the reform started, the Prime Minister took an active role in steering the reform process politically. In order to control the progress of reform, he convened monthly briefings with the state secretaries of the departments and their senior officials. This underlined the high priority that the top leadership attached to the reform, thus setting implicit incentives for everyone within the administration; arguably this was helpful in driving the process forward.

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<sup>36</sup> However, there have been earlier attempts to shift to accrual accounting. A paper examining the reform process of introducing accrual accounting in the UK considers a period of at least 30 years for the reform and perceives it as an ongoing process of reform (See: OECD Hepworth 2002:117).

The institutions in charge of managing the reform process were the MoF, i.e. the Treasury, and – since 2001 – the Prime Minister's Delivery Unit (PMDU). As mentioned before, the PMDU was set up to support the management of the reform and to ensure the implementation of the PM's priorities in public service outcomes (mainly health, education, crime and transport). It was placed in the Cabinet Office, directly reporting to the PM. Thus, it was closely connected to the political level and had the function of a problem-solver for the PM and the Treasury with respect to the day-to-day operations, while the Treasury focused on the design and implementation of reform and cooperation with departments. The influence of the PMDU owed a lot of the attention the PM was giving to the reform. While the PMDU's set-up in the Cabinet Office reflected high political priority of the reform, the 2010 elected government that moved away from the PSA regime replaced the unit back into the Treasury. Unlike the reform units in other countries (e.g. subnational level in Germany), the PMDU was not set up within the Treasury but within the Cabinet Office. However, it was closely connected to the Treasury with its staff being mainly recruited from the HM Treasury. The offices of the PMDU with around 30 permanent staff members were even located in the same building as the Treasury. Contact persons for the PMDU in the Treasury and the departments were senior officials which demonstrated the political significance of this unit, and facilitated its work. According to official documents the PMDU addressed the need for an unbiased assessment of the reform options available to address areas of underperformance. Its main tasks were to support government to deliver better and more efficient public services by:<sup>37</sup>

- monitoring and reporting on delivery of the PM's top delivery and reform priorities
- identifying the key barriers to improvement and the action needed to strengthen delivery
- sharing knowledge about best practice in delivery and
- supporting the development of high quality PSA targets that will effectively incentivize improvements in public services.

As mentioned before, the design and implementation of reform rested on the Treasury. It is reported that rigorous attention was paid to the measurement and evaluation of performance made by teams within the Treasury. The Treasury negotiated the PSAs with the departments and followed up on the implementation. Alongside, a set of 3 year expenditure limits for each of the 25 major government departments were agreed upon (Hughes 2008:1). They also set

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<sup>37</sup> [http://webarchive.nationalarchives.gov.uk/20061004085342/cabinetoffice.gov.uk/pmdu/](http://webarchive.nationalarchives.gov.uk/20061004085342/cabinetoffice.gov.uk/pmd/)

out the objectives, targets, and efficiency savings for government departments in exchange for the resources committed (OECD 2007:192).

Spending teams within the Treasury were formed in order to oversee the work of each department whereas within the departments performance teams were set up in order to coordinate the implementation of the PSA regime. These performance teams were based on the strategy or finance division, differing from department to department. It is our understanding that cooperation worked best where the performance team was placed in the finance division.

As chapter 3 outlined, motivating key actors to move away from traditional and familiar budget practices was difficult in many OECD countries. Insufficient capacities to implement new (management) practices were a reason for resistance of the actors. Consequently, capacity development for better financial management was a crucial success factor of the reform since the reformed system requires different management skills than before (like output-orientation and working towards results). In order to address insufficient relevant expertise necessary for implementing the reforms, the Treasury set up a training policy to deal with the lack of expertise and know-how (OECD Scheers/Sterck/Bouckaert 2005:153). Over time, departments acquired greater capacity to develop effective performance information systems.

The PMDU also supported the implementing departments in an analytical, problem-solving and progress-chasing capacity, and it helps to ensure that key delivery challenges are overcome (HM Treasury, Hill, 2003:8). It developed a simple but apparently effective system for rating and presenting performance information on the 24 most important targets to the PM and Cabinet (Hughes 2008:13). It followed up the achievement of performance in the politically prioritized areas like health and education and reports directly to the PM. Treasury and PMDU also produced joint guidance for departments on delivery planning and implementation, and introduced a feedback mechanism to the senior manage level of departments on the progress (HM Treasury, Hill, 2003:8).

#### **4.2.5 Measuring Performance**

It was outlined in chapter 2 (2.2.2) that a core feature of performance budgeting is the generation of performance information (PI) and its integration into the budgeting process. Performance information indicates how an organization is performing against its aims and objectives. For generating reliable performance information, the formulation of measurable performance indicators and targets is crucial. As mentioned in chapter 3 many OECD countries faced difficulties with the formulation process; the main problems are, finding clear

objectives, obtaining sufficient data of high quality, and designing measures for specific activities. In the UK, most problems concerning performance data were caused by insufficient connection between indicators and targets; insufficient connection between data generated by different administrative units; insufficient quality of external data; and incorrect reporting of data (OECD Scheers/Sterck/Bouckaert 2005:149).

From a political perspective, objectives should be formulated in a way that the government can communicate its vision of the future and role of public services in bringing it about to the public (Hughes 2008:7). Thus, in the UK it was a challenge to formulate objectives that are also technically implementable. As explained before, this issue was addressed by involving the Treasury with its more political view in the rather technical formulation process of the departmental PSAs. Moreover, the PMDU was in charge of setting, monitoring, and reporting on the delivery of the PM's top delivery and reform priorities. The Treasury on the other hand published technical notes as part of the 2002 and 2004 spending reviews. Technical notes are detailed documents that set out exactly how the PSA targets are defined, which data sources are used to measure program towards the target, and a description of how the target can be judged as met or otherwise (OECD, Noman 2008:9). By doing so, they provided some guidance on the technicalities of implementing political objectives.

The transition from input targets to outputs and outcomes was a challenge as well. While the majority of targets set in 1998 focused on inputs or processes rather than on the key outcomes and outputs of government, there has been a slow transition to output and outcome targets. In 1998 only 15 percent of the initial set of PSAs targets was expressed as outcomes, in 2004 already 80 percent. In 2007, the government had an entirely outcome-focused set of performance targets (Hughes 2008:8).

Having too many performance targets is identified as one of the most common mistakes that countries make when moving to a more results-oriented budget system. Instead of delivering better information for decision-makers, too many performance targets rather lead to a decrease in transparency since the overload of information might not be manageable anymore. Like other OECD countries, the UK faced some difficulties with the number of performance targets. As mentioned before, the 1998 CSR set over 300 performance objectives and 600 specific targets for 35 areas of government business. It was clear that the PSA target set needed to be consolidated dramatically if it was to have an impact on decision-making. In the CSR 2007, the amount of PSA targets had been cut down significantly, from 110 departmental PSAs to 30 explicitly interdepartmental PSAs. In the context of this consolidation, the architecture of Cabinet and Parliamentary committees was

restructured to facilitate cross-departmental coordination and accountability for these targets (Hughes 2008:10).

The lack of a comprehensive reliable data about outcomes was cited as a reason to postpone performance-oriented reforms until information systems can be improved. In the UK, a lot of work was done by the central actors to ensure the quality of data. The Treasury for instance issued the manual "*Choosing the Right FABRIC*"<sup>38</sup> which describes the criteria for a good performance measuring system. It also suggested the areas of priority for performance information and sets out criteria for individual performance measures. While this was considered a valuable first step, these guidelines have not proved to be sufficient to guarantee the quality of the performance data. An additional attempt was to make use of the NAO's expertise. Since 2003, the NAO was responsible for validating the departmental data systems used in reporting performance against PSAs (OECD Scheers/Sterck/Bouckaert 2005:149). Nevertheless, the quality of data remained a constant challenge. This is mainly due to the inherent trade-off between improving the quality of data and the cost involved. Data quality can only be improved if sufficient resources are made available, however, due to the high cost involved it has to be decided whether improving the data quality justifies the price involved.

Another important issue to address is the question of whether or not an incentive or sanction system is in place to make departments/ spending agencies respect the targets. In the UK, there were no formal or legal sanctions for ministers and departments when they did not achieve their PSAs. There has been no predetermined mechanistic relationship between past performance and resource allocation. Automatically penalizing departments for failing to meet outcomes was considered not to be efficient since there might be cases where external influences have impacted significantly on the outcome. However, there was a lot of pressure by the PM on the heads of departments if their departments were not performing well which led to more efforts to implement the performance management system.

Regarding financial reporting on performance the UK fiscal law does not require regular budget execution reports to be transmitted to parliament and the public. Nevertheless, in practice, monthly estimates of the main public sector finance statistics were issued jointly by the Office for National Statistics and HM Treasury based on data collected from departments (OECD 2004:433).

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<sup>38</sup> [http://archive.treasury.gov.uk/performance\\_info/fabric.pdf](http://archive.treasury.gov.uk/performance_info/fabric.pdf)

#### 4.2.6 Control and Audit

Under the performance management regime, it was necessary to provide managers with the opportunity to manage effectively. This required the provision of greater flexibility to the managers and a relaxation of the control system. In order to manage outputs effectively, greater freedom over inputs was necessary. However, this also meant that the manager is more accountable for his/her performance which requires certain control mechanisms (OECD Hepworth 2002:145). The UK set an elaborated control system in place through which the advances made in the implementation of reform is periodically evaluated and adjusted by the Treasury and the Cabinet Office, via the PMDU. Additionally, the work of each department was overseen by the Treasury "spending teams". Moreover, the Treasury maintained a single portal for all departmental performance documents to be placed on the web. Departments must also account for the reliability of their performance information to parliament (See: OECD Noman 2008:6,10).

As mentioned in chapter 2, with the shift to a results-oriented budgeting system, the role of the supreme audit institution may change towards guardians of taxpayer value. The National Audit Office (NAO) in the UK had an important role in the audit of successes of reform. The introduction of the PSA framework presented an opportunity for the NAO to play a more systematic role in scrutinizing the government's performance in improving outcomes (Hughes 2008:16). In fact, the NAO made use of its statutory powers to conduct value-for-money examinations of departments, executive agencies etc provided by the *National Audit Act* (ss. 6-7) (OECD 2004:436).<sup>39</sup> The NAO defined good value for money as the optimal use of resources to achieve the intended outcomes with the aim to provide independent and rigorous analysis to parliament on the way in which public money has been spent to achieve those policy objectives. The integration of the NAO into the performance management framework began in 2002 when the NAO was invited to evaluate the quality of the data systems underpinning the government's PSA target set. The evaluation of the data systems was finalized in 2007. Based on its examination, it made recommendations on how to achieve better value for money and to improve the services under examination. This task required NAO auditors to broaden their skills beyond narrow accounting issues and take a more open and collaborative approach to their work, drawing on the skills of sectoral experts (Hughes 2008:16). However, it is worth mentioning that in the light of shift of role to an advisor, it was a challenge for the NAO to provide the expertise but to maintain its independence at the same time.

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<sup>39</sup> The National Audit Act (ss. 6-7) provides the Comptroller and Auditor General (C&AG), the head of the NAO with the respective tasks. The NAO carries out these tasks on his behalf.

The NAO reports formed the basis of hearings of the Committee of Public Accounts (PAC) which then published its own report and recommendations, to which the government must respond. In some circumstances, the NAO conducted a follow-up study to measure progress against the recommendations that have been made.<sup>40</sup> Additionally, a subcommittee of the Cabinet on Public Services and Expenditure (PSC) met to hold ministers to account for their delivery of public service and their use of public funds in delivering them. While the PSAs generally provided an important tool for parliament in its role of scrutinizing the executive, few Parliamentarians made use of this tool due to lack of understanding of the information provided. Thus, the potential of providing a scrutiny tool for parliament was not exploited yet. Instead, it was argued that parliamentary control in the UK even weakened since authorization under the PSA regime took place on a much aggregated level (OECD Scheers/Sterck/Bouckaert 2005:138f.). The German case study provided a good example of a case where parliament was aware of these risks, especially on the risk of losing input control, which led to a rejection of the German MoF's reform proposal. Thus, it can be summarized that the introduction of results-oriented budgeting may unfold its full potential of strengthening accountability of the government only if the control institutions have the will and the capacities to make use of the tool.

#### **4.2.7 Lessons Learnt**

*(1) Political commitment and will to reform are crucial for the success of reform*

The UK's example illustrates the importance of political commitment to a reform. Reforms can be initiated and pushed forward far more easily if it is government's top priority. In the UK, the Prime Minister himself pushed for the implementation of reform by making it a political priority and putting more pressure on the involved institutions to carry out the reform successfully. The reform was also part of the government's policy agenda and was, therefore, linked to the achievement of policy objectives. The importance of the reform was additionally underlined by the creation of a separate institution (PMDU) which had the task to monitor the delivery of the top reform priorities and to report directly to the Prime Minister. However, the UK's example also illustrates that a system can be abolished as soon as there is a shift in political commitment from one approach to another. While performance management was a high political priority for the Labour government, the Conservative-led government elected in 2010 distanced itself from the approach and even abolished the

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[http://www.nao.org.uk/about\\_us/what\\_we\\_do/the\\_value\\_for\\_money\\_programme/what\\_is\\_a\\_vfm\\_study.aspx](http://www.nao.org.uk/about_us/what_we_do/the_value_for_money_programme/what_is_a_vfm_study.aspx)

system of Public Service Agreements. This shows that different government priorities may lead to different approaches of public service delivery.

*(2) Strong leadership is necessary for the process*

Political commitment also encouraged strong leadership of the Treasury and the PMDU. As mentioned before, the Treasury played the leading role in the implementation process including the negotiation of the PSAs and frequent controls of departmental work. The formation of spending teams within the Treasury to oversee the work of each department was one measure to establish control mechanisms. The Treasury was not only actively involved in the development of performance information, but also supported capacity development within the departments. All in all, the dedicated role of the Treasury is often mentioned as a crucial success factor of the UK reform.

*(3) More responsibilities for departments/managers foster change of culture*

The UK case shows that if government wants to increase the chances for successful implementation of output-oriented reforms, then it should encourage cooperation by key actors and strongly support line departments when implementing the reform. A change of administrative culture towards a results-oriented thinking is crucial for success. For this, increased responsibility of line ministries' managers is important. Due to the shift of responsibilities to the departments, line management has been a lot more involved with the financial management reforms, and this has led to better results. The Treasury took a strong role in steering the process while sufficient degrees of freedom for implementing the framework have been given to the departments. This has increased departmental support for and commitment to the reforms (OECD Scheers/Sterck/Bouckaert 2005:152, 154).

*(4) Do not underestimate timeframe*

The reform process in the UK started in 1998 but there were still constant adaptations until the system was abolished in 2010. As mentioned before, this demonstrates that a comprehensive reform would be difficult to conclude within a given timeframe, but is rather an ongoing process.

*(5) Measuring Performance*

There are some findings from the UK process that have the potential to be generalized:

- While it is easier in the beginning to formulate input and process oriented targets, the shift to output and outcome oriented targets is a slow transition process.
- Once a first set of indicators is in place, there should be ex-post attempts to reduce the number of performance targets. The UK case study illustrates that the process of reducing target is important to understand how a performance management system is

working. Therefore, it might be helpful for countries to make their own experiences and perceive this as a learning process instead of starting with a reduced number of targets right away.

- Constant attempts to improve the quality of data are necessary. A manual describing a good performance measuring system as well as adapting the role of the Supreme Audit Institutions to control is helpful.

*(6) Set the right incentives*

It is important to understand how to create the right incentives when performance information is used for management and budgeting purposes. Failure to gain the support of key agents can lead to problems with perverse incentives and gaming. Solutions include consulting with staff at the front line of service delivery (OECD Noman 2008:11).

*(7) The adaptation of the role of the SAI offers better control options*

During the UK reform process, the role of the SAI was also adapted and the institution was systematically incorporated into the process. Its role changed from a control entity to one of an advisor to the Treasury and to the spending departments. In addition to reaching an overall conclusion on value for money, under the new framework the NAO makes recommendations on how to achieve better value for money and to improve the services under examination. It is argued that the independent perspective the NAO has brought has helped to improve the quality of specific targets and served to bolster the credibility of the framework as a whole (Hughes 2008:16).

*(8) Mixed results with regard to success of reform*

Despite literature on the success of reform being limited, significant achievements have, however, been reported in key areas where PSAs have been set, which includes reductions in crime, improvements in hospital waiting times, and improved educational attainment. There is a general assumption that efficiency has been increased due to the shift from inputs to outcomes. While input- and output-oriented targets can restrict delivery agencies in terms of what activities they focus their resources on, the focus on outcomes enables decentralized decision making by allowing departments and agencies to decide what mix of output is best for achieving those outcomes (OECD Noman 2008:11, 12). In fact, the *Devolving Decision-Making review* in July 2003<sup>41</sup> stated that the PSA approach led to substantial improvements in many public services. This was measured by real improvements in outcomes being achieved in the major public services. The review, for instance, showed improvements in

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<sup>41</sup> [http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/media/9B9/26/devolving\\_decision1\\_409.pdf](http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/media/9B9/26/devolving_decision1_409.pdf)

public health, where PSAs have driven a reduction of over 99 per cent in the number of people who had to wait for more than 12 months for an operation.

While accountability within the executive branch has been strengthened by making departments more accountable to the Treasury and the Cabinet Office, arguably accountability of the government as a whole has not yet been strengthened due to a lack of understanding on results-oriented budgeting by MPs. As mentioned before, the introduction of results-oriented budgeting only strengthens accountability of the government if the control institutions have the will and the capacities to make use of the tool

With the formation of the Office for Budget Responsibility (OBR), an independent body, the new government aims at addressing perceived shortcomings with respect to accountability of the government. The Office for Budget Responsibility (OBR) was formed in May 2010 to make an independent assessment of the public finances and the economy, the public sector balance sheet and the long term sustainability of the public finances.<sup>42</sup> The establishment of the OBR aims at more transparency and openness of economic and fiscal policy making. Whether the OBR's work is really contributing to the fulfillment of these goals will remain to be seen.

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<sup>42</sup> See: [http://www.hm-treasury.gov.uk/data\\_obr\\_index.htm](http://www.hm-treasury.gov.uk/data_obr_index.htm)

## 5. Conclusion

The aim of this project is to bring out the findings from OECD countries' reform experiences which are useful for the development cooperation context. With a view to coming up with a useful hands-on tool our findings are comprehensively listed in the checklist (chapter 7). While it is not possible to discuss them here in-depth, some general conclusions for development cooperation shall be drawn at this point. The reform experiences examined in this study show that even in OECD countries, reforms were difficult and expensive to implement. This demonstrates that it is important to be realistic about what partner countries can accomplish. Accordingly, this study argues that the design of a reform package for the introduction of results-oriented budgeting has to take into account the context specific situation in the respective country. Although the study does not advise against the introduction of a comprehensive reform package, it however emphasizes that the reform package should be designed carefully taking into consideration the partner country's reform capacities and reform environment.

This study attempts to provide some ideas on how to reduce the complexity of introducing results-oriented budgeting, highlighting two ways of doing so:

- On the one hand it has shown that the introduction of results-oriented budgeting includes different building blocks of reform, and that it is not always necessary to implement the complete reform programme in order to achieve certain objectives. For example, chapter 2 shows that budget planning can be improved by introducing programme budgeting only without necessarily formulating performance information.
- In cases where countries introduce the complete reform package (programme budgeting and performance budgeting) a reduction of reform complexity is also possible by reducing the number of programmes and by simplifying performance indicators (see chapter 4.1.7).

To decide on the way to implement results-oriented budgeting available financial resources as well as available personnel and its expertise should be considered. There is an inherent trade-off with regard to the introduction of results-oriented budgeting: the more complex and comprehensive the reform, the higher the costs and resources to be invested. A careful cost-benefit analysis is helpful to figure out what the main objectives of the budgeting reform should be and which reform package best suits the needs of the country. Our main statement is that there are alternatives to the comprehensive reform package that is usually introduced

and that it is possible to design a tailor-made reform approach for each country's objectives and needs that is not overburdening the country's capacities.

In the following, some findings are summarized:

**General OECD reform experiences:** The analysis of the reforms in OECD countries showed that the majority of the OECD countries have moved to results-oriented budgeting, most of them to performance-informed budgeting. Most countries changed the legislative framework to pave way for the reform. Moreover, the majority introduced the reform in conjunction with accrual accounting and medium-term planning. The experiences of OECD countries show that a comprehensive reform like the introduction of results-orientation in budgeting is rather an ongoing process than a short or medium-term project. In fact, none of the OECD members has claimed to have completely finished the reform process so far.

**Advantages and disadvantages of results-oriented budgeting:** While results-oriented budgeting offers the right features to strengthen the budget process, it has to be taken into consideration that it also includes a higher level of complexity and, therefore, greater budget preparation costs. While greater flexibility of line managers in budget execution has the potential to increase efficiency, the increased flexibility decreases the ability to control programme managers. Depending on the scope of flexibility, there are also higher risks for neglecting budgetary discipline or greater vulnerability to process corruption. Furthermore, the executive's greater discretionary power might cause parliament to fear loss of input control as it happened in the case of Germany. The challenge here is to understand the interests of the different actors involved and deal with them, taking into account the different ways of implementing results-oriented budgeting.

**Drivers and Managers of Reform:** The ministry of finance usually plays a key role in the reform process. The UK experiences also demonstrate that it is important to bring the whole administration apparatus on board and to push towards a change of administrative culture. Establishing a special budget reform unit within or outside the ministry of finance has proved to be a helpful management tool for the reform process. The intense involvement of the supreme audit institution in the UK and in the German state of Hesse could be a role-model for making use of the institution's expertise. While strong political commitment and dedicated leadership of the ministry of finance accelerate the process the example of Germany shows that the parliament also plays a crucial role for a successful introduction of results-oriented budgeting. The German case study also demonstrates that in federal political systems the

drivers of reform can be actors at the sub-national level, as it has been the sub-national states which pushed for reform of the national legal framework.

**Use of performance information (PI):** The use of PI in performance budgeting - usually in addition to the reclassification of the budget according to programmes - offers the opportunity of measuring performance achieved. The main advantage is that the decision-making process is strengthened and the potential for accountability from the government to parliament is increased. However, experiences from OECD countries, like the UK and Hessen, show that there is the danger of generating too much information which the oversight instances are not able to handle. Hessen for example had to develop a filter system to aggregate the information to manageable amount. This leads to more work and might affect accountability as parliament depends on the filter of the unit responsible to aggregate the information. Furthermore, many OECD countries reported, and the case studies show, that performance indicators that are measurable and meaningful are difficult to formulate. The difficulties of OECD countries with the use of PI should be taken into consideration when the reform approach in a partner country is developed.

**Time and costs of reform:** As the introduction of results-orientation in budgeting is rather an ongoing process than a short or medium-term project neither costs nor the timeframe should be underestimated. The experiences from the OECD and both case studies showed that adaptation processes have to be included in the timing of the reform and costs can disproportionally rise especially when IT-supported reforms are thought to be necessary.

**Accrual accounting and medium-term financial planning:** Whether or not a partner country should be advised to introduce accrual accounting in conjunction with the introduction of programmes depends on an analysis of that country's capacity to simultaneously manage two complicated reform steps, as well as on the outcome of a cost-benefit analysis. The same recommendation is made for the introduction of medium-term planning. For the purpose of this study it should be recorded that neither the introduction of accrual accounting nor the implementation of medium term planning is a requirement or necessary precondition for the introduction of programme budgeting and that it should be carefully considered if the introduction of the two reforms may not overburden the country's reform capacities.

All the issues discussed here have been taken up in the checklist. The checklist is meant to be a tool for development advisors and partner countries' governments to guide discussions on whether the available capacities and financial resources are sufficient for the reform and

what can be achieved with the resources available. Challenges and risks should be considered in the beginning to avoid surprises in the reform's implementation. If used accordingly, the checklist provides a strategic instrument for development advisors and partner countries for designing a tailor-made reform approach considering the needs and capacities of the partner country.

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## 7. Draft Check List

See below

**Checklist:  
Strategic Advisory Approach on the Introduction of  
Results-orientation in Budgeting**

1. Background of Reform.....	3
1.1 Why? .....	3
1.2 What? .....	3
1.3 How? .....	4
2. Drivers of Reform .....	4
2.1 General Questions .....	4
2.2 Government (Cabinet/ Ministry of Finance/ Line Ministries) .....	5
2.3 Parliament: Budget/Finance Committee, Public Accounts Committee.....	6
2.4 Supreme Audit Institution .....	7
2.5 Civil Society and Media.....	8
3. Institutional and Legal Requirements.....	8
3.1 Institutional Requirements .....	8
3.2 Legal Requirements.....	9
4. Financing of Reform .....	9
5. Sequencing of Reform .....	10
5.1 Order of Reform.....	10
5.2 Accompanying Reforms.....	10
5.3 Timing of Reform .....	11
6. Managers of Reform .....	12
6.1 Senior Management Level and Inter-ministerial Coordination .....	12
6.2 Middle Management Level.....	12
7. Implementing Building Blocks of Reform.....	14
7.1 Programme Budgeting .....	14
7.1.2 Process of Budget Reclassification .....	14
7.1.2 Budget Format .....	14
7.1.3 Costing .....	15
7.2 Performance Budgeting .....	16
7.2.1 Use of Performance Information (PI).....	16
7.2.2 Formulation and Measurement of Performance Indicators.....	16
7.2.3 Information and Reporting System.....	18
8. Control and Audit.....	18
8.1 Monitoring and Evaluation .....	18
8.2 Internal and External Audit.....	19
9. Capacity Development.....	19

## Preliminary remarks

The checklist provides a strategic instrument for development advisors and partner countries' reform managers (mostly ministries of finance). The checklist offers the complete range of relevant questions, findings and recommendations extracted from the OECD examples and corresponding literature for each stage of the budget reform process. It can be used to discuss fundamental strategic decisions in the beginning of the reform process. In this case, the checklist serves as guidance for developing a reform strategy on the introduction of results-oriented budgeting. However, it can also be used to strengthen the steering of an ongoing reform process if all strategic decisions have been taken before. While the first three chapters mainly address issues for the advisory service to the political level, chapters 4 – 9 are targeted at the implementation level of the budget reform.

The success of budget reforms depends on certain political and technical considerations such as institutional, organizational and legal preconditions which ought to be discussed before creating facts. It is especially important to have a discussion process on the scope of the reform. The study at hand illustrates that it is not necessary to introduce the whole reform package but to rather focus on the reform features that serve best the country's needs. Further, it has been shown that reform processes like the introduction of results-orientation in budgeting are rather ongoing processes than prone to fast results and successes. In the development context, it is important to ensure that the implementing institutions have the capacities and resources to create a sustainable results-oriented budget system. These issues need to be discussed at the political level of decision-making before the process is started.

The concept of the checklist as a whole is based on the assumption that the reform has not been started yet and that the advisor will have the opportunity to discuss with the partner country basic questions like objectives and scope of reform. Chapters 1 – 5 address fundamental strategic issues like objectives, drivers and preconditions of reform and the financing strategy. In practice, the advisor will often step in a context where many of these decisions have been made already. In this case, chapters 1-5 can serve as a retrospective orientation on whether there is clarity on the fundamental questions at the current point. Beyond that, questions of managing the reform process as well as technical questions, capacity development needs and control and audit might be more important at this stage (chapters 6-9). Chapter 5 raises several important issues on order and timing and therefore deals with core issues of reform. Thus, this part should be frequented at any rate, maybe to even scrutinize former decisions if it becomes clear that the country is overburdened with the reform.

Please keep in mind that recommendations made may sometimes not be relevant for every partner country's specific context. While this checklist makes an attempt to generalize certain key questions, findings and recommendations, it has to be checked for the advisory service to a specific partner country whether or not the issues at hand are relevant.

Q = Crucial questions to be asked

F = Findings from our work relevant for the advisory approach

R = Recommendations for advisors

<h2>1. Background of Reform</h2>	
<h3>1.1 Why?</h3>	
<ul style="list-style-type: none"> <li>• Q: What is the rationale behind the introduction of results-oriented budgeting in the specific country context?</li> <li>• Q: What are the expected results/benefits from the reform? What are the country's objectives (i.e. improved planning or decision making, improved efficiency and public service delivery, improved accountability, saving)?</li> <li>• Q: What has been agreed upon in the political dialogue a) with the donor coordination group, b) with German Development Cooperation? What commitments have been made so far? What implications does that have on the PFM reform? Have indicators for the PFM reform been set? Are they connected to results-oriented budgeting?</li> </ul>	<ul style="list-style-type: none"> <li>• F: The expected results/benefits of reform are important for the design of the reform process. Objectives of reform can vary between context and between stakeholders (eg. MoF, parliament, and supreme audit institution).</li> </ul>
<ul style="list-style-type: none"> <li>• <i>R: It has to be worked out carefully why the country is aiming at reforming the budget system. In the advisory context it is important to discuss the reform objective with the partner.</i></li> <li>• <i>R: It has to be considered which agreements with donors exist since this might limit the scope for choice.</i></li> </ul>	
<h3>1.2 What?</h3>	
<ul style="list-style-type: none"> <li>• Q: Which terms does the partner use (programme budgeting, performance budgeting, results-oriented budgeting...)? Is the understanding of the terms consistent with your own understanding?</li> <li>• Q: What exactly does the partner want to introduce? What is the scope of the reform? Are the objectives set realistic?</li> </ul>	<ul style="list-style-type: none"> <li>• F: If terms are not used consistently, refer to chapter 2 which explains a possible differentiation between the terms "programme budgeting", "performance budgeting" or "results-oriented budgeting".</li> <li>• F: The scope of reform should be discussed in the beginning. Certain features of results-oriented budgeting serve certain objectives (see chapter 2, table 1). Programme budgeting can be used to improve planning towards development objectives without necessarily generating performance indicator and measuring performance. On the other hand it might be sufficient to add performance information as annex to the budget if the aim is to increase accountability and transparency regarding the achievement of policy goals, even without reclassifying the budget according to programmes.</li> <li>• F: When both the introduction of programme budgeting and performance information is required to meet the objectives, there are other ways of reducing complexity of reform. A reduction of programmes and related indicators can for example be a way to decrease the workload of the</li> </ul>

	administration.
<ul style="list-style-type: none"> <li>• <i>R: Make sure you and your partner talk about the same thing. ” A common understanding is important to guard against misunderstandings.</i></li> <li>• <i>R: Try to identify the slimmest reform package possible that is targeted towards achieving the country’s objectives. Only advise on introducing the whole reform package if the partner country’s institutions have sufficient capacities to implement it.</i></li> </ul>	
<b>1.3 How?</b>	
<ul style="list-style-type: none"> <li>• Q: Which variation/ building block of results-oriented budgeting can best serve for fulfilling the objectives? Which building block suits best the countries needs?</li> <li>• Q: Is this whole reform package necessary to achieve the country’s objectives for improving its public financial management (PFM) system? What are the risks/ the challenges? Could the same advantages be achieved in an easier, less complex way?</li> <li>• Q: Is there is a strategy paper to guide the reform process and does this paper map out all aspects of the reform?</li> </ul>	<ul style="list-style-type: none"> <li>• F: Pressured by external forces, partner countries usually often aim at implementing the whole reform package which usually includes performance-informed budgeting in conjunction with medium-term financial planning and accrual accounting.</li> <li>• F: For achieving partner country’s objectives it is not always necessary to introduce the whole reform package. The table in chapter 2 identifies which features are necessary to achieve the objectives.</li> <li>• F: There is an inherent trade-off between the advantages of reform (strengthening of planning, accountability, and efficiency) and the administrative, procedural and political costs.</li> </ul>
<i>Recommendations:</i>	
<ul style="list-style-type: none"> <li>• <i>Technical cooperation should support the creation of a tailor-made reform approach that best suits the needs of the country. Only absolutely necessary reform features should be introduced to not overburden the country’s reform capacities.</i></li> <li>• <i>There is the need to discuss the reform’s trade-off with the partner and make sure that the partner is aware of it, as well as the reform’s risks.</i></li> <li>• <i>The scope of the reform programme should be discussed with all stakeholders involved – partner country’s government, ministry of finance, line ministries, parliament, donors – in order to create as much ownership as possible.</i></li> <li>• <i>Make use of analytical tools from international organizations like the PEFA assessment or the OECD’s budget review to assess strengths and weaknesses of the partner country’s budget system.</i></li> </ul>	
<b>2. Drivers of Reform</b>	
<b>2.1 General Questions</b>	
<ul style="list-style-type: none"> <li>• Q: Who initiated the reform?</li> <li>• Q: Who is the driving force behind the reform process? What interests does that group/unit have? Are there any conflicting interests that might be an obstacle to the process (i.e. parliament’s fear to lose input control, hesitation of administration to accept changes)?</li> <li>• Q: Are there external forces behind the process (donors, IMF, World Bank, OECD etc.)?</li> <li>• Q: Top-Down or Bottom-Up process? Top-Down: Government and Ministries are</li> </ul>	<ul style="list-style-type: none"> <li>• F: Reforms are initiated by different actors (ranging from MoF, to parliament, Administration or external donors).</li> <li>• F: These actors have differing interests. If they are not dealt with, reform processes can be blocked by actors not seeing their interests fulfilled.</li> <li>• F: Top-down processes showed to be a crucial factor of success. Still, other actors (like administration or parliament) have to be at least willing to not block the reform.</li> <li>• F: Praxis in Germany showed little public awareness concerning the reform process. As the introduction of results-oriented budgeting</li> </ul>

<p>steering the reform. Bottom-Up: individual agencies are key actors (Anderson 2008:5). Which one is more likely to succeed?</p> <ul style="list-style-type: none"> <li>• Q: Is there public interest in the reform?</li> </ul>	<p>is a very complex process it may be difficult to start a comprehensive participation process, especially if civil society is not organized. Importance should be given to include the representative of the people (parliament).</p>
<p><i>Recommendations:</i></p> <ul style="list-style-type: none"> <li>• <i>In many partner countries, International Financial Institutions and donors put pressure on the country to introduce the whole reform package. In this case, a discussion process should be initiated on the potential benefits of the reform and on which objectives the partner country wants to pursue. This is important to assure ownership for the reform process.</i></li> <li>• <i>Understand the interests of the different actors involved in the reform process and deal with them.</i></li> <li>• <i>Look for political and high management commitment (top-down) and strong leadership but also make sure that possible veto powers (e.g. parliament) are not tended to block the reform.</i></li> </ul>	
<p><b>2.2 Government (Cabinet/ Ministry of Finance/ Line Ministries)</b></p>	
<ul style="list-style-type: none"> <li>• Q: Is there political ownership and leadership for the budget reform (president, prime minister, minister of finance)?</li> <li>• Q: Within the ministry of finance: are higher levels of hierarchy supporting the reform?</li> <li>• Q: How can it be assured that the reform process keeps going if higher levels of decision-making are changing/are replaced?</li> <li>• Q: How do line ministries perceive this reform? Is there sufficient support from their side? Are they aware of the benefits/ of the rationale behind the reform? If not, how could they be convinced?</li> <li>• Q: Are the individual (programme) managers in ministries on board? Are they aware of their tasks and the advantages of the reform?</li> </ul>	<ul style="list-style-type: none"> <li>• F: A reform is more likely to succeed if there is the backing by the government/ prime minister/ minister of finance.</li> <li>• F: Changes in politics tend to lead to shift of interests. Commitment for reform might disappear.</li> <li>• F: The line ministries' disposition to support the reform process and to undertake major reform steps varies a lot.</li> <li>• F: The MoF staff might be reluctant to support the reform process since a major budgeting reform usually leads to major changes inside the ministry (i.e. re-organization of units, performance targets for staff), so the support of the staff has to be assured.</li> </ul>
<p><i>Recommendations:</i></p> <ul style="list-style-type: none"> <li>• <i>Follow a multi-level approach to generate ownership at all levels of government.</i></li> <li>• <i>Political dialogue could be used to increase political support, i.e. through policy dialogue on bilateral cooperation and/or multi-donor budget support</i></li> <li>• <i>Institutionalization of reform (e.g. by adopting a corresponding law) makes sustainability of reform more likely.</i></li> <li>• <i>A steering group could be set up with the aim to discuss the design and the progress of reform as well as potential pilot ministries. The steering group should consist of the drivers of reform within the ministry of finance (budget department or reform unit) and interested line ministries. High-ranking representatives are helpful for ownership and progress of the process.</i></li> </ul>	

- *Line ministries with a greater commitment for reform should be chosen as pilots. They can act as role-models for other ministries. Pilot ministries should provide advice to other ministries in the roll-out phase to ensure cross-ministerial exchange and learning.*
- *It is important to have managers on board they provide the basis of reform and can support continuation when high level personal changes occur. Every reform is about changing the mindset of people. Sensitization workshops for all ministries staff and a participation process could help generate support and compliance). Further supporting measures could be: performance targets for each staff member in order to change the way of thinking; integrating the reform into a wider concept for administration modernization, change management advisors, assure job security for units targeted by reform.*

### **2.3 Parliament: Budget/Finance Committee, Public Accounts Committee**

<ul style="list-style-type: none"> <li>• Q: Who are the relevant actors within parliament?</li>   <li>• Q: Does parliament have to approve the introduction of results-oriented budgeting? Is it aware of the advantages/disadvantages the reform might have for it?</li>   <li>• Q: How can budget approval be linked to audit scrutiny?</li>   <li>• Q: Is approval of the results-oriented budget and adequate control of performance possible without a budget office?</li> </ul>	<ul style="list-style-type: none"> <li>• F: In many countries, there is one committee in charge of budget approval (budget/finance committee – BC or FC) and one committee in charge of budget oversight (Westminster model: Public Accounts Committee - PAC). In some legislatures, the budget/finance committee is also tasked with considering audit reports, sometimes via a subcommittee (i.e. Germany: Rechnungsprüfungsausschuss). In any case, these two functions have to be distinguished.</li>   <li>• F: Analysis showed that reforms are less likely to succeed if the parliament does not support it. However, parliament might perceive the introduction of results-oriented budgeting as disadvantageous, especially in the approval phase.</li> <li>• F: Risks from the perspective of a BC in the approval phase are:             <ol style="list-style-type: none"> <li>a. loss of input control since parliament is voting on a far broader budget than in input-oriented budgeting and has less possibilities to shift expenditure items;</li> <li>b. disadvantages in election campaigns since input-oriented line items provide more information regarding allocation of resources to constituencies;</li> <li>c. power shifts to other committees since BC may be dependent upon the sector committee's programme assessment.</li> </ol> </li>   <li>• F: The potential for audit scrutiny to inform and enhance the budget approval function is underutilised in almost all legislatures (Wehner 2011).</li>   <li>• F: Parliaments without a budget office tend to be less effective with adequate control of government's figures since they might not be able to control/analyze the provided figures.</li> <li>• F: Requirements for financial reporting change with the introduction of results-oriented budgeting – more in-depth control on performance is</li> </ul>
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	<p>necessary. Useful, timely interim reporting is necessary for effective legislative oversight (Page 2011).</p>
<p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>• <i>Ensuring the involvement of parliament, especially BC /FC at an early stage in the process supports the success of the reform. Awareness raising campaigns on the benefits/advantages of reform could be helpful.</i></li> <li>• <i>Think about ways to minimize power loss of parliament and how MPs can sell the advantages of results-oriented budgeting to their constituencies.</i></li> <li>• <i>In relation to the risk of parliament to act as a veto player (depends on country context), an assured control over line items in parliament can raise acceptance.</i></li> <li>• <i>The subcommittee model (oversight function attributed to a subcommittee of BC) is suitable to maximize the potential for audit findings to feed into budgetary decisions (Wehner, 2011).</i></li> <li>• <i>In many countries, it would be advisable to strengthen audit scrutiny by parliament. Without profound ex-post control of results, strengthening of the accountability by results-oriented budgeting is limited.</i></li> <li>• <i>To ensure parliament's ex-post control of results-oriented budgeting: performance auditing is necessary since parliamentary debate is based on the audit report.</i></li> <li>• <i>A budget office in parliament might strengthen the BC ability to better assess the impact of programmes and the achievement of performance indicators and be less dependent upon other committees.</i></li> <li>• <i>There is the need to formulate good practices for analysis of monthly financial information by legislative budget offices as well as for the scrutiny of interim reports by parliament (Page: Interim Reporting Practices and Legislative Oversight, Presentation April 2011).</i></li> </ul>	
<p><b>2.4 Supreme Audit Institution</b></p>	
<ul style="list-style-type: none"> <li>• Q: Is the supreme audit institution (SAI) involved? If not, how can it be involved?</li> <li>• Q: Which role does it take?</li> <li>• Q: With the introduction of performance budgeting, what is the implication for the role of the supreme audit institution? Does it mean a shift in the type of auditing it performs; from traditional auditing to performance auditing?</li> <li>• Q: If the role of the SAI is changing, does that require a constitutional amendment to expand the scope of its mandate?</li> <li>• Q: Does the country's SAI have the financial and operational capabilities to take up the new mandate? Is it financially independent; does it have a regular and predictable inflow of funds? Operationally, does it have the capacity in terms of staffing and professional competence to meet the demands of performance budgeting? Or would the introduction of the reform overburden the institution's financial and operational capacity?</li> </ul>	<ul style="list-style-type: none"> <li>• F: In order to make government accountable for results, performance auditing of the SAI is necessary.</li> <li>• F: SAI can serve as an advisor on the elaboration of programmes or performance indicators (see Case Study UK and Germany: Hessen).</li> <li>• F: SAI actively involved in auditing results-oriented budgeting did shift its type of audit to performance auditing/value-for-money audit.</li> </ul>
<p><b>Recommendations:</b></p>	

<ul style="list-style-type: none"> <li>• Sensitization of SAI to show potential of results-oriented budgeting.</li> <li>• Do an assessment of the financial and operational capabilities of the SAI and ensure that the introduction of the performance auditing does not overburden it.</li> <li>• Training of SAI on value-for-money auditing.</li> <li>• If there is a window of opportunity, it may be helpful to strengthen the role of the SAI as an advisor to the ministry of finance and to parliament.</li> </ul>	
<h2>2.5 Civil Society and Media</h2>	
<ul style="list-style-type: none"> <li>• Q: Where is room within the reform process for the participation of CSOs and media?</li> <li>• Q: What may be some of the possible barriers to the active participation of the CSOs and the media? How easy is the access to information on the reform?</li> <li>• Q: What role can the CSOs take in support of the reform program?</li> <li>• Q: Are the CSOs and media in the partner country already mobilized, or capable of mobilizing and making objective and analytical contribution into the reform process?</li> </ul>	<ul style="list-style-type: none"> <li>• F: In some countries, there are CSOs with budget groups which are already actively involved in the budget process of the country; like IDASA in South African and ISODEC in Ghana.</li> </ul>
<p><i>Recommendations:</i></p> <ul style="list-style-type: none"> <li>• Try to ensure the participation of CSOs and media in the whole reform process, since their involvement increases awareness of the reform process among citizenry. It also helps to initiate and foster public debates which could lead to valuable input from the public. Involvement, however, depends on the degree of mobilization of civil society in a country. If it is less mobilized, then find out how it can be supported to participate.</li> <li>• Direct support could take the form of helping to increase CSO's involvement through training, capacity building and funding.</li> <li>• Indirectly: discuss with the partner how it would engage with the CSOs. For instance discuss how the reform process could be open and transparent, making information easily accessible for the CSOs and the media to use.</li> </ul>	
<h2>3. Institutional and Legal Requirements</h2>	
<h3>3.1 Institutional Requirements</h3>	
<ul style="list-style-type: none"> <li>• Q: Shall the institutional organization in line ministries be arranged according to structure of programmes or vice versa?</li> </ul>	<ul style="list-style-type: none"> <li>• F: Budget reclassification to programmes could lead to overlapping responsibilities between different ministries which inevitably lead to problems. Thus, budget reform has led to a reflexion on the organizational structure of ministries and the division of tasks between ministries (OECD Kraan 2007:5).</li> <li>• F: Two basic approaches to designing programmes (Diamond 2003:14/15):             <ol style="list-style-type: none"> <li>1) to make the programme structure agency specific – take the spending agency and design the program only within that ministry's activities.</li> <li>2) designate broad policy areas, identifying the</li> </ol> </li> </ul>

<ul style="list-style-type: none"> <li>• Q: Is there a functioning internal audit system in place?</li> <li>• Q: Is a functioning accounting system in place?</li> </ul>	<p>programmes on this basis so that individual institutions could end up contributing to only one part of a program.</p> <ul style="list-style-type: none"> <li>• F: Internal audit plays an important role in any public financial management system. Especially its function as a risk management tool can be used to strengthen the steering of the reform process.</li> <li>• A functional accounting system (whether accrual or cash accounting) showed to be a precondition for the introduction of results-oriented budgeting.</li> </ul>
<p><i>Recommendations:</i></p> <ul style="list-style-type: none"> <li>• <i>Reorganization of the spending agencies should be avoided because this could fundamentally slow down the reform process.</i></li> <li>• <i>Generally, budget classification should follow the organizational structure since this helps to minimize the time and effort needed for the reform. This implies that the MoF accepts that the line ministries have the responsibility to organize the ministry as they see fit, and it refrains from attempts to align the budget to actual policy objectives in a better way than the existing organizational structure does (see OECD Kraan 2007:5, 6, also Diamond 2003:14, 15).</i></li> <li>• <i>Keep in mind the important role of an internal audit system as a risk management tool for reform processes.</i></li> <li>• <i>Keep in mind the important role of a functioning accounting system, but keep it as simple as possible to not overburden existing capacities..</i></li> </ul>	
<p><b>3.2 Legal Requirements</b></p>	
<ul style="list-style-type: none"> <li>• Q: Is the regulatory framework adequate for reform? In the context of introducing results-oriented budgeting, is there a plan to change the organic budget law? Would this be supportive for the implementation of the reform?</li> </ul>	<ul style="list-style-type: none"> <li>• F: Institutionalization of new budget rules is helpful to have a sound foundation for reform and to support compliance with it. This also strengthens the position of the ministry of finance vis-à-vis the line ministries since participation in the process does not depend on voluntary contributions.</li> </ul>
<ul style="list-style-type: none"> <li>• <i>R: Make sure that new rules are institutionalized, if the old ones impede or hinder the implementation of results-oriented budgeting. Reform/change of budget law should accompany the reform process in order to foster compliance and to strengthen the position of the MoF.</i></li> </ul>	
<p><b>4. Financing of Reform</b></p>	
<ul style="list-style-type: none"> <li>• Q: Is there an estimate as to the costs of reform? If not, are safeguards provided to make sure that costs will be estimated at a later stage?</li> <li>• Q: What reform activity will be most cost-expensive? Is there a potential to save or to reduce reform activities to the absolute minimum?</li> <li>• Q: Is financing secured? If not, what are possible sources for financing (mobilization of own resources, donors)</li> </ul>	<ul style="list-style-type: none"> <li>• F: In many cases, countries reported that the biggest costs of reform were IT licenses and trainings for the introduction of IT based accounting or the change to accrual accounting.</li> <li>• F: Experience showed that the introduction of IT based reforms did not only require a single amount of costs but included running costs to maintain the system set in place.</li> </ul>
<p><i>Recommendations:</i></p> <ul style="list-style-type: none"> <li>• <i>Discuss the costs of reform and potential sources of financing with the partner. Make sure the</i></li> </ul>	

<p><i>partner is aware of the total costs (including advisor fees, technical equipment, additional staff needed, promotion costs...).</i></p> <ul style="list-style-type: none"> <li>• <i>A medium-term financing strategy might be helpful since reforms tend to need long time and/or are even ongoing processes.</i></li> <li>• <i>Bring issue in donor-dialogue. Make sure other donors are supporting the reform as well.</i></li> </ul>	
<h2>5. Sequencing of Reform</h2>	
<h3>5.1 Order of Reform</h3>	
<ul style="list-style-type: none"> <li>• Q: Are the basic PFM processes working? What are the priorities of PFM reform? What has to be reformed most urgently?</li> </ul>	<ul style="list-style-type: none"> <li>• F: There is a rich body of literature dealing with appropriate sequencing. Agreement exists that the basics of the budgeting system should be in place before starting major reform processes. Allen Schick's widely recognized approach on "Getting the basics right" suggests a certain ordering that can be used as guidelines (see recommendations in box).</li> <li>• F: There are two stages of advising towards ordering of reform. At a higher level of decision making: getting the overall reform priorities correctly ordered - reform priorities are decided by what the PFM system is designed to deliver. At a lower more technical level of decision making, sequencing consists of ordering reform actions to achieve this priority of deliverables (probably more detailed) (Diamond 2010).</li> </ul>
<ul style="list-style-type: none"> <li>• Q: Is the reform approach adequate to achieve the objectives? (Link to chapter 1 Background)</li> <li>• Q: What other reforms have to go or are going along with the introduction of results-oriented budgeting? In how far are they intertwined? (see in depth in subchapter 5.2)</li> <li>• Q: Is a step-by-step approach wanted or the "big-bang" introduction? What advantages/ risks might each approach have?</li> </ul>	<ul style="list-style-type: none"> <li>• F: The big-bang approach demands a high level of commitment in terms of political willpower and resources. It carries potentially high risks as it does not provide the opportunity to learn from mistakes and to adapt the reforms as they go along. Governments are more likely to adopt a "big bang" approach when there are strong drivers for quick change such as an economic crisis or a change in government. Without these drivers, it could be difficult to develop the pressure to introduce sweeping reforms (OECD 2007:35).</li> </ul>
<h3>5.2 Accompanying Reforms</h3>	
<ul style="list-style-type: none"> <li>• Q: Is the existence of accrual accounting precondition for the introduction of programme budgeting? Is it necessary to introduce the two reforms at the same time?</li> <li>• Q: Is the introduction of medium term</li> </ul>	<ul style="list-style-type: none"> <li>• F: While accrual accounting provides more information about the government's current financial situation, it is difficult and expensive to introduce. Therefore, it has to be discussed carefully, whether or not it should be introduced in conjunction with the budgeting reform. Literature and the analyzed case studies suggest that accrual accounting is not a prerequisite for introducing results-oriented budgeting.</li> <li>• F: While linkage between programmes and</li> </ul>

<p>financial planning necessary/ should it come first?</p> <ul style="list-style-type: none"> <li>• Q: Before introducing performance budgeting is it necessary, helpful or even easier to first introduce programme budgeting? If yes, does it decelerate the reform process significantly?</li> </ul>	<p>medium term government planning is logical, reclassification of the budget in line with programmes in itself also adds value to the planning process. If programmes are planned to last longer than a budget year commitment appropriations serve to assure financial endowment. In general it is not a requirement for results-oriented budgeting.</p> <ul style="list-style-type: none"> <li>• F: The table in chapter 2 shows that programme budgeting already strengthens certain budget functions like planning and therefore fulfills its own objectives. However, accountability of programme managers without the formulation of performance indicators is limited. Introducing programme budgeting first might be an adequate solution to not overburden the country's reform capacities.</li> </ul>
<p><b>5.3 Timing of Reform</b></p>	
<ul style="list-style-type: none"> <li>• Q: Is there a given timeframe in which the country wants to implement the reform? Is it realistic?</li> <li>• Q: What non-technical factors (i.e. political economy) might influence the sequencing, especially the timing? Are they considered in the reform approach of the country?</li> </ul>	<ul style="list-style-type: none"> <li>• F: Reform experiences in several countries show that this process might take up to 15 years (Anderson 2008:5).</li> <li>• F: Timing will be country specific, it is not likely to be possible to generalize across countries about the overall reform sequencing. It is not only a PFM technical matter outside each country's political economy reform. Timing depends a) on the expected results/objectives and b) on the political context.</li> </ul>
<p><b>Recommendations</b></p> <p><u>Follow the "Getting the basics right" approach (Allen Schick, 1998)</u></p> <ul style="list-style-type: none"> <li>• <i>The government should foster an environment that supports and demands performance before introducing performance or outcome budgeting.</i></li> <li>• <i>Control inputs before seeking to control outputs.</i></li> <li>• <i>Account for cash before accounting for accruals.</i></li> <li>• <i>Establish external controls before introducing internal control.</i></li> <li>• <i>Establish internal control before introducing managerial accountability.</i></li> <li>• <i>Operate a reliable accounting system before installing an integrated financial management system.</i></li> <li>• <i>Budget for work to be done before budgeting for results to be achieved.</i></li> <li>• <i>Enforce formal contract in the market sector before introducing performance contracts in the public sector.</i></li> <li>• <i>Have effective financial auditing before moving to performance auditing.</i></li> <li>• <i>Adopt and implement predictable budgets before insisting that managers efficiently use the resources entrusted to them.</i></li> </ul> <p>Source: Public Expenditure Management Handbook, IBRD, 1998.</p> <p><u>Follow two stage process of ordering (Jack Diamond 2010)</u></p> <p>Stage 1: Advising higher levels of decision making:</p> <ul style="list-style-type: none"> <li>➤ <i>Define reform priorities and put them into a hierarchy. Try to reduce reform complexity to the minimum possible.</i></li> <li>➤ <i>Identify weak link in PFM system (use of PEFA assessment is recommended). Discuss whether</i></li> </ul>	

*it should be addressed first - it might impose risk to reform actions.*

**Stage 2: Advising lower level of decision making:**

- *Discuss choice of scope of reform actions, their order and the timing.*
- *Discuss necessity of other reforms in conjunction with the introduction of results-oriented budgeting (i.e. accrual accounting, medium term financial planning).*
- *Whether a partner country should be advised to introduce accrual accounting in conjunction with the introduction of programmes depends on an analysis of that country's capacity to simultaneously manage two complicated reform steps, as well as on the outcome of a cost-benefit analysis.*
- *Consider carefully whether simultaneous introduction of medium term financial planning and results-oriented budgeting could overburden the country's capacity to manage the reform process.*
- *Programme budgeting might be an appropriate reform step before moving to performance budgeting.*
- *Discuss Pros and Cons of the step by step approach vs. big bang.*
- *Discuss trade-off: the more is programmed, the longer the time-frame*
- *Discuss whether timing is appropriate in terms of the complexity of the single reform activity. Adapt sequencing to the specific country context. Consider political factors that might cause delays, (e.g. elections).*

## 6. Managers of Reform

### 6.1 Senior Management Level and Inter-ministerial Coordination

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| <ul style="list-style-type: none"> <li>• Q: Who is taking the lead in steering the reform? Is a higher political level directly involved or interested? Is there sufficient communication with the actors at the higher political level?</li> <li>• Q: Within the ministry of finance – who will coordinate the reform? Is there a plan to establish a budget reform unit? If yes, what are the tasks and where is it placed within the MoF? Does it have enough power/political backing to coordinate the process?</li> <li>• Q: How to coordinate the process between MoF and line ministries? Is the division of labor between ministry of finance and the line ministries clearly defined? Are the responsible managers defined?</li> </ul> | <ul style="list-style-type: none"> <li>• F: Many countries have established a budget reform unit to coordinate the reform process. Here, the relation to other divisions is a major issue. While it is generally supportive for a reform unit to report directly to senior management levels (i.e. directly to the state secretary), those units are often placed at a normal unit level within a department. The difficulty is that the unit coordinating the reform depends on the instructions of the department which has to be reformed.</li> <li>• F: In some cases it was helpful for the reform process to ally closely with reform-friendly line ministries and integrating them into the planning process. Volunteering ministries can be used as pilots for the rollout and triggers of reform.</li> </ul> |
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### 6.2 Middle Management Level

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| <ul style="list-style-type: none"> <li>• Q: Do managers comply with the reform?</li> <li>• Q: Is the responsibility of the managers clearly defined? What is their role in budget formulation, execution, reporting,</li> </ul> | <ul style="list-style-type: none"> <li>• F: It is essential to bring people on board. To foster ownership for reform, managers who finally have to implement the reform need to be convinced of the benefits. A reform/change process is a lot about changing the mindset</li> </ul> |
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<p>staff, information and communication technology, auditing etc.? How much flexibility for managers of programmes is wanted?</p> <ul style="list-style-type: none"> <li>• Q: What are the (spending unit) managers accountable for: financial results, non-financial performance, following appropriate rules, procedures, have authority and flexibility to make resource decisions (within limits) to achieve results?</li> <li>• Q: How are they being held accountable (managerial accountability)? (See also Chapter 7 and 8).</li> </ul>	<p>among managers.</p> <ul style="list-style-type: none"> <li>• F: It is difficult to hold managers to account if (Dorotinski 2011):<sup>43</sup> <ul style="list-style-type: none"> <li>○ There is an unclear organizational structure, mandate</li> <li>○ Managers are not involved in budget setting, planning, target setting</li> <li>○ Performance targets change annually</li> <li>○ Managers do not actually receive approved budget levels; no predictability in funds available</li> <li>○ Managers have no influence over procurement processes for their work</li> <li>○ Managers have no influence on human resource management for their office (positions or employment)</li> <li>○ Managers do not receive continuous or regular spending reports for their units</li> <li>○ There is no regular management or performance and output reports</li> <li>○ Managers have no flexibility or discretion in resource allocation</li> <li>○ Managers are selected for technical skills, not management ability</li> <li>○ Auditing focuses on compliance, which legislature and chief executive focus on performance results</li> </ul> </li> <li>• F: In order to hold managers accountable, it is important to have a sound financial management control system in place involving regular reporting, clear budgetary rules, system of hard and soft controls also programmed in IT-systems (Laar, 2011).</li> <li>• F: The manager should be able not to only apply the reform, but also to explain the reform and its advantages. Communicational skills are important.</li> </ul>
<p><i>Recommendations:</i></p> <ul style="list-style-type: none"> <li>• <i>Try to involve actors at the higher political levels in the dialogue in order to create leadership for reform.</i></li> <li>• <i>Setting-up a cross-ministerial steering committee is recommendable in order to steer the reform process and to involve spending agencies in it. The committee could be a “coalition of the willing” in order to be effective. Compulsory meetings with unwilling spending agencies could block the process and should therefore be called later on.</i></li> <li>• <i>If a budget reform unit is established, it should be equipped with sufficient personnel and financial resources in order to be able to steer the reform process. It should be given sufficient power (reporting to state secretary) to steer the process.</i></li> <li>• <i>Programs should be designed to fit with existing organizational structures. Overlapping responsibilities are to be avoided (see also 3.1).</i></li> <li>• <i>Identify managers within MoF and spending agencies and their roles and make sure they are on board. Sensitization etc.</i></li> <li>• <i>To increase managerial accountability, managers should be given the authority and flexibility to</i></li> </ul>	

<sup>43</sup> See: Dorotinski, World Bank, Presentation at PEM-PAL Plenary Meeting, Zagreb 2011. He also recommended that it is an obstacle if the treasury/accounting systems are on cash basis. This view is not shared here.

<p><i>make resource decisions (within limits) to achieve results. Managers should make their own choices within the approved budgets and according to the budgetary principles and rules. Responsibilities should be delegated far down in order to achieve compliance (Laar, Netherlands, Presentation at PEM-PAL Plenary meeting, Zagreb 2011).</i></p> <ul style="list-style-type: none"> <li>• <i>Spending unit managers are accountable for financial results, non-financial performance, following appropriate rules, procedures, have authority and flexibility to make resource decisions (within limits) to achieve results (Dorotinski, Presentation at PEM-PAL Plenary Meeting, Zagreb 2011),</i></li> <li>• <i>Establish certain control points involving regular reporting, clear budgetary rules, system of hard and soft controls also programmed in IT-systems. To change the mindset of people, foster self-conception as a public service delivery agency, and citizen-orientation.</i></li> </ul>	
<h2>7. Implementing Building Blocks of Reform</h2>	
<h3>7.1 Programme Budgeting</h3>	
<h4>7.1.2 Process of Budget Reclassification</h4>	
<ul style="list-style-type: none"> <li>• Q: Who reclassifies the budget from input-oriented line items to programmes? Is the person in charge prepared to do so? Is there the awareness that the programmes have to be linked to national policy strategies (i.e. development strategies)?</li> </ul>	<ul style="list-style-type: none"> <li>• F: The reclassification of the budget according to programmes has to be done by the spending agencies (line ministries) that are implementing the programmes since the MoF does not have the needed information to do so.</li> <li>• F: Line ministries might lack the capacities for reclassifying the budget and might be dependent upon guidance by the MoF.</li> </ul>
<ul style="list-style-type: none"> <li>• <i>R: The introduction of programmes without formulating performance indicators might be advisable if countries have limited capacities but aim at certain objectives like improving the planning process (see Table 1, Chapter 2). While it is an additional benefit to have good indicators to measure the performance of the programme managers, programme budgeting alone also offers benefits of enhanced planning.</i></li> <li>• <i>R: Implementation guidelines for spending agencies should be issued by the MoF to support them in implementing the reform and executing the results-oriented budgeting.</i></li> </ul>	
<h4>7.1.2 Budget Format</h4>	
<ul style="list-style-type: none"> <li>• Q: Which budget format suits best the results to be achieved?</li> </ul>	<ul style="list-style-type: none"> <li>• F: Usefulness of information depends on budget format.<sup>44</sup></li> <li>• F: A line-item format – which can include separate lines for travel, office supplies, or salaries – makes it difficult to include any type of performance information. Budgets with a single “envelope” of funds for all operational costs offer more flexibility and make it easier to integrate performance information (Anderson 2008:6).</li> <li>• F: There are two kinds of budget classifications (OECD Kraan 2007:3): <ul style="list-style-type: none"> <li>➢ Used for analytical purposes – Functional classification classifies expenditures according to purposes, such as defence, justice and social protection. Economic classification classifies expenditures according to economic character as defined in the national accounts, such as compensations of employees, intermediate consumption and</li> </ul> </li> </ul>

<sup>44</sup> Krywanio, Presentation at PEM-PAL Plenary Meeting, Zagreb 2011: A format is more than financial tables: classifications, column headings, rows (line items),

	<p>subsidies.</p> <ul style="list-style-type: none"> <li>➤ Used for authorization of the budget in appropriations laws and defines the line items of the budget. Institutional classification subdivides expenditures according to the organizational structure of the government and the ministries.</li> <li>• F: A useful starting point in determining the policy framework in program design is to use the functional classification of government expenditures. By providing a comprehensive view of government expenditures in broad policy areas, it is a useful framework for constructing a programme structure (Diamond 2003:16).</li> <li>• F: Format includes presentation of all documentation: approved budgets, attachments, executive summaries, graphs, policy discussion.</li> </ul>
<p><i>Recommendations:</i></p> <p><i>Make use of general Guidelines on the Design of Programs (Diamond 2003:17)</i></p> <ul style="list-style-type: none"> <li>• <i>Each programme is linked to only one function.</i></li> <li>• <i>Programmes are hierarchically constructed so that each program has a number of subprograms, each subprogram can be decomposed into a number of activities and projects.</i></li> <li>• <i>Each programme has an appropriate size for efficient management (country specific).</i></li> <li>• <i>Programmes and subprogrammes should be defined in a way to support political decision-making and prioritization (clear relationship between resources and outputs/outcomes).</i></li> <li>• <i>Programmes must consider all related activities and projects, which assist in achieving their objectives. This means that capital and recurrent spending should be considered together in judging program performance relative to its objectives.</i></li> <li>• <i>Greater levels of disaggregation to activities and projects will exist to support, and be designed to facilitate, management in pursuit of the subprogram objectives and results.</i></li> <li>• <i>Accountability for subprogrammes should have clear managerial responsibility, usually and preferably, within a single organizational unit (see also 6.2).</i></li> <li>• <i>Responsibilities for implementing each particular program should almost always be aligned by administrative unit to one chapter in the budget. Where it is not possible to maintain this, it is important to assign lead roles to a particular chapter.</i></li> </ul>	
<p><b>7.1.3 Costing</b></p>	
<ul style="list-style-type: none"> <li>• Q: Is there an adequate costing system in place?</li> <li>• Q: Does ministerial staff have the capacities to cost?</li> </ul>	<ul style="list-style-type: none"> <li>• F: For the programme structure to be implementable, there must be adequate mechanisms to fully cost programmes, so that the outputs of programmes can be related to their budgetary costs, and then ultimately to their benefits in order to judge programme performance (Diamond 2003:19).</li> </ul>
<p><i>Recommendations:</i></p> <p><i>Use the approach: Basic Steps of a Program-Based Costing System (Diamond 2003:22):</i></p> <ul style="list-style-type: none"> <li>• <i>Breakdown the program into the activities that produce the program's objective, service or product, and identify the work units undertaking each activity.</i></li> <li>• <i>Identify all resources used and their associated costs in terms of the basic work units delivering programme outputs/outcomes.</i></li> <li>• <i>Categorize and measure direct costs which arise from the operations of the work unit on the costs</i></li> </ul>	

<p><i>incurred on behalf of the unit through the operations of other work units; and those government or department wide indirect cost.</i></p> <ul style="list-style-type: none"> <li>• <i>Assign or allocate all direct and indirect costs to specific activities, using an agreed costing methodology.</i></li> </ul>	
<p><b>7.2 Performance Budgeting</b></p>	
<p>7.2.1 Use of Performance Information (PI)</p>	
<ul style="list-style-type: none"> <li>• Q: Is there a programme structure in place?</li> <li>• Q: How would the performance information be used?</li> </ul>	<ul style="list-style-type: none"> <li>• F: The study demonstrated that it is possible to use PI even if the budget is not reclassified to a programme structure (i.e. if the aim is more accountability for results).</li> <li>• F: A core concept of performance budgeting is the generation of performance information (PI) and its integration into the budgeting process. The OECD categorisation is based on the link between performance and funding decisions: In presentational performance budgeting, the link between performance and funding is low or non-existent because PI appears in the budget document as background information only. In performance-informed budgeting, programme objectives are based on performance indicators. Hence, PI is important in the decision-making process as well as for monitoring the efficiency of public services delivery. The closest link between PI and the funding decision exists in direct performance budgeting where resource allocation is based on achieved results.</li> </ul>
<p><i>Recommendations:</i></p> <ul style="list-style-type: none"> <li>• <i>Depending on the objectives that the partner is pursuing, it might be sufficient to add PI to the budget documentation for informational purposes only. Without even reclassifying the budget into programmes.</i></li> <li>• <i>However, it is recommendable to add PI in the budget documentation only if it is relevant for the decision-making process. Otherwise, the budget document is overloaded with data that is not relevant which might be misleading.</i></li> <li>• <i>More information does not necessarily mean more transparency.</i></li> </ul>	
<p>7.2.2 Formulation and Measurement of Performance Indicators</p>	
<ul style="list-style-type: none"> <li>• Q: What has to be done to integrate performance information into the budget process? How can the presentation and reporting of performance information be improved?</li> </ul>	<ul style="list-style-type: none"> <li>• F: The main problems with the formulation of performance indicators are finding clear objectives, obtaining sufficient data of high quality, and designing measures for specific activities. The fact that countries continue to struggle with these challenges after the first five years reflects that it takes time to develop meaningful measures and to collect relevant data of sufficient quality. Furthermore, the revising and updating of performance measures is a continuous process because needs and priorities are constantly evolving (OECD Curristine 2005:97).</li> <li>• F: In performance informed budgeting, it is important to have a process to integrate this information into the budget process and to</li> </ul>

<ul style="list-style-type: none"> <li>• Q: Has the quality of performance data been considered? And are there established definitions of performance measure?</li> <li>• Q: What incentives can be set to make spending agencies respect PI?</li> <li>• Q: How much information is necessary? How to limit the information that is generated? How to secure the legibility of the information (e.g. for parliament)?</li> </ul>	<p>encourage budget officials to use it (OECD Curristine 2005:125).</p> <ul style="list-style-type: none"> <li>• F: Established criteria on good quality performance data and on their measurement by the ministry of finance can give guidance to the spending agencies and increases transparency on the expectations.</li> <li>• F: There is always the danger that linking results to financial resources can create incentives to distort and cheat in presenting performance information (OECD Curristine 2005:111).</li> <li>• F: Many countries reported from their reform experience that the actual problem is the generation of too much information (e.g. Sweden, USA). In these countries, the parliament complained about difficulties in handling the amount of information produced leading to decreasing transparency and thereby accountability.</li> <li>• F: Indicators should not change too much over the years; otherwise it would be difficult to reconstruct the outcome over the years which could lead to a lack of transparency.</li> <li>• F: The time for choosing adequate and accepted indicators (in quantity and in quality) can take years (see i.e. case study Germany: Berlin).</li> </ul>
<p><i>Recommendations:</i></p> <ul style="list-style-type: none"> <li>• <i>Performance budgeting requires a fundamental transformation in organizational behavior and a climate that pushes for a shift in culture away from inputs towards results (OECD 2005:97).</i></li> <li>• <i>While it is easier in the beginning to formulate input and process oriented targets, the shift to output and outcome oriented targets is a slow transition process.</i></li> <li>• <i>It is recommendable for the ministry of finance to formulate a set of criteria for good quality performance data as well as for measuring it, see i.e. the UK HM Treasury, Choosing the Right FABRIC.</i></li> <li>• <i>It is not recommendable to link performance results and expenditure mechanically, resulting in automatic cuts for poor performance (technical limitations, wrong incentives) (see OECD 2005:111).</i></li> <li>• <i>Integrate performance information in the budget process to make good use of information. It has the potential to change the budget process towards decision-making based on outputs and outcomes.</i></li> <li>• <i>Once a first set of indicators is in place, it can be useful to apply ex-post attempts to reduce the number of performance targets.</i></li> <li>• <i>If the ministry of finance is to motivate agencies to improve performance, it is important that it has some incentives at its disposal (financial/non-financial, formal or informal).</i></li> <li>• <i>It is important to understand how to create the right incentives when performance information is used for management and budgeting purposes. Failure to gain the support of key agents can lead to problems with perverse incentives and gaming. Solutions include consulting with staff at the front line of service delivery (OECD Noman 2008:11)</i></li> <li>• <i>Try to limit information output or find a mechanism to aggregate information (i.e. Case Study Germany: Hessen): more information is not necessarily better (if Parliament cannot handle the information, this leads to decreases in transparency and accountability).</i></li> <li>• <i>Think of ways to reduce complexity, e.g. by reducing programmes and related indicators (See</i></li> </ul>	

<p><i>German case study)</i></p> <ul style="list-style-type: none"> <li>• <i>An office to process the information/the data should be set in place, maybe even directly within parliament (e.g. parliamentary budget offices).</i></li> <li>• <i>Try to create continuance in indicators to allow sustainable measurements.</i></li> <li>• <i>Constant attempts to improve the quality of data are necessary. A manual describing a good performance measuring system might be helpful as well as adapting the role of the supreme audit institutions to control.</i></li> </ul>	
<p><b>7.2.3 Information and Reporting System</b></p>	
<ul style="list-style-type: none"> <li>• Q: Is the exchange of information between the stakeholders involved secured? How to establish effective information systems that communicate with each other – automation of information exchange?</li> <li>• Q: Is there a communication strategy in place?</li> <li>• Q: How can the reporting system support the legibility of data?</li> <li>• Q: Are there plans to link the results-oriented budgeting with IFMIS or other IT information systems?</li> </ul>	<ul style="list-style-type: none"> <li>• F: Improved accountability is dependent on adequate information to judge performance (Diamond 2003:19).</li> <li>• F: In Hessen a special budget office in parliament was introduced to preprocess data from the reports of the administration (see 7.2.2)</li> </ul>
<ul style="list-style-type: none"> <li>• <i>R: The design of programmes should take into account the practicality of constructing a comprehensive and regular information and reporting system to provide relevant data in a timely manner.</i></li> <li>• <i>R: Find a way to enhance the legibility of data, e.g. through a special budget office in parliament (see 7.2.2).</i></li> </ul>	
<p><b>8. Control and Audit</b></p>	
<p><b>8.1 Monitoring and Evaluation</b></p>	
<ul style="list-style-type: none"> <li>• Q: Is there supervision by MoF on line ministries' budget execution?</li> <li>• Q: What incentives and sanction mechanisms can be set in place in order to assure compliance with the process?</li> <li>• Q: How are performance data being used? Does it matter in the budget process?</li> </ul>	<ul style="list-style-type: none"> <li>• F: There are both performance measures and evaluations. The ministry of finance tends to have a less active role in evaluations than is the case for performance measures. In relation to evaluations, the main responsibilities of the MoF are (OECD Curristine 2005:116):             <ul style="list-style-type: none"> <li>➢ Review the progress of spending ministries in commissioning /conducting evaluations.</li> <li>➢ Provide general policy advice and guidance to spending ministries.</li> <li>➢ Recommend that spending ministries use evaluations in their budget process.</li> </ul> </li> <li>• F: The MoF uses evaluations to allocate resources within programmes and to justify existing allocations to specific activities/programmes. Evaluations are much more widely used by spending ministries. They tend to be used not so much as part of the budget formulation process, but rather for strategy development and for target setting (OECD Curristine 2005:121).</li> </ul>
<p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>• <i>It is important to institutionalize the use of evaluation/performance measures in the budget process; otherwise there is no room for making use of it.</i></li> </ul>	

<ul style="list-style-type: none"> <li>• <i>If evaluation reports are taken seriously, it is important to monitor and follow-up to see if accepted recommendations are implemented.</i></li> </ul>	
<b>8.2 Internal and External Audit</b>	
<ul style="list-style-type: none"> <li>• Q: Is there an internal audit system in place, both in MoF and in line ministries? Are there internal rules for budgetary discipline? Is there regular consultation based on the results of internal control?</li> <li>• Q: Does external audit take place? Are the results being published?</li> <li>• Q: Is there any cooperation between internal audit services and external audit (SAIs) (exchange of ideas and knowledge)?</li> <li>• Q: Are there any possibilities for civil society to make use of its control function (e.g. whistle-blowing system)?</li> <li>• Q: After the results of the monitoring are public: did the introduction of results-oriented budgeting lead to the changes aimed for? Is administration really more accountable for its results? Is there better service delivery to people? What are the implications?</li> </ul>	
<b>9. Capacity Development</b>	
<ul style="list-style-type: none"> <li>• Q: Does the ministry of finance have sufficient capacities to coordinate the implementation process of results-oriented budgeting in the MoF itself and in the line ministries? What can be done to increase its capacities?</li> <li>• Q: In case a budget reform unit exists: does it have enough capacities to coordinate the process (personnel, resources, skills etc)?</li> <li>• Q: What are the capacities of the involved managers in line ministries like – not only to implement the reform but also to keep the system running afterwards?</li> <li>• Q: What skills are necessary to implement the reform? (e.g. good knowledge of programme base) What training do they need in order to approve these skills?</li> <li>• Q: Is there a change management strategy?</li> <li>• Q: What is being done to change the mindset of the people involved? (more service-delivery orientation, thinking towards results, citizens = clients, recognizing the need to use the resource available more efficiently)</li> <li>• Q: Are there mechanisms in place to</li> </ul>	

<p>foster cross-organizational cooperation and learning?</p> <ul style="list-style-type: none"> <li>• Q: What can be learned from other countries experiences (study visits etc.)?</li> </ul>	
<p><i>Recommendations:</i></p> <ul style="list-style-type: none"> <li>• <i>Capacity Assessments (GIZ tool) could be used to analyze the initial situation of existing capacities and their gaps.</i></li> <li>• <i>Capacity development is core competency of GIZ. GIZ identified four interacting dimensions of capacity development to strengthen the change process: human resource development, organizational development, network development and system development in the policy field.</i></li> <li>• <i>GIZ offers a variety of technical cooperation instruments for budget reform processes like:</i> <ul style="list-style-type: none"> <li>➤ <i>Organizational, management and technical advise</i></li> <li>➤ <i>Organizational advice on the organization of design and process in the ministry of finance for preparing, steering and controlling the budget process (formalization of processes and definition of roles)</i></li> <li>➤ <i>Process advice for coordination between ministry of finance and line ministries in the budget process</i></li> <li>➤ <i>Training for qualified personnel and management personnel</i></li> </ul> </li> </ul>	







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