



# **Strategic Advisory Approach on Results-oriented Budgeting**

## **A Good Financial Governance Approach**

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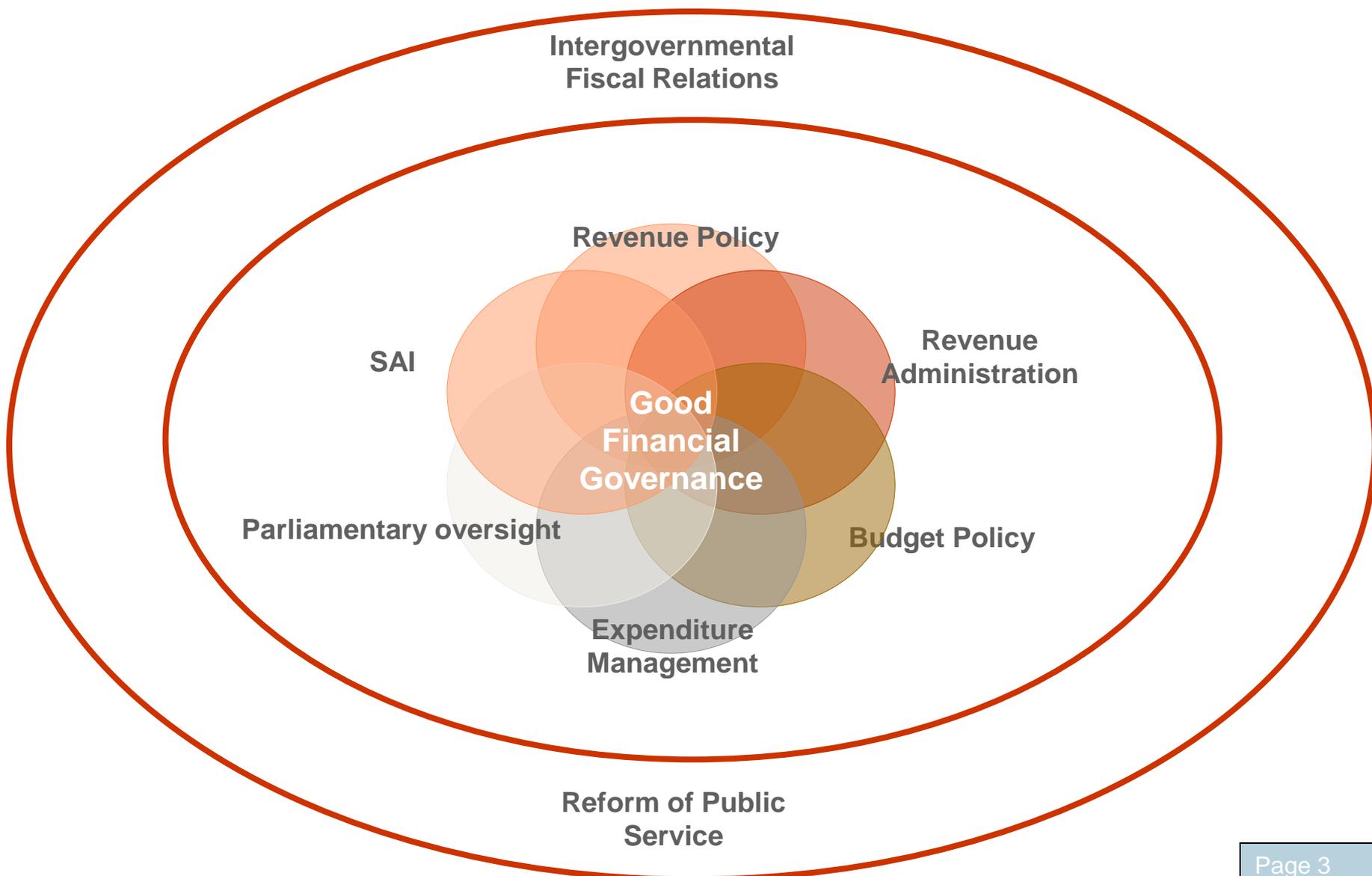


On behalf of  
Federal Ministry  
for Economic Cooperation  
and Development



# Outline

- **Overview: Good Financial Governance**
- **Advisory Approach on Results-oriented Budgeting**
  - Clarification of Terminology
  - Reforms in OECD Countries
  - Lessons Learned for Development Context
  - Challenges in GDC's partner countries
  - Outline of Checklist
- **Success Factors of Results-oriented Budget Reform**





## Advisory Approach on Results-oriented Budgeting

- *Study 1:* Analysis of OECD reform experiences, success factors and challenges; contains a checklist with relevant questions, approaches and instruments
  - *Study 2:* Analysis of the experiences of three partner countries (Kenya, Cameroon, Peru); checklist has been tested and adapted
- finalization of advisory approach
- *Output:* Checklist to be used as a guideline by partner institutions, mainly Ministries of Finance, and GIZ advisors



## Clarification of Terminology

- **Results-oriented budgeting:**

**Programme budgeting** (reclassification of the budget according to a programme structure) and **performance budgeting** (use of performance information to link funds with measurable results)

- **Related reforms:**

medium term financial planning, accounting, performance contracts in administration, internal audit



## Reforms in OECD countries

- **Approach:** Majority (26 of 34) has introduced performance budgeting
- **Objectives:** Improving efficiency and effectiveness of public service delivery (80%), strengthening transparency and accountability (70%)
- **Drivers:** MoF in 1/3 of OECD countries, “Government” in another 1/3, some cases: Parliament
- **Timeframe:** Majority needed more than a decade, often 2-3 subsequent reform initiatives, rather: ongoing process



## Lessons Learned for Development Context

- Don't underestimate the timeframe and costs: Introducing ROB is an ongoing process
- Ministry of Finance is likely to be the driver, however, other drivers are possible
- Changes in administrative culture are necessary
- Greater flexibility of line managers in budget execution: increased efficiency vs. decreased ability to control programme managers
- Executive's greater discretionary power vs. fear of parliament to lose input control
- Interests of the different actors have to be taken into consideration (especially Parliament)
- Capacities for managing reforms should be considered when deciding on scope of reform/ accompanying reforms. If possible, Supreme Audit Institution's expertise should be used
- Main problems with performance information: finding clear objectives, obtaining sufficient data of high quality, and designing measures for specific activities



## Challenges in German Development Cooperation's partner countries

- Introduction of ROB in a context of weak capacity and significant weaknesses in basic elements of the PFM system
- No strategic plan with prioritization and timeline
- Reforms tend to focus on budget preparation, giving little attention to “downstream” aspects of the budget cycle (execution, reporting and audit)
- Too little involvement of and incentives for line ministries (especially general policy departments)
- Unclear division of labor in budgeting between planning and finances ministries
- No sensitization/cooperation with Parliament



## Success Factors of Budget Reform

- Political commitment and leadership
- A strong driver of reform with adequate authority and sufficient capacities
- A dedicated Budget Reform Unit with clear responsibilities for coordination and implementation of reform
- Early involvement of stakeholders like Parliament and line ministries
- A well and narrowly defined reform objective agreed by main stakeholders
- An action plan with a timeline and prioritization that identifies milestones and ensures that facilitative tools are timely available
- Adequate legal framework that enforces implementation
- A gradual implementation approach incl. an incentive structure for line ministries to participate



## Outline of Checklist

- Background of the reform
- Drivers of the reform
- Overall PFM framework, sequencing and alignment with other PFM reforms
  - Legal requirements
  - Sequencing and timing
  - Preconditions
- Management and Financing of Reform
  - Management
  - Financing
  - Capacity Development
- Technical Building Blocks of Reform
  - Budget preparation, including reclassification and formulation of performance information
  - Budget execution, including internal control and internal audit
  - External oversight



## Conclusions for Development Cooperation

- Good Financial Governance approach adds value!
- GFG elements to be considered when introducing results-orientation:
  - **Transparency:** The national budget reflects the government's priorities – results-orientation can improve transparency but only if done adequately.
  - **Legitimacy:** Key stakeholders need to be involved at an early stage: line ministries, Parliament, Supreme Audit Institution (SAI), CSOs.
  - **Rule of Law:** The separation of powers needs to be assured, as well as independent institutions.
  - **Efficiency:** Administration should be prepared for the changes, performance mentality/thinking towards results.
  - **Accountability:** Parliament needs to be capacitated to read (and scrutinize) the new budget format; the SAI should be enabled to undertake performance audit.
  - **Development Orientation of Government:** ROB should be used to align Government expenditure with public development policies.



Any questions?