

RESULTS-ORIENTED PUBLIC EXPENDITURE MANAGEMENT: WILL IT REDUCE POVERTY FASTER?

The elusive quest for results

The Millennium Development Goals set ambitious targets – for example halving the 1990 rate of income poverty, reducing the 1990 rate of child mortality by two-thirds and enabling all children to complete primary school by 2015. Many of the poor countries of the world which face the greatest challenge in reducing poverty have now produced their own Poverty Reduction Strategies, in which they set their own objectives and targets for moving in the direction of the Goals, while respecting the priority needs of their own populations. In many cases, these Strategies build on pre-existing results-oriented medium-term frameworks for sector development and public expenditure.

The broad consensus among donors is that their aid will be most effective in combating poverty if used in support of Poverty Reduction Strategies, often in the form of budget support. But public expenditure programmes in the social sectors have a mixed record for efficiency, effectiveness and poverty-relatedness. More of the same would not do enough to achieve ambitious targets.

Managing public expenditure for results

OECD countries have adopted, mostly over the last decade, a variety of different approaches to achieving better performance, in public expenditure programmes. A number of middle-higher income developing countries – Singapore, Malaysia, Chile, South Africa etc. – have followed suit. Better performance mainly means higher cost-effectiveness, improved policy outcomes, increased client satisfaction, and accountability for all of these to parliament and the public. Their characteristics can broadly be classified as follows:

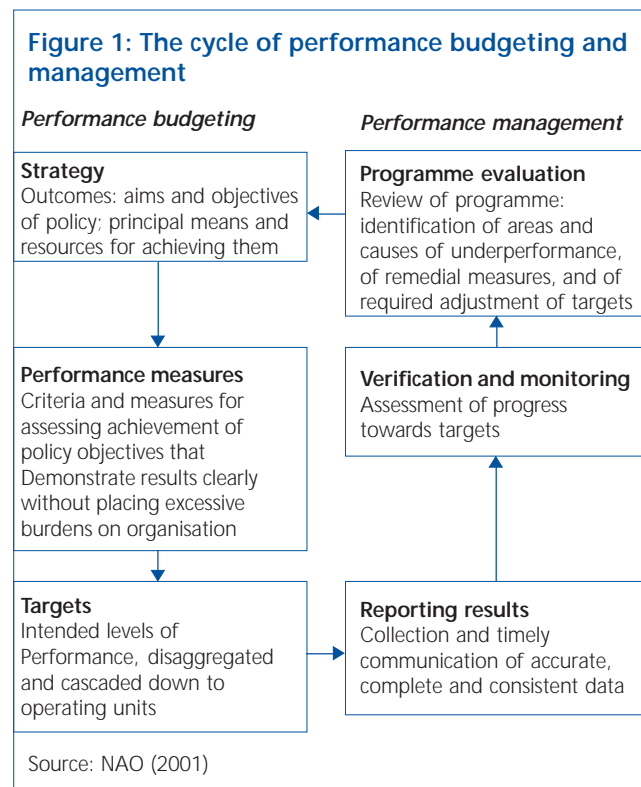
Contractual or hierarchical. Some approaches are based on performance contracts – with individual staff, units, executive agencies, lower tiers of government or private sector contractors. Other rely on traditional hierarchical relationships to plan and track performance.

Centralised or decentralised. Some countries, like the UK, have centralised systems of setting objectives and targets and of performance review. Others leave it to implementing authorities to propose their own systems, performance indicators and targets.

Integrated into budgetary systems, or free-standing. Some countries (US, France) have programme budgeting. Some countries, like the UK, have centralised systems of setting objectives and targets and of performance review. Others leave it to implementing authorities to propose their own systems, performance indicators and targets.

Focusing on outputs, or outcomes. Some, like New Zealand, focus on output targets. Others, the majority, regard this as myopic, and prefer to start planning objectives with a clear focus on policy outcomes.

These initiatives have had two main purposes: (i) to make governments accountable for their uses of public funds and (ii) to improve efficiency and effectiveness by feeding the lessons of performance assessments back into strategies and plans (Figure 1).



Can this work in low income countries?

Some development economists and public expenditure specialists say that results-oriented public expenditure management is unlikely to work in poor countries because of (i) low managerial capacity at all echelons of public administration, (ii) insuperable difficulties in contract management and enforcement where the rule of law is weak, (iii) low standards of budget execution and management, and of financial discipline, transparency, probity and accountability in public services, and (iv) ineffectual external audit and parliamentary scrutiny. The advice of several recent authors is that this is not the time for poor countries to go in for results-oriented budgeting. The Centre for Aid and Public Expenditure in ODI has looked into these hypotheses through seven case studies of poor countries with PRSPs in Africa, South-East Asia and Latin America.

Ghana, Tanzania and Uganda introduced results-oriented budgeting in the late 1990s as part of their medium-term expenditure frameworks (MTEFs). Spending ministries and

agencies were required, as part of budget preparation, to render annual account of their past performance and to (re-)state on a rolling basis the strategies, objectives and targets they intended to pursue.

Bolivia introduced annual performance plans for ministries, departments and officials in central and local government in its 1990 law on financial management and control (SAFCO).

Burkina Faso and Mali introduced programme budgets in the late 1990s. These require three-yearly, rolling, statements of strategy, objectives and targets – but organised by programme, rather than by institution or sector. They are not yet fully operational.

In *Cambodia* there is no national results management framework as yet, but, as in the six other countries, there are medium-term sector strategies in education, health and some other sectors, which set objectives and targets in relation to the volume of resources (including aid) that the sector authorities expect to receive. These are quickly becoming more effective. Previously existing, costed and annually updated results-focused sector strategies, where they exist, form the bedrock of MTEF and PRSP statements of objectives and resource requirements. The case studies find that the social sector ministries already have, or are building, planning and evaluation departments and systems for performance data collection, compilation and (sometimes) publication. These data should be used as the basis of decisions on performance improvement. So far, examples of this are most common where service delivery has been decentralised to local authorities.

In all countries examined, systems are evolving empirically and organically. Mistakes are being made, solutions are being sought to overcome them and procedures are being improved. Officials are talking to each other, and are taking more note of civil society and of public service user groups. There is a widening circle of awareness of what is involved at the local level in delivering national poverty reduction objectives. Governments are unashamedly poaching ideas on process and institutions from their neighbours. The similarity of approaches adopted in Tanzania and Uganda, and in Burkina Faso and Mali, is no accident: there are no intellectual property rights over ideas on results management.

Successes – great and small

The synthesis of country case studies concludes that Tanzania and Uganda have the most advanced and least precarious systems for performance budgeting and management. These combine, in both countries:

- a good background of experience of results-focused sector strategies in the social sectors,
- strong pre-PRSP governmental commitment to poverty reduction, with budget expenditure priority given to designated pro-poor programmes,
- broadly successful macroeconomic stabilisation and overall fiscal management,
- perseverance in implementing effective, performance-related, medium-term expenditure frameworks,
- a requirement that spending ministries account for their performance when bidding for budget resources,
- decentralisation of administrative responsibility for basic services to local government, with accountability for results in exchange for grants from the centre,
- civil service management reforms including responsibility for performance by administrative units and by (some) officials.

Tanzania also has executive agencies operating with some success under performance contracts, despite the absence of rigorous contract management by purchasing ministries.

Tanzania and Uganda have begun to implant a general understanding of national objectives and a culture of responsibility for performance in both central and local government. It is doubtful if they could have implemented their policies of raising primary school enrolment by abolishing school fees so smoothly without this. Other countries are less advanced, and their progress has been more hesitant.

Burkina Faso and Mali introduced programme budgeting with excessive haste and too little preparation and staff training. Their programme budgets draw on pre-existing social sector strategies and are consistent in terms of objectives and aggregate expenditure in outer years with their PRSPs and MTEFs. But their three-year programme budgets lie at the periphery of the budget process, not at its centre. In-year performance targets are not yet adjusted to approved expenditure ceilings and cascaded down, and expenditure management and reporting remains on traditional lines, so that programmes have little operational significance. Nevertheless, a new awareness of performance is abroad in these countries. Regional and national workshops, where officials and service providers are informed of national objectives and formulate their own perspectives and resource requirements, have become part of programme budget preparation, even though many participants remain uncommitted.

Both Mali and Burkina Faso, in common with other Francophone countries, have a long experience of outsourcing certain public services, notably water supply, drainage and municipal cleansing, to private contractors. Private contractors have been found to provide better services than departmental enterprises, and contract management has become routine.

In *Bolivia and Ghana* the record of performance management in public services has been uneven and disappointing – all the more so because both countries' plans have been ambitious and imaginative.

Ghana's preparations in 1997 for a results-focused MTEF as part of a broader public expenditure management reform programme were vigorous and radical. Policy objectives and targets were specified with greater precision than in earlier development planning exercises, and the presentation of budget estimates was changed to reflect the resource requirements of broad programme areas. Subsequent failure was the result of: (i) macroeconomic instability, with high inflation, which undermined the value of MTEF expenditure ceilings for results planning, (ii) lack of a strong central driving force – PRSP processes separated from responsibility for the MTEF – and (iii) the approach of elections and a change of government. Efforts are now in train to restore policy coherence and restart initiatives.

Bolivia's SAFCO law of 1990 was intended to cascade results-management and financial accountability from the centre to all branches of central and local government, through the medium of budget-linked performance plans, reinforced by merit-based procedures for civil service staff appointments and performance monitoring. But political commitment was variable, patronage persisted in public administration, and public expenditure allocations remained capricious, undermining the credibility of performance planning and management. Performance budgeting and management has survived and been institutionalised only in some sector ministries, like education and health, where management reforms, and sector budgets, have been backed by donors, and where budgets have been predictable enough for performance planning and accountability to be taken seriously.

Hypotheses questioned

ODI-CAPE's research casts doubt on the view that poor

countries cannot handle performance-oriented approaches to expenditure management and that it is premature for them to do so.

Administrative capacity. Existing administrations are able to disseminate awareness of policy objectives and to stimulate participative target setting, incorporating contributions from programme managers, decentralised tiers of government and front-line providers. This need not involve fully-fledged programme budgeting, or generalised performance contracting. Existing finance, planning and evaluation departments in ministries and agencies can handle performance budgeting, perhaps with some strengthening.

Principal-agent problems. The theory that contract enforcement is too weak for governments to pursue their policy objectives for the provision of easily monitorable services through arms-length with 'agents' – local government, executive agencies, private contractors – is disproved by the many examples where this is done successfully. There are ways of achieving compliance, other than legal enforcement – such as conditional grants to local authorities and senior staff appointments to executive agencies.

Public expenditure management standards. Indifferent standards of budget management and financial accountability do not prevent an effective start with objective and target setting, the cascading of these to operational units, and performance accountability. Tanzania has successfully introduced performance budgeting, but still has cash budgeting, an incompletely consolidated budget and fiduciary weaknesses. Accountability for performance in public services – where physical results are more visible to the public than financial management – acts as a spur to higher standards of financial responsibility.

Predictability of budgets. Serious unpredictability about future financing destroys spending ministries' and agencies' willingness to make serious plans for performance improvement – as seen in the Ghana case. However there are wide margins of inefficiency in the provision of many services, making it possible to improve results, in spite of some shortfall in funding. Erratic aid inflows may be a source of unpredictability – as reported in Burkina Faso. But sector authorities are often aware of likely extra-budgetary aid receipts, and factor in their effects on performance.

External accountability. The weakness of external accountability of pro-poor service delivery (via parliament, audit services, service beneficiary groups, non-governmental watchdogs) has neither prevented the initiation of performance budgeting and management, nor its institutionalisation. If anything, the increased availability of information on performance targets and achievements, and officially-initiated consultations on strategies and objectives, have encouraged the institutions and processes of external accountability to become more vocal and effective.

Factors in success

The case studies make it possible to identify some conditions for the successful construction of results planning and management frameworks. The main ones are:

Political commitment. In countries where politics is about power and preferment rather than about delivering public services, it is of the greatest importance that there should be consistent political backing at the highest level for the achievement of goals, and performance improvement towards these ends. Without this, as in Ghana and Bolivia, even well conceived initiatives are precarious and vulnerable to personality or political change.

Ministry of Finance as best placed driver of reform. Performance budgeting instigated by ministries of finance has been more

purposeful, respected and sustained than results-based management initiatives of civil service ministries. Through the discipline of annual budget preparation and of annual MTEF updating ministries of finance can require all branches of government to restate and adjust their objectives and targets, and to render account for past performance. Civil service ministries, by comparison, have to rely for implementation on the goodwill and enthusiasm of heads of ministries and agencies.

Single apex source of initiatives and point of reference. There should be a single institution at the centre driving performance budgeting and management. In Tanzania and Uganda, and in Mali and Burkina Faso, ministries of finance manage medium term expenditure frameworks, results-oriented budgeting, and the PRSP process, and they take the lead in performance monitoring. They ensure coherence in performance planning and management. In Bolivia and Ghana, by contrast, responsibilities are fragmented and momentum is undermined by institutional rivalries. In Ghana, the Ministry of Finance is responsible for the MTEF, and the Ministry of Planning was given responsibility for the PRSP, produced only one year later, giving rise to partially inconsistent targets and duplicative performance monitoring. In Bolivia, the Ministry of Finance lacked the moral authority or administrative ability to hold spending ministries to account for performance. Successive administrative reforms gave rise to a proliferation of institutions responsible for piloting civil service reform and for performance monitoring, all of them lacking political paramountcy.

Sector strategy test beds. In all countries, performance budgeting is most advanced in the social sectors where development strategies have existed for some years and have been implemented with donor support and assurance of resource availability. These sectors have the best articulated outcome goals and monitorable strategies for attaining them, complete with output targets and highly specified and generally costed activities. They also tend to have the best quantitative service delivery information and reporting systems. Their results-budgeting and management practices are carried forward into MTEFs and other national performance planning initiatives. Where there is no MTEF, these practices can continue as 'islands of excellence' at the sector level – as in Bolivia and Cambodia – but they remain precariously dependent on continuing donor support.

Weak links

Performance management. Performance budgeting and management is a circular, self-correcting and self-reinforcing process, concerned both with accountability and performance improvement. Figure 1 illustrates the 'internal' circuit of lesson learning. There are also 'external' loops of audit and of accountability for service users, the public and parliament.

The case studies show consistently that countries are stronger in strategy and target setting than in monitoring and evaluation. Performance assessment and feedback into resource allocation and activity planning is their Achilles Heel. The quality of performance information is often dubious, with unreconciled differences in figures from different data sources. Data is compiled and published late. Spending ministries do not cross-check their own data with evidence from the growing number of household and service beneficiary surveys that are now available.

External accountability. The proximate cause of weak monitoring, evaluation and feedback is low capacity, especially in Planning and Evaluation departments in spending ministries. But the fundamental cause is a lack of internal and external demand for a better understanding of the patterns and drivers of performance and the reasons for shortfalls. Ministries of

finance do not have the time or resources to investigate in detail spending ministries' performance reports. There is little or no political demand for performance accountability. The case studies mention heightened parliamentary interest only in Ghana and Uganda. National audit offices in most cases do not fulfil basic statutory financial audits on time. Only a few, e.g. Tanzania and Ghana, are starting to audit performance. Most external feedback links are therefore weak and ineffectual.

Of these, the direct link from service providers to service users is by far the strongest and most commonly found. Country case studies refer repeatedly to the value of parent-teacher associations – as watchdogs on school quality and funding. Bolivia has institutionalised beneficiary participation in service provision at all levels of the administrative hierarchy. In Mali, village communities are setting up locally-accountable primary schools and health centres. Beneficiary involvement in service provision is a clear instance of positive feedback at work.

Without external accountability loops, performance budgeting and management becomes wholly dependent for its sustainability on the drive and commitment of ministerial or senior civil servant instigators within government. These people have achieved major feats in initiating and implementing results-oriented reforms. But, as in Bolivia and Ghana, their achievements are vulnerable to changes of personnel and government, in the absence of consistent external pressure for accountability. Achievements are even more precarious in sectors, such as social sectors, which are heavily dependent on sector-specific donor support.

Delegated responsibilities. The delegation of powers and responsibilities to programme managers to use their resources to optimum effect remains low. In most countries, control over staffing and appointments lies with a civil service ministry and powers of virement between budget heads lie either with senior management or with ministries of finance. Line managers do not have much latitude in managing resources. This is inconsistent with the spirit of results-based management. However, a lesson from Bolivia is that it is better to have rules-based managerial rigidities than an absence of rules and patronage-based appointments.

As in the North, the delegation of fuller management authority will occur gradually and incrementally. Its absence circumscribes to an extent, but certainly does not preclude, results-based management of public programmes in future.

What donors can do

Performance budgeting and management have obvious value for the PRSP process and service delivery. They help to: focus attention, personnel and financial resources at all levels on policy priorities and the means of achieving them; align personal and group incentives on national goals, and motivate staff in all tiers of government through consultation and involvement in target formulation; promote learning – by doing and by performance analysis – about the processes of producing public services and the scope for efficiency and effectiveness improvements; and identify areas of under-provision and under-performance that require special attention from planners, programme managers and service providers.

Once these processes are fully in force, performance indicators used in PRSP monitoring are no longer just descriptions of the scenery, they are diagnostic tools leading on, as need be, to remedial action to ensure that objectives are met.

The country case study on Burkina Faso concludes that donors should now begin switching the focus of their budget

support from a heavy focus on macroeconomic and public financial management considerations, and towards poverty reduction results and the practical means of their effective delivery through results-oriented public expenditure management practices. More generally donors should recognise that it is not necessary to wait for extensive reforms in financial accountability to take root before achieving effective progress in performance management and performance accountability. In fact, the reforms are mutually reinforcing, and should be initiated and encouraged to evolve together.

While recognising the role of donors in supporting pioneering work on results-focused strategies in the social sectors (and some others), the country studies note the preponderance of indigenous initiative in crafting national performance budgeting and management systems. This is an immense source of strength, because, being fully 'owned', the systems can now grow organically, by learning-by-doing, with selective copying.

This suggests further, facilitatory, roles for donors:

- to encourage the further development of performance budgeting and management – through policy dialogue in the context of budget support and PRS monitoring; donors should however eschew detailed prescription,
- through training and advice, to help overcome the shortages – noted in many country case studies – of capacity to manage the systems which are currently under implementation,
- to provide resources to partner governments to organise exchanges of experience and good practice lesson learning for local actors at all levels, and
- to build capacity outside the public service for holding service providers for account.

Local, regional and national workshops for officials on objectives and targets and resource requirements are now common in countries where this practice was unheard of only a few years ago. Their organisers need facilitation skills. Senior officials need experience of aspects of international practice suitable for domestic appropriation. Low level donor support to facilitate lesson-learning can accelerate the evolution of results-oriented management systems, and help sustain the enthusiasm for them that is evident in many cases.

The same applies to the building of policy monitoring and evaluation capacity in parliament, national audit offices and civil society. Donor support for these is of particular importance because it may make the difference between having results-delivery systems that are permanent and institutionalised, and one which become the easy victims of changes of personalities in government or changes of party in power.

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