



THE MOST APPROPRIATE PERFORMANCE BASED BUDGETING METHOD FOR LOW INCOME COUNTRIES

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ABSTRACT

Governments today are trying to ascertain how well public organizations are doing in providing services and products to the country. Governments are asking: “What kind and how many services are we getting from allocated dollars?” “Are these public services of good value?” “Are they making a difference in citizens’ lives?” to answer these questions, governments are developing and implementing “performance-based budgeting” systems.

Performance budgets use statements of missions, goals and objectives to explain why the money is being spent resources to achieve specific objectives based on program goals and measured results.

Information on performance is important to governments because it can help in managing and controlling public services, as well as in enabling parliament to check whether it is getting value for money from the executive branch of government. This information is also useful in meeting increased public pressure for accountability, as it enables government to fulfill its duty to publicly disclose and take responsibility for its actions.

More complex performance-based budgeting models exist, but some models of performance-based budgeting may not be appropriate in many countries. To design an effective system of performance-based budgeting, it is therefore vital to understand first exactly what the end product itself should be, what it should contain, and how it should look.

The primary objective of this paper is to explain performance based budgeting, different methods of PBB, a model of performance-based budgeting that could be considered for low income countries and some forms of performance-based budgeting that low income countries should avoid.

KEY WORDS:

PERFORMANCE BASED BUDGETING, STRATEGIC PLANNING, LOW INCOME COUNTRIES



INTRODUCTION

Performance-based budgeting is the practice of developing budgets based on the relationship between program funding levels and expected results from that program. The performance-based budgeting process is a tool that program administrators can use to manage more cost-efficient and effective budgeting outlays.

While there are many factors that influence government budgeting decisions, program performance is rapidly becoming a more significant factor. Knowing how well or poorly a program is performing based on a given budget helps resource managers make informed decisions about the allocation and reallocation of finite amount of money. The ability to make sound resource allocation decisions is increasingly important in a fiscally constrained environment. By tracking performance and expenditures of interior programs, we can identify areas of challenged, sustained, or improved performance and make recommendations for increasing, decreasing, or maintaining resource levels. The integration of performance and budget also enables the government to assign resources to those areas that will optimize performance. While this integration process is a terrific managerial tool, the main benefit is that it provides the public with a clear and transparent means of seeing the fiscal stewardship practiced by the government. So, government activities must be clear to the public. The benefits of being clearer inside and outside government about purposes and results are undeniable. But to gain these benefits governments need a long-term approach, realistic expectations and persistence. It takes time to develop performance measures and indicators and even longer for them to be used by public servants and politicians.

Providing an effective performance budget is considered as a useful and powerful tool in the hand of government to achieve the goals of country nationally and internationally. Uses of performance-based budgeting systems for any government can be understood in two ways. One way to make sense of the use of PBB is to speak broadly to the subject matter as it relates to its primary aims. This would include PBB's twin aims of improving decision-making and enhancing service delivery. The other way to understand the use of PBB would be to examine its application or implementation among specific states.

For achieving the objective of providing an effective performance budget, it must contain some important characteristics: ۱- PBB sets a goal, From these goals, specific objectives are delineated and funds are then subdivided among them. ۲- PBB provides information and data on past performance and thereby proceeds to allow for meaningful comparisons between "expected" and "actual" progress. ۳- adjustments to programs are made either at this point or during a future budget preparation cycle to close any performance gaps that may exist. ۴- as an ancillary yet important characteristic, PBB provides an opportunity for regular or special program evaluations.

Government usually link performance based budgeting with strategic planning to increase the validity and effectiveness of the budgeting process. Strategic planning is a disciplined effort to produce fundamental decisions and actions that shape and guide what an organization is, what it does, and why it does it. To deliver the best results, strategic planning requires broad yet effective information gathering, development and exploration of strategic alternatives, and an emphasis on future implications of present decisions. Strategic planning can help facilitate communication and participation, accommodate divergent interests and values, foster wise and reasonably analytic decision making, and promote successful implementation.



Performance-based budgeting, when linked to strategic planning methodologies, is a powerful and advantageous decision-making tool. Today, many states are utilizing PBB systems along with strategic planning, recognizing that the two systems taken or applied together are a logical and practical fit.

The benefits of a statewide strategic planning process would be:

- The establishment of a long-range, unified and broad direction plan for state government in the policy areas of education, health and human services, transportation, public safety, commerce, natural resources, and criminal justice.
- The facilitation of the governor and legislature in being more responsive and accountable to the current and emerging needs of their state.
- The allocation of limited resources, via the state's budgetary process, in a more rational, and results-producing way.
- The improvement of communication among all state leaders and better coordination of the "omnibus" policy/fiscal decision-making process.
- The measurement of the progress of statewide strategic efforts, by all planning participants, the updating or revision of these efforts as warranted.

There are a number of models of performance-based budgeting, which use different mechanisms to link funding to results. Some have very sophisticated features and require the support of correspondingly sophisticated public management systems, while others focus more on the basics. There exist some "cutting edge" performance budgeting mechanisms that have been adopted by some developing countries that should be treated with great caution by low income countries and some other countries which face economic sanctions. These include:

- **Budget-linked performance targets:** it involves setting performance targets for all line ministries as part of the budget process. The most successful example of this approach is the U. K. This approach is difficult to apply in low income countries because it requires a well-developed performance measurement system.

Purchaser-provider systems: this approach treats line ministries like commercial businesses that are paid "prices" by the government for the services they deliver to the community.

The problem with this approach is that it has been unsuccessful when applied on a government-wide basis, and has been successful only when applied selectively to the funding of specific sectors or specific institutions. Although various complex performance based budgeting exist, but most of the m are not suitable for many countries. One of the suitable methods of PBB for low income countries is basic form of performance based budgeting which is called performance informed budgeting. The most basic form of performance-based budgeting is that which aims to ensure that, when formulating the government budget, key decision makers systematically take into account the results to be achieved by expenditure.

The requirements for this most basic form of performance-based budgeting are:

- Information about the objectives and results of government expenditure
- A budget preparation process designed to facilitate the use of this information in budget funding decisions
- A program classification of expenditure in the budget is also highly recommended

By classifying expenditure into groups of similar services with similar objectives, a program budget helps budget decision makers compare the costs and benefits of expenditure options. Using the basic model of performance based budgeting creates some benefits for the countries which apply for this method specially for low income countries. The potential merits of this method are mentioned as:



- **It improves expenditure prioritization** Improving expenditure prioritization means an improved capacity to make “fiscal space” for new spending initiatives without commensurately increasing aggregate expenditure. **so**, it empowers the government to allocate limited resources to where they will do the most good
- **It encourages line ministries to spend more efficiently and effectively** by making them aware that their performance will influence their level of funding and by reducing or the controls which impede good performance.
- **It can improve aggregate fiscal discipline.** It facilitates fiscal consolidation when this is necessary by helping government target spending cuts at its least effective or least socially important programs.
- **Performance-based budgeting fits naturally with a medium-term budget framework.** although the latter should not be thought of as a prerequisite for the former. Like performance-based budgeting, a medium-term budget framework aims to improve expenditure prioritization.

In a simple word, performance based budgeting succeeds in improving the efficiency of government services, it enables government to do “more with less” and helps contain the long-term upward pressure on aggregate public expenditure. But, for basic performance based budgeting to be done successful every spending organization is required to define the outcomes which its services aim to deliver to the community, And provide to the ministry of finance and key political decision makers during the budget preparation process key performance indicators to measure the effectiveness and efficiency of its services.

The biggest challenge in development of basic model of performance-based budgeting is keeping this performance information simple, affordable, and usable. All too often, newcomers to performance-based budgeting, including LICs, have set out to develop sophisticated performance information systems over short time periods. They fail to fully realize that such information is expensive and requires skilled human resources which may not be readily available or affordable.

Performance based budgeting needs some tools to be employed as an effective method. One of the important tools of PBB is program budget. A program budget classifies expenditure by types of service and objectives, rather than as in traditional budgeting by types of inputs. This is a powerful tool for performance-based budgeting because it indicates how much money is being directed at achieving particular outcomes for the community. This enables budget decision makers to assess the benefits and efficiency of programs relative to their costs.

A program budget requires the development and public presentation of key performance and cost information about each program including: ۱- The program’s objectives and how these link to national priorities. ۲- The key services which the program delivers. ۳- How the program is intended to achieve its stated objectives. ۴- Key performance indicators and evaluation results by program. ۵- Program costs.

Under program budgeting, the budget preparation process should be program-based. That is, agencies should present and justify their budgets in terms of programs with supporting cost and performance information. In addition, the program performance information should be presented to the legislature and public as part of the budget documentation.

In many low income countries program classifications have been introduced which have excluded large elements of expenditure such as civil service employment costs or capital expenditure. With such major omissions, programs become questionable as a basis for making judgments about expenditure priorities. The introduction of performance-based budgeting will ideally require greater



flexibility for spending ministries and program managers, who are expected to become more accountable for results. This requires a reduction of the large number of distinct limits imposed upon expenditure. However, in the case of LICs, the reduction of input controls should not in general proceed as far as has been the case in some developed countries. In principle, a performance-based budgeting approach could be introduced in a highly centralized environment, where all resource allocation decisions are taken centrally by the minister of finance or the Presidency. thus, since budget implementation inevitably involves technical ministries, who may not necessarily share the centrally defined priorities, enhanced efficiency and effectiveness in the use of budget resources, the prime objective of performance-based budgeting, is unlikely to be achieved.

EXPERIMENTAL

For understanding performance based budgeting better, investigation is done about Afghanistan as a low income country. As mentioned above Budget is a financial plan and a major policy instrument of the government for all round development of the country. It helps to translate strategic objectives into programs and services to meet the socio-economic needs of its people.

Afghanistan's budget is divided into the core budget, which is under the control of the Government of the Islamic Republic of Afghanistan and the external budget, which includes all external financial assistance not flowing through Government coffers. The core budget is in turn divided into an operating budget and a development budget. once the national budget is adopted by the National Assembly, the central government directs all funds to line ministries which in turn make specific provincial allocations to the provincial and district directorates. The ministry of finance produces a Medium-Term Budget Framework which sets budget priorities and ceilings to the line ministries and ensures budget policies are fiscally sustainable. the role of ministry of finance in providing budget are as follows:

- Provide detailed annual budget calendar with the start of new fiscal year;
- Provide fiscal envelopes and guidelines to the line Ministries to develop transparent criteria for fairly and equitably distributing the resources across the provinces;
- Organize Budget Hearings for necessary adjustment/ modification in the proposed programs, if needed;
- Facilitate for Cabinet decision followed by legislative approval for the program/budget.
- Make allotments and periodically disburse budget;
- Collect periodic physical and financial progress reports from/ through the line Ministries with the disbursed budget with implementation feedback;
- Initiate further reforms based on the budget execution feedback periodically received from the line Ministries, PDCs and the provincial Directorates.

The budgetary process is largely run at the central government level between the executive branch and individual ministries. As noted by the World Bank's Afghanistan Public Expenditure Review, currently there "is no breakdown of ministerial budgets at provincial level, and provincial allocations are generally only made after the budget has been enacted." In addition, concerns about local governance capacity and accountability have also hindered decentralization efforts. In some areas of the operating budget, Afghanistan is already administratively decentralized where provincial representatives managing their own payroll as well as the procurement of goods and services



The pressure to initiate the development of program budgeting in Afghanistan came from the National Assembly which, in ۲۰۰۴, urged the government to “adopt a budgeting system and a budget presentation which would allow them not only to check and evaluate the consistency and coherence of budgetary proposals with existing national programs or plans but also to monitor progress of the government in general, and the line ministries in particular, toward the achievement of the objectives set in those programs and plans.” The ministry of finance started a phased approach to introducing program budgeting starting with a few ministries and completing all ministries a few years later. The resulting program budgets are sent to parliament but in a separate annex to the main budget. Programs are identified within each ministry and are aligned to the various missions that the ministry is given within the government. Support for this budget improvement process in Afghanistan, other than in parliament, has come from having a champion in the person of the budget director and subsequent minister of finance, who took care to build the technical capacity within the ministry to guide the new approach. While the development of program budgeting in Afghanistan has followed a classic route, it has yet to become the basis of the approved budget, which has so far limited its usefulness as a budgetary management tool.

Afghanistan is trying to apply the basic model of performance based budgeting because other types of methods needs more flexibility in input and administrative process which are not appropriate for Afghanistan and most of low income countries.

CONCLUSION

Although there exist large number of performance based budgeting methods to implement, but they mostly are inappropriate for a wide range of countries, including all or most low income countries. One of the best PBB methods which can be implemented in some LICs and could be of significant benefit to the country’s development is performance informed budgeting. the use of information about the cost per unit of outputs in budget planning or in formula funding is a useful tool in effective applying of this method of budgeting and additional capacity and expertise is required to collect and maintain unit cost data, which may not be justifiable or feasible for many low income countries and even for such countries which face economic sanction like Iran.

This model of Performance budgeting is a tool that can improve accountability in the use of public resources. However, it must be considered that even this method of performance based budgeting is appropriate only to those countries where sound economical policies have been established.

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