

Experiences and opportunities in performance-informed budgeting

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[Right conference]

- Right time
 - Likely scaling up of social sector expenditures
 - Opportunity to break out of low trust, low performance, low taxation equilibrium
- Right topic
 - Delivery in the social sectors is key
 - Efficiency within current resources
 - More resources must mean more performance
- Right forum
 - Interesting developments in the OECD
 - Middle income countries are different
 - Latin America is pursuing a distinctive agenda



What is the value added of performance budgeting?

- The greater focus on the achievement of public program objectives
- Better alignment between programs and policies
- An emphasis on holding senior officials accountable for deliverables



Something encouraging is happening in the OECD

- Significant productivity and quality improvements public sectors in OECD countries over the last three decades
- Not all about performance budgeting...
- But undoubtedly much of it is



[Graham has got it right]

1. Outputs have made a come-back
2. Not all Ministries of Finance are equal
3. Good reason for enthusiasm – but don't play “fast and loose” with the basics of the budget
4. Budget reforms must be accompanied by management reforms



[Nearly...]

5. PIB is *not* “what finance ministries do when they take the lead in pressing for performance”
 - The role of the finance ministry is important, but its not all about them!!
 - Mexico and Brazil are not New Zealand – unlikely to be a single, first-best comprehensive management reform



1. Outputs are back

- As performance-informed budgeteers we are plumbers not visionaries
- Two-way engineering problem with outcome indicators
 - Outcome information does not help make program choices
 - Program choices don't tell us much about our outcome objectives



Accountability for outcomes only occasionally possible

- Managers will resist outcome targets – rightly so
- Managers will resist outcome targets – ingeniously
- Output measures are cleaner and more honest



Performance-informed budgeting leaves space for an outcome focus

Degree of institutionalization	Linkages to decision making	
	Tight	Loose
Institutionalized	Direct/formula performance budgeting	Performance-informed budgeting
<i>Ad hoc</i>	-	'Presentational' use of performance budgeting



2. Ministries of finance seem to do similar things - but are very different

User	Use of performance information
Presidency	<ul style="list-style-type: none"> ■ sets some of the key objectives and policy priorities for government
Planning Agency	<ul style="list-style-type: none"> ■ tend to focus on multi-year national development plans and ex-post evaluations of investment projects (not Chile or Mexico) ■ can reduce link to the budget
Ministry of Finance (Hacienda)	<ul style="list-style-type: none"> ■ prepare the consolidated budget submission and there is increasing <u>use of</u> use of performance information (Chile, Mexico). ■ can drive management reforms (Chile, Colombia) with firm regulation and oversight, but more difficult in other settings
Line Ministries (Secretarías)	<ul style="list-style-type: none"> ■ tend to use performance information for internal management but are beginning to use it in negotiating budgets with the executive.
Congress	<ul style="list-style-type: none"> ■ access to increasing amounts of performance information, mixed evidence of use in the approval or review of the budget.
External Audit	<ul style="list-style-type: none"> ■ Increasing use of performance audit (Mexico, Colombia).
Public	<ul style="list-style-type: none"> ■ use of performance information is generally limited



[Their *contexts* differ]

- National Development Plans often provide framework for policy priorities (ILPES)
- Linking the planning process to spending is often far from perfect – but...
- In Brazil, Colombia and Mexico, Finance/Planning Ministries assist in designing and monitoring program objectives consistent with the NDPs
- Chile has no overarching plan, but better performance in budget stability and re-prioritization



[And their *traction* in driving managerial reform is distinctly different]

- Remarkable strength of Ministry of Finance in Anglo-Commonwealth settings
- Very limited role in European coalition governments
- Variable roles in Latin American presidential regimes



3. Performance Budgeting builds on *budget basics*, doesn't replace them

- Introducing the budget classification by objectives and **programs**
- **A multi-annual framework**
- A robust integrated financial management information system (**IFMIS**)
- Strong role for **performance audit and monitoring and evaluation**
- No sign of erosion – just the opposite



Extensive building on these basics

Aspect	Status
Classification	Tendency just to aggregate administrative units until 1990's – now more effort to install a full program classification
Multi-Annual Framework	With exception of Chile, focus on sustainability and program effectiveness - weak link between plans and annual budgets, less focus on changing allocations between programs
IFMIS	The financial management systems in Latin American countries is still being strengthened
Performance Audits	Mexico, Brazil and Colombia have introduced external performance audits. Chile has systematic internal performance audits .
M&E System	Most of the Latin American countries have fairly extensive monitoring and evaluation systems for projects/programs
Quality Control of Perf. Inds.	Mainly decentralized to M&E systems, although Mexico and Chile have systems in place to 'certify' information



4. Budget reforms must be accompanied by management reforms

- Management reforms are crucial – but...
- OECD countries have given ministries and managers greater discretion to choose the mix of inputs that will deliver services most efficiently, but...
- Performance measures and targets are often used within agreements that are structured as contracts or quasi-contracts, but...



Delegation is important – but be cautious

- Increasing delegation and devising "contracts" focused on results can be risky
- A more honest approach of *formalized informality* maybe useful
- Strengthened central oversight still has a place
- Delegation or not, performance information can be a powerful management tool



5. Performance-informed budgeting extends beyond the finance ministry

User	Demand and supply of performance information
Presidency	<ul style="list-style-type: none"> Results of National Development Plan (NDP) or government goals, Secretaries/ Ministers, agencies and/or programs
Planning Agency	<ul style="list-style-type: none"> Results of NDP and programs, especially for public investment.
Ministry of Finance (Hacienda)	<ul style="list-style-type: none"> Are targets set for programs, especially for public investment, being achieved. Degree to which centrally-led management and control systems are being followed.
Line Ministries (Secretarías)	<ul style="list-style-type: none"> Results and monitoring of programs or agencies. Collection of data and reporting on performance.
Congress	<ul style="list-style-type: none"> Results of NDP, or government goals, Secretaries/Ministers, agencies and/or programs.
External Audit	<ul style="list-style-type: none"> Degree to which government programs achieved their objectives.
Public	<ul style="list-style-type: none"> Aggregate level: achievement of government-wide targets. Individual level: Compliance with service standards.



Performance information must connect to budgetary decisions, but...

- Performance-informed budgeting means exactly what its name suggests:

Performance information informs budgetary decisions

- History of somewhat disconnected Monitoring and Evaluation systems in Latin America

- But that is not to say that the Ministry of Finance *should be*, or in many cases *can be*, the single architect of all aspects of performance-informed budgeting arrangements

Lead – but don't stifle



Concluding remarks

- *Performance-informed budgeting* has the potential to:
 - improve the quality of public service delivery
 - help improve the overall allocation of resources – creating and using fiscal space
- Is as much about the political economy of change as it is about a technically first-best option
- Current agenda is about creating the foundations for making actors more responsive
- Specific institutional arrangements and capacity will shape appropriate path of management reforms



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