

Getting Performance Budgeting to Perform

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What is so difficult about performance budgeting (PB) that 60 years after the concept was introduced, it still is struggling to gain traction as one of the accepted methods of budget allocation in government? Many national and subnational governments have tried a variety of PB format, ranging from comprehensive, tightly-integrated systems, such as the model recently adopted in Mexico, to loose arrangements that do not expressly dictate how results-based data are to be compiled and used. Yet, PB still invokes wonder, as if it were a novel, experimental approach that must be invented anew by each government that attempts it. This paper takes the position that the literature and practices of PB have been too long on exhortation, and too short on diagnosis. Vast amounts have been written about the compelling logic of allocation resources on the basis of the results to be achieved rather than in terms of the inputs to be purchased or the organizational units to be financed. Little has been written, however, about why this eminently sensible idea has had an elevated mortality rate.

To understand the challenge facing PB, one must decompose it into its two main elements. First, PB is a system for compiling and presenting information on actual or expected results; second, PB is a system for “buying” results through the expenditure of public funds. The two elements are interdependent, for government would not be able to allocate on the basis of results if it lacked result-based information. Nevertheless, it is useful to distinguish the two elements for each poses its own challenges to the successful implementation of PB. Accordingly, the first section below discusses the informational challenges facing PB, while second assesses the difficulties of allocating resources on the basis of results. Each section suggests means of easing the impediments to PB. The concluding section discusses the governmental and managerial conditions for

implementing PB. Hopefully, this paper offers-- perhaps 60 years late-- practical advice for improving the prospect for PB to survive and succeed.

### 1. Performance Budgeting as Informatics

Budgeting is a system for producing and exchanging information pertaining to the finances of government. To change the way budgets are made, it is necessary to alter its informational content and structure. To implement PB, it is necessary to insert information on results into the budget and to link that new information to expenditures. Although this may appear to be an easy task, it has proven to be quite demanding for governments striving to budget for results. Some of the issues discussed below inhere in PB, others are common to all efforts to restructure budget practices.

Informational Overload. PB usually is launched by adding data on performance to the stockpile of information already processed through the budget. In many countries, this information includes an itemization of inputs, economic and functional classifications, information on the organizational units responsible for expenditures and the activities they carry out, and data on the volume of services provided or the number of people served. Unfortunately, budget makers already have a surfeit of information, but not enough time to process it. Everywhere, budgeting is a time compressed process, with one deadline already due and the next one about to arrive. Giving budget makers more data does not give them more time to complete their work. Budget people muddle through the process by distinguishing between information deemed essential and information which is good to have. This is not normally a conscious distinction, but it is one that enables them to give attention to the information that must be considered and to disregard information that is only desirable. The only way that performance-oriented

information can be deemed essential is if alternative types of information are purged from the budget. This was the path taken by New Zealand almost two decades ago when it shifted to output-class budgeting and eliminated all line item data from the budget and supporting documents. Significantly, few countries have modeled their budget systems after New Zealand's, perhaps because they are unwilling to switch entirely away from input-based budgeting.

Overload occurs in yet another way, when governments add a new expenditure classification to the old ones. Although there are multiple ways to tell the budget's story and to explain how public money is being spent, there can be only one classification for budget decisions. Government cannot allocate money one day on the basis of economic classification (investment, consumption, transfers, etc.), the next day on the basis of line items (salaries, supplies, utility expenses, and so on), the third day for organizational units, the fourth according to the functions of government (agriculture, transport, defense, etc.). Only one classification can be the basis for allocation, and it rarely is the results or program structure.

The Cost of Information. PB always increases the cost of generating and processing budget information. The more ambitious the PB system is in terms of comprehensiveness, focus on outcomes, and integration of its various components into a planning-programming—budgeting-evaluation framework, the more costly it is. To understand why performance-type data are costly, one must distinguish between information that is routinely produced in managing government activities and information that is only available through special effort. Traditional budgets oriented to line items and organization units operate with routine types of information; performance-based budgets

depend on information gathered through special effort. This distinction can be illustrated by considering the budget of a community hospital. A well-run hospital will routinely have accurate information on the number of staff and payroll costs, supplies and equipment purchased, the number of patients admitted and discharged, and much more. It takes little additional effort to format this information for the budget. But to know whether it is performing well, the hospital must acquire information about what happens outside its four walls, such as a sociodemographic profile of the community, the health status of patients after discharge, whether they take prescribed medications, and so on. Getting this data may entail citizen surveys, home visits, follow-up calls to patients after they have been discharged, and other costly interventions.

The cost of performance data may explain why many governments that launch PB by trying to define and measure outcomes settle for output data. Often, the architects of PB-type innovations are oblivious to the cost of the data they seek, and they spend extraordinary amounts of time quarreling over whether particular measures are outputs or outcomes. Paradoxically, spending units often deal with the cost problem by producing vast amounts of data on the activities and work of spending units. Sometimes, having a surfeit of data is a substitute for having the right kinds of data. Agencies can show they are complying with the new performance regime by itemizing all the things they do. This is why PB systems often are inundated with thousands of indicators, each of which purports to have equal relevance for assessing results.

Critical data gaps. PB often suffers from a critical data shortage pertaining to the cost of producing public services and changing social outcomes. To operate a true performance-based budget, government needs capacity to allocate costs among the units

of outputs or outcomes produced. It does not suffice to indicate, as many budgets that purport to be performance based do, that a sum of money will yield a bundle of results, that for example, 100 million for schools will accommodate 50,000 students. In PB, even more than in other modes of budgeting, decisions are taken at the margins. In the example just given, the typical issue facing budget makers is whether to spend a little more or a little less than 100 million. To base these decisions on performance, one must have information on whether different levels of expenditure generate different results. Generating information on the sensitivity of results to marginal changes in expenditure entails disaggregating outputs or outcomes into units, and distinguishing between fixed and variable costs as well as between average and marginal costs. Although this cost accounting capacity is common in well-run firms, it is rare in government.

To make headway on PB, governments should spend less time bickering over the perfect results measure and shift some of their effort to improving cost allocation schemes. Having appropriate unit cost data would enable them to implement PB as a form of marginal analysis in budgeting, with tradeoffs among competing claims for public funds.

To be useful, performance information has to be used. It has been the fate of many promising innovations in budgeting and management that government entities generate vast amounts of new information that is not used when decisions are made. The gap between producing and using information is especially wide when performance is at issue PB is quickly discredited when spending units perceive that decisions are not based on results but on incremental norms or by adding up the line items to determine the

amounts needed to finance these expenditures. Suppliers of information become careless or even sabotage the system when data are not used.

A related problem occurs when performance measures are devised without regard to the availability of relevant data. When performance budgets have entries that read “data not available”, the reform will likely be abandoned before the data become available. The straightforward remedy is for PB designers to take account of the availability (and cost) of the information when they construct performance measures, even when it leads them to settle for second best indicators. It also behooves PB architects to be parsimonious, opting for fewer measures rather than for a broad portfolio. Moreover, because output measures are much more likely to be available than those pertaining to outcomes or impacts, they should be given prominence in PB systems.

These considerations would lead to PB centered around a small number of performance targets that are selected in advance, and against which actual result can be compared. Targeting performance may impel government organizations to compile relevant data and to fill in the gaps.

Information is asymmetrical. In budgeting, as in other hierarchically-structured relationships, policies and guidance are supposed to flow down the organization, while information on services and results is supposed to move up. Political leaders and officials who determine budget allocations have authority to establish performance objectives for government, but they are dependant on service providers several or more echelons lower to supply essential information. This unbalanced relationship between principals and agents gives rise to the well-known problem of asymmetric information. Even when they have fairly robust monitoring and

reporting systems, senior policymakers must base decisions on what others, whose perspectives and interests differ from theirs, tell them. The “agency” problem is especially acute on matters of performance, because adverse results can prejudice an entity’s budget. A resourceful manager once explained his behavior: PB “requires me to load the gun that will be pointed at my head; as a manager, it is not hard for me to disarm the gun.”

When their budgets are at risk, agents may withhold or spin data, lie about actual performance, emphasize data that put their activities in a favorable light, and take other defensive actions. It is the fate of performance measures that when they are ignored, managers can be truthful, but when they are used, the incentive to mislead and deceive rises steeply.

Although information asymmetries are embedded in the relationships between those who have power and those who have information, it is feasible to mitigate some of the perverse effects. One sensible tactic would be to clearly notify suppliers in advance how their information will be used in allocating resources and other managerial decisions. Strangely, this is rarely done, perhaps because budget makers have not thought through how the information will be used, or because they feel no need to share their plans with subordinates. It also would be helpful for budget officials to follow through and apply the information in accord with stated plans. Quite often, however, spenders receive no feedback on how or whether the information was used. Many come away from the process believing that the good performance information does not strengthen their case for resources.

Another sensible tactic would be to identify a small number of powerful measures that represent an organization's or program's main objectives. Ideally, the selected measures should pertain to results that can be independently verified, thereby reducing dependence on information suppliers. Some pioneering governments have expanded audit work to cover statements on results prepared by agency managers. It is likely that during the next several decades, independent audit of results will become routine in advanced countries.

The concluding section of this paper discusses the dependence of performance budgeting on public management. Without exception, performance-oriented approaches are effective only in well-managed governments which have low corruption, elevated levels of public trust, reasonably efficient and fair public services, and media and interest groups that pay attention to results. When these conditions are lacking, no PB system is capable of fulfilling its ambitions.

## 2. Performance and Decisions

In reforming government institutions, it is often assumed that having better information suffices to produce better decisions. When this expectation is thwarted, reformers pressure government to adopt rules that compel the use of the new types of information.

Governments have devised countless forms of PB, ranging from "informational" models that merely present data on results to "decisional" versions that formally link resources and results. Most PB systems are informational; they present data on actual or expected results, but allow budget makers to base allocations on other relevant considerations. This loose version of PB reduces conflict over objectives and priorities,

gives politicians broad discretion in writing their preferences into the budget, and facilitates timely completion of budget work. These advantages come at a cost, however, for they enable government to disregard evidence on results in spending public money.

At the other end of the spectrum are PB systems that formally link information on results to decisions on resources. Few governments have decisional PB systems. In between the two extremes there are numerous variations in the manner that information on results is fed to budget work. This section assumes that government prefers the decisional mode; it discusses some of the issues that arise in this form of budgeting.

Performance means change. In budgeting for results, every measure of performance should be defined in terms of change. It makes little sense to label performance that would occur anyways as a budget-driven result. The only results that matter in PB are those that would be forgone if money were not spent. Change can be measured in reference to past results or projected results. For example, a PB might show the change in graduation rates or in student reading competence if the amount allocated for education were increased or reduced. Constructing this type of performance budget requires understanding of how resources are translated into results. In the case of education, it would require budget makers to comprehend the factors that promote or retard graduation and reading skills, as well as the manner in which schools use public funds. This type of understanding cannot always be developed through routine budget work, but may require in depth evaluation of education programs and monitoring the operation of government agencies.

Performance is change at the margins. A decisional PB cannot effectively link total spending and total results. It is of little value for budget makers to report that the

school system will spend one billion to educate 100,000 students, operate 1,200 schools, conduct 3,400 courses, provide counseling to 40,000 students and health services to 20,000. The results that matter in budgeting are the marginal changes that derive from spending more or less. In all countries, budgeting is an incremental process in which government decides how much more or less to spend than the previous year. Ideally, PB takes marginal decision making a big step further by expressly linking each increment in resources to increments in results.

This form of PB is technically difficult but feasible. It does require that government have the capacity to apportion costs among the results produced by public agencies. This can be done by means of sophisticated cost accounting schemes that disaggregate results into standard units and measure the cost of each unit. To do so, budget estimates would have to distinguish between fixed and variable costs, that is between those costs that do not change regardless of the volume of results produced and those that do vary. It also requires measurement of marginal costs because the cost of producing each additional increment in results may differ from the average cost of all results. An example of this approach comes from a highly innovative American city (Sunnyvale, California) which formats its budget choices to show the incremental costs associated with different levels of public service. For example its budget indicates the difference in cost between responding to fire alarms in 6 minutes or 7 minutes. Similar cost differentials are reported for other municipal services.

The many governments that lack cost accounting systems can allocate costs using various rules of thumb, such as allocating costs on the basis of square meters occupied in government buildings, staffing levels, and other shortcuts. Although these methods may

not be strictly accurate, they do suffice for estimating how changes in resources are reciprocated by changes in results.

However, the legal character of government budgets as a fixed limit to expenditure is a formidable obstacle to implementing the ideal version of PB which links increments in resources to increments in results. Almost all governments allocate fixed amounts for operating agencies and delivering public services. These amounts normally are not modified during the fiscal year, even when agencies deliver more or fewer results or if demand for services rises or falls. Suppose, for example, that the passport office's appropriation was based on an estimate that it would process one million applications during the year. Its authorized expenditures will not be adjusted upward if it processes 1.2 million applications or downward if it handles only 900,000. Some governments do provide flexible budgets for agencies that have trading revenue or are financed by fees, but this situation rarely pertains to the core functions of government.

Fixed public budgets diverge from conventional practice in the business sector. Large firms typically have variable budgets that automatically adjust to changes in output, sales, or other measures. A company that budgets for the manufacture of 50,000 chairs will permit expenditures to rise if higher sales propel it to produce 60,000 chairs, and to fall if it produces only 40,000. This type of adjustment is exceedingly difficult in government because the amount budgeted is a legal limit on expenditure. Although governments may have discretion to adjust expenditure limits, they usually do not do so merely because output has varied from budgeted estimates.

Arguably, every fixed budget is not a performance budget because it severs the link between resources and results. Only variable budgets maintain this link.

Which results: Outputs or outcomes? The linkage of resources and results is much stronger in budgeting for outputs, even though outcomes generally are regarded as the more appropriate measure of performance. Outputs pertain to the volume of services, and may include qualitative characteristics such as access to services, the courtesy with which they are provided, and responsiveness to citizen needs. Outcomes are the impacts of government policies and actions on society. In education, outputs might be the number of students participating in a school lunch program; outcomes are changes in the nutritional or health status of children. The resources-results link is weak because outcomes often derive from multiple causes, some of which are beyond government control. In the example just given, nutrition and health conditions are likely to be impacted by the overall performance of the economy, the cost of food and medicines, family cohesion, peer influences, and other factors.

This problem has led PB systems down divergent paths. One approach is to focus on outputs because government can be held accountable for them. Outcome information may be included in the budget, but it is not the formal basis for allocation. New Zealand adopted this model when it restructured public management almost two decades ago; each department negotiated an annual purchase agreement that itemized the outputs it would deliver. Over time, the government modified this narrow focus, and it now incorporates outcome considerations into budget decisions. The alternative path, initially taken by Australia and several other countries, is to target outcomes and to rely on program evaluation, strategic planning and other techniques to relate budget decisions to changes in social or economic conditions. The current trend in PB is to emphasize this

approach, even though it still is difficult to verify a direct link between resource decisions and social outcomes.

The time frame. The traditional one-year horizon of budgeting does not suit decisional PB systems. Results often take years to be realized, especially when they involve social interventions by government. When it wants to generate significant changes in outcomes, it behooves government to budget over a longer time horizon. Although a 3-5 year frame may be insufficient for certain objectives, it is the preferred horizon for countries that have introduced medium-term expenditure frameworks (MTEF). In fact, the more committed a government is to PB, the greater the likelihood that it has adopted an MTEF.

Despite its popularity, MTEF has been effective in only a few countries. In most, it is a technical exercise that is institutionally and procedurally separate from the annual budget process. Resource decisions still are made on an annual basis. When the two processes are separated, the MTEF showcases the government's strategic or developmental ambitions, and makes extensive use of performance indicators, while the budget remains input-based and incremental.

Countries that have strong national planning systems have yet another pathway into performance-oriented allocations. Some countries define national objectives and spending priorities in a multiyear plan, leaving to the budget the annual task of financing the ambitions of the plan. In these circumstances, the budget is a subordinate process that does not itself define policy objectives or performance targets. But inasmuch as national plans are for fixed terms (typically 4 or 5 years), in contrast to MTEF which is rolled

forward each year, as the plan ages and the next election approaches, its influence on policy decisions and budget allocations diminishes.

Basic methods for linking resources and results. There is no standard method for linking resources and results, though the ill-fated and misunderstood zero-base budgeting (ZBB) initiative launched several decades ago attempted to build a method for linking resources and results into the ongoing routines of budgeting. This potential was squandered, however, because of the mistaken impression that ZBB would uproot incrementalism in budgeting. A close look at ZBB indicated that it aimed to do exactly the opposite—to institutionalize incremental decisions in budgeting.

Although there are many ways of linking resources and results, all approaches must share two characteristics: they orient budget decisions to policy changes, and they allocate resources at the margins. This means that decisions on incremental changes in expenditures are also decisions on incremental changes in results. What follows may be regarded as a template for linking resources and results; it sets for the main elements of change-oriented PB systems, regardless of the particular methods applied.

The starting point for this system is an estimate of future expenditures and results if current policies were continued without change. These estimates should be incorporated into parallel baseline projections of expenditures and results, with each baseline disaggregated to display policy-relevant details of current budget choices. But just as there is no need to itemize all expenditures, there should be no need to specify every element of performance. Results for which policy changes have been made or are under consideration should be highlighted.

The second step in linking resources and results might be to supplement the baseline projections with explanations of budget trends. The aim should be to provide policymakers and citizens with an understanding of why particular results are expected if current policies were continued. In education, for example, trend analysis might explain why an estimated 30 percent of which school students drop out before graduation. This analysis is important because government will not be able to justify a change in expenditure if it cannot explain why certain results ensue from current policies. If it does not know why 30 percent of students drop out, it will also not know whether allocating additional resources will change the dropout rate. Because “trend analysis” explains the linkage of resources and results, it would be useful to publish summaries in the budget, particularly for programs or spending units whose expenditures will diverge significantly from baseline levels.

The third step is to explain, in reference to the two baselines, how proposed or adopted changes in expenditure or program policies will alter the trend. Continuing the education example, the PB would show how additional spending on counseling students is expected to reduce the dropout rate from 30 to 25 percent. The explanation of policy changes, which ideally should consist of relevant data and analysis, should focus on the different result projected to ensue if expenditure policies were modified. A summary of the policy analysis should be published in the budget.

The three components—baseline projections, trend analysis, and analysis of policy changes—contain the essential features of a PB system that links resources and results. Ideally, these should be supported by evaluative findings, output and outcome indicators, statements of government objectives and priorities, procedures for proposing

and reviewing policy changes, reliable methods for estimating the financial and substantive impacts of policy changes, and incentives to encourage spending units to shift resource from low-performance to high-performance activities. It also is important to unclutter budgeting of procedures and information requirements that distract policymakers from a focus on results and to lengthen the time frame to the medium-term or longer. Governments that operate an MTEF already have baseline projections of expenditures, but they should add a parallel baseline of results. In this writer's view, the most fruitful results-oriented baseline pertains to the services delivered by government. However, outcomes should be a prominent feature of the trend analysis and analysis of policy changes.

What has been suggested here is a basic template that is sufficiently elastic to accommodate country-specific variations. The template imposes modest additional information requirements, but is largely built on existing procedures for compiling the budget. It should be regarded, however, as only one of a variety of approaches. Regardless of the method used, it is important to design PB so that budgeting becomes a process that focuses on policy changes that improve program results.

### 3. Governing and Managing for Results

The opening lines of this paper questioned why it has been so difficult to establish PB as the basic process for allocating public money. The puzzle of PB's disappointing career can be solved only by considering the conditions that facilitate or retard results-oriented budgeting. Budget reforms fail for multiple causes, but they never succeed when governing and managerial conditions are inhospitable to improvement. Specifically, governments cannot budget for results unless they manage for results. Budgeting is

embedded in the norms, traditions, culture, practices and relationships of public management. Governments budget the way they manage, which is why it typically is necessary to modernize management practices in order to reform the budget process.

Confirmation of the interdependence of governance, management and budgeting comes from the fact that countries that have made most headway in performance-based budgeting have been among the best managed in the world. They are reputed to have low corruption, efficient public administration, effective accountability arrangements, political and administrative channels for citizens to express preferences and grievances, and procedures for monitoring the quality of public services. An incomplete list of these countries would include New Zealand and Australia in the Pacific region, Sweden and the Netherlands in Europe, Singapore in Asia and Chile in Latin America. For most of these countries, the gain from a performance-based budget system is likely to be small, certainly much less than for countries that have significant deficiencies in delivering public services. Yet, the well-run governments have been in the forefront of the drive to manage and budget for results. Although these countries may have less to gain, they have a much greater capacity than poorly-managed countries to mobilize government agencies and employees to improve performance.

Trust and confidence in government leaders and public institutions is a prerequisite for successful implementation of PB. If citizens do not trust public managers and employees to act in the public interest, it would be imprudent to entrust them with broad discretion to operate their agencies and spend public money. Instead, it would be sensible to control their actions by prescribing rules on how employees are to be hired and supplies purchased, and to itemize each type of expenditure in the budget. But as

rational as line item control is when managers are not trusted, it is the antithesis of performance budgeting. In this circumstances, all managers can do it to comply with the rules and restrictions prescribed for them, or to evade the rules by withhold or distorting the information reported to others.

To be effective, PB depends on managers applying their skills, experience, professional judgment, and commitment to public service to the task at hand. They must covet results in order for the tasks they are responsible for to be performed well. To get results, there is no substitute for teachers who care about whether students are learning, health workers who pay attention to whether patients are taking prescribed medicines, budget staff who strive for accounts that are timely and accurate, bus drivers who are courteous to passengers, sanitation workers who take pride in keeping the streets clean, and on down the long list of important task entrusted to public employees.

In government, performance depends more on the competence and attitudes of civil servants than on systems and procedures. Countries that are suitable candidates for PB have personnel who are recruited and promoted on the basis of their performance on the job; countries that lag in performance have employee who regard their position as a sinecure, not as a responsibility. This attitude tends to be prevalent in governments which has high turnover in civil service jobs when the governing party loses an election. Installing a performance-based budget (or management) system will not motivate these employees to be more productive, nor will it change the culture of low-performing organizations. When employees arrive to work late and leave early, when using public money for private again is accepted practice, when pay and promotions are determined by favoritism or bribes, when official pay rates are so low that civil servants are on multiple

payrolls, sounding the call for performance will not make much of a difference, nor will efforts such as awarding bonuses to high-performing employees.

What, then, should a government determined to boost performance do when it is beset by practices and attitudes that diminish its capacity for good management? Conceding defeat and not striving for improvement does not make sense, but neither do complex systems that require vast amounts of data and tight integration of administrative processes handled by different organizations. On the basis of almost half a century observing and participating in budget and management reforms, this writer urges an approach that may ameliorate the deficit in performance while improving public management.

First, performance-oriented management and budgeting should err on the side of simplicity, and should concentrate on critical public services that are provided directly to citizens. It would be wise for government to emphasize a small number of achievable performance targets in each major sector, and to monitor results against the targets. Selected targets should represent high priorities that can elicit the attention of political leaders and senior managers. Targets and results should be highlighted in the budget and other relevant documents. Selectivity means that many, possibly most, dimensions of performance are not explicitly considered when budget allocations are made. But the selected targets should represent services for which citizens would notice a difference if performance were improved.

The second prong of a reform agenda should be to remove barriers to performance. In some instances, this may require breaking up existing public entities or establishing new ones; in others, it may entail broadening managerial flexibility by

cautiously deregulating deadweight controls. Here, too, selectivity should be the guidepost, for greater managerial freedom should be accorded only to entities adjudged to have sound management practices.

Less restrictive management and better information are only enabling conditions. At the end of the day, it is the will to perform better that matters most.

Getting performance budget to perform. Counseling poorly managed government to keep to the status quo and disregard opportunities to improve performance will retard their modernization. Even countries that have serious management and governance shortcomings may have oases of competence, especially among the ranks of trained middle and senior managers. It is useful to conclude this paper with suggestions about how countries can upgrade public management and orient budgeting to results.

A sensible starting point is to diagnose the countries deficiencies, using readily available tools such as the IMF's Code of Good Practice on Fiscal Transparency and the PEFA questionnaire on financial management practices. Significantly, neither of these instruments gives priority to performance-oriented capacities; rather, they focus on basic skills and practices, for unless the basics are met, more advanced practices cannot take root. A government intent on launching PB should develop an action plan for addressing critical deficiencies identified in the IMF and PEFA instruments.

Second, still concentrating on the basics, governments should devise a logical sequence for implementing various reforms, moving to more advanced practices only when basic requirements have been fulfilled. For example, a government should adopt a medium-term framework only when it a reliable annual budget. It should consider accrual accounting only when it has accurate and timely cash accounts. It should budget for

outputs only when it has reliable data on inputs. In no case should government adopt a more advanced practice when the corresponding basic practice is inadequate.

Third, governments need not blanket all of the public sector with performance budgeting. A more selective approach, which recognizes that some agencies are better managed than others would enable government to reward well run entities with greater managerial freedom. To identify well-run agencies that would be suitable candidates for PB, governments might consider applying a modified version of the “hurdles” approach devised by Thailand about 15 years ago. Thailand specified 7 sets of criteria for sound public management and accorded greater managerial flexibility to agencies that met these criteria. However, because Thailand set the hurdles so high, and incorporated advanced rather than only basic capacities in the hurdles, the system failed. I would urge governments to devise their own “hurdles”, but to concentrate on basic practices. Agencies that surmount these hurdles should be encouraged to move ahead on PB initiatives.

It is important to note that what is urged here is a piecemeal approach to PB, but not pilot testing. There is no need to pilot test PB; there is a need to introduce only in agencies that can manage for results.

Fourth, governments should make serious investments to strengthen internal controls. The capacity of government departments and agencies for self-management depends on the reliability of internal controls. This is an aspect woefully neglected in public administration.

Finally, as argued earlier in this paper, when they introduce PB, governments should modify existing budget rules and practices. Just adding PB to the stockpile of

procedures will not work. It is especially urgent for the central budget office to define a new role for itself, focused on promoting good management practices, with a significant reduction in its traditional role as the controller of public finance. If it cannot adjust to the new requirements of PB, neither will spending agencies.

The 5 suggestions in these paragraphs will not ensure the success of PB, but they will greatly improve its prospects. They will probably lead to a simpler, more modest version of PB, but if history is a judge, it is far better to aim for realistic improvements than to strive for state-of-the art innovations and fail.