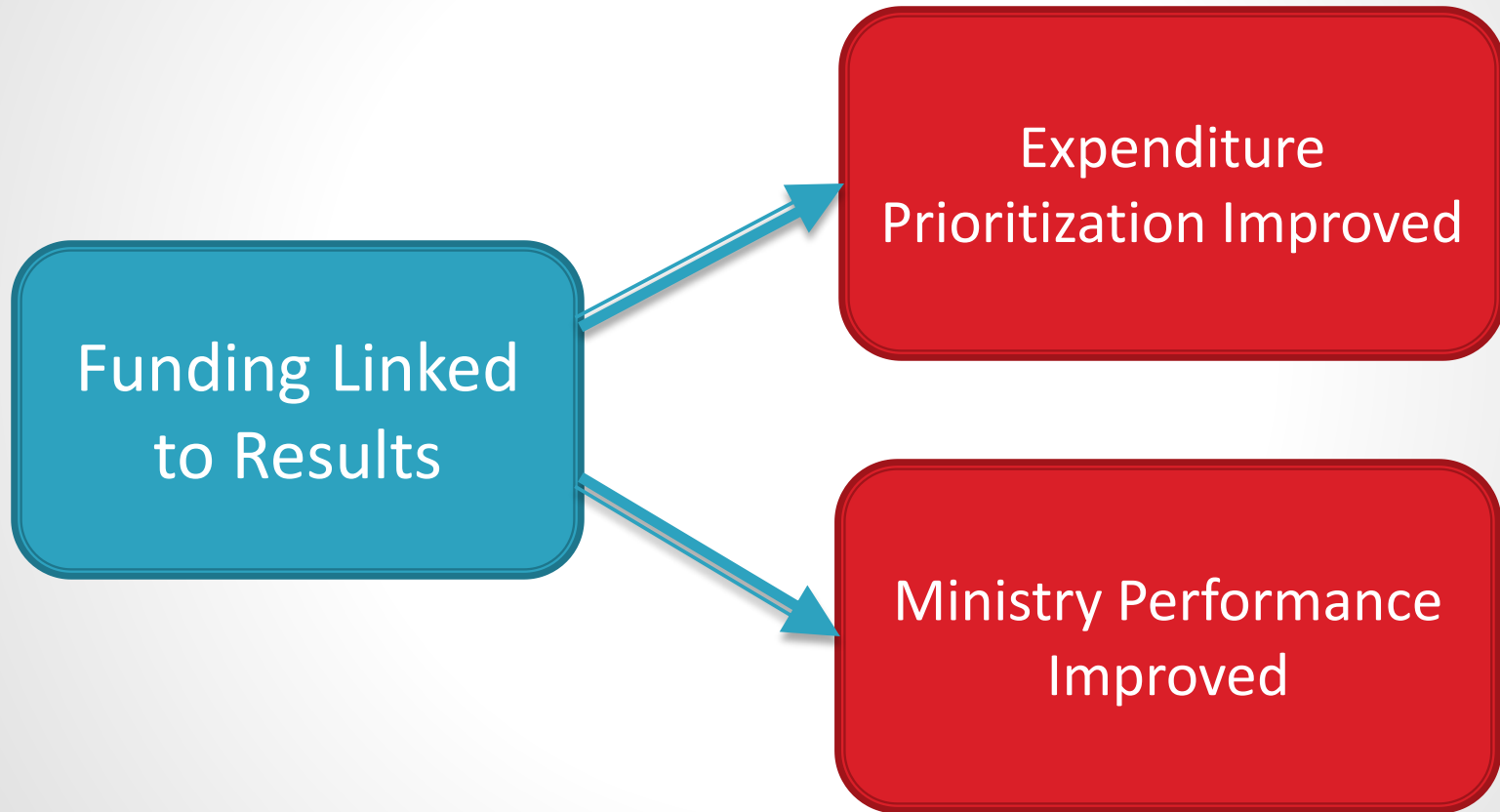


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# Making Performance Budgeting Work

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# What is PB trying to achieve?



# How PB Fails in Some Countries

Little impact on allocation of resources

- Budget funding not affected by performance
- Budgets decided same way as always

Performance information not useful for budgeting

- Don't really show how effective and efficient programs are
- No (useful) evaluation

Ministries are not motivated to perform better

- Not held accountable for performance
- Don't care about indicators and targets

Performance budgeting is just "paperwork"

# Budget preparation doesn't consider performance

Performance not reviewed during budget preparation

- No step during process
- Nobody looks at indicators

Baseline spending

- Funded irrespective of performance
- “Incrementalist” budgeting system

New spending

- Past performance not considered
- Even for program expansion

Budget preparation not based on programs

- Input-based estimation continues
- Programs are only for presentation

# Ensuring Performance Matters

- ▶ **Performance dialogue during budget preparation**
  - Review by MOF & discussion with spending ministry
  - Indicators and performance against targets
  - Conclusions may affect coming year's budget allocation
- ▶ **Spending review process**
  - Systematic review of baseline expenditure
  - Options for “savings”
  - Using performance indicators and evaluation
- ▶ **New spending – past performance considered**
  - More difficult to get new money if past performance in bad
- ▶ **Budget preparation based on programs**

# PB System Design Lessons

- ▶ **Programs must be owned by ministries**
  - Shared responsibility means no responsibility
- ▶ **Programs must be performance-based**
  - Groups of distinct outputs with common outcomes
  - Not based on bureaucratic activities
- ▶ **Programs must be sufficiently distinct**
  - Not just one or two giant programs for a ministry
  - Big program groupings are irrelevant to ministries
- ▶ **PB integrated with strategic planning**
  - Programs used in strategic plans
  - Program indicators also used in strategic plans
  - Integrated planning and budgeting cycle

# Performance information

- ▶ **Right types of performance indicators**
  - Useful for budget decisions
  - Performance which matters to citizens
- ▶ **Role of evaluation**
  - Performance indicators are not enough
  - But evaluation must be designed to support budgeting

# What Types of Indicators for PB?

## Output & outcome indicators mainly

- ▶ Outputs affect level of funding
- ▶ Outcomes effect whether to fund
- ▶ Not activity and input indicators
- ▶ Internal management role of activity/inputs

## Four key types of program indicator:

- ▶ Outcome (effectiveness) indicators
- ▶ Output quantity indicators
- ▶ Output efficiency indicators
- ▶ Output quality indicators



# Output Costs: Role in PB System

- ▶ Using output costs to estimate budget requirements:
  - Output quantity  $\times$  unit cost
  - School student years  $\times$  unit cost = schools budget
- ▶ International experience: works on sectoral basis
  - University funding
  - Hospital funding
- ▶ Doesn't work across whole of government
  - E.g. police criminal investigations
  - Services which don't have standard unit cost
- ▶ Selective application is the best strategy
  - Impractical to cost all government outputs