Performance – Based Budgeting – an option or a necessity

Andreea-Mariana MANTA

Bucharest University of Economic Studies, Bucharest/Romania
andreeam.manta@gmail.com

Abstract. *The paper aims to present the concept of Performance – Based Budgeting and its importance for the economic development of a country. Performance – Based Budgeting is applied since decades ago in countries like Sweden or USA, whilst the others may learn from the good practices examples offered by the two. The present research highlights the advantages of implementing this concept, the suitable ways for implementing it, the obstacles that are often encountered and important recommendations for improving its use. The research was based on the literature review of the publications and the official data available in the studied field. The results of the paper contributes to implementing Performance – Based Budgeting in Romania but also to improving its implementation in other countries. Therefore, the paper offers solutions to stimulate a sustainable economic development of a country. The conclusion will reveal if Performance -Based Budgeting is an option among other concepts or a strong necessity for nowadays economic challenges.*

Keywords: performance, project management, participatory budgeting, sustainability, development.

Introduction

The article explores the advantages of using the concept of Performance - Based Budgeting in managing the public financial resources of a country.

In the first part, the paper describes the most relevant information about this concept and its implementation.

After that, good practices of Performance – Based Budgeting implementation are presented.

Moreover, Project Management and Participatory Budgeting are introduced as new approaches in public financial management.

Finally, the article proposes a model of Performance – Based Budgeting combined with Project Management and Participatory Budgeting that should be applied in Romania in order to improve its public financial management.

The idea of the paper derives from the urgent need for sustainable development in Romania. All the European funds received by Romania have the main goal to achieve sustainable economic growth which will improve the inhabitants' quality of life, reducing the economic and social gap between Romania and other developed countries.

Literature review

The history of the concept of **Performance – Based Budgeting** begins in the United States in connection with the reforms from the 1950's. The first fiscal year of U.S. that highlighted the effects of Performance-Based Budgeting was the 1950/51 (International Monetary Fund, 2003).

Based on the specialized literature, the concept of Performance-Based Budgeting appears in the 80s and the United States of America, New Zealand, Australia, Holland, Great Britain and Switzerland were pioneers in the implementation of this system. In the scientific literature - Performance Budgeting is synonymous with Results - Oriented Budgeting. Subsequently, Performance-based Budgeting was adopted by France and Germany and after 2000 Russia started to comply with this concept, too (Ganea & Mihaila, 2017).

The aim of performance budgeting is, in the first place, to adjust the public resources, activities and outputs in accordance with the government's established objectives in order to achieve the planned effects. Another purpose of performance budgeting is to stimulate organizations to increase the efficiency of generating outputs and the efficacy of outputs in achieving the outcomes (The World Bank, n.d.; Zlatkovic, 2018).

In order to achieve long-term overall progress, infrastructure of superior quality is required. However, not all the infrastructure projects succeed to their objectives related to service delivery, time frame and budget. The cause of these failures is represented by the governmental mismanagement. Efficacious management of infrastructure empowers accessibility, value for money and reliability. Good governance involves a transparent institutional framework and sustainable performance during the entire life cycle of the asset. Moreover, it demands a preparation stage consisting in strategic planning, clear prioritising framework and decision system based on cost-efficiency criteria (OECD, 2017b).

The following Figure 1 illustrates how Performance-Based Budgeting should function in the public financial management.

Figure 1 – Performance-based Budgeting

Source: adapted from Moravitz (2008)

The Organisation for Economic Co-operation and Development (OECD) report from 2017a related to European Union budget focused on results, the concept of Performance Budgeting uses: „the outputs, results and/or impacts of public policies in order to inform, influence and/or determine the level of public funds allocated towards those policies”

The same report highlights some of the most important **advantages** of performance budgeting. They are presented briefly in the following Table 1:

Table 1 – Advantages of using Performance Budgeting

Advantages	Description
<i>Transparency</i>	The information related to performance contributes to create a clear picture about the expenditure that is being made and what is procured on behalf of the citizens. Transparency empowers citizens' trust and confidence about how public funds are spent.
<i>Accountability</i>	The elaboration of performance-related objectives and targets enables the public management to warrant for the correct use of the funds and for meeting the established objectives.
<i>Efficiency</i>	Through Performance Budgeting, an accurate assessment of efficiency is possible due to the information offered by the performance indicators besides the assigned financial resources.
<i>Evidence-based policy-making</i>	Evidence – based policy – making is applicable due to the connection between budgets and outcomes and impacts from different countries and sectors of activity which create a common database for future policies, programs and projects.
<i>Promoting “culture shift”</i>	The implications of Performance Budgeting related to establishing objectives, selecting the proper indicators and monitoring progress have an important contribution to updating the public administration and management. Consequently, the new type of public management will focus on performance and results.
<i>Budgetary decision-making</i>	Performance budgeting offers the appropriate information that empowers the budgeting for one or multiple years. In addition, it has a crucial role in deciding on the most equitable allocation of the limited resources. The OECD recommends that performance data should be organised “in a way which informs, and provides useful context for the financial allocations in the budget report”.

Source: based on the information from OECD (2017a)

When it comes to **examples of good practices** of Performance – Based Budgeting, Australia offers a relevant model. Australia has been applying performance budgeting since the 1980' and nowadays focuses its efforts on the outcomes. Therefore, Australian public administration concentrates accountability on the effects of the policies.

Another country that adopted successfully Performance – Based Budgeting is Sweden. The Swedish performance budgeting values relies on the quality of the public managers. (The World Bank, 2010)

In Denmark, Performance Management is practiced in all agencies and ministries. Danish Performance Management uses three instruments: a contract between an agency's director and a ministry in which the agency has the obligation to produce certain outcome; an annual report containing the achieved outcomes in comparison with those mentioned in the contract; a paying system which connects the salary of the agency's director with the achieved outcomes in comparison with those mentioned in the contract (Shah & Shen, n.d.).

New Zealand introduced the contractualism of the results accountability in the public sector. This led to performance in the fiscal sector and important improvements in the governmental system (Shah & Shen, n.d.).

In the case of United States, despite the improvement attempts with Management by Objectives, Program, Planning and Budgeting System, the budget process was not significantly reformed. The Government Performance and Results Act (GPRA) and the National Performance Review (NPR), both in 1993 introduced Performance Budgeting as an alternative. The GPRA

aimed to increase effectiveness and efficiency of the government by convert the budgetary process from a system that was input-oriented into a system that is results-oriented. (Shah & Shen, n.d.)

An example of a developing country that has adopted Performance – Based Budgeting is Chile. Chile integrated performance information into the budgetary process and used this information efficiently in further budgetary decisions, since 1990s. (Shah & Shen, n.d.)

In Thailand, in 2001 the new government decided to introduce an improved budgeting system entitled "Strategic Performance Budgeting". (Shah & Shen, n.d.)

Despite the multiple benefits facilitated by Performance – Based Budgeting system, there are certain **limits** that have to be taken into consideration.

First of all, lack of coordination of the performance information's development can lead to a huge number of indicators that cannot be helpful. In addition, it is necessary to frequently assess the functionality of performance indicators and targets in order to select a few relevant indicators that are representative for performance (The World Bank, 2010).

In the case of low and middle income countries, there is no active implication from the public authorities to implement this form of budgeting. In this way, they avoid accountability for public expenditure. (The World Bank, 2010).

In order to improve Performance-Based Budgeting, EPP Group (2016) offers several recommendations briefly presented in the next Figure 2:

Figure 2 – Recommendations for better Performance Budgeting in EU

Source: based on the information from EPP Group (2016)

The recommendations are useful for countries which intend to implement Performance Budgeting but also for those that have already experienced this type of budgeting and look for continuous improvement of performance.

Another important recommendation is to use **Project Management** in accomplishing the established goals. After identifying the main public needs, it is important to associate them to a specific geographical region. Considering the needs, the location and the direct and indirect

beneficiaries, the public authorities can organize them into projects. One project will have one goal, objectives to achieve the goal and activities that lead to fulfill the objectives.

In order to efficiently manage the projects it is imperious to create a new public structure to implement major projects. For example, in Great Britain, the institution in charge with implementing the public projects is the Infrastructure and Projects Authority (IPA).

Governmental policies should be applied through projects in order to achieve their goal. Project management would contribute to effectively deliver infrastructure elements, such as: schools, parks, green power plants, railways and hospital. These projects would increase the economy and the living standards for people. The public structure for projects should have the capacity to implement projects from different domains, like military projects, IT projects or learning projects according to the prior needs. (IPA, 2017)

A separate public structure would focus on improving the projects' implementation and people would significantly benefit from the projects' results. The structure would have to efficiently communicate and cooperate with the government and the private agents in order to successfully reach the initially established performance indicators. (IPA, 2017)

If the project management system leads to important results that could not be achieved otherwise, it would continuously concentrate the efforts to improve performance so that it could implement major infrastructure projects that imply a high level of risk. (IPA, 2017)

The public structure for implementing projects would generate adjacent benefits. Therefore, people working in this structure would have to graduate Project Management courses in order to learn the most important aspects related to project management and would assimilate the necessary skills to work with major projects. Moreover, people would gain the ability to apply the standards and the tools related to project management. Therefore, the structure's team will have the knowledge and the expertise to manage major infrastructure projects throughout very stage of their lifecycle. One of the principles IPA applies in its activity is focussing on the performance. Consequently, before implementing the project, the team and the government have to establish the performance indicators and the associated targets to reach. In this way, after implementing the project, the results can be measured. (IPA, 2017)

In addition, another important aspect for the team would be their cooperation with the direct and indirect beneficiaries, so that the implementation of the project would meet their needs.

According to an article elaborated by Santos and Varajão (2015) "Lack of PM systematization in public projects, difficulties in intra ministry PM organization, lack of systematization of inter-ministerial PM, and the lack of a PM culture, these all can lead to waste of resources" (Santos & Varajão, 2015)

Considering the complexity of infrastructure projects, the high number of stakeholders and people involved in developing them, project management can be the key to efficiently use the resources. (Santos & Varajão, 2015)

Another important advantage of using project management in the public sector is represented by the dividing the project into phases and establishing milestones. When milestones are reached or phases and ended, project management impose a review of the deliverables and costs. According to the review's conclusions, the project continues or not. Therefore, project management helps to avoid cost errors and to correct them as soon as possible. (Waldt, 2011)

However, project management used in the public sector is significantly different from the one applied in the private sector. Rapid political changes impose shorter time approach in the public sector. Measuring performance in public projects can be a challenging task. Public projects

are exposed to a higher pressure due to the public scrutiny. Being financed from taxes, public structures have to be chargeable to the public. (Waldt, 2011)

Public projects are often developed in a conflicting goals and results environment. Furthermore, they may involve stakeholders with different interests and sometimes have to reconcile political interests. Another negative aspect is that people do not show tolerance for failure of public projects. In addition, public projects have to obey administrative regulations that often waste the project's resources. (Wirick, 2009, p.8)

In the following Table 2, Kassel (2017, p. 116) proposes several steps to plan successfully public projects:

Table 2 – Key steps in public project management

No	Key steps
1	Identify correctly the problem that will be solved by implementing the project
2	Understand accurately the context of the project and the involved stakeholders
3	Understand and comply with the legal implications of the project
4	Estimate the costs of the project
5	Identify the risks of the project
6	Establish efficient control systems that will work throughout the entire lifecycle of the project
7	Elaborate clear drawings and technical specifications
8	Establish a realistic project schedule
9	Refine the project's cost and risks

Source: based on (Kassel, 2017, p. 116)

Another approach in public budgeting is the **Participatory Budgeting** "a democratic process in which community members decide how to spend part of a public budget. It gives people real power over real money" (Participatory Budgeting Project, n.d.)

Participatory Budgeting begins with designing the process, which means that a committee representing the community establishes a plan of rules and engagement. After that, the residents discuss through online or physical meetings potential ideas for projects. Then, volunteers, that have expertise in drawing up projects proposals, develop feasible proposals based on the anterior ideas.

The residents choose the most useful proposals according to the community's needs by voting. Finally, the public authority allocates the necessary funds for the winning project. (Participatory Budgeting Project, n.d.)

Apart from representing a form of democratic manifestation, it also increases the engagement of the community, the relationship between residents and government empowers, more effective and equitable spending of the people's money. Participatory Budgeting enables a correct management of public money. (Participatory Budgeting Project, n.d.)

In order to function, the public authority has have a dedicated source of public funding, an agreement between the community and the government on the process and the schedule, community volunteers to be more involved, for example in drawing up the projects' proposals. The community's and the government's will to cooperate. (Participatory Budgeting Project, n.d.)

Participatory Budgeting Project (PBP) is an example of an organization that promotes the involvement of people in making decisions related to spending public money, in US and Canada.

The values that guide their activity are illustrated in the next Table 3:

Table 3 – Values of PBP

Values	Details
Community	With the main scope of achieving the shared goals, the organization succeeds in

	bringing people together despite the differences and enabling them to exchange knowledge, creating new bonds and working together.
Participatory Democracy	PBP considers that democracy involves the direct participation of community members in making decisions that influence their lives.
Equity	PBP concentrate to reduce disparities between different groups of the community and involve those who face great obstacles to participate in the decisional process.
Transparency	The organization focuses on distributing the information clearly, make decision publicly, so that people will access and understand the information, participate in the decision making process and become accountable for their choices
Learning	PBP believes in continuous improvement and learns from the successes or non-successes of their activity in order to boost their future performance.

Source: based on (Participatory Budgeting Project, n.d.)

Methodology

In the present paper the research methods applied were the literature review and the benchmarking.

Firstly, the paper presents the literature review of the available official and scientific publications in the field related to project management used in public services, performance based budgeting, participatory budgeting in order to improve sustainable development.

Moreover, the use of benchmarking was extrapolated from the business environment to the scientific research so that the proposed solution was also based on the examples of good practices offered by other countries in public project management, performance-based management and participatory budgeting.

Proposed process for public budgeting

Considering all the advantages brought by using Performance – Based Budgeting, it is self-evident that it is absolutely necessary to implement it in any country if sustainable development is their goal.

Another measure to improve the usage of public resources is to apply project management through a dedicated separate institution.

Participatory budgeting is a new approach to upgrade the management of public money that is included in the proposed process for public budgeting.

Therefore, this paper presents a potential process combining the described measures, in order to revamp public budgeting in Romania.

In the first place, every country has to elaborate a national strategy for at least two years. The strategy has to contain a vision, a mission, options, objectives, deadlines and allocated resources. The objectives have to be SMART (Specific, Measurable, Approachable, Realistic, Timeable). The community has to be consulted when establishing these objectives.

The second stage is to analyse each development region and assign the previous objectives to the corresponding geographical area.

The third stage is to eliminate any contradictory or duplicated objective and to group the complementary objectives in potential projects and estimate the budget for each project.

The potential projects will be voted by the community through an online platform.

The winning projects will be managed by the dedicated institution for project management.

Then, the next stage is to formulate a few clear and simple performance indicators and targets corresponding to the established objectives for every project.

The funding of the projects will be made through national and European financial resources, according to their impact.

During the implementation of the projects and in the ex-post period, an assigned institution assesses the achievement of the objectives. The values of the performance indicators will be verified against the ones established at the beginning.

According to the conclusions of the verification, the projects will continue or not to receive funding in the mid-term period. The projects' budget may be supplemented, where necessary or corrected. The implemented projects will be continued with other complementary projects, where necessary.

In the following Figure 3 the budgeting process is exposed visually:

Figure 3 – Process for improved public budgeting

Source: own contribution

The process illustrated above was based on the good practices in public financial management studied in the research. It presents a new approach fundamented on SMART objectives, community's priority needs, integrated action through project management, performance evaluation and managerial decision based on this evaluation. Measuring performance enables corrections made on time, continuously adjusting the budget, achieving the proposed objectives, targets and avoid deficitary use of financial resources. Consulting the local community empowers a stronger relationship between people and public authorities, enables more transparent decision making and increases the community's confidence in the authorities. In this way, people engage in deciding their future, in a democratic process.

Conclusions

In Romania there are significant disparities in the coordination of public investments in infrastructure, at all levels. One of the causes is represented by inefficient coordination of investments. For example, there are many cases in which roads are rehabilitated and then,

subsequent public works for rehabilitation of the utility networks deteriorate the repaired roads (World Bank Group, 2015).

This type of situation displeases people due to inefficient use of the public financial resources and reveals the major difficulties that public authorities face when coordinating investment projects. Participatory budgeting can be the solution to this problem by engaging the community in the process.

Considering the extensive need for new and improved infrastructure and the significant gap between what the government can fund and the real necessities, the implementation of Performance – Based Budgeting is a pressing matter (World Bank Group, 2015).

Except for projects financed through European funds, the projects entirely financed through national funds are not prioritized using relevant criteria. These projects are based on annual budgets that change every year and create a high level of instability which discourages design and implementation of major projects (World Bank Group, 2015).

As demonstrated in the previous sections, a separate institution dedicated to public project management would improve significantly the quality of projects' implementation.

Furthermore, the process of monitoring and evaluation is rudimentary as there are no indicators that measure the programs' performance. In addition, there are no impact assessments in order to verify if the projects achieve their objectives (World Bank Group, 2015).

Therefore, the implementation of Performance – Based Budgeting is absolutely necessary in Romania and in any country looking for sustainable development.

Performance – Based Budgeting should be adopted along with Public Project Management, Participatory Budgeting and with other European instruments, such as: Integrated Territorial Investment (ITI) "a mechanism that enables the implementation of a territorial strategy in an integrated manner while drawing funds from at least two different priority axes" (European Commission, 2014b) and Community-led local development (CLLD) that "mobilise and involve local communities and organisations to contribute to achieving the Europe 2020 Strategy goals of smart, sustainable and inclusive growth" (European Commission, 2014a).

In conclusion, the paper promotes the implementation of an entirely new process related to the management of public budgeting, in order to achieve sustainable development in Romania or in other developing country.

References

- EPP Group in the European Parliament Press and Communications Service Publications Team. (2016). Position Paper on Performance-Based Budgeting. Retrieved from <https://www.eppgroup.eu/newsroom/publications/position-paper-on-performance-based-budgeting>
- European Commission. (2014a). Community-Led Local Development. Retrieved from https://ec.europa.eu/regional_policy/sources/docgener/informat/2014/community_en.pdf
- European Commission. (2014b). Draft Guidance Fiche for Desk Officers Integrated Territorial Investment (ITI). Version 3 - 28/01/2014. Retrieved from https://ec.europa.eu/regional_policy/sources/docgener/informat/2014/guidance_iti.pdf
- Ganea, V., Mihaila, A. (2017). Procesul de bugetare pe bază de performanță: evoluție și avantaje. *Studia Universitatis Moldaviae*, no. 7(107), p.3-9.
- International Monetary Fund - Diamond, J. (2003). From Program to Performance Budgeting: The Challenge for Emerging Market Economies. *IMF Working Paper*, WP/03/169. Retrieved from <https://www.imf.org/external/pubs/ft/wp/2003/wp03169.pdf>

- Kassel, D.S. (2017). *Managing Public Sector Projects. A Strategic Framework for Success in an Era of Downsized Government*. Second Edition. Routledge, Taylor & Francis Group, New York and London.
- Moravitz, C. (2008). Performance-based budgeting: integrating objectives and metrics with people and resources. *International handbook of practice-based performance management*, pp. 361-392. doi: <https://dx.doi.org/10.4135/9781412982719.n18>
- OECD – Downes, R., Moretti, D., Nicol, S. (2017a). Budgeting and performance in the European Union: A review by the OECD in the context of EU budget focused on results. *OECD Journal on Budgeting*. Retrieved from: <https://www.oecd.org/gov/budgeting/budgeting-and-performance-in-the-eu-oecd-review.pdf>
- OECD (2017b). *Government at a Glance 2017*, doi: http://dx.doi.org/10.1787/gov_glance-2017-en
- Participatory Budgeting Project (PBP). (n.d.) Retrieved from: <https://www.participatorybudgeting.org/what-is-pb/>
- Shah, A., Shen, C. (n.d.), A Primer on Performance Budgeting. Retrieved from: <http://siteresources.worldbank.org/PSGLP/Resources/ShahandShenpaper.pdf>
- Infrastructure and Projects Authority (2017) About the IPA. Retrieved from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/652340/IPA_Narrative_document_WEB.pdf
- Santos, V., Varajão, J.(2015). PMO as a key ingredient of public sector projects' success – position paper. *Procedia Computer Science*, 64. 1190-1199, doi: <https://doi.org/10.1016/j.procs.2015.08.546>
- Waldt, G.V. (2011). The uniqueness of public sector project management: A Contextual Perspective. *Politeia. South African Journal for Political Science and Public Administration*, 30(2). 67-88.
- Wirick, D. (2009). *Public-Sector Project Management: Meeting the Challenges and Achieving Results*. John Wiley & Sons, Inc., Hoboken, New Jersey.
- The World Bank. (2010). Results, Performance Budgeting and Trust In Government. Retrieved from http://siteresources.worldbank.org/INTLACREGTOPPOVANA/Resources/840442-1264801888176/Results_Performance_Budgeting_Final.pdf
- The World Bank Group. (2015). Coordination of Investment Strategies and Programs related to Romanian Infrastructure. Report elaborated as a result of the agreement for Technical Assistance offered to the Ministry of Regional Development and Public Administration from Romania. Retrieved from: <http://documents.worldbank.org/curated/en/710701468185031485/pdf/104745-ROMANIAN-WP-P150144-PUBLIC-R2D2-Component-1-Coordination-of-Strategies-and-Plans.pdf>
- The World Bank (n.d.). Module 5: Performance Budgeting. Retrieved from: <http://siteresources.worldbank.org/PUBLICSECTORANDGOVERNANCE/Resources/285741-1326399585993/ModulePerformanceBudgeting.pdf>
- Zlatkovic, M. (2018). Organizational effectiveness in Bosnia and Herzegovina: A competing values approach. *Strategic Management*, 23(4), 15-25.