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PUBLIC GOVERNANCE COMMITTEE**

**Working Party of Senior Budget Officials**

**PERFORMANCE INFORMATION IN THE BUDGET PROCESS:  
RESULTS OF OECD 2005 QUESTIONNAIRE**

**FINAL REPORT**

*This Report, which includes the comments received from countries is the final version of the Draft Report, GOV/PGC/SBO(2005)6, distributed at the 26th SBO meeting held in Paris on 30-31 May 2005.*

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**PERFORMANCE INFORMATION IN THE BUDGET PROCESS:  
RESULTS OF OECD 2005 QUESTIONNAIRE**

**Introduction<sup>1</sup>**

1. Citizens have always demanded results from their governments. However, in the past two decades OECD countries have come under increased pressure from fiscal restraints and public demands for more or better quality services to improve public sector performance and to be more accountable for results.

2. Over the past fifteen years, the majority of OECD governments have sought to shift the emphasis of budgeting and management away from inputs towards a focus on results, measured in the form of outputs and/or outcomes. While the content, pace, and method of implementation of these reforms varies across countries and over time, they share a renewed focus on measurable results. Today, nearly three-quarters of OECD countries report having non-financial performance data in their budget documents.

3. These trends tell only part of the story: questions remain about the real extent of change. The provision of performance results is there to support better decision-making, leading to improved performance and/or accountability. If this information is to provide these benefits, it has to be used in the decision-making process. The key question is whether and how performance information is used in budgetary and management decision-making processes.

4. The purpose of this paper is to provide an overview of the development and use of performance information in the budget process across OECD countries. This overview is based on the results of the 2005 OECD questionnaire on performance information.

5. This questionnaire aimed to review the development and use of performance information - performance measures and evaluations- across OECD countries. It investigated how these tools were implemented, how they operated in practice, whether and how performance information is used in the budget process, and what factors explained its use or lack of use. While performance information has been developed and introduced in both management and budget processes this paper concentrates on the budget process.

6. In late 2004, the OECD sent this questionnaire to the ministries of finance in all member countries and two observer countries, Chile and Israel. There was a high response rate: 26 out of 30 OECD member countries and the two observers completed the questionnaire. All answers are self-reported.

7. This paper is divided into five sections. Section 1 examines the type of performance information collected by member countries and how long they have been collecting it. Section 2 addresses the institutional arrangements for the development and use of performance measures and evaluations, concentrating on the role of the Ministry of Finance. Section 3 discusses the objectives of introducing performance measures, the main trends, the challenges and success factors for implementation. Section 4 examines how performance information is used in the budget process, for what purposes, what factors contribute to its use or lack of use. Section 5 explains in more detail the development and use of evaluations in the budget process.

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<sup>1</sup> I would like to thank all the officials in member countries who took the time to fill in this questionnaire. I would also like to thank Eija-leena Linkola and Marcela Guzman who worked on earlier versions of this questionnaire while seconded to the OECD and Sang-In Kim for his helpful contributions. Cécile Hochet for her assistance with the graphs, and Jennifer Gardner for her administrative support with the questionnaire.

## 1. Approaches for Assessing the Performance of Governments

8. In the majority of OECD countries, efforts to assess the performance of programmes and ministries are now an accepted normal part of government. Member countries follow a variety of different methods to assess performance, including performance measures, evaluations, and benchmarking. 26 out of the 28 responding countries stated they use both performance measures and evaluations to assess performance. There is also a growing interest in benchmarking, with 13 countries adopting this approach.<sup>2</sup>

9. In the past fifteen years, there has been a renewed emphasis on performance measures (principally of outputs and outcomes) in budgeting and management; however it is clear that despite this trend, governments continue to make equal use of evaluations.<sup>3</sup> While both methods provide information on performance, they provide different types of information. Performance measures deal with outcomes, outputs and/or process indicators. Evaluations often include a more detailed review of attributes and causality issues. Evaluation typically includes recommendations on changes to activities or programmes to improve its performance.

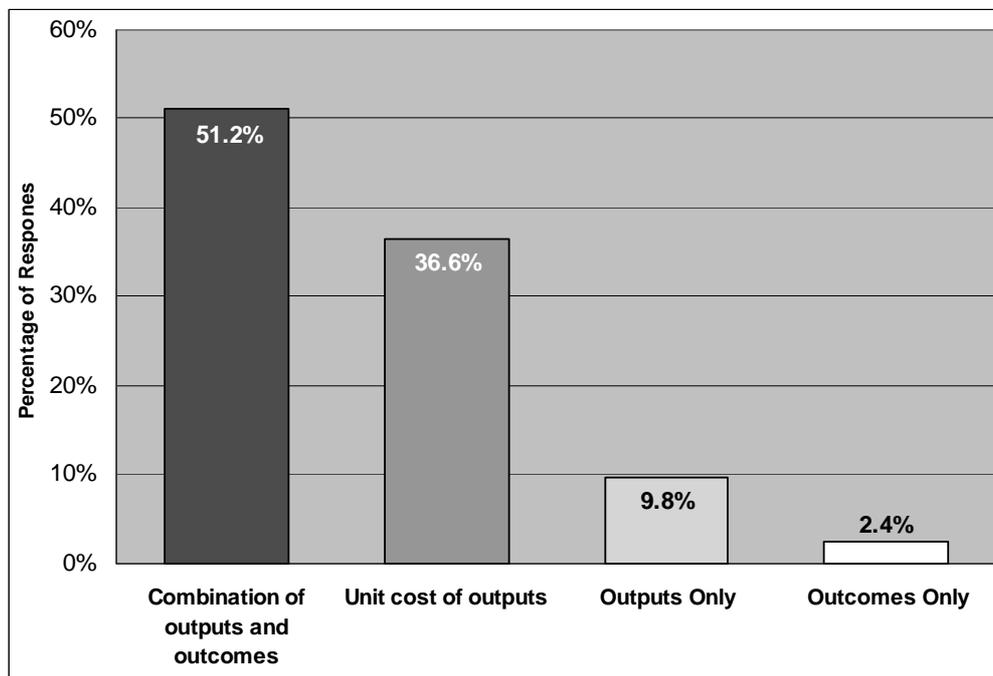
10. Of the countries that developed performance measures, the majority produce a combination of outputs and outcomes as indicated in Figure 1.

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<sup>2</sup> These countries are Austria, Belgium Canada, Denmark, Finland, Germany, Ireland, Italy, Norway, Poland, Spain, and the United Kingdom.

<sup>3</sup> Evaluation refers to the assessment of an on-going or completed project, programme, activity or policy. Evaluations can include an examination of any one or all of the following aspects of a programme or policy: its objectives (policy priorities), design, implementation (process), and results (output/outcome/cost effectiveness). The aim can be to determine the relevance and fulfilment of objectives, in terms of efficiency, effectiveness, economy and sustainability. Various types of evaluations include: ex-post/ex-ante evaluations, desk evaluations, impact or in-depth evaluations, programme reviews, spending review, and self-assessments.

**Figure 1 - The types of performance measures that have been developed<sup>4</sup>**



*Includes responses from all 28 countries.*

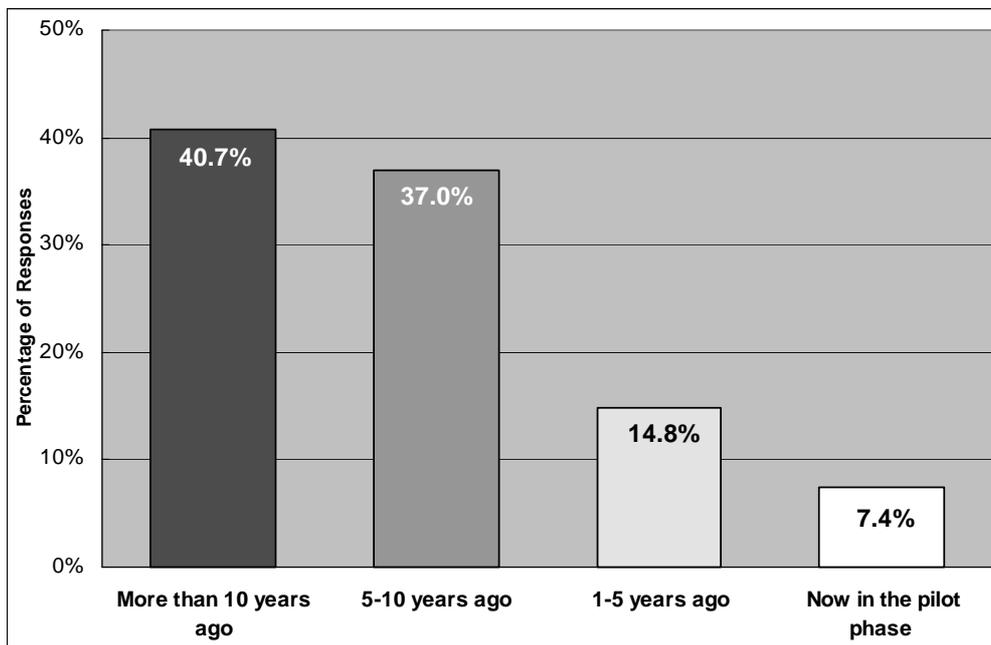
11. 51% of responses from participating countries apply a combination of outputs and outcomes to most or some of their programmes. This combination reflects the difficulty in following an approach that concentrates solely on either outcomes or outputs. Countries appear to have recognized the dangers of concentrating only on outputs. It can give rise to goal displacement as agencies risk losing sight of the intended impact of their programmes on wider society, and concentrate on quantifiable activities at the expense of those that are less measurable. It can also result in less attention being paid to cross-cutting issues. While outcomes incorporate a wider focus on the impact of programmes on society and have greater appeal to politicians and the public, some are difficult to measure.

***1.1. How long have countries been working on performance measures***

12. The introduction of performance measures into budgeting and management process is not only a wide spread trend, it is also a long term one.

<sup>4</sup> 13 countries provided more than one response to Q 1.3 – What type of performance measures have been developed?

**Figure 2 - When was the first government wide initiative to introduce output measures?**



*Includes responses from 27 out of 28 countries*

13. It is clear from Figure 2 that countries have been working on outputs measures for a long time. 77% of respondents introduced their first government wide initiative on outputs measures at least five to ten years ago. 40% have been working on outputs measures for more than 10 years. These include Denmark, Finland, New Zealand, Hungary, Portugal, Sweden, Norway, Spain and United Kingdom. In contrast, Turkey and Poland are just piloting their first government wide initiative.

14. Furthermore, countries approaches to performance are evolving as governments continue to invest in new reform initiatives. 75% of respondents have introduced a new initiative within the past five years. Almost 35% have done so in the last year. Annex A list the names of the latest government reform initiative in the area of performance budgeting and management.

15. There is considerable experience with outputs, less with outcomes although it is developing. There is a tendency for countries at the initial stages of reform to concentrate on outputs and to develop outcomes at a later stage.<sup>5</sup> The extent of time taken to do so varies. For instance, New Zealand and Denmark have both been working on outputs for over ten years. Denmark has only recently begun to work on outcomes with its accrual accounting and budgeting initiative. New Zealand launched its first main government wide output initiative with the Public Finance Act in 1989 and subsequently in the mid-1990s began emphasising the development of outcomes through the adoption of Strategic Results Areas and Key Result Areas. New Zealand continues today to work on outcomes with its latest initiative Managing for Outcomes.

**2. Institutional Roles and Responsibilities**

16. The section examines the respective roles and responsibilities of ministries of finance (MOFs) and spending ministries in the development and management of performance measures and evaluation systems.

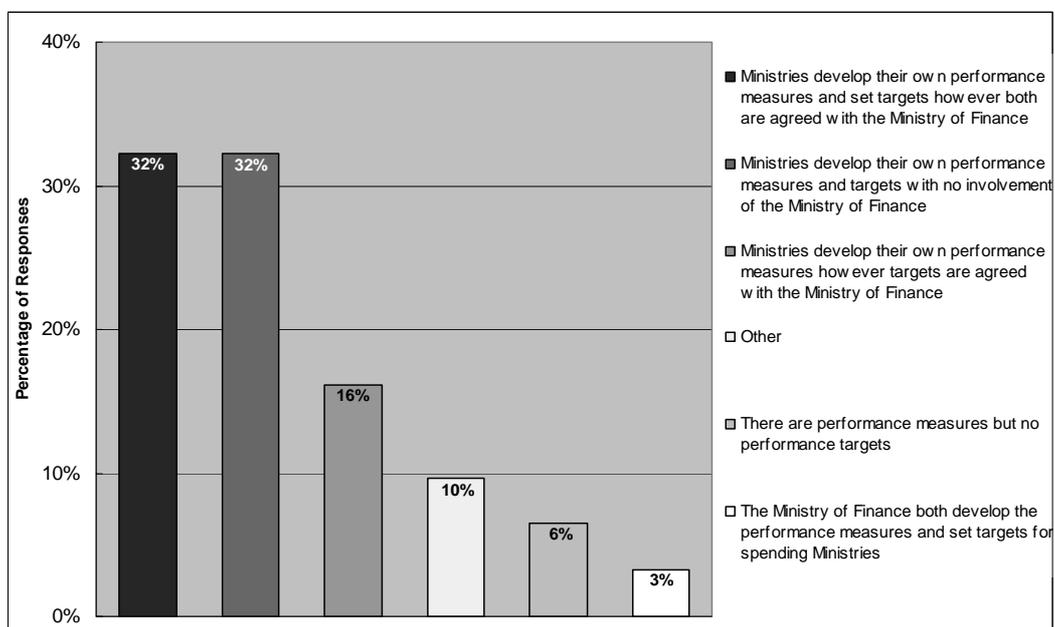
<sup>5</sup> Although there are exceptions: Australia at a national government level for example began with outcomes.

**2.1 General Institutional Arrangements and Roles**

17. There is a wide variation in the formal role played by central agencies in OECD countries in the development and implementation of performance approaches to budgeting and management. This varies from countries where the MOF has no involvement to ones where it is the main designer and manager of the performance system.

18. As can be seen from figure 3, in 32% of responses spending ministries develop their own performance measures and set their own targets and there is no involvement of the MOF or other central agencies. In 48% of countries, the MOF agrees either the performance targets (16%) or both the targets and measures developed by spending ministries (32%).

**Figure 3 - Which statement best describes the general institutional arrangements for developing performance measures and setting performance targets in your country?**



*Includes responses from all 28 countries.*

19. MOF's role in this area can reflect its general function and position in the wider government institutional system. In countries with decentralised national administrative systems in which spending ministries and /or agencies have extensive managerial flexibility, the role of the MOF is generally more limited than in more centralized systems. For example, Australia, Denmark, Iceland, New Zealand, and Norway all have a fairly high degree of decentralization of management responsibilities to spending ministries and agencies. In these cases, there is only a limited formal involvement of the MOF, or none at all, in the development and management of performance measures. This is seen as mostly the responsibilities of individual ministries and agencies.

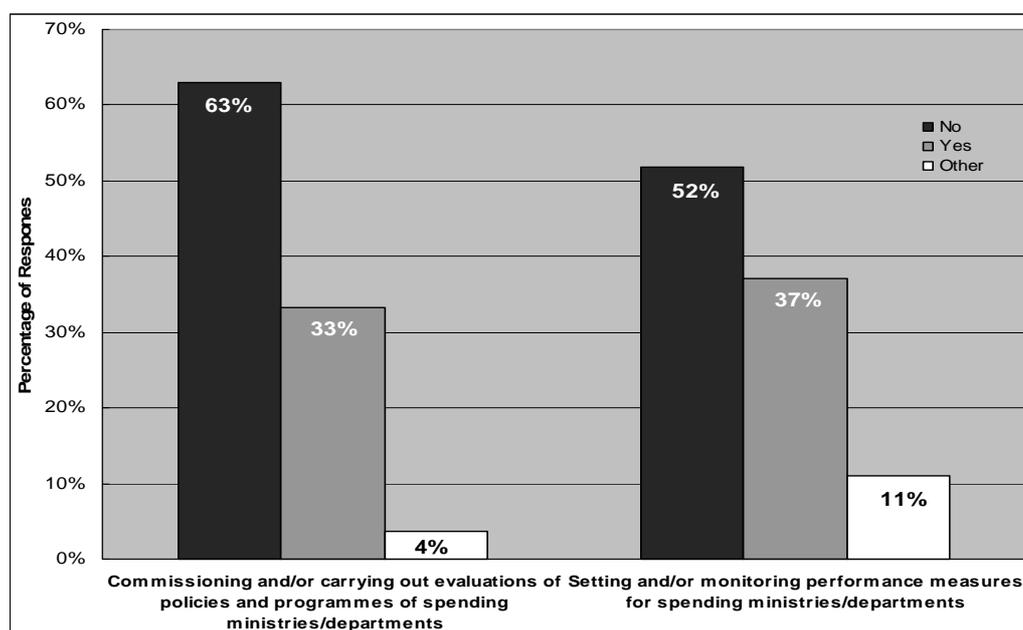
20. In the case of Iceland and Denmark, the spending ministries negotiate performance agreements with their agencies. The MOF play a role in terms of horizontal support and in developing overall framework and policies. A limited formal role does not mean that the MOF has no influence. Through dialogue with spending ministries as part of the budget process it can make suggestion on performance targets and evaluations.

21. These experiences contrast with, for example Chile, that has a more centralized system in which the MOF has a strong position in the wider governmental framework and vis-a-vis other ministries. In this case, the MOF has a strong formal role. It developed and now manages the government wide systems of performance measures and evaluations. While ministries develop their own performance measures, both measures and targets are agreed with the MOF.<sup>6</sup>

## 2.2 Specific units within the Ministry of Finance

22. Figure 4 shows that in only a third of countries does the MOF have a specific unit in charge of commissioning/conducting evaluations of programmes and policies of spending ministries.

**Figure 4 - There is a specific unit within the Ministry of Finance/Central Budget Office in charge of:**



Includes responses from 27 out of 28 countries..

23. Neither do the majority of MOFs have a unit in charge of setting/monitoring performance measures of spending ministries. Only 37% of responding countries have a specific unit in their MOF. In some countries, such as the United States, while there is no separate unit, the branches/division in the ministry that oversee the relevant spending departments monitor their performance measures.

24. In the majority of countries, where there is a limited or no involvement of the MOF in this area, there is no separate unit. Finland has since the early 1990s had a fairly decentralized administrative system, with a high degree of managerial delegation to spending ministries and agencies. Until recently, similar to Iceland, Denmark, and Norway, the Finnish MOF played a limited role and the development and use of performance measures was largely left to the individual ministries and agencies.<sup>7</sup> Recently, however, higher political priority and renewed emphasis has been given to using performance measures in the budget and management processes. As part of the effort to improve the current system and increase the role of the

<sup>6</sup> Blondal, J and Curristine, T (2005), "Budgeting in Chile", *OECD Journal of Budgeting*, Volume 4, No.2 .

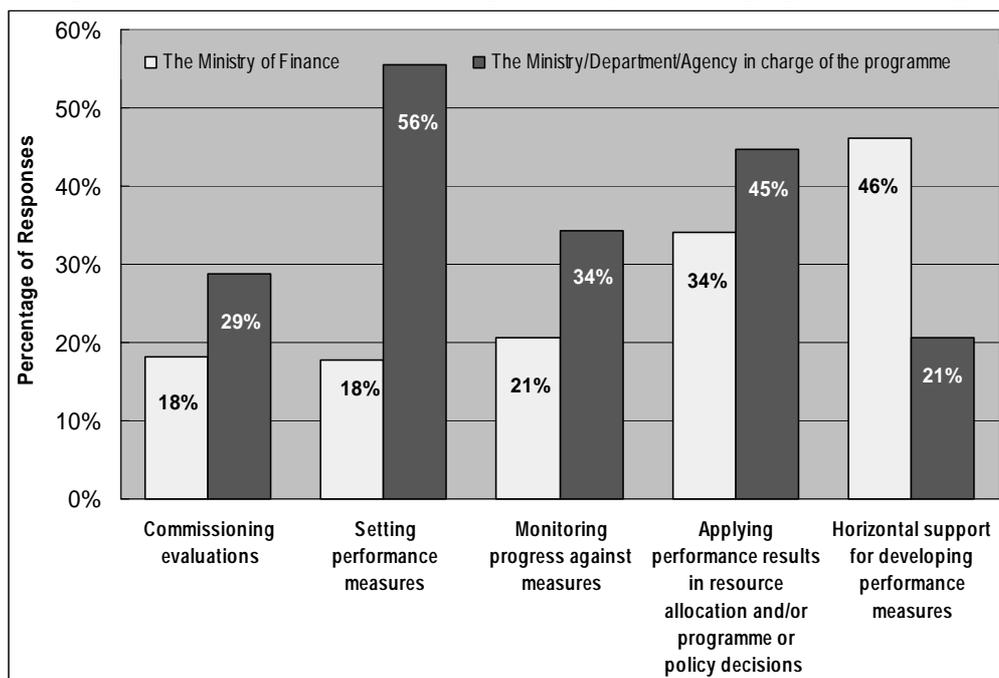
<sup>7</sup> Blondal (2002 ) "Budgeting in Finland", *OECD Journal of Budgeting*, Volume 2, No.2.

MOF in 2004, a separate unit was established in the Finnish MOF to work on performance and control issues.

### 2.3. Specific Responsibilities

25. Figure 5 gives more detail on the specific responsibilities of spending ministries and the MOF in relation to performance measures and evaluations.

**Figure 5 - What institutions has responsibility for managing the following?**



*Includes responses from all 28 countries*

26. The most common responsibility for the MOF is providing horizontal support for developing performance measures. This is followed by their role of applying performance results in resource allocation and/or programme or policy decisions and the monitoring of progress against targets.

27. Spending ministries have a strong role in setting performance measures, applying performance results in resource allocation and/or programme and policy decisions and monitoring progress. The relevant spending ministry and the national audit body play the greatest role in commissioning evaluations.

### 3. Objectives, Challenges, and Success Factors for Performance Measures

28. This section examines the objectives, the main implementation challenges, factors contributing to success and the main improvement trends in performance measures.

#### 3.1. Objectives

29. A key question is what governments hope to achieve by introducing performance measures into budgeting and management systems. For both output and outcome measures, responding countries listed their primary objectives as follows:

- To improve efficiency & effectiveness of government organisations and programmes.

- To provide more concrete information to the government and the legislature on performance for decision-making purposes and for setting future targets and priorities.

Secondary aims:

- To help reduce expenditure.
- To provide information to help reallocate resources between activities/programmes.
- To provide a mechanism for the Ministry of Finance to monitor the activities of government organisations/agencies performance.

### 3.2. Challenges

30. Countries listed the main challenges encountered with introducing performance measures in the following order of importance:

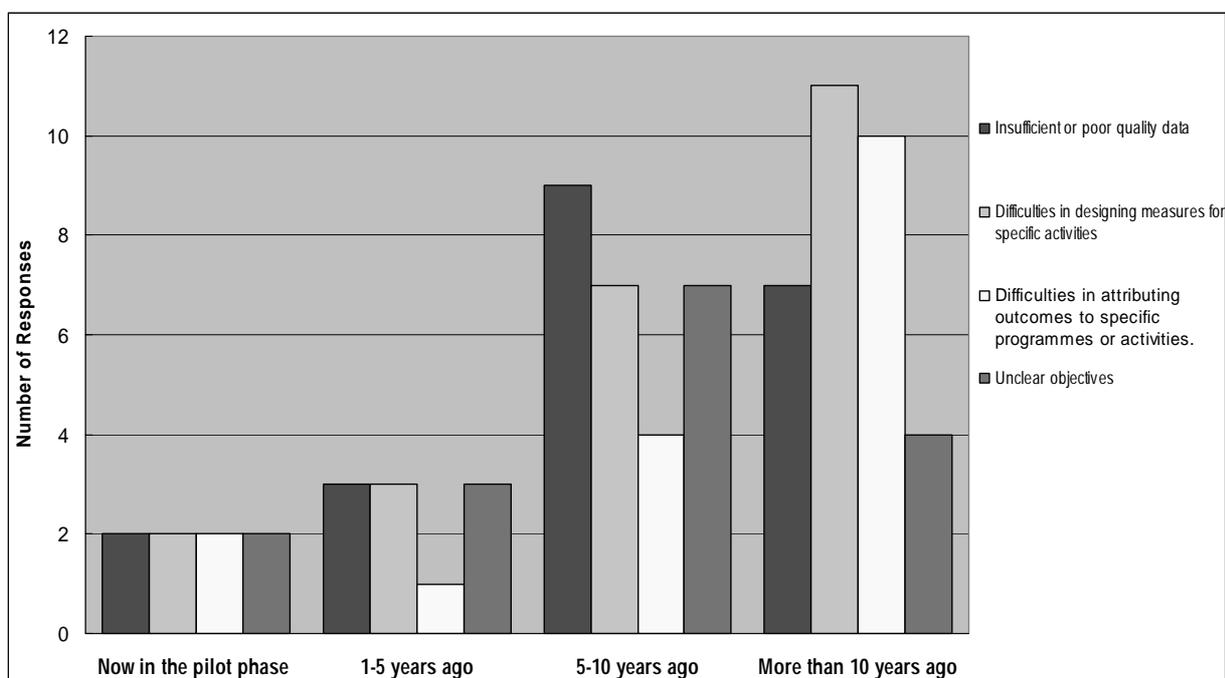
- Difficulties in attributing outcomes to specific programmes
- Difficulties in designing measure for specific activities
- Insufficient political support for this kind of work

Secondary problems included

- Unclear objectives
- Insufficient or poor quality data

31. The figure 6 below relates the challenges encountered with the length of time countries have been developing this approach.

**Figure 6 - If performance measures have been developed, what were the four most difficult problems encountered when introducing these measures?**



*Includes responses from all 28 countries*

32. For the first ten years, the main problems are finding clear objectives, obtaining sufficient data of high quality, and designing measures for specific activities. This is unsurprising given that one of the first

steps in developing a performance system is setting objectives and designing measures. The fact that countries continue to struggle with these challenges after the first five years, reflects that it takes time to develop meaningful measures and to collect relevant data of sufficient quality. Furthermore, the revising and updating of performance measures is a continuous process because needs and priorities are constantly evolving.

33. Countries have a tendency to begin with outputs and move onto developing outcome measures. Therefore, for countries that have been doing this for more than ten years, one of the greatest problems is attributing outcomes to specific programmes or activities. Measuring outcomes is technically more difficult; they are more complex and involve the interaction of many factors both planned and unplanned. This can make it difficult to determine the extent to which a programme or activity contributes to outcomes. In some cases, the outcome is simply not within the control of the agency. Evaluations are one possible means of assessing the linkage of an activity or programme to an outcome.<sup>8</sup>

### ***3.3. Successful Programmes and Success factors***

34. Despite these problems, respondents listed ministries and programmes which they felt had been successful in developing high quality performance measures. These are listed in Annex B.

35. Respondent ranked the most important factors explaining this success as:

- The strong leadership support of managers in charge of the government programme.
- The types of goods and services.
- Political pressure to improve performance.

36. For performance information to play a role in how organisations are managed and in their budget process it is clear that strong leadership is an important factor in pushing change. Performance management and budgeting require a fundamental transformation in organisational behaviour and a climate that pushes for a shift in culture away from inputs towards results.

37. Although the responses received cover a wide range of sectors, programmes and areas there are notable concentrations in certain sectors as summarised in Table 1 below.

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<sup>8</sup> OECD (2005), GOV/PGC/SBO(2005)3, Using Performance Information for Managing and Budgeting, Paris.

**Table 1: Summary of Results by Sector**

<b>Sector</b>	<b>Number of Responses</b>
Agriculture	1
Communications/Information	1
Culture/Heritage	2
Education	6
Environment	3
Finance/Budget/Treasury	5
Foreign Affairs	1
Health	7
Interior	2
Justice/Legal Affairs	4
Labour/Employment	3
Local Government	1
Social Affairs	2
State Reform	1
Transport	1
Other	1
<b>Total</b>	<b>41</b>

38. The highest numbers of examples are found in health and education. Although performance can be difficult to measure, they are sectors under strong political pressure to improve performance and countries have been applying measures here for a number of years.

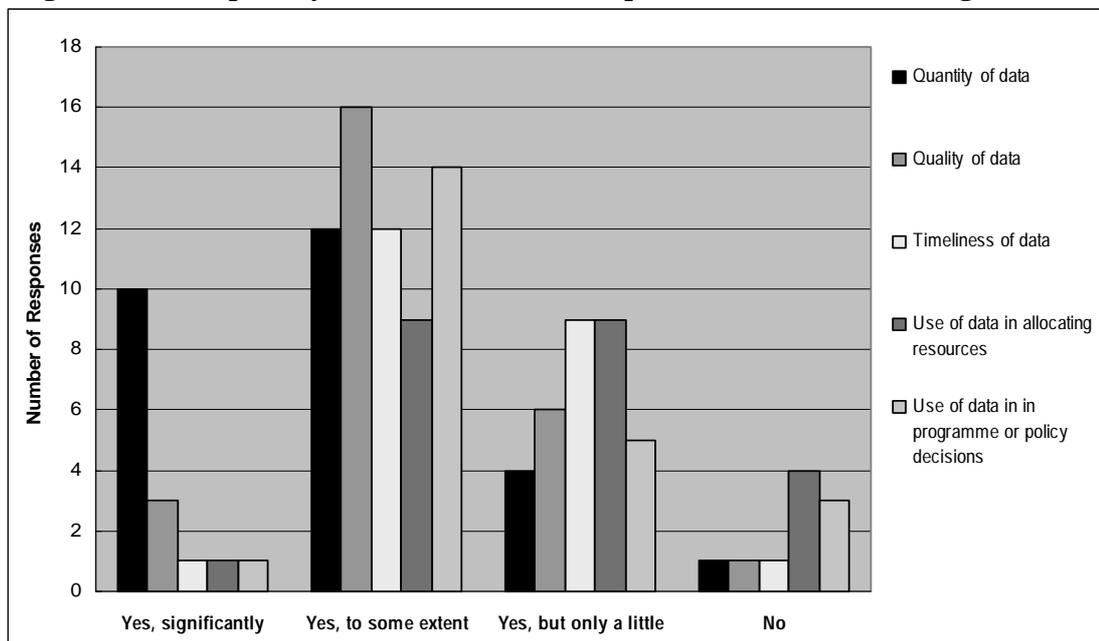
#### **3.4 The main trends and improvements in the past five years**

39. There has been a mixture of trends probably reflecting the different stages of development.

- Almost 75% reported trends on extending coverage;
- 75% are still working on outputs;
- Some 52% are moving towards outcomes.

40. Figure 7 examines the improvements in the quantity, quality, timeliness and use in allocating resources and in programme and policy decision making.

**Figure 7 - In the past 5 years have there been improvements in the following?**



*Includes responses from 27 out of 28 countries.*

41. There have been significant improvements in terms of the quantity of data, and to some extent in the quality but less so for timeliness. There has been to some extent better use of performance measures in programme or policy decisions; however, there is little or no improvement in using data in allocating resources. These obviously remain difficult areas for countries.

42. While the increase in the quantity provides decision makers with more information, on the other hand there are increasing concerns about the danger of information overload. The meetings of the SBO Network on Performance and Results in both 2004 and 2005, highlighted this as an issue of concern both for public servants and politicians. Given the time and cost limitations under which governments operate, receiving too much information can be as problematic as receiving too little. It makes it difficult to distinguish what is important and overloading users with this often new type of information can serve as a disincentive -- especially for politicians in the legislature. There is a need for selectivity in the collection of information and how this information can best be presented to different users.

43. While progress has been made, it is clear from the challenges facing countries that they continue to struggle with obtaining relevant, sufficient, and good quality data, with measuring and attributing outcomes, and with issues of use. 4. The use of performance information in the budgeting process.

**4. The use of Performance Information in the budget process**

44. This section examines if performance measures are used in the budget process and in what manner it is used. As well as examining the context in which both performance measures and evaluations are and are not utilised; it will also survey factors that explain their use or lack of use in the budget process. First this section will present a proposed categorisation of performance budgeting.

#### **4.1. Performance Budgeting -- definitions and classifications**

45. There is no one single definition of performance budgeting. It is subject to numerous interpretations and used to describe diverse approaches. It is possible, however, to distinguish three different categories of performance budgeting in accordance with the use of outputs and/or outcomes measures in resource allocation.

46. **Presentational:** The first category can be referred to as presentational- that is simply that performance measures are presented as part of budget or other government documents. In this category performance information is there at best, as background information only. It does not play a role in decision-making on allocations nor is it necessarily intended to do so.

47. **Informed or Indirect linkage:** The second grouping is performance informed budgeting. This is a form of budgeting that relates fund allocation to measurable results in the form of outputs and /or outcomes. Resources are related to results in an indirect manner. Indirect linkage implies that results- along with other information - are being actively and systematically used to inform budget decisions. Performance information is very important in the decision making process but it does not necessarily determine the amount of resources allocated.

48. In this case output/outcomes measures are actively and systematically used to inform budget decisions along with other information on performance or other information pertaining to macro restrictions on fiscal policy and policy priorities. Performance information is important, but it is not absolute and does not have predefined weight in the decisions. The final weightings will depend on the particular policy context.

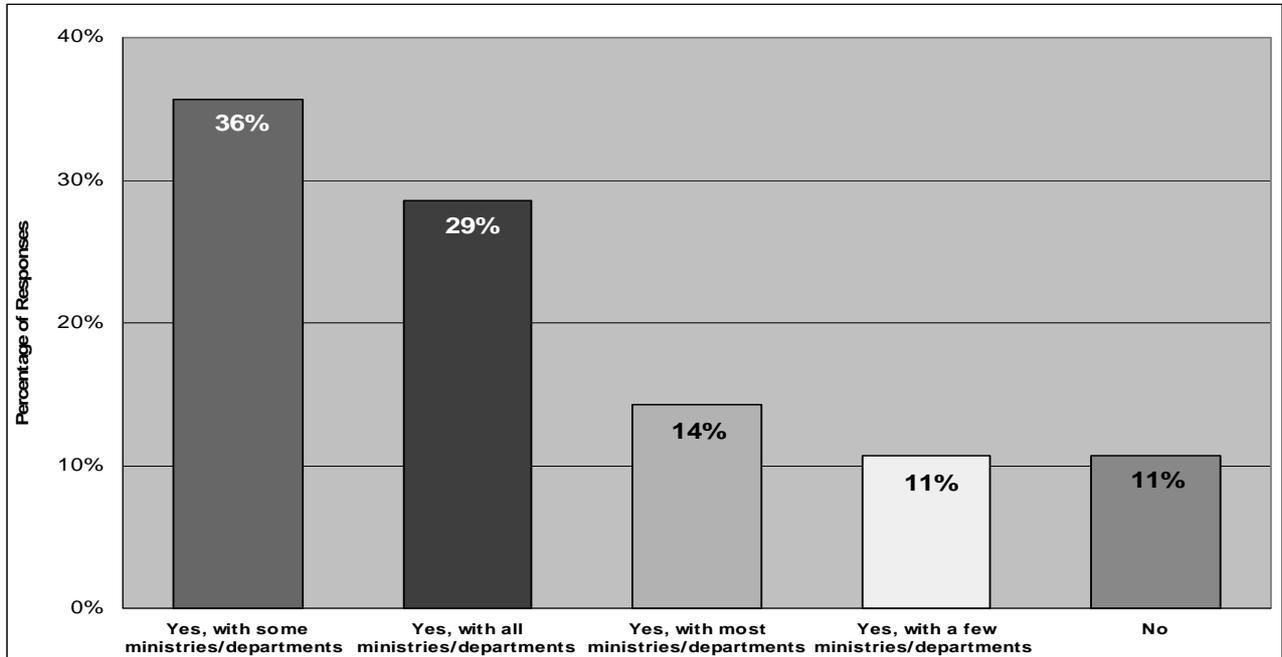
49. **Direct linkage:** The third category is direct performance budgeting. Direct linkage involves the allocation of resources directly and explicitly to units of performance. Appropriations can thus be based on a formula/contract with specific performance or activity indicators. Funding is directly based on results achieved. This form of performance budgeting is used only in specific sectors in a limited number of OECD countries. An example in higher education is the number of students that graduated with a degree would release funding for the university that ran the program in the proceeding year. In theory, this approach can be applied with or without formulas. In case of without formulas, there is a procedure or contract for systematically providing funding rewards or penalties on the basis of performance against targets. In this case better performance always means more resources and worse performance always means less but there is not a specific formula to define the amount of appropriation. Generally the direct linkage approach is used with formulas.

#### **4.2. Using Performance Measures in the Budget Process**

50. Using the above classification, this section will proceed to explore if and how performance measures are used in OECD countries.

51. It is clear for the figure 8 below 79% of respondents stated that performance results are used as part of the budget discussions between the MOF and all, most or some spending ministries (Figure 8 below).

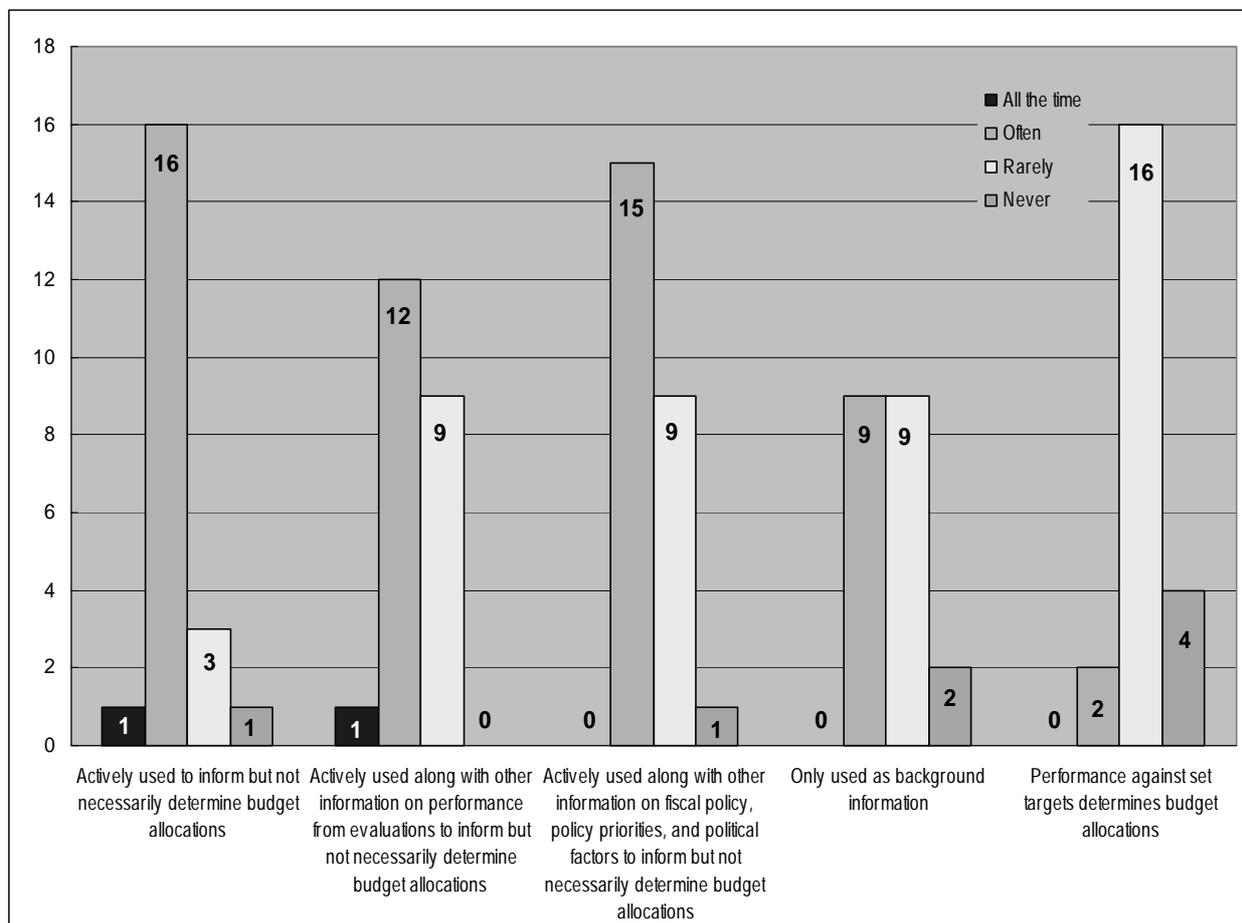
**Figure 8 - Are performance results used as part of the budget discussions between the Ministry of Finance/Central Budget Office and the spending ministries/departments?**



*Includes responses from 27 out of 28 countries.*

52. While performance information is at least part of the budget negotiation process, a key question is how it is used in this process. The figure 9 below addresses this question.

**Figure 9: When output and/or outcome measures are used by the Ministry of Finance/Central Budget Office in the budget formulation process, how are they used and how often?**



*Includes responses from 26 out of 28 countries. Italy and Israel did not provide a response.*

53. **Presentational performance budgeting:** A few respondents fit under the first category in that they use performance measures for background information only. These tend to be countries that are in the early stages of developing this approach or ones where evaluations are a main source of performance information. Alternatively, there are countries, like Iceland, in which performance information is not intended to be used as part of the budget formulation process at all. Rather it is there for accountability purposes or for informational reasons for spending ministries.

54. **Performance Informed Budgeting:** While performance against targets are rarely or never used to determine budget allocations, they are, however, often used by the MOF in the budget process to inform budget allocations. They are used along with other information on performance or fiscal policy, policy priorities and political factors. Therefore, the majority of respondents' approaches to performance budgeting fits under this second category.

55. **Direct Performance Budgeting:** This third category is rarely used. Two-thirds of respondent stated they do not directly link performance results to appropriations. Where there is such use, it has been so for many years and it is concentrated in certain countries and in certain sectors (mostly higher education and health). Annex C lists the countries and areas in which this approach is applied.

56. This form of budgeting is applied to fund higher education in Sweden, Denmark, Finland, Norway, Chile and Hungary. In these cases, either all or a proportion of the funding for university teaching is based on a formula in which performance is the key element. For example, the number of students completing the normal number of credits for an academic year is the performance element in the Danish formula. In Denmark, Sweden and Finland, this approach has been accompanied by more freedom for universities in terms of how they used their funds. It is seen as having contributed to improving universities operational efficiency. In these countries, increasing the number of students in higher education has become a key political priority. Therefore, funding to this sector as a whole is not in short supply.

57. This form of budgeting is also applied to research funding in the United Kingdom and to a lesser extent in Norway. The UK government, through the Research Assessment Exercise, ranks academic departments every five years on the basis of the number of books or articles published and on the quality of the journal in which the articles are published.

58. Denmark, Norway and Chile also use this approach to partially fund the health systems through Diagnosis Related Groups. It has also been applied to a more limited extent in the public employment areas.

59. This form of funding is rare and only applied in certain sectors partial because it is necessary to have clear and easily quantifiable measures for outputs. These measures and the associated unit costs have not only to be agreeable to Ministry of Finance, but also to the ministries/agencies supplying the service. There can be problems with overproduction as Norway experienced, when it first introduced this form of funding in the hospital sector.

60. In most sectors and cases, performance informed budgeting is a more realistic approach to using performance information in the budget process at the government wide level, especially given the challenges facing many countries in accurately measuring performance and linking results to funding. However, performance informed budgeting also faces problems of a different kind. There is a danger that not enough weight will be given to performance information or that it can be sidelined, especially when other information is being considered. This can be a particular problem when there is no institutionalised process to include this information in the budget process.

### ***4.3 The Ministry of Finance motivating ministries/agencies to improve performance***

61. This section examines in more detail how the MOF uses performance information in the budget process. Since the key objective of these reforms is to improve the performance of government, a major issue is how the MOF (or other central agencies) use this information to motivate agencies to improve performance. They potentially have a variety of tools at their disposal, which includes the ability to confer on spending ministers/agencies money, freedom, and recognition.

62. The first refers to the potential for the MOF to financially reward or punish agencies for their performance. The second is to the potential to relax input controls on spending, purchasing or staffing. In theory, the introduction of performance measures is meant to be accompanied by a relaxation of inputs controls. However, in practice in some countries this has not been the case. There is the view that increased flexibility should be earned by better performance rather than given at the outset of the reforms. The third option is to make performance results public and to compare and score the performance of one agency against another or an agency against its own historical record. The idea is to publicly recognise good performance or name and shame underperformers by making this information available to the public and the legislature. In cases where there is more than one provider of a service and citizens can choose, this type of information can be used to inform their decisions. MOF's capability to use these tools either alone or in co-operation with other central agencies will depend on the individual country context and the role of

the ministry within the wider political system. This will be influenced by wider institutional factors such as the relationship of the legislature versus the executive.

63. This questionnaire concentrates on the first option: financial incentives. For both academics and practitioners an important question is if and how to use financial incentives to motivate organisation and/or individuals to improve performance. The key question is: do you reward good performance and/or punish bad, and if so, how? Intuitively, the answer is yes -- reward good performance and punish bad. However, the issues and context surrounding such a decision are more complex. On the one hand, if the MOF punishes an agency for performing badly for example by cutting expenditure or eliminating the programme, this sends a clear signal to other agencies that performance is taken seriously. On the other hand, performance measures only provide a snapshot of performance in time and do not explain the underlying causes of bad performance. To cut an agency's funding without understanding these causes could condemn it to under-perform.

64. While rewarding good performance is appealing, it does not take into account budgetary constraints and government priorities. Indeed some MOF have argued that spending ministries tend to see performance plans, targets and results as a vehicle for obtaining more funding rather than a method to improve performance. In a climate of budgetary saving, a question is whether to give additional funding to an agency, especially one that is not a government priority. In either case, there is always the danger that linking results to financial resources can create incentives to distort and cheat in presenting performance information. These are problems that can be particularly acute when performance information is not independently audited.

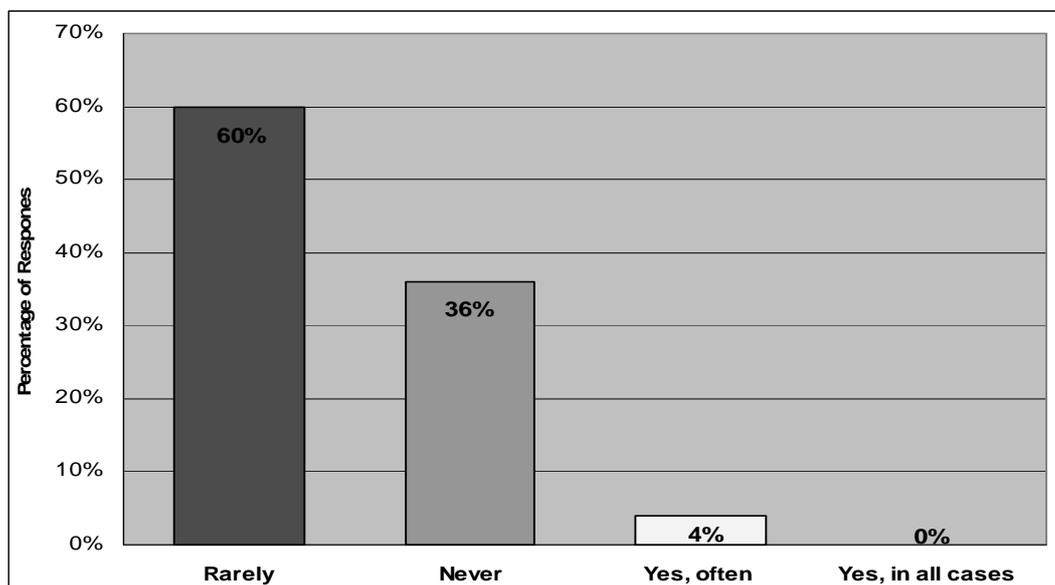
65. In addition to these incentive issues, there are also technical problems with linking results to financial resources in relation to the type of accounting system and the challenges already discussed in developing accurate measures and attributing programme activities to results.

66. The results of the questionnaire indicate that in practice, MOFs have taken a sensible cautious approach to using performance information to financially punish or reward agencies or individuals. Performance information – performance measures and evaluation - are rarely or never used to eliminate programmes or cut expenditure, or to reward agency heads.

#### *4.3.1. Performance Information is not used to eliminate programme or cut expenditure*

67. As can be seen from Figure 10, 96% of countries responded that when programme show poor performance they are rarely or never eliminated by the MOF.

**Figure 10 – Does the Ministry of Finance eliminate programmes when the results show poor performance?**



*Includes responses from 25 out of 28 countries.*

68. This figure refers to the performance measures. However, a similar picture emerges for evaluations, with only three countries – Israel, Korea and Poland - responding that the MOF often eliminates programmes which show poor performance. Eleven countries responded that this is a decision made by the relevant ministry, not the MOF.

69. Countries ranked the main factors that explain why programmes with poor performance results against targets are not eliminated by the MOF as follows:

- This is a decision for the relevant ministry
- Performance results are one of many factors in the decision-making process.
- There is political resistance to this action
- The activity or programme/activity is a political priority (this is ranked as the main secondary factor)

For evaluation, the following factors were listed:

- There are no established practices for using evaluation information in this way
- There is political resistance to this action
- The programmes are kept conditional on future performance improvement.
- The programmes are a policy priority.

70. In both cases performance information is not used to eliminate poor performing programmes because there are no procedures/policies in place for this decision to be made at the MOF level. Furthermore, there is not the political will to make these decisions. This reinforces the fact that performance information is just one of many factors in decision making, and as discussed in previous section, the majority of countries adopt the performance informed budgeting approach, which takes into account the importance of other information.

71. Eliminating a programme on the basis of poor performance is a strong course of action. An alternative is to cut the expenditure of the programme. Indeed countries ranked expenditure reduction as their major secondary aim for introducing performance measures into the budget process. In practice, however, performance information is not extensively used by the MOF to cut expenditure. In fact, 78% of respondents stated that they are rarely or never used by the Ministry of Finance to cut expenditure. Although evaluations, probably because they provide more information on underlying causes of problems, are used more often to cut expenditure, they are still in the majority of cases rarely or never used for this purpose. This does not rule out the possibility that spending ministries in their own budget formulation processes use performance information to reallocate resources across programmes.

72. Financially rewarding individuals and especially chief executives and agency heads is frequently seen as a way to motivate people to improve agencies' performance. Nonetheless, according to the results of this questionnaire, organisational performance measures are rarely or never used by the Ministry of Finance or the central budget office in determining the pay or rewards/bonus of heads of ministries/agencies with responsibility for delivering programmes. Evaluations are also rarely or never used for this purpose. These results could reflect the fact that in some countries the Ministry of Finance does not carry out this role, i.e. pay systems are determined by other central bodies or spending ministries. Previous OECD research, however, confirms that in the majority of OECD countries, success or failure in meeting organisational performance targets is not often reflected in the pay of heads of organisations.<sup>9</sup> It can be technically difficult to link organisational targets and results to those of individuals<sup>10</sup>. Although there are a few notable exceptions -- for instance, in the United Kingdom and Denmark<sup>11</sup> - organisational performance results are rarely used to directly determine pay.

73. If poor performing organisations are not eliminated, their expenditure is rarely cut, and performance rarely impacts directly on the pay of agency heads, what action is taken?

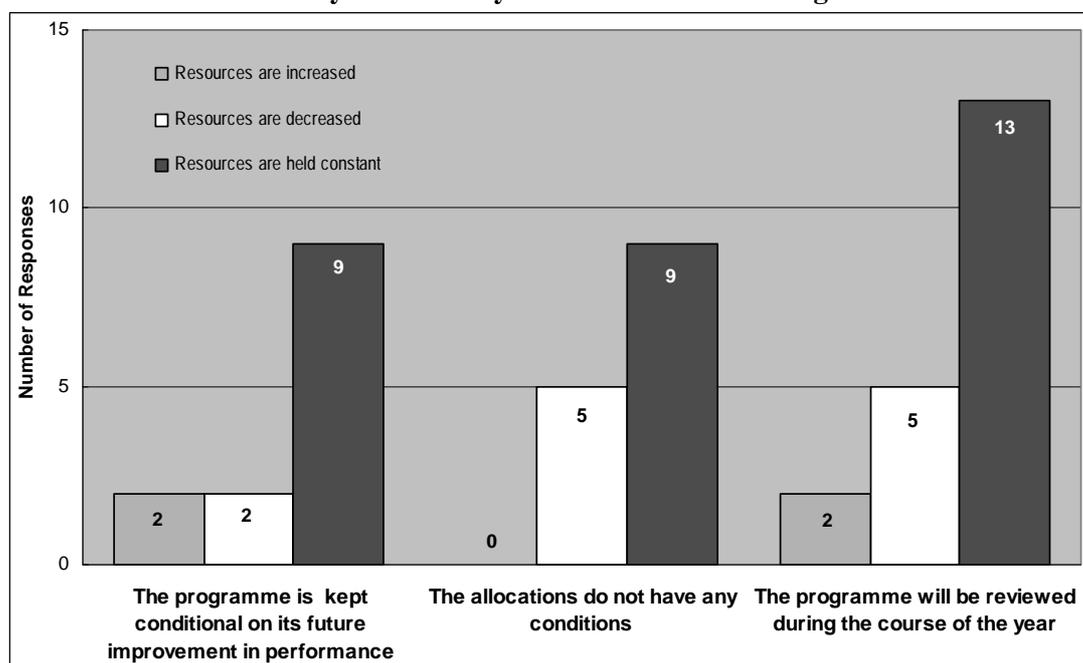
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<sup>9</sup> OECD (2005), *Modernising Government: the Way Forward*.

<sup>10</sup> Curristine, T.(2005), "Government Performance: Lessons and Challenges", *OECD Journal on Budgeting*, Volume 5, No. ,1 and see : OECD/World Bank Database, Question 5.4.c.8, <http://ocde.dyndns.org/> .

<sup>11</sup> In these countries the bonus of chief executives is linked to their agencies' performance results.

**Figure 11 – The most common action taken if a programme with poor performance results is not eliminated by the Ministry of Finance/Central Budget Office**



*Includes responses from 22 out of 28 countries.*

74. As indicated in Figure 11, the most common course of action in the case of performance measures is that resources are held constant and the programme is reviewed during the course of the year. Other actions include that the programme is maintained conditional on future performance. A similar picture emerges for evaluations in that the most common course of action is that resources are held constant and the programme is reviewed during the course of the year.

75. For a number of reasons, it is seen as beneficial that the majority of countries have to date avoided mechanical links between performance results and expenditure -- which would result in an automatic cutting of expenditure or elimination of a programme for poor performance.<sup>12</sup> First, countries continue to struggle with the technical aspects. They have already highlighted the many technical challenges with this method, including designing measure for specific activities, obtaining good quality and sufficient data, and attributing outcomes to specific programmes. Second, in addition to technical or procedural problems with automatic linkage, it is not evident that this approach will create the right incentives to motivate agencies to improve performance.

76. If the Ministry of Finance is to motivate agencies to improve performance, it is important that they have some incentives at their disposal. These incentives can be financial or non-financial and formal or informal. While it is not beneficial to automatically punish agencies for poor performance, it can also be problematic to take no action all.

77. Performance information – evaluation and performance measures -- are used as part of the discussions between the MOF and spending ministries. When information indicates poor performance, it

<sup>12</sup> This is not to say that MOF should never eliminate or cut expenditure for programmes especially continuously poorly performing ones. Rather, it is best to avoid automatic linkages and to understand the reasons for the poor performance.

serves as a trigger to more closely monitor or review agencies or programmes. In addition, respondents ranked the general purpose for which performance measures are used by the MOF as providing information for policy development and advice, and to set resource levels. This means that, at least in the case of the MOF, the reforms are meeting one of their main objectives, which is to produce more concrete information on government performance for decision-making and the setting of future targets and priorities.

#### **4.4. Explanations for use and/or lack of use of performance information by the Ministry of Finance**

78. This section addresses what factors respondents listed as explaining the use or the lack of use of this information in the budget process. Respondents ranked in order of importance the following factors to explain why the MOF or the respective ministry uses evaluations in the budget process

- Political support for programme improvements in the respective area
- The types of goods and services

Secondary factors

- Budget constrains: limits imposed on that area
- Quality of information

79. Again political factors are playing a role in the use of performance information in decision making, although in this case, it is a positive force pushing change.

80. The opposing question is when the information is available, why do MOFs not use it, especially when there has been an extensive increase in the quantity of information and a large investment in these reforms. For both performance measures and evaluations, respondents listed the most important factor as:

- There does not exist a process for integrating the performance information into the budget process.

Secondary factors listed for performance measures are:

- The information is not sufficiently relevant.
- Objectives are not clearly defined

Other factors influencing the lack of use of evaluations are:

- Used at the spending ministry level
- The information is not sufficiently relevant
- The quality of evaluations is poor

81. Clearly the use of performance information is related to the availability of a process to integrate the information into the budget process and the relevancy and quality of that information.

#### **4.5. Use of performance information by spending ministries**

82. To date the paper has largely concentrated on the use of performance information by the MOF. If performance information is to achieve better results, it is important that it be used by spending ministries in decision making. In fact, spending ministries are often the key developers and users of this information.

83. The use of performance measures in the budget formulation process is more frequent and higher among spending ministries/agencies than MOFs. This is especially the case in performance agreement procedures between ministries and agencies.

84. Performance measures are generally used by spending ministries to first and foremost manage various programmes and agencies. Other main uses are to redistribute resources, to extend programmes, and to provide information for policy development and advice.

85. Respondents were asked to identify spending ministries which they felt had used performance measures and evaluations successfully in their budget process (See Annex D and E for a listing). Countries also ranked in order of importance the factors that explained this successful use of performance information. For both performance measures and evaluations, the most important factor was the type of good and services, followed by the support of the top management of the respective ministry. The same factors explained ministries success in developing high quality performance measures.

#### **4.6. Conclusion**

86. The majority of MOFs across OECD countries make use of performance measures in the budget process. They engage in performance informed budgeting that this performance data is used to inform but not determine budget allocations. While the main objective for introducing performance measures is to improve agencies and programmes' performance, most MOFs do not use financial incentives to reward or punish agencies. Performance measures or evaluations are rarely used to eliminate programmes or to cut expenditure. The capacity of MOFs to take such action is in some cases restricted by the lack of institutional power and political will.

87. MOFs in most countries have taken a realistic approach to performance and avoided the automatic linking of expenditure to results, for reasons of technical limitations, but also because of concerns about its impact on behaviour. Performance information is used to inform budget allocation and in keeping with its other objective, to provide information for policy advice. It also acts as a signal to highlight agencies that are performing poorly and that may need to be more closely monitored. By and large the greatest developers and users of performance measures and results are spending ministries. This is even more the case with evaluations, which will be discussed in the next section.

### **5. Evaluations**

88. This section examines in more detail the development and use of evaluations in the budget process. It will discuss the role played by the MOF, the challenges encountered, main trends and improvements, and the monitoring and follow up of the results of evaluations.

89. The majority of OECD governments develop both performance measures and evaluations. Depending on the country and the sector, one method or approach can be more emphasized or dominant than the other. In a few countries, for example Japan and Germany, evaluations are the main source of performance information. In Japan, output/outcomes measures play a relatively minor role. In both countries, the latest initiatives in performance information have been in the area of further developing evaluations.

#### **5.1. The role of the Ministry of Finance and spending ministries in development of Evaluations**

90. While the role of the MOF varies across OECD countries, it tends to have a less active role than is the case of performance measures. Spending ministries play a much greater role in the development and use of evaluations. For example, spending ministries are the main bodies that select activities and programmes for evaluation and conduct evaluations. In some countries, the other body that plays a major role is the national audit office.

91. In relation to evaluations, respondents listed the main responsibilities of the MOF as follows:

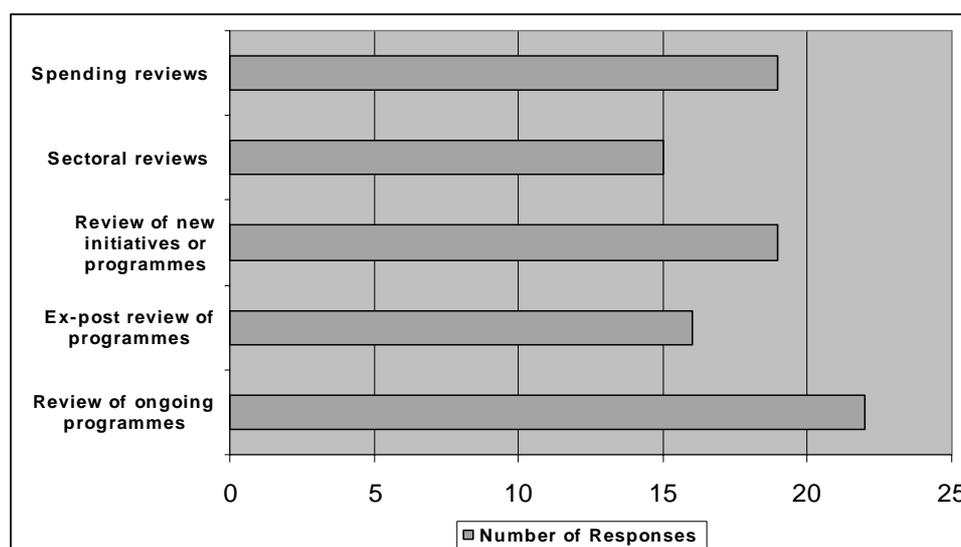
- Review spending ministries progress in commissioning/conducting evaluations
- Provide general policy advice and guidance to spending ministries
- Recommend that spending ministries use evaluations in their budget process

92. Generally the role of the MOF in this area can be summarised as reviewing reports and providing guidance.

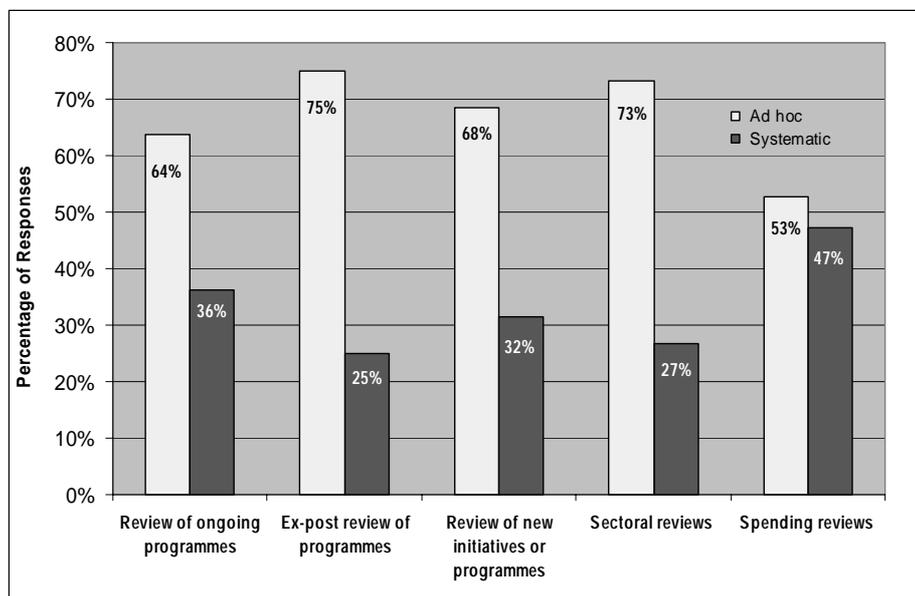
**5.2. Types of Evaluations and Challenges**

93. Nevertheless, as can be seen from figure 12a, the MOF does in some countries conduct and commission evaluations.

**Figure 12a - What type of evaluations are commissioned and/or conducted by the Ministry of Finance?**



*Includes responses 25 out of 28 countries.*

**Figure 12b: On what basis does the Ministry of Finance commission or conduct evaluations?**

*Includes responses from 25 out of 28 countries*

94. Most of the evaluations undertaken by the MOFs are on an ad hoc basis. This is probably because the MOFs call for evaluations when they see problems rather than on a planned basis. The exception to this is spending reviews which are conducted on a more systematic basis than other reviews. Annex F lists the names of evaluations that MOFs consider the most relevant for their work.

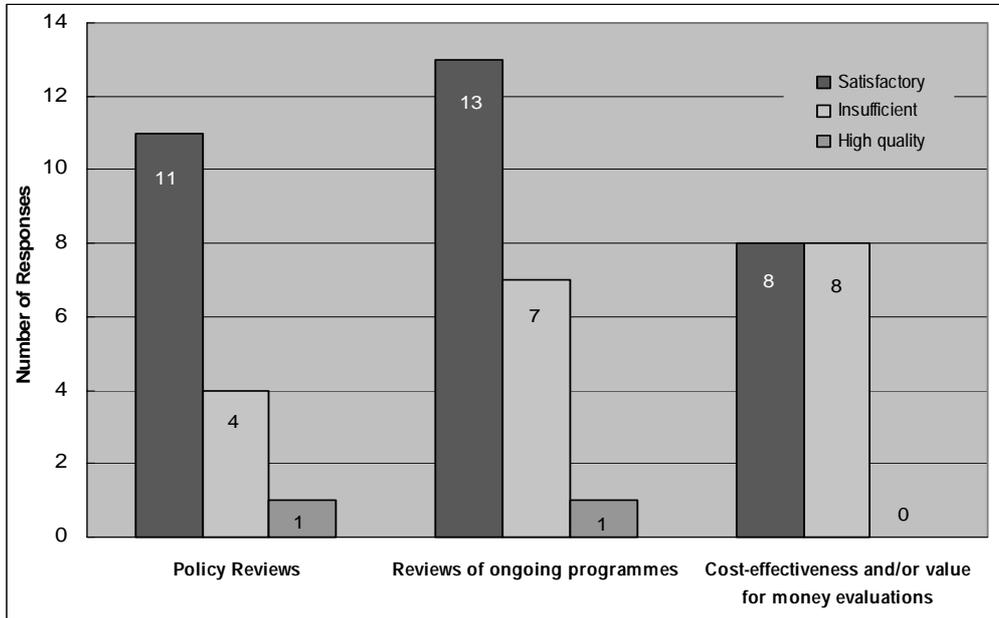
95. In terms of the challenges faced by MOFs in conducting evaluations, respondents listed them in the following order of importance:

- Insufficient and poor quality data
- Unclear targets and objectives
- Insufficient political interest in carrying out this kind of work.

### 5.3. *Quality and improvement trends*

96. Figure 13 shows how MOFs have found the quality of evaluations commissioned/conducted by spending ministries over the past three years.

**Figure 13 - What has been the quality of the information provided by evaluations commissioned/conducted by spending ministries in the last three years?**

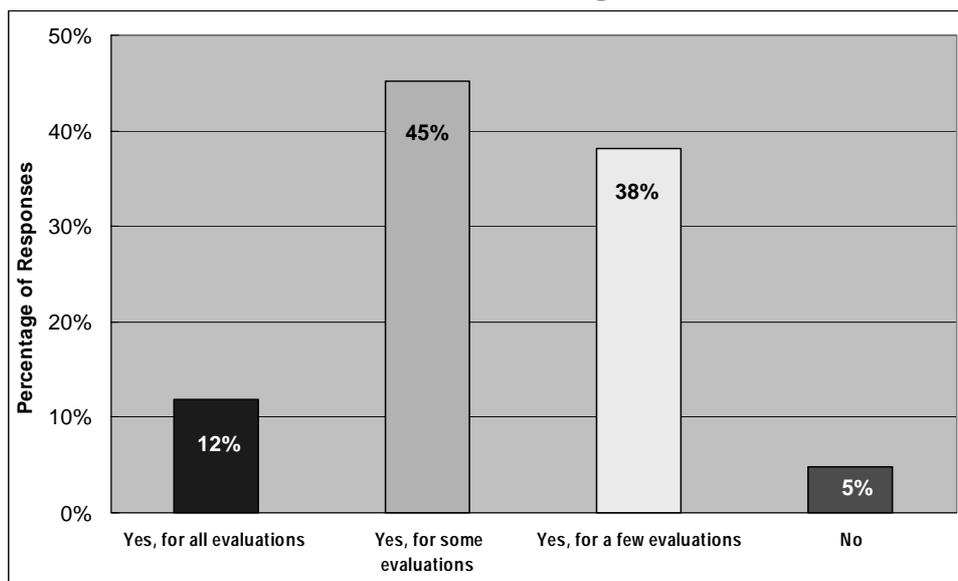


*Includes responses from 20 out of 28 countries. .*

97. In general, MOFs have found evaluations to be satisfactory, relevant and accurate for policy reviews and reviews of ongoing programmes. However, very few respondents found any evaluations to be of high quality. They were the least satisfied with cost-effectiveness and/or value for money evaluations.

98. Figure 14 asked if the recommendations included in evaluations are sufficient to be the basis for decision-making

**Figure 14 – Are the recommendations included in evaluations sufficient and relevant to be the basis for decision-making?**



*Includes responses from 25 out of 28 countries. .*

99. A mix picture emerges, with the majority of respondents stating that all or some evaluations are sufficient and relevant enough to be used in decision making. 43 % of respondent felt this was the case for only a few or no evaluations.

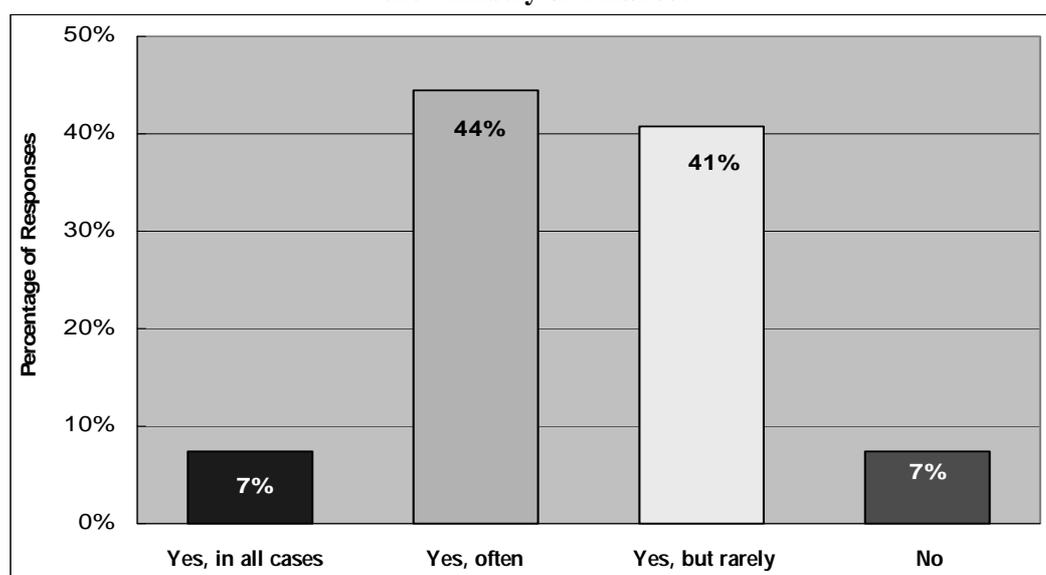
*5.3.1 Main trends in improvements in the past five year*

100. Similar to performance measures, according to 78% of respondents, there have been improvements in the quantity of the data. There has been an even greater improvement in the specification of targets and strategies (82% of respondents) and to a lesser extent an improvement in the quality of the data (74% of respondents). 50% of respondents noted that there had only been a little or no improvement in the use of the data in programmes and policy decisions. There has been little or no improvement in using evaluations in the allocation of resources, with 38% seeing no improvement in the past five years in this area. While there are similar issues for performance measures, this is clearly a greater problem for evaluations.

**5.4. Use of Evaluations in the Budget process**

101. Figure 15 shows that for 51% of respondents the findings of evaluations are used all the time or often in negotiations between spending ministries and the MOF.

**Figure 15 - Are the findings of evaluations produced by spending ministries used in negotiations with the Ministry of Finance?**



*Includes responses from 27 out of 28 countries.*

102. Performance measures are used more often in budget negotiations than evaluations. For 48% of respondents, evaluations are rarely or not used. This could be because it is the spending ministries or national audit offices that are responsible for commissioning and conducting evaluations in many OECD countries.

103. When evaluations are used in the budget process by MOF, they are used to inform, not determine budget allocations. 66% of respondents stated that evaluations are often used along with other information on performance (30%) or information on fiscal policy and political factors (36%) to inform but not necessarily determine budget allocations. Evaluations are used more often as only background information (30%) than outputs/outcome measures (17%).

104. As already discussed in the previous section, evaluations are rarely or never used to eliminate programmes or to determine pay rewards for agency heads. They are only occasionally used to cut expenditure. Evaluations are generally used by MOF to allocate resources within programmes and for justifying existing allocations to specific activities/programmes.

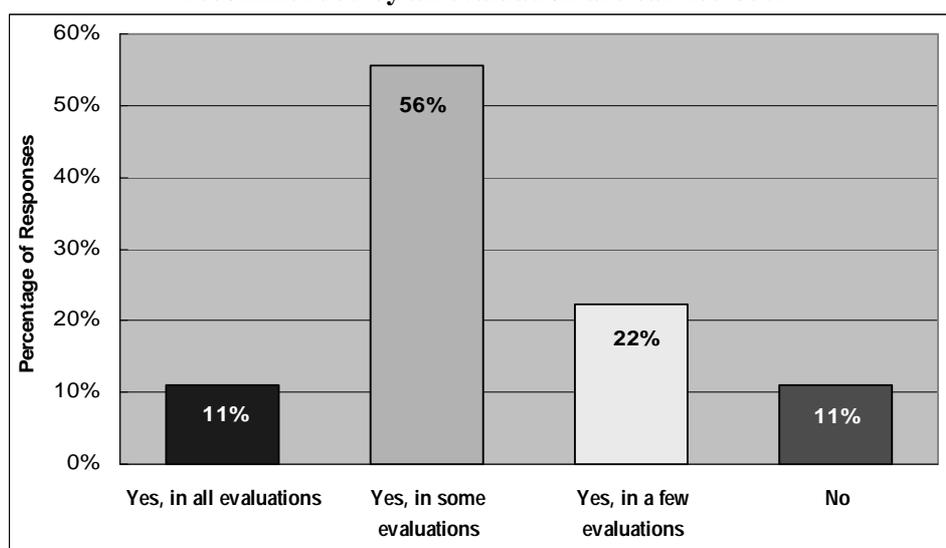
105. Nevertheless, evaluations are much more widely used by spending ministries. They tend to be used not so much as part of the budget formulation process, but rather for strategic activity and target settings.

**5.5. Monitoring or follow-up on recommendations of evaluations**

106. Unlike performance measures, evaluation reports – depending on the type of evaluation – can provide explanations for success or failure of programmes and also make recommendations for future action. Therefore, the production of these reports is only one stage in the evaluation process. If they are to be taken seriously, it is important that there be monitoring or follow-up to see if accepted recommendations are implemented<sup>13</sup>.

107. As can be seen from figure 16 below, in 67% of cases there is a follow-up process to examine if the actions or activities recommended have been carried out for some or all evaluations.

**Figure 16 - Is there a monitoring or follow-up process to examine if the actions or activities recommended by an evaluation are carried out?**



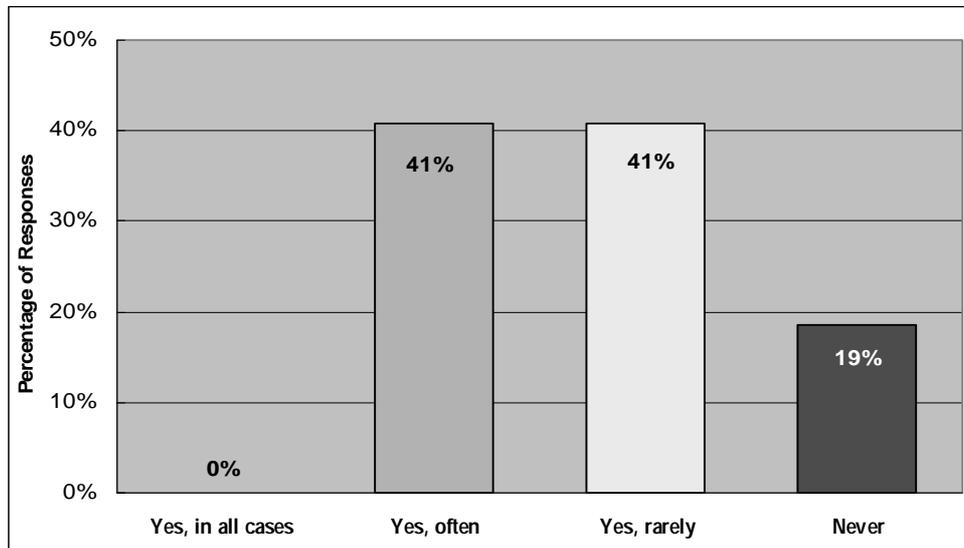
*Includes responses from 27 out of 28 countries.*

108. When evaluations are conducted outside of the budget process, the spending ministry in charge of the programme is responsible for monitoring the follow up in 51% of cases. When it is decided as part of the budget process, both the MOF (31%) and the relevant ministry (33%) are responsible for the follow up process. In 44% of cases, information on monitoring and follow up is considered by the MOF in some or all of the evaluations in the budget processes.

109. As can be seen from the figure 17 below, there are mixed responses, in the majority of cases, there are never or rarely consequences if recommendation are not followed. In 41% of the cases, there are often consequences.

<sup>13</sup> OECD (1997), Programme Evaluation, OECD, Paris

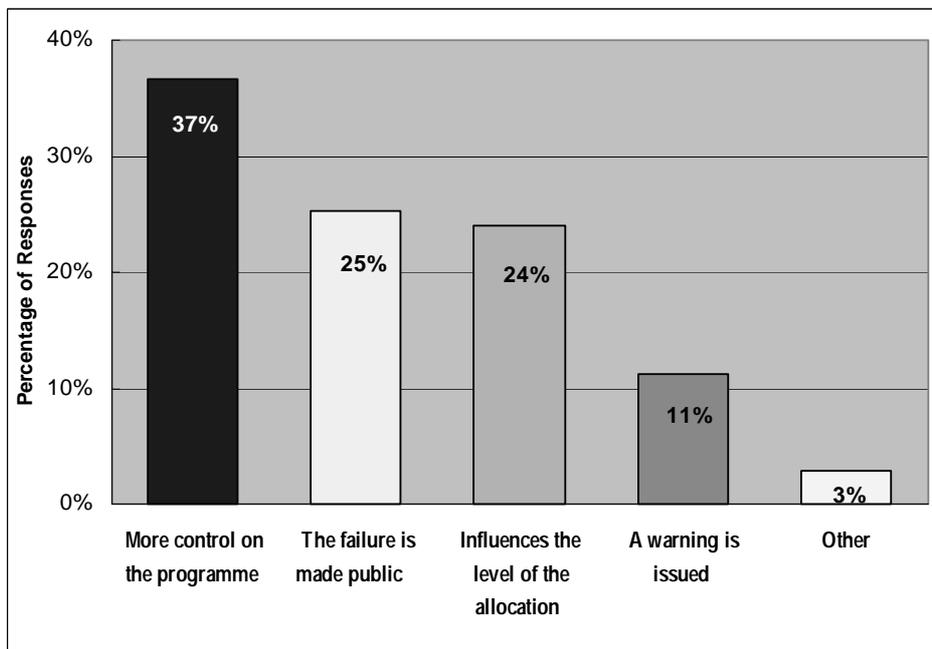
**Figure 17- Are there any consequences for ministries/departments/agencies if recommendations are not followed?**



*Includes responses from 27 out of 28 countries.*

110. When there are consequences, as can be seen from figure 18 below, the most common one is that there is more control on the programme followed by the failure being made public

**Figure 18 - The most common consequences for ministries/departments/agencies if recommendations are not followed?**



*Includes responses from 21 out of 27 countries..*

111. While the majority of countries have adopted some type of follow-up process for monitoring the implementation of recommendation from evaluations, in many cases, it is the responsibility of the ministry

in charge of the programme being evaluated. Similar to the failure to meet performance targets, sanctions do not typically apply for non-compliance with recommendations of evaluations.

112. Even more so than for performance measures, spending ministries are the main developers and users of evaluations. The role of MOF in this area is more limited. Evaluations are used less often in budget negotiations between MOF and spending ministries than performance measures. When they are used, similar to performance measures, they are utilised to inform but not determine budget allocations. Countries are still struggling to improve the quality and relevancy of evaluations. Similar to performance measures, the main reason for failure to use evaluations is the lack of a process for integrating the performance information into the budget process.

## **Conclusion**

113. Across OECD countries, the development and introduction of performance information in budgeting and management is both a widespread and a long-term trend. In the past decade, countries have made improvements in the quantity of performance data. However, they continued to struggle with the quality and relevance of data, and with issues of attribution and use.

114. Among both practitioners and academics, these reforms have attracted strong critics and supporters. On the one hand, critics claim these reforms are a useless, expensive paper exercise with no impact on decision-making. On the other hand, advocates maintain it has transformed the budget process, replacing input budgeting with a new system in which output and outcomes determine funding.

115. The results of the questionnaire show that, in practice, neither is the case. Rather the trends indicate that a majority of countries have taken a realistic and sensible approach. They do use performance information at the MOF level (more so for performance measures than evaluations) to inform, but not determine, budget allocations. In practice, direct performance budgeting which directly links performance to results is rarely used and only applied in certain limited sectors. Indeed, it may only be suitable for certain types of activities and sectors.

116. These reforms have been introduced into an existing institutional context and budget process. In most cases, they have not completely transformed or shifted systems away from inputs at the MOF level. Rather, performance information is used alongside other information on performance or with fiscal policy, policy priorities and political factors. In most countries, inputs still clearly play a role and sometimes a strong one. Indeed, it is usually necessary to focus on output, outcomes and inputs..

117. While performance informed budgeting is a realistic approach to using performance information in the budget process, there is a danger that not enough weight will be given to this information or that it will be sidelined, especially given the time constraints of the budget process. The main explanation for non-use of performance information is the lack of a process to integrate it into the budget process. Therefore it is important to have a process to integrate this information into the budget process and to encourage budget officials to use it if they are not already doing so.

118. The majority of countries have avoided any mechanical links between performance results and expenditure that would result in an automatic reduction of expenditure or elimination of a programme for poor performance. Performance measures or evaluations are rarely used to eliminate programmes or to cut expenditure. That countries have avoided these links is seen as positive especially since so many countries are still struggling with measurement and attribution issues. However, a key aim of these reforms is to improve performance. If MOFs are to have a role in achieving this goal, some form of incentive is needed, either formal or informal, financial or non-financial, to motivate agencies to improve performance.

119. Performance information, especially evaluations, are more often developed and used by spending ministries than MOFs. In some ministries, this approach has helped to improve performance. The main factors explaining the successful development and use of performance information are strong leadership at the organisational level and political pressure for change.

120. The use of performance information in the budget process is still under development. Despite many years of experience with this approach, countries continue to find it challenging and struggle with many technical and behavioural issues. Nevertheless, countries are rising to the challenge by continuing to develop new initiatives and adopt their approaches in response to new demands and changing circumstances.

**Annex A: The most recent government initiative/s to introduce performance-based budgeting and/or management**

Country	Title and Description
Austria	Bundesvoranschlag 2004
Belgium	Copernicus
Canada	Results for Canadians; Management Accountability Framework; Management Resources and Results Structures; and Expenditure Management Information System
Chile	System of Management Control and Results-Based Budgeting
Denmark	A new initiative called "Accrual budgeting" was recently introduced and new guidelines were issued called "Guidelines on performance management."
Finland	Productivity Project, Accountability, and Performance Management Project
France	Budgetary reform was initiated by the organic budget law of August, 2001.
Hungary	There is no specific name for the efforts.
Iceland	The performance management program was created as part of a wider strategy to modernize government management of the implementation of the budget, but it is not meant to be a part of the budget formulation process.
Ireland	Resource Allocation & Business Planning (RABP) Pilot Plan.
Japan	The Government Policy Evaluations Act enacted in April 2002
Korea	Performance Management System
Mexico	New Programmatic Structure (NEP) and Performance Evaluation System (SED)
New Zealand	Managing for Outcomes
Norway	Regulation of financial management 1996
Poland	There are many activities and variety of names
Portugal	Legislation applying performance evaluation of civil servants (Law 10/2004; Legislation approving the main rules of the managerial staff of the services and entities of Central, Regional and Local Government Administration (Law 2/2004); Organic law of the public institutes/agencies (Law 3/2004); Principles and rules to the organization of the State direct administration. (Law 4/2004); Ministries Council Resolution n.º 53/2004; Framework budget Law 91/2001.
Slovak Republic	World Bank Project - ECORYS - Strengthening Institutional Capacity for Budgeting at the Ministry of Finance and Six Key Budget Chapters
Spain	The General Budget Law / 2003
Sweden	The general introduction of results-based budgeting in 1988.
Turkey	Performance-based budgeting and management is introduced in the Public Financial Management and Control Law (2003).
United Kingdom	The Public Service Agreement Framework
United States	Budget and Performance Integration

**Annex B : Ministries/departments which have successfully developed high quality output and/or outcome measures**

	<b>Sector</b>	<b>Ministry/Department</b>	<b>Government Organisation/ Agency</b>
Austria	Finance/Budget/Treasury	Federal Ministry of Finance	
	Justice/Legal Affairs	Federal Ministry of Justice	
	Interior	Federal Ministry of Interior	
Belgium	Health	Health	The Food Agency
	Social security	Social Security	Social security institutions (agencies); in relation with the agreements concerning management
Canada	Finance/Budget/Treasury	Customs and Revenue Agency	
	State Reform	Public Works and Government Services Canada	
	Labour/Employment	Human Resources Development Canada	
Chile	Education	Ministry of Education	National Board of Nursery Education (JUNJI)
	Communication/Information	Ministry of Transport and Communication	Undersecretary of Telecommunication
	Culture/Heritage	Ministry of Education	Libraries and museums Directorate (DIBAM)
Finland	Labour/Employment	Ministry of Labour	
	Health	Ministry of Social Affairs and Health	
	Finance/Budget/Treasury	Ministry of Finance	
France	Finance/Budget/Treasury	Ministry of the Economy, Finance, and Industry	Directorate-General of Taxes
	Justice/Legal Affairs	Ministry of Justice	Criminal Investigation Program
	Education	Ministry of National Education, Research, and Technology	School teaching program
Germany	Other	Ministry of the Interior	Federal Statistical Office
Hungary	Health	Ministry of Health	
	Education	Ministry of Education	
	Finance/Budget/Treasury	Tax Agency	
Korea	Culture/Heritage	Ministry of Culture & Tourism	
	Environment	Ministry of Environment	
Mexico	Health	Ministry of Health	
	Social Development	Ministry of Social Development	
	Education	Ministry of Education	
New Zealand	Justice/Legal Affairs	Corrections	Department of Corrections
	Transport	Transport	Land Transport Safety Authority
Norway	Health	Ministry of Health	Hospitals (DRG-System)

	Education	Ministry of Research and Education	University / college
	Local Government	Ministry of Municipalities	Counties and municipalities
Portugal	Health	Health Ministry	Public Hospitals
	Education	Education Ministry	Universities
Slovak Republic	Interior	Ministry of Interior	
Spain	Agricultural sector	Ministry of Agriculture	Integrated Ministry and dependent Agencies
Sweden	Environment	Ministry of the Environment	National Environmental Agency
	Justice/Legal Affairs	Ministry of Justice	Police, Prosecutors, Courts, and Prison Administration
	Social Affairs	Ministry for Social Affairs	
United States	Environment	Environmental Protection Agency	Entire Agency
	Foreign Affairs	Department of State	Outcomes for a variety of hard to measure goals
	Health	Department of Veterans Affairs	Veterans Health Administration

**Annex C: The most important programmes and ministries/departments in which formulas/logarithms that set the achievement of performance results (measured against targets) during the fiscal year as a condition for spending the appropriation**

	<b>Sector</b>	<b>Ministry/Department</b>	<b>Programme</b>
Chile	Education	Ministry of Education	Voucher System for child care, primary and secondary education
	Education	Ministry of Education	University grants (direct funding for higher education)
	Health	Ministry of Health	Diagnostic relates group (DRG) in hospitals
	Health	Ministry of Health	Per capita funding for local clinics (primary health care)
Denmark	Education	Ministry of Education	Technical Schools
	Education	Ministry of Science, Technology, and Innovation	Universities
	Health	Ministry of the Interior and Health	Hospitals
Finland	Education	Ministry of Education	University Education, Occupational Education
Hungary	Education	Ministry of Education	Higher Education
Iceland	Education	Ministry of Education	Teaching in colleges/universities
	Health	Ministry of Health	Nursing Homes
Norway	Hospitals	Ministry of Health	Financing of hospitals (DRG-System)
	Universities/Colleges	Ministry of Research and Education	Financing of universities and colleges
Portugal	Education	Education Ministry	Financing of universities
	Health	Health Ministry	Financing of public hospitals
Sweden	Education	Ministry of Education	Production of basic academic exams
	Trade/ Industry	Ministry of Industry	Swedish Patent Office
	Trade/ Industry	Ministry of Industry	Swedish Company Registration Office
	Trade/ Industry	Ministry of Industry	National Land Survey: The Cadastre Service
United Kingdom	Health	Department of Health	Primary Care Trusts
	Labour/Employment	Department of Work and Pensions	The New Deal

**Annex D: Ministries/departments/agencies that have successfully used evaluations in the budget formulation process**

	<b>Sector</b>	<b>Ministry/Department</b>
Canada	Culture/Heritage	Heritage Canada
	Labour/Employment	Human Resources and Skills Development Canada
	Social Affairs	Social Development Canada
Chile	Education	Ministry of Education
	Social Affairs	Social Investment Fund (FOSIS)
	Social Affairs	Ministry of Housing
Finland	Education, Universities	Ministry of Education
	Communication/Information	Ministry of Transport and Communication
Germany	Education	Ministry for Education and Research
	Economy	Ministry of Economics and Labour
Hungary	Justice/Legal Affairs	Ministry of Justice
	Finance/Budget/Treasury	Ministry of Finance
	Education	Ministry of Education
Mexico	Social Development	Ministry of Social Development
	Health	Ministry of Health
New Zealand	Transport	Land Transport Safety Authority
	Justice/Legal Affairs	Department of Corrections Rehabilitative Services
	Health	PHARMAC (Drug Effectiveness Review)
Spain	Agriculture	MOF: State Agency for Agricultural Insurance
	Roads and Train Transportation	Ministry of Development and Investment (Fomento)
United States	Labour/Employment	Department of Labor: Job Corps Program
	Education	Department of Education: Even Start, Vocational Rehabilitation State Grants, Troops to Teachers
	Justice/Legal Affairs	Department of Justice: Drug Courts

**Annex E: Programmes, Ministries, and/or Departments that have used output and/or outcome measures successfully in their budget formulation process**

	<b>Sector</b>	<b>Ministry/Department</b>	<b>Programme</b>
Belgium	Labour/Employment	Social Security	Budget by performance
Canada	Finance/Budget/Treasury	Customs and Revenue Agency	
	State Reform	Public Works and Government Services	
	Social Affairs	Citizenship and Immigration Canada	
Chile	Communication/Information	Undersecretary of Telecommunication	
	Culture/Heritage	Libraries and Museum Directorate	
	Economy	National Consumer Service	
Finland	Education	Ministry of Education	University Education
	Health	Ministry of Social Affairs and Health	
	Agriculture	Ministry of Agriculture and Forestry	Forestry, Natural Resources, National Land Survey of Finland
Germany	Other	Ministry of the Interior	Federal Statistical Office
Hungary	Education	Ministry of Education	Minority Education
	Justice/Legal Affairs	Ministry of Justice	Financing of Prisons
Ireland		Most Department	NDP
		Relevant departments/offices	A number of expenditure reviews
Mexico	Social Development	Ministry of Social Development	Programa Nacional de Desarrollo Humano Oportunidades
	Education	Ministry of Education	Programa Escuelas de Calidad
	Health	Ministry of Health	Programa Nacional de Salud
Norway	Health	Ministry of Health	Hospitals
Portugal	Foreign Affairs	Foreign Affairs Ministry	External Cooperation
Spain	Transport	Ministry of Investment and Infrastructure	Road and Train Transportation Programs
United States	Health	Department of Health and Human Services	Agencies contributing to wellness, prevention, and risk reduction
	Transport	Department of Transportation	Agencies contributing to highway safety
	Transport	National Aeronautics and Space Administration	Shift in vision to manned flight

**Annex F: The most relevant form(s)/type(s) of evaluations for the Ministry of Finance.**

Country	Form(s)/Type(s) of Evaluations
Austria	Reports by external consultants and national audit body
Belgium	Reports of the National Court of Audit at the occasion of the elaboration of the budget and on the national accounts, information in the General Statement on budget
Canada	Formative and summative evaluations: (1) Departmental-based; (2) Horizontal, Policy Evaluation, Programme Evaluation; and (3) Evaluation of Horizontal Initiatives are pending.
Chile	Desk evaluation, Impact Evaluation, In-Depth Evaluation, and Comprehensive Expenditure Report.
Denmark	Budget reviews performed on an ad hoc basis
Finland	Evaluations are made on ac hoc basis and results are mainly used for strategic planning. The most relevant types are economic and economic policy surveys.
Germany	Cost-Effectiveness or Value for Money Evaluations
Hungary	In-medias-res desk evaluations.
Iceland	The Ministry of Finance monitors the financial performance of spending ministries in comparison with the budget. In case of significant variation the Ministry of Finance calls for explanations and encourages the spending ministries to take action, for example to change the programme structure, processes or management. Most of the evaluations are done on ad-hoc basis.
Ireland	Economic and Effectiveness Evaluations and Policy and Spending Reviews.
Japan	Budget examiners utilise evaluation for important programmes/activities reported by spending ministries. The evaluation typically reviews ongoing programmes and new initiatives describing its goal, necessity, efficiency, effectiveness, and performance measures to achieve its target. Concrete tools are used to assess the degree of achievement.
Korea	Programme evaluation is performed for on-going programmes.
Mexico	Finance Ministry concentrates on spending reviews, and participates on performance evaluation within the cabinet. The Ministry of Public Function is in charge of performance evaluation and general policy for the integration of indicators to spending units.
New Zealand	Impact evaluation; Formative evaluation; and Value-for-money reviews are conducted for major policies/services.
Norway	In a very few cases evaluations may be conducted or commissioned by the Ministry of Finance. These evaluations review ongoing and/or new programmes and initiatives.
Poland	Progress of spending ministries/departments is monitored.
Portugal	Systematic evaluation
Slovak republic	Annual evaluation of programmes
Spain	Special follow up system on selected programmes that will be reviewed by the IGAE (General Financial Controller)
Sweden	Ad hoc evaluations when expenditure increases in an unforeseen way in a specific area.
Switzerland	Surveys on transfers including evaluations.
United Kingdom	Reviews of policy areas (e.g. Housing, Planning, etc.)

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## GLOSSARY OF TERMS<sup>14</sup>

**Central Government:** The central government consists of all governmental and quasi-governmental units that exercise authority over the economic territory of a country. In general, the central government is responsible for those functions that affect the country as a whole: for example, national defense, and the international relations vis-à-vis countries and organisations, establishment of the legislative, executive and judicial functions, and public services such as healthcare and education.

**Cost-Effectiveness or Value for Money Evaluation:** This type of economic evaluation relates a programme's resource expenditures to its impact or outcomes achieved. Cost effectiveness evaluation is concerned with highlighting how well the costs of programmes or government activities have been translated into desired outcomes, and can indicate which set of interventions is best able to achieve the desired outcomes at the lowest cost. The most important difference from in-depth or impact evaluation is that it introduces information on costs of the programme into the analytical framework, relating it to the impact or outcome.

**Desk Evaluation:** A review conducted either while a programme is ongoing or when it is finished. Desk evaluation uses existing data (although it can also create new data) and applies simple tools. This type of evaluation covers the most important aspects of the programme and tries to obtain the best performance examination in a relatively short time in comparison with other methodological approaches.

**Economy:** Economy relates the cost of inputs being consumed with the value of outputs produced. Economy measures can be used to indicate whether the right price was paid to acquire the necessary inputs.

**Effectiveness:** Effectiveness is the extent to which programmes achieve expected objectives or outcomes. Effectiveness is the most important element of the public finance concept "value for money." Goods or services may be provided economically and efficiently but if they do not achieve their intended objectives the resources used could be wasted.

**Efficiency:** The relationship between the goods and services produced by a programme or an activity (outputs) and the resources used to produce them (inputs).

**Evaluation:** Evaluation refers to the assessment of an on-going or completed project, programme, activity or policy. Evaluations can include an examination of any one or all of the following aspects of a programme or policy: its objectives (policy priorities), design, implementation (process), and results (output/outcome/cost effectiveness). The aim can be to determine the relevance and fulfillment of objectives, in terms of efficiency, effectiveness, economy and sustainability. Various types of evaluations include: ex-post/ex-ante evaluations, desk evaluations, impact or in-depth evaluations, and self-assessments.

Evaluation and performance measurement are distinct tools. While performance measures deal with outcomes, outputs and/or process indicators, evaluation often includes a more detailed review of attributes and causality issues. Evaluation typically includes recommendations on changes to activities or programmes to improve its performance.

**Goals:** The higher-order objectives to which programme or government activities are intended to contribute. Goals or typically refer to results which may take a number of years to achieve and often involved many people, activities, processes and intermediate achievements.

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<sup>14</sup> This is the glossary of terms used in the OECD Questionnaire

**Government Organisation:** Includes all ministries, agencies and other government bodies/entities found within Central Government.

**In-depth or Impact Evaluation:** The principal aim of this type of evaluation is to evaluate the impact or outcome of a project, policy, programme or activity. In-depth and impact evaluations normally require more research than desk evaluations, rely on robust data collection, and employ more complex analytical methods.

**Indicators:** A quantitative or qualitative factor or variable that provides a simple and reliable means to measure achievement, to reflect the changes connected to an intervention or to help assess an actor's performance. Indicators and performance measures are often used as complementary tools when defining efficiency. In principle they are different: whereas performance measures are used when the results-based data is available, indicators are used when it is not possible to measure performance precisely. An indicator highlights the current state or trends of a chosen topic, e.g. pollution levels. Since it is not always possible to find an exact measure, the public sector often uses indicators to describe some crucial activity area.

**Input:** A measure of what a government organisation or organisation manager has available to achieve an output or outcome. Inputs can include: employees, funding, equipment, facilities, supplies, goods or services received, work processes, rules, etc.

**Monitoring:** A continuing function that uses systematic collecting of data on specified indicators to provide management and the main stakeholders with indications of the extent of progress, achievement of objectives and progress in the use of allocated Funds.

**Outcomes:** The effects and consequences government outputs and outcomes have on a community. Outcomes reflect both the intended and unintended results stemming from government actions. For example, a Ministry of Finance outcome could be that government finances are sustainable and an outcome from the Ministry of Transport could be a decline in road accidents decline by 5%.

**Outcome targets:** A measure of the level of impact that is the desired result from carrying out a program or activity over a period of time. For example, in the case of the Ministry of Transport the outcome target for a breath-testing campaign could be that the drunk driving rate decline by 10% in the next year and the impact on the road accidents decline by 5%.

**Outputs:** The goods or services government organisations provide for citizens, businesses and /or other government organisations/bodies. For example, a Ministry of Finance output could be the monthly delivery of financial performance reports and the annual financial statements.

**Output targets:** A description of the level of activity or effort that will be produced or provided over a period of time or by a specified date, including a description of the characteristics and attributes (e.g., timeliness) established as standards in the course of conducting the activity or effort.

**Performance:** Performance can be defined as the yield or result of actions carried out for a government, an organization, a unit or an individual person with respect to a set purpose. It is the fulfillment or achievement of these (in some specific cases it could be the way of doing the work or how things are done) purposes.

**Performance Contracts:** A performance contract is an agreement in which future targets and resources to reach these targets are defined. The counterparts to the agreement can be a ministry and its subordinated body or between managers and his/her subordinated employees.

**Performance Information:** Performance information is related to assessing actions working towards - and corresponding progress in - achieving set purposes. It is possible to apply different methodological approaches for doing this and these can be grouped into two broader concepts: performance measurement and evaluation. Performance information can be quantitative or qualitative.

**Performance Measurement or Performance Indicators:** Performance measurement is evidence that describes performance-related results such as economy, efficiency, and effectiveness. It may include output and outcome targets and goals, and – if necessary – may also include key processes that affect them. Performance measures can also include evidence regarding the extent to which outcomes can be attributed to a specific programme or government activity. Measurement can be made through indicators which can include both quantitative or qualitative information. Performance measurement or indicators are normally compared against some base or standard.

Types of performance measures and indicators with examples:

1. Describing the amount of outputs and products (e.g. number of roads built).
2. Relating to economy, productivity, and effectiveness (e.g. monetary unit).
3. Pertaining to quality or an organisation's internal functionality/effectiveness (e.g. the circulation time of a document, job satisfaction ratings).

### **Performance Information in the Budget Process**

This questionnaire will consider two broad forms of introducing performance information in budgetary decision-making: directly and indirectly linking appropriations/resource allocations to performance. Among them it is possible to find some important differences in the form and the role that performance information can play into the budget process.

#### *Linking Appropriations Directly to Performance*

Direct linkage involves the allocation of resources directly and explicitly to units of performance. Appropriations can thus be based on a formula/contract with specific performance or activity indicators. This form of performance budgeting is used rarely and only in specific sectors in OECD countries. It can be applied with or without formulas.

**a) With formulas:** In the formula approach, performance indicators or mathematical algorithms determine the budgetary appropriation and/or the real execution of expenditures. There are different ways to use formulas, for example funds can be appropriated such as appropriating according to predictions of future performance or based on the previous year's performance.

i. For example, the degree of accomplishment of predefined output/intermediate results or outcomes targets in the previous year determines, through a formula, the amount of appropriation for the next budget year. An example in higher education would be the number of students that graduated with a Master's degree would release funding for the university that ran the programme.

ii. Another case is that the achievement of a predefined quality standard - measured by formula - determines the amount of appropriation. For example, healthcare data on the number of cases or health problems (diagnostics) that will be resolved during the budget year and pertinent data on unitary cost can determine through a formula the amount of appropriation (known as DRG, Diagnostic Related Group). In

this case forecasts of performance in the upcoming budget year are used in the preparation of the budget process and performance measurements determine the real allocation.

**b) Without formulas:** In this case, better performance always means more resources and worse performance always means less (or cuts in activities or programmes), but there is not a specific formula to defining the amount of appropriation.

*Linking Appropriations Indirectly to Performance*

Indirect linkage implies that targets - along with other information - are being actively used to inform budget decisions. Performance information is very important in the decision making process but it does not necessarily determine the resource allocation.

**a) Into the policy framework:** In this first case, the decision-making process considers not only performance information, but also different types of information pertaining to macro restrictions on fiscal policy and policy priorities. Performance information is important, but it is not absolute and does not have predefined weight in the decisions. The final weightings will depend of the particular policy context.

**b) Into the broader political context:** In addition to the previous definition, the decision-making process can also consider political factors. In this case, even if performance information is part of the budgeting analysis it could ultimately play a minor role in some or many cases.

**Programme:** An activity or a group of activities intended to contribute to an identifiable set of government objectives. A programme should have an identifiable target population, a defined budget, allocated resources, and defined objectives and outputs.

**Targets:** Targets refer to specific results, often precisely measured (e.g time, cost, number, etc.), which can usually be accomplished in a shorter time period than goals, and are often an intermediate step in achieving a broader goal. Performance targets can be based on either outcomes or outputs.