Over the past few decades, a significant number of advanced countries and, more recently, some developing countries have moved the focus of their budget arrangements to emphasize performance. To varying degrees, and from very different starting positions, there has been a shift in budget management from controlling inputs and ensuring financial compliance, to a greater emphasis on the outputs and outcomes associated with public policy objectives. Over two-thirds of OECD countries now include non-financial performance information in their budget documents and focus on what is being delivered for the resources provided, rather than just how much money is being spent in any area. In many OECD and middle income countries, performance budgeting has been associated with the use of modern techniques of public management that emphasize individual and organizational responsibility and accountability for results.

Demands to improve results and to strengthen accountability have been strong incentives for some emerging economies, as in Latin America where the level of public trust in government has historically been low. Performance budgeting, as a reform aiming to improve government performance and service delivery, has the potential to contribute to increasing public trust in government and so strengthen citizens’ voluntary tax compliance, adherence to the law, private investment and political participation.

The recently published book *Results, Performance Budgeting and Trust in Government* follows from a conference on performance budgeting held in Mexico in June 2008 where a large range of experiences from Latin America and Organization for Economic Co-operation and Development (OECD)
countries was presented. Its intention is to provide readers and governments wishing to improve elements of their performance budgeting with an understanding of the many elements involved in implementing these reforms, particularly in performance-informed budgeting (PIB), focusing on the challenges and the variety of approaches taken to meet these challenges.

The book combines two seemingly diverse governance topics, adopts contrasting analytic styles to address these, and seeks to draw out their interconnections, with particular reference to OECD and Latin American countries. The first topic is PIB, which is discussed largely from the practical perspective of policy makers and practitioners, reflecting that it is a major public administration reform that has been underway for several decades. The discussion explores the most recent experience in PIB reforms, introduces new perspectives on issues such as performance agreements, and provides guidance on PIB implementation. The second topic is the trust of citizens and firms in government. This discussion reviews the current and at times heated debate on this topic and draws on the available literature and research data. From these, it reviews the trends in the public trust in government, and examines the causal relationship with government’s performance.

**Institutional foundations for PIB, the production, and the uses of performance information**

The book further explores key dimensions of PIB, including the institutional foundations, the production of performance information, and the uses of performance information:

- The institutional implications of performance budgeting and the changes to the “rules of the game” that countries tend to make have significant implications for roles, responsibilities, relationships, systems and practices. While there are few hard preconditions that can prevent countries making a start with such reforms, the book highlights the importance of: (1) the enabling environment, including the existing systems of budget management, accounting and monitoring, financial management; (2) managerial capacity; (3) realistic incentive arrangements that emphasize dialogue rather than control; and (4) modest starts that incrementally improve the confidence between different budget actors.

- The quality of information is important, given the potential role of credible, relevant information in building trust in government. The book discusses the challenges and ways to improve quality, with reference to the role of audit and statistical offices and how users can create incentives for good quality information. It also reviews the process of generating performance information, including the different types of information such as outcomes and outputs, expenditure classification to support PIB, models for managing the generation of performance information, and factors for determining what information to collect.

- In terms of the use of performance information, the book outlines changes to the traditional budget systems and institutional arrangements that have typically taken place in OECD countries in adopting performance-informed budgeting. These new institutional arrangements all contribute to the complex web of structured performance agreements that provide incentives and opportunities for the public sector to move beyond a control and compliance focus toward a performance culture.

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1 PIB is the systematic—though not exclusive—use of performance information in planning for public activities and ensuring accountability for deliverables, allowing for wide variation in how such information is used.

4 The term structured performance agreements is used here to denote situations where explicit or implicit expectations arise between different actors, whether through formal contracts or more informal understandings, which recognize performance information as the basis for dialogue around budget and/or management actions.
Why Trust in Government Matters

Trust in government is a general public assessment of government’s right to enforce its policy decisions, laws and regulations on its citizens, and of the likelihood that it will, in some way, follow through on its pronouncements and commitments. Trust in government is important because there is evidence that citizen’s trust in government, in a setting of functioning democracy, strengthens the social contract and leads to reciprocal actions in three main areas: (i) voluntary tax compliance - a citizen is more likely to pay taxes or obey laws that are imposed by a trusted government, as they are more likely to assume that the taxes are to be used, or the regulations applied, with a good intention in mind; (ii) compliance with legal obligations - this might include less corrupt behavior, greater participation in public services, compliance with military conscription, etc; and (iii) the exercise of political voice, through voting, membership of political movements, etc.

The book explores the difficulties faced by OECD countries in seeking to strengthen trust (or stem the decline) by improving public sector performance. It also examines the current low levels of trust in government in Latin American countries, the possible causes discussed and the implications for tax collection and service delivery improvement considered. Specifically, the lack of trust and low expectations that the state can effectively deliver services is reflected in the low fiscal capacity of the state: for example, the limited capacity to raise efficient tax revenues limits public spending.

Performance and Trust

The book further examines the relationship between performance improvements and changes in the level of trust in government. The literature on the drivers of trust in government offers an incomplete picture for OECD countries, and indicates that, in Latin America, there are wide variances in the public’s trust in different public institutions. Drawing from the data and analysis available, an hypothesis is offered that the impact of performance on improving the trust in a particular public institution is likely to be greater where the performance matters to citizens, they are aware of it, they trust the measures used, and the performance improvement exceeds expectations. This suggests that prospects for increasing trust through performance improvements are greater in countries such as those in Latin America than in OECD countries, particularly when the improvement is visible and is in an area of key public concern such as health or education. This partly explains the widespread interest in introducing PIB reforms in the region, which could help to improve citizens’ perception about government through the provision of better services or governance reforms.

Those trust rewards arising from public sector performance gains are key to the political attraction of undertaking the reforms in the first place, and also fundamental to the long standing question about sequencing. If trust in government can be increased through performance improvements, and if that trust translates into political capital which can be used to tackle some of the longer-standing institutional bottlenecks (civil service reform for example), then the sequencing is clear—performance first and deeper institutional reforms second. The book addresses then the question about how to best design PIB reform to generate improvements in trust, and to create the political space and momentum for further reform.

Implementing Performance-Informed Budgeting: Guidance for Practitioners

If the imperative is to improve performance without waiting for success in tackling long-standing institutional problems, what is the minimum set of changes that can provide a performance orientation to the budget? While recognizing the multitude of different approaches and practices, the book seeks to provide practitioners with some helpful observations and lessons that form a guide on the implementation of performance-informed budgeting, and particularly for those countries that may face significant governance challenges and capacity constraints.

The book presents a practical guide that identifies the typical foundations for implementation, framed around the budget management cycle. These are not intended as preconditions, but highlight different aspects that can support the implementation of PIB. They include: a sound macroeconomic and fiscal framework and the appropriate mix of top-down strategic and bottom-up budgeting processes; institutional arrangements that encourage the use of performance information during budget approval; a credible annual budget; effective internal controls and the introduction of systems to promote the management for results; the development of performance reporting and accounting systems; strengthened external audit
focusing on performance; the use of expenditure reviews; a program structure for the budget and a robust financial management information system. These are summarized in a table that can be used to help countries assess their progress in these areas, and possibly to help design further reforms.

In addition, aspects that can “provide leverage” in introducing PIB are highlighted, such as sustained political commitment, strengthening central budget functions, using sector pilots, careful planning and management of the change process, with complementary changes in budget preparation and presentation. The book concludes by considering some of the main risks and implications for the sequencing of performance budgeting implementation, and draws out the following five lessons associated with the implementation of performance informed budgeting:

• Move in stages, and use building blocks.

• Refocus and strengthen the central budget function.

• Ensure a commitment to good basic financial management, as this will always help.

• Be prepared to begin modestly.

• Continued effort will be required to make adjustments and to keep ahead of forces of the status quo.

Conclusions

In considering what reforms may be suited to a particular country, consideration should be given to the country context, their purpose and implementation experiences, and how to adapt the reforms to the country’s unique conditions. As noted by many authors in this book, there is no one model and no ideal implementation approach. Reforms need to be based on a deep diagnosis of the problems to be addressed and the desired changes, which means changing behaviors. The reforms have to move off the page and result in improvements in the quality of a government’s regulatory functions and the delivery of services to the public. This is an ongoing challenge for all governments to continually upgrade their performance, even the leaders in performance budgeting reforms.

It should also be remembered that while better budget systems can promote better decisions by politicians, budgeting is about politics, and a well designed budget system may be used to make decisions that are good or bad in the views of budget officials. As some of the cases featured in this book show, good budget systems do not lead by themselves to strong fiscal stances and optimal final outcomes. At the end of the day sound policy decisions make the difference, and mastering both the technical and political side of the equation is paramount. Strong budget institutions are effective in making the political contest over resources efficient in the sense of striking the best bargains available and avoiding destructive competition for resources and non-transparency. However, they are not simply technical exercises. Budget arrangements channel information into the political contest for resources and they need to be understood in this way.

For more information see:
www.worldbank.org/bookperformancebudgeting

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