

The public budgeting with observing performance: case of some transitional economies

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Abstract

The public affairs management has known an evolution starting from the traditional public budgeting which is interested in how the work must be done (inputs focusing) where Managers are encouraged to spend, not to 'economize' or 'innovate'. As a recent evolution, performance-based budgeting looks for outcomes to be reached. That means what programs are able to accomplish with a results Assessment by measurable indicators, making managers responsible for performance, which helps in enhancing more flexibility in management and innovation.

Many developed countries have important experiences on applying of performance-based budgeting which had given good results. Recently, many ex-socialist European countries (like Algeria) attempt to adopt the Pbb in order to improve their budget deficits, something that was effectively realized, and that what the paper aims to clarify.

Keywords: NPM, ILB, ZBB, PBB, Performance measurement.

Résumé : La gestion des affaires publiques a su une évolution à partir de la budgétisation publique traditionnelle qui est intéressée par la façon dont le travail doit être effectué (concentration sur les entrées) où les directeurs sont encouragés à dépenser, mais pas pour 'économiser' ou 'innover". En tant qu'une évolution récente, la budgétisation basée sur la performance s'intéresse aux résultats à atteindre. Cela signifie quels programmes peuvent accomplir avec une évaluation de résultats par des indicateurs mesurables, rendant les directeurs responsables de l'exécution, en donnant la flexibilité aux directeurs de "gérer" et 'innover".

Beaucoup de pays développés ont des expériences importantes sur l'application de la budgétisation basée sur la performance qui avait donné de bons résultats. Récemment, beaucoup de pays européens ex-socialistes (comme l'Algérie) essayent d'adopter le BBP afin d'améliorer leurs déficits budgétaires, quelque chose qui a été effectivement réalisés, et c'est ce que l'article vise à clarifier.

Mots clés : NGP, Budget traditionnel, BBZ, BBP, mesure de performance.

Introduction: The term new public management (NPM) covers many techniques that are aimed to repair the inefficiencies of the traditional model of public management (Laurence, 2005).

Under the new public management, the factors such as flexibility, decentralization, and market mechanisms are viewed as the key to performance measurement and improvement. Behn (2001) defines the new public management as a set of strategies and techniques that look for improving the performance of public sector. Pfiffner (1999) argued that the new public management gives importance to the decentralization, delegation, contracting, and the practice of the economic business and considering citizen as customer. A performance measure here is the alternative of the top-down tight control through rules and regulations.

The idea from the above statements would mean that the NPM system focuses on measuring performance for evaluating the programs and the performances of public organizations, rather than on measuring inputs as is the case in the traditional public management system.

1-the new public management emergence: The bureaucratic reforms are summarized around the idea that “good government” is “efficient government” (Terry, 2005), raising international attempts to refit the administrative machinery around anti-hierarchical, decentralized business-like models (James, 1998). Furthermore, as it was defended by the Reagan and Thatcher administrations, to become deeply rooted in democracy means that the public entities are managerially more lean, entrepreneurial, and market-oriented.. Such is the basis for one of public administration’s latest, flashiest new trends, the New Public Management (NPM), which has been adopted by numerous countries around the globe.

NPM attributes a high priority to measuring output and outcomes and aim to base their new policies and management activities on this type of information, ideally meant to make policy implementation more efficient and effective (SANDRA, 2002).

2- The performance in the public sphere: Performance is the fact of obtaining a result, which implies of course that this result must be good. This good performance for a public organization is very difficult to measure, and there is no consensus among researchers regarding performance measurement. Hence, the most common measures of performance would consist in studying its compliance with laws and regulations (Castagnos J.-C., 1987).

For any organization, the comparison of the three concepts (results, means, objectives) is essential, which implies three possible logics: logic of effectiveness, logic of efficiency, and logic of budgeting.

2-1- Budgetary Programming: The third element of the “triangle of the performance” is budgeting, that links proposed objectives to output measurements and the follow-up of their application. For as much, this logic can not include any taking into account of the result, or no measurement of the effective achievements, except if one introduces in complement a cost accounting leading to analyzes of differences between forecasts and achievements.

The logic of budgeting is traditional in the public sphere. Firstly, it aims at defining a reference concerning the allowance of the resources according to an activity to be realized; it thus makes it possible to establish certain standardization and a control of procedure of the actions and their cost. Of a certain way, it is a follow-up of conformity, since the budget (or the program) constitutes a standard within which the public agents must fit to be able to act. The performance consists of a maximum degree of adequacy between the consumption of resources and the forecast, without the result obtained and its impact being really considered.

But budgeting is logic of choice in foreground, which is not necessarily accompanied by evaluation in last plan. In this case, the risk is double for the public activity: budgeting, if it is the only tool, can on the one hand push with the wasting, and on the other hand to lead to the defects or errors of investments.

It comes out from these analyzes the idea according to which three dimensions of effectiveness, efficiency and budgeting can reach a certain level of relevance only when they are combined, since each one of them taken separately involves big risks of perverse effects.

This being, even by integrating them all the three, these various dimensions of the performance can still present a character of insufficiency if they remain apprehended in a traditional and quantitative approach. However, as regards public activity, the topic of quality proves to be essential.

3-The public budget’s model evolution:

3-1-Traditional incremental budgeting (line-item budget): Considering the chronological approach of the Traditional budget, the New Year budget establishment is based on foregoing year (Elke, 2013). The continued augmentation of cost of inputs (materials, labour) gives explanation of the amplified public spending. Because of that, the delivered service quality doesn’t take an important care by that approach.

In order to keep the current budgetary amount and to facilitate obtaining additional funds, the public entity director attempts hardly to spend the whole budget, with a way that does not keep any budget remaining amount.

The incremental budgeting characteristics: They can be summarized as:

- The budget is stable, simple to prepare and easily understood.
- The adoption of similarity approach in financial resources allocation helps to exterminate contestations between public entities.
- The budgets consolidation can be achieved easily
- Because of the stagnation of the incremental budget, any change is observed rapidly.
- The routine aspect constantly influences on working methods that leads to the inhibition of any new initiatives.
- The financial waste (budget full-spending) is a sign of good management, so that it helps to keep the budget level for the next year.
- The goal of the budget level maintaining can cover up its previous building defects.

3-2-Zero-based budgeting: Contrary to the previous year considering of the aforesaid budget type, Zero-based budgeting starts from analyses of the existing operations, and accepting the continuance of only operation or activity that can be justified by its entity usefulness. That justification means the manager responsibility. Therefore, Cascade form budgets respond to each decision set corresponding to entity services. (Shayne, 2011).

The detailed budget concretizes the project goals, defines goals plans, forecasts benefits, and the alternative decisions set's consequent results. So the managers should keep updating plans and optimize objectives methods.

The Zero-based budgeting implementation steps are:

1. The selective comparison between conducting a project versus outsourcing it, or centralizing versus decentralizing decisions can be made by estimating its costs /benefits in form of decisions' combined sets.
2. The allowance of financial resources is based on units' needs evaluation and comparison that are made in form of decisions' combined sets responding to the strategy priorities.
3. For any activity alternative method, there are many different levels that should be defined. The establishment of different levels (minimum, medium, high) helps to evaluate the level of spending lower than the current operational level. That provides managers the choice of removing the activity or allowing resources for the defined level by including changes in spending level and tradeoffs among units.

Zero-based budgeting characteristics: they can be summarized as:

- Resources allocation needs-based guarantees the efficiency.
- It is a way to push managers to optimize their management style.
- It helps to determine overestimated budgets.
- It instills the initiator behavior to make a responsible decision.
- It Reinforces team work coordination within the organization.
- it helps to make a choice on successful outsourcing strategies.
- It optimizes cost centers management to respond to principal objectives.
- It is difficult to make an accurate link between decision units and decision packages.
- A clear understanding of Zero-based budgeting by managers at various levels enhances the budget implementation.

So, the totals annual spending reviewing consists the prominent problem of the ZBB in practice which mean the impracticability of the “zero base” program examination. Thus, what can be done is a Selective program assessing. According to that, ZBB was described as an alternative budgeting. The alternative budgeting helps managers to a yearly focusing

examination on tighter range of program options for cuts or increases (the options of 15, 10 or 5 percent).

3-3- performance based budgeting: Performance-based budgeting focus on mechanisms of governmental affairs funding and procedures aimed to consolidate the connection between funding and results (outputs and outcomes) (Kiyoshi, 2010), across a combination of formal performance information and the objectives of enhancing the allowance and governmental spending's efficiency (Robinson 2007).

PBB can be characterized by the interpretation of the political objectives (Alois, 2012) in programs which lean on indicators of performance to allow measurement of the costs generated by the delivered outputs. Performance measures are most strategically useful for public managers when they help to determine how should be available public funds allocated to the various public purposes and aims. The performance-based budgeting helps to monitor implementation of public policies, identify potential problems, and take timely corrective action; as it can provide more information to make decisions on policy priorities and resource allocations and help improving strategic choices; It focuses on the more touched-targets activities by providing more resources(John, 2006); it gives an implementation form of the public choices in the form of performance-based programs; it helps to boost the innovation process by giving public managers a vast room for manoeuvre in order to get an optimum use of the public resources; it helps to make government more credible and trustworthy (NPR 1993).

Since the 1980s, a new concept of performance budgeting has emerged which aim to construct a narrower connection between funding and results. It attempts to put more pressure on governmental entities to enhance both of effectiveness and efficiency of their services. To attain that, there are three mechanisms to be utilized either in isolation or in combination.

The mechanisms “linking budgets to performance targets”: Setting performance targets (for ministries, work units or individuals) can be considered as a management for results (MFR)¹. It is presented in form of connection between budget funding and performance targets. The British experience is the example of that. The experience can be recapitulated in the three-year basis's targets establishment in a process of a triennial budgeting framework. Otherwise, the three-year integration of high, medium and low level targets for outcomes and outputs defined the core funding levels that each entity would obtain for the next three year period. Targets must respect the amount of funding, and the last must obey the constraints of performance against targets. (Arellano-Gault, 2004).

Setting the target must be built basically on the selecting of the right numerical value for the target. In principle, of course, the target should be neither too tough nor too easy. the behavioral distortions are an another building basic of the target-setting, so the striving to fulfill a target set can favor one dimension of performance to the detriment of an another, which is not factored into the performance target (costs cut / quality).

The mechanism of “formula funding”: The formula funding is a mathematical function describing the level of funding to a public entity. Consequently, the served persons' number and their cost constitute the basis to define the entity funding requirements formula's appraisal over the medium term (with consideration of demographic projections). It is a simple version that makes link between funding and the output quantity by synchronizing the unit cost per output. In this case, the formula is a tool of a budget appraisal – which means the funding level appraisal

¹ MFR can be defined as the use of formal performance information to improve public sector efficiency and effectiveness. Its fundamental starting point is maximum clarity about the outcomes which government is attempting to achieve, and about the relationship of outputs, activities and resources used to those desired outcomes. Good strategic planning and business planning are an essential element of MFR. MFR also tends to emphasize the ex ante stipulation of performance expectations for agencies, work units and individuals through the use of performance targets and standards.

that should be provided to a specific service section or to well-defined service provider units. thus ,only the funding-result link formula (outcomes and/or outputs) which is considered as a performance budgeting form, with a attention focus on enhancement of efficiency and/or effectiveness (David, 2004).

The mechanism of “performance funding incentives”

The third one utilized by the latest performance budgeting models is performance funding incentives to entities. The performance bonus funding makes the example. Inside the model, payments are function of performance respecting their Positive relationship. A mathematical formula based on a performance indicator. Both of Performance funding incentives and formula funding are practically kept unchanged, utilized as tool serving different performance budgeting systems (i.e. concerning public departments, such as schools, or hospitals.)

The purchaser-provider (PP) model is a combination of two mechanisms; incentive payments and formula funding, where a public entity is funded as if it were a provider of goods or services. The entity’s outputs (rarely outcomes) have a price payed by the Government in form of funds. A loss recognized when the entity’s cost price goes beyond the price paid. Contrariwise, the entity keeps potential profit. Finally, a kind of benchmarking is used to identify the price to be paid by the government. The general objectif of this system is to enhance performance through powerful financial performance incentives.

4- Quality performance indicators make PBB successful: Performance based budgeting aims to make a link between programs and agency funding, basing on results or outcomes by using performance indicators describing different program objectives that are consolidated in the entity global mission. The optimum selection of performance indicators guarantees the PBB process success.

The performance based budgeting has several objectives according to contradictory public philosophies. In Fiscal field, PBB helps to make a public fund savings, enhancing public service efficiency by reducing the inputs quantity (e.g., fund, human resources, etc.) per unit of “output.”, which can be returned to the taxpayers. In addition to that, the PBB is a method of control and sanction that is manifested in budget's reductions of entity that not able to achieve its performance goals. This reductions return back to the tax-payers in form of lower taxes and, more efficient government seen by them (SEIU’s Report, 2010).

The second vision considers that the PBB requires managers to design activities that serve entity goals. This design begins from outcomes and tries to optimize work output. Whereas improved efficiency is an important product of this process, the final objective is to attain the optimum effectiveness and delivered service quality.

5- Public budget reform in ex-Socialist European countries toward PBB establishment: Although the PBB is a corner stone for fiscal and economic reform, it is complex and requiring thorough and progressive implementation, consolidating by changes in budget classification, audit and accounting methods, and control systems.

- The Slovakian approach of PBB has known a good success. Both Minister of Finance and Deputy Prime Minister were charged for the national economic policy. Because of the consideration that the happening of the severe economic and fiscal crisis of 2001 in Turkey is mainly due to the lack of fiscal transparency, some fundamental reforms in public budgeting.
- In order to enhance the fiscal situation in Bulgaria, all public entities (including the political ones) were found constrained to respect limits on debt contracting and budgets' restrictions. Budgets and accounts' consolidation has enhanced the fiscal accounts transparency by using reporting and newer accounting systems. Consequently, the budget has known a big evolution since 1996 to 2003 represented in the public deficit comparing

to GDP and making fiscal surpluses few after. The public debt has also known evolution (a decline from more than 100 percent of GDP in 1997 to 16 percent of GDP in 2008) as a consequence of debt contracting rules' respect.

- In Poland, PBB was a matter of discussing in 2006. It evolved by entering in experience stage as a piloted small budget in 2007. The reporting obligations were the final stage in 2008. It makes shape of the PBB as much as justification to the budget act and its execution.
- In Croatia, the use of newer internal audit and financial control by means of the functional Treasury Single Account (TSA) and SAP system has improved the public finances transparency.
- In Latvia, the 2008 budget was the first operational three-year budget. The Latvian experience has adopted remuneration-performance system and has developed a more output-oriented indicators rather than inputs (Leszek, 2009).

- **Table N°1: public debt – GDP ratio evolution and PBB.**

Public Debt (% of GDP)	year	Bulgaria	Latvia	Poland	Slovakia	Croatia	Turkey
	2005	29.2	12.4	47.1	34.2	38.3	52.3
	2006	22.7	10.7	47.7	30.4	35.7	46.1
	2007	18.2	9	44.9	29.4	33.1	39.4
	2008	14.1	19.5	47.1	27.6	33.5	39.5

Source: Eurostat. For 2009, International Monetary Fund, World Economic Outlook (WEO), October 2009.

Conclusion

The traditional incremental budgeting is based on previous budget analyses contrary to performance-based budgeting that make a program's establishment so necessary to provide justification for each financial year. The PBB borrows tools from business science to plan the public entity financial resources.

The performance in public sphere can be reinforced by focusing on policy results, entity management processes, and public accountability in order to close the feedback management. The definition of priorities appears as first step, that's why performance budgeting have different approaches across the world. The innovation in public budgeting resides in the passage of the obligation to respect the procedures to other one that is to achieve the expected results. The widely spread governmental performance informations help to enhance transparency and governance as well.

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