

The World Bank's New Pragmatic Program Budgeting: Does It Make Budgeting More Effective?

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Abstract

The adoption of performance-based budgeting has become increasingly popular among governments seeking to enhance resource efficiency and accountability. While this approach provides flexibility and prioritization in budget allocation, its implementation remains challenging due to complexities in planning, management, and control. The World Bank's guidance on New Pragmatic Program Budgeting (PPB) addresses these challenges by offering three pragmatic solutions: controlling budgets at the program or subprogram level, recording all financial transactions, and harmonizing budget programs with administrative structures. This paper evaluates the effectiveness of these solutions and highlights potential gaps in their implementation, including difficulties in linking inputs, outputs, and outcomes, as well as agency-principal issues.

Keywords: *Performance budgeting, budget allocation, public sector finance, financial management, accountability*

A. INTRODUCTION

Nowadays, adopting performance budgeting has become more popular than the old regime line item budgeting. Performance budgeting was first introduced in the 1960s as planning programming budgeting, yet performance budgeting started to be widely used in the 1990s by OECD countries (OECD 2019). In 2018, almost all OECD countries reported using performance budgeting as their budget approach in various forms. This shifting trend to adopt performance was due to the minimum resource and the demand for accountability in the public sector budgeting by the citizens. While the traditional budgeting main focus only controls the budget per line item, performance budgeting offers the possibility of prioritising the expenditure, so the resource is allocated more efficiently. However, in fact, adopting the performance budget is very challenging. No country had the same method of adopting performance budgeting (Curristine 2005). All adopted performance budgeting differently, considering their current capabilities and resources. Schick (1966) argued that the adoption of performance budgeting was hesitated due to difficulty in incorporating the objective of planning, management and control in one budget system. The implementation of performance budgeting put the budget process more complex and more rigid, which is counter to the aim of the performance budgeting itself.

In early 2022, the World Bank Governance Global Practice published a paper titled "Introduction the New PPB – Pragmatic Program Budgeting", which offered pragmatic

guidance on program budgeting to overcome the tension difficulty in incorporating planning, management and control. In this paper, Brumby, Hashim and Piatti-Funfkirchen (2022) underlined four critical challenges in implementing program budgeting and offer three pragmatic policy options. This essay will evaluate whether what this paper offering would likely help practitioners apply performance-based budgeting more effectively. First, this essay will talk about what performance and program budgeting are. Then, continue to what the new pragmatic program budgeting offers as the solutions. Lastly, this essay will tell the extent to which this guidance helps practitioners conduct performance-based budgeting more effectively. Do you think this approach will help practitioners apply performance-based budgeting more effectively? Why, or why not?

B. LITERATURE REVIEW

There are slight differences between program budgeting and performance budgeting. Program budgeting is a budgeting approach in which the focus is on evaluating the performance of the whole program. The aim of program budgeting is more into evaluating competing programs to decide what program is the best in the matter of marginal benefit. On the other hand, performance budgeting is instead focused on assessing the efficiency of the spending unit. Schick (1966) described program budgeting as more macro, broad and aggregative, while the performance budgeting was more itemised, discrete unit and particularistic. However, he also described both as overlapping concepts related to each other. Performance budgeting provides the basic framework to link the performance indicators to the pre-defined outcome of program budgeting. So, in this essay, these two concepts will be considered the same for the reason of simplicity.

Program budgeting is a budgeting approach that focuses more on the performance result of the program rather than controlling the inputs. There are several features of program budgeting. First, in program budgeting, the goal of each program or subprogram should be identified clearly. This makes it possible to link the goal and the input. Second, budgeting and reporting on the cost and revenue of different programs or subprograms should be separated. So, if there is input that is used together for two or more different programs, it should be proportionally identified. Third, the performance and the outputs could be measured so they could be matched to the inputs. By doing this, the government can evaluate performance so the input resource can be used more efficiently. Lastly, there is delegation of responsibility to the program or subprogram level and more flexibility on those levels.

Program budgeting proposes several benefits. It makes the government more focused on the performance outcome of the program rather than controlling the inputs. Linking the resource inputs and the outcome might push the government to be more effective in the program execution. Program budgeting also offers more flexibility, which controls more on high-level goals than the detailed expense. However, rather than provide more information on the outcome, implementation of program budgeting results in more control and rigidity problems, which are not the intention of program budgeting itself. This drawback leads to several challenges in conducting program budgeting.

C. ANALYSIS AND DISCUSSION

In the World Bank guidance, Brumby, Hashim and Piatti-Funfkirchen (2022) underline four key challenges. First, the reallocation of resources in program budgeting is more rigid rather than simpler. One of the main goals of program budgeting is to remove rigidity since it offers more flexibility in conducting budgeting. However, the implementation of program budgeting, in fact, leads to budget execution rigidity since all activities should be categorised by subprogram or program. The program budgeting tends to be more rigid rather than flexible. Second, this classification of subprograms or programs also led to the proliferation of transactions. The transactions under program budgeting can be doubled or tripled than the traditional budgeting process since every activity in the subprogram should be recorded separately. Third, inadequate recording and reporting processes might create a constraint to evaluate the budget allocation. The main goal of program budgeting is to evaluate global budget allocation among programs. To enable this goal, the cost centre that spends the fund has to be identified by being coded into financial transactions. Lastly, there are "many to many" relationships between the spending unit and the program or subprogram that make the managing process more difficult. These conditions also complicate accountability. It is difficult to track the program's progress since spending units can implement many programs. Activities costing is also more difficult due to the complex relationship between spending units and programs. For instance, if two or more different subprograms use one resource, this resource should be allocated for each. The financing process and reporting structures of spending managers also would be more rigid. The following paragraphs will discuss the offered solutions by the New Pragmatic Program Budgeting (PPB) and how it addresses the challenges.

The first pragmatic solution offered by PPB is that central budgetary control should release funds controlled by program and subprogram rather than at the activity level or the line item level. Counting at the activity level or the line item level might be still necessary needed, but this is only used for the costing process. For allocating the funds and controlling interest by the central budget control, the budget should be released at the program or subprogram level. However, some limited restrictions using treasury regulations might still be needed to make sure the purpose of allocating process in the line item is still for the greater good instead of for self-individual interest. For instance, restriction on the maximum allowed budget for the business trip might still be needed to make sure most of the budget is not used just for the business trip.

There are two benefits to giving freedom allocating on programs or subprograms level. First, it gives the manager flexibility to manage the funds. The main idea of program budgeting is to give more flexibility or less control on the activity level, but the control moves the outcome of the program or subprogram. Second, this approach also could solve the first rigidity problem. High-cost rigidity in controlling the line item could be avoided as the controlled release at the program or subprogram level. Lastly, this approach also might solve the proliferation of transactions problem. The budget and the control would be more straightforward since it only allocated by the program or subprogram level. Still, the activities should be recorded and coded for reporting purposes. This easing control would likely make conducting program budgeting more effective due to less rigidity but still under the reel of the organisation.

However, some points should be considered for releasing control at the programs or subprograms level. First, there is an agency versus principal issue between the central budgetary control and the program manager relationship (Ho 2019). There is a possibility of the flexibility given by the miss used by the manager. The performance incentive should be established to ensure the manager will make the decisions for the greater good. A performance contract is one option that can be considered. Second, as the control moves on to the manager's performance of achieving the program outcome instead of controlling the line item, the link between the input, activities, output, and outcome should be well established. Failure to make a good link between the input and the outcome would likely create difficulty in assessing the manager's performance. Moreover, not all performance information can be measured (Curristine 2005). Assess performance is easier for the programs with tangible good outputs or services with observable outputs such as ID card services, driving licences or collecting tax. Something intangible such as healthcare or education might be more difficult to measure but still possible. On the other hand, abstract things such as policy advice where the outcome is not observable might be not possible to measure, so it would be very challenging to assess. For things like this, control on item line or procedure compliance is more plausible.

The second pragmatic solution is recording all the transactions to enable various control and reporting. There are three main points in this approach. First, record all the transactions using modern financial information systems because it is easier and cost efficient. The purpose of this is to track the flow of all the activities. Second, the account charts and the budget classification should be aligned. This would allow the manager to evaluate the resource utilisation and conduct various control and reporting. Third, all shared resources such as overhead and management costs should be allocated proportionally to the program or subprogram. For instance, if one person contributes to two or more programs, this person's wage should be allocated proportionally to the programs. This allocating process will result in a precise representation of the actual program or subprogram's cost. It will enable the manager to evaluate or control the program and subprogram appropriately.

However, conducting this solution is not an easy job to do. First, implementing a modern financial information system might be costly. To implement this means the government should create a robust financial information system. Creating something like this might be not easy, especially for the global south countries. Moreover, there is also human resource constraint. Moving to a new system might be difficult and take time (Diamond 2003). Second, allocating shared costs is also costly and challenging. Enable allocating of shared costs is also associated with implementing a robust financial system. It needs an enormous resource to implement. Moreover, not all costs can be identified as the proportion for each program (Curristine 2005). Something such as overhead and management costs which not directly involved in the program might likely be difficult to allocate. To conduct this solution should consider the capability and the resource of the organisation.

The final pragmatic solution is harmonising budget programs and administrative structures. The transfer of delegation of the budget authority from the ministry of finance down to sectoral ministries until the program or subprogram level might often be an issue. The main issue is that program structures are not aligned with the administrative structures. The reason is sometimes the change or evolution in organisation goals that can be seen in the type of program carried out can not be

followed by the change in the organisation structure. For instance, in the Indonesian tax office case several years ago, the main program theme for this year was tax amnesty, yet no administrative structure had a direct function for this theme. The other reason is that sometimes programs and administrative structures overlap each other. For instance, in 2012, a program called tax census was conducted by the Directorate General of Taxes (tax government body in Indonesia). Half of the administrative structure in the tax office involve in this program, yet their contribution is not the same. This created issue in how the budget program was structured.

Brumby, Hashim and Piatti-Funfkirchen (2022) suggest three approach solutions to address this issue. Firstly, programs align with the existing administrative structure. At the first stage of the reform, this approach likely being the most plausible. The main purpose is to secure accountability and build acceptance of program logic. This might be the easier option, yet the impact might be minimal since alignment issues might still exist. Secondly, change the administrative structure so they align with the program structure. This approach is based on the "form follow function" principle. In this approach, each directorate will execute one program each as its main function. This approach is the costliest option since it needs a radical change in the administrative structure. It also still leaves the problem of the overlapping program. The last approach is adopting a hybrid structure. This approach basically combines both approaches, as mentioned earlier. In this approach, most of the administrative structure is generally aligned with the program logic, yet some units might receive funds from other programs under different units. This approach might be the best option to address the drawbacks of previous options. To sum up, harmonising budget programs and administrative structures would likely make conducting program budgeting more efficient. Yet, the cost and benefit of each approach should be considered since changing the organisation structure is very costly. The hybrid option generally works best in general.

Adding those three solutions, Brumby, Hashim and Piatti-Funfkirchen (2022) also suggest some pragmatic actions for implementing proper program budgeting. Apparently, some of these actions were the main issue in performance budgeting. For instance, they suggested that activities to achieve the program goals should be clearly identified. They also proposed identifying the required inputs and organising them by their similarity. These two actions are associated with the process of linking the input, activities, the outputs and the outcome. This process is actually the main problem in conducting program budgeting, which is to connect planning, management and the budget.

Overall, the World Bank guidance on the New Pragmatic Program Budgeting written by Brumby, Hashim and Piatti-Funfkirchen offers some decent solutions to help the practitioners apply performance-based budgeting more effectively. Cutting the control on the global level of program and subprogram would likely help conduct performance-based budgeting more effective. The total recording process also would help, while the cost and the resource to implement this process should be considered. Lastly, harmonising also would make conducting performance-based budgeting more effective by connecting the form of organisation and its function. However, some important steps are missing. The main issue in performance-based budgeting is still missing. For instance, how linking the input activities, the outputs and the outcome. The paper also does not discuss the principal agency issue due to the first cutting control solution and how challenging to establish a robust financial system. In the next

guidance, the World Bank paper should also discuss how to tackle these issues to conduct performance-based budgeting efficiently.

D. CONCLUSION

The World Bank's New Pragmatic Program Budgeting guidance by Brumby, Hashim, and Piatti-Funfkirchen (2022) offers practical solutions to enhance the effectiveness of performance-based budgeting. By shifting budgetary control to the program and subprogram level, the proposed approach aims to reduce rigidity and improve efficiency. Additionally, comprehensive financial recording and alignment of budget structures with administrative frameworks are crucial for effective implementation. However, significant challenges remain, particularly in establishing a strong linkage between inputs, activities, outputs, and outcomes. Moreover, the guidance does not fully address the complexities of principal-agent relationships and the resource-intensive nature of modern financial information systems. While these recommendations provide a foundation for improving performance budgeting, future policy discussions should focus on resolving these gaps to enhance practical applicability and overall effectiveness.

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