



Improving the Quality of Governance in Poland through Performance Based Budgeting



SPRAWNE PAŃSTWO
PROGRAM *ERNST & YOUNG*

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Efficient state institutions and the sustainability of public finances are a necessary condition for maintaining the long-term stable economic growth in order to guarantee improved living conditions. Effective management of a country depends on public institutions using the limited resources to effectively meet the needs of society, which are, by definition, unlimited.

As the experiences of many countries proves, proceeding in accordance with this rule is not at all easy. Performance budget is one of the tools which help implement this principle. But it is a useful tool only if it is properly designed and applied in a planned and consistent manner.

The authors of this report, prepared under the Ernst & Young Better Government Programme, are trying to answer the question of whether the performance budget in Poland would be such a powerful tool. A tool helpful not only in pursuing a responsible fiscal policy, but also facilitating the strategic management of the state. In their analysis, the authors use practical experiences of other countries, which further help in assessing the quality of Polish performance budget.

In the coming years, Poland, like many other European Union countries, will face the challenge of fiscal consolidation. Performance budget can be one of the tools to facilitate this task. I hope that the conclusions of this report will be helpful in achieving this goal.

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Summary

There is a widespread consensus among social scientists that institutions do matter for the efficient functioning of the socio-economic system. Therefore, numerous authors claim that the fundamental factors for long-run economic growth are: a democratic and transparent state, an accountable public administration, inclusive society, and an efficient government. These principles form the basic premise of good governance. In the post-transition countries, like Poland, an efficient market system has been created together with the main elements of the civil society. Various state institutions are, however, still lacking or underdeveloped. One of the missing particulars is an efficient, result-oriented public administration. This is confirmed by the meagre position of Poland in the rankings of the quality of governance. Therefore, Polish public administration should be geared towards fundamental change.

The purpose of this study is to show that a desired change in public administration is to improve the quality of state governance by relying more explicitly on a managing-by-results approach. This may be achieved through the implementation of performance-based budgeting (PBB). The text treats PBB not as just an advanced budgetary procedure but as a prospective mechanism that can be used in managing public administration. Therefore, PBB should not be considered as a budget format only but as a continuous process of monitoring and evaluating public administration's results and efficiency. Although Poland has made significant progress, in recent years, towards implementation of a performance-based budget, still there is much to be done. In particular, PBB should be used in the everyday work of public administration. Simply speaking, after generating performance information, the data should be used as an important analytical tool for implementing various government strategies. Thus, the budgetary thinking should be intertwined with the strategic efforts of the government.

In order to increase the capacity of PBB as a management tool of public administration, we proposed a change in the way it is utilized in the functioning of central government. First, the PBB process should be coupled with strategic thinking in the government. This can be achieved through strengthening the role of the centre of government in the PBB process. We propose the creation of strong ties between: the Ministry of Finance (MOF) (owner of the budgetary process); the Chancellery of the Prime Minister (the coordinating body also responsible for the strategic goals of government); and the Ministry of Regional Development (the ministry responsible for crafting EU

funded programs). Therefore, although technical issues of PBB should definitely stay in the MOF, the main goal-setting role for PBB's functions and tasks should be realized by the center of government. Second, there is a need for a stronger political support for PBB. Here we proposed an annual performance accountability debate in the Parliament during which the Prime Minister would present the state of realization of a number of the government's key objectives by issuing a letter to the parliament. Last but not least, we proposed a set of very pragmatic tools for making the civil society interested in PBB as well as for making the PBB efforts part of a broader reform agenda (to develop a more result oriented culture within government organizations). In the recommendation section of the report we presented a list of changes for the PBB-oriented reforms.

Apart of proposing various changes in the PBB process, we formulated some detailed insights of how these refinements can be delivered. First, the year 2012 is a good time for changes, since a new strategic framework for EU-funded programs is being prepared. Second, many on-going processes in the public administration, e.g., the better regulation (BR) agenda, can help in promoting a PBB approach. Third, external pressure from the EU on making the EU money spending more result-oriented should prove the usefulness of PBB. Fourth, we identified the actors and stakeholders that are vital for PBB to become a management tool in public administration. In that respect we see a profound role for the Parliament as well as the Supreme Audit Office. Finally, in the era of Great Recession in the global economy PBB offers the potential to substantiate necessary spending cuts, adding measured performance as leverage in the public debate.

The recommendations we gave in the report are based on an extensive investigation into the main barriers the current PBB process in Poland is facing as well as on our own case studies in the Netherlands and (to a lesser extent) in the US - where PBB is used extensively in the public administration. Also, we used results of a questionnaire sent to some of the line ministries in the Polish government. Therefore, we were able to identify the implementation barriers rather than just *de iure* ones as in the majority of the existing studies on the PBB in Poland. This is particularly important since for the successful implementation of PBB not only the legal framework matters but also the informal codes of conducts (norms of behaviour deeply embedded in administrative tradition) and various informal institutions in general. Our approach was able to identify such issues.

The report consists of four parts. First, we offered a theory of good governance and performance based budgeting. Then we described in

details the PBB as it is used in the Netherlands together with a set of cases describing how PBB is there applied in practice. Next we gave a detailed diagnosis of the current state of PBB in Poland. Finally, we offered a list of pragmatic recommendations of how to make the PBB process more efficient and thus contributing to a larger extent to a better governed country.

1. Introduction

After 20 years of socio-economic transition in Poland it is clear that the country has succeeded in building an efficient market system and, to a lesser extent, a civil society. However, the Polish state is still relatively untouched by the transition process. Its institutions and, in particular, the state administration, are inefficient and are not result-oriented. This is confirmed by the fact that Poland is placed at the bottom of quality of governance rankings by a number of international organizations. There is an ongoing debate on how Poland could be made a better-governed country. It is clear to the public that the institutions created by the state are inefficient and hinder the market. This is why every Polish government declares improving the laws affecting the economy as one of the main goals. However, all such attempts yielded very meager results. We believe that the most important reason for this is that regulatory reforms has only focused on eliminating the 'bad' regulations and making the existing ones better, and did not focus on reforming the state institutions. Working solely on regulations is a Sisyphean task since the laws once eliminated re-emerge quite quickly. That is due to the fact that in order to improve the law one needs first to reform the legislative system. Thus, efficient regulations can be produced only by an efficient state, i.e. state that is result oriented, transparent, and accountable. Sadly, The Republic of Poland is not such an entity. For instance, a study by World Bank claimed that "Poland [...] is sadly lagging behind [in terms of implementation of performance budgeting rules] instead of acting as a role model for the rest of the region" (World Bank 2006, xiv). Therefore, despite the fact that on rhetorical level all stakeholders are for a better-governed country, no real progress is visible. Our general conviction is that these postulates and actions (resulting from them) have a very limited impact on public institutions due to their non-operationalized character. Therefore, the crucial question is how to make them operational.

The aim of this study is to operationalize the postulates for a better-governed state through performance based budgeting practices. Good governance (GG) should simply mean implementing the management-by-objectives principle, which is at heart of PBB approach. That principle is rarely present in the central bodies of the Polish government where the officials are remunerated for allocating the predefined amounts of money rather than for achieving the aims of their interventions. Therefore, we claim that a de facto adoption of PBB principles is a precondition for a better governance in Polish central administration. Also, the joint implementation of GG and PBB approaches should result in better chance of making the two

an actual part of a real process of modernization of the Polish central government.

In this study, we do not treat PBB only as a budget format nor only as a tool for achieving a better budgeting process. For us, PBB is a process with many less visible effects and positive by-products. Therefore, PBB can serve as a reform vehicle for modernizing many dimensions of the Polish administration. Thus, one should not view PBB as only an exercise in reforming public finance framework. Its effects go well beyond the domain of public finance system. While implementing PBB, one can make the government actions more transparent, make the civil servants resemble more of project managers than of administrators, make the Parliament more involved in assessing the effectiveness of public interventions, and make the realization of complementary reforms more probable.

This report focuses on the following research questions:

Why performance based budgeting can be an effective tool in supporting implementation of a good governance approach in public institutions? What are the main overlapping elements of GG and PBB approaches?

Why there is no coherent strategy of implementing GG rules in Polish central government bodies? Why is Polish performance based budgeting process still so underdeveloped and why is it not rooted in everyday practices of public officials?

What are the current PBB and GG practices in Polish central government institutions? How are they implemented? What will the effect be of the last changes in the Polish Public Finance Act, i.e. a change from task oriented PBB towards policy oriented PBB? What is the character of ad-hoc changes in the budget (and in the budgetary system) in response to economic crisis (e.g. the so-called spending rule)?

What are the main PBB and GG practices in EU countries (in particular in the Netherlands)? How GG implementation is supported by a PBB approach in the Netherlands? What are the success factors for implementation of GG in the Netherlands? What can Poland learn from the Dutch experience? What are the specific problems Poland is facing as a country with 20 years of economic transformation and a difficult situation of public finance?

Finally, our goal here is to give as pragmatic recommendations as possible for making the Polish PBB a success story. Therefore, the report structure is as follows: first, we give an overview of theories of

good governance (chapter 2) and performance based budgeting (ch. 3); then we focus on international experience in implementing PBB, with particular emphasis on the Dutch example; that is why we present three case studies on how PBB approach is used in the Netherlands (NL) (in doing this we identify factors responsible for the success of PBB [ch. 4]). Next comes a chapter 5 on the Polish case in which we use not only the results of in-depth interviews but also the outcomes of questionnaires sent to three ministries in Poland. Finally, we present our conclusions, findings, and recommendations.

We hope that our work here presented will contribute to a better understanding of the current state of PBB in Poland as well as will give the entities responsible for that process a set of practical recommendations for making transformation to result oriented budgeting a reality.

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Warsaw/The Hague, 29/11/2011

2. Theory of Good Governance

The question is not state versus markets - it is how to combine states and markets to create an effective evolutionary system.

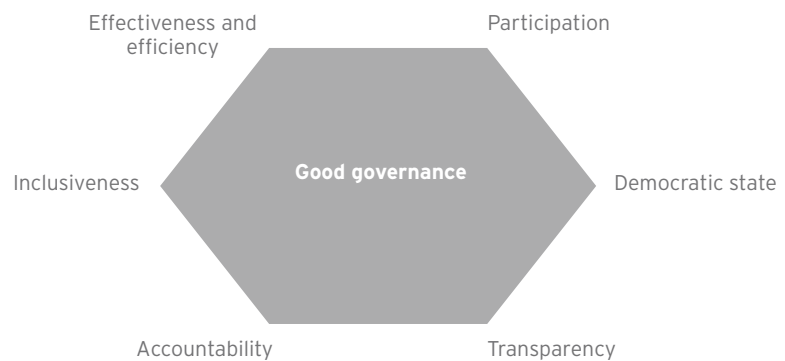
E. D. Beinhocker in The Origin of Wealth (2006, 427)

As rightly said by Ronald Coase in his Nobel Prize lecture: “without the appropriate institutions no market economy of any significance is possible”. It means that an appropriate institutional framework is required in order to make the Smithian invisible hand operational. Therefore, the question that needs answering is what institutions are appropriate and how to create them¹. According to New Institutional Economics (NIE), good institutions are the ones that facilitate transacting by reducing uncertainty and transaction costs. We do not have, however, a universal set of institutions that would guarantee efficient transacting. What matters is the synergy between formal and informal institutions. In that sense culture matters. In other words, formal institutions must be understandable to the people that are to use them. For instance, importing institutions from the West and implementing them in the developing countries, characterized by different cultural norms and traditions can, sometimes, lead to inefficient results. This is readily apparent if we focus on the results of the post-communist transition. The one-size-fits-all policy perspective has been proven incorrect. That is why many influential international organizations have started to investigate the role of institutions in economic development, e.g. the World Bank published a report entitled *Building Institutions for Markets* (2002) where a strong emphasis is placed on the need for crafting institutions that would reduce the market and government failures. In the NIE literature there is a consensus that the quality of institutions depends on the way they are formed. According to NEI, good formal institutions are the ones that were tailored to local socio-cultural conditions. It means that they must be crafted locally in a process that codifies pre-existing informal rules in a transparent manner with participation of the widest possible range of potential stakeholders. As Pistor (2000, 2) concludes: “It is now becoming apparent that the transplantation of formal law does not necessarily alter behavior... Formal law may be rejected, or ignored and substituted with informal institutions that operate independently of and frequently in contradiction to the formal legal system”.

It is clear that the state is the most important actor influencing the formal legal system. Also, in institutional economics the state is often conceptualized as the third party needed in order to enforce contracts and solve conflicts between transacting parties. If there

is atrophy of the state as a whole, then the market cannot function efficiently. Therefore, the researchers' attention focuses not only on the market but also on the visible hand of the state. In other words, the question is the following one: on what underpinnings should the state be based in order to function efficiently. In literature on good governance, four pillars are mentioned: 1) democracy (only the democratic rules guarantee the long-term adaptative efficiency of the state); 2) accountability (there is a need for mechanisms making the administration/civil servants accountable for their decisions); 3) inclusiveness (as many as possible members of the society should take part in the decision making processes); 4) effectiveness and efficiency (the state should have a set of clearly defined and transparent objectives and the administrative system should guarantee its successful implementation). These four elements, combined with transparency and participation mentioned above give us the six dimensions of good governance.

Figure 1. Dimensions of good governance



Dimensions of good governance

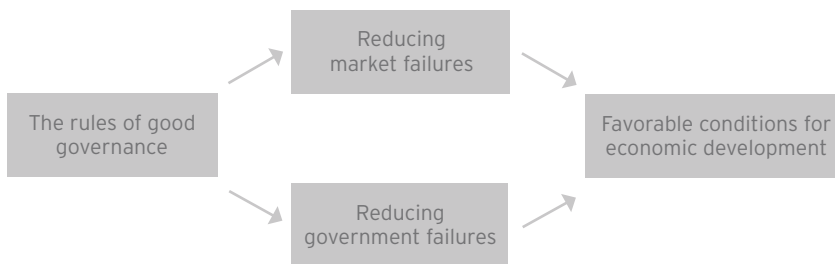
Source: Ecorys (2008, 17).

The dimensions of good governance presented above are mutually interrelated, e.g. the more transparent the government, the easier the process of making it accountable; also participation and inclusiveness are highly positively correlated. We view the idea of good governance as a multidimensional one and see it as defined by the six dimensions.

Another concept related to the idea of good governance is state capacity or, more precisely, the ability of the state to realize public goals. In order to do so, the state should employ a number of measures reducing the risk of government failures. First, it should act in the interest of the society as a whole and not in particular interest of the political option in force (*the risk of rent-seeking*). Second, it should take care of long-term effects of its policies (*the risk of short-*

terminism). Third, it should avoid excess regulation (*the risk of red tape*). Fourth, it should create an appropriate incentive structure for market agents (*the risk of disincentive effects*). Fifth, it should be resistant to lobbies and other interest groups (*the risk of electoral pressure*). Taking the above into consideration, good governance means using such institutional arrangements (*the rules of good governance*) that reduce both the market and the government failures.

Figure 2. The role of good governance



Source: Ecorys (2008, 19).

In our study, the main focus is placed on the the government and thus such institutions (including administrative and management practices) that make government more transparent, effective, and accountable. In this sense we aim to present the way (in our study: Performance Based Budgeting) that operationalizes these three dimensions of good governance. We also show that achieving progress in the three above mentioned dimensions will contribute to realization of the aims of the three remaining ones. We also claim that a relatively slow process of implementing the rules of GG in Poland is due to the fact that the dimensions of GG are not properly conceptualized (dimensions are not defined) and are not operationalized (lack of precise tools of realization). We believe that one of the most useful tools for conceptualizing and operationalizing GG is PBB. In the next chapter we present the theoretical underpinnings of PBB, and then, in chapter 4, we demonstrate how it works in practice.

CONCLUSION: A well-governed country, realizing the rules of good governance, is a state in which the institutions (most notably the central administration) make possible the realization of the social goals identified through democratic processes.

3. PBB Theory and Practical Use

A cynical person is an idealist who, at some point, made the mistake of turning his ideals into his expectations.

- Unknown

Although it wasn't until the 1990s that Performance Budgeting ideas piggybacked on New Public Management² reform agendas worldwide, the notions themselves were not that new. The right allocation of resources by government has been one of the most vital questions to all involved in politics and public services as well as to those in the scientific community studying the fields of public administration and economics. To a politician, the right allocation may be an allocation representative of his or her ideological convictions or an allocation that rewards his or her constituency or large groups of voters in general. To those involved in public services, this may be an allocation that rewards their specific organization or line of work. To those in the scientific community the right allocation can be the one that maximizes utility according to an economic model or an allocation that has the largest support base in civil society.

PBB Theory and Practical Use

Performance based budgeting has been another attempt aimed at helping to solve the puzzle of allocating public resources in a more objective, systematic way. The notion that the quality of public goods and services should be a major factor in allocating public resources seems to have slowly conquered the minds of all the three above-mentioned groups during the last decades. Particularly within governments, promoting performance measures as an objective standard for allocating resources, has gained popularity with those tasked with budgeting. Understandably budget staff would welcome a tool that enable them to distinguish between rewarding a powerful budget claim from just rewarding a powerful claimant. Politicians have also discovered the appeal of PBB as a method promising more value for money to taxpayers or as a way to curtail public spending and provide funds for various priorities. Ever since, the people working for the public sector have felt, to a smaller or greater degree, the pressure of being held responsible for the results obtained. Therefore, at the onset of performance budgeting reforms in numerous countries, a multitude of promises and expectations has been communicated by reformers. Generally, these can be classified into two broad aims.

The first broad aim is to increase transparency of government spending and associated results. This is done in order to give voters and parliaments better opportunities for accountability and oversight.

The introduction of a budget that includes or refers to intended and demonstrated results, directly contributes to transparency and accountability aims of good governance. Another aspect of government transparency is the accessibility of these documents in both in terms of readability and physical accessibility (e.g. they are posted on the internet). Generally, the evidence supporting PBB success can be considered promising when it comes to improving transparency (Curristine 2005 in Redburn 2008, IOFEZ 2004).

In our opinion, the related accountability aspect of performance budgeting is highly relevant to good governance. Having explicitly stated expectations concerning results related to spending levels, makes political leaders more accountable and is a way of promoting of more critical appraisal of results intended by governments. More importantly, this has the potential to trickle down into government organizations (ministries and agencies) making performance monitoring and reporting a more relevant issue to management. Communicating the expectation of transparency and the ability to demonstrate efficiency and effectiveness can be a powerful tool in an environment where this is often not the actual practice (most notably when supported by the agency's leadership).

The other broad aim of performance budgeting reforms has been to increase the effective allocation and management of resources. These efficiency improvements expected by PBB reformers occur in two indirect ways and utilize the generated performance information in decisions with budgetary consequences.

Savings generated by reduction of the funding level of particular ineffective programs, while financially rewarding effective programs, are referred to as improvements in *allocative efficiency*. This is supposed to happen when the budget is being approved by the Parliament. Generally, it is this aim of PBB that fuels disappointment over performance budgeting in the Netherlands and other OECD countries (Curristine 2007, Frisco and Stalebrink 2008, Wanna et al. 2010). It can be argued, that a yearly allocation process is primarily a political phenomenon that will hardly be rationalized by adding performance information. This does not mean, however, that performance information has no role at all in the budgetary decisions of Parliament, as will be discussed later on.

Savings generated by changes in funding levels within a given program are referred to as improvements in *operational efficiency*. Operational efficiency improvement (as result of PBB) happens at the agency level in the budget preparation and execution phases and is, therefore, less

visible. Several authors suggest that the true potential for efficiency gains through PBB lies at the agency level in the budget preparation and execution phases of the budget cycle (Joyce 2003, Moynihan 2008, Kraan 2010). The assessment of past effectiveness of programs can be used to support both types of efficiency improvement.

In this chapter, at first we will define PBB more precisely. Second, we will clarify the PBB's intended contribution to operational efficiency. Finally, we will debate the use of PBB in practice and its intended and unintended effects.

3.1. Defining PBB

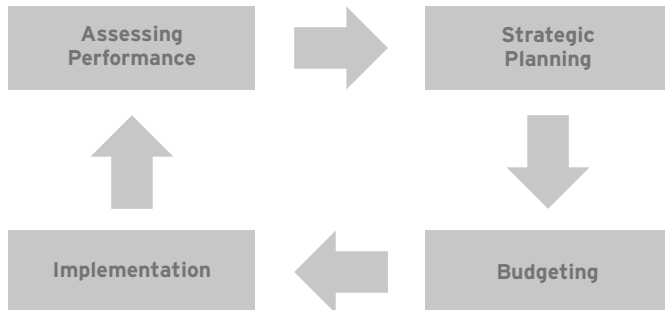
There are several ways in which to categorize performance budgeting systems. A common way is to do so according to the degree to which the performance information is linked to funding. Allen Schick distinguishes between two polar versions of performance budgeting - using a broad and a strict definition (Schick 2003, 101):

Broadly defined, a performance budget is any budget that presents information on what agencies have done or expect to do with the money provided to them. Strictly defined, a performance budget is only a budget that explicitly links each increment in resources to an increment in outputs or other results. The broad concept views budgeting in presentational terms, the strict version views it in terms of allocations. Many governments satisfy the broad definition, few satisfy the strict definition.

Teresa Curristine adds a third variant in her threefold typology of performance budgets in OECD countries (Curristine 2007). In some cases there exists a direct link between performance, resource allocation and accountability (direct/formula performance budgeting). More often, the link is indirect and planned performance targets/results are used for planning and accountability purposes only (performance informed budgeting). Finally there are performance budgeting systems that have no link between performance and funding and use performance information for accountability purposes only (presentational performance budgeting). In the NL, as in most OECD nations with a long PBB record, all three forms are present in the budget bills.

The relationship between strategic performance planning and budgeting, as envisioned by most experts in the PBB field, is illustrated below.

Figure 3. Strategic planning and budgeting process



Source: Redburn (2008)

Performance information plays a role in all phases and can be used for planning, target setting, monitoring and evaluation respectively. Arguably, the link between Assessing performance and the subsequent phases of Strategic Planning and Budgeting are the ones that have proven to be the most problematic in practice.

PBB and Program Budgeting

Introduction of a PBB system is often accompanied by initiatives to change the budget structure from a line item budget into a program budget. In the former case, the budget is structured along the lines of organizational units and spending categories. As a result, Parliament approves a long list of proposed spending separately (e.g. labour costs of health care fund employees or subsidies to soy growing farms). A program budget is shaped by government programs that, each, have a (set of) associated policy goals and may span several organizational units. The Netherlands has switched to a full program budget in 2002 while the US Congress repeatedly chose not to do so. In the federal US as well as the EU, program information is presented separately from the actual budget documents. Still, other countries (e.g. Poland) see the co-existence of both a line item structure and a program structure as a temporary phase before full program budgeting.

Top down and bottom up PBB

Like the Netherlands, Canada, the US, and the UK, Poland is adopting a top-down PBB system that is designed for comprehensive coverage of the entire budget unlike for example the Nordic countries. Top down PBB reforms enable a more uniform and systematic approach and result in higher availability of information at the central level, not to mention better coordination and monitoring. Problems associated with

PBB and Program Budgeting

Top down and bottom up PBB

Recent trends in PBB

such approaches are: limited flexibility, bureaucracy, and difficulty to gain support from agencies (Curristine 2007). For a typical agency, adoption of top-down PBB reforms means that it has to deal with the reporting requirements of both: its 'regular' principal (e.g. the spending ministry); and the 'administrative' principal (e.g. Ministry of Finance).

Recent trends in PBB

Most governments with a longer history of extensive PBB reforms have seen a development process that started out with obtaining larger amounts performance information with the help of the new budgeting structures. The increased availability of performance information allowed for more and better ex-post policy evaluations. The next ambition seemed to be to actually use the information for policy formulation and budgeting. This required integration of assessments of past performance into strategic planning and subsequently into budgeting. Despite some disappointing experience in the past, the 'evidence based' policy approach has pushed some new designs of a more or less systematic character to assessing performance. Characteristic elements of these new types of performance assessment are:

- ▶ relying on an underlying system of systematic performance measurement,
- ▶ combining information on past performance from various sources,
- ▶ being designed to fit budgeting decisions,
- ▶ using a standardized set of questions,
- ▶ requiring independent review, which means that just relying on self-assessment is ruled out,
- ▶ being guided centrally by national budget offices (or equivalent government bodies).

OECD studies show that the performance information mostly used by MOF's for funding decisions come from reviews that they conducted themselves, though usually in cooperation with others (Curristine 2007). Examples are: the US PART, the NL Policy review, South Korea's SABP and Canada's spending reviews. Later on more background on the US PART and the NL reconsideration process will be presented.

The current economic and fiscal crisis is likely to overshadow any attempt to introduce new large scale reforms in the foreseeable future. As governments face increasing fiscal challenges, the actual saving potential of any past reforms and any lessons learned from these reforms may gain renewed interest. The popularity of PBB reforms may have reached its peak some years ago under NPM. The countries that adopted them will continue to try to find ways to make PBB work or try to improve on its results. The reason for this is the great appeal that PBB still has

and the fact that no new alternative methods have since appeared that promise accountability for results and improved efficiency.

CONCLUSION: A performance budget is a budget that presents information on what government has done or expects to do with the money it was provided with. The degree to which performance information is expected to determine funding levels can vary from no connection at all (presentational performance budgeting) to direct links (formula performance budgeting).

3.2. PBB and Operational Efficiency

In order to learn from performance assessments and improve effectiveness and efficiency, it is assumed that this type of learning is supported by a well functioning policy and management systems. These systems include: governance and accountability arrangements; political decision making; human resources; policy analysis and advice; performance management; budgeting; monitoring and reporting; and evaluation. In many government organizations it remains to be seen whether these conditions are being fully met (Scott 2003). The adoption of tools like balanced scorecards, internal contract systems or even pay-for-performance schemes does not automatically mean that these play a serious role in decision making processes because the relational aspects are often valued higher than the formal ones (Schick 2003). At the very least, the adoption of these types of systems does give an indication of the level of ambition an organization has towards integrating performance assessment and budgeting. In this section, we explore how performance information is used in public organizations to advance efficiency and effectiveness.

Using performance information to learn and improve

Although one can have serious doubts about any attempts to 'rationalize' budgetary decisions using PBB, some claim that performance management reforms can change managerial behaviour and that performance information gets used, be it at a different time and place. As stated earlier, the benefits of PBB can most likely be expected to occur at the agency levels and in the budget preparation and the budget execution phase; and not in the budget approval and evaluation phases (Joyce 2003, Moynihan 2008). With regard to operational efficiency, success stories do occur. For example in his testimony before the US Senate Budget Committee on October 29th 2009, Paul Posner³ asserted that performance management and budgeting has demonstrated its value for agency effectiveness and accountability:

The performance test for management reforms is whether they produce sustainable results in decisions and program implementation. From this vantage point, the federal agencies in fact have demonstrated real progress in using performance information to manage their ongoing activities. Whether it be framing new ways of thinking about goals, or assessing and overseeing employees, contractors or grantees, performance data have given the agencies powerful new tools to reach their goals. For instance, federal agencies are using outcome data to allocate their own staff to areas needing greatest attention. Grant making agencies are using performance outcomes achieved by grantees as a basis for providing bonus funding rewarding those state and local projects achieving notable results.

In his testimony, Posner also refers to the reoccurring claim that PBB has the potential to increase result orientation within government organizations as discussed above. For PBB theory to live up to its promise of more efficiency, performance information is not only to be gathered and reported, but also has to be used by managers and politicians. Studying the use of performance information is therefore a key notion if we are to judge the success of PBB. Surprisingly, this is a rather unexplored activity as Donald Moynihan notices :

'Governments have never been so awash in performance data, mostly because they are required to collect and report it. The wealth of performance data contrasts with the poverty of the theoretical and empirical justifications for performance-reporting requirements. We have poor theories of performance information use, largely informed by a combination of common sense, some deeply felt assumptions of how government should operate, and a handful of success stories'. (Moynihan 2008: 5).

Proponents of performance measurement traditionally define success in terms of instrumental use (holding someone accountable, make decisions about program budgets or personnel, expanding, cutting back or terminating programs). This often leads to the conclusion that performance measurement has failed. Using a broader perspective on the use of performance information, we can identify five different uses of knowledge gained from performance measurement (de Lancer Julnes 2008 in Van Dooren & Van de Walle) :

- ▶ Reassurance: Government shows it is doing what it is supposed to do with taxpayer's money (e.g. reporting performance information about cleans streets or safe neighbourhoods). Thus contributing to better transparency and accountability of government.

- ▶ Compliance: Agencies demonstrate that they comply with performance measurement regulations (e.g. schools report test results to receive funding).
- ▶ Program learning: Learning from results may lead to program changes or maybe just to a better informed dialogue.
- ▶ Enlightenment: Externally, enlightenment can lead to mobilization and putting an issue on the political agenda (e.g. awareness of queues in public services). Internally, enlightenment can lead to more informed decisions and better educated stakeholders. This can generate new insights and challenge the previously held perceptions.
- ▶ Legitimization: Performance information can be used to rationalize, justify or validate current, past and future course of actions and decisions (e.g. justifying budget requests, or defending oneself towards critics).

Of these uses of performance measurement, reassurance, program learning and enlightenment bears clear connection to the aims of good governance. Several studies have been conducted on the use of performance information in governments. The largest potential for the use of performance information during the budget preparation and execution phases (Joyce 2003 in Breul & Moravitz) can be seen in:

- ▶ substantiation of budget requests,
- ▶ strategical re-allocation of internal resources,
- ▶ determination of productivity of different agency components,
- ▶ determination of overlapping services,
- ▶ deciding on outsourcing decisions (make or buy),
- ▶ understanding the impact of external events on agency performance goals,
- ▶ allocation of funds internally,
- ▶ allocation of funds to third parties,
- ▶ monitoring of costs and performance,
- ▶ motivating staff to act in a manner consistent with agency goals.

When asking government personnel about the use of the performance information, a wide variety of application is mentioned. In a study on the use of performance information by US counties, Wang (2000, as quoted in Redburn 2008) found that the majority of counties that used performance measurement, have used the results for):

- ▶ preparing departmental requests (78%),
- ▶ identifying service problems and evaluation (63%),
- ▶ analyzing funding levels (58%).

According to a 2003 GAO survey of US federal managers.

The following management activities were mentioned as primarily involving the use of performance information (GAO 2004)⁴:

- ▶ allocating resources (60%),
- ▶ setting individual job expectations for staff (60%),
- ▶ rewarding staff (60%),
- ▶ setting program priorities (59%),
- ▶ setting new or revising performance measures (58%),
- ▶ adopting new program approaches or changing work processes (56%),
- ▶ refining program performance measures (51%),
- ▶ coordinating program efforts with other internal or external organizations (49%),
- ▶ developing and managing contracts (41%).

Comparable results were found at the US state level by Melkers & Willoughby (2004 in Breul & Moravitz) with the activities of reporting and strategic planning as notable additions to the uses mentioned so far.

CONCLUSION: Government organizations use performance information in a wide range of internal activities and decisions in order to save, learn and improve. Many of these uses are less visible to outsiders but nonetheless contribute to efficiency.

Using performance information to control agencies

The theory of performance based budgeting can be viewed in the light of the tradition of institutionalism, especially rational choice institutionalism. By integrating planned activities, expected outcomes and budgets, the existence of a predictable causality in policy theories is explicitly assumed. The expectation that performance information will be used in the oversight of government by Parliament and the management of government agencies assumes that politicians and managers are to a great extent driven by the expected consequences of policy choices. Furthermore, the need to produce and report performance information as a necessary precondition for managing government institutions and their relationships, is an essential part of substantial theory building on the part of rational choice theorists. A well known application of rational choice theory has been in agency theory.

Agency theory is built around the relationship between two players in a hierarchical setting; an agent who acts on behalf of his principal. To allow such representation the decision making authority and resources are transferred from the principal to the agent. In reality principals are often represented by several agents or vice-versa. An agent representing a principal can itself be a principal to another agent. Agency theory takes notice of information advantage of the agent over the principal and the behavioural consequences this may have. If both principal and agent try to maximize their utility, the agent

is expected to serve the principal's interests only in part as both will chase competing preferences that not necessarily advance the public interest (rent seeking). In agency theory, the agent is the expert in performing the tasks that the principal orders it to do. The principal operates at a certain distance from the vital processes and relations, necessary for performing these tasks. As a result, the agent has an information advantage that it may use to maximize its own utility at the expense of that of the principal. This so-called information asymmetry is the central problem in agency theory (Ter Bogt 1997). Two specific risks associated with information asymmetry are *adverse selection* and *moral hazard*. Adverse selection refers to a situation where the principal is presented with incorrect or incomplete information by the agent. Given his inability to verify this information, the principal may base its decisions on inadequate information. An example would be an employer who relies on incorrect résumés presented by jobseekers. Moral hazard refers to a situation where an agent, who has a better awareness of risks and consequences, takes inappropriate risks in the knowledge that the principal will bear their consequences. Here, an example would be a painter who is paid by a hourly wage and therefore decides to work slowly. In both of these cases, the interests of the principal compete with the interests of the agent and are being sacrificed to a certain degree. Applied to the relationship between the central government (acting as a principal) and a government agency executing its policies, both risks can lead to inefficiency.

In order to align the agent's interests with its own, the principal can use incentives and monitoring. By translating political agendas into performance based policy plans and contracts with agencies, PBB has become a tool for aligning the interests of political principals with those of government agencies. An extensive performance monitoring structure has been put in place to bridge the information gap. Sometimes direct financial incentives are being tied to meeting performance targets in an attempt to influence behavior of the public sector bureau and its members. That way, the government agent is expected to meet the principal's targets in the most efficient and effective way. The expected behavioural effects from information asymmetry (adverse selection and moral hazard) are thus expected to be offset or prevented with the help of PBB. The beneficial effects of management-for-results processes like target setting and performance reporting are increasingly recognized as means to improve goal alignment and avoid organizational myopia (Robinson 2005). The latter occurs when an organization is internally focused and loses sight of its purpose and intended contribution to the bigger picture (Robinson 2005).

CONCLUSION: A government organization can use PBB to help ensure that an agent meets its targets in an efficient and effective way. Through goal alignment and performance reporting, the principal can reduce the risks associated with conflicting interests, rent seeking, adverse selection, and moral hazard. In addition PBB can help agencies to avoid myopia.

PBB as a management control strategy

Looking at management control literature, referring to periodical monitoring of targets and results is a classical instrument in the category of 'hard controls'. Simons' fourfold typology of levers of control, identifies different levers of control that can help manager balance the employee empowerment and effective control (Simons 1995):

- ▶ *Beliefs systems* - These systems give direction to the organization by formulating its mission, strategy and core values. Beliefs systems are used to inspire and direct the search for new opportunities. They communicate to employees what to do to be successful.
- ▶ *Boundary systems* - These systems indicate the risks to be avoided and provide sets of rules and procedures. Boundary systems are used to establish limits on opportunity-seeking behaviour. Boundary systems are the opposite of beliefs systems in the way that they communicate to employees what actions to avoid in order to be successful.
- ▶ *Diagnostic control systems* - These systems measure and monitor the execution of mission and strategy using predefined performance indicators. On the basis of the feedback and feed forward information, managers take corrective and preventive actions to keep the organization on track. Diagnostic control systems are used to motivate, monitor and reward achievement of specified goals.
- ▶ *Interactive control systems* - These are the formal communication systems that managers use to involve themselves in activities of employees and employees use to communicate bottom-up ideas and initiatives. These systems foster dialogue between various organizational levels. Interactive control systems are used to stimulate organizational learning and the emergence of new ideas and strategies.

Traditionally, in government organizations, the primary controls used are boundary systems supplanted by diagnostic control systems. At face value, PBB seems to add to the potential of diagnostic controls. In a risk adverse, compliance driven, culture that is still typical of many government organizations, the full potential of PBB is hampered by the tendency to avoid mistakes more than anything else. Schick noted in this respect that '*compliance is usually the enemy of performance*' (Schick 2003: 86). In the phase of budget preparation,

budget execution and budget evaluation, PBB also has the potential to strengthen interactive control systems. In countries with longstanding PBB experience, PBB is reported to have helped to strengthen the dialogue between financial and policy staff when setting policy goals, during budget negotiations and policy evaluations.

By raising the performance issue during budgetary processes, financial departments (at all levels of government) can strengthen their positions. By engaging in an interactive dialogue about the formulation of strategic and operational plans, financial officials have a better grasp of financial risks involved. This knowledge can be used to inform agency leadership and take measures to reduce these risks. During budgetary negotiations, the added value of costly plans and measures can be scrutinized by discussing past effectiveness or the intended contribution to overall goals.

The, often unintended, strengthening of soft controls is an understudied phenomenon that can occur if PBB is not treated as only an additional diagnostic control system. Although not explicitly envisioned by many performance budgeting reformers, a reoccurring claim to success of performance budgeting has been an increase in result orientation within government organizations. These have to do with providing a greater emphasis on tangible results (including setting of objectives, monitoring performance, planning) by government and improved transparency of planning and reporting documents for their users. This was an effect reported in case of the Netherlands performance budgeting system (IOFEZ 2004, Van Nispen&Posseth 2006) as well as internationally (Curristine 2007, Redburn 2008, Posner 2009).

CONCLUSION: By stressing organizational results, PBB can help foster the dialogue on organizational results between different organizational units and at different management levels. Additionally, PBB can help to enhance the role of financial departments in government from scorekeepers to strategic negotiating partners.

3.3. Intended and Unintended Consequences of PBB Implementation

Negative unexpected results of performance measurement and reporting are known as perverse effects. These occur, in particular, when financial rewards are directly at stake. A common unexpected result of PBB is the *risk of goal displacement*, meaning that measurable targets get a disproportionate amount of attention and resources. This gives quite another meaning to Peter Drucker's⁵ popular NPM mantra '*What gets measured gets done*'. Goal displacement is a source of well known perverse effects of performance measurement. This phenomenon

Consequences of PBB
Implementation

is illustrated by a multitude of cases worldwide, including Britain's National Health Service or the Netherlands Railways. In these cases, the organizations have complied with performance targets in ways that have actually damaged the public interest. With regard to installing financial incentives to alter behaviour in public organizations, special consideration should be given to the risk of 'crowding out' intrinsic motivation. This increasingly reported phenomenon implies that professional ethic and commitment can suffer as a result of reliance on extrinsic incentives. As intrinsic motivators are assumed to be a relatively large source of organizational productivity in the public sector context, the negative effect on overall performance may be significant (Robinson 2005).

Figure 4. Consequences and effects of PBB implementation

	Visible effects	Less visible effects
Intended consequences	<ul style="list-style-type: none"> ▶ accessible budget documents and more transparency about the results of spending ▶ more consideration of effectiveness in yearly allocation ▶ performance evaluation resulting in improving, cutting or even abolishing programs 	<ul style="list-style-type: none"> ▶ increased leverage for financial departments ▶ program learning ▶ strengthened relative position of principal to manage agent ▶ enhanced results-awareness and accountability
Unintended consequences	<ul style="list-style-type: none"> ▶ critical assessment of government performance by media (transparency paradox) ▶ using objectives and policy information to legitimize institutions and funding levels 	<ul style="list-style-type: none"> ▶ goal displacement (perverse incentives) ▶ spinning and framing of policy results ▶ extra administrative costs of performance reporting

Source: Own compilation based on, Moynihan 2008, Curristine 2007, IOFEZ 2004, Van Nispen & Posseth 2006

Another risk, related to earlier mentioned use of performance information for legitimization purposes, is the risk of cherry picking information or even of biased reporting. It is important to acknowledge that, contrary to the expectations of some, performance information is usually not comprehensive and often is ambiguous and subjective. In fact it can be argued that this stems from the very meaning of the word *indicator*. In addition, selection, perception, and presentation of performance information is usually affected by one's institutional affiliation and individual beliefs (Moynihan 2008). In other words,

users of performance information, especially those with an information advantage over others, will easily find performance information to substantiate their version of the truth. Just like goal displacement, the risk of framing or cherry picking tends to increase as performance is more directly linked to financial benefits. Relying solely on information from a single source, interpreted by a single party must therefore be considered risky for any principal at any level of government. Controlling both of these risks almost unavoidably means that the costs of safeguarding correct and unbiased information will go up.

Figure 4 summarizes the goals of PBB, its visible and invisible effects. Its intended and unintended consequences mentioned in this chapter. Transparency aside, the visible effects of PBB implementation have been quite modest whereas it can be argued that the less visible effects are more abundant. These less visible effects, like result awareness, are regarded here as intended consequences although they were often not explicitly articulated by PBB reformers.

OVERALL CONCLUSION

As part of the New Public Management Agenda, PBB has been promoted as the solution to a diverse set of government failures. After two decades of implementation experience, PBB's main potential for success seems to stem from:

- ▶ **better transparency and accountability of government,**
- ▶ **building capacity and a knowledge base for policy evaluation and program learning,**
- ▶ **better management of agency relationships,**
- ▶ **raising awareness of (an agency's contribution to) intended results,**
- ▶ **strengthening the internal dialogue on improvement and innovation.**

When relating intended results to financial rewards or penalties in a direct manner, attention should be given to the risk that the incentive created can result in *reporting* successes rather than actually achieving them.

Relying solely on a few indicators for decision making is risky because performance information is seldom completely impartial and unbiased.

In the next chapter the Dutch PBB system will be described including the lessons learned throughout the years. Following that, three Dutch case descriptions will be presented that illustrate experience that we consider relevant, next one US case will be described.

Overall conclusion

4. PBB Use in Practice - International Experiences

In this chapter, we focus on analyzing international experiences in PBB implementation. We do this in order to describe experiences that could be beneficial for the Polish implementation. We start with a general description of PBB system in the Netherlands, next we move to three cases that show the practical usefulness of the PBB approach. All NL cases are based on extensive survey of subject literature and budget documents as well as on in-depth interviews conducted by the report's authors. The US case is in part based on the results of earlier study performed by one of the authors while on a research in the US.

4.1. PBB (VBTB) in the Netherlands

In our opinion, the experience in the Netherlands (as well as other OECD countries) with advanced performance budgeting systems can be helpful for Poland. Not only because of reported successes but also due to lessons from pitfalls and unmet expectations. Despite many obvious differences, the NL experience is largely representative of the other OECD countries with a longer experience in this field.

The NL moved to performance based program budgeting at the turn of the century. Under the acronym VBTB, translated as Policy Budgets and Policy Accountability, the traditional structure of the federal budget was extensively revised into a performance based budget. This reform included moving from a traditional line-item budget to a type of program budget where funds were authorized according to general policy objectives. During the NL performance budgeting operation the number of line-items to be authorized in the budget went down from about 800 to 200. In the new budget document, the content of each policy article is to answer three basic questions that are mirrored in the annual report:

Table 1. Central PBB questions in the process of budgeting in the Netherlands

Budget	Annual report
W1: What do we want to achieve?	H1: Did we achieve what we intended?
W2: What will we do to achieve it?	H2: Did we do what we meant to do?
W3: What will be the costs of our actions?	H3: Did it cost what we expected?

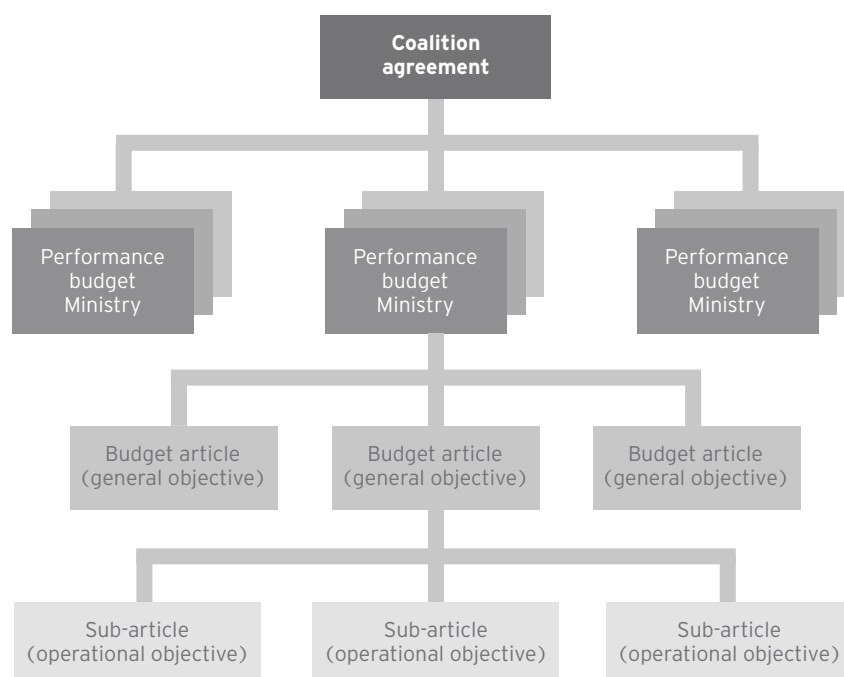
Source: NL Ministry of Finance

In 1999 the Minister of Finance initiated VBTB by sending a plan to the Parliament. This action was preceded by a number of initiatives on behalf of the Parliament, which had investigated the possibilities for performance based policy accountability. As part of the preparation, a 'dummy budget' was created and selected ministries submitted their 2001 budgets in both the new and the old format. The Ministry of Finance oversaw the implementation process by investing heavily in teaching civil servants, issuing new regulation, and monitoring progress. In September 2001 all Dutch ministries had complied with the new budget structure for their 2002 budgets.

The relatively quick government-wide adoption of VBTB may appear strange having in mind the somewhat weak position of the Ministry of Finance in the Netherlands from a formal legalistic point of view, especially in comparison to some other countries (e.g. France, UK, US). However this is largely compensated by the organization of the budgetary process and the financial function of the central government in the NL. Important in this respect is the position of the Financial Economic Directotares (DFEZ) within each line ministry. Although DFEZs formally reside under their particular line ministry, regulation grants them a large degree of autonomy. DFEZ's keep close ties with the Ministry of Finance and often act as its 'satellites'. Staffing plays an important role in this relationship as many key figures in the Financial Economic Affairs Directorates were employed at the Ministry of Finance in their previous jobs. In addition, the appointment of directors of these departments requires approval by the director of Budget Affairs of the Ministry of Finance. The Ministry of Finance also has an internal training institute that permanently prepares a large numbers of civil servants from other ministries in financial economic subjects (called Rijksacademie) thus ensuring a common background, vocabulary and knowledge basis.

Budget structure

- ▶ In the Netherlands, under the system of ministerial responsibility, each minister is responsible for authorization, execution and evaluation of his or her own budget. This includes defending the budget proposal in Parliament and informing Parliament about the degree of success in policy design and program execution.
- ▶ Budget articles are the dominant units for planning and reporting and can be regarded as the budget's policy programs. They are used for authorization as well as being the preferred units of analysis in policy evaluation.
- ▶ NL budget articles combine planned expenditures, performance planning and cost accounting and have the following structure depicted in Figure 5.

Figure 5. Budget structure in the Netherlands

Source: NL Ministry of Finance

Budget structure

The NL budget counts some 115 budget articles (AD) that are subdivided into 350 sub-articles (OD)⁶. In the NL, performance information on objectives, outputs and outcomes are presented together with the level of funding in an integrated matter in the budget documents. Each budget article has one general objective, supported by a few operational objectives. Objectives, instruments and measurable data need to be presented for each operational objective.

This goes for all budget articles except some labelled non-policy articles. These are in place for more technical reasons such as dividing residual overhead costs or covering unforeseen costs. The NL budget articles do not specify expenditures at the level of detail of an appropriation account. Most of the times they only distinguish between direct costs and overhead costs spent for every operational objective. Usually, though not always, the article's general objective includes outcome indicators while the underlying operational objectives are monitored by output indicators. The budget articles also serve as units of analysis for financial compliance audits of the annual budget reports by the NL Central Court of Audit. To illustrate what the content of a budget article a sub-article is of the Ministry of Transport is presented below.

Example of Article 32.01 - Ministry of Transport and Water Management (2011 Budget)

Within the Ministry of Transport and Water Management, seven policy articles and three non-policy articles exist. The policy articles cover the road and railway systems, civil aviation, seaports, levees and water quality and weather forecasting. Of these policy articles, article 32 is about safety as a result of mobility. This is expressed by the general objectives (AD):

Continuously improving the safety of persons on roads and railroads as well as the safety in public transport.

Under this general objective three sub-articles are present: one for roads (32.01), one for railways (32.02) and one for public transport (32.03). For OD 32.01 the expenses for each instrument are listed in the table below.

Table 2. The composition of Article 32 in the NL 2011 Budget

32. Optimal Safety (x 1.000 euro)	2009	2010	2011	2012	2013	2014	2015
Liabilities	56 339	56 575	56 813	58 157	52 498	52 440	52 440
Outlays	55 771	57 177	57 245	58 573	52 498	52 440	52 440
32.01 Reducing the number of road victims	48 769	48 585	49 211	51 168	45 207	45 161	45 161
32.01.01 General strategy and Policy development	1 621	1 610	1 814	1 816	1 814	1 814	1 814
32.01.02 Safety standards for vehicles and technological innovation	4 493	4 700	4 349	4 699	4 699	4 699	4 699
32.01.03 Influencing behavior of travelers	23 657	21 388	21 216	21 589	21 317	21 321	21 321
32.01.04 Adaptations to the infrastructure	0	0					
32.01.05 Inspection	18 998	20 887	21 832	23 064	17 377	17 327	17 327

Source: NL Ministry of Finance (www.rijksbegroting.nl)

To measure the results of sub-article 32.01, two indicators are included in the budget. These are presented in the table below. One of them - the number of traffic deaths - is also illustrated as a graph as well.

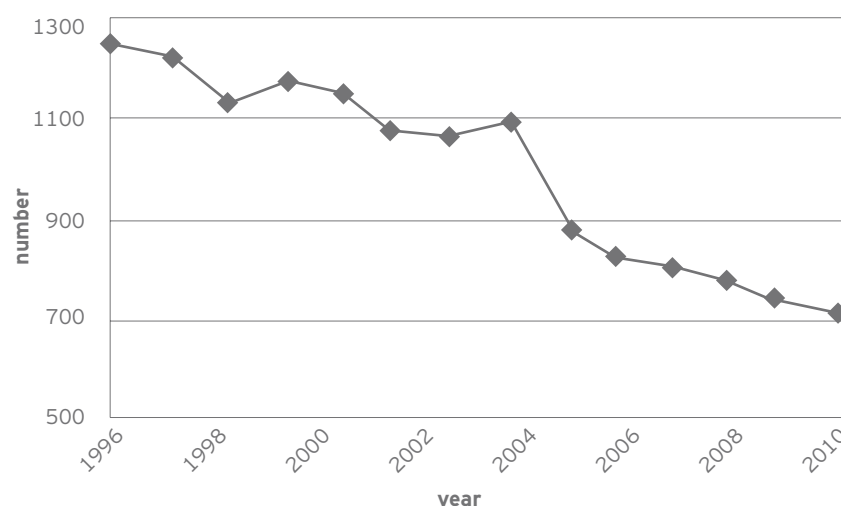
Table 3. The indicators of sub-article 32.01 in the NL 2011 budget

	2002 Base value	2008	2009	2010 Target
No. of traffic deaths	1 066	750	720	750
No. of traffic injuries	18 420		PM ¹	17 000

Note 1: Not all data were available in time for mentioning in this budget as has been noted to Parliament (Kamerstukken II, 2008-2009, 29 398, nr. 151).

Source: RWS/DVS, 2010

Chart 1. No of traffic deaths - one of the indicators of sub-article 32.01 in the NL 2011 budget



Source: RWS/DVS, 2010

A senior official of the Ministry of Transport tasked with budget accountability informed us that the number of traffic casualties is considered (politically) as one of the most important figures in the Ministry's budget. Nonetheless, it can be criticized from the viewpoint of the political accountability. First of all the target value is not achieved by the Ministry's actions alone. For example: alcohol consumption in general and medical care, are also relevant factors but remain clearly beyond the Minister's direct sphere of influence. The "Don't Drink&Drive" campaign (instrument no. 32. 01.03) is expected to be the most influential instrument but causality between each single instrument and the overall outcome to be achieved can be flawed. The best method to safeguard against that bias is an in-depth ex-post

evaluation. This is planned for 2012. Whatever the degree of flawed causality, from a transparency point of view, it remains important to report the measured effects. As the official puts it: *Parliament grants us the budget and since we spend it, we'll just have to inform them about results*⁷.

Budgetary process

Design and implementation of the budget in the Netherlands, like in most countries, involves the activities of different actors during different phases of the budget process. The draft budgets in the NL are produced by the spending ministries and the Ministry of Finance becomes involved in the later stages of the budget preparation phase. After budget approval, spending ministries are primarily responsible for budget execution supported by the Ministry of Finance tasked with the secondary role of providing oversight.

Program structure, policy objectives and indicators are chosen by the ministries during the budget preparation phase but remain subject to approval by the Ministry of Finance. Final approval takes place when the draft budgets are approved by the Council of Ministers and finally by the Parliament.

Performance reporting

In principle, every program is expected to have performance information included in the budget and in the annual report, presenting the results at the levels of the general objective and its operational ones. However, not all articles are supplied with output and outcome indicators. From 2006, due to the evaluation of the NL performance budgeting system, output and outcome reporting was realized on a *comply or explain* basis. This has been decided after it was acknowledged that it was not possible to provide useful indicators for all fields of government intervention. The percentage of programs that use the explain clause for not having an indicator is presented in the Chart 2 for the 2007-2011 budget documents.

So, for example, the percentage of output indicators in the budget year 2010 was some 85%. For the other 15% the budget provided reasoning why there were no relevant output indicators present.

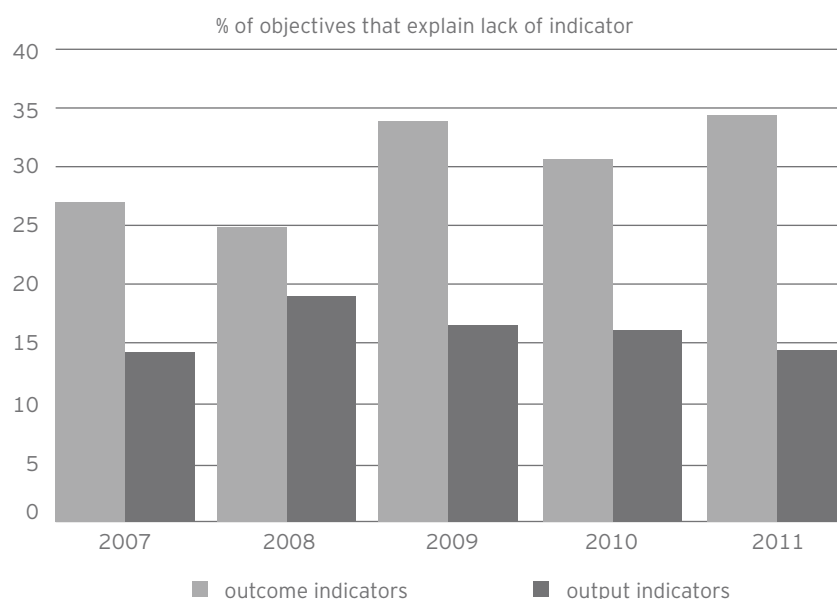
It is important to note that more accessible budgets and managerial flexibility in the Netherlands came at a price of abolishing the input controls for Parliament (as well as for the Ministry of Finance) and offering information at quite a highly aggregated level. Additional

Budgetary proces

Performance reporting

requests from parliament for input information like expenses on ICT, external experts, or salaries (which remains largely hidden in the current budget documents), has been growing in recent years. At the same time, for now, the Court of Audit and Parliament seem to hold on to the ideal of the full outcome budgeting.

Chart 2. The % of programs using the explain clause for not having an indicator



Source: Data from NL Court of Audit

Performance monitoring and accountability

Responsibility for monitoring the performance information in the NL rests primarily with the spending ministries, with the Court of Audit taking annual samples for in-depth analysis. The frequency of monitoring varies depending on the indicator although each one has to be reported at least once in the Ministry's annual report. To ensure reliability, the Ministry's internal audit service is tasked with auditing the processes of gathering performance information. Another measure utilized since 2006 is the obligation to state the information sources regarding indicators in the budget.

Producing and reporting performance information is obviously not an end in itself. In the NL, the annual reports that combine financial and performance information are presented on the annual Accountability Day (every third Wednesday of May). This is followed by a plenary accountability debate. In the two, or so, months after the plenary

debate, each minister individually discusses his/her annual report with a parliamentary committee (9-15 in recent years). So far, the Accountability Day has not been a full success in all possible respects. Current events and remarks from the Court of Audit about financial management technicalities tend to dominate the debates that focus not so much on the effectiveness and efficiency of the Minister's policies (De Vries & Bestebreur in Wanna et al. 2010). Despite this, proposals to abolish the Accountability Day or to integrate it with the presentation of budgets have met with a rather uniform resistance from the Parliament. Instead, in 2007 the Ministry of Finance, the Parliament and the Central Court of Audit have started deliberations that have resulted in some innovations aimed at increasing the political relevance of the annual reports and the Accountability Day. These will be addressed in a later part of this report.

The results of the VBTB reform

When the NL performance budgeting system was evaluated 3 years after its introduction, the main conclusion has been that using the budget as an instrument to achieve both greater transparency and greater efficiency was considered no longer feasible as it would stand in the way of further improvements (IOFEZ 2004). Instead it was felt that the budget structure should only be used to increase transparency while improvement of effectiveness and efficiency would have to come from policy evaluation. In addition, a more flexible set of PBB guidelines for budget documents was issued in 2006. To illustrate the findings of this evaluation a number of relevant quotations are presented below:

Concerning Transparency, the evaluation states that:

...The most important improvement in the field of accessibility is the new structure and inclusion of objectives in budgets and annual reports...

...The structure of the budget articles is now much more based on the objectives of policy and not on the instruments. The 'old' explanatory statement has been greatly condensed...

...Despite these improvements, MPs and external experts still find the budgets lengthy and hard to read. Objectives are many and vague, and it is unclear what contribution the government makes to achieving them...

About efficiency and effectiveness, the evaluation concludes that :

...In the field of efficiency, respondents indicated that VBTB had stimulated people to give more thought to the intended results of policy. This is an incentive to greater efficiency...

The results of the VBTB reform

...The interviews held in the context of the evaluation show that VBTB has helped ministries and implementing organizations adopt a more result-oriented manner of working...

...The role of policy objectives in internal management has increased. The budgetary cycle is more closely attuned to the cycle of planning and control, and they have become broader than merely funding and operations...

...Implementing organizations have observed that their talks with ministries have become more business-like, which has helped clarify the relationship between policy and implementation. The process of drawing up annual plans and discussing them with the ministry to obtain approval has led to debates on the objectives presented and on their effective implementation...

On unintended results, the evaluation adds some critical remarks:
...respondents also pointed out the risks inherent in VBTB. Making effects measurable may imply quantifying policy that can better be assessed in qualitative terms. This leads to the risk that performance measurement is counterproductive and reality exists only on paper. There is also the risk that policy is poured into a mould without giving any thought to its actual content. The efficiency of policy suffers from this because pouring policy into a mould does entail costs, mostly administrative...

When viewing the results of PBB in terms of intended and unintended consequences and visible and less visible effect (see Ch. 3.4.), the VBTB evaluations addresses some of the results mentioned in a direct manner. Of the intended consequences, increased budget transparency is reported as a visible effect while allocation efficiency gains are not. Of the less visible effects, result orientation within government organizations is clearly reported.

With regard to unintended consequences there is referral to the administrative burden associated with (useless) performance reporting.

Performance evaluation experiences in the Netherlands

As mentioned previously, fairly soon after VBTB was implemented, it was concluded that efficiency gains would have to come from performance evaluation rather than from merely measuring and reporting performance information. The Netherlands already had a longer history with policy evaluation and spending reviews. Even

before the implementation of VBTB, a requirement existed to evaluate all policies at least once every five years. Many different types of policy evaluations exist in the Netherlands, some *ex ante* but mostly *ex post*. The two largest comprehensive types are explained below. The reconsideration procedure was introduced 30 years ago and is primarily aimed at realization of savings. Policy review was introduced in 2006 and seeks to promote learning behaviour by systematically assessing the added value of a given policy.

Reconsideration procedure

The budget deficits in the late 1970s and the early 1980s gave birth to an unprecedented method of systematic evaluation. In the 1970s there was a series of experiments with an approach that resembled an internal self-evaluation determined largely by the spending ministries themselves (*'herwaardering'*). Not surprisingly, perhaps, this did not result in much valuable evaluation research. Lessons learned from this early approach were (Van Nispen 1993):

- ▶ the initiative to do evaluation proposals should better be left to the MoF,
- ▶ the responsibility for programming and progress of evaluations should be separated from the responsibility for doing the evaluations themselves,
- ▶ to stop vested interests from influencing the outcomes, the evaluation research should remain confidential while it is performed.

The next type of evaluation was named Reconsideration (*'heroverweging'*) based on these lessons was more successful. Under this system, spending reviews were conducted with the purpose of developing alternatives that would yield savings. Those reviews were preferably based on efficiency measures but, if necessary, also on reduction of service levels or policy objectives. Only alternatives costing the same or less could be considered. Every review had to produce at least one alternative that would lead to a 20 percent reduction of expenditure after four years compared to the contemporary estimate (Debets 2007). The reconsideration procedure combines a number of mandatory characteristics or rules of play:

- ▶ an independent chairman,
- ▶ the involvement of multiple stakeholders,
- ▶ the obligation to come up with a variant that meets a net saving target,
- ▶ a ban on veto-rights of a single party,
- ▶ end reports made public.

Generally, the reconsideration procedure followed six sequential steps:

- ▶ selection of a policy area,
- ▶ description of the current policy,

Reconsideration procedure

- ▶ evaluation of the current policy,
- ▶ development of alternatives,
- ▶ political judgment of results,
- ▶ utilization of the results.

Every year, the Ministry of Finance proposed a selection of policy areas which the Council of Ministers had to approve. The alternative variants developed, generally followed the lines of either lowering the levels of public service; increasing efficiency or effectiveness; or improving the allocation mechanism (decentralization, deregulation, privatizing).

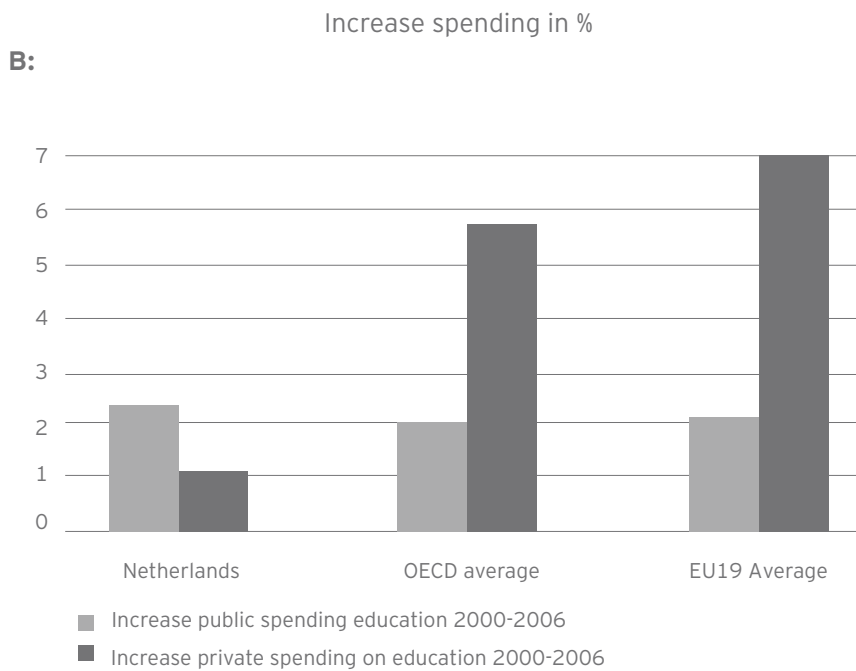
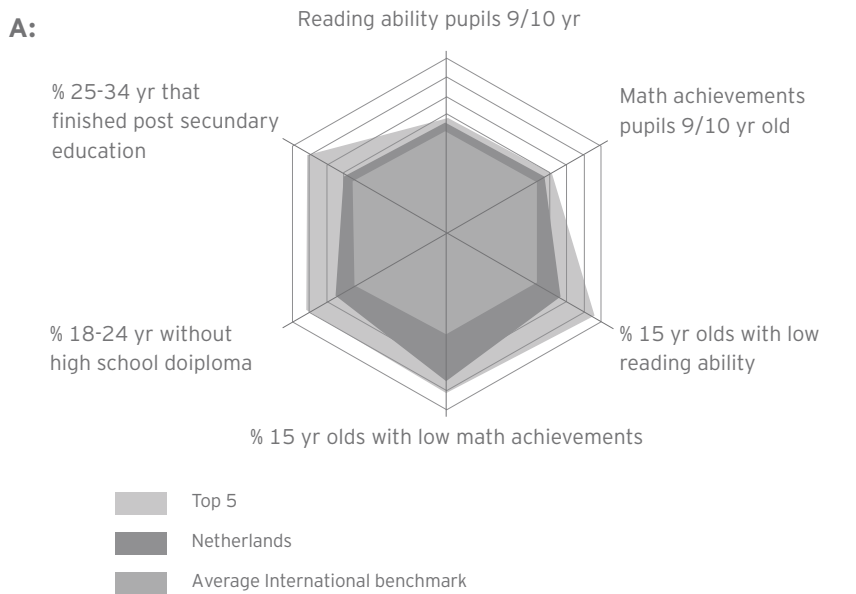
Over 100 of these spending reviews, known as reconsiderations ('heroverweging'), have been conducted throughout the 1980s. By 1989 a little over 30% of the total saving potential of these reviews had been realized albeit often indirectly and after a time lag of several years. For example, it has been reported that the Ministry of Finance was frequently able to negotiate more modest savings using the more radical scenarios from the reconsideration reports as leverage (Van Nispen 1993). In the 1990s, the reconsideration procedure was gradually modified to meet to changing economic circumstances. The mandatory 20 percent savings alternative was abolished due to pressure from the spending ministries (Debets 2007). After 1995, the adapted variant of the reconsideration procedure was named Interdepartmental Policy reviews (IBOs). After some initial successes resulting on major policy reforms, the number and impact of IBOs started to decline.

Although the reconsideration procedure right from the very start was intended to address necessity, effectiveness and effectiveness of policies, these issues were reviewed at best in a superficial manner in the reconsideration reports of the 80s and the 90s. A severe limitation in addressing effectiveness and efficiency in those days was the fact that policies were seldom operationalized into clear, quantitative goals and objectives (Van Nispen 1993).

Due to the severe financial crisis, the reconsideration procedure was re-introduced in 2009 with a single, overarching round of 20 reviews covering 80% of the central government's expenditures. The net saving potential of this round amounted to some €35 billion. The review reports have been finished and send to Parliament prior to the 2010 general elections. Political parties used these reports in their election programs as did the new government in its coalition agreement. Although reconsideration reports are still primarily aimed at realizing net savings, they do necessarily combine projected output and outcome levels with the spending level scenarios. In this sense these are

performance informed evaluations as is illustrated by the below graphs from the reconsideration report number 5 on education. They shows a comprehensive international comparison on the performance and costs of the Dutch education system.

Chart 3. Data used in the reconsideration procedure (the case of education)



Source: Rapporten Brede Heroverwingen nr.6: Productiviteit Onderwijs 2010, Ministerie van Financiën

Policy review

Policy review

Ironically the VBTB evaluation report that expected policy evaluation to be the main source of efficiency improvement, presented a rather negative picture of the quality and impartiality of policy evaluations. This conclusion gave birth to a new evaluation tool with an intention of overcoming the main problems with the quality of policy evaluation so far. The new instrument called policy review ('beleidsdoorlichting') was to explicitly address the purpose and necessity of a policy or instrument, its effects and the impartiality of the review itself. Pivotal to the policy review are ten questions which the review should answer (see Box). These ten questions also have a *comply or explain* nature, meaning that the evaluator can choose not to address all of them if a valid reasons are given.

BOX 1. Questions of 'Policy review', introduced in the NL to improve ex-post policy evaluation

1. What is the problem behind the policy? Is this problem still current?
2. What is the cause of the problem?
3. Why does the government feel it is responsible for solving this problem?
4. Why does the responsibility lie with the central government (and not at local or EU level)? How has the responsibility been shaped and why?
5. What objective has the government formulated for the solution to the problem?
6. What instruments are being or will be enlisted? What relationship is there between the instruments? Do these instruments overlap?
7. What is known about the implementation of the policy?
8. Do the instruments contribute to the objectives formulated (to a solution of the problem)?
9. What are important positive and negative side effects?
10. How is it decided what funds will be allocated? What is the argumentation behind this?

Source: MinFin RPE (2006)

Having an independent expert participate in the policy review has been mandatory since its introduction in 2006. The expert's role varies from being a member of the evaluation board itself, to overseeing the methodology or giving a second opinion. The quality and use of policy reviews were evaluated in 2008. The evaluation concluded that new insights and lessons from policy reviews were usually adopted by the responsible agency in its new policy planning. That is, if these

insights did occur. Obviously not every policy review contains drastic new insights to learn from. These adopted lessons can take the form of setting new priorities, adapting policy objectives or rewriting action plans. Also a number of key success factors for a policy review were identified:

- ▶ involvement of the Parliament,
- ▶ commitment of agency's management,
- ▶ appropriate timing⁸ and possessing the required capacity at that right time,
- ▶ involvement of an independent party,
- ▶ choice of policy area (due to varying availability of evidence),
- ▶ reason has to be communicated to the involved agency.

The current implementation of the policy review has not been trouble free. Capacity continues to be an issue at many ministries. Also, it has been hard to succeed in creating active involvement of Parliament in selecting and discussing policy reviews.

CONCLUSIONS

- ▶ **Output and outcome information coupled with financial scenarios can help realize significant budget cuts in the political arena. However, this may occur in an indirect way and with a significant delay.**
- ▶ **A requisite for using systematic evaluation as a vehicle for program learning is the availability of clear and reliable performance data and the involvement of both internal and external experts.**

Next, four case studies refer to particular PBB practices in the Dutch and US Federal government. Also, conclusions will be drawn concerning the value of those practices with regard to good governance.

4.2. CASE I (NL). Childcare Support Gets out of Hand

Problem

In 2005 a new child care support act entered into force in the Netherlands. This law was part of a deregulation effort of childcare services in an attempt to install more market incentives. Before 2005, the childcare market was a largely regulated one, dominated by local monopolists who received direct subsidies from local governments. Apart that, there was a limited number of private enterprises serving the upper niche of the market. The new law handed over all responsibilities of choosing and paying a childcare provider to the parents, who could get a tax refund for their expenses. This refund was related to the parents' income and to type of childcare arrangement,

Childcare Support Gets
out of Hand

but could generally be considered generous⁹. The expenses related to this arrangement primarily served the goal of combining work and parenthood and were to result in a higher participation of working parents on the labour market. Below table presents the program goal and its main indicators as they can be found in the NL performance budget.

Table 4. Example of program goal and its indicators in the area of childcare

Budget document: Ministry of Education (OCW), article 24 Childcare			
General program goal: Childcare enables parents to combine labour and care and contributes to children being able to develop their talents, For children aged 0-4, childcare offers the possibility to make a better prepared start in primary education			
	Program indicators	2006	2009
	% Children aged 0-4 with childcare support	34	61
	% Children aged 4-12 with childcare support	9	22
	% Households with youngest child aged 0-4, in which both parents work at least 12 hours/week	63	71
	% Households with youngest child aged 4-12, in which both parents work at least 12 hours/week	60	67

Source: Begroting OCW 2011, article 24

Soon after the new act was implemented, the costs started to rapidly rise. This was anticipated, to some extent, as the use of subsidized childcare was expected to grow. By 2008 it was clear that the growth of costs would be unsustainable. The below table presents this growth of expenses.

Table 5. Growth in expenses in childcare costs

	Nr. of children in childcare	Net government expenses	Net. Government expenses per child
2005	375000	€ 667 million	€ 1 779
2008	715000	€ 2 169 million	€ 3 034

Source: Cie van Rijn p. 18 based on data NL Ministry of Education - OCW

The surge in expenses was an unpleasant surprise to the government as it heavily exceeded the projections. This resulted in serious problems for the Ministry of Education (OCW) under which the program was realized. Therefore, in August 2008, the government appointed a commission consisting of representatives of different ministries and the macro-economic and social-economic bureaus to investigate the effectiveness of the current system of subsidies and to come up with alternatives.

The effectiveness argument

In their analysis, the Van Rijn Committee subscribes to the general view that costs of day-care are a valid instrument to stimulate the participation of (notably) females to the labour force. This is so because for working parents, childcare costs are largely complementary to the financial benefits from labour. That means: lower childcare costs will have a similar effect on the decision to work more hours as an increase in pay. However, the committee pointed to two effects that diminish the effectiveness of this instrument. First of all, higher subsidies negatively affect the general tax burden and therefore the attractiveness of working extra hours. Secondly, subsidizing formal childcare also leads to formalization of such methods of childcare that were previously not formally paid-for or were totally unpaid. A popular example being grandparents who used to baby-sit their grandchildren for free and now made a financial agreement with their children that benefited them both, albeit at the expense of the taxpayer. In such cases of replacing informal care with a formal variety, no effect on labour participation is expected. It is concluded that the rise in female labour participation from 60% in 2005 to 69% in 2008 can be attributed to the extra child care subsidies to a limited extent only¹⁰. Moreover, autonomous trends in of participation and economic growth have played a large role.

After the Van Rijn report came out, two additional studies appeared on the effectiveness of childcare support program in terms of its main objective - labour market participation. A report by an independent macro-economic forecasting agency (CPB) and a spending review by the Ministry of Finance (heroverweging) both pointed out that subsidizing over 80% of childcare costs is not beneficial to the labour participation objective. In fact in the early days of the child-care support act, the lowest-income families saw up to 96,5% of childcare costs being subsidized by the state. In such a case parents were financially better off by sending their child to day-care than by providing diapers and food for their offspring by themselves.

Financial measures

In several tranches, financial measures were developed by the ministries of Finance and Education to 'contain growth and prevent unintended use' of childcare support (bron Miljoenennota 2011). This started with measures to limit the financial support for informal care (like grandparents) by the Balkendende IV administration. Even after this government fell and new elections were held, it successfully proposed higher contributions by parents in its financial plan for 2011. The Rutte

government expanded on these cuts with a series of measures set to realize € 955 million in savings by 2015.

These unpopular measures lead to an understandable outrage by parents and the childcare industry. However, the media and the debate in Parliament also highlighted the effectiveness arguments put forward by the analyses. It should be noted, that the severe financial crisis looming at the horizon since the early discussions on the measures, most likely helped to gain relative smooth political support for these unpopular cuts.

Although the spiralling program costs were unmistakably the most important motive to take action, program effectiveness soon took a crucial role in the analysis and subsequent debate about budget cuts. This is not all that common given the analysis on the effects of program assessments allocation presented in chapter 3.

According to the budget officials that we spoke to and who were involved in preparing the financial cuts in the childcare program, the arguments provided by the effectiveness studies proved crucial in obtaining the necessary support for the austerity measures. So, what made this case special, in the sense that the effectiveness arguments successfully conquered a place in the public debate and maybe even settled the debate on the spending cuts? First of all, the financial problems of a large, and essentially ill designed, policy demanded urgent attention. Secondly, the finished analyses clearly presented some fairly strong evidence on shortfalls of the contemporary policies. This, in itself, may be relatively rare due to a lack of good or impartial evaluations but also because valuable new insights are simply not always available. Thirdly, the fiscal crisis made it harder to just ignore these analyses as it was clear that something simply had to be done.

In this sense, the crisis may have offered an opportunity to include performance information in the allocation debate. It should, however, be noted that this was supported by a strong piece of evidence regarding a financially troubled program.

CONCLUSION

Data on policy effectiveness have the potential to make the difference required to get the necessary budget cuts across to the Parliament.

Sources

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Rapport Commissie Van Rijn: *Van Beter Subsiëren Naar Beter Organiseren - Eindrapport Commissie Kinderopvang*, April 2009, Den Haag

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Jongen, Egbert L.W., Feb. 2010, *Child Care Subsidies Revisited*, CPB publication No 200 Den Haag

Rapporten Brede heroverwegingen - Kindregelingen : het kind van de regeling (nummer 5) Ministerie van Financiën April 2010

4.3. CASE II (NL). Regulatory Reform Program

The Netherlands is often presented as an exemplary success story in the area of regulatory reforms. Their Standard Cost Model is used in many OECD countries. Since the 1990s Dutch governments have been investing in reduction of the administrative burden placed on the private sector. A reason for this longstanding priority has been that the Netherlands started out with a relatively high weight of administrative burden seen as the percentage of GDP. Initially situated within the Ministry of Economic Affairs, the *Interdepartementale Projectdirectie Administratieve Lasten* (IPAL) initially oversaw implementation of a better regulation program. The Standard Cost Methodology (SCM) is an activity-based accounting model that aggregates the costs for businesses with respect to all direct costs of complying with legal information obligations. In 2000 an independent watchdog (Adviescollege Toetsing Administratieve Lasten - ACTAL) was established in order to oversee the broad regulatory reform efforts. One particular task of ACTAL is advising government on the burdens resulting from newly issued regulation. In 2007 IPAL merged with several related units at the Ministry of Finance and was renamed the Regiegroep Regeldruk (RRG - Regulatory Reform Group). In 2010 the RRG moved again from the Ministry of Finance to the newly formed Ministry of Economy, Agriculture and Innovation into which its former host, the Ministry of Economic Affairs, had been merged.

Using PBB elements

According to our respondents from the Dutch government, the condition sine qua non for a success was a strong inveteracy of better regulation philosophy in the logic of a preexisting PBB approach. As one senior representative of the Dutch administration told us: "We learned from the PBB approach". To be more precise, we have been informed that such elements from the PBB philosophy were used: 1) a need for a precise methodology (in PBB domain VBTB methodology and in BR SCM); 2) a necessity for having well formulated indicators (according to SMART

principles); 3) a need for political leadership - "In order to be a success story, the process must be coordinated by one of the most powerful figures in the government [in NL it was the MoF]"; 4) cross-departmental cooperation; 5) a separation of oversight units from the units spending money. Reasons for success were: 1) a step-by-step approach; 2) strong participation of the Parliament; 3) support from the civil society; 4) an independent watchdog. So, in the NL the philosophy from the domain of PBB was successfully transferred to the BR domain.

Horizontal management

After broadly achieving a reduction of 25% in administrative burden, the overall target of the Balkenende IV government was a further 25% reduction for the 2007-2011 period. By breaking down this overall percentage into targets per ministry, individual ministers could be held accountable for their contribution to this overall target. We were told that: "because civil servants tend to focus on their political bosses' ambitions, breaking down overall targets into ministerial ones is vital for these targets to be a vehicle for reform". The regulatory reform approach also copied the concept of self-compensation that is used in the Dutch budgetary system. This approach means that if a ministry does not meet its regulatory reduction target due to unexpected events, it needs to compensate this setback itself with other initiatives regarding that ministry's regulation. Below is a table that reports the progress made by each Ministry in 2007-2009.

Table 6. Developments of administrative burden since March 1st 2007

Ministry	Zero base measurement	Realized net reduction (million €)			Cumulative%
	01 03 2007*	2007	2008	2009	
Finance	4 116	- 179	- 86	- 147	- 10%
Justice	1 298	- 207	0	- 24	- 18%
Environment	1 215	11	- 261	- 13	- 22%
Social Affairs	1 054	- 18	- 1	- 2	- 2%
Health	481		1	- 12	- 2%
Transport	467	- 63	- 3	- 37	- 22%
Economic Affairs	290	- 3	- 15	- 40	- 20%
Agriculture	205	- 1	- 2	- 1	- 2%
Youth	11,2				0%
Internal Affairs	10,7	- 0,1	- 0,1		- 2%
Education	10,5		- 0,6	- 0,2	- 8%
Total	9 158	- 461	- 372,6	- 276	- 12%

Source: Yearly Report 2009 of the Ministry of Finance, policy article 4.8

The Rutte government, that succeeded Balkenende IV in 2010, continued the same approach but broadened it by adding extra objectives to the percentage reduction in regulatory burden. These extra objectives targeted more specifically the compliance costs, the burden of inspections and transparency of regulation, taking into special consideration the contemporary changes in the rules and laws. The Regulatory Reform Group relies on the same PBB-inspired approach to achieve these new targets.

CONCLUSION

The PBB approach can be a helpful tool for breaking down a broad range of policy objectives by introducing the elements of concrete targets, clear accountability for results and cyclical reporting and monitoring.

Sources

Den Butter, Frank A.G. Marc De Graaf and André Nijsen 2009, *The Transaction Costs Perspective on Costs And Benefits of Government Regulation: Extending The Standard Cost Model*, Tinbergen Institute Discussion Paper

OECD 2009 *Better regulation in Europe: an assessment of regulatory capacity in 15 member states of the European Union - Better Regulation in the Netherlands*

Jaarverslag Ministerie van Financiën 2009 (www.rijksbegroting.nl)

4.4. CASE III (NL). Recent Innovations in Accountability in the Netherlands

During the last coalition Government (2007-2010) the Prime Minister's Office (Ministry of General Affairs) monitored the performance of a set of key government objectives. Twice a year the progress on these key objectives was discussed in a bilateral manner between the PM and the individual cabinet members. This was inspired by the example of Britain's Delivery Unit during the second term of the Blair administration (see Box). In comparison to the British example, however, the method used in the Netherlands differed in a couple of aspects. Firstly, a significantly broader set of objectives was monitored (84 objectives covering the all the central government's policy areas instead of 20 targets on key public services). Secondly, the capacity at the Prime-Ministers Office to do so was comparatively modest. The combination of both factors allowed for less aggressive and in-depth monitoring coupled with the lesser problem-solving capacity on the part of the PM Office. Institutionally, there is also a difference between the position of the PM in the UK and the Netherlands as the Dutch PM in is formally not heading the Council of Ministers.

Recent Innovations
in Accountability

Although intended as an instrument for internal management, just like its British counterpart, Parliament soon discovered the value of the tool for external accountability. During the 2008 Accountability Day debate, Parliament voted for a proposal from the opposition to make the results of the cabinet's internal monitoring public and add them to the annual accountability documents.

BOX 2. UK's Delivery Unit

Established in 2001, the UK's Prime Minister's Delivery Unit oversaw the realization of a number of the second and third Blair administration's top priorities concerning education, health, crime, transport and internal affairs. In its approach the PMDU employed a combination of:

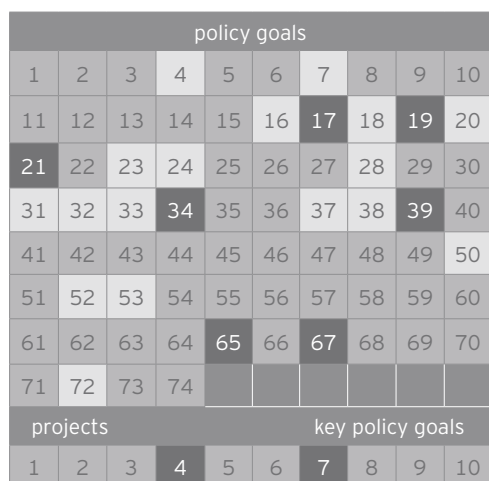
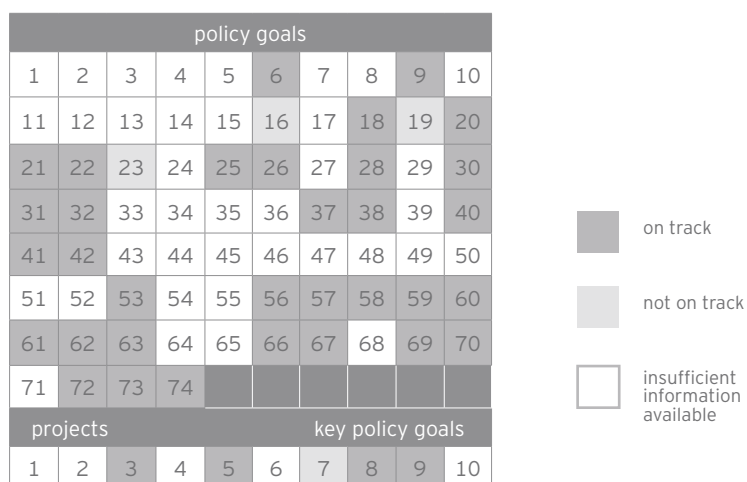
- ▶ performance management,
- ▶ tailored support for specific problems,
- ▶ high frequency reporting (or even Real time data),
- ▶ prompt action.

In so called stocktakes, held every 2-3 months, the PM held the responsible minister to account about the progress toward projected targets. This way significant progress was made towards realizing the key objectives. For example the percentage of emergency departments that met the 4hr target (the time in which a patient must be seen, treated, admitted or discharged) rose from nearly 80% in 2001/2 to over 95% in 2004/5.

Source: Presentation by Sir Michael Barber at Netherlands Ministry of Finance, 2007

Simultaneously, from 2008-2010 an experiment was held that intended to focus the performance information in the annual reports on government priorities at the expense of technical indicators. The two main objectives of this experiment were to increase parliamentary involvement in policy accountability and the reduction of red tape in performance reporting. As part of this experiment it was decided that the PM was to join the Finance Minister in parliament on Accountability Day. In addition to the annual report that was traditionally presented by the Finance minister, the MP would present an accountability letter that explained the progress made on key objectives of the coalition Government. In this letter, the PM explained if he was on track with the realization of his government's priorities. In the figure below, the results of the first two accountability letters are summarized.

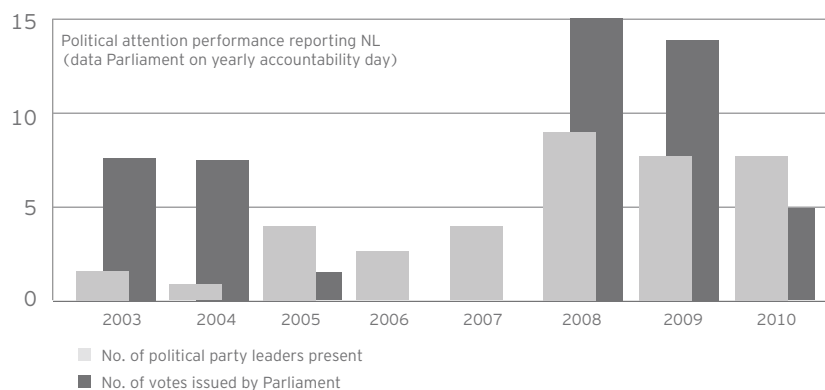
Figure 6. Presentation of the realization of key priorities of NL government



Source: Accountability Letter to parliament May 8th 2009

As a result of these measures (revision of the content of annual reports, introduction of an accountability letter, presence of the PM) the accountability debates in 2008, 2009 and (to a lesser extent) 2010 saw increased political attention and focus on policy issues. This is illustrated in the figure below. The backdrop in 2010 can largely be explained by the fact that the Balkenende Government had formally resigned by that time.

Chart 4. The measures of political attention during the accountability debates



Source: Tweede Kamer (Netherlands Lower House of Parliament)

The view that the overall impact of focusing policy accountability on the political priorities did improve the possibilities for oversight by Parliament, was shared by PM Balkenende. Looking back at the experience, he concluded in his final accountability debate on May 20th 2010:

Conclusion: The introduction of an accountability letter, coupled with measurability of cabinet priorities, has, in my opinion, improved the connection between the budget and the yearly reports. The delivery method is new for the Netherlands and is still under development. The added value of the method is that, apart from policy objectives and performance, the outcomes realized in society are taken into account.

After resigning as PM, Mr. Balkenende confirmed to us that, in his opinion, the methodology of the delivery had also enriched the policy debate within the council of ministers during his last government. There was criticism as well on the monitoring of cabinet priorities. Because the 84 objectives were mostly politically formulated, the actual measurability varied significantly. Another associated problem was the fact that administrative systems weren't always able to keep track of financial impact of certain objectives. Understandably, the administration used for financial planning and reporting is built around the more stable long-term policy programs.

After the Balkenende IV government ended, the experiment that brought these innovations in has formally ended as well. The Parliament demanded, however, to stay informed about the progress of the New coalition's key priorities. This demand was expressed by the following proposal submitted on 18th November 2010

BOX 3. Example of the “performance request” by the Lower House of the NL Parliament

The Lower House,

Having heard the deliberations,

Considering that the coalition agreement contains objectives that were not yet sufficiently concrete and suitable for accountability purposes;

Considering that the Lower House is therefore unable to fulfill its task of oversight adequately;

Requests the government to transparently provide the following information about the (suitable) objectives from the coalition agreement:

- ▶ the zero base measurement,
- ▶ the (measurement) instruments used,
- ▶ the appropriate time-path for realizing them,
- ▶ What means are available for realizing them.

And inform the Lower House about this before the end of January 2011

The request was rejected by the smallest possible majority (76 versus 74 votes) but the opposition was soon to issue a set of 455 questions to the government about the coalition agreement along the lines of the rejected proposal. Interestingly in the meantime, civil society started to pick up on this issue in a way that has not been seen before.

The Netherlands largest private TV network, and more specifically its chief political affairs journalist, launched a website called Ruttessrapport (Rutte being the current PM, and rapport meaning school grading list). This site, www.ruttessrapport.nl, aided by periodic TV airings, closely follows the realization of the objectives from the current coalition agreement.

So although initiated as a tool for internal management on coalition priorities by the Prime Minister, the Dutch delivery method, combined with focusing policy reporting on government priorities, proved to be a powerful tool of accountability. Not only did it increase parliamentary involvement in public performance accountability, it also spurred a reaction from civil society.

CONCLUSIONS

A delivery style approach has the potential to mobilize result orientation in a number of public sector organizations, thus creating a vanguard in terms of a performance culture in government. This requires capacity at the top level of government for both aggressive monitoring and offering tailored support for quickly overcoming problems.

Monitoring key performance targets is more likely to mobilize Parliament's interest in ex-post performance accountability than supplying all the available information at once.

The focus priorities should be selected carefully, especially with regard to the degree of impact of government intervention and budgetary consequences

Sources:

Brief Minister van Financiën aan Tweede Kamer 20 december 2007, Tweede Kamer 2007-2008, 31 031 en 29 949, nr. 19.

Verantwoordingbrief Minister President aan Tweede Kamer 2008 8 mei 2009, Tweede Kamer 2008-2009, 31951, nr 2

Presentation Michael Barber at Ministry of Finance 2007

4.5. CASE IV (US PART) . Large Ambitions, Mixed Results

Background PART

Arguably the most ambitious PBB project in recent years was the US Federal Government's Program Assessment Rating Tool (PART), developed in 2001/2002 by the Office of Management and Budget (OMB) under the Bush administration. PART was an effort to link program performance to budgeting in the budget preparation process and to build upon the 1993 Government's Performance and Results Act (GPRA). GPRA's requirements took effect in Fiscal Year 1999 and required government agencies to present a:

- ▶ A multi-year strategic plan including long-term strategic goals and objectives as well as strategies for achieving these goals. The plan should cover five years and should to be updated every 3 years.
- ▶ An annual strategic plan that aligns long-term strategic goals with annual goals. The plan should cover each program activity presented in agency budget requests. Performance measures should measure progress towards these goals and verification of performance data has to be explained.

- ▶ An annual performance report. The review should discuss projected and realized performance during the previous year, explaining differences and provide a baseline and trend data. (Robinson/ Fantone 2007).

In the view of the Bush Administration, GPRA had not met its objectives in the sense that it lacked a way to hold agencies accountable for performance and that there was no integration of budgeting and performance (Brass 2004). The reasons for the Office of Management and Budget (OMB) for creating (PART) in 2001/2002 cannot be viewed separately from the shortcomings attributed to GPRA, most notably:

- ▶ frustration with the amounts of time agencies spent on complying with GPRA versus the questionable value of the information so generated,
- ▶ neglecting evaluation as missing link between performance plans and reports and,
- ▶ a lack of central, top-down guidance in addition to GPRA's bottom up process built around performance plans and reports issued by agencies.

Table 7. Numeric scores using for assessing government initiative (US PART)

Score	Grade
0-49	Ineffective
50-69	Adequate
70-84	Moderately effective
85-100	Effective
RND	Results not Demonstrated

RND - Results Not Demonstrated

Source: US PART

Design

Under PART, OMB conducted systematic performance assessments using a standard set of 25 questions (see Appendix) divided into the following sections: program purpose and design; strategic planning; program management; and program results/accountability, the latter category covering 50% of the overall effectiveness score. The set of standard question was adjusted for each of seven program categories¹¹. For example the program results section was skipped entirely for programs in the research and development category. PART was introduced as an element of the broader President's Management Agenda (PMA) which held agency leadership accountable for

progress on five government wide initiatives, Budget and Performance Integration (BPI) being one of them. Assessments resulted in a numerical score that was subsequently translated into an overall grade (five grades see table 7). In the course of the Bush administration virtually all federal programs were assessed using PART. The assessment results and summaries of reports were made public on the White House website www.expectmore.gov.

Table 8. Number of program assessments in the US PART

Program Assessments (Cumulative)	FY 04	FY 05	FY06	FY 07	FY 08	FY09
Total No. of programs PARTed	234	395	607	793	973	1015

Source: US PART

If more than 10% of a federal agency's programs were graded 'Results not demonstrated' (RND), it could not score green on the BPI section of President's Management Agenda scorecard. If more than 50% of its programs were rated RND, the agency would get a red 'stoplight' on its PMA scorecard. It is reported that due to this some departments preferred programs being graded ineffective rather than RND (Gilmour 2006). The results of the PART assessment were to be used both for the preparation of the White House's budget proposal as well as for developing improvement plans to fix shortcomings perceived in the assessments.

Results of PART

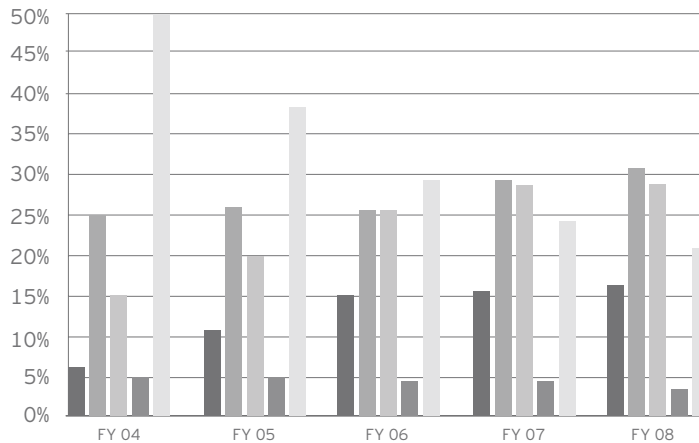
Looking at the development of PART ratings since its introduction (see chart 5), the decline in programs rated 'Result Not Demonstrated' is particularly noticeable. Those in the Executive Branch saw this as a confirmation that the aggressive improvement plans called for by PART assessments and the Presidents Management Agenda gradually kicked in and started to deliver results. More sceptical sources suggest that OMB was in fact creating its own success by assessing programs more favourably towards the end of the Bush presidency. Furthermore they suggest that agencies have learned to 'study for the test' and have developed a more precise idea of what OMB examiner wanted to hear.

With regard to allocative efficiency the results presented a mixed picture. When developing funding proposals, it seemed that the President's Office of Management and Budget (OMB) to some extent did take performance scores into consideration (Gilmour and Lewis, 2006). However, when looking at final budget resolutions, no significant effect on budget resolution by Congress can be attributed to PART. Also the role that PART

PART - Program Assessment Rating Tool

examinations have played in debates about funding in Congress seemed to be limited at best (Frisco and Stalebrink 2008)¹².

Chart 5. Development PART ratings FY 04-08



■ Effective	6%	11%	15%	16%	17%
■ Moderately Effective	24%	26%	26%	29%	31%
■ Adequate	15%	20%	26%	28%	28%
■ Ineffective	5%	5%	4%	4%	3%
■ Results not Demonstrated	50%	38%	29%	23%	21%

Source: Own calculations based on data from US PART

What can be learned from PART?

It is important to acknowledge that the US institutional setting allows the president to have firm grip over executive agencies while having a relatively weak role in the resolution of the federal budget. That means that an ambition to use PBB aggressively may result in more impact on government agencies than influencing stakeholders outside the executive branch. The President’s Management Agenda and the scorecard for agency managers was an accountability tool that, not unlike the British delivery, enhanced internal accountability within the executive branch. The lack of impact of PART on final budget resolution bears testimony to the comparatively limited influence of both the President and the PBB on budget resolution. In that sense the PART exercise was yet another lesson in modesty when it comes to wishes of directly influencing something as unpredictable and complex as political decision making. Does this mean that PART and (more generally) performance budgeting have failed altogether? To the contrary, some of the effects of PART can be regarded as rather successful.

What can be learned from PART?

 Transparency
Transparency

Arguably the most revolutionary feature of PART that differentiates it from previous performance budgeting attempts by the federal government is an unprecedented level of transparency. By introducing PART, OMB brought more openness to the process leading to the President's budget proposal. In particular, it helped to reduce some of the secrecy which is characteristic to the appropriations processes. At the very least OMB should be credited with the opening-up for scrutiny and potential criticism by its review of program performance and dissemination of results to a potentially wider audience (Robinson/Fantone 2007). More than anything previously available, PART delivered on the promise to show the American people how government programs are performing and to allow comparison of costs to performance.

In addition to being an end in itself, transparency may have been instrumental to some of PART's other purposes. First of all, it enhanced the objective of improving agency's performance. By publicly displaying analyses of ineffective programs and programs that did not demonstrate results, OMB added naming and shaming to its approach towards agencies in an effort to improve program management and performance measures. Especially, if the media have picked up signals of bad performance, as they did, for example, with Amtrak, the punishment of bad publicity may have been even more powerful than the possible budgetary consequences. Or, as a senior official at the Department of Transportation put it¹³:

Even though a program manager will know that Congress is more crucial to safeguarding the program's budget than OMB, he or she may still prefer not to start the competition for appropriations funds with a detailed bad recommendation from the President.

Operational efficiency

 Operational efficiency

Agency officials interviewed by GAO credited PART with motivating agencies to seek more ambitious performance measures and underscored the need for quality evaluations. In addition, PART helped to increase attention to the use of performance measurement in day-to-day program management and provided agencies with powerful incentives for improving data quality and availability (Robinson/Fantone 2007). OMB also monitored the status of improvements and follow-up actions stated in the PART-improvement plans through PARTweb, a web based application for OMB and the agencies. When asked, Robert Shea of OMB (responsible for developing and managing

PART) said that to him the true measure of PART's success was the number of truly aggressive improvement plans issued and executed by agencies. Anecdotal evidence suggest that PART did indeed help improve efficiency in several programs (e.g. Saint Lawrence Seaway Development Corporation (SLSDC) and State Maritime Schools, both Department of Transportation programs)

Stimulating a performance dialogue

Another reported effect of PART is its contribution to the dialogue between OMB and the agencies on performance and funding, as well as to dialogue within OMB itself. Due to its systematic approach, PART provided guidance for shaping the dialogue between OMB and agencies with regard to both content (the questionnaire) and process (integration in the yearly budget cycle). PART's contribution to strengthening central performance planning and guidance lies mainly in its value as a disciplinary measure for the dialogue between OMB and the agencies, making OMB's approach more systematic and uniform. In 2004, GAO already concluded that PART helped to structure and discipline how OMB used performance information for program analysis and budget development (GAO-04-174). This is one of effects of PBB reforms that has been reported more often. In a survey by Melkers and Willoughby's, a majority of state budgeters and state agency practitioners responded that they felt that PBB had improved communication between agency personnel and the budget offices as well as between agency personnel and legislators (Melkers and Willoughby 2004 in Breul and Moravitz 2007). In this respect PART should be credited with three contributions in particular (Robinson/Fantone 2007):

- ▶ OMB reported richer discussions during its internal deliberations,
- ▶ standardization of the dialogue with agencies and a more disciplined approach,
- ▶ attention to programs not normally reviewed thanks to PART's systematic approach. These, usually being the smaller ones, sometimes lacked evaluative capacity of their own.

CONCUSIONS

Making the results of performance assessment broadly accessible on a website sends a clear signal to both citizens and government employees of the political leadership's commitment to performance accountability.

The explicit intention to use performance information to inform a budget proposal and the adoption of a standardized assessment format helps streamline and improve dialogue between the MoF and the other government entities.

Stimulating a performance
dialogue

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5. Implementation of Performance Based Budgeting in Poland

Power is a generalized capacity of a social system to get things done in the interest of collective goods.

- Talcott Parsons

In this chapter, we investigate the recent developments in PBB implementation in Poland. The focus is not, however, on legal issues, but rather on assessing how these ideas function in everyday workings of central government administration. Here we subscribe to the World Bank's claim that: "Poland's greatest challenge is to make PBB reform work. The crucial factor is not only to prepare legislative amendments, design program structure and select performance indicators but how to combine these techniques and integrate them into the budget strategies and the civil service's day-to-day financial management procedures" (World Bank 2009, 169). Therefore, we do not appraise PBB alone, but do it in connection with different overlapping processes that take place in Polish administration - namely various attempts of realizing GG ideas, better regulation agenda, and, last but not least, a number of processes imposed on administration by the EU institutions. That is why many claims present in this chapter are based on in-depth interviews with key players taking part in preparation and implementation of PBB, including the current staff responsible for PBB in MOF, but also from outside the MOF as well as some respondents from the political level. Also, we have utilized results of a questionnaire that has been sent to all civil servants of Ministry for Regional Development (MRD) (855 sent/125 received), Ministry of Science and Higher Education (MSHE) (355/35), and Ministry of Infrastructure (MI) (1100/110)¹⁴. The reasons for choosing these ministries are as follows: 1) MRD is responsible for implementing EU funded programs in Poland and thus should be interested in their effectiveness and hence can use PBB as a tool of achieving it. MRD also has its own "performance system", i.e. the monitoring and evaluating systems used in enforcing EU programs and hence it is interesting how these people treat PBB; 2) the government of Poland is implementing a deep reform of the legal and financial framework in which Polish science functions. The aim of that reform is to create a more competitive sector and to move Polish science towards international standards (e.g. granting money to researchers on the basis of clearly defined performance objectives). Therefore, performance should matter more and more in this ministry. That is why it is interesting what they think about PBB. 3) MI is responsible for building and maintaining transport infrastructure in Poland. This role is very important nowadays since there

are many ongoing infrastructural projects financed by the EU. This is really a case of a spending ministry.

We start by presenting a brief history of PBB in Poland. We do that in order to show the context in which this process is taking place. Also, this short historic overview will enable better understanding of the current state of PBB and the difficulties that it is facing. Next, and foremost, we focus on an in-depth description of the current state of PBB. While doing so we do not only scratch the surface but, first and foremost, we search for determinants and explaining items of the way PBB is functioning in the central administration. What follows is a description of parallel processes taking place in Polish government that influence the way PBB is used. Next a list of barriers to the implementation of PBB is presented. Later, in recommendation section of this report, some additional advices are given on how these problems can be addressed.

5.1. Polish Background and History of PBB¹⁵

PBB in Poland has a long past, but a relatively short history. Its past dates back to 1989/1990 when the first budget was prepared by a non-communist government. An important trend in budgetary reforms in the 90s was a strong movement towards decentralization. In 1990 independent self-governed communes (*gminy*) were created. Every such commune receives a part of taxes collected from entities registered on its area. In that sense those local entities are (partially) financially independent from the central government. The creation of self-governed communes was an important step towards popularizing the logic of linking money with results. That was due to the fact that on the local level the money is always "closer" to both the problems of ordinary people and to possible results. Also, the results of financial interventions on the local level are more visible, since money is used to solve problems that the local communities are facing. Linking money to results is thus easier on the local than on the state (budgetary) level. Not surprisingly, the first performance budget was prepared by the city of Cracow in 1994/1995. On the state level, however, first signs of "PBB thinking" occurred in the late 90s when a new public finance law imposed an obligation on the government to prepare a three years strategy for managing the public sector debt.

A short history of the Polish PBB begins in 2005 when the need for preparing a budget in PBB manner was included in the national convergence program. Also, the implementation document of the National Reform Program of Poland for 2005-2008 stated that one of the main goals of the public finance sector reform should be "The preparation of a system allowing for the introduction of an activity-

based budget managed by results". The authors of that document aimed at covering 100% of the overall budget expenditure by activity-based planning in 2012. It should be underlined here that the European Commission required these documents from Poland. National Reform Programs, the so-called "National Lisbon Strategy Programs", required each Member State to prepare a list of regulatory reforms that would make fiscal interventions more effective. That recommendation also applied to the public finance sector and the authors of Polish program rightly decided to improve the budgetary effectiveness by introducing the logic of PBB. At the same time, more and more academics and public finance specialists started calling for a result-oriented budget. We claim that the accession of Poland to the European Union helped significantly in reforming public finance sector, including a move towards PBB. We will come back to this issue later in our discussion on Europeanization. Last but not least, it should be added that the PBB implementation was high on the political agenda of the Kaczyński government with PBB people playing an important role in the Chancellery of the Prime Minister, including their chief prof. Lubinska¹⁶.

5.2. Current Legal Framework for PBB in Poland

Without doubt in recent years Poland has made significant progress towards a legal framework enabling implementation of a performance budget (cf. OECD 2011, 56-57). The legal basis for implementation of a performance budget was laid down in Public Finance Act. According to article 2 of that statute:

"a performance budget is the statement of expenditures of the state budget or the costs of public sector entity prepared in accordance with state functions, representing various areas of state activities, and: a) grouping the tasks of budget expenditure by purpose; b) grouping subtasks budgetary actions to achieve the objectives of the task, in which subtasks have been extracted. Along with a description of the purposes of these tasks and subtasks, as well as the baseline and target indicators of the objectives of the state, indicating the value, quantitative or descriptive term base and target effects on investment".

Also, according to article 32 of that statute a performance budget is prepared in a three year perspective. Next, articles 174 and 175 make MOF responsible for monitoring the implementation of PBB. With respect to article 182, the Council of Ministers is obliged to present to the Parliament and the Supreme Audit Office a performance and accountability report on the execution of the budget in a performance manner. MOF, by issuing ministerial regulations, is responsible for

detailed rules for preparing a performance budget. As far as the current format of PBB is concerned, it should be noticed that it consists of a program classification framework divided into four levels, i.e. there are functions, tasks, sub-tasks, and actions.

- ▶ There are 22 functions. They occupy the highest level in PBB architecture. The number of functions and their content is defined according to the law on central government sectors (named *Ustawa o działach* in Polish).
- ▶ There are over one hundred tasks (166 in 2008, and 151 in 2009). They can be also treated as “programs” and reallocation of spending usually takes place on this level.
- ▶ There are hundreds of sub-tasks (454 in 2008, and 599 in 2009). They operationalize the goals presented in the tasks.
- ▶ Actions are highly detailed and consist of well defined steps that are needed to achieve the goals defined in tasks and subtasks. The decision to include action level can be understood in the context of making the budget more transparent.

2007 saw the preparation of the first document presenting the plan of budget expenditures in a performance manner. However, it covered a one year long perspective and only 44% of expenditures were presented in a performance manner. Today, the whole of the budget is presented in that way, but this information is still included in the Justification to the Budget Bill and therefore it is not legally binding. The 2010 PBB budget covered all expenditures of the state budget as well as some other entities of the public finance sector. The aim is to give a formal status to PBB in 2013 with the intention of eventually using only PBB. However, as OECD rightly concludes in its recent report on the PBB implementation in Poland:

Poland must decide whether to continue with a parallel system or switch to the PBB system only, and within what time frame. Once technical issues are resolved and institutional support in the Ministry of Finance and line ministries is secured, the only other requirement is clear political support at the highest level. There is an evident danger that, if this support is not forthcoming, performance-based budgeting will wither away and become a paper exercise which will not add value to the Polish public sector. It is therefore paramount that the performance-based budget quickly shows how and why it adds value and deserves to be brought forward (OECD 2011, 13).

Therefore, condition sine qua non for PBB success is a strong political leadership. Currently there is none.

Table 9. Function 18 (justice) in the Polish PBB budget

Function/task/ subtask	Budget owner	Part of budget	Goal	Indicator Name	Base value	Target value	Planned expenditures for 2011 (in kPLN)		
							Total	State budget	EU resources budget
18. JUSTICE									
18.1. Administration of justice by courts, including military courts	Ministry of Justice	15	Guaranteeing citizens' constitutional right to court	Percentage of population positively evaluating the workings of courts	31	34	5534192	5534192	0
				Ratio of the number of finished cases to the number of new cases in courts	101,6	103			
				Percentage of cases dealt with by courts of first instance in which time of the proceedings exceeds 12 months	4,5	4,1			
				The proportion of cases that include claims for infringement the right of parties to hear the case in court proceedings without undue delay	0,016	0,012			
18.1.1. Adjudication of the courts	Ministry of Defense	29	Guaranteeing citizens' constitutional right to court	Ratio of the number of finished cases to the number of new cases in courts	115%	100%	20289	20289	0
	Ministry of Justice	15	Issuing of judgments without undue delay in civil, criminal and business cases	The average duration of proceedings in civil, criminal and business cases (excluding land and mortgage register cases)	1,6	1,6	4387741	4387741	0
	Ministry of Defense	29	Issuing of judgments without undue delay in civil, criminal and business cases	The ratio of the number of contested decisions to the number of rulings issued	7%	0%	18216	18216	0

Source: MOF

In table 9 we present as a simple example of a PBB budget format, an extract from the PBB justification (appendix) to the main budget bill. As we see, the table consists of: the name of function/task/subtask; a precise definition of the responsible entity (budget owner); indication of the part of traditional budget spending structure from which a given action is financed; indicators; and planned spendings. Also, in the budget appendix, there is another table that presents indicators at the level of functions for the three upcoming years. These tables are accompanied by a separate document called an overview of expenditures in a performance format which gives an overall picture of each of the functions, including an estimation of the risks of not achieving target values of indicators.

As for the indicators, it should be noticed that in 2009 MOF commissioned external consulting companies to make propositions for indicators for each budget function. That project was completed in 2011¹⁷. However, in many cases performance indicators used in budget do not correspond to those proposed by external experts. Most importantly, in many cases indicators cannot be really assessed as PBB indicators. In addition, the budgetary documents do not contain indicators in a three years perspective for tasks and subtasks. Below, for the sake of example, we comment on the quality of indicators for function no. 21 (agricultural and fishery policy). We chose that function since there is a database of indicators prepared outside of MOF and because in this area of state intervention the goals are clearly defined on the strategic level in documents implementing the EU CAP in Poland. Thus, it is interesting to what extent there exists compatibility between PBB and goals of CAP for Poland.

In function 21 we have one main goal defined at the function level, i.e. increase of the competitiveness of farm holdings. It is a well-defined goal fully in line with the strategic goals of Polish agricultural policy. However, its indicators are not as well specified and are the following:

- ▶ percentage of financial resources used (70% of current campaign and 30% from the previous one),
- ▶ financial resources used as a percentage of the limit established in the European Agricultural Fund for Rural Development,
- ▶ financial resources used as a percentage of the limit established in the European Fisheries Fund.

These indicators relate poorly to the goal of the function, since they do not measure the competitiveness of farm holdings. They resemble more the traditional input-related budget benchmarks. Other countries, where the agricultural policy is described in performance budgets, use other kinds of indicators. Some of the most popular ones are commonly

used measures of competitiveness of agricultural production, e.g. Total Income from Farming (TIFF) per full time person equivalent (in UK budget) or various measures of commodity yields (in budgets of many OECD countries). Unfortunately, the authors of the performance budget within the policy area described in function 21 did not use any of the indicators proposed by the external experts, e.g. global agricultural production, farm income from individual farm holding per full time person equivalent, and various indicators of commodity yields. Fortunately, in other PBB functions the indicators are to a larger extent defined in a performance manner and are more or less goal specific. Still, there is a clear dominance of simple output indicators and the measures on the level of outcome are rarely used. On the other hand, we see a constant and gradual trend of using a growing number of outcome indicators. Summing it up, we see an improvement in the quality of indicators used; however, there are still problems with clear definition of the goals as well as with the use of specific indicators. Although a common technical difficulty of PBB implementation, the quality of indicators cannot be seen as the main barrier to full implementation of performance budgeting. More important is the question whether ministries and civil servants are using the indicators from PBB. Do they know the indicators? And, do indicators influence their actions? According to our survey there is a general lack of knowledge concerning indicators (and their target values) on the part of civil servants which is a serious problem.

Table 10. Civil servants' knowledge of indicators

Q: Do you know performance indicator in your area of responsibility?	Ministry for Regional Development	Ministry of Science and Higher Education	Ministry of Infrastructure
I know indicators and target values	18%	29%	35%
I know indicators, but I do not know target values	12%	18%	19%
I know sth. about indicators, but I do not know much about this	23%	6%	18%
I know nothing about the indicators	47%	47%	28%

Source: Data from questionnaire sent to these three ministries

Almost half of the civil servants in MRD and MSHE knows nothing about the indicators in their budgets. The situation is slightly different in the case of MI where indicators are more common knowledge. This is quite interesting especially in the case of MRD where people are generally used to employing indicators while implementing EU

financed programs. In that sense they are using indicators but not the performance budget indicators. That is coherent with what one of the respondents from MRD told us: "In our ministry only me and maybe two more people really know what PBB is about". Surely, there may be some exaggeration in that statement, but when combined with the results of our questionnaire one can conclude that people dealing with EU money simply do not see PBB as an important issue, since they have their own performance framework (EU monitoring and evaluation schemes). However, even at the MRD they are aware that they are mainly remunerated on the basis of the amount of money spent (the logic of traditional budgeting), rather than on the basis of the real impact their interventions have. That was a bit surprising for us, since MRD is known for its extended use of evaluation and monitoring techniques. However, as another senior official from MRD told us: "Our goal is to spend money", and later added "What we really need are better evaluations, and not the performance budget imposed on us by MOF". So, the ministry is not interested in PBB indicators, since they look for better indicators and evaluations for achieving more effectiveness in the EU programs they are using on an everyday basis. It is interesting that responses from MSHE are similar to that from the MRD. Although the knowledge of indicators is relatively better among civil servants in MI, still only 35% of them know both indicators and their target values. Two factors can explain the relatively better situation in MI. First, there was a huge consulting project commissioned by the MOF and realized in MI in 2009 which aimed at constructing a database of indicators¹⁸. In the course of the project many working sessions with civil servants from the MI were organized with the aim of discussing the indicators for PBB in that ministry. Second, there is a strong political and social pressure on MI, since the issue of low quality transport infrastructure is one of the main topic in the Polish political discourse. Therefore, the initiatives of that ministry are evaluated on a performance basis and the civil servants there should be more performance oriented. We will come back to these issues later, including the one of EU programs performance measurement. In the next chapter we appraise the organizational structure used to implement performance budget in Poland.

5.3. Organizational Framework of PBB Implementation

One of our respondents from MOF told us "[...] people [civil servants]¹⁹ are not sceptical about PBB" and that "I am quite optimistic [about PBB in Poland] ", however, another important figure, now from MRD, claimed that "it [PBB] is going in the wrong direction" and that "the current performance budget is not real PBB", and, interestingly, he added that "we [MRD] are not performance oriented, we are oriented

towards spending EU money”, and moreover, that “there is a weak link between strategic level and operational level”²⁰. It is understandable that people from public finance department of MOF are in favor of PBB, however, the position of our respondents from MRD requires a more in-depth comment. They are sceptical because they do not see any mechanism of translating strategic goals into operational, budgetary perspective. In their opinion, MRD that is responsible for implementing EU-funded programs is in possession of not having real tools for making PBB a helpful mechanism in achieving the goals of EU sponsored projects. Thus we have conflicting opinions on PBB inside the public administration.

The core team responsible for preparing performance budget is located in public finance reform department (PFRD) within MOF. Also, there is a National Coordinator of Performance Budget (NCPB) working in MOF in PFRD. NCPB is a statutory body defined in Article 95 of the Public Finance Act of 2009. Political and institutional position (in *de facto* terms) of NCPB is weak and, in our opinion, even deteriorating, especially if we compare it to the position of prof. Lubinska in the Kaczynski government. First, NCPB is a civil servant, now a deputy director of PFRD. It means that without support from the political level of MOF, the NCPB cannot effectively force other ministries to use performance approach. Second, the institutional position of NCPB inside the PFRD of MOF does not ease the transplantation of PBB into the regular budgetary process taking place in the budget department of MOF. The above makes the coordinator mainly a person responsible for technical aspects of implementing PBB rather than political or institutional ones. What we assess as a positive circumstance is that PFRD and budgetary department are both located under the same Deputy Minister. However, the co-operation between these two departments we assess as unsatisfactory²¹ (see also, World Bank 2010, 177-178; OECD 2011, 3).

It should also be noted that the current PFRD is a rather new department, since it was formed on the basis of a pre-existing department for public finance reform located in the Chancellery of the Prime Minister. That change occurred in 2007 after the new government took office. On the one hand, the result is that PBB people are closer to the regular budgeting process that takes place in MOF and hence (potentially) they can have a greater impact on the process of preparing a budget. However, on the other hand, they are now more disconnected from other ministries, a reoccurring claim in the interviews we performed. This makes it hard to influence the ways the other line ministries implement PBB logic. Probably due to that fact, PFRD created two working groups from various governmental bodies

that serve as platforms for communication with line ministries. First, there is a strategic group consisting of a dozen high level managers who represent the spending ministries. Second, there is a group of ministerial coordinators. However, these groups mainly deal with purely technical matters and do not focus on how to make the PBB a real tool of introducing managing by objectives principles (cf. OECD 2011). In that context, it should be added that the political strength of MOF comes from support from the Prime Minister, since Ministry of Finance does not have its own special prerogatives vis-à-vis other ministries. Also, and what we are to develop later, the history of post 1989 reforms in Poland shows that the vast majority of successful reforms (e.g. the ones undertaken by Buzek government) was conducted and coordinated from the outside of line ministries, usually by special plenipotentiaries. It is important to note that these reforms were not coordinated by the centre of government (i.e. the Chancellery of PM), but by ad-hoc nominated special envoys, usually from the outside of public administration, but with a strong political support from the Prime Minister.

Nowadays the people responsible for PBB lack strong political support from both political figures within MOF and the Chancellery of PM. PBB is not treated as an important (prospective) mechanism for modernizing the Polish state. In that sense, PBB people are somehow decoupled from a modernization discourse taking place in Polish administration. Paradoxically, after a removal of the PBB department from the Chancellery of PM to MOF, the Chancellery became a place where a long-term strategy for developing Poland started to be prepared by the group of strategic advisers to the PM. Currently many reform proposals are prepared by the Chancellery even in domains where line ministries previously held a decisive voice (e.g. the regulation limiting the possibilities of going for early retirement passed by the Parliament in 2008).

Being decoupled from the strategic thinking that is taking place at the Chancellery, PBB officials from the MOF also do not participate in crafting of various strategies for using EU money that MRD prepares. Therefore, we do not have a *de facto* institutional mechanism for translating strategic goals into budgetary ones. That is clearly visible in the way external consulting companies prepare the databases of indicators for MOF. First, they scan the indicators used in other countries and next they prepare their own propositions for MOF. They are not obliged by the MOF to read national governmental strategies and they thus usually do not base their propositions on these documents. Therefore, as one of the officials from the MRD told us "there is only a weak link between strategic and operational level" and

also that “we have different bodies that prepare different strategies, and they act quite independently”. What he also raised was a claim that there is no connection between indicators in PBB and the ones in EU funded programs. Despite the general scepticism in MRD towards PBB in its current state, they see a place for PBB in the process of implementation of EU programs, namely for them PBB, if correctly crafted, could be used as a tool for monitoring the on-going realization of these programs.

The only currently existing link between strategic logic and budgetary documents is through the Multiyear State Financial Plan (MSFP) which is prepared by the PFRD in the MOF. An important part of MSFP is the presentation of the expenditures in a performance manner. As far as the process of implementing PBB is concerned, one of the main advantages of MSFP is the improved expenditure prioritization that can ease the inflow of performance information into the budget. However, the crucial challenge is not only to have MSFP, but to make it matter, and not only matter for a budgetary process, but to make it a real tool of putting strategic objectives into budgetary documents. Currently, it is worth noting that performance information is put as an annex to the MSFP. Also, that there is not a direct information channel between MOF and the Chancellery of PM with regard to the MSFP in its performance dimension. As one of respondents from the Chancellery told us: “MOF gave us only a few days for commenting on their proposition of MSFP”. Also the institution of the Coordinating Committee for the Development Policy is not used as a communication channel between MOF and line ministries²². The representatives of MOF often simply do not take part in its meetings. Last but not least, in the public debate on the MSFP its performance part has been rarely discussed. In recommendation we will give some insights on how the process of preparation of the MSFP can be improved in order to make it a more effective tool of putting PBB logic into budgetary process.

Summing up what we have written just above, we conclude that in Polish central government we do not have appropriate linkage between the Chancellery of the PM (the place where strategic thinking takes place), the Ministry for Regional Development (ministry coordinating development programs financed by EU funds), and the Ministry of Finance (ministry where budgetary process, including PBB, is located). In order to implement management by objectives approach and hence improve the effectiveness of public administration such links should be created. In other words, the next phase of PBB implementation, after generating performance information that has already been done, should be just to make use of it in managing the country. Therefore, PBB should be coupled to government priorities and long-term strategies.

Only then will its perceived benefits for good governance come to fruition. That would work best via organizational concentration of PBB and these strategic efforts, namely the role of the Chancellery should be strengthened. The similar recommendation was recently raised in the World Bank's 2010 Poland Public Expenditure Review where they claim that "more direct consultation and coordination with the Chancellery would be useful" (World Bank 2010, 178).

There are some international examples of managing PBB from the centre of the government as well as of using PBB in implementing top government priorities. An interesting one is the Delivery Unit in the UK, referred to earlier in Chapter 4.4. The establishment of the UK's Delivery Unit is described by Thain (2010, 56) as follows: "Spending levels on health and education increased significantly after 2000. But one of the tension between Brown and Blair was that after 2001 public service productivity did not match the increase in resources. To encourage improvement Blair established the Delivery Unit in 2001". The UK Delivery Unit was chaired by the Prime Minister's Chief Adviser on Delivery and was also later responsible for monitoring the indicators from the Public Service Agreements²³. So, the Unit was an interface linking PM's Office, HM treasury, and to a lesser extent also the spending ministries. Another example of budgeting from the centre comes from Canada where the major expenditure initiatives in the budget are jointly determined by the PM's Office, the Privy Council Office (the secretariat of the federal government), and the Department of Finance (Good and Linquist 2010, 110). That way of preparing the budget originates from the so-called cabinet committee on priorities and planning, established in the 80s and chaired by the Canadian PM. In both UK and Canadian case the role of the centre of government in the budgeting process is very important, however, the very technical budgetary tasks are still located in MOF.

Coming back to the Polish case, an important argument for close integration of PBB and strategic thinking is that the development initiatives in many areas of state's activity are financed by the EU money and thus coordinated by the Ministry of Regional Development. Therefore, these three players (the Chancellery, the MOF, and the MRD) should be primarily responsible for stating government's objectives and coordinating the works of the line ministries. We see the PBB as a very useful tool to make these linkages and also as an instrument already known to many stakeholders in the public administration. Now comes a time to utilize this tool in managing the public policies. We give very pragmatic recommendations of how institutional settings for PBB should change in the recommendation section of the report.

Apart from the formal place for a PBB department in the governmental structure, the informal organizational links are also important. Here the most important linkages are the ones with public entities that can support the process of implementing PBB (most notably the Parliament). However, the Parliament does not have a real interest in the PBB. That is confirmed by the analysis of the workings of the Parliament in the recent period. From the 2007 onward we have found only six general inquiries sent by the members of the Parliament to the government consisting of some remarks/questions on PBB. Moreover, only 48 statements during the general sessions of the 2007-2011 term of the Parliament contain the expression 'performance budget' (in Polish: *budżet zadaniowy*). Also, e.g. in the 2007-2011 term of the Parliament we found only 10 transcripts (out of 344) from the sessions of the Parliamentary Commission of Public Finance using that expression. While analyzing these transcripts it is clearly visible that even MPs in that commission do not have a special interest in PBB. That is confirmed by one of our respondents who is a member of that Parliamentary Commission. Here are some of his claims: "at committee meetings we are not talking at all about PBB"; "the government treats the state budget not as a tool aimed at implementing strategic goals of the state", and "nobody [in MOF] cares about the state strategies". Also, he told us that the problem is that MPs simply do not have time to examine the budget in traditional and performance format (cf. OECD 2011, 34). Here we touch upon a more general problem, namely the interplay between the traditional and performance based budget. The very idea of PBB is that its indicators would enable spending authorities to allocate money more efficiently, to transfer money from the inefficient programs to the efficient ones. This issue is even more important when the need to cut spending arises as it does now in Poland. Unfortunately, spending cuts that are realized in Poland do not use PBB information and are of a mechanistic type. That is contrary to the reconsideration procedure utilized in the Netherlands. Therefore, the implementation of PBB in Poland would give MOF a tool for proposing spending cuts in more allocative efficient manner. Being able to add arguments concerning effectiveness and efficiency to proposed spending cuts, the MOF will likely increase the chances of Parliament supporting these cuts. A need for fiscal consolidation in Poland makes PBB implementation therefore an increasingly urgent necessity.

If Parliament does not have a special interest in PBB, then who else in the public sphere can put PBB issues on the agenda of public discourse? Surprisingly, it is the Monetary Policy Council (MPC) that has a growing interest in the performance part of the budget. Every year the MPC prepares an opinion on the project of the Budget Bill. In the opinion on the project of the 2011 budget, the MPC devoted a special section

to the appraisal of the PBB part of the budget. According to the MPC, there are two important developments in performance part of the budget, i.e. first, there is now a clear indication of how much money from the so-called budget of European resources is devoted to each function of the PBB; second, there are the estimates of risks associated with the realization of tasks included in the PBB. Also, the MPC calls for a clear delimitation of responsibilities between various budget owners in cases where there are more than one institution assigned to a given function or task. We subscribe to that claim. In the PBB part of the budget, e.g. in a table presenting functions/tasks/subtask, there should be clearly indicated who is the leading entity responsible for a given function/task.

Another important institution with a potentially huge role in PBB implementation process is the Supreme Audit Office (in Polish: NIK). Currently, NIK is strongly committed to PBB support. Also, NIK is doing more and more performance audits. However, as far as the state budget is concerned, the role of the NIK lies mainly in preparing the annual report on the implementation of the budget. In that document NIK focuses primarily on checking the legality of budget spendings and their conformity with the budget bill. Starting from 2007 on NIK is also commenting on the PBB part of the budget. In 2007 report one can find such a statement: "the PBB was still mainly a paper exercise with no monitoring and impact on efficiency", however, more recently NIK noted a progress towards implementation of PBB. According to our respondent from NIK, his organization has a clear mission of doing performance audits in public institutions. As far as PBB is concerned, he added, that what is needed is also a change in the way NIK is checking the state budget, namely more emphasis on the PBB part. However, according to him, NIK employees must first get to know what PBB really is and how it works. Therefore, one of the goals of the 2011 NIK's strategic auditon PBB methodology is also to prepare NIK for the future in-depth controls of PBB. Such controls can take the form of external spending reviews and hence NIK can somehow substitute in that respect MOF which does not have a legal mandate to conduct such reviews (cf. OECD 2011, 24). We think that NIK should remain a key partner to those interested in the real implementation of PBB.

5.4. The Attitude of Civil Servants Towards PBB

In this part of the paper we investigate the civil servants' attitude towards PBB. In the tables below we give some information about civil servants' expertise in the PBB.

Table 11. Civil servants' knowledge about PBB

Q: Are you aware of the efforts to introduce performance based budgeting in the Polish central government?	MRD	MSHE	MI
Not at all	13%	22%	11%
I am somewhat informed about this	32%	22%	21%
I am well informed about this	43%	43%	41%
I have been involved in these efforts myself	12%	13%	27%

Source: Data from questionnaire sent to these three ministries

So generally, the civil servants in these ministries do know about MOF efforts to introduce PBB. However, as Table 10 above has shown, nearly half of them knows nothing about the indicators. Also, they somehow relate PBB to efficiency issues, since the vast majority of them see PBB as an efficiency enhancing tool.

Table 12. Civil servants' opinions on the link between PBB and efficiency

Q: Do you think that PBB may favourably affect the efficiency of public administration?	MRD	MSHE	MI
Definitely yes	33%	28%	25%
Probably yes	52%	53%	49%
Probably not	14%	19%	25%
Definitely not	1%	0%	1%

Source: Data from questionnaire sent to these three ministries

Declaratively, a strong majority of civil servants is in favor of PBB. However, most of them probably are in favor of their own ideal vision of PBB. It is suggested in recent PBB literature that one of the reasons PBB is advocated by so many in politics and public sector leadership may be that politicians and budget staff assume the information could be valuable to the other rather than to themselves (Moynihan 2008). The results of our interviews confirm this, i.e. when a civil servant is expected to be responsible for achieving a given quantifiable goal then his attitude towards PBB changes to a more sceptical one. In many cases a typical response given in that situation is the following - "What will happen, if I do not reach a target value of my indicator? ... most probably Supreme Audit Office come and fire me". Moreover, civil servants often raise the issue that the values of their indicators not only depend on their work but also on external factors. Therefore, employees are afraid that instead of expected efficiency the whole system could suffer from arbitrary managerial decisions, i.e. their thinking goes the following way - if it is impossible to objectively determine my contribution to changes of a given indicator, then I will be assessed in

a purely subjective manner by my manager/director. Therefore, the administrative workers in general think that PBB can enhance the effectiveness of public administration, but if it actually comes to their area of work they are more sceptical. An important message for our study emerges - many civil servants do not know the internal logic and the idea behind the PBB. That is due to the fact that they act as administrators and not as managers. Also, they do not want to take a risk to be more open to PBB logic, since they are not rewarded for achieving PBB targets as is shown in the table below.

Table 13. PBB and remuneration policies

Q: Are workers in your institution financially rewarded for achieving the objectives set in the PBB?	MRD	MSHE	MI
Yes	17%	0%	7%
Only top management	8%	20%	15%
No	75%	80%	78%

Source: Data from questionnaire sent to these three ministries

The way employees are remunerated creates an incentive structure for their activities. If they are not rewarded for achieving target values of PBB indicators, it is no surprise that they are not motivated towards realizing goals described in the PBB. However, perhaps, salaries of lower levels of civil servants are not directly linked to the results of their work, but they may be linked indirectly, e.g. remunerating only the top managers who are paid on a performance basis, and only then, on the basis of internal payroll system, paying the ordinary civil servants. As one of civil servants from MOF told us: "I can realize PBB goals without knowing them". Unfortunately, there is not such a system in public administration. Thus, the fact that people in central administration are not remunerated on performance basis is an important obstacle in implementing PBB. Without a transformation of a civil servant from the one acting as an administrator to a person playing the role of a project manager, the successful implementation of PBB would be impossible. If not stimulated by the remuneration system, how can civil servants be made more willing to realize the PBB goals? First, they should take part in creation of these goals. Second, these goals should be connected to the targets of strategic programs they are working on. The current situation in these respects is shown in tables below.

Table 14. The impact of non financial specialists on PBB

Q: What impact do non financial specialists have on the shape of the performance budget?	MRD	MSHE	MI
Decisive	20%	35%	38%
Moderate	62%	35%	52%
Do not have a real impact	14%	17%	8%
None	4%	13%	2%

Source: Data from questionnaire sent to these three ministries

According to our study, respondents in these three ministries claim that non financial specialists do not have a decisive impact on the shape of performance budget. However, the situation is relatively better in MI. It means that a crucial role in preparing PBB is played by a financial/ budgetary department. That is not a desired state of affairs. The PBB system, including the indicators, should be prepared by substantive and not financial staff. Financial people should be limited to providing technical assistance. So, today, PBB indicators are to a large extent imposed on non-financial departments from the above. Moreover, the Dutch example shows that linking political objectives and government priorities to program goals and indicators significantly enhances the political relevance of performance budgets. In Poland, politicians' aims do not matter for the contents of performance part of the budget. Only 5% of our respondents claim that the political leaders are the most important in the PBB part of the budgetary process. The crucial role is played by experts, both financial and non-financial specialists.

Table 15. The ones responsible for preparing PBB

Q: Who in your institution is responsible for preparing the performance budget? (you can choose several answers)	MRD	MSHE	MI
The financial staff	14%	9%	8%
Non financial specialists	3%	9%	8%
Financial staff together with non-financial specialists	52%	42%	53%
Political leaders with help of financial and non-financial specialists	5%	12%	17%
I don't know	26%	28%	14%

Source: Data from questionnaire sent to these three ministries

The fact that civil servants do not see politicians as the goal setters for the PBB is of a profound importance. It means that civil servants do recognize the politicians as the (potential) leaders and that the politicians, in turn, are not interested in PBB. That is confirmed by our in-depth interviews. One of our respondents told us that: "My ministry is not interested in PBB and knows nothing about it", another high

political figure from the Tusk 2007-2011 government informed us that: "Finally, we must decide what to do with the performance budget". We find it a telling fact that the politicians are apparently not interested in crafting such institutions (inside the administrative system of the government) that would facilitate the implementation of their ideas. Here we are at the core of the good governance approach, since for us a well-governed country, or more precisely, a central administration, is such a country or administration that makes the realization of politicians' ideas possible. So paradoxically, we have in Poland a more or less developed system of performance budgeting, but we do not have clearly defined political objectives that could be operationalized via PBB. Unfortunately, without political leaders and goals stemming from the programs of the ruling parties, the system of PBB serves often only as a specific budget format and not as a process. Political leadership is needed in order to make PBB work. In that respect it is interesting whether political parties in Poland make references to PBB in their electoral programs and whether the program' aims are the ones that can be transferred into performance part of the budget. If we focus on the program of the currently ruling Civic Platform party, we find PBB remarked only once, namely:

"Performance budget. Ministers should not receive funds for the operation of their offices, but for the execution of the tasks aimed at achieving planned objectives. What's more, they should be able to prove that the task cannot be achieved in another, cheaper way. After the end of the year they must be held accountable for whether or not the whole job has been done, whether the costs have not exceeded the costs originally planned, and whether they managed to find savings" (p. 24).

That statement is a very general one. It is easy to be in favour of PBB, however, it is more complicated to propose the ways in which the PBB approach can be effectively implemented. In addition, the program of Civic Platform as such is not written in a performance manner and therefore it does not consist of clearly defined goals and indicators. That is not only the case of the currently ruling party, but also of other Polish parties, including Law and Justice - the main opposition party.

As we have just mentioned, we have a division between political class and administrative one. Staniszkis (2001, 102) claims that: "There is also an internal reason for the separation of power and politics: autonomization of the administration. The decision making core of the postcommunist state is similar to the multidimensional federation of bureaucrats". So, paradoxically, on the one hand the civil servants (including the PBB people) want politicians to be interested in performance budget, but on the other hand they want independence

from the political class. Therefore, we think that many civil servants' claims such as "We need help from the politicians" are of a purely rhetorical character. Is there a possibility of building bridges between politicians and bureaucrats? A precise answer to that question is beyond the scope of this paper, but some remarks from the PBB perspective can be provided. First, there is a great need for making politicians more sensitive to performance thinking, namely for making them more willing to state their objectives in simple and quantitative form. Second, politicians should understand that they function in networks and not in hierarchical order. As Staniszkis (2001, 115) puts it: "The mosaic of rationality types entails that the governability (controllability) of the whole depends on the quality of meta-regulations connecting them. Exercising control and building bridges between the domains (networks) of different rationality [...] is a form of authority which determines the power of the state". Functioning in the world of networks means that decisions inside administration are often not taken by fiat. Instead, sometimes the only way of making civil servants act in the interests of the political level of government is to craft an appropriate incentive system. Rephrasing Ronald Coase, one would say that without the appropriate internal regulations and incentive schemes no efficient public administration of any significance is possible.

Fully in line with the above-described phenomena are the answers given by civil servants to the question on how PBB may positively affect the efficiency. Here the efficiency we understand mainly in allocative terms.

Table 16. The ways PBB enhances efficiency

Q: If you answered the previous question [Do you think that PBB may favourably affect the efficiency of public administration?] with a 'yes', how do you expect PBB affect efficiency favourably (several answers may be chosen)?	MRD	MSHE	MI
PBB will enable politicians to make better choices	18%	41%	23%
PBB will enable high level management to make better choices	68%	74%	86%
PBB will increase awareness about intended results	44%	59%	55%
Other,	10%	4%	7%

Source: Data from questionnaire sent to these three ministries

Civil servants are conscious that PBB is not a tool used by politicians, but rather an internal mechanism inside the administrative community that enables the high levels of management to make better choices. However, as our in-depth interviews confirm, their ability to make "better choices" is limited. First, many of the state's expenditures are of a rigid nature. Second, the ability of high-level managers inside administration to craft remuneration schemas is limited. Third, they

The ways PBB enhances
efficiency

often do not understand that the organizational structure of their departments should be a function of the problems they are to solve. They do not operate from a problem solving perspective. Despite the fact that managing administrative units on a performance basis is difficult, many departments' directors try to do it. In that sense we think that one of the most important things that enables using performance logic in administration is to invest in high quality administration (civil service) and make the rules of the game they are using more "elastic".

Another issue we would like to raise here are the civil servants' opinions on how to ease the implementation of PBB. For them the most crucial issue is to make a coordination of the process more efficient. Thus they see that there is a need for making PBB and strategic approaches coherent, and that what is needed is a closer cooperation in the triangle of the Chancellery of the PM (strategic thinking), the MOF, and the line ministries. Last but not least, unsurprisingly, they opt for more financial incentives.

Table 17. Factors easing the implementation of performance budgeting in government institutions

Q: Taking into account your past experience, please indicate the main reasons easing the implementation of performance budgeting in your institution (you can chose up to three indications)?	MRD	MSHE	MI
sufficient knowledge on the part of employees	70%	76%	79%
good coordination of the process of developing performance budgeting	76%	66%	77%
dominant role of non-financial departments in preparation of PBB	45%	45%	42%
dominant role of the financial dep.	6%	7%	11%
financial incentives (e.g. bonus system) for achieving the objectives set out in the PBB	46%	76%	44%

Source: Data from questionnaire sent to these three ministries

It is quite interesting that a strong majority of respondents declare that what is lacking in the process of implementation of PBB is the lack of knowledge on the side of civil servants. Therefore, despite a huge effort of MOF to transfer appropriate knowledge to line ministries, people there still declare that they do not have a sufficient knowledge on PBB. However, we see in the main entities responsible for PBB, most notably in MOF, a prevailing opinion that civil servants generally know what the PBB is. We do not agree as they are afraid of PBB due to a lack of knowledge.

Summing up what was written above, we think that the generally low quality of civil service in Polish central administration constitutes an

important barrier to the successful implementation of the PBB. What matters for a success is not only a good regulatory framework, but also people that are inside. As Staniszkis claims (2005, 168):

“reforming the state needs a civil service as the main actor. This is a high quality civil service that will ease the functioning of Poland in the realm of EU politics. Professional administration can put more dynamics into the reform process, because of its ability of cooperating with EU initiatives, and also due to its conviction that the currently fragmented structure of Polish central administration imposes high costs on the state. Also, a well functioning civil service would know how important is the presence of a strong strategic centre of the government responsible for coordinating the European politics”.

In a sense, we come back here to a World Bank’s claim that in order to make PBB implementation a success story we must place it in a broader reform agenda - here the reform of civil service. We will return to that issue later in the recommendation section.

5.5. Parallel Reform Processes that Could Ease the Implementation of PBB. The Case of Better Regulation Initiatives

Contrary to the PBB initiative, which is known only to specialists and people working in the administration, the discourse on the need of making regulations in Poland better is well known to large segments of the populace. In Poland there is a widespread belief that the legal system is not efficient and that the Polish bureaucracy is one of the less competent among the EU Member States. Also, there is a huge and constant pressure on the politicians to make regulations better. The low quality of regulations is confirmed by various international comparative studies, e.g. by the Doing Business reports from the World Bank.

Table 18. Rankings of given countries in the Doing Business Report

	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Registering Property	Paying Taxes	Enforcing Contracts
Top five						
Singapore	1	4	2	15	4	13
Hong Kong	2	6	1	56	2	2
New Zealand	3	1	5	3	26	9
USA	4	17	16	22	16	23
Denmark	5	9	27	12	62	8
Poland and its neighbours						
Germany	22	88	18	67	88	6
Lithuania	23	87	59	7	44	17
Slovak Republic	41	68	56	9	122	71
Czech Republic	63	63	130	76	128	78
Belarus	68	7	44	6	183	12
Poland	70	113	164	86	121	77
Russian Federation	123	108	182	51	105	18
Ukraine	145	118	179	164	181	43

Source: Doing Business 2012 data

The data presented in the above table do not require any comments: Poland is lagging behind not only in comparison the leaders of the Doing Business report but also behind many of its neighbours. This is confirmed also by the people running businesses in Poland - in all possible opinion polls they point out that the low quality of regulations is one of the most important barrier in doing business. Thus, there is a consensus among political parties in Poland that better regulation initiatives should be on the top of the agenda, however, they often have different views on how make regulations better. What is important is also a huge pressure from the EU on the need of reforming regulations. That is why we have the National Reform Program which is run by the Ministry of Economy. Moreover, in that Ministry a special department dealing with better regulation issues was created in 2005. So, with no doubts, better regulation is important for all levels of the political and administrative system in Poland. However, despite a huge effort to reform the legal framework of the economy, no real progress has been achieved in this respect. For instance, the position of Poland in the Index of Economic Freedom by the Heritage Foundation has been, unfortunately, quite stable for the last 10 years. There are a lot of possible explanations; however, two should be mentioned here.

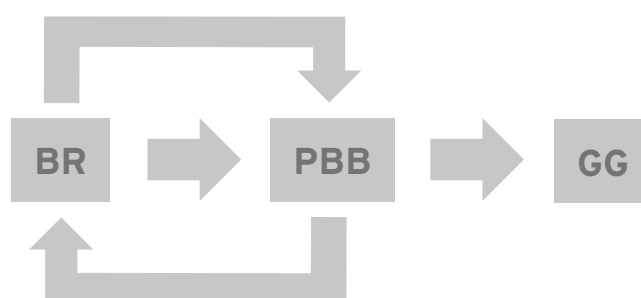
First, the majority of governmental initiatives in this area was of *ad hoc* character, i.e. the government simply eliminated some evidently low quality regulations, but did not change the system that is responsible for these regulations. Second, the regulatory reform was not a part of a broader reform program aimed at achieving a better-governed country. That was the case despite a huge pressure on the government from the Parliament and civil society, including influential business lobbies.

It is worth noticing here that the Netherlands is often presented as an example of a success story in the area of regulatory reforms. Their Standard Cost Model is used in many OECD countries. Also, Polish Ministry of Economy tries to imitate the Dutch way of making regulations better. In case IV (ch. 4.3) we have shown that the success of PBB implementation in the NL was largely due to the pre-existing BR framework. So, in NL the philosophy from the domain of PBB was transferred to the BR domain. In Poland, however, that is PBB that can benefit a lot from the existing BR framework and strong political commitment to BR issues. We develop that argument below.

In Poland, we have better regulation issues at the heart of the political discourse on the economy, we also have a strong political support for the reforms in this domain, as well as a strong participation of the Parliament and a civil society. All of these elements are not present in the PBB domain. We are deeply convinced that if PBB approach had all these elements, it would have a greater chance to become a success story. On the legal level, however, both PBB and BR initiatives are more or less on the same stage of advancement, with even PBB approach more integrated into the legal system and everyday workings of the administration. Therefore, we see a potential for enhancing the quality and impact of the two by making them implemented in a coordinated manner on three levels, i.e. legal/methodological, organizational, and last but not least, on the level of the political discourse. As far as the legal/methodological level is concerned, the BR initiative can use many of the elements of PBB methodology (e.g. databases of indicators, risk analysis of possible failures in achieving target values, etc.); on the organizational level we think that BR and PBB efforts should be coordinated jointly (e.g. by creating a platform for BR and PBB people to meet and exchange ideas but also by moving these people closer to the PM and the centre of government), and hence the PBB in a sense will benefit from a stronger support for the BR inside the government, including the PM. On the level of political discourse, it should be shown that without a success in PBB implementation the BR targets cannot not be realized, i.e. the political actors influencing the discourse should talk about BR by always adding an emphasis on the need of joint realization of PBB and

BR. Finally, we should make a clear reference that PBB is a tool for achieving BR, and that these two processes will be mutually reinforcing ones, and that a success in PBB/GG implementation will finally lead to a better-governed country.

Figure 7. Interplays between better regulation process, and PBB implementation, and good governance



What we are proposing here is not reduction of PBB to merely a tool responsible for the realization of the BR. Still, PBB would have many other effects including more transparency on the expenditure side of the budget. However, linking PBB to the BR seems to be a necessary condition for a success of the former process. Below we will show that these two processes can benefit a lot from Europeanization.

5.6. The (Potential) Role of Europeanization in Strengthening the Process of Implementation of PBB in Poland

Political activities of the European Union are implemented in the Member States by national administrations. This way the Union has a strong influence on both the directions of public policy of individual countries, as well as on the shape of their institutional systems and management methods. The European Union's impact on member states resulting from the implementation of EU policies and law is described in the literature as the process of Europeanization. Today, the most common use of the term Europeanization is with respect to the changes in core domestic institutions of governance and politics - understood as a consequence of the development of European-level institutions, identities, and policies (Olsen 2002, 932; Goetz 2002, Grosse 2010). Here we subscribe to this meaning of Europeanization which is quite deeply embedded in the sociological institutionalism (Schwellnus 2005) where the emphasis is put on the processes of socialization and mutual learning. These processes accompany the transfer of EU institutions (here: the mechanisms of governance and management) to a level of a given member state. Europeanization is particularly strong

in the case of accessing countries like Poland that simply had to implement various EU rules of the game in order to join the Union. In years just after Polish accession to the EU there was a widespread belief that Europeanization helps the processes of modernizing Poland. Now, although that is still the case, more attention is paid to the risks of the politics of imitation, since the same formal rules can function in a different way in different cultural settings. But still, the Polish society and political class see the Europeanization as a positive phenomenon. Political class sometimes treats Europeanization as a tool of implementing in Poland the reforms and changes that would otherwise, without EU influence, be quite difficult to undertake (*excuse mechanism*). Also, Polish society sees the EU as a mechanism of inducing positive changes in Poland, e.g. many representatives of business companies treat EU as an efficient tool of making Polish administration more willing to implement better regulation initiatives. Also, during the referendum on accession of Poland to the EU many voters openly declared that they want EU administration to make the Polish one more efficient.

What are the EU ideas transferred to Poland via the Europeanization that could positively affect the PBB implementation? Without doubt the system of implementation of EU funded programs can be treated as a channel by which many good administrative practices arrived to Poland. First, the preparation of a legal framework for spending EU money has forced Polish government to think more strategically. That means mainly ensuring preparation of strategic programs for longer perspectives than the current parliamentary term (4 years). It also helped in stimulating cross-departmental cooperation in the central administration. Furthermore, many techniques of implementing EU programs have been adopted, i.e. evaluations (ex-ante, ongoing, ex-post), a professional way of preparing strategies, including quantified targets and objectives, as well as a greater need for cooperation with NGOs. Therefore, these elements positively stimulate the emergence of not only the strategic thinking but also of a more performance oriented culture inside the administration. Now, for PBB people it is easier to come to a given ministry and ask it to prepare quantifiable objectives for PBB, since many civil servants have an *a priori* experience with EU programs. Another positive aspect of Poland's integration with the EU is a greater openness of public administration for ideas coming from abroad, e.g. by direct professional contacts with their counterparts from other EU countries.

There is also a process of the Europeanization in a slightly different sense, i.e. there is a direct import of regulations from EU and its effects manifest themselves in changes happening to the legal system of

Poland. An interesting example can be the domain of better regulation where from 2000 onward the EU has postulated many initiatives for making the legal system more efficient, including the Lisbon process per se. It is worth mentioning here that the better regulation initiative started by a publication of the *European governance - A white paper* published in 2001 by the European Commission as well as by the EU recommendations for the member states to prepare National Reforms Programs. Without these EU initiatives there would not have been many BR reforms in Poland as well as changes inside Polish central administration. Thanks to a huge pressure from the EU, combined with the needs of local stakeholders, a new department for better regulations has been created in the Ministry of Economy in 2005. With no doubt the direct EU interest in BR helped Poland to start building an organizational and legal framework to cope with BR issues.

In the case of PBB, as described earlier, the Europeanization was of a more indirect character - it served as a tool for preparing the underlying logic of PBB (performance and strategic thinking, etc.), but not as a tool for suggesting concrete solutions on how performance budgeting should be done. It was simply due to the fact that the EU has quite limited prerogatives towards public finance sectors of Member States. The few that it has are of a more macroeconomic character (e.g. Maastricht criteria). However, having in mind the current economic crisis and the instability of the Euro zone, the EU is thinking about creating more links between money and results through the so-called conditionality criteria that would determine the access to the EU funds in the 2014-2020 period. Current discussions inside the European Commission indicate that the criteria will, with high probability, be based on some fiscal measures. Several EU officials have however informed us that people also think about performance criteria. That would be, on one hand, quite beneficial for us since the more EU pressure on our administration to be more performance-oriented, the greater the chance of making civil servants looking more for PBB like mechanisms. However, on the other hand, greater focus on results, in the absence of systemic changes in programming, development and implementation of programs (including adoption of PBB), can lead to reduced absorption of EU funds.

In recent months, we have observed an intensification in debate on conditionality in the EU cohesion policy. The goal of the European Commission is to enhance the effectiveness of public interventions financed by the cohesion policy. First, a shift towards a more strategic and results-oriented approach to cohesion policy is needed. That should lead to the use of outcome indicators rather than simple output ones.

Second, in the 5th Report on Economic, Social and Territorial Cohesion (p. xiii-xiv) EC proposes that

“to support the new economic governance system new conditionality provisions would be introduced creating incentives for reforms. Member States would be required to introduce the reforms needed to ensure effective use of financial resources in the areas directly linked to cohesion policy, for example environmental protection, flexicurity policies, education or research and innovation”.

It means that initiatives realized within the framework of cohesion policy should be intertwined with regulatory and administrative reforms. Also, EC proposes a shift towards multiannual planning in member states combined with putting more emphasis on performance measurement, e.g.

“reforms of national fiscal frameworks should promote the switch to multiannual budgetary planning. Yearly budgetary objectives should be underpinned by multi-annual frameworks, including a breakdown for projected revenue and expenditure and indications of where the adjustment towards the objectives is planned to come” European Commission (2010, 7).

The conditionality debate started to be visible in Polish administration; however, the main question people ask is whether conditionality can diminish the EU funds available for Poland. So, they treat conditionality as a threat and not as an opportunity. Interestingly, a high level official from MRD told us that in his opinion conditionality may exert an external pressure to reinforce the implementation of PBB in Poland. Moreover, he claims that it was MRD that persuaded MOF to introduce multiannual financial framework - “[...] this multiannual financial framework was also introduced to the public finance law because we pressed MOF to do something in order to have better alignment of structural funds with the budget, [...] but it is far from what we expected, [...] but it is a move in the right direction”. So, in a sense, also the introduction of multiannual financial planning is a result of the process of Europeanization. Therefore, the process of complying with EU regulations, and in general Poland’s presence in the EU, can still be treated as a reform vehicle for modernizing Polish administration and also the budgetary system. Therefore, structural conditionality should be treated as a chance for Poland and also as a stimulus for implementation of PBB. In that sense, the Polish political elite should treat the EU as a possible excuse mechanism for reforming the national administration: if it is so difficult to reform the public administration

as well as to introduce PBB internally, then why not persuade the EU to introduce the mechanisms, e.g. a stronger result-based cohesion policy, that would ease the administrative reform in Poland, including introduction of PBB.

However, despite generally positive effects of the Europeanization described above, there are also some troublesome ideas coming from Brussels. The one which we see as the most devastating is the logic of *juste retour* so deeply embedded in EU budget negotiations. “*Juste retour* is essentially about net contributions and the calculus underpinning it is the balance between payments by Member States to the EU and receipts from it, expressed as a percentage of GNI” (Begg et al. 2008, 50). So, while negotiating the shape of the EU budget, member states decide on the basis of the future financial transfers and not on the prospective effects of policies financed by the EU and hence only the *juste retour* matters, not performance. That is the case since the current EU budgetary system is constructed on the GNI based national contributions and hence net positions of member states are easily visible. The recent debate within the framework of the EU budget review did not change this situation. It contributed, however, to a general consensus that the only way towards abandonment of *juste retour* logic is changing the revenue side of the budget in such a way that would make impossible the identification of the national origin of a given revenue, e.g. a special corporate tax levied by the EU on transeuropean companies. Since the issue of introducing such an European tax is highly politicized and controversial, that is now impossible to realize. EU budget is not a PBB budget. We do not have the quantitative targets of EU financed policies inside the budget. Moreover, beyond the budget, the targets of the most important policies are constantly evolving. Take the CAP for example- it was formed as a tool of restoring the EU’s food production potential, then, in the 80s, it became a policy of stimulating the production levels, next, from the mid-90s onwards, the evolution towards CAP ensuring the realization of multifunctional agriculture has taken place. So, in a sense, the changing goals of CAP are the symptoms of a search for new legitimizations of that policy that would guarantee the status quo of historically established financial transfers. That is confirmed by the last reforms of the CAP (1992, Agenda 2000, and Luxembourg 2003) - despite huge changes in the rules of CAP only minor adjustments in financial transfers have taken place.

In sum, we can conclude that the general process of Europeanization can stimulate the implementation of performance management in Polish administration, including the PBB. Also, Polish government can influence that process, e.g. by taking part in the discussion on

the structural conditionality. We will come back to these issues in the recommendation chapter.

5.7. Conclusions

Since the aim of this report is to give as pragmatic recommendations as possible, below we summarize the findings from the Polish case by listing the most important barriers the process of implementation of PBB is facing. Then, in next chapter, we propose solutions for the problems described below.

- ▶ lack of political interest and leadership,
- ▶ no interest from Parliament,
- ▶ no interest from civil society,
- ▶ decoupling of PBB process from strategic thinking in the government,
 - organizationally (PBB dep. in the MOF; limited role of the coordinator),
 - no efficient mechanism of transferring strategic goals into budgetary ones,
- ▶ lack of knowledge on the part of the civil servants,
- ▶ concentration only on the visible effects of PBB (e.g. budget format), rather than on the invisible ones (e.g. the process of making civil servants more project managers rather than administrators),
- ▶ PBB is not part of a broader reform agenda, e.g. no simultaneous changes in the civil service system,
- ▶ still some shortcomings in the formal/legal framework, e.g. inappropriate structure of functions, low quality of some indicators and goals, lack of the IT system that can present budgetary information based on PBB structure,
- ▶ inappropriate incentives on the side of civil servants,
- ▶ no clear responsibility and ownership of PBB functions,
- ▶ we have not yet seen some *quick-wins* from the PBB process and hence many, including politicians, do not believe in its potential success.

The most important barriers
of PBB Implementation

6. Recommendations and Solutions

Below we list solutions to most of the problems described in the previous chapters. We present three general recommendations, followed by a list of detailed tools for implementing these recommendations. These are grouped after the presentation of a problem they intend to address is offered.

Recommendation 1: Institutionalize the use of performance information and seek active stakeholder involvement.

1. Lack of political interest and leadership.

Political support is needed in order to make management by objectives a reality in the Polish administration. Without a strong political leadership implementing PBB as a vehicle for change would be impossible. But, how one can make politicians interested in PBB? First, they themselves should become more result-oriented in formulating their own programs. They should understand that it is in their interest, since the electorate cares for measurable political goals. Politicians should feel the pressure from voters to be more transparent and result-oriented. Only then will good policies start to mean good politics. So, the role of civil society is here of crucial importance. Second, the political level of the government should remain under a constant scrutiny of the Parliament with respect to PBB. Thus, Parliament should be active and constantly ask the government for results, substantiated by reliable performance measurement. One way of making civil society and Parliament interested could be to supply these entities with politically relevant performance information and via such way, in medium-term, create a demand for information. Here we see also an important role for the Supreme Audit Office that should deliver performance information for politicians and the civil society.

We propose a radical simplification of the way in which PBB is presented. First, a special website describing PBB functions and goals should be prepared (e.g. www.celepanstwa.gov.pl). A good example is the US www.expectmore.gov. That page should contain the budget in PBB format, however, it should also be enriched by the description of PBB goals in the context of strategic documents. In other words, it should be a platform not only for a technical presentation of PBB but for informing society about the whole spectrum of the goals of the government with on-going monitoring of their implementation.

Moreover, it should be also interactive, e.g. readers should have a possibility of rating the initiatives undertaken by the government. Such a site could also be a source for assessing government performance itself by using web-polls on satisfaction with different areas of government service delivery.

A performance accountability day should be organized. On that day, say somewhere at the beginning of May, the Prime Minister is to present the state of realization of government's objectives, including the goals described in PBB. First, the PM should inform the Parliament (PM speech with a general discussion providing the Parliament with information). Finally, after Parliament has been presented with the financial/performance reports and has been able to study them, the assembly will then formally debate the annual reports. This could take place at the end of May.

At the annual performance accountability debate in Parliament, the Prime Minister is to present the state of realization of a number of the government's key objectives (e.g. five) by issuing a letter to the Parliament. A good example are the recent innovations in the performance day in the Netherlands. To debate government performance, the government's own assessment of performance should be confronted with the views from other stakeholders as well as impartial bodies. The central aim should be to improve and learn from those different views. It is necessary that the featured key objectives are chosen in a dialogue with Parliament well before the onset of the debate (at least half a year). This way all parties will have time to prepare their case.

Information from the government's PBB system as well as additional official sources could be used to present evidence to back up the PM's opinions on the progress made. Parliament could issue its own monitoring by collecting information, hearing citizens, experts and different stakeholders from the policy filed. Performance audits (for example by the NIK or the civil society) could contribute to this by providing a more or less impartial assessment of the chosen topics.

Together with the annual budget proposal, government should present a document with performance highlights. This should contain:

- ▶ the biggest lessons and biggest successes from the previous budget year (limited to 1-3 cases for each aggregated policy area),
- ▶ relate these experiences to changes in funding levels if such have occurred,
- ▶ the actions taken in response to the previous policy accountability debate including budgetary consequences.

2. Parliament is not interested in PBB

Throughout the whole report we repeat that the interest of the Parliament is a crucial factor in successful implementation of PBB. Above we proposed providing Parliament with performance information as one of the tools of making the Parliament interested. Another possible instrument is to make Parliament responsible not only for scrutinizing the legality of budget expenditures (including their size), but also for the performance side of the budget. In other words, discharge procedure should be extended to the performance aspects of the budgetary process. This way the Parliament will control the realization of planned goals. If it so happens that the success of a given program cannot be determined in the parliament's opinion, then the government will be obliged to explain the reasons and commit to improvements in policy content and goals. Also, the Supreme Audit Office should not only supply the parliament with the results of detailed controls of the outcomes of government's interventions, but it should openly inform the parliament that what is actually needed is a real implementation of PBB. We hope that the currently on-going (2011) NIK strategic audit on PBB methodology can play that role.

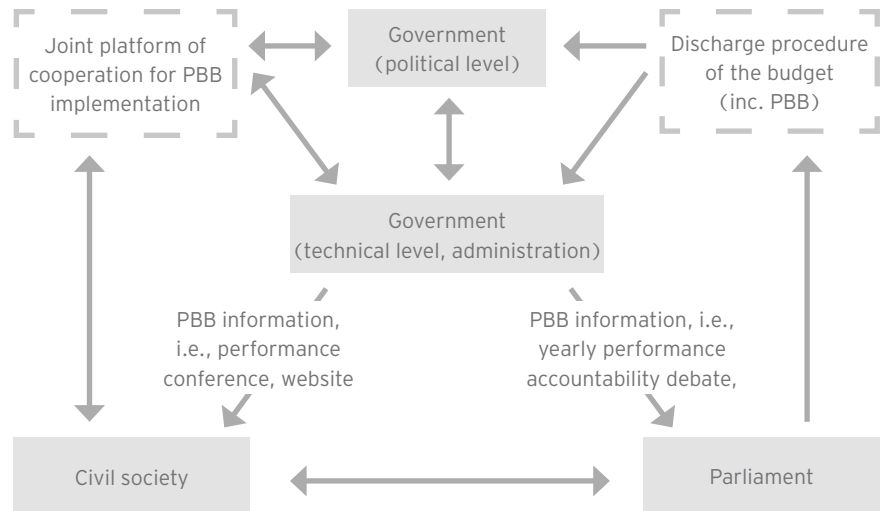
3. Civil society is not interested in PBB

Just like the lack of interest on the part of the Parliament, a solution to the lack of interest on the part of civil society can be to provide it with information, and this, we believe, is the role of the government. Experience of other countries demonstrates that when government supplies accountability information there is a chance that demand for this data will emerge. So, we see that the three problems presented so far are in fact interrelated, i.e. making politicians interested in PBB requires the pressure from the Parliament and the civil society, however, the interest of these two requires information disseminated by the government. Also, the interest of the Parliament can be positively stimulated by the demands of the society. How to make this not a vicious circle? Also how to make politicians less afraid of transparency and demands for performance? As one of respondents told us: "The more transparency you have, the higher the risk of media attack" (we call it the transparency paradox). However, the less transparency you have, the less control by the media is exercised, and hence you find yourself unprepared in the situation when journalists get the access to PBB documents and performs a detailed scrutiny. Since there is no way back from the performance orientation, politicians should understand that it is in their interest to be transparent. Going back to the lack of the interest on the part of the civil society, one may propose launching a platform for NGOs supporting PBB implementation. However, that

platform should not be formed in opposition to the government (and, in particular, MOF) but in cooperation with the authorities. It could be formed in the vein of a public-private partnership. A great example of such an initiative was the Polish Lisbon Strategy Forum, a joint initiative of the Gdansk Institute for Market Economy and the Ministry of Economy, promoting the implementation of Lisbon process in Poland. Using such an approach one can create a mutual trust between the government and participating NGOs, and hence realize other good governance principles as participation, effectiveness, and democratic state. Moreover, we think that a performance accountability day should be accompanied by a performance conference, namely a conference where performance information could be presented by the government and the civil society can give its feedback. That conference should be organized just after the accountability day. Schematically, the ways of addressing the above described problems are presented using the Figure 8.

The presented process is expected to function as follows: first, the existing capacity of PBB infrastructure is used, i.e. civil society and Parliament are provided with information, but with the use of new mechanisms, namely the web page, performance day, and performance conference. Next, a joint platform of cooperation for PBB implementation is created. Here, the platform is an initiative of a given NGOs (group of NGOs) stimulated and supported by the administrative level of government (e.g. PFRD in MOF). This is expected to increase Parliament attention to performance and it extends the annual discharge procedure to performance issues (controlled are not only expenses but also the performance indicators); on the other side the civil society is expected to be increasingly interested, and the newly created platform for cooperation starts to ask political level of government for more result oriented approach. Finally, political level of government starts to support technical level and the process shift to a self-enforcement phase.

Figure 8. Ways of making stakeholders interested in performance evaluation



Source: Own compilation

What is also needed is a change in the PBB discourse. More emphasis should be put on management by objective principles and only then PBB should be presented as a tool for realizing them. That is especially important in communicating such ideas with the civil society. More people will understand a statement like: “Our goal is to manage the state by quantifiable objectives” than “Our goal is to introduce PBB”. Also, using the word ‘performance’ together with the word ‘budget’ as in the case of ‘performance based budget’ may suggest that PBB alone would guarantee enhanced performance and that PBB is an end in itself. That is not the case, since in order to manage the state by objectives one needs budgeting process to be complemented by strategic planning, implementation mechanisms as well as evaluation studies combined with the on-going monitoring (see, Fig. 3.).

Develop broader public sector reform initiatives

Recommendation 2: Develop broader public sector reform initiatives supporting result orientation and use selected priorities to act as vanguards of the performance culture.

4. PBB is not part of a broader reform agenda

We subscribe here to the World Bank’s thesis that “a critical factor for Poland is to ensure PBB reform is a part of a broader reform agenda” (World Bank 2008, 169). It means that PBB should not be treated as an aim in itself, but as a tool for achieving other goals of the state. Above we described at least two processes where PBB can be used, i.e. better regulation agenda and various aspects of the Europeanization

(e.g. structural conditionality). There are also other desirable reforms that may help advance GG and at the same time strengthen the Polish PBB effort. A crucial one would be to reform the public administration and civil service in order to make them more likely to foster a performance orientation. Another desirable reform could be to modify the system of implementing EU funded programs and to focus evaluations on results rather than only on product indicators. The aim is to use more business-like managerial practices in public administration. Simply speaking, incentives for making civil servants more result-oriented should be created. First, financial incentives should be put into remuneration practices – civil servants must be partially paid on the basis of results achieved. However, a change in the remuneration practices alone would change very little and in order to have an impact it should be complemented by other modifications in the system of public administration and central government that were proposed in this report.

However, too strong financial incentives may lead to undesirable effects, e.g. the staff simply can oppose the reform, since it can be afraid of losing their jobs (“if I do not achieve the target value of my indicator, I will be fired”). The administrative employees can also manipulate the data. For that reason such incentives may only be utilized under strict circumstances, e.g.:

- ▶ There are efforts in place to safeguard impartial information gathering (like audits) or preferably a neutral third party is entrusted with performance measurements and reporting (a party that has nothing to gain/lose by providing a given result).
- ▶ The performance levels can be compared to benchmarks with a large degree of similarity (e.g. market competition, other regional offices, international practices with great similarity). Historic data can be used for comparison only if the conditions have been fairly stable.

Nevertheless, in recent years many OECD countries have introduced various systems of performance-related pay (PRP) for civil servants. As OECD (2005, 16) concludes in its study on PRP: “performance-related pay should be used, above all, as a stimulus and a lever for the introduction of wider management and organizational change, rather than solely as a motivational tool for staff. Pay for performance should be viewed essentially as a management tool. The objectives of PRP should be set accordingly”. We subscribe to this recommendation, since also for us PBB should be treated as a management tool.

Second, a system of non financial incentives should be put into practice, including the creation of an ethos of a good civil servant. Here an emphasis should be put on quality and not on the number of

civil servants. Public sector managers need to act as role models and make performance paramount by consistently communicating the improvement priorities. Attention and public appraisal should be given to employee behaviour and initiatives should be created that are in line with these priorities. Modern government needs project managers not solely administrators. In network society and economy they are more responsible for coordination and regulation rather than for exercising directly control over the socio-economic system. It is in the interest of the administration itself, since their existence should take its legitimacy from the realization of social needs.

As it was described in chapter 5.5. of this paper, an important process reinforcing the implementation of PBB is a better regulation agenda. Here we would like to add that the power of BR and its strong place in public debate in Poland comes from a strong societal interest in this issue. So, although the whole budget should be presented in PBB format, we propose focusing on a limited number of priorities, namely the ones which interest the civil society and the Parliament. That is crucial at the very beginning of the process, i.e. showing how PBB can contribute to solving problems people and politicians are interested in. For the coming two years we propose BR issues and infrastructural matters. That is necessary if we are to achieve some *quick-wins* in the PBB process. The concentration means underlying these two areas while presenting performance data and also putting these issues on the top of the agenda while discussing PBB matters on joint platform of cooperation for PBB implementation. So, we propose a soft concentration, not a legally binding one.

Another two processes that can be intertwined with PBB are the EU programs implementation framework and long-term strategic planning inside the government. However, we treat the EU mechanisms here as potential tools of imposing changes in Polish administration externally. Here we suggest a support for structural conditionality (more result orientation) in cohesion policy. More precisely we recommend that the government, on the EU level, should promote a conditionality based on efficient public administration, including more extensive use of management by objectives. As far as the long-term strategic planning is concerned, the PBB should form a mechanism for on-going evaluation of strategic objectives. That should be clearly stated in the strategic documents.

5. Concentration mainly on the visible effects of PBB (e.g., budget format) rather than the invisible ones (e.g., the process of making civil servants more project managers rather than administrators)

PBB should not be treated as a budget format, but as a process of making government more transparent and hence of achieving more efficient allocation of public resources. That is coherent with the above recommendations, where we have put emphasis on the requirement of providing the Parliament and the civil society with performance information. Hence, PBB has not only the (potential) visible effects - primarily efficiency gains in allocative terms - but also more indirect ones, e.g. stimulation of internal performance dialogue in government institutions. Most disappointments with PBB trace their origin to the widespread believe that the very first result of implementing PBB should be more efficiency in allocative terms, however, the efficiency comes only after the transparency. Here comes one of the paradoxes of PBB that in order to have the visible effects of implementation (efficiency) one needs first the invisible ones (e.g. result-awareness). What is also important for the achievement of the PBB's goals is the very process of implementing the approach, e.g. the development of indicators for various state actions. These indicators, as the whole PBB, are constructed for a multiyear perspective (currently covering three years).

Every government agency should issue a strategic plan spanning three years that would explain how it would contribute to the long-term government strategies using PBB indicators when possible. This way the more or less 'stand alone' PBB function is put in a broader policy context to prove its relevance. This experience could be subject for adapting the chosen indicators. The progress on those strategic plans could be subject for performance accountability debates and conferences.

In addition we propose that PBB indicators (not only the values of the indicators) should be checked once every three years. So that not only the values of indicators are monitored (Did we achieve what we have planned?), but also the indicators per se. By this we understand checking whether the indicators chosen three years ago are still valid and whether they are describing well the current goals in the given areas. That process should be realized in cooperation with external experts. Also, the indicators should be checked against long-term goals described in various government strategies, since one can have good indicators for bad objectives.

Recommendation 3: Strengthen the role of the centre of government in the PBB process and increase the position of the PBB coordinator. Also, use the opportunity of the creation of a new strategic framework for development policies and thus making PBB an important tool of translating strategic goals into budgetary practice.

Strengthen the role of the centre government in the PBB

6. Decoupling of PBB process from the strategic thinking in the government:

► Organizationally (PBB dep. in the MOF; limited role of the coordinator)

As far as the organizational issues are concerned, we consider the current mechanism of implementing PBB as quite inefficient (see Ch. 5.3. of the report). Therefore, we propose to strengthen the institutional and political position of the PBB coordinator, namely creating a stronger link between the center of government (the Chancellery of the PM) and PBB (MOF). Therefore, technical issues of PBB should definitely stay in MOF. Also, in the long run the PFRD should be integrated into budgetary department within MOF. Next, setting the goals for the PBB should be realized in close cooperation between MOF, Chancellery of PM, MRD, and to a lesser extent with line ministries. Thus we propose that the Coordinating Committee for the Development Policy (established by the decision of PM of 11/3/2009) (CCDP, henceforth) should also discuss PBB, including its goals and indicators. Therefore, we recommend the creation of a small steering committee on development policies (sub-committee in the CCDP) consisting of representatives from the Chancellery, MOF and MRD (on the ministerial level). That committee will also help the Chairman of the CCDP in managerial duties. Simply speaking, the center of government should be put at the heart of the process of setting the goals and use the structure offered by PBB to subsequently monitor them. The creation of that small committee, chaired by the same person as the CCDP, would facilitate transfer of strategic goals into PBB. It means that the shape of the PBB system, including its structure, should depend on the goals and scope of development strategies. If MOF is to accept such logic, it then can obtain the support of people responsible for strategies, including the ones from the Chancellery of the PM. Also, the coordinating committee should be a place for discussion of the multiyear financial frameworks that should be treated as an interface between PBB (budgetary process) and the strategic level. Also, the Multiyear State Financial Plan, including its PBB part, should be legally binding. In that sense, the Chairman of the coordinating committee will perform the leading role. However, there is also need for a stronger internal coordination of PBB at MOF. We propose that the formal coordinator of PBB should be one of the under-secretaries of state in MOF, namely the person responsible for preparing the budget and at the same time the person taking part in the meetings of the CCDP (and its small sub-committee described above). Also, an important position to be created is the the deputy coordinator of PBB, i.e. the person dealing with the technicalities of PBB who should be supported by the PFRD in MOF.

7. No clear responsibility and ownership of PBB functions.

Despite the fact that in the PBB table describing the functions in three years perspective we have provided the ministries with responsibilities for controlling the realization of selected functions that mechanism is not practically operational. According to our study, the political level at Polish ministries usually knows little about PBB, therefore, it is unreasonable to expect that it would exercise efficient control over the realization of goals that are put into PBB. Moreover, it is difficult to make the people dealing with policies responsible, since at the level of functions the indicators do not have quantifiable target values for the current and -the next year. The indicators are characterized by target values covering only the last year. We propose to change that practice and formulating target values for the function level for each year. However, we are aware that the lack of interest in enforcing PBB goals by political level in line ministries is due to a more general problem of political leadership. Also, politicians ruling the line ministries should be convinced that PBB could help them in managing their institutions and that this is in their own best interest. We proposed some solutions to that problem at the beginning of this chapter.

8. The risk of unintended consequences of PBB

As discussed in Chapter 2.2. a number of widely reported unintended consequences of PBB implementation are known. The critical assessment by the media is one of them, but as we claim it is an unavoidable one. Lack of reaction to the societal demand for more accountability is simply an unfeasible long-term strategy. The risk that critical appraisal of government performance will result in defensive routines and unmotivated civil servants can be limited by emphasizing the opportunities to learn and improve from feedback over the accountability aspect.

The risks of spinning and framing results by government agencies and of goal displacement can be avoided by actively seeking additional input on government performance outside the official PBB indicators. We suggest active involvement of third parties in the accountability debate and conference. This involvement may also be applied in a non cyclical way by government agency initiatives.

Finally the risk of high administrative costs of performance reporting and the use of performance data by government for self-legitimization are issues the Ministry of Finance is able to deal with in its own regulations.

7. Conclusion

*If we treat people as they are, we make them worse.
If we treat them as they should be,
we guide them to where they should be.*

- Goethe

First, we view PBB as a vehicle for gearing the current government culture towards a more result-oriented organization, serving the purposes of good governance. By coupling elements like Management by Objectives with the existing infrastructure of the budget cycle, these concepts can be institutionalized and help build a performance culture from within the government itself. This can happen with the help of a number of conditions described in this report, e.g. leadership and civil society involvement. When doing so, the risk of well known problems associated with PBB implementation (unintended results) can be limited; this can also be aided by taking into account the experiences in other nations.

Because our ultimate goal is to strengthen GG, the pitfall should be avoided to keep focusing on optimization of the technical aspects of the vehicle and to avoid losing the broader audience. Instead one ought to concentrate on where the vehicle should take us.

Building a performance culture however needs a certain vanguard. This requires a selection of priority goals to be closely monitored for a period of at least a couple of years. That needs a political leadership capable of elevating the state's performance to a higher standard. However, as we have shown in this report, it is possible to make politicians interested in becoming more result oriented and to make a government such a result oriented entity. We believe that implementation of the abovementioned recommendations will enable the implementation of PBB and make Poland a better governed country, where politicians are more interested in the results of budgetary spending. Therefore, Polish administration should be infected with the PBB virus of modernization.

Endnotes

- 1 We subscribe to the definition of institution from the new institutional economics where institutions are understood simply as the rules of the game.
- 2 Many studies describing the contents of New Public Management share a number of central elements (Kraan 2010):
 - Separation of policy execution from policy development;
 - Stimulating competition among service providers by allowing private suppliers to provide collectively funded services and through demand financing (consumer subsidies and vouchers);
 - Loosening of standards of operational management both in policy development and policy execution (“let managers manage”);
 - Financing executive agencies on the basis of output targets;
 - Budgeting on the basis of output targets (performance budgeting)
 - Outsourcing of intermediate production for both core ministries and executive agencies to the market.
- 3 Paul Posner is currently the Director of the Public Administration Program at George Mason University and formerly served as Director of Federal Budget and Intergovernmental Relations at the US Government Accountability Office (GAO).
- 4 The % mentioned present the 2003 percentages of those managers who indicated to use performance information to a great or a very great extent.
- 5 Peter Drucker was a popular management author in the 1990s and was much quoted by NPM reformers during that decade.
- 6 The number is subject to minor annual fluctuations.
- 7 Source: Interview with senior budget official at the NL Ministry of Transport (The Hague, January 2011).
- 8 Timing of an evaluation with regard to the policy cycle has been a regularly occurring problem. An example may be an evaluation of policy measures performed too before its effects can be realistically expected to appear. Another example of poor timing is planning an evaluation just after a policy revision and not *a priori*.
- 9 Parents paid on average 37% of the costs in 2005. This fell to 18% in 2008. (Rapport Cie Van Rijn, p.5)
- 10 A 2007 study indicated that in the case of the Netherlands, a 10 % fall in child-care costs would lead to an increase of 0,6% in hours worked by women relying on formal child care.
- 11 Competitive grant programs, block/formula grant programs, regulatory based programs, capital assets and service acquisition programs, credit programs, research and development programs, direct federal programs.

- 12 A 2008 study by Frisco and Stalebrink indicated that reference to PART by the 109th Congress was minimal. About 6% of congressional hearing reports having a PART related content, 4.74% of 1,033 for the House and 7.79% out of 655 for the Senate. Moreover, only a third of the cases where House members mentioned PART, they did so in the context of specific program results against about half of the cases of recorded use by Senators. Combining these data one can conclude that performance data generated by PART were considered by Congress about 2,5% of the time.
- 13 Interview with director of program performance at the US Department of Transportation on December 21st 2007
- 14 In all three cases more than a half of responses came from high level officials (i.e. directors, deputy directors, chiefs of the unit, and chief specialists). Also, generally, we observed a high level of correlation between the responses from the three ministries. Thus civil servants' opinions on PBB does not differ importantly between these entities. The response rates, we asses, are quite high. Therefore, the results of the questionnaires are reliable and very informative.
- 15 More on PBB history in Poland can be found in: Postuła and Perczyński (2009), Lubińska (2010) or OECD (2011).
- 16 Many of the ideas that prof. Lubinska introduced while coordinating PBB efforts in Kaczynski government took their origin from the report prepared by Jan Rokita in 2005. That document was intended to be a program of a prospective coalition government of the Civic Platform party and the Law and Justice party. The coalition talks have failed, but the ideas from the report have remained.
- 17 Databases of indicators are now available from the MOF website (www.mf.gov.pl).
- 18 Project leaders were Mr. Stafan Kawalec (former deputy minister of finance) and Mr. Jan Friedberg (former deputy minister of infrastructure).
- 19 High-level official in MOF.
- 20 High-level official in Ministry of Regional Development.
- 21 Based on in-depth interviews with people dealing with budgetary process.
- 22 The Coordinating Committee for the Development Policy is a special committee chaired by the Prime Minister (in practice his representative) with the aim of building a comprehensive and consistent development policy. Also, its aim is to find synergies between various governmental interventions.
- 23 Public Service Agreements present the goals of UK government departments in a three-year perspective.

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Appendix Standard Questions of Program Assessment Rating Tool

Section 1: Program Purpose and Design (Weight = 20%)

- 1.1 Is the program purpose clear?
- 1.2 Does the program address a specific and existing problem, interest, or need
- 1.3 *Is the program designed so that it is not redundant or duplicative of any Federal, state, local or private effort?*
- 1.4 Is the program free of any major design flaws that would limit the program's effectiveness or efficiency?
- 1.5 Is the program effectively targeted, so program resources reach intended beneficiaries and/or otherwise address the program's purpose directly?

Section 2: Strategic Planning (Weight = 10%)

- 2.1 Does the program have a limited number of specific longterm performance measures that focus on outcomes and meaningfully reflect the purpose of the program?
- 2.2 Does the program have ambitious targets and timeframes for its long-term measures?
- 2.3 Does the program have a limited number of specific annual performance measures that demonstrate progress toward achieving the program's long-term measures?
- 2.4 Does the program have baselines and ambitious targets and timeframes for its annual measures?
- 2.5 Do all partners (including grantees, sub-grantees, contractors, cost-sharing partners, etc.) commit to and work toward the annual and/or long-term goals of the program?
- 2.6 Are independent and quality evaluations of sufficient scope and quality conducted on a regular basis or as needed to support program improvements and evaluate effectiveness and relevance to the problem, interest, or need?
- 2.7 Are budget requests explicitly tied to accomplishment of the annual and long-term performance goals, and are the resource needs presented in a complete and transparent manner in the program's budget?
- 2.8 Has the program taken meaningful steps to correct its strategic planning deficiencies?

Section 3: Program Management (Weight = 20%)

- 3.1 Does the agency regularly collect timely and credible performance information, including information from key program partners, and use it to manage the program and improve performance?
- 3.2 Are Federal managers and program partners (grantees, subgrantees, contractors, cost-sharing partners etc.) held accountable for cost, schedule and performance results?
- 3.3 Are all funds (Federal and partners') obligated in a timely manner and spent for the intended purpose?
- 3.4 Does the program have procedures (e.g. competitive sourcing/ cost comparisons, IT improvements, appropriate incentives) to measure and achieve efficiencies and cost effectiveness in program execution?
- 3.5 Does the program collaborate and coordinate effectively with related programs?
- 3.6 Does the program use strong financial management practices?
- 3.7 Has the program taken meaningful steps to address its management deficiencies?

Section 4: Program Results/Accountability (Weight = 50%)

- 4.1 Has the program demonstrated adequate progress in achieving its long-term outcome performance goals?
- 4.2 Does the program (including program partners) achieve its annual performance goals?
- 4.3 Does the program demonstrate improved efficiencies or cost effectiveness in achieving program performance goals each year?
- 4.4 Does the performance of this program compare favorably to other programs, including government, private, etc., that have similar purpose and goals?
- 4.5 Do independent and quality evaluations of this program indicate that the program is effective and achieving results?

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