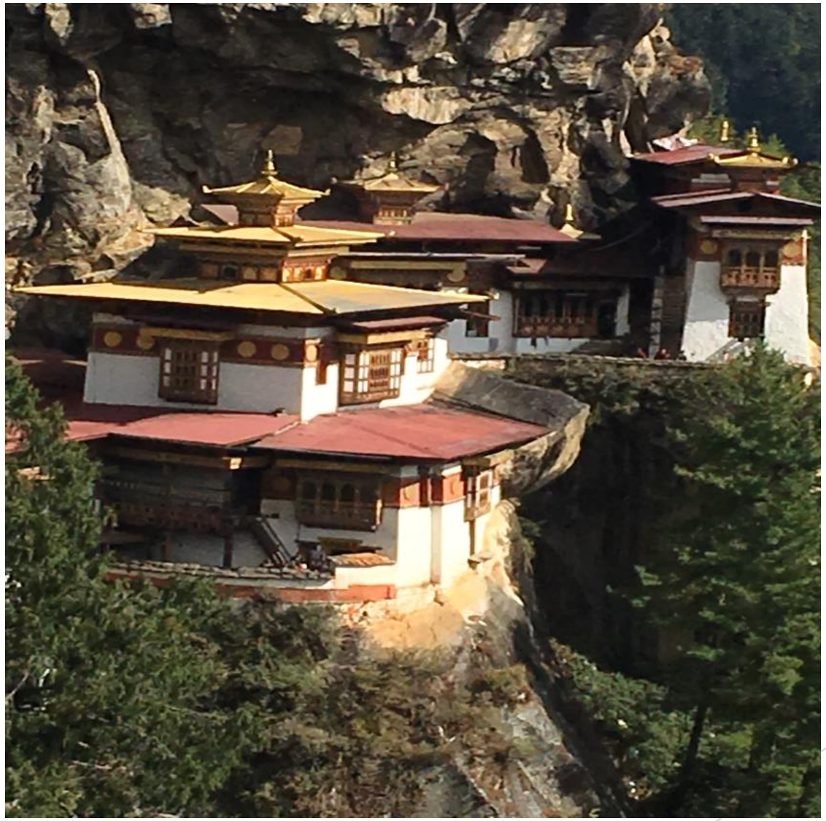
Public Finance Management (PFM) & Social Policy

TOT Social Policy and Social Protection - University of Bhutan

SPD-Thammasat University



VICTOR P. KARUNAN, Ph.D.

Lecturer, Social Policy and Development, Faculty of Social Administration, Thammasat University, Bangkok & Senior Associate, Social Policy Research Institute (SPRI) - Belgium

27 November 2017

Outline of Presentation

- RBM Concepts/Definitions
- Overview: Performance-based Budgeting (PBB)
- Example: Outcome-based Budgeting (OBB) – Ministry of Finance, Malaysia
  - *Strategic Budget Framework*
  - *Linking Planning and Budgeting*
  - *Critical Success Factors & Challenges*
- The Budget Cycle
- Public Finance for Children – PF4C

RBM - DEFINITIONS

DEFINITION

Outcomes: The changes or effects of the outputs produced by a program. Outcomes are typically associated with each program. Programs are expected to produce one or more outcomes that are directly linked with the needs/ problems of its beneficiary group/s.

Example:

Improved income for farmers

Improved pass rates in education system

Increased trade or economic activities

outcome

DEFINITION

Preliminary Outcomes: The changes or effects of the outputs produced by a program that are visible soon after the outputs are produced *(e.g. increase in yield & income)*

Intermediate Outcomes: The changes or effects produced by a program that are a consequence of the preliminary outcomes of a program *(e.g reduction in poverty)*

Tertiary Outcomes: The changes or effects of a program that are consequential to the intermediate outcomes of the program *(e.g improved quality of life)*

outcome

DEFINITION

Outputs are generally regarded as the goods and services produced by a program towards achieving one or more outcomes

Outputs should be distinguished in terms of process outputs and program outputs

Process Outputs: The outputs produced by a set of activities or processes *(training completed)*

Program Outputs: The final outputs that were intended to be produced by the program *e.g. increased knowledge and skills gained by the participants*

DEFINITION

Activity: A set of tasks that need to be carried out to produce an output *(e.g. training, counseling, treatment etc)* often classified as processes

Task: A sub-set of an activity. An action that forms part of and makes up an activity *(e.g. curriculum preparation, patient registration)*

Inputs: The resources that go towards carrying out a task or activity *(e.g. financial, personnel)* referred to as factors of pr in economic terms

DEFINITION

Performance Indicators

The means to show evidence that a program has achieved its intended or planned results. *i.e Information about a performance aspect that is used for measuring or assessing the performance of a result area*

Example:

Quality Index for Quality of Life

Literacy rates

GDP Growth Rate

RBM APPROACH & FOCUS

Programs/ Projects	Traditional Focus	Performance Focus under RBM
Schools Construction	Number of Schools Completed Timeliness of Construction Expenditure against budget	•Increased enrolment •Reduced dropout rate •Improved acad. perf.
Roads Construction	Km of roads constructed Timeliness of Construction Expenditure against budget	•Improved communication •Reduced travel time •Increased economic activities
Farm Extension Services	Number of Farmers advised Number of counseling sessions Expenditure against budget	•Farmers more knowledgeable •Farmers adopt new methods •Farmers productivity/income increase
Vaccination Program	Number of persons vaccinated Area/regions covered Expenditure against budget	•Reduced disease incidence •Reduced mortality rate from disease •Reduced social costs
Training on RBM	Number of officials trained Number RBM workshops held	•Increased knowledge on RBM •Improved dev't planning & results

Performance-based Budgeting (PBB)

What is it? What is its purpose? How is it structured?

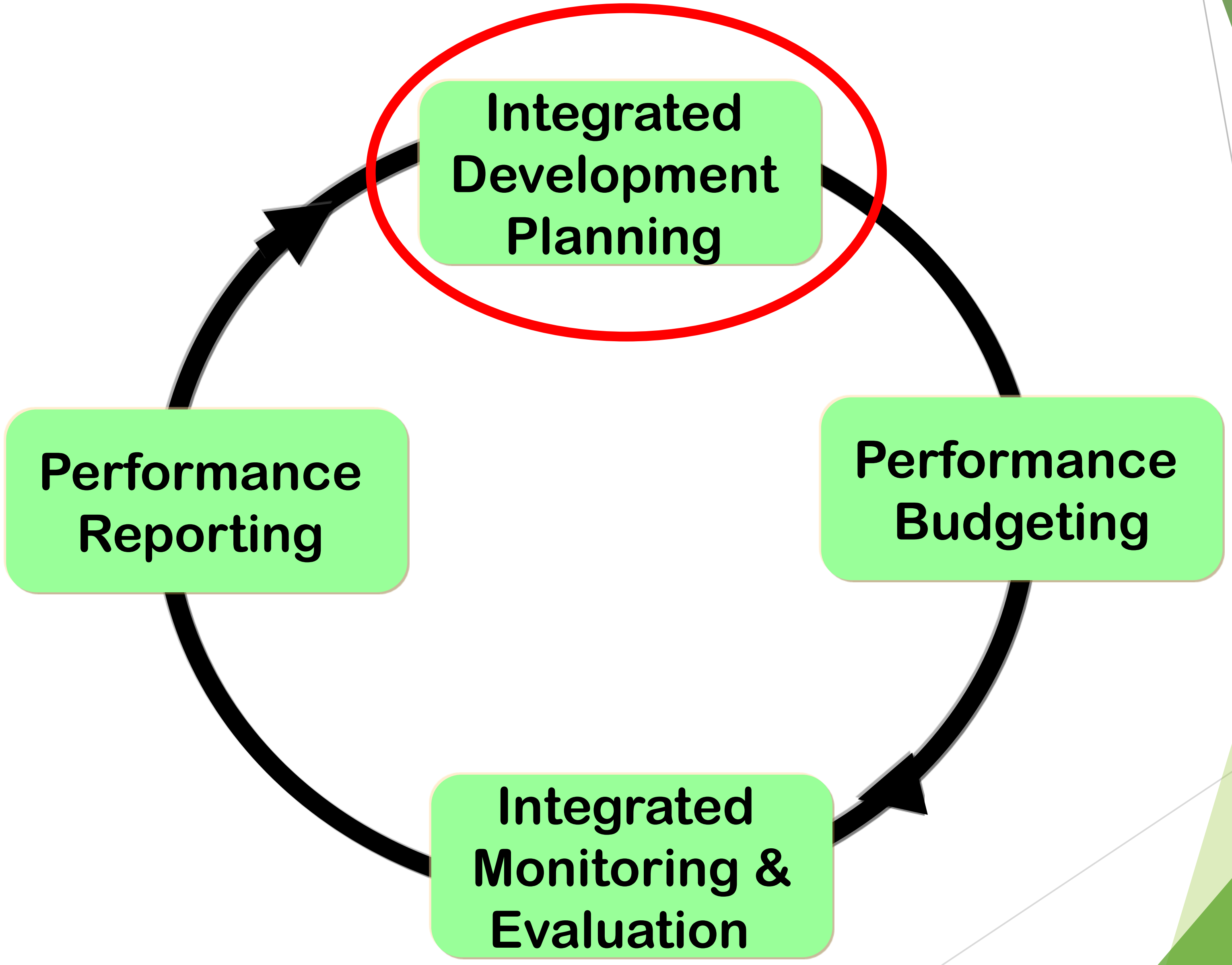
What is “Performance-based Budgeting”?

- Performance budgeting is the utilization of performance information for the purposes of allocating/re-allocating public resources (e.g. linking an increment/reduction of funding to an increment/reduction of outputs or other results).

- “Performance budgeting allocates resources based on the achievement of specific ,measurable outcomes”. (Fielding Smith 1999)

- “Performance budgeting aims to improve the effectiveness and efficiency of public expenditure by linking the funding of public sector organizations to the results they deliver. (Mark Robinson 2009)

Integrated Strategic Framework



MALAYSIA'S BUDGETING SYSTEM IN PERSPECTIVE

Traditional

Incremental Line Item Budgeting

1957 - 1968

Detailed Controls & Discipline

Program Perf Budgeting Sys

- Program Performance
- Program-Activities
- Perf. Indicators
- Evaluation

1969 - 1990

Programs & Performance

Modified Budgeting System

- PPBS
- Delegation
- Budget Ceilings
- Accountability
- Exceptions Reporting

1990 - 2010

Accountability, Flexibility and Delegation

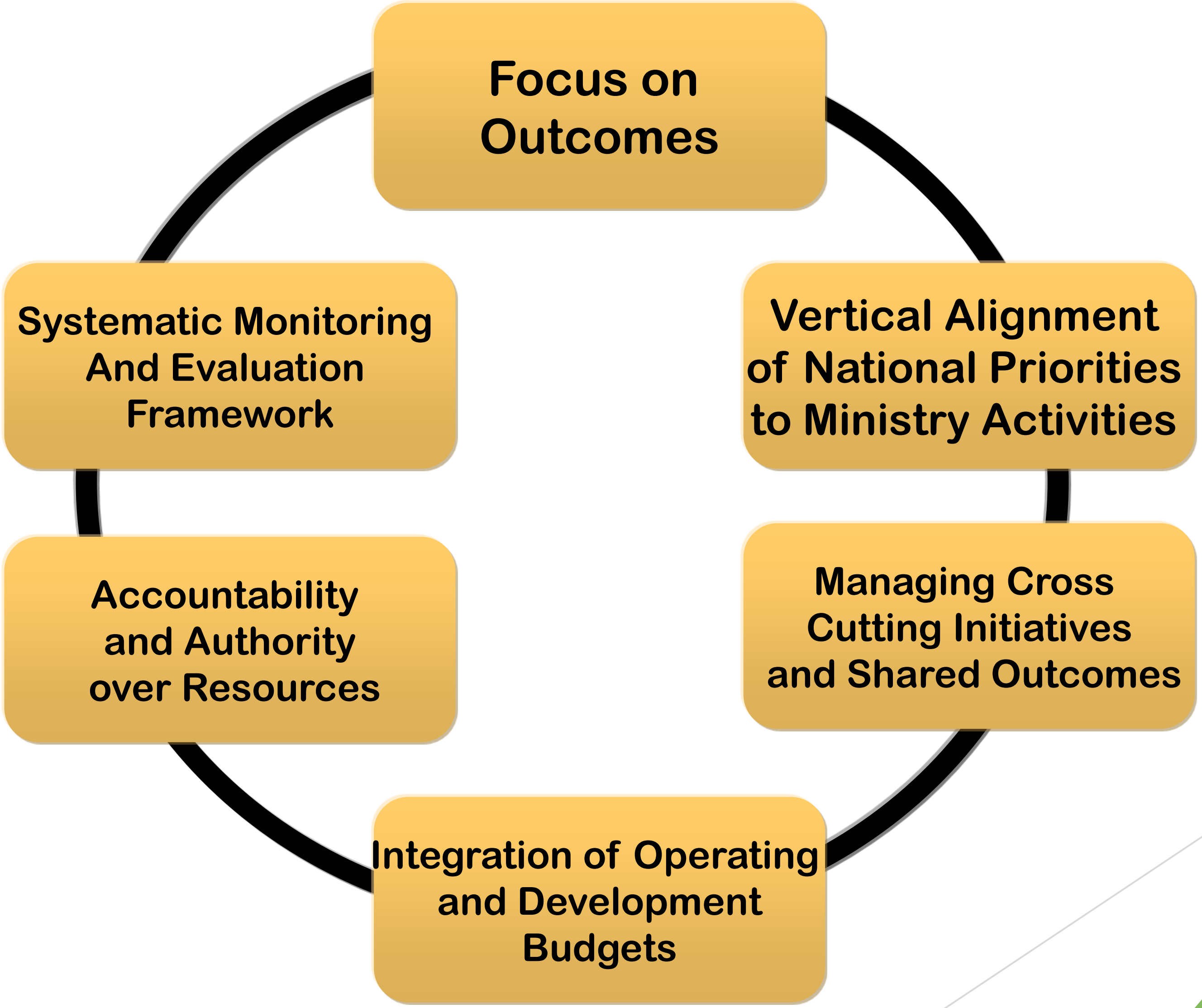
Outcome Based Budgeting

- PPBS/MBS
- Integration
- Alignment
- M&E focus
- Perf Reporting

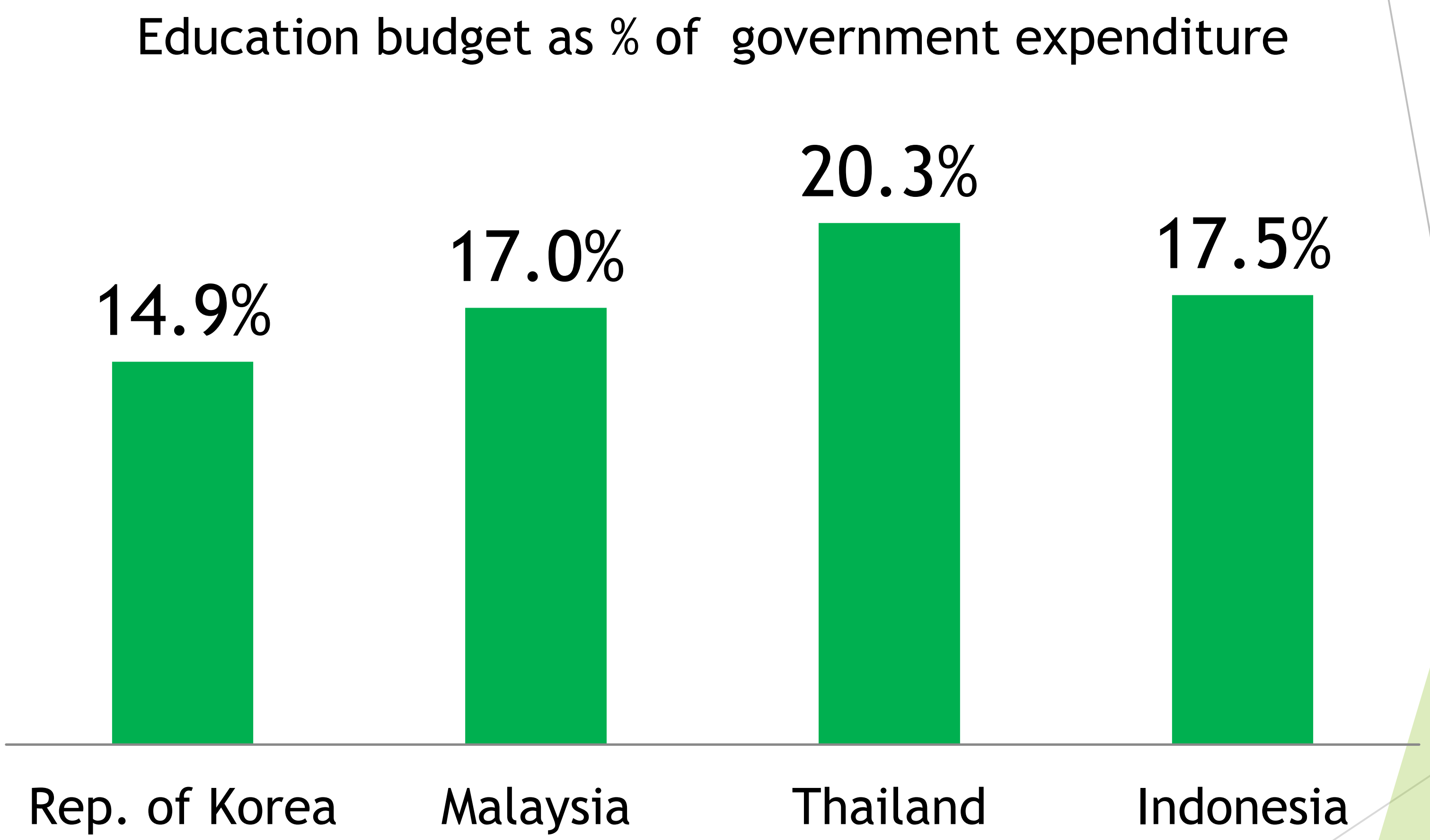
2011 -2015

Integrated Approach

Why Performance-based Budgeting (PBB), or, Outcome-based Budgeting (OBB)?

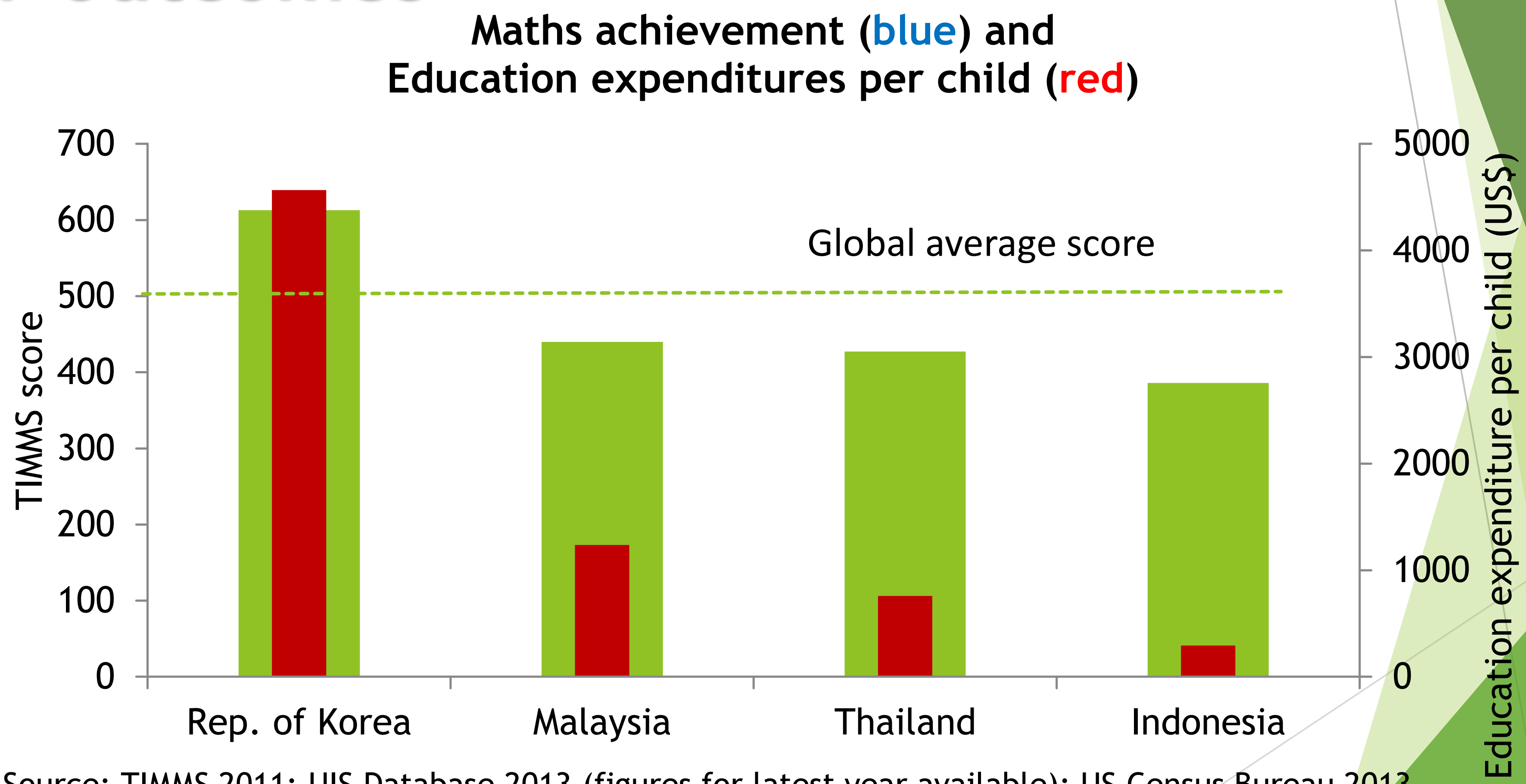


Levels of expenditure matter BUT…



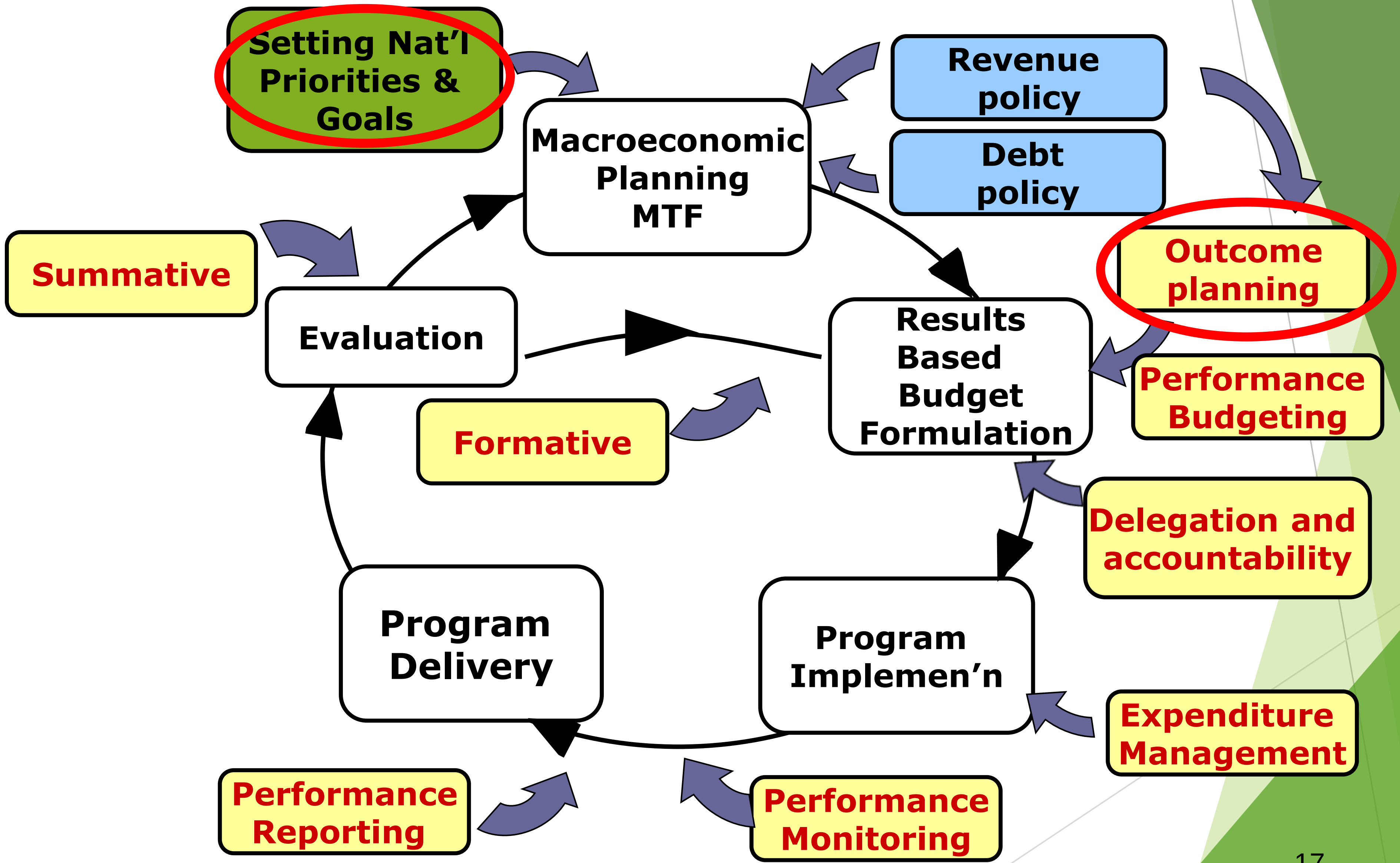
Source: UIS Database 2013 (figures for latest year available)

…BUT do not automatically lead to better outcomes

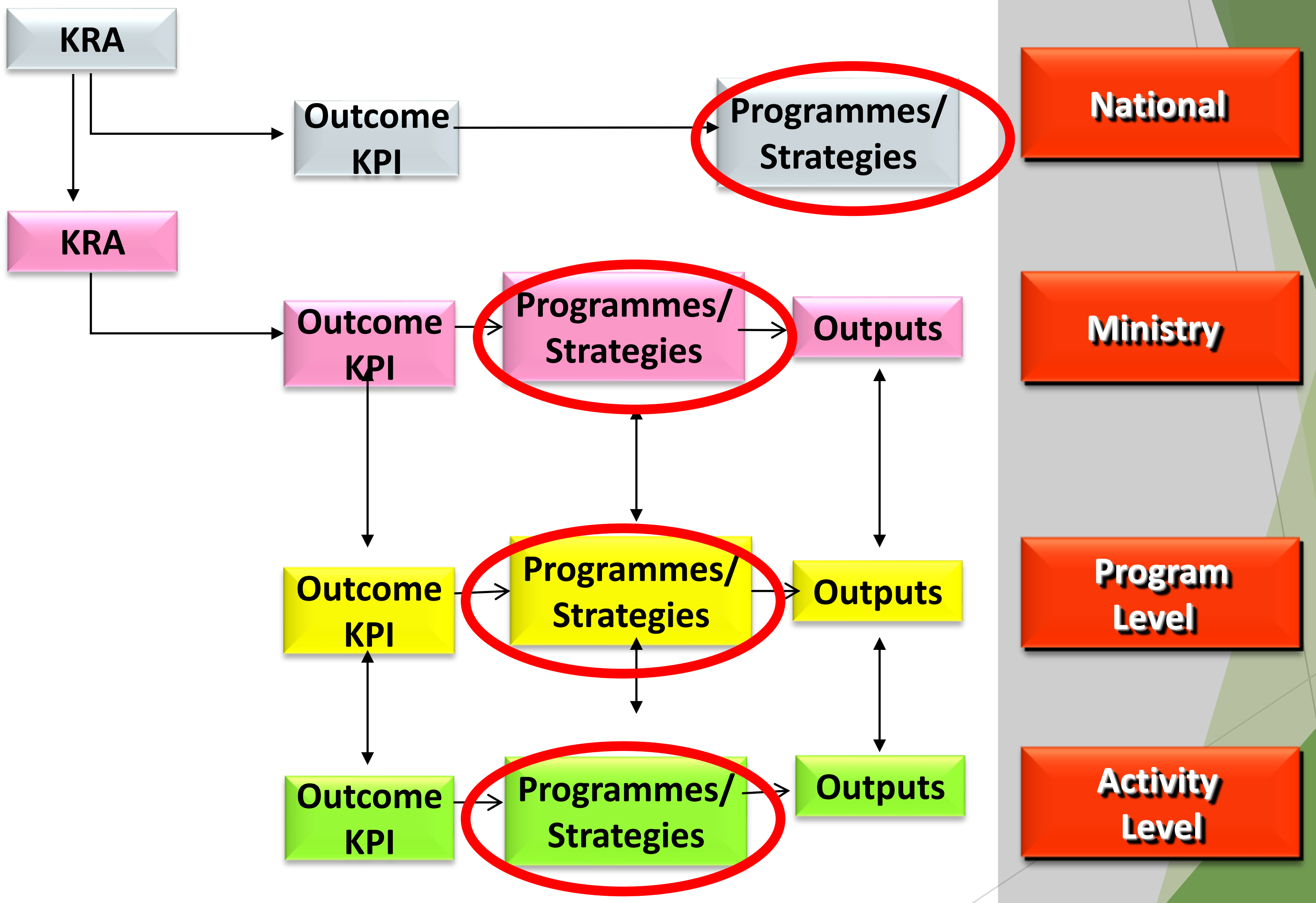


Source: TIMMS 2011; UIS Database 2013 (figures for latest year available); US Census Bureau 2013

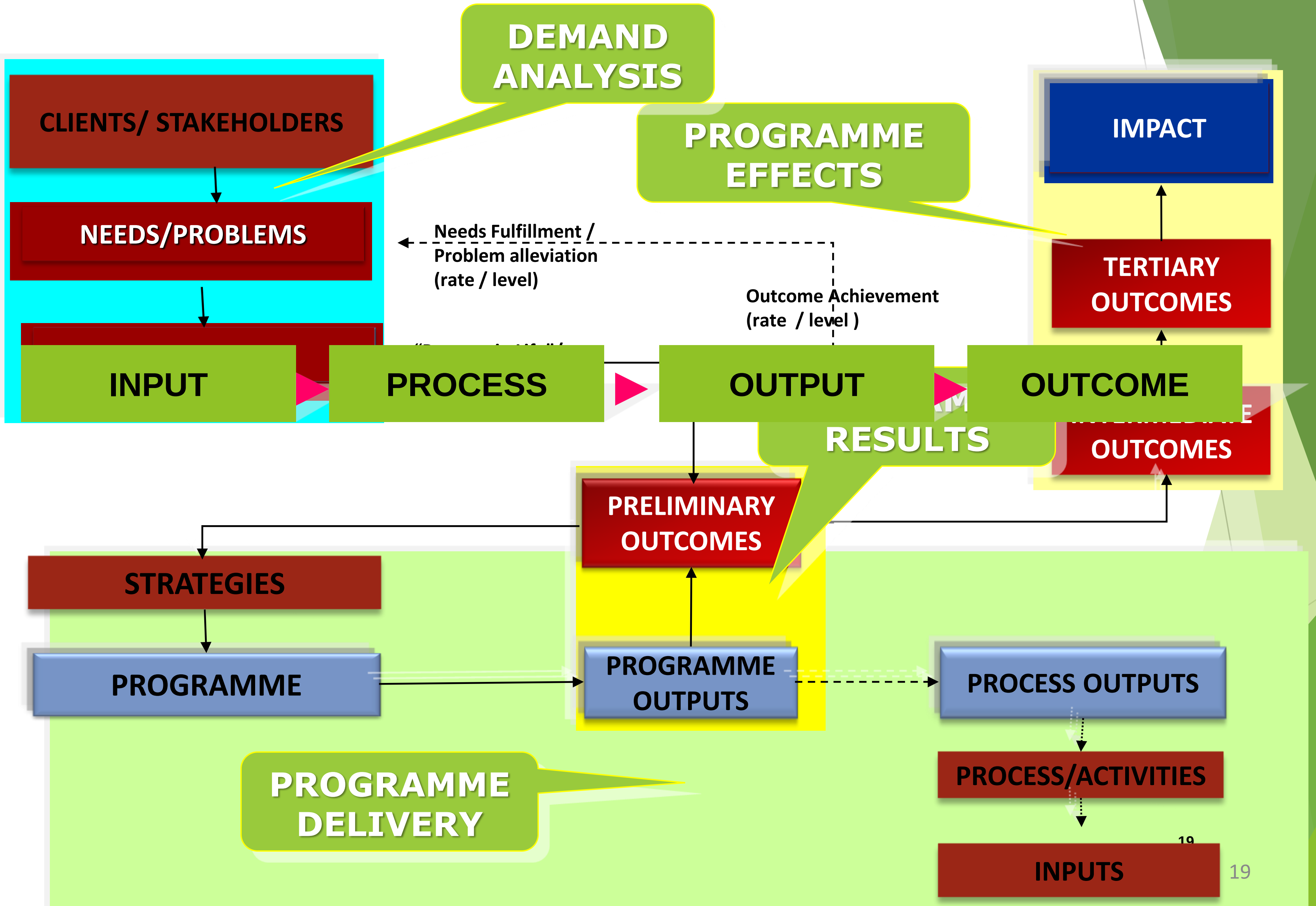
Planning, Budgeting and M&E Cycle



Building RESULTS FRAMEWORK under the Program Activity Structure



Program Logic and Linkages (ProLL) Model



STRATEGIC PLANNING AND PROGRAM LOGIC

Outcomes ← Needs/Problems ← Clients/Stakeholders

Outcome statement has to be linked to overcoming and resolving these Issues

Children's issues

- survival
- protection
- development
- participation

Clients

fundamental reason for the existence of The Program

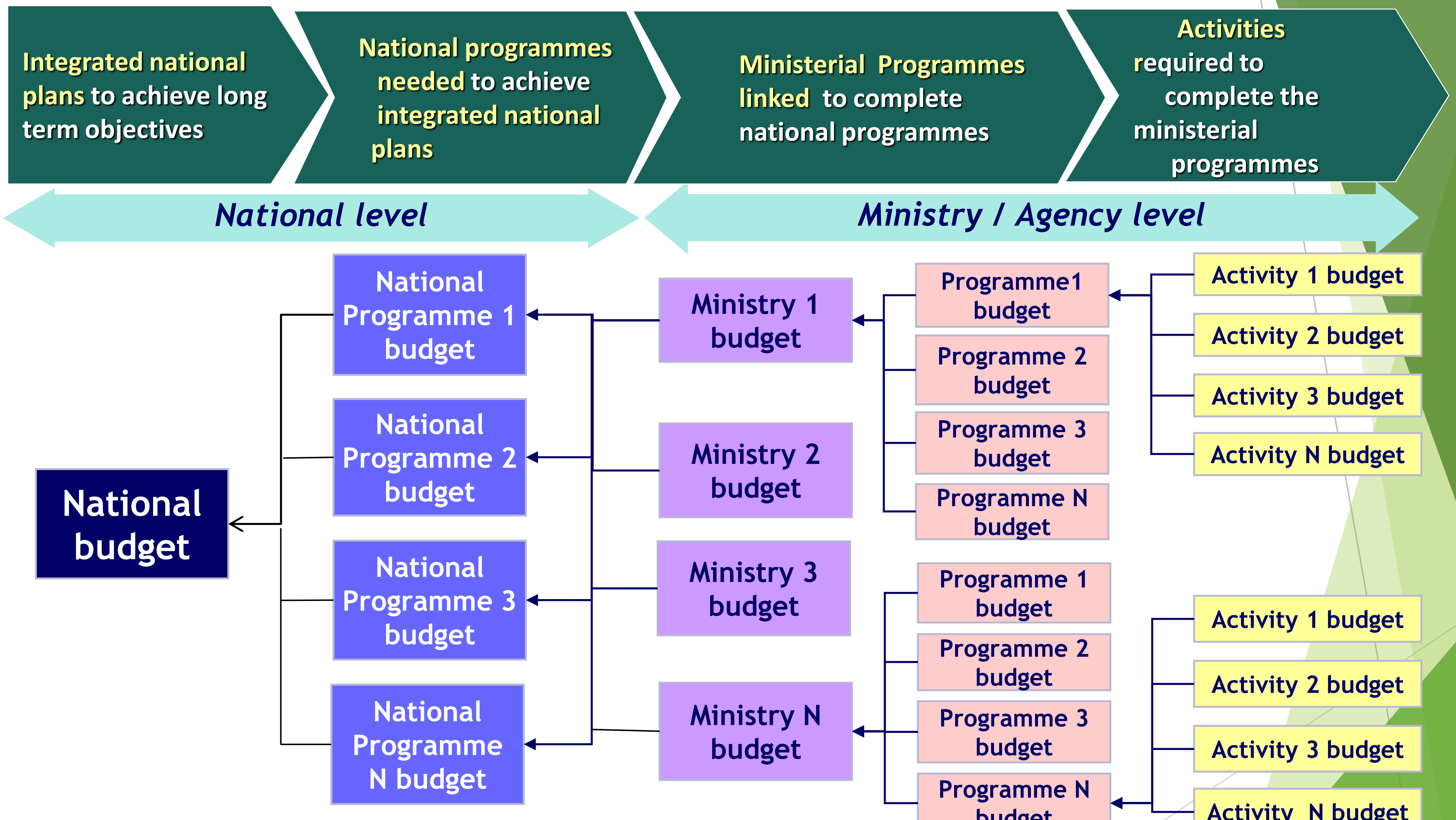
Needs/Problems Analysis

- how extensive is the needs/problem
- what is causing the needs/problems
- what is the effect of the needs/problems
- is it within the mandate of the ministry
- can the outcome address the needs/prob

Children as a client group

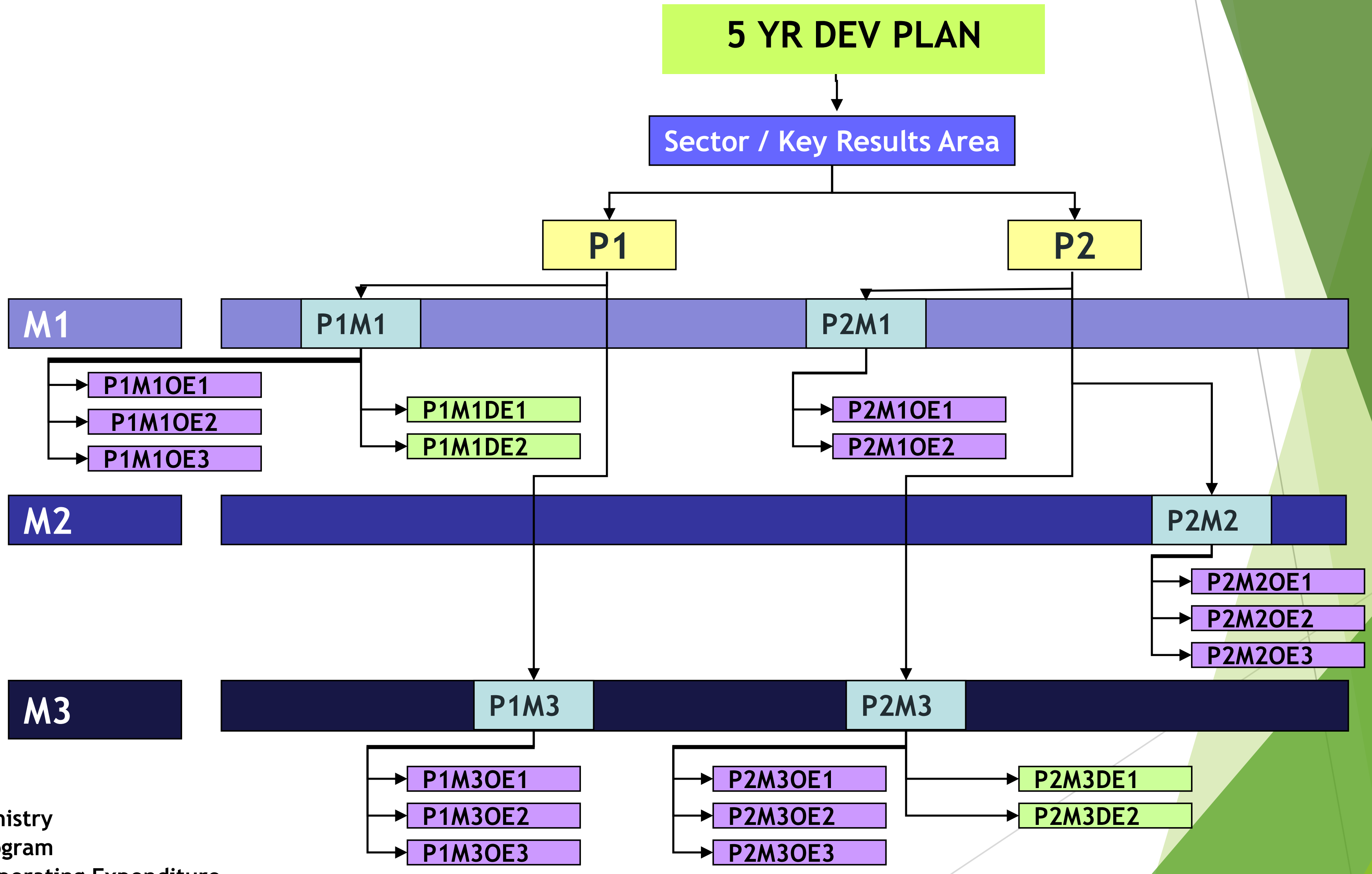
- are they homogenous
- are their needs similar
- are they facing the same problems
- detailed classification required

LINKING PLANNING TO BUDGET



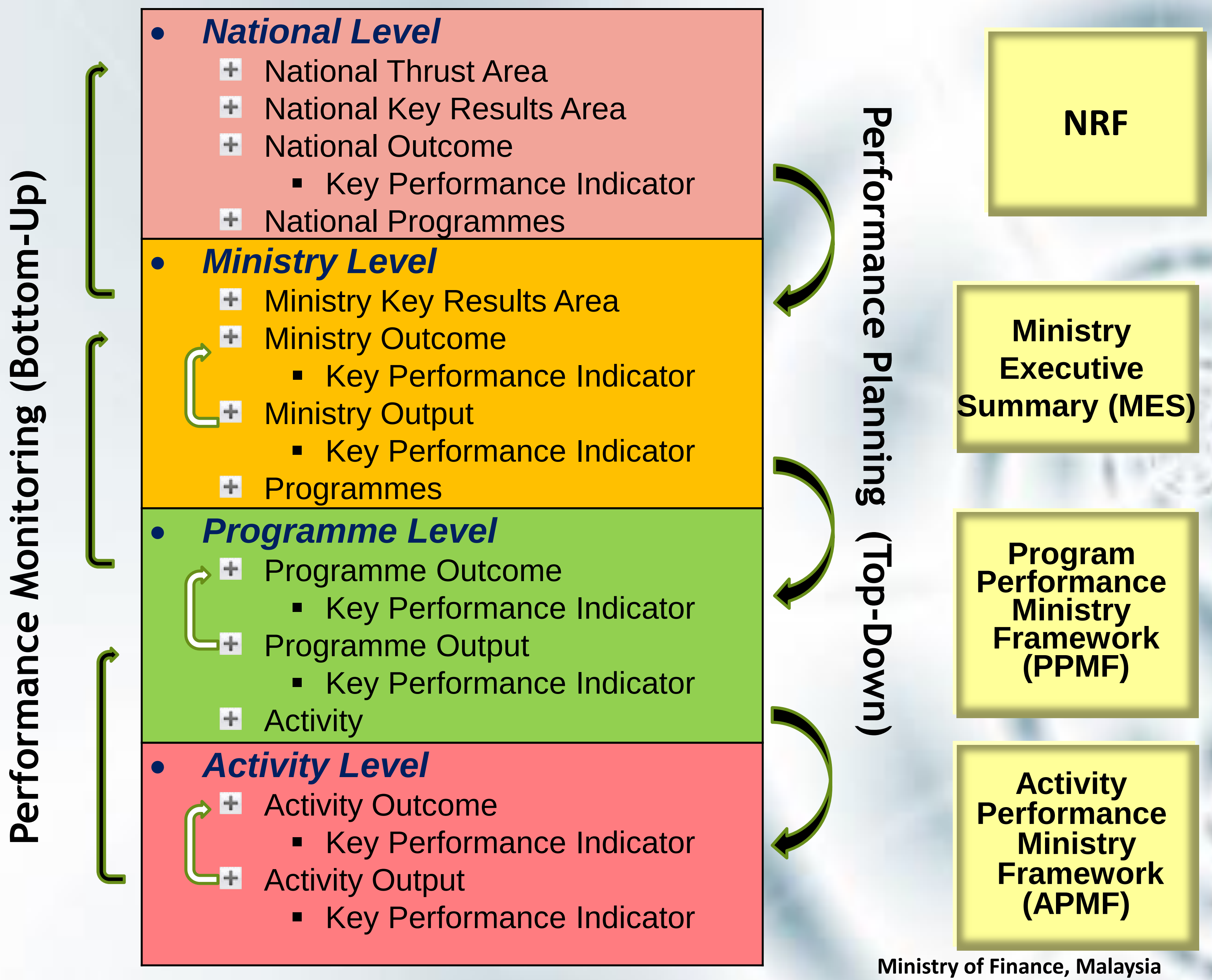
* Note: Activities include both development and operating budget

Matrix View of an Integrated OBB



M - Ministry
P - Program
OE - Operating Expenditure
DE - Development Expenditure

OBB STRATEGIC PERFORMANCE PLANNING LINKAGES (Building the Accountability Framework)



Ministry of Finance, Malaysia

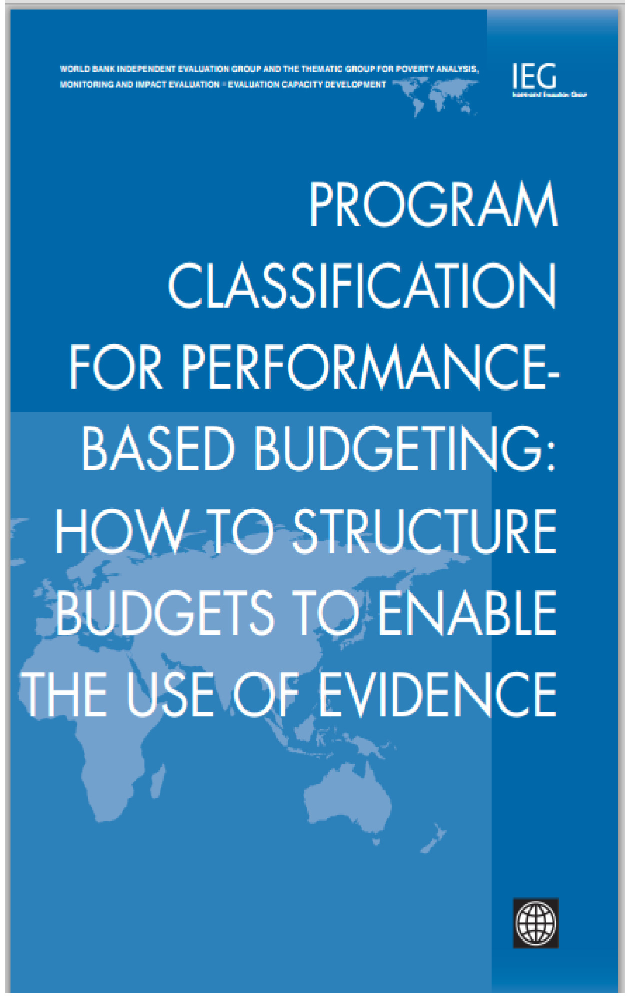


Figure 1. French Program Classification Example (simplified)

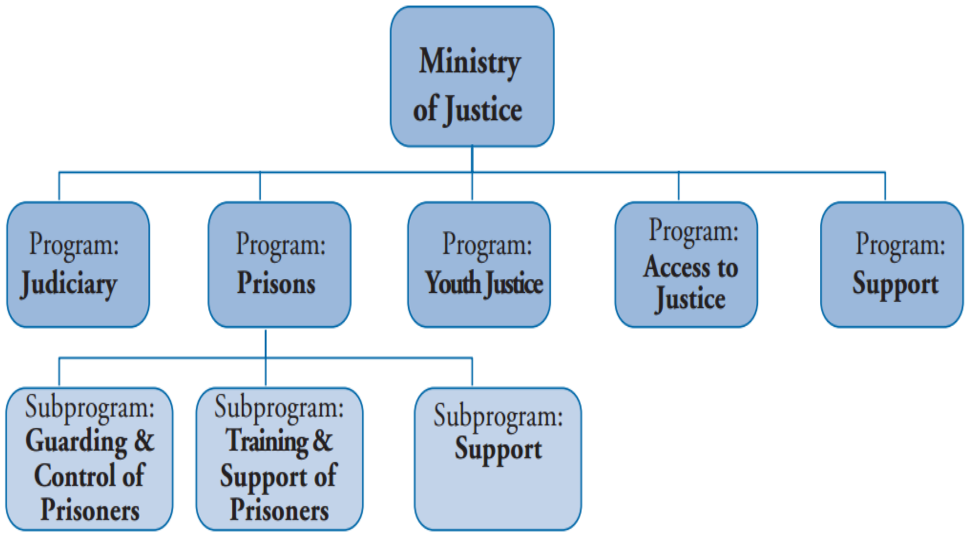
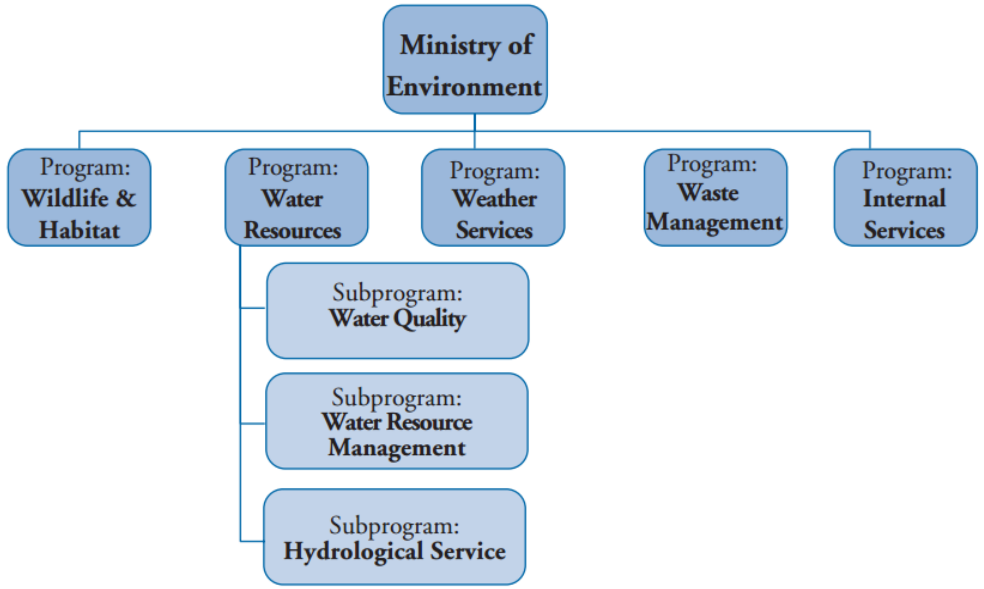


Figure 2. Canadian Program Classification Example (simplified)



Example: Ministry of Health Outcomes - Malaysia

MINISTRY OUTCOME (MO)
MO1: Increased accessible and equitable healthcare services
MO2: Improved responsiveness of health care delivery
MO3: Reduced preventable mortality and morbidity
MO4: Optimized used of health care resources
MO5: Enhanced adoption of healthy lifestyle

MINISTRY OF HEALTH – MALAYSIA
Programme Structure

Ministry's Plans

- Health sector transformation towards a more efficient & effective health system to ensure universal access to healthcare
- Health awareness and healthy lifestyle
- Empowerment of individual and community to be responsible for their health

Ministry-level outcome / ***Ministry-level outcome KPIs***

	O1	O2	O3	O4	O5
Ministry-level outcome	Increased accessible and equitable healthcare services	Improved responsiveness of health care delivery	Reduced preventable mortality and morbidity	Optimised use of health care resources	Enhanced adoption of healthy lifestyle
Ministry-level outcome KPIs	• Doctor to population ratio • Dentist to population ratio • Nurse to population ratio • Clinic to population ratio • Bed to population ratio	• Percentage of patient waiting less than 3 months for elective thyroidectomy surgery • Patient satisfaction, hospital level aggregation • Percentage of outpatients waiting less than 30 minutes to see first healthcare provider in clinic with TPC	• Life Expectancy (Male) • Life Expectancy (Female) • Infant Mortality Rate (IMR) per 1,000 live births • Maternal Mortality Rate (MMR) per 100,000 live births	• Average expenditure on public health services per citizen per year • Bed turnover rate	• KOSPEN participants screened, aged 18 years and over in localities that participated • KOSPEN participants screened, reference criteria for referral to the clinic • Percentage KOSPEN participants who wish to quit smoking

Program **9 programs**	***Program outcomes, KPIs*** **22 outcomes 50 PO KPIs**	***Activity*** **60 activities**
Management	1 Outcome 5 KPIs	6 Activities
Public Health	3 Outcomes 8 KPIs	6 Activities
Medical	3 Outcomes 7 KPI	30 Activitie s
Research & Technical Support	2 Outcomes 4 KPIs	4 Activities
Oral Health	3 Outcomes 6 KPIs	4 Activities
Pharmaceu ti-cal Services	4 Outcomes 7 KPIs	4 Activities
Food Safety & Quality	3 Outcomes 8 KPIs	4 Activity
Malaysian Health Promotion	2 Outcomes 2 KPIs	1 Activity
Medical Device Authority	1 Outcomes 3 KPIs	1 Activities

Example: Evolution of the Performance Budgeting in the Philippines

- Line Item Budgeting
- Performance Budgeting — Input based

- Public Expenditure Management - Output/Outcome

  - Organizational Performance Indicator Framework (OPIF) - 2006

  - Performance-Informed Budgeting (PIB)
    - ✓ Output based - 2014
    - ✓ Outcome based - 2015

Example: Results Framework - Philippines

The new Performance-informed Budgeting (PIB) structure follows the Results Framework or Logical Framework established for each department and agency

WORLD BANK
Areas of Focus for linking planning and budgeting

- Hardwiring planning and budgeting within a medium term planning and budgeting framework which is anchored within a fiscal sustainability framework without back door escape clauses

- Moving from static to dynamic planning – with appropriate political and technical anchors

- Focusing on getting most out of existing capital assets and outcomes with regards to public services

- Developing challenge functions within core agencies and allowing service delivery agencies to deliver services and report results

- Review and revise institutional structures to support the aforementioned functions

Challenges

- Understanding the Concepts
- Quality of Information in the Results Framework needs improvement
- Management's Role and Commitment
- Capacity Building and Sustainability
- Mind set on Performance Management
- Redefining Role and Functions of Budget Review Officers
- The use of Performance Information

CRITICAL SUCCESS FACTORS

Performance information must be demand driven by stakeholders	Leaders must empower their team and execute strategy	Sector Heads and BROs must focus on program performance and accountability
Sustainable capacity building	Report on performance through effective monitoring and evaluation	Culturalising Performance Through Change Management

CHALLENGES

Understanding the concepts	Role of management in strategy building	Quality of information in the results framework

Culturalising performance	Redefining the roles of budget review officers - focus on performance & accountability	Sustainable capacity building and frequent movement of OBB trainers	Identifying the right IT solution and translating business requirements into an IT system

Guiding Principles for PBB/OBB
"5 E's"

Efficiency > *spend less*

Effectiveness > *spend wisely*

Economy > *spend well*

Equity > *spend fairly*

Ethics > *spend properly*

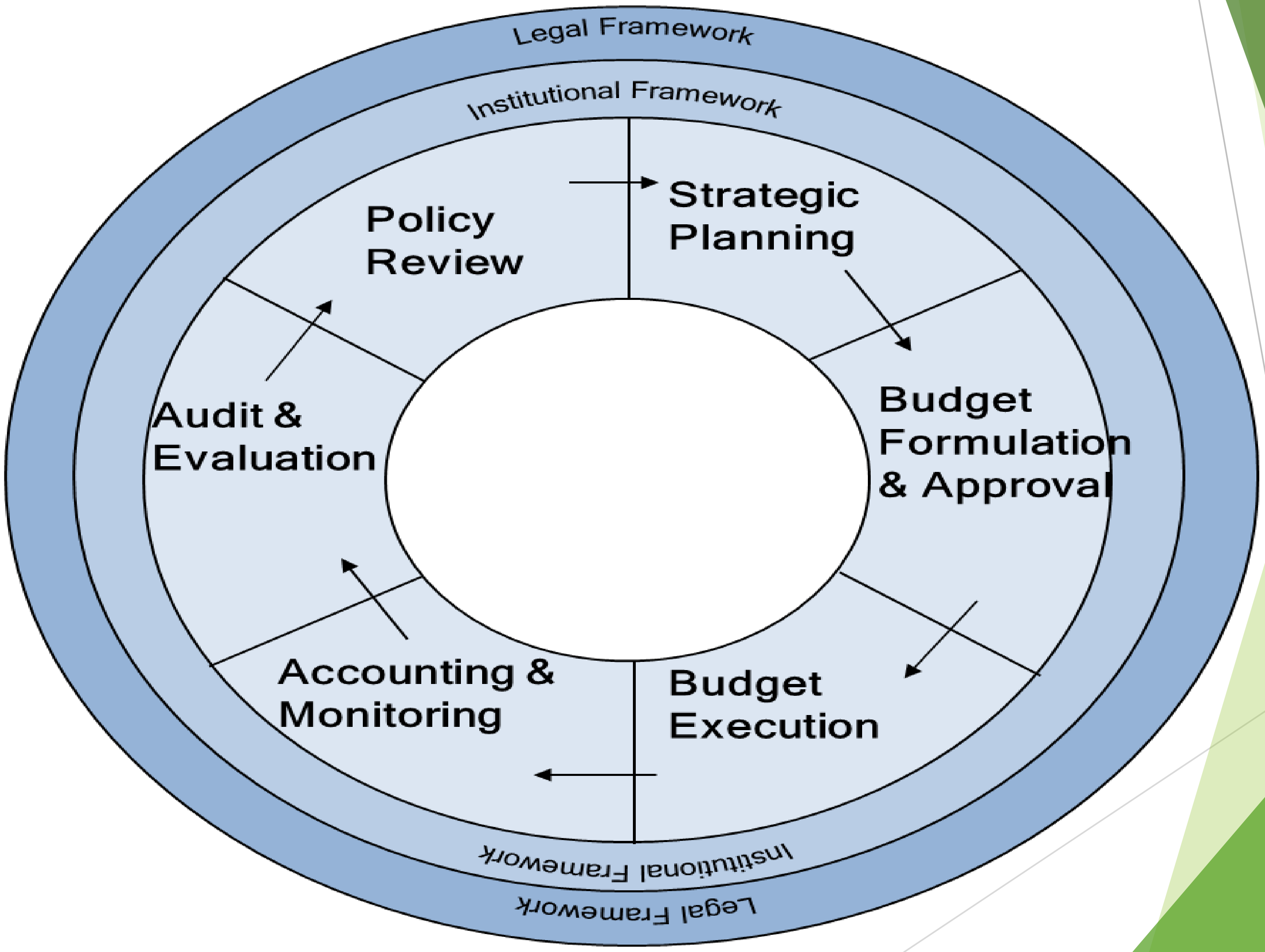
The Budget Cycle

Overview of Budget Cycle Process

Content

- The institutional framework
- The legal and regulatory framework
- The steps of the budget cycle

The Annual Budget Cycle



The Institutional Framework

- Parliament
- Cabinet
- Ministry of finance and ministry of planning
- Ministries, Department and Agencies (MDAs)
- Subnational governments
- Office of the auditor general
- Civil society

The Legal and Regulatory Framework

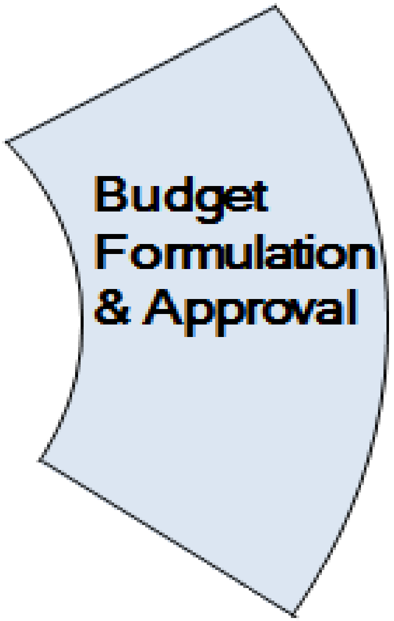
- Constitution
- Organic budget law/PFM act and associated regulations
- Decentralization law/ local governments financial law

Strategic Planning

- National development plan
- Sectoral strategies
- Sectoral annual plans

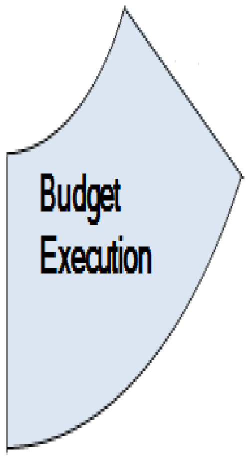
Budget Formulation and Approval

- Strategic budgeting
  - MTFF (Medium-Term Fiscal Framework)
  - MTEF (Medium-Term Expenditure Framework)
- Budget preparation
  - Budget circular
  - Budget negotiations
- Approval
  - Annual budget law



Budget Execution

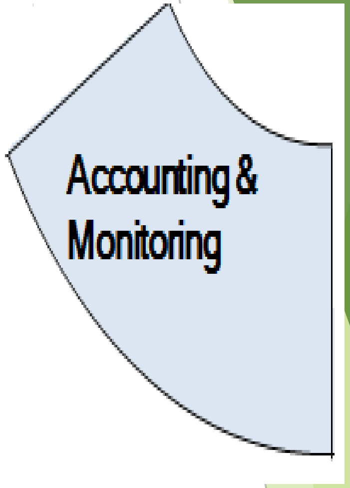
- Authorization or allocation of appropriations to spending agencies
- Commitment incurring a future obligation to pay
- Verification of the acquisition and verification of goods and services
- Payments are made for these expenditures



Accounting and Monitoring

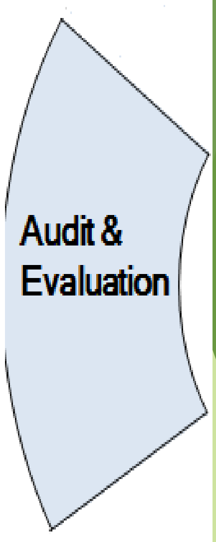
- **Accounting** expenditure transactions are recorded in accounting books

- **Reporting** execution and financial reports



Audit and Evaluation

- Audit of budget cycle
  - Financial and beyond
- Evaluations
  - Are expenditures reaching their beneficiaries (leakages?). Pay attention to unintended consequences
  - Impact. Output and outcome assessment. Enforce accountability
  - Benchmarking – are results commensurate with resources? Cross-country and sub-national comparisons



Policy Review

- Revision of results of public spending related to stated goals for the sector

- Inform update of existing policies and plans

Example: National Budget Process in Cambodia

Formulation
Main player: MEF & LM

March-May, June-Sept

Approval
CoM, NA, Senate, King

October to December

Execution
Reporting & Internal Audit

January to December

Evaluation and External Audit (NAA)
Reports to NA, Gov't & Public

Public Finance for Children

PF4C – Approach & Strategy

The typical focus of PF4C work

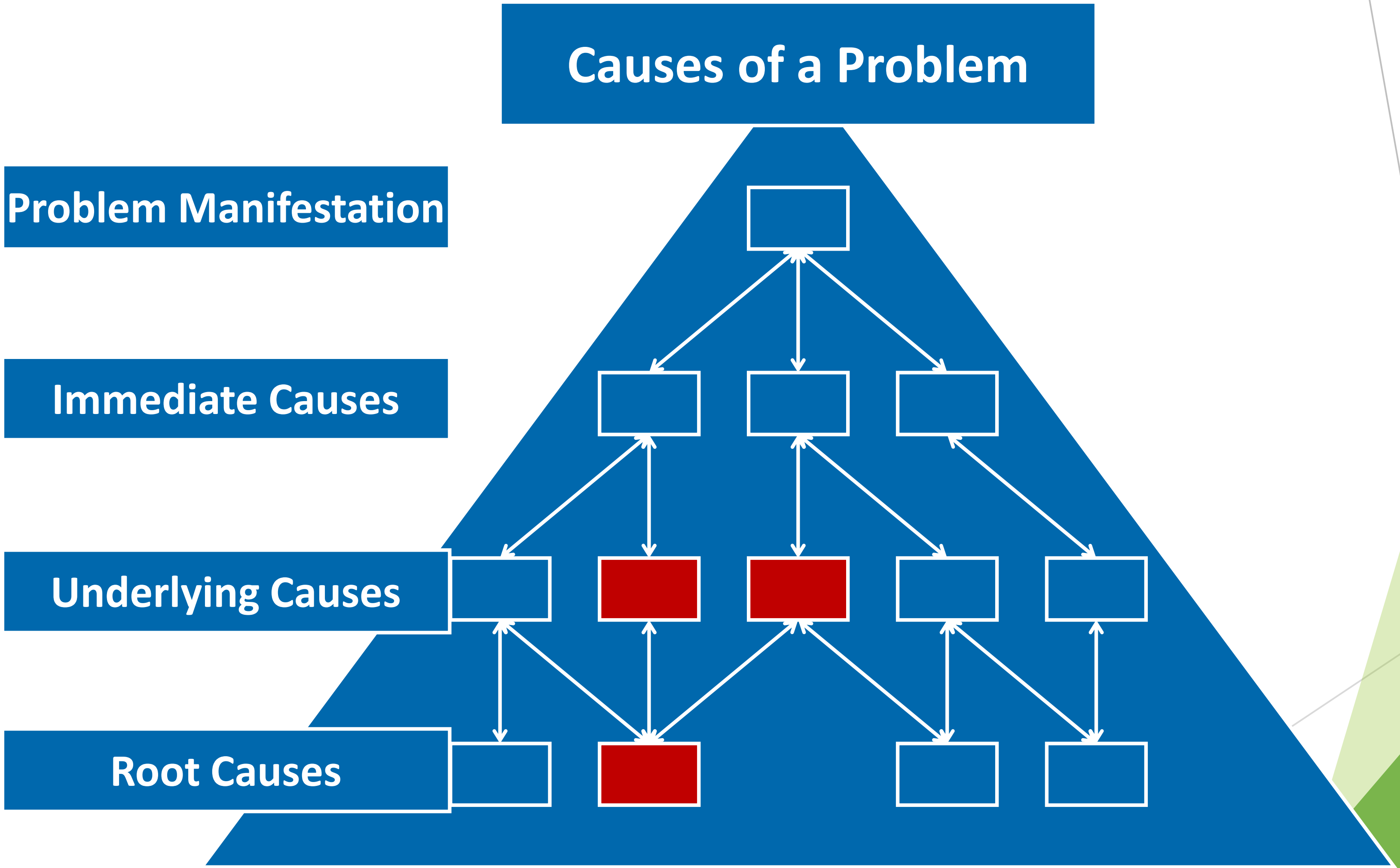
A. **Evidence-based political advocacy**
   1. Assessing spending (know how much is spent/would be needed to spend).
   2. Assessing the efficiency and effectiveness of spending (know how well resources are/should be spent).
   3. Assessing the implications of inadequate/inequitable spending for services (coverage/access/quality).

B. **Promoting systemic change in planning and budgeting**
   1. Technical assistance for improved planning, resourcing, implementation, monitoring and/or reporting.
   2. Promoting transparency and/or user feedback at central and/or local level.

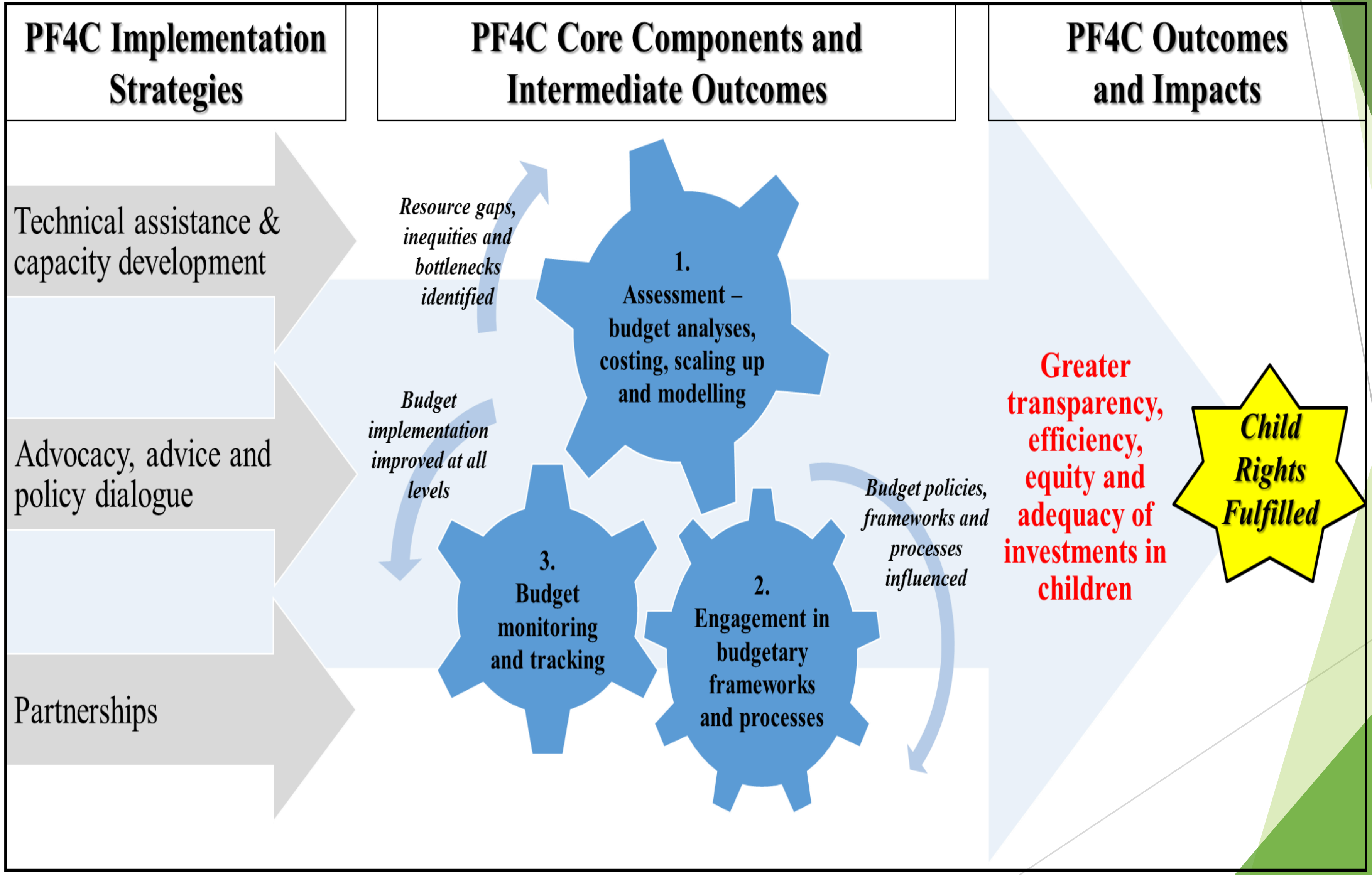
Public Finance Reform & Children

- **Focus on child <u>outcomes with an equity lens</u>**
  - Child under-nutrition (FHS 2010 Malaysia: 4.3%, at state level between 1 and 10%, at district level variance is even greater)
- **Address immediate <u>causality</u> links**
  - UNICEF's causality framework to child malnutrition (a) low food intake, (b) improper family care (c) poor sanitation and weakness in other basic services
- **Identify <u>bottlenecks</u> and see how the <u>root</u> causes can be addressed**
  - Poverty? Societal and cultural practices? Adequacy of laws, policies? Institutions? Public finance? Missing links in the planning-resourcing process?

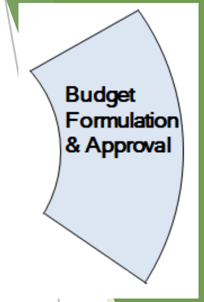
Child Outcomes are multi-sectoral and multi-dimensional - RBM approach



PF4C: Pathways of change



Case: Thailand - Budget Formulation



- **No Medium-Term Budgetary Framework (MTBF)** in place:
  - **Top-down MTFF** containing the Resource Envelope over the medium term is struck by NESDB, MoF and others. **No ministerial budget ceilings** prior to the budget request instruction.
  - **'Unconstrained' budgeting at the Ministry level through** Annual Budget Requests, negotiated between Ministries and MoF.
- Each Ministry prepares **Line-item budget** broken down by **Administrative** (GFS 2014) and their 'own' **Economic Classification** (5 main categories) on the **e-Budgeting system**.
  - *Bureau of Budget tends to make cuts across the board (no consideration of equity)*
  - *No incentives for multi-year budgeting (for medium term equity outcomes)*

"Progress is impossible without change, and those who cannot change their minds cannot change anything"

……………….George Bernard Shaw

THANK YOU

x

- x

x

- x