

**Towards resulted-oriented government:
Is Brazilian public administration prepared for introducing performance mechanisms
in the budget system?**

Martin Francisco de Almeida Fortis¹

1. Introduction

This article intends to discuss the potential benefits of introducing performance information on the budget system, in the context of public sector modernization process, placing special emphasis in the Brazilian case. First of all, the results pointed out in the OECD 2005 questionnaire on performance information are assessed and its core conclusions are underlined. A brief description of the Brazilian situation is undertaken through the analysis of its budget and planning processes. In order to examine both its successful and unsuccessful features, this article investigates some of the relevant challenges currently faced by Brazilian public sector management. In the conclusion, it is argued how performance information can contribute to the improvement of the Brazilian budget process.

2. OECD survey on Performance Information

In the last two decades, all over the world, important reforms have been put forward to promote modernization and efficiency in the public sector. The main purposes of these reforms have usually been aimed at overcoming the following problems: a) the (larger than desirable) size of the public sector in the economy; b) high levels of indebtedness and structural deficits; c) pressures to diminish bureaucracy and increase transparency; d) demands for better public services delivery.

¹ Budget Analyst, of the Federal Budget Office, at the Brazilian Ministry of Planning, Budget and Management.

One of the recent reforms implemented worldwide concerns the introduction of performance-related mechanisms to enhance the efficiency of government expenditure. Migrating from inputs to outputs has been a first attempt to focus on the results. Furthermore, more advanced economies have taken an additional step while shifting the focus to the outcomes as a way of evaluating the impacts of public goods and services over its users and consumers.

The extensive research made recently by OECD on performance information presents three key findings: performance-budgeting occurs mostly at the level of the Ministry of Finance, performance information is not widely used due to the absence of a method to integrate it to the budget process, performance evaluations tend to inform but not to determine budget allocations.

It can be argued that the adoption of performance information systems seems to be a universal trend, and its implementation is not restricted to economically advanced countries. The OECD questionnaire shows that 75% of the interviewed countries have employed some kind of initiative aimed at creating performance mechanisms. Notwithstanding these advancements, the predominant focus is still placed on outputs instead of on outcomes.

The questionnaire reports that the three main objectives for introducing performance information on planning, budget and management processes are: a) improving the efficiency and effectiveness of public sector organizations and its programs; b) obtaining useful information for subsidizing the allocation of resources and the decision-making process; c) to a lesser extent, reducing the level of public expenditure.

About the challenges involved in establishing performance information systems, the survey encountered the following answers: a) difficulties in relating results to specific programs; b) technical difficulties in building measurable indicators; c) insufficient political support; d) information of low quality.

When the subject concerns institutional aspects, a decisive question addresses which level or organizations should be responsible for the coordination and implementation of the performance-related mechanisms. The OECD questionnaire shows that countries characterized by decentralized governmental structures tend to grant more freedom to line ministries and therefore attribute more limited role to the Ministry of Finance.

The role played by the Ministry of Finance is variable depending upon cultural and organization factors. In general, it may support, restrict, control or give incentives. In most cases, three main tools are used to fulfill such roles: a) money (punishment or reward according to the performance obtained by the program); b) freedom (intensify or alleviate controls); c) recognition (comparison between different organizations). One interesting result is that the intuitive rationale “good performance–reward and bad performance-punishment” might be tricky due to the complexity involved in the performance analysis. Most Ministries of Finance managers behave very cautiously in directly linking performance information to financial concessions or restraints.

The avoidance of straightforward connection between rewards and performance has important consequences. Besides, it shows the limits of performance management usage and conducts to the dearest conclusion of the questionnaire: performance information subsides but not determines the budget decisions. In other words, performance information is only one sort of information considered in the allocation process. Mechanical and automatic linkages have very rarely being undertaken by managers. OECD survey explains that countries have been prudent and realistic due to multiple aspects such as fiscal politics, government priorities and political factors. It should be noted that some key elements – especially strong leadership and political support along the process – were considered relevant to the implementation of a successful budget reform.

3. Appraisal of the Brazilian budget system

A recent research undertaken by consultants of the European Commission enlightens important aspects of the budget system of Brazilian public sector. The basic conclusion of the text is that inefficient management practices are detrimental to the quality of budget system, negatively affecting the performance of public policies.

If, on one hand, Brazilian federal budget system is assessed as modern and based upon up-to-date concepts (especially strategic planning and evaluation standards), on the other hand, current management procedures are antiquated (based on bureaucratic behavior). The authors argue, however, that Brazilian budget is still more oriented towards

means and controls than focusing on results, thus predominantly aiming at the prevention of irregularities rather than promoting efficient allocation. This statement explains why the budget has not been adequately used as an instrument to implement public policies.

When performance issues are at stake, the consultant's research points the inexistence of indicators to measure appropriately the efficiency and effectiveness of public expenditure (or at least that the existing ones need improvement). Other key findings worth mentioning are: a) the available informational systems are insufficient for providing good quality performance data; b) the connection between planning and budget process is unsatisfactory; c) the various stages of the budget process are poorly linked; d) responsiveness mechanisms and accountability procedures require improvement.

Even though the federal budget is build upon a modern architecture, some critical points should be considered in a future reform: a) the excessive number of programs is responsible for management, control and monitoring difficulties; b) the absence of a strategic planning shows that the countries challenges and needs are weakly translated into government programs and actions; c) develop transparency; d) society permanent pressure better delivery of public services.

Besides mentioning factors for improvement the budget and planning processes, the research argues also that institutional stability is also decisive to foster economic development. In order to further understating the difficulties concerning governance in the Brazilian situation, in particular the reasons for poor management practices in the public sector, are now investigated.

4. Management practices in Brazilian public sector

Prates (2000), in asserting that governance has been incorporated in the agenda concerning the roles played by modern States, sustains that globalization and intensification of technology information usage has brought important implications for the public administration policies. Better public services and managerial improvements are some of the demands expressed by societies in the informational era.

The author defends that new State reforms are necessary because of: a) the dismantlement of traditional State roles; b) fiscal crises; c) more tough and complex citizens demands; d) expensive social network protection. She argues that these reforms also should adequately address the definition of right size and role of the State in order to create a positive ambiance for economic growth while promoting social equity and strengthening democracies.

Prate asserts that governments can be considered useful tools to revert three main deficits: economic, social and political. When the matter is the appropriate size of governments, the author understands that governments should have their institutional capacity strengthened (which does not necessarily imply making it more robust) so that it is endowed with the appropriate resources to coordinate the process of reform (rightsizing instead of downsizing) and its action should be oriented towards results and impacts as well as on higher levels of efficiency, responsiveness and lesser costs.

According to the author, other important changes to be considered in a future reform are: a) making regulations, legislation and bureaucratic procedures as simple as possible; b) enlarging public managers autonomy; c) promoting social control and participation through more transparent procedures and decisions; d) developing new institutional arrangements in order to involve different sectors of society in the decision-making process.

In short, Prates proposes that government structure should be reorganized to provide less costing, more resulted-oriented and better quality public services. After building this conceptual background, it is now desirable to address the relevant questions: How far is Brazil from achieving such modern, efficient and result-oriented public administration? Which steps should be taken? What lessons can be drawn from international experiences?

5. Conclusions

The introduction of performance mechanisms cannot be isolated from the actual context faced by the Brazilian public administration. The predominance of inefficient management mechanisms offset the potential benefits of an advanced public sector

framework. Therefore, as Almeida & Nerosky pointed out, a modern planning and budgetary system exists along with old-fashioned management procedures.

Even though evaluation indicators are formally part of the planning and budgetary analysis, they cannot be properly considered as a source of useful and accurate information. The bureaucratic behavior, placing emphasis on control, is still predominant on the cycle of public expenditure: the planning does not show the priority of the nation, the budget not always allocate resources according to performance criteria, the management does not contribute to turn inputs in good quality outputs and finally the control system is more focused on legal conformity than stimulating efficiency.

On these days, governments worldwide are striving for methods of allocation that will offer the best results, which means, transforming the taxes collected from the public into low-cost and high-quality outputs with meaningful impacts on society. This honourable task has to consider important key aspects:

- Globalization and its trends. The pace of economical and financial transactions affects not only the private sector, but also demand more efficient and prepared governments. Therefore, old bureaucracies which are not based on flexibility require urgent incentives to become more diligent and effective.
- Transparency and social control. In modern democracies, citizens are aware of their rights and conscious that they are entitled to have their needs attended by public policies. Such a critical behavior is a powerful tool to ensure the responsibility of governments and the efficiency of their policies.
- Fiscal balance and its restraints. The world fiscal crises of the 80's have shown the risks of providing public goods and services through indebtedness. Indebted countries are more vulnerable to international fluctuations, especially those related to the financial markets, thus making it even more costly to keep their access to the external credit. On the other hand, expand government expenditure by raising the level of taxation may be an unpopular decision and in some countries, such as Brazil, the current levels are so high that it would be unwise to try it. The alternative is to either reduce the amounts spent by governments or enhancing their efficiency.

- Social deficit. Non-developed countries, such as Brazil, face the challenge of keep the fiscal balance along with the tackle of diminishing the social deficit. Poor and extremely poor families have urgent needs, which sometimes may represent high costs, that imply income transfer.

These points show us that macroeconomic variables are as relevant as microeconomic decisions to make governments work efficiently. If the macroeconomic variables are necessary to set the amounts of resources available to governments to implement their public policies, the microeconomic options represent the possibility of doing more with less. Right decisions imply better goods and services for the population, meeting the expectations of societies and thus enhancing their curve of social welfare.

The budget is seen as a key instrument to foster microeconomic success through rational allocation of public resources. The introduction of performance mechanisms play an important role, since they help to evaluate the real effectiveness of the public policies, assessing if their cost is worth the benefit they provide to the population.

The OECD 2005 Questionnaire shows clearly that performance measurements are widely used to inform budget allocations but not to determine. The art - or science - of budget allocation might be extremely sophisticated by the adoption of modern instruments and devices but it can never be disconnected of the context and restraints faced by governments. In this case, building performance indicators and using performance information on the decision-making process are meritorious steps that contribute to improve the quality of resources allocation. However, the sophistication implied by these tools might be negatively affected by the non-existence of management procedures and the predominance of bureaucratic behavior.

References

ALMEIDA, A. J. e NEROSKY, L. C. “Diagnóstico do processo orçamentário federal e propostas de medidas de reforma”. Research made by the European Commission consultants working for the Euro Brazil Project, Brasilia, 2006.

PRATES, C. A. “II Fórum Global: Estado democrático e governança no século XXI: agenda para o futuro”. Article presented to the Fifth International CLAD Congress on Reform of the State and Public Administration, which took place in Dominican Republic in 2000.

PERFORMANCE INFORMATION IN THE BUDGET PROCESS: Results of the OECD 2005 Questionnaire *by* Teresa Curristine. Published on the *Oecd Journal On Budgeting* Volume 5 – nº 2 OECD 2005.