Accountable budgeting instead performance based budgeting: The new approach in budgeting for Iran

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ABSTRACT

This article reviews PBB (performance based budgeting) research backgrounds in Iran from a critical and adaptive point of view. We explain that how the implementation problems of PBB affects demand for it. Then we demonstrate on OECD countries experience on PBB and by closely focus on Dutch expertise that is implemented PBB more than one decade ago, in order to provide new approach called accountable budgeting in Iran. At the conclusions according to experts and research achievement's, results shows that providing programmed budgeting by removing line-item budgeting is not appropriate. Also the role of finance minister at managing of programmed budget is critical and a mechanism should provide for annual accountability of each minister and that the performance index's must be provided for ministries at the form of detailed financial index's far from political affairs as soon as possible and ministers accountable towards clearly financial performance far from politicization. Ultimately acceleration at run of accrual accounting in governmental agencies and employees training in this context is the foreground in accountable budgeting implementation.

KEYWORDS: Accountable budgeting, PBB, annual accountability of each minister, detailed financial performance index's, politicization.

1. INTRODUCTION

The altering budget discipline in Iran where the budget document is the state most important financial document, required a very detailed and comprehensive study on it. Now by delays that occurred at implementing PBB In Iran and state seriously wants to implement this type of budgeting, it is appropriate to surveying this type of budgeting. This research with the studying OECD countries experiences, seeking a new way in Iran state budgeting that called "accountable budgeting". Budget as a financial statement of government operation is the most important governmental document that help state organizations to achieve their programs goals productively. The budgeting discipline with goal-oriented intent attempts to link budget credits with state operation consequences to reach thrift, transparency, effectiveness and effective goals. Many developed and developing countries attempts to alter their budgeting system to PBB. By citing to 138 clause of fourth social-economic and cultural developing program law in Islamic republic of Iran, the Iran management and programing organization required to altering budgeting discipline to PBB for computing cost of governmental goods and services as well as reforming financial, official, employment laws complying with this new approach. So at the 144 clause of mentioned law, all the governmental organizations in order enhancing effectiveness and setting PBB required to conferment authorities at the legislation framework to governmental managers[1].

2. Research methodology

The basis of this research is on historical recognition, so we study the various ways in budgeting, then with rendering a new approach called accountable budgeting, our basic indent is the finding a best method in budgeting respect to countries constraints. With this regard we explore best answers to following questions:
1. Do coming yet the time for implementing PBB?
2. Could we perform new budgeting without other countries failure experiments (by studying other countries experience at this context)?

With the discovering studies and surveying rendered theories and by experimental researches that performed at this case, the research basis is on collected archival documents and scientific librarian sources.
3. Literature review

Zeinali et al (2014) studied the barriers of implementing PBB at Iran ministry of finance. This research showed that the ability of Iran ministry of finance isn’t an obstacle to implementing PBB as well as option and acceptance factors [2]. Another study by Babjani et al (2011) was recognizing the barriers and problems of setting PBB. At this research budgeting experts demonstrated that the implementing of PBB contain no success in Iran. They said that three factors including behavioral, structural and environmental factors have key impact on implementing PBB [3]. Talebnia and Zareii (2011) argued that a view at literature of accrual accounting in public section shows this fact that international governmental accounting standard setters demonstrates on implementing of accrual accounting. Surveying governmental accounting in Iran showed that in addition of international requirements at the inside of country due to various reasons especially implementing PBB, acceptance of accrual accounting is a necessity. With respect this research findings they concluded that governmental accounting in Iran is in thresholds of fundamental evolution and the basic stimulus for this evolution is the increasing of demands for information following requirements for implementing PBB. Other findings of this research was that ministry of finance has a vital role in such reforming process. They found that the combinational, normative and cooperative, fuzzy and sectional strategies as a best ways to reforms on governmental accounting. Because the respondents majority were at the country senior management level, answers is the sign of their dissatisfaction abut state normative strategies, so the success of implementing accrual accounting depends on changing this procedure. They indicated that the political environment (bearing accountable states), improving mass medias (for continued following financial events) and reinforcement of monitoring relation between parliament and state, has a most effects on reforms[4].

Ebrahimi et al (2009) strategic analyzed implementation of PBB in Esfahan municipality (by SWOT matrix). They concluded that setting of realistic quantitative targets at the middle level as linking ring of organization strategic plan with operational plan, implementing unified information system, setting of accrual accounting, explanation and correction of all organizational sections as owners of budgeting is a one of important strategies at this context [5].

Talebnia and Mahmoodi (2006) found that the barriers of implementing PBB in Iran is managerial factors. The problems of implementing PBB by respect of factors including, human factor, technical factor, process factor and environmental factor related with management [6].

By reviewing of OECD countries experiments at implementing PBB, Azar and Dolatkhahi (2014) concluded that information improvement and growth is a long time, extent and growing process and todays many countries shows operational targets to parliament and public by state programs. Many of OECD countries at lowest level at least five year have worked on productions improvement and forty percent of them have upper than ten years of this experiment. Newly near of three-quarters of OECD countries used nonfinancial performance data at budgeting documents. Although the countries applied various approaches for valuation of nonfinancial performance but developing and improving of performance measuring among them is similar and generally countries approaches to this reforms not only constant but also changing permanently so that at the past five year about three-quarter of them offered a new initiative. Generally most of OECD countries to reach the concept of PBB continually is in contrast of reforms. Some of the reforms focused only on a one target while the many of them included several. Some of challenges regardless way of execution included improve of measuring and computing, founding appropriate ways for performance information integration at the budgeting process, the way of focusing on key decision makers and improving the quality of information. Also the 2011 outcomes of surveying OECD countries PBB shows that this practice generally didn’t focuses on central state, for this reason often the ministries applied their executive budgeting procedure to budget allocation for different sections of organization. However some of countries have more centralized approach and use governmental framework at the right time for improving and unifying operational information, decision making, supervision and reporting outcomes. For example countries such as South Korea, Mexico and Canada left a vast framework and standards including instructions, reports and performance rankings to their governmental organizations and ministries. Although in the most countries failure in achieving to operational targets has no financial consequences but leads to spreading weak news and so will imposed sever supervisions in the future [7].

The Netherlands experience at the implementing PBB can be viewed as a best sample in this context. The experience with PBB in the Netherlands seems to be largely representative of international PBB experience. The attempts to link government spending to public sector performance seem to have increased the transparency of budget documents to a certain extent [8], [9], [10]. Less visible and harder to substantiate are claims that PBB increased the result orientation within government organizations and was beneficial for operational efficiency. The evidence here is mostly anecdotal and inconclusive but is reported elsewhere as well [9], [11], [12]. On the downside, experience in the Netherlands and other OECD countries demonstrates that the effects
of PBB onbudgetary deliberations by parliaments have been nearly absent [12], [13], [14]. The question of PBB impact on budgetary allocation is obviously a broader one, as the finance ministry can have a significant impact on a draft budget before it is sent to parliament. But also in this respect, some findings suggest a fairly limited impact. One of the interesting findings from the 2011 OECD Performance Budgeting Survey which was carried out among finance ministries is that the most frequent answer to the question “What happens when performance targets are not met?” was that there were no consequences at all, followed by the answer that the results were made public. Incidentally, the same went for the question “What happens when performance targets are met?” In the case of not meeting targets, budget decreases occurred occasionally to never, just slightly more often than budget increases. As part of the OECD “Value for Money” study, Dirk-Jan Kraan (2011) comes to some rather harsh conclusions regarding PBB implementation [15]. First, the shift from input to output controls has led to cost increases in cases where input controls and standards of operational management were almost completely abandoned. Although no reliable comprehensive data are known for the Netherlands, this may refer to the system in the Netherlands which is characterized by a high level of decentralization and managerial flexibility. In addition, the abolishment of input controls for parliament was relatively radical in the Netherlands compared to other OECD countries. Second, it is claimed that output financing of government agencies has led to a loss of service quality and an increase of bureaucracy. This refers to the (necessarily) sub-optimal output and outcome formulations as a result of changing preferences and political compromises. An obsession with indicators by managers and inspectors can result in bureaucracy at the expense of service delivery. The bureaucratic burden of PBB has also been noted in the Dutch public sector, especially in cases where the utilization of the data themselves remained unclear. Finally, Kraan concludes that budget authorization on the basis of output targets (instead of financial inputs) has led to loss of control by parliament and unreadable budget documentation. Indeed, the Dutch parliament increasingly perceived the almost complete lack of input information as an accountability gap. Incidentally, similar findings emerged from several recent studies on the Dutch local government which introduced a similar system of performance-based programme budgets from 2003 [16], [17], [18], [19]. Anecdotal evidence from practitioners as well as authors on public administration offer plenty of explanations why the predicted benefits of PBB doctrine did not materialize or did so only partially. To agency managers, who are usually busy battling unexpected crises that can only be cured by resources rather than by strategic thinking, performance management is little more than a distraction [20]. Neither should it be surprising that the political environment in which budget allocation takes place far from guarantees a predictable use of the performance information that is generated. One can even argue that it would take a totalitarian regime to fully embrace a normative theory of budgeting, for this would imply the end of politics [21]. The view that performance measurement is too simple an approach for the diversity and complexity in the public sector was expressed by Beryl Radin (2006) as she confronted reality with six assumptions that constituted what she called the “unreal and naïve approach” of the performance movement [22]:

1. Information is already available.
2. Information is neutral.
3. We know what we are measuring.
4. We can define cause-effect relationships in programmes.
5. Baseline information is available.
6. Almost all activities can be measured and quantified.

Although one can have serious doubts about the attempts to “rationalize” budgetary decision making using PBB, some claim that performance management reforms can change managerial behavior and that performance information does get used, be it at a different place and time. According to several authors, benefits of PBB reforms in terms of efficiency mostly occur at the agency level and in the budget preparation and budget execution phase, and not in the budget approval and evaluation phases [20], [23], [24], [25]. So the budgetary impact of PBB may lie mainly in its ability to improve technical efficiency within government programmes, illustrated by Table 1.
The 2011 OECD Performance Budgeting Survey confirms that performance information gets used more commonly for management and accountability than for programme allocation. Although performance information has proven especially useful in ex post evaluation in the Netherlands [26], the column under “budget evaluation” for the Council of Ministers – parliament in Table 2 does not have a “yes”. The reason is that the evaluations do not take place as part of the annual budgetary cycle. Instead, budget evaluations tend to follow diverse multi-annual policy cycles that may be triggered by unpredictable events including changing political preferences. Moreover, attempts in 2008-10 to align the policy evaluation reports with the annual reports have been unsuccessful.

4. PBB and its rationale

Allen Schick (2003) distinguishes between two polar versions of performance budgeting, a broad and a strict definition: 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 [27]. Teresa Curristine (2007) used a three-fold typology to describe performance budgets in OECD countries [28]. In some cases, a direct link between performance, resource allocation and accountability is in place (direct/formula performance budgeting). More often, the link is indirect, and planned performance targets and results are used for planning and accountability purposes only (performance-informed budgeting, or PIB). Finally, there are performance budgeting systems that have no link between performance and funding and that use performance information for accountability only (presentational performance budgeting). Although it can be argued that, in the Netherlands, all three of these forms are present in the budget document, the emphasis seems to lie mainly on the PIB form. Notwithstanding the multitude of conflicting and overlapping definitions of PBB, using a PBB system is commonly associated with the following activities:

- setting measurable objectives and performance indicators for government programmes;
- presenting expected results alongside spending levels in budget documents;
- measuring and reporting results during or after programme execution;
- evaluating results and using this information for strategic planning and budgeting.

The introduction of a PBB system is often accompanied by initiatives to change the budget structure from a line-item budget into a programme budget. A traditional line-item budget is structured along the lines of organizational units and spending categories. As a result, parliament approves a long list of proposed spending separately as input items (e.g. labor costs, retirement expenses, grants to an agent, etc.). The programme budget is shaped by government programmes that each have (a set of) associated policy goals and activities and that may span several organizational units. The Netherlands did switch to a programme and performance budget in 2002. The appealing logic in simultaneously introducing a programme and a performance-based budget lies in the notion that for a principal (e.g. parliament, the finance ministry, a line ministry), the loss of control as a...
result of reduced input controls will be compensated by increased accountability over actions and results. Clearly inspired by NPM, the Dutch PBB reforms saw a radical reduction of the number of line items in the budget. Arguably, many OECD countries chose to implement programme budgeting in an ideologically less extreme form than the Netherlands did. For example, the United States Congress repeatedly chose not to give up line-item controls. As a result, budgeting, performance planning and cost accounting largely remain separate silos, although often presented jointly in a variety of cyclical documents. Still other countries (e.g. Poland) see the co-existence of the classical line-item structure and a programme structure as a temporary step toward programme budgeting.

The PBB reform also saw the introduction of a new milestone in the Netherlands budget calendar: the yearly “Accountability Day” in May. On this day, the Minister of Finance presents the central government annual financial report and the ministries’ annual reports to parliament. This event mirrors the presentation of the central government budget and the Budget Memorandum on the third Tuesday in September (Budget Day), and intends to stimulate a dialogue between the government and parliament about the effectiveness and efficiency of public spending. The budget in the Netherlands has contained around 100 to 160 budget articles depending on the specific year, each subdivided into three to four sub-articles on average (Figure 2). Each budget article had one general objective. Under the PBB system (up until 2012), each general objective was supported by several operational goals at the sub-programme level called “sub-articles”. Usually, though not always, the article’s general objective supported outcome indicators, while the underlying operational goals were monitored by output indicators. Objectives, instruments and measurable data on performance were required to be presented for each operational objective; this applied to all budget articles except some that were labeled non-policy articles. The latter were in place for more technical reasons, such as dividing residual overhead costs or to cover unforeseen costs. It is important to note that parliament in 2000 agreed to significantly reduce its line-item input control of the budget in exchange for more information on outputs and outcomes. The loss of control on a line-item level was reinforced by the fact that less-detailed financial information was provided within programmes.

Under PBB, the budget article did not specify expenditures at the level of detail of an appropriation account. Most of the time, it only distinguished between direct costs and overhead costs spent for each sub-article. In terms of budget authorization, this meant that parliament no longer controlled the allocation of funds between types of expenditures (personnel, goods and services, capital) or organizations. To illustrate what the content of an ideal PBB budget article looks like, a sub-article of the Ministry of Transport is presented in Figures 1.

![Fig.1. Example of PBB structure, Ministry of Transport (2011)](image)

5. Accountable budgeting
Netherlands experience in implementing PBB as a unique experiences is useful for other countries that don’t implement or partially do this type of budgeting. We assess the experience of the Netherlands with performance budgeting since full programme and performance budgeting was introduced in 1999-2002, then we will provide a new model for Iran. First lesson from Netherland expertise is that a political process like budget allocation by parliament will not be rationalised by changing the budget structure. Second, it had to be acknowledged that a programme budget can never live up to the expectation of being a super comprehensive policy document that contains all the information considered useful by every stakeholder. Third, there is a need for more detailed financial information in the budget documentation, although none of the stakeholders involved would support a return to a classical line-item budget.

The “Accountable Budgeting” reform was introduced in the 2013 budget documents and targeted some of the more persistent problems encountered with regard to performance-based programme budgeting in the Netherlands. These problems included the limited usefulness of budgets and annual reports for financial analysis and unclear results accountability, especially with regard to policy outcomes. The changes introduced were intended to enable more detailed parliamentary oversight of spending as well as to enhance internal control by the Ministry of Finance and line ministries. To achieve this, more detailed financial information was presented following a uniform classification of financial policy instruments and categories of organizational expenses. In addition, the use of policy information (performance indicators and policy texts explaining policy objectives) was curtailed and had to meet stricter conditions concerning the precise role and responsibility of government. As a result, about 50% of all performance indicators disappeared from the budget documents. The reason for this shift was that performance information in the old budgets had become more aimed at legitimizing funding and compliance than in providing useful insights for oversight or to learn and improve. The use of performance information for the latter purposes does not necessarily happen in a cyclical, annual way and is more likely to occur following multi-year ex post evaluation. For this reason, the lessons from evaluation gained a more prominent place in budget documents.

The accountable budget focuses on a programme’s general objective, to be achieved by a minister according to his/her responsibility within a policy field, and the instruments applied. To determine which information is to be presented in the budget, budget officers use the revised questions shown in Table 2.

<table>
<thead>
<tr>
<th>(old budget structure)</th>
<th>Accountable Budgeting (new budget structure)</th>
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<tr>
<td>What do we want to achieve?</td>
<td>What does the minister intend to achieve?</td>
</tr>
<tr>
<td>What will we do to achieve it?</td>
<td>Which financial instruments is the minister going to use?</td>
</tr>
<tr>
<td>What will be the costs of our actions?</td>
<td>What are the costs of these instruments?</td>
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Although virtually identical at first view, these questions do mark an elaboration of the earlier rules of performance-based budgeting in the Netherlands to make them more specific to the actual role and responsibility of the minister. This renewed focus stems from the idea and belief that the budget has to be about budgetary matters first and can never offer a complete and comprehensive policy description. Other policy documents sent to parliament have to fulfil that role. Although it can certainly be useful to refer to other policy documentation in the budget, the budget itself cannot fulfil the role of a super-comprehensive policy document and at the same time be helpful for parliament’s budgetary decision making. So, in essence the budget is a financial document and not a policy note. When comparing the “Accountable Budgeting” structure with the old PBB structure, there are important transformations regarding financial information, set out below.

- Policy expenditures are presented in more detail following centrally defined financial instruments
- Organizational expenses (expenditures for personnel and material) are presented in a single non-policy programme, separated from the policy expenditures
- Policy information is limited to the information directly related to a minister’s sphere of influence and the financial instruments used. Performance targets can only be included in the budget when certain conditions are met.

Figure 2 comparative shows changes in the presentation of financial information in the budget from PBB to Accountable Budgeting.
Fig. 2. Changes in the presentation of financial information in the budget

Example of the ministry of health budgeting under accountable budgeting shown on the figure 3 [29].

Fig.3. Example of Accountable Budgeting structure of the Ministry of Health (2013)

6. Conclusions

In accordance with this research and by reviewing researches that did in Iran, by comparing OECD experiences in implementing PBB, especially Netherland experience, it is clear that the foreign researches conclusions relatively have found in Iranian researches. Although implementing of PBB not occurred yet but domestic researchers not so unaware from this phenomenon, but this issue is important that this time a new paradigm at budgeting looks created that called accountable budgeting. So in Iran that not yet implemented the PBB it is important shift to such budgeting without other countries failure experience. The domestic model that looks suitable for Iran have following characteristics:

● We shouldn't be abandon old budgeting system (line-item budgeting) at once and provide PBB simultaneously.

● We should focus on implementing accrual accounting and cost accounting by providing educational workshops for financial and budget experts.

● We should deliver the mission of budgeting and supervising on other ministers’ performance to minister of finance and determine a day for accountability in special time of the year at the parliament then require every minister to answer the questions that members of parliament ask from she/he about budget.
● Segregation implicit political issues from operational performance and avoidance from politicization in this context.
● Definition of detailed financial tools and indexes (not to be implicit and generalized) comprehensive for any ministry.

REFERENCES


