

Improving Performance: Foundations of Systemic Performance

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Executive Summary

At its heart, a performance orientation in the public sector is a ***predisposition to make promises and an ability to deliver them***. Some of the key ideas behind this are:

1. *Responsiveness* - reducing the time lag between changed political priorities and corresponding public policy actions.
2. *Measurement* - the quantification of outputs (and occasionally outcomes).
3. *Managerialism* - the relaxation of the enforced consistency in procedures to move towards flexibility with accountability in order to improve efficiency. It is often seen purely as an import from the private sector, but in fact there have always been areas of managerialism within the public sector.

Using these ideas, this note describes some of the key technical foundations necessary for moving towards a performance orientation and outlines a pragmatic approach for improving performance, highlighting the part played by changing performance arrangements for senior management.

There are three key insights offered here. First, there is now a reasonable consensus on the managerial foundations necessary for moving towards a performance orientation and that, without these, the focus of management attention will be at best on day-to-day managerial survival or on increasing the total resources available without improving the results delivered. Second, there is no simple boundary to be crossed en route to a performance orientation – the approach is both a state of mind and a set of institutional arrangements, and there are many gradual approaches that can begin to deliver results. Third, while the preconditions are often absent at the whole of government level, there are many contexts which provide a more secure basis for attempting reform – varying from the sector level to municipalities or to specific entities or organizations.

The development of “performance enclaves” at anything other than the whole-of-government level raises challenges of sustainability but, in offering these simple insights, the intention of this note is to avoid a trap often set by guidance on this topic. Much advice is premised on the basis that nothing can be done until the basic institutional arrangements are functioning well at the national or federal level – a threshold which demoralizes rather than energizes. In challenging environments it is unlikely to be passed within the working life of many dedicated public servants.

The note concludes with a particular emphasis on the role that performance measures and incentives can play in senior staffing arrangements.

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Historical Antecedents in the OECD and Latin America

Beginning with the whole-of-government public management reforms in the OECD, many countries embarked on laying the foundations for performance improvements. Arguably, despite a solid if traditional basis of accountability, the missing element in public expenditure management for the OECD countries prior to the 1970s was top-down budgeting and a medium term orientation. Fiscal belt-tightening in the OECD in the 1970s underscored the conclusion that performance improvements and responsiveness to changing priorities could no longer be achieved by spending more – in the short or medium terms. Discipline has more or less been achieved, and variations on the theme of Medium Term Expenditure Frameworks can now be found throughout the OECD, with the stated objective of linking policy, planning and budgeting.¹

In human resource management, the foundations were laid in the late 19th and early 20th century reforms that, broadly, ensured a tradition of oversight and self-discipline within the largely meritocratic group of senior civil servants, reasonably insulated from day-to-day politics.

Post-war, OECD civil servants had gained some experience of using performance information to inform management decisions about service delivery prior to the more systematic development of performance metrics, and this led to a reasonably sophisticated view of how performance information can be used (in dialogue and with judgment, avoiding in most circumstance mechanical linkages with resource allocation or staff incentives).

Building on these to develop a performance orientation

Building on these foundations, over the last three decades, some degree of additional responsiveness has been found in planning and budget preparation. In the 1960s and 1970s some countries tried to sharpen the budget as an instrument for prioritizing expenditures by introducing new routines such as zero-based budgeting or program, planning and budgeting systems. These proved costly to operate and ineffective in shifting priorities. However, more recently pragmatic and less information-intensive approaches to program budgeting combined with more determined program evaluations and expenditure reviews have led to improvements. During the same period, responsiveness in human resource management has been tried through attempts (largely unsuccessful) to reduce the size of the public sector and through a more determined effort to make senior staff more responsive to political control through reforms employment contracts.

Managerialism is evident in the attempts to improve efficiency in budget execution emerging in the 1990s. Proponents of reform asserted that organizations and managers should have more delegated authority – creating clear objectives, effective incentives and providing the necessary authority over resources and skills to manage for results. There are corresponding HRM trends of: delegation to line ministries or departments, giving them flexibility in tailoring their human resources policies to meet their organizational performance objectives; and individualization of benefits, allowing recruitment

arrangements, employment contracts, accountability and pay to be tailored to the specific tasks of the individual.

The measurement culture grew in step with the move towards managerialism. At the apex, the presumption that the legislature had a role in scrutinizing (although rarely amending) the executive's budget proposal on the basis of performance information grew in strength. In many cases, this required that government produced a set of performance measures for the whole government that is relevant enough for use by various actors in the budget process. More robust Financial Management Information Systems were developed to provide necessary financial information that managers and policy makers can link to the non-financial performance indicators. Measurement is also seen in the increasingly results-focused individual performance appraisal arrangements, and, for a few higher positions, these have been associated with performance pay. Performance targets for senior public servants are often linked to agency targets, and these sometimes feed into the individual's performance rating.

In Latin America, public-expenditure management has proven far more fragile than in the OECD. Fiscal control was a priority in Latin America's return to macro-economic stability in the mid 1990s. Cash controls were the emergency measure that often supported the first wave of fiscal reforms. Subsequently, the region has had important successes in developing rules to rehabilitate the budget as an instrument for fiscal control. Numerical restrictions on spending limits or budget deficits have been developed through fiscal responsibility laws, stabilization funds, and limits on sub-national-government borrowing. Procedural rules such as single treasury accounts have reinforced the powers of the ministry of finance vis-à-vis spending ministries and parliaments. More accurate and timely information is resulting from the introduction in a number of countries of integrated financial management information systems (IFMIS).

But in many countries, the budget is still far from being an instrument for planning and implementing priority actions: often executed budgets bear a modest relationship to the original legislated budget. There are many multi-year plans, fiscal and economic frameworks on paper, but these provide little annual budget certainty for the spending agencies.

Box 1: Moving towards a performance orientation in Latin America

- ✓ Many Latin American countries have attempted to move towards program budgeting, in order to improve responsiveness to changing policy priorities. Chile has made the most significant progress - although Brazil, Colombia and Mexico have also made significant strides. There are significant shortcomings in some of the program classifications as they are somewhat overly linked to existing administrative structures. Responsiveness is less of a Human Resource Management (HRM) reform objective in Latin America than in many OECD settings – as the high degree of political penetration of the public service has made it distinctly responsive to political concerns.
- ✓ Managerialism, in the sense of delegation to operational entities, has made somewhat less headway – although there has been a significant increase in the number of arms-length agencies often created in order to provide some delegated financial and human resource management authority. The agencies have proven to be somewhat problematic, not least because they fall, de jure or de facto, outside of hierarchical ministerial authority, often reporting to the president and leading to problems in sustainability following changes in administrations.
- ✓ Measurement has in many ways been the most challenging area as there have been very significant strides in monitoring and evaluation systems, but a continuing lack of alignment between the budgetary classifications of activities and the indicators used for M&E.

Following the return to stability, downsizing was a priority in managing human resources and there were some successful cases (though the data are not always clear). Some countries also made progress in improving establishment controls (usually through automated payroll systems). However, the most important “second-generation” reform objective of moving from clientelist, patronage-based systems to merit-based (due-process) systems could be considered Latin America’s greatest failure in public-sector modernization. Chile, then Brazil (and a couple of other more developed countries to a lesser extent) are the exceptions, though quite a few countries have established merit-based “islands” in selected agencies. Box 1 highlights the move toward performance in Latin America along the three dimensions of responsiveness, managerialism, and measurement.

Management Foundations

A performance orientation in the public sector requires reasonably strong technical management foundations. There is little prospect of relating past performance to future services unless:

- I. At the time of planning and approving the annual budget and work program there is:
 - i. A good budget classification (allowing funds available to be allocated on the basis of administrative units, economic purpose and functions or programs).
 - ii. A multi-year orientation, in other words a widespread recognition that deferring problems to the next year (or the next administration or management team) is unsustainable – noting that the exact form of this multi-year approach can vary significantly and there is a significant risk of ritualism in which the medium term perspective is provided on paper but is not reflected in the mindset of senior staff.
 - iii. A process for preparing the budget that is seen to be reasonable and during which the views of the spending departments are recognized.
 - iv. The wage bill does not crowd out investment or other important recurrent expenditures.

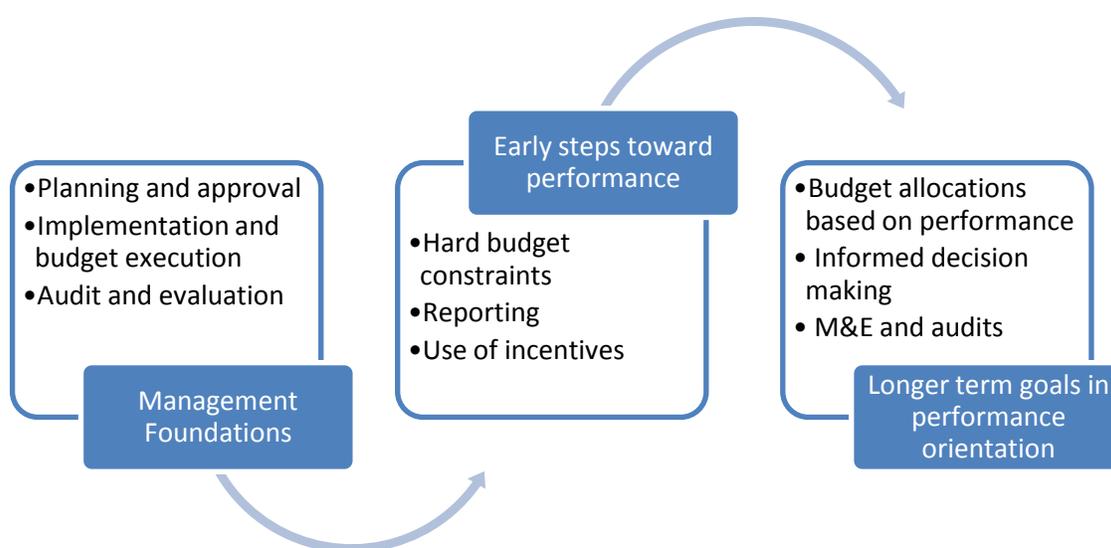
- II. In implementing the work program or the annual budget, there is:
 - i. Confidence on the part of the spending units that they will get the funds that they were budgeted.
 - ii. Good recording and management of cash balances, debt and guarantees to prevent unwelcome end of year surprises.
 - iii. Effective payroll controls that minimize the usual sins of ghosts and double-dipping, and that salary payments are made on time.
 - iv. Competition, value for money and controls in procurement.

- III. Reasonably comprehensive internal audit and good scope, nature and follow-up of external audit

- IV. At all times, institutionalized watchfulness to ensure that:
- i. Revenues and expenditures are as expected in the budget or spending plan.
 - ii. Expenditure payment arrears are minimized.
 - iii. The public have access to key financial/fiscal information.
 - iv. Semi-autonomous entities are well-regulated, and do not provide expenditure or governance risks.

Figure 1 illustrates how these foundations can be used to drive towards a more substantial performance orientation.

Figure 1: Building outward from foundations



Early steps

Incentives for the use of performance information occur at several levels. A systemic contribution to a whole-of-government performance orientation may entail systematically incorporating nonfinancial performance information into budgetary decision-making and allocation processes.² However, when these foundations can be found at the sector/ministry level, or at any level of government or in any entity or service providing unit, then some early steps towards achieving a performance orientation can be pursued.

The fundamental step is the widespread acceptance of the principle of hard budget constraints. That is not to say that managers cease hoping that additional resources can be found – the development is that they accept the reasonableness of the proposition that the incentives for using performance information arise when the program or institution that is being funded faces hard budget constraints, recognizing that the information can be used either to make a case for enhanced funding or to improve efficiency within those constraints. When budget constraints are soft, driven primarily by political weight or

other ad hoc considerations, then there are few reasons to use performance information for budgetary negotiations. Rather, increasing the aggregate budget is more important than improving efficiency within available funds.

However, there are additional steps that mark a move forward. There is no first best way of strategic planning, objective and target setting, but managers (at government, sector, unit level) must be required and prepared to make a solid attempt, and to put thought into output reporting arrangements. Using performance information does not come naturally to many staff accustomed over many years to manage inputs within tight procedural guidelines, and it is important to gain some experience of using performance information to inform management decisions about service delivery.

These early steps also require dispelling some of the myths about the use of performance information – and there must be a broad recognition at senior staffing levels, that performance information must be used in dialogue and with judgment – mechanical linkages with resource allocation or staff incentives should be very rare.

Using performance measures can motivate public agents toward better outcomes, enabling governments to properly evaluate, control, budget, and ultimately to celebrate improvements in service delivery.

To develop momentum at this stage, some initial incentives can be developed. A defined set of standards for some selected subcomponents of ministry performance might be established, and if these can be met, enhanced delegation of personnel and resource management authority to the ministry might be enabled. These standards might refer to internal processes as much as to delivered results. For example, if a ministry can meet standards for personnel record maintenance, personnel reporting, pay-roll recording and management, then the ministry might be given more flexibility over hiring to reallocation of staff. Other internal ministry processes that would be pre-requisites to enhanced autonomy include internal control, procurement, financial reporting and records management, internal audit, accounting and reporting.³

Finally, like the acceptance of the principle of hard budget constraints, the significance of discipline within the senior staff group must be widely entrenched – they must be largely meritocratic and reasonably insulated from day-to-day politics. Without some budgetary and career incentives for the effective use of performance information, then many reports and evaluations will gather dust.

Entrenching a performance orientation

There is a huge and growing literature on performance management, and this cannot be adequately summarized here. However, the experience of the Public Sector Performance Global Expert Team suggests that the key features that build on the foundations set out above and illustrate that a performance orientation is becoming entrenched, are that:

1. At the time of planning and approving the annual budget and work program there is:
 - a. A budgeting process that rewards departments or programs that have made an effort to develop robust performance reporting arrangements.

- b. At the time when the budget (or the agency annual business plan) is being approved, there is sufficient performance information to assess its past record – but not an overload – and that there is sufficient time and capacity to scrutinize the proposal.
 2. In implementing the work program or the annual budget, there is:
 - a. Adequate (relevant, timely and reliable) performance information to inform managers' decisions during budget execution, accompanied by an accounting and costing system that assigns costs to program outputs and activities so that the costs of change are evident.
 - b. Those same managers have clear objectives, with the necessary authority over resources and skills to manage for results – and that their staff management appraisal is linked to the annual ministry performance assessment. To provide them with that necessary authority, then modest delegation arrangements can allow managers to assume responsibility for some program areas, with some accompanying moves away from detailed line item input controls towards managers being held accountable for both results and the use of inputs.
 - c. There should also be a high level set of performance measures for the organization (government, municipality, department, etc.) that summarizes the key policy objectives, and performance information reporting on progress against those targets.
 3. The audit and evaluation functions are adapted, so that:
 - a. In addition to providing management information and risk management, internal audit provides confidence in the accuracy and the validity of performance information that is provided.
 - b. There are regular performance evaluations that provide ex-post information on deliveries to inform budget and managerial decision-making.
 - c. Staff appraisals are developed so that for senior staff they are at least consistent with the high level measures for the organization. Junior staff appraisal mechanisms should generally be used for behavioral incentives and very rarely linked to entity performance.
 4. At all times, there will be institutionalized oversight to ensure that:
 - a. The total numbers of performance indicators remain at very modest levels – and that there is no over-reliance on single indicators as this will create incentives for gaming.
 - b. Expenditure reviews promote reallocations to consider, ex post, whether the funds could have been better allocated between programs or departments to ensure that policy objectives are met.
 - c. The program structure of the budget remains linked to current policy priorities.

The Annex summarizes these seemingly necessary foundations of public management, and the early steps towards performance. It also characterizes the elements that suggest that a performance orientation has been built on those foundations.

Recognizing risks

In stepping away from the usual mantra that a public sector performance orientation must always start with a hard-to-attain set of managerial arrangements at the whole of

government level, the pragmatic approach suggested here must recognize some risks. Specifically, there is the risk of encouraging much managerial effort to be placed in establishing “performance enclaves” that are only lightly institutionalized within the public sector and thus prone to achieving sudden prominence for high performance (as they can be established quickly, particularly with donor assistance) and equally prone to only slightly more gradual erosion in performance as the original government or donor interest diminishes.

The risk of improvements being rather short-lived when achieved through “performance enclaves” can arise when specific departments or entities are singled out for performance orientation or when creating new bodies. When established carefully, the specialization of single purpose agencies can lead to improved performance (though, in practice, this is more likely to happen because of the agency’s internal culture than because of contractual arrangements). They are very often created to solve the problem highlighted earlier – that a key requirement in moving towards a performance orientation is to establish an intrinsic discipline within the senior staff group, ensuring that it is largely meritocratic and reasonably insulated from day-to-day politics. Where this has proved impossible in the larger public sector, then a special purpose agency has had some pragmatic value. The objective has been to create an “island” of performance, sometimes formally merit-based, but, in the case of service delivery, rarely politically independent. Many of these agencies have proven effective, social-assistance agencies notably, but such arms-length service-delivery agencies are often unable to provide a permanent solution to service-delivery problems. First, they tend to be politically unsustainable, because they rely on a transitory political authority (and their very presence, it is argued, undermines attempts to reform permanent administrative structures). Second, standing outside the permanent structure, they can more easily become unaccountable, indeed corrupt.

These risks can be mitigated in a couple of ways. First, and most importantly, the gains from any performance enclave must be locked in by ensuring that the number of diverse organizational forms and regulatory arrangements within the public sector is kept to a minimum. Excessive heterogeneity of organizational forms and accountability arrangements means that it is simply harder to evaluate reforms and to determine whether appropriate fiduciary and transparency safeguards are being maintained. Second, internally-motivated reforms can be accompanied by external, demand-side reforms. Many countries have tried to create a more open government to ensure performance. Freedom-of-information laws and the publication of service standards and performance results have created greater transparency. Administrative simplification and one-stop shops have eased access to services and entitlements. Citizens’ voices are more easily heard through consultative and participatory mechanisms. Civil-society organizations and Ombudsman offices are making it easier to complain about the government. Some governments have given citizens more power by giving them more choices – in education (through vouchers) and health (through multiple insurers). In education, some countries have experimented successfully in involving parents in school-management decisions.

Senior Management Elements of a Performance Orientation

When the conditions exist for a movement towards a performance orientation, including the important acceptance within the administrative culture that hard budget constraints might be unwelcome but are essential, senior ministry staff performance management arrangements are key. Internationally, measures of performance are beginning to enter into many elements of the management of senior public sector staff. Some countries have gone further than others – often reflecting the ability to drive through what is generally a politically-challenging set of reforms.

The opportunity to introduce performance arrangements for senior staff has most often arisen in the Anglophone administrative tradition, where there are modest requirements for legislative approval of administrative reforms. Most OECD member countries report having a formal performance appraisal system for civil servants based on individual assessment of performance, which in turn rely on objectives established in an employee/management performance agreement (OECD 2005). A number of countries in Africa have also introduced performance assessments for civil servants (Box 2).

Measurements of personal performance can be used primarily for control, or for dialogue, with very different implications. Where control is emphasized, performance measurement leads to action being taken in a direct way, with decisions about individual rewards driven mainly by the measurement and

Box 2: Selected examples of performance agreements for civil servants in Africa

Country	Arrangement
Botswana	Has a Performance Management System in place. Mandatory Performance Development Plans are prepared and executed by all officers.
Kenya	Rolled out a new performance appraisal system to the service in 2006. One of the policy priorities for the Public Service Commission of Kenya is to integrate rewards and sanctions in the performance appraisal system (Strategic Plan 2009-2012)
South Africa	Uses Performance Assessments and performance related pay increases.
Tanzania	Introduced the Open Performance Appraisal & Review System (OPRAS) in 2004, replacing the Closed Annual Confidential Report System.
Uganda	As part of the Performance Management System, Performance Appraisal Forms are used to identify performance gaps and development needs.

with other sources of information playing a negligible role. More effective arrangements emphasize dialogue, and in these performance measurement is just one source of information to be combined with others in determining an individual senior civil servants', agency's or ministry's performance. Other sources of information are used to interpret the measurement data and these are incorporated through formal or informal discussions.

The rise of performance-based arrangements for senior civil servants has not been without problems. Practitioners tell stories about ‘gaming,’ in which outputs are manipulated or the data massaged in order to trigger a reward. These stories do not amount to a proposition that performance measurement or performance management should be abandoned – but they do argue for caution and pragmatism.

Thus, such arrangements sometimes include devices such as fixed term contracts or performance-based pay. Senior civil servants are likely to be as motivated by promotion and by recognition from their peers and the public as by financial rewards. These tools may provide more practical approaches as the incentives to ‘game’ are lower in the case of promotion and recognition. In any event, the results of performance measurement of senior civil servants should be included in promotion decisions and in recognition of results.

Conclusion

There are more opportunities for performance-enhancing reforms than are generally recognized. There are preconditions – but there are often organizations or sectors within the public sector where these are met. However, while there are gains in stepping away from the insistence that all reforms must be at the whole of government level, there are risks – and the disappointment of managers who have invested significant time in performance-oriented developments only to see the gains erode within years is palpable. These risks can be mitigated somewhat – but not entirely.

Annex: Public management foundations and steps towards a performance orientation

	1. Planning and approval		2. Implementation			3. Audit and evaluation	4. Constant concerns
	a) Strategic planning and preparation	b) Budget approval	a) Budget execution	b) Management of information	c) Monitoring and review		
Key foundations of public management	<ul style="list-style-type: none"> • Good budget classification and, ideally, a multi-year perspective to avoid deferring problems to the next year (or the next administration or management team). • The wage bill does not put undue pressure on the expenditure profile, crowding out investment or other important recurrent expenditures. 	<ul style="list-style-type: none"> • An orderly budget process that builds credibility and ensures that no key information is missing from budget documentation. • Transparency in making commitments to subsidiary bodies (or subnational governments in the case of central/federal governments) 	<ul style="list-style-type: none"> • Predictability in the availability of funds for commitment of expenditures for spending units • Recording and management of cash balances, debt and guarantees • Payroll is managed efficiently and with effective controls, and salary payments made on time • Competition, value for money and controls in procurement 	<ul style="list-style-type: none"> • Timely and regular financial accounts reconciliation • Availability of information on resources received by service delivery units 	<ul style="list-style-type: none"> • Timely and quality in-year budget reports and annual financial statements • Oversight maintained over aggregate fiscal risk from subsidiary bodies 	<ul style="list-style-type: none"> • Effective internal controls for non-salary expenditure • Effective internal audit – and sound scope, nature and follow-up of external audit 	<ul style="list-style-type: none"> • Expenditure out-turns that reflect the original approved budget (in total and in composition) • Revenue out-turn that reflects the original approved budget • Monitoring and minimization of expenditure payment arrears • Public access to key financial/fiscal information • Semi-autonomous entities are well-regulated
Early steps towards performance	<ul style="list-style-type: none"> • There is an understanding at the senior level about the significance of hard budget constraints 	<ul style="list-style-type: none"> • There is a solid attempt at entity-level (government, sector, unit) strategic planning, objective and target setting - and output reporting arrangements 	<ul style="list-style-type: none"> • Senior staff have some experience of using performance information to inform management decisions about service delivery • Consideration of some incentives for improving processes – for example if a ministry can meet standards for personnel record maintenance, personnel reporting, pay-roll recording and management, then the ministry might be given more flexibility over hiring to reallocation of staff. Other internal ministry processes that would be pre-requisites to enhanced autonomy include internal control, procurement, financial reporting and records management, internal audit, accounting and reporting.⁴ 			<ul style="list-style-type: none"> • A broad recognition at senior staffing levels, that performance information must be used in dialogue and with judgment – mechanical linkages with resource allocation or staff incentives should be very rare 	<ul style="list-style-type: none"> • There is an intrinsic discipline within the senior staff group, largely meritocratic and reasonably insulated from day-to-day politics

	1. Planning and approval		2. Implementation			3. Audit and evaluation	4. Constant concerns
	a) Strategic planning and preparation	b) Budget approval	a) Budget execution	b) Management of information	c) Monitoring and review		
A performance orientation has been built on those foundations when...	<ul style="list-style-type: none"> The budgeting process allows and encourages the reallocation of resources towards programs that have performance monitoring arrangements 	<ul style="list-style-type: none"> Those approving the budget (the legislature in the case of national or subnational governments) have enough but not an overload of performance information – and time and capacity to scrutinize the budget proposal 	<ul style="list-style-type: none"> Performance information helps to inform managers' decisions during budget execution, (i.e. it is relevant, timely and reliable) Organizations and managers have clear objectives, effective incentives and have the necessary authority over resources and skills to manage for results Senior staff management appraisal, linked to the annual ministry performance assessment Modest delegation arrangements that allow key managers to assume responsibility for some program areas, with some accompanying change in expenditure controls - away from detailed line item input controls towards managers held accountable for both results and the use of inputs. 	<ul style="list-style-type: none"> There is a high level set of performance measures for the whole entity The accounting and costing system assigns costs to program outputs and activities 	<ul style="list-style-type: none"> Entity level performance information informs budget and managerial decision-makers 	<ul style="list-style-type: none"> Internal audit provides management information, ensure sound governance, risk management and the accuracy and the validity of the performance information External audits enhance the accountability of the entity Financial and performance evaluations usefully inform budget and managerial decision-making. Senior staff management appraisal linked to entity performance assessment Junior staff appraisal used for behavioral incentives and very rarely linked to entity performance 	<ul style="list-style-type: none"> Total numbers of performance indicators kept at very modest levels – and over-reliance on single indicators avoided to minimize incentives for gaming Expenditure reviews promote reallocations to better align resources with policies The program structure is clearly linked to policy priorities

Sources: (Public Employment and Management Working Party 2006; Ketelaar, Manning et al. 2007; Arizti, Lafuente et al. 2009; PEFA Secretariat 2009)

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¹ However, as (Schick 2002) points out, Medium Term Frameworks are more of an exercise in projection than in policy-making – they are not self-enforcing and there have been some significant disappointments. See particularly (Allen and Tomassi 2001; Ljungman 2006).

² See particularly (Arizti, Lafuente et al. 2009)

³ See footnote 4.

⁴ See (World Bank 2002). Thailand used seven hurdle areas: budget planning, output costing, procurement management, budget and funds control, financial and performance reporting, asset management, and internal audit. These were deemed too many in practice.