

Component 2: Efficiency in the Deliver of Public Services – Performance Budgeting

Comparative paper

Lennart Gustafsson¹
Tel: +46 8 405 55 35
Email: lennart.gustafsson@justice.ministry.se

Arne Svensson
Tel: +46 8 792 38 28
Email: svensson@professionalmanagement.se

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Appendix 1 The Public Sector in Sweden

Appendix 2 The Background of Budget Reform

CQM	Commitment Quality Management
HRD	Human Resource Development
MbO	Management by Objectives
MbR	Management by Results
PBT	Performance Budgeting Techniques
PMM	Performance Management Methods
PMS	Performance Management Strategies

Executive Summary

Performance management strategies involve a shift from traditional procedural approaches to a more results-oriented culture where priority is given to the outcomes of public policies. The aim is to move from a mode of operation based on ex ante control of resources, extensive regulation to prevent abuse and ex post inspection to ensure compliance with legal standards, to continuously monitored performance and management with accountability for results and all dimensions of performance (economy, efficiency, effectiveness, service quality, financial performance).

The first section of the paper contains a brief description of different approaches on Performance Management Strategies, Performance Management Methods and Performance Budgeting Techniques. The characteristics of each of these approaches are defined. Some relevant case studies and examples are briefly described. We have also summarized the lessons of experience from experiments and pilot projects organized for selected services.

Two major Performance Management Strategies (PMS) are described:

- Management by Objectives (MbO)
- Management by Results (MbR)

Two innovative Performance Management Methods (PMM) are discussed:

- Commitment Quality Management (CQM)
- Guarantor Government – Service Guarantee

The paper also contains examples of using four different Performance Budgeting Techniques (PBT):

- Fixed Total Budget
- Per Capita Budget
- Income Per Delivered Service
- Income only Per Delivered Service with Performance according to Commitment

In section B we have discussed the appropriateness of different approaches in different combinations and different context. Examples of such context are:

Supporting administrative and managerial systems Regulations (character of legislation and complementary regulations) Management policy (contractual arrangements etc) Staff remuneration policy Supervisory authorities (control, analyses) Auditing, incl. Value for money auditing

2. Type of services (education, child care, health, care of elderly, energy, library, customs, tax control and tax collection, police, road maintenance etc). We have also discussed the pros and cons using the different approaches in different sectors.

The various technical instruments to enforce a culture of performance are dependant on the context in which they operate. Management policy in a performance context is discussed in section B as well as personnel policy for good governance.

Two management aspects seem to be especially important to make sure that the instruments are implemented in a successful way. They are the system for selection and development of senior management and the character of the personnel policies. Both these systems have to be developed so as to support the performance ideals built into the instruments discussed in this paper.

In section C we have summarized the performance budgeting reform process in Sweden² and lessons learned. We have highlighted four lessons:

- The dilemma of consensus versus change
- The link between Performance Management Strategies and Performance Management Methods

² A brief description of the public sector in Sweden is attached as Appendix 1. For more details see Gustafsson & Svensson, 1999.

- The changed relation between politicians and officials
- PMS for insuring accountable and transparent governance

Finally in Section D we have made some normative conclusions and given some general recommendations on how to design pilot projects on Performance Management and Performance Budgeting. In many countries, experiments with the building and strengthening of performance management strategies have now been underway for some time. As a consequence, there is an increasing body of knowledge regarding what we can do to make things better. Among the key points in this regard are the following recommendations that are further elaborated in section D:

1. Recognize the Complexity of the Task of Performance Budgeting
2. Citizen Empowerment Underlies Performance and Effective Governance
3. Build Sustainable Partnerships on the Commitments
4. Understand the Fragility of the Performance Budgeting Reform Process
5. Strengthen Management Capacity and Performance Management Systems
6. Recognize the Centrality of an Adequate and Dependable Revenue Base
7. Build Coalitions of Support by Drawing Upon the Strength of Civil Society
8. Strengthen the Partnership of Local, Regional and Central Governments in the Performance Budgeting Process
9. Develop Effective Public-Private Partnerships in the Performance of Activities
10. Performance Budgeting is at the Heart of Responsive Government
11. Accountability and Transparency are Critical to Building Citizen Confidence
12. Recognize the Importance of a Long Term Commitment to the Performance Budgeting Reform Process

1. Brief Description of Different Approaches

Russia is embarking on a public administration reform which requires new systems for public management, budgeting and follow-up. Public agencies need to be result oriented and financed in accordance to the volume and quality of the services they deliver. The move away from input budgeting towards budgets based on performance is critical to change in Russia's public sector.

The first section in this paper contains a brief description of different approaches on Performance Management Strategies, Performance Management Methods and Performance Budgeting Techniques. The characteristics of each of these approaches are defined. Some relevant case studies and examples are briefly described. We have also summarized the lessons of experience from experiments and pilot projects organized for selected services.

1.1 Performance Management Strategies (PMS)

For at least half a century, national governments, especially in the more economically developed countries, have struggled with the issue of how to insure the most effective administration and management. The problems facing governments in this regard however are not insurmountable. As the experiences of many of the more highly economically developed countries have demonstrated, governments have a remarkable capacity to learn, grow and adapt. They also have a considerable capacity to enter into effective partnerships with both the private sector and civil society. Perhaps most importantly, they have shown the ability to improve their own management capacity.

A key element in doing this is to look upon effective management as a process that is composed of various components – each of which can, given adequate attention, be made more effective. The process often begins the identification of a problem or more directly with the planning of the activity that is to be managed and here the key point is to insure that the process is inclusive enough to enable all participants to have an adequate understanding of all dimensions of a situation. Subsequent concerns involve the adequacy of financial resources, the effectiveness of management practice (especially in terms of insuring that the focus is upon results and that all voices are heard) and the ability to effectively measure performance. The final elements of effective management involve the insurance of transparency, which facilitates accountability and leads ultimately to even more effective performance.

The aim of using PMS is to

- Create commitment to clear objectives
- Define the results that the management should be able to guarantee
- Choose transparently between alternative options in designing courses of action (activities)

There are different kinds of PMS frameworks for designing processes, monitoring progress and evaluating impact. The main PMS used in Sweden and some other Western countries are Management by Objectives (MbO) and Management by Results (MbR). In both cases the aim of the PMS is achieved by ordering the elements of the process in a logical structure, where inputs (resources) are identified as necessary means for performing activities. Specific activities are then identified because they result in outputs, which again are necessary to achieve outputs (objectives or results). The difference between the two approaches is the definition of the goal (Svensson, 1997). In MbO the goal is often a high-level objective towards which the organisation is expected to contribute. In MbR the goal is a specific effect (result). MbO and MbR are briefly described in 1.1 and 1.2. Some concrete examples may serve to illustrate the difference between these two PMS.

1.1.1 Management by Objectives (MbO)

MbO orders the elements of the process as follows:

Inputs ? Activities ? Outputs ? Objectives

In words this means that you need Inputs that are sufficient to perform Activities in order to produce Output to achieve the Objective. A common problem is that objectives are too ambitious, unclear or complex.

Table 1. Example: Supply of Safe Water

Objective:	Reduced incidence of water borne diseases
Output:	A sustainable supply of safe water to the community
Activities:	Design and install a piped water supply scheme in a community and develop capacity to manage and maintain it
Inputs:	Pipes, tubes, pumps, labour, engineers

The objective is future-oriented and clarifies the vision of a desired future situation. But the objective in this example does not indicate if it is sufficient to decrease incidence of water borne diseases by e.g. 20 % or 50 %. In MbR that kind of specification is crucial.

1.1.2 Management by Results (MbR)

The objectives in MbO normally indicate the direction without specifying how far the organisation intend to go within a certain period of time (e.g. "Infant mortality decreased). It is the wider goal or purpose to which the work carried out during the year should contribute significantly. In Sweden this kind of goals are usually called Directional objectives (*Inriktningsmål*).

In MbR the focus is on the effect which is expected to be achieved as a result of the work carried out by the organisation. The target groups are explicitly defined. The goal is formulated as a desired state, not a process. It is precisely and verifiably defined. The indicators should measure direct or indirect to what extent the purpose is fulfilled. In addition to the directional objectives immediate objectives (outputs) focused on effects are formulated (*Effektmål*). These should ultimately be SMART (Specific, Measurable, Accurate, Realistic and Time bound). In the budget the Immediate Objective is defining the situation expected to prevail at the end of the fiscal year or during a defined period of time (e.g. "Infant mortality in the Region of Stockholm has decreased 10 % during 2002").

Table 2. Example: Heating Station (users pay the whole cost)

<p>Outputs (2002):</p> <ul style="list-style-type: none"> • 8,200 households connected • No complaints on work carried out • No households should have the heating supply interrupted more than ten hours a year • Freon discharge must not exceed 1,000 kilos a year • NO2 discharge must not exceed 135 tonnes a year • Noise, dust or smell from the heating installations area must not cause complaints • The average price should be one of the eight lowest in comparison with Sweden's 15 largest heating stations

Table 3. Some other examples from different sectors and services

<p>Outputs:</p> <ul style="list-style-type: none"> • Primary school enrolment increases 2 % annually from 2002. • Infant mortality due to measles decrease 3 % 2002, 5 % 2003 and 10 % annually thereafter. • Participants' evaluation of training show that more that 80 % give high marks (at least 4 on a scale of 5) for quality, comprehensiveness and usefulness • At least a 25 % - 75 % distribution of participants by gender in all management training programmes • Municipal taxation increases 10 % annually. • Traffic over the new bridge increased by 10 % 2002 and travel time crossing the river reduced by 30 minutes 2002 and thereafter • Less than 450 citizens killed in car accidents 2002.
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1.2 Performance Management Methods (PMM)

The aim of PMM is to “put wheels under” the strategy chosen and select concrete specific operations that can be monitored in relation to the context. This include:

- Specify objectives, results, activities and resources needed
- Identify critical assumptions about the context
- Check that the “goal-hierarchy” is logically consistent
- Establish indicators that allows monitoring of progress and impact

Designing outputs contains discussions on the relevant level of detail and specificity (quantity, quality, time), whenever the outputs can be produced by the organisation alone and if it is feasible in terms of resources, time and capacity available to produce the output.

Designing activities include discussions on the level of detail and specificity corresponding to the chosen output. It is also important to verify that the activities contribute to the output, that they are realistic and that they do not have unintended negative effects.

Two innovative performance management methods are discussed in this section:

- Commitment Quality Management (CQM)
- Guarantor Government – Service Guarantee

1.2.1 Commitment Quality Management (CQM)

Performance depends on the commitment of the actors within the organization. Commitment Quality Management (CQM) is a method to design the structure of all processes aiming at defining the outcomes, specifying the commitment, safeguard all activities, monitoring and evaluation of the performance and identifying development objectives.

Discussions regarding quality within the public sector are often carried out in two completely different dimensions. On the one hand, there is the discussion and evaluation of the quality provided to the citizens as customers and, on the other hand, there is the discussion and evaluation of the result, which is provided in relation to the fulfilment of the goals set by and for the government.

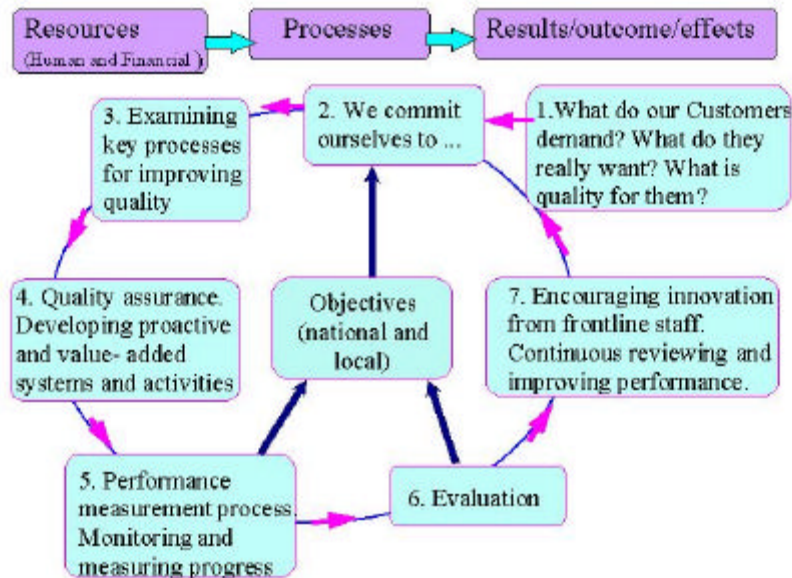
Public services are always provided within a politically defined framework. This framework is determined by the extent to which the services will benefit the community in the areas in which they will be provided. Of relevance will also be whether a fee or tax will provide the necessary resources for achieving the goals. It is possible that the fulfilment of goals set can lead to conflicts in respect to quality for a citizen/customer. For example, the goal of equal treatment for all is often in open conflict with the individual's perception of quality. Similar conflicts can arise between employees' professional opinions and the goals established by politicians or between the citizen/customer's needs and the employees' professional opinion. Therefore, the further development of effective citizen oriented performance management is not about the strengthening of the political control of detailed activities, but rather the creation of management mechanisms that clarify roles and responsibilities, and which also provide room for dialogue and discussion.

Public sector service delivery must seek to achieve a balance between the interests of the citizens as customers, the professional ambitions of staff and the interests of the general public - the taxpayers. A balance of this kind requires that the service consumer be able to influence and/or choose the service provider, that personnel be able to affect the image of their respective activities, and that the political leadership's goals have an impact on activities. Experience gained to date in Sweden indicates that performance management and far-reaching decentralisation, combined with an active follow-up of goals to establish how they are applied to working methods, can create the basis for a balance of this kind.

Particular emphasis has been put on developing the ability to insure, through continuous quality control, that agencies are constantly encouraging the orientation to customers and citizens at the same time that they are stressing continuity and long term reworking of major current programs.

The following figure gives an example of the steps used in determining how the work should be structured in practice.

Figure 1: The seven steps of Commitment Quality Management (CQM)



Source: Arne Svensson, 1997

Step 1: Identifying the customers and their needs

Today even the public sector is part of a competitive market place. Public organisations have to be increasingly proactive in meeting customer needs. The challenge is to satisfy the customers and to go beyond the ordinary requirements of quality and value to exceed customers' expectations.

Step 2: Identification of commitments (= what is to be achieved)

One problem is the fact that customer satisfaction is affected both by perceptions of performance and by expectations, both of which are "subjective". Managing expectations becomes an objective in itself. In step 2 ("we commit ourselves to...") the unit has to find a balance between the interests of the taxpayers, the politicians and the direct users of the service. The commitments are on two levels - one general, and one more detailed and individual. All commitments are put in writing, signed by both parties. There is agreement upon the duration of the commitment and when the commitment is to be reconsidered.

Step 3: Service structuring (= how the commitments are to be achieved).

This step contains a clear description of the working processes closely linked to the fulfilment of the goals. The result is a detailed description of especially important parts of the processes.

Step 4: Safeguards (= when, by whom)

This step includes:

- Specification of the time for carrying out the processes.
- Allocation of responsibility for carrying out the processes.
- Description of routines, which should provide the possibility of monitoring whether the agreed working methods are in fact being applied.

Step 5: Follow-up of work carried out and follow-up of results

This step includes:

Description of how the unit is to follow up and trace back actual results.

Developing a practical action plan to measure, monitor and improve performance.

Step 6: Evaluation

Once a performance measure is calculated it must be evaluated. Is the performance good, or bad or indifferent?

This step also includes a description of how the unit evaluates the quality system itself in relation to the customers' needs, the units professional image and the actual performance.

Step 7: Development

This step contains:

- Description of development goals.
- Description of development efforts.
- Specification of how continual reviewing of agreed parts in the quality system should be carried out.

The commitments the unit undertakes, in relation to the customers and the purchaser, are formulated on the basis of the level of ambition and an assessment of what is achievable.

The quality of services depends to a great extent on the personnel's commitment to their work. Quality systems, based on important emotive values, motivate involvement and commitment. The development of quality systems guarantees influence inasmuch as all personnel participate in working out the system, and each working group is responsible for the quality system when it eventually comes into operation. The management's role is to support and supervise the work.

1.2.2 Guarantor Government – Service Guarantee

Citizen Charters are also being discussed and implemented, designed after a British model, with an emphasis on commitment, quality, choice, standards and measurement, value for money and competition. This approach tries to combine the best sides of the Swedish welfare model with the English citizen charter concept. In many cases, Swedish legislation sets well-established standards of services, security, accessibility and open channels for citizen complaint. This provides the basis for local charters. At the same time, the charters emphasise the need to raise the general standard and quality of services, to find locally sensitive and responsive solutions to citizen problems, increase transparency and enhance the overall effectiveness of public programs.

Particular emphasis has been put on developing the ability to ensure, through continuous quality control, that local authorities and/or agencies are constantly encouraging an orientation to customers and citizens at the same time that they stress continuity and long term redesigning of major current programs.

In Service Guarantees only the outputs which can be guaranteed by the organisation are included. Thus, it is important to take all possible circumstances into account when defining the level of performance to be guaranteed by the commitment. The commitment in a system of service guarantees therefore normally is not as far-reaching as the objective.

Table 4. Service Guarantee – an example

Example: Subway, trains and buses

Objective: Passengers arrive on time

Guarantee: If there is a risk that you, as a passenger will be delayed more than 20 minutes you are allowed to take a taxi and send the bill to the public transport authority

Source: The County of Stockholm

1.3 Performance Budgeting Techniques (PBT)

The resources required for the performance of the activities must be available either in advance in a fixed budget or as a result of actually performed services (e.g. voucher or money grant). There is a lot of Performance Budgeting Techniques (PBT) that are in practice in different sectors. By calculating the costs and estimating the benefits in terms of money a cost-benefit ratio can be calculated in some instances (cost/benefit analysis). This enables comparison of estimated benefits of different alternatives. If benefits cannot be measured in monetary terms different alternatives can be compared measuring the costs and the effectiveness (cost/effectiveness analysis). The resources can be allocated in e.g. the following ways:

- Fixed Total Budget
- Per Capita Budget
- Income Per Delivered Service
- Income Per Delivered Service with Performance according to Commitment

1.3.1 Fixed Total Budget

A common problem in traditional budgeting is over-specification of inputs while at the same time the description of objectives and outputs is not specific enough. The description of inputs should provide sufficient basis for judging the appropriateness of the inputs necessary for performing the specified output. More detailed descriptions of inputs may therefore be used during the detailed planning of the activities but it is important to give the managers the freedom and the responsibility for using the total allocated input in a way that leads to highest possible effectiveness and efficiency.

Table 5: Comparison between the principles of Traditional Budgeting and Performance Budgeting

Example: A library	
Traditional Budgeting	
Input	
1 manager (full time)	180 000 SEK ³ /year
1 deputy manager (full time)	170 000 SEK/year
1 assistant manager (full time)	150 000 SEK/year
6 librarians (full time)	160 000 SEK/year each
2 librarians (75 %)	120 000 SEK/year each
5 librarian assistance (full time)	132 000 SEK/year each
3 librarian assistance (75 %)	99 000 SEK/year each
2 librarian assistance (50 %)	66 000 SEK/year each
Exhibitions	100 000 SEK/year
Books	150 000 SEK/year
Training	10 000 SEK/year
Maintenance	10 000 SEK/year
Etc	
Detailed regulations	
<ul style="list-style-type: none"> • Opening hours: 08.00 – 17.00 Monday – Friday (closed on weekends and holidays) • Swedish authors should write at least 50 % of the books • At least 25 % of the books should be poetry • Working schedule agreed with the labour union • Etc 	
Output	
Not specified.	
Performance Budgeting (2001)	
Input	
10 MSEK	
Output	
<ul style="list-style-type: none"> • At least 90 % of all visitors are satisfied with the services • At least 95 % of the citizens find the opening hour convenient • At least 80 % of the visitors can always immediately borrow the book they want • None has to wait more than four weeks to borrow the book they want • At least 95 % of the visitors find the personnel service minded • At least 85 % of the visitors at exhibitions find the exhibition interesting • At least 25 exhibitions/year • Etc 	
Deregulation	
<ul style="list-style-type: none"> • Opening hours when citizens want to visit the library • Working schedules according to needs and priorities • Individual salaries based on performance Etc 	

Source: Based on the budgets and other documents from a Swedish library

³ 1 USD is approximately 10 SEK

1.3.2 Per Capita Budget

Instead of a fixed total budget it is sometimes better to allocate resources based on the size of the population supposed to be served. One example is health care. The budget for primary health care centres can be based on the number of inhabitants in the district the centre is supposed to serve (e.g. 1 000 SEK per capita for adults over 18 years old and 1 500 SEK per capita for the children).

1.3.3 Income Per Delivered Service

Voucher systems are generally intended that individual citizens be allowed to dispose their subvention freely among several different service providers offering the service. In principle, vouchers are instruments to develop a demand-driven service production, whereby the market rather than the state is expected to develop and to offer services. Customer choice generally means that the individual citizen, given the entitlement by the state or the municipality to a subsidised service, is able to make use of this subsidy by means of a service voucher, which is valid as mean of payment. Recipients of service vouchers can be an individual, or a group of individuals with particular needs.

Promoters of voucher systems argue that there are several advantages compared to the classic production regime: First, the individual enjoys freedom of choice. Producers are obliged to compete for customers - which is likely to increase quality. Voucher systems may also result in severe problems. Vouchers that are of low value may exclude considerable parts of recipients when they cannot afford to pay their individual contribution.

One of the prerequisites of a system of money grants is that it is easy to establish the entitlement to the grant, preferably on the basis of objective criteria. This is the case, for example, with school grants that follow the pupil, maternity care, childcare and dental care grants. In these examples, the service provided is relatively homogeneous and individual differences in needs can be assumed to cancel each other out over time. In addition, such grants can be easily adjusted to take account of individual variation in need for services and capacity to pay for them.

Freedom of choice also means that the individual citizens will get greater possibilities to, as employees, choose between different employers or starting their own company. Increased possibilities for employees and entrepreneurs can be accomplished by

- Competitive tendering and creating conditions for more entrepreneurs to get into the market
- Making "Management Buy Out" possible for employees, to take over their operation as personnel co-operatives or their own businesses.
- Giving conditions for consumer co-operatives to establish themselves.

The disadvantage with voucher systems (compared to competitive tendering) is that the competition of price is at risk of being thrown out of the game. When e.g. the home service contribution is replaced by a certain sum of money per hour, for example 200 SEK, the same for everyone, that provide this kind of these services, there are no longer any incitements to define the service's content in any other way than to "have access to a nursing assistant for an hour to make an in the assistance judgement decided assistance contribution".

In the following example of local authority child day-care grants, the grant is dependent on the age of the child and the extent of the care. The grant is paid by the local authority directly to the day-care centre (the amounts in SEK per year).

Table 6: Grants in day-care

The extent of the care (hours per week)				
The child's age	Over 40 hours	30-39.5	20-29.5	Under 20
1-2 years	108,000		84,000	60,000
3-5 years	72,000		56,000	40,000
6 years	50,400		39,200	28,000

Source: A Swedish municipality

The introduction of service vouchers, in summary, is intended to change the production of services towards demand-driven service production; pluralize the offer especially when changing from a monopoly situation; alter the employment opportunities through choice.

1.3.4 Income Per Delivered Service with Performance according to Commitment

Example: Vouchers and competitive tendering in childcare

The municipalities are obliged to supply childcare for the children of parents engaged in paid employment or studies. This includes pre-school programs - day care centres, part-time play schools (kindergartens), or family day care in private homes for children up to age 6, and leisure time centres that provide recreational activities to children aged from 7 to 10 or 12. Municipalities provide children day care and after-school activities at subsidised rates. Under certain conditions low-income families and pensioners are eligible for housing allowances. The policy of the Social Democratic Party was for many decades that all childcare should be public, run by the municipalities. Today about 15% of the day-care centres in Sweden are private.

Childcare vouchers are paid for every child, from the age of eighteen months, that has got a place with an approved provider and whose parents work or study at least part time. The municipal daycares centres and the private day-care centres get through the voucher equal compensation and should be able to compete on equal terms

The value of the grant is dependent on the age of the child and the extent of the care. The local authority pays the amount directly to the day-care centre. The table below shows the grants to the day-care centres managed by the municipality (the amounts in SEK per year). The fees from the parents are included in the grant. The grants to the private providers are regarded to be equivalent, but they are also depending on who is the owner of the building where the centre is located (the municipality or the private provider) and if it is the first, second or third child of the family. The parents have also the right to choose a day-care centre in another municipality. The grants are then 11 380 SEK higher, as it includes cost of renting premises.

Table 7: Voucher system: Cost of service according to service levels (hours per week)

The child's age	1-2 years	3-5 years	6 years
Over 45 hours	84,020	59,105	52,960
40-45 hours	79,520	55,940	50,125
35-40 hours	75,020	52,775	47,285
30-35 hours	70,515	49,605	44,450
25-30 hours	66,015	46,440	41,610
Under 25 hours	61,515	43,275	38,775

Source: A Swedish municipality

Providers were selected through competitive tendering. The answers given in the tender on every part of the description of the work process were judged against the specification of goals (national and local), the specification of requirements and the "key words" in the tendering documents. The key

words were confidence, holistic view, continuity, competence (know-how), availability, stimulant and participation. The politicians defined these key words and they also decided on the relation between the points that are specified below. Among the quality requirements were a certain “sharpening” of work standards, making clear the prerequisites for the pre-school work and satisfying the needs and expectations of all parties (the children, the parents, the staff and the committee). Maximum points were 200 as follows:

Table 8: Evaluation of potential service providers – an example

	points
Contents of the work (process)	115 points
Personnel and management (resources)	60 points
Policies and prerequisites (structure)	25 points

Source: A Swedish municipality

The provider should reach at least 80 per cent of the maximum points in each of these three areas.

Table 9: The result of the assessment – an example

	Process	Resources	Structure	Total
Pysslingen förskolor AB	108,5	59	25	192,5
Flaggskeppet AB	107	57,5	24	188,5
Upplandsresors förskolor AB	96,5	46	23	165,5

Source: A Swedish municipality

How did they arrive for these points? A small working group did this assessment. Marks were given both for what was written in the tender and for findings from interviews and references. After the evaluation six companies got management contracts on one or several day-care centres. For example Pysslingen förskolor AB, the company that came best out of the quality assessment, were given management contracts on six classes.

The municipality is monitoring both public and private providers, including a questionnaire on service quality to all parents every two years.

2. The Links between Performance Management Strategies, Performance Management Methods, Performance Budgeting Techniques and their Context

2.1 Introduction

In this section we will discuss the appropriateness of different approaches in different combinations and different context. We will also in this section discuss the pros and cons using the different approaches in different sectors. The context is all the elements or factors in the situation that the organization has to act in, is influenced by and/or can influence.

Examples of such context are:

1. Supporting administrative and managerial systems

- Regulations (character of legislation and complementary regulations)
- Management policy (contractual arrangements etc)
- Staff remuneration policy
- Supervisory authorities (control, analyses)
- Auditing, incl. Value for money auditing

2. Type of services (education, child care, health, care of elderly, energy, library, customs, tax control and tax collection, police, road maintenance etc).

Some procedures for analysing the context and clarifying perceptions and values are Uncertainties and high-risk list, Stakeholder mapping, Stakeholder policy concerns and Stakeholder values and principles session. The result of this kind of analyses serves to highlight risks and opportunities related to different strategic options. When detailing action the uncertainties and high risk factors in the context will enter as important assumptions for the work to be undertaken.

Reform can have transition costs and negative longer-term effects, such as business disruptions and failures, and can create new problems if done poorly. Failure to identify policy linkages and trade-offs, costs, risks and market incentives heightens the risk that reform can fail, or damage other public policies. The history of financial market reform in Sweden in the late 1980's shows how failure to prepare the ground can have serious consequences. In most cases, governments can reduce the magnitude and duration of costs of reform by designing a comprehensive programme that includes targeted policies that preserve other public interests within competitive markets.

2.2 The Modernisation of the Budget Process in Central Government

2.2.1 The Background of Budget Reform

The Swedish public sector modernisation started in the mid-80s when Sweden suffered from an economic crisis. Public sector modernisation in Sweden was guided by Management by Results (*Målstyrning*), an at that time somewhat different choice of approach within the international New Public Management movement that needs an understanding of the Swedish regime and culture of public service development, production, and delivery. The starting point of public sector modernisation that placed Sweden among the most active countries was after 1976, when the Conservatives won the elections after forty years of opposition (Riegler and Schneider 1999).

Table 10: Topics of the Swedish Modernisation Agenda

1976 – 1982

- streamlining bureaucracies
- end of public sector employment privileges
- introducing competition in selected areas

1982 – 1989

- frikommuner experiments
- public sector career model abolished
- decentralised and flexible personnel policy
- management by results
- budget process reform
- deregulation of telecommunications and financial markets

1989 – 1994

- deregulation of public transport, aviation, public broadcasting
- privatisation of municipal services allowed
- elderly care becomes municipal task
- client-provider split introduced in some local governments
- experiments with service vouchers in day-care and schools
- creation of public enterprises as stock companies

since 1994

- tax increase and budget consolidation
- de-ideologisation of public sector modernisation instruments

Source: Based on von Otter, 1999

The modernisation program became streamlined and focused on market-type mechanisms after a conservative coalition won the elections of 1991. The ideology of reform was similar to the programme the United Kingdom introduced during the era of Margaret Thatcher: Asset Sales, introduction of market mechanisms including internal markets, client-provider splits, competitive tendering and market testing, franchising, service vouchers and paying for services (Naschold and Riegler 1997).

The background of budget reform is described more in detail in Appendix 2.

2.2.2 The Budget Process and the Ministries

Today, the budget formulation process is divided into three phases:

Phase I (January - March) centres around updating the Multi-Year Budget Framework, which then forms the basis for the subsequent phases of the budget formulation process. This is the responsibility of the Ministry of Finance based on the critical review of information submitted by the spending ministries.

Phase II involves the Cabinet Budget Meeting (end of March). This is a two-day meeting at the Prime Minister's Retreat where resource allocation takes place on a macro level, i.e. determination of the total level of funding for each of 27 Expenditure Areas. This is a collective Cabinet decision based on recommendations presented by the Ministry of Finance. The decisions reached in this meeting are incorporated into the Spring Fiscal Policy Bill presented to Parliament in mid-April.

Phase III (April - September) is when the Ministry of Finance largely withdraws from the details of the budget formulation process and "Each Minister is His Own Finance Minister," i.e. each minister is responsible for allocating the total level of funding for each unit of his respective Expenditure (one minister can have responsibility for more than one Expenditure Area). Phase III culminates with a final review by the Ministry of Finance and the Cabinet of the allocations proposed by the spending ministers for each Expenditure Area. The budget bill is then presented to Parliament not later than 20th September.

2.2.3 The Budget and the Political Process

Sweden has a history of minority governments. This has required successive governments to seek the support of opposition members of Parliament in order to gain approval of the annual budget. As a result, the Swedish parliament has a more significant role in the budget process than in many other countries with a parliamentary system of government.

The process whereby parliament discussed the government's budget proposal could, however, earlier only be described as undisciplined. The level of government expenditures would invariably increase during Parliament's discussion of the budget. It was a long process lasting five months from the time of the presentation of the government's budget proposal to completion. The budget would be incomplete when first presented to Parliament with the government later proposing various and substantial changes to its original proposal. Initial debate about the budget was therefore difficult as many key proposals would not have been presented at that time. The focus of debate was also on individual appropriations with little co-ordination or respect for aggregates. The exact amount of the budget was only certain at the end of the process.

The key reform implemented was the introduction of a top-down approach for discussing and approving the Government's budget proposal. This involves the prior approval by the Parliament of the aggregate level of government expenditures (and aggregate government revenues) in a Spring Fiscal Policy Bill. The Government's budget proposal must conform to this limit unless the Government separately proposes a higher limit. Parliament's deliberation on the actual budget proposal is then divided into two distinct phases. First, Parliament approves the level of expenditures for each of the 27 Expenditure Areas. Only then, does Parliament approve the level of individual appropriations within each of the 27 Expenditure Areas.

The committees of Parliament play a key role in the budget deliberation and much of the fundamental work in reviewing the budget proposal takes place in committees. In this respect, there is a strong division of labour between the Finance Committee and the subject area committees. The Finance Committee is responsible for the overall budget proposal and for recommending to Parliament the level of aggregate expenditure and the division of aggregate expenditure into each of the 27 Expenditure Areas.

The committees are responsible for allocating individual appropriations within their respective Expenditure Areas. For example, the Finance Committee will recommend the total level of expenditure in the agriculture Expenditure Area whereas the Agriculture Committee will recommend how that total should be allocated to individual appropriations within the agriculture Expenditure Area.

The committees are permitted to change the composition of appropriations in their relevant Expenditure Area but must remain within the agreed total for their Expenditure Area. Otherwise, proposals from committees will be declared invalid and not be discussed in Parliament. Each committee must agree on a single set of recommendations for the Expenditure Area as a whole. There will therefore be 27 sets of majority recommendations. If a proposal does not have majority backing in the committee, it will not be reported out of committee. This is a new voting procedure and has been criticised for being overly restrictive, i.e. that proposed amendments can be "killed" in the committee.

In implementing the budget, agency managers enjoy great flexibility in the use of appropriations. This is partly due to the institutional organisation of the central government structure in Sweden: that is, small policy ministries and a large number of administrative agencies responsible for the executing of policies. All restrictions on individual cost inputs have been systematically removed in recent years, including those for personnel management and facilities. The carry-forward of unused appropriations and the ability to borrow against next year's appropriations have also been introduced. The former was designed to avoid end of year spending binges, which are an inherent problem of all annual budget processes.

Another objective was to increase managers' discipline as any overspending in the year gets carried over as well. It was also intended to foster efficiency gains in agencies beyond those assumed in the budget, as any gains would then be retained by the agency. Without the carry-forward option, it was felt that managers would not have sufficient incentives for seeking efficiency gains in their operations.

The Government also introduced a facility for borrowing funds against future appropriations, normally up to the level of 3%. However, the borrowing facility is hardly used at all.

Many countries collect a third or less of what is due in revenue compared to Sweden, which collects approximately 95%. For some decades Sweden has been reforming its tax policy, with a view to broadening the tax base, reducing exemptions and changing tax structures to make them more progressive. These efforts in themselves, however, are frequently insufficient to increase revenues unless tax administration is also improved. Substantial additional efforts are needed to increase voluntary compliance, identify taxpayers, assess tax obligations, reduce evasion, upgrade management procedures, improve the audit and adjudication of tax disputes, reduce corruption, improve training and increase transparency through computerisation. In all these matters we believe that many countries have much to learn from the Swedish experience.

2.2.4 The Budget and MbR

The quid pro quo for increased managerial flexibility is that managers be held accountable for results. This is a fundamental change; holding managers responsible for what they do, not how they do it. Instead of controlling inputs, the focus is now on outcomes and outputs.

The accountability regime is based on ministries specifying the results they expect of their agencies and the agencies then reporting to ministries on the results that they have achieved.

The application of this accountability regime has, however, encountered problems. This is widely recognised in Sweden. Some problems are to be expected when any new system is being introduced and will be overcome as more experience is gained. Many of the problems, however, have an institutional aspect to them, which relate primarily to the management capacity of ministries. Ministries tend to have very little interest in the management of agencies and this facilitated the increased managerial flexibility enjoyed by agencies.

However, ministries have limited capacity for specifying the results expected of agencies and monitoring their performance - both of which are essential elements of the new accountability regime.

The vehicle for specifying results is the Government approval document (*Regleringsbrev*) which the ministries issue to each agency immediately following Parliament's approval of the budget. Reviews have revealed a great diversity in their contents. The detailed specification of outputs appear often to originate from the agencies themselves as the ministries simply would not have had the capacity to prepare them to such levels of detail. The detailed Government approval documents therefore probably give an impression of more guidance from ministries than is really the case. The danger in the new system is that representations are being made of an accountability regime that may not necessarily hold true.

The relationship between ministries and agencies in Sweden has traditionally been based on informal dialogue. The relationship implied by the new Government approval documents would alter that system; the role of the ministries needs to be strengthened in this area.

2.3 Strategy of Regulatory Reform

One pre-requisite for performance management reform is that unnecessary regulatory barriers are eliminated. The goal is to contribute to the steady improvement of regulatory practice by helping the government strengthen its capacities for self-assessment, identify better regulatory methods, add transparency to the reform process, and develop information to support public debate on the importance and implications of sustained regulatory reform. In addition to the strategies mentioned above, it is important to underline the following lessons learned from the Swedish experience:

- Adopt broad programmes of regulatory reform at the political level that establish clear objectives and frameworks for implementation.
- Review regulations systematically to ensure that they continue to meet their intended objectives efficiently and effectively.
- Ensure that regulations and regulatory processes are transparent, non-discriminatory and efficiently applied.
- Review and strengthen where necessary the scope, effectiveness and enforcement of competition policy.
- Reform economic regulations in all sectors to stimulate competition, and eliminate them except where clear evidence demonstrates that they are the best way to serve broad public interests.
- Eliminate unnecessary regulatory barriers to trade and investment by enhancing implementation of international agreements and strengthening international principles.
- Identify important linkages with other policy objectives and develop policies to achieve those objectives in ways that support reform.

2.4 Financial Management

Political decentralisation without financial or administrative capacity, or financial decentralisation without administrative and political authority, leads to frustration. No issues are more central to the operation of governance than those surrounding its financing. Among the most important of these are (a) how to mobilise and manage financial resources, (b) how to create systems for efficient, accountable and transparent financial transactions, and (c) how to ensure the match between revenues and expenditures.

2.4.1 Decentralised Financial Management

The establishment of effective and transparent financial management is at the core of any effort to reform the public sector. Management and information tools need to be in place to program, disburse, record, monitor and evaluate public receipts and expenditures. It is also necessary to establish benchmarks that can indicate whether reform efforts are succeeding or not. Moreover, the special nature of public resources makes it imperative to provide decision makers on all levels with accurate and timely financial information which eliminates overlap, duplication and confusion, increases transparency and accountability, facilitates effective budgeting of scarce resources, minimises their loss through administrative leakage and increases confidence in both local governments and central government.

To be genuinely supportive of a performance budgeting reform, the basic characteristics of a system for financial management should include: (a) transparency of allocation (b) predictability of the amounts available to institutions and (c) local autonomy of decision making on resource utilisation. In contrast with the widespread practice of ad hoc grants driven by politics, the allocation of resources should be based on transparent formulas. Also, unlike the typical unpredictability of most central-to-local transfer mechanisms prevailing in developing countries, the process should provide local institutions with an up-front indication of how much money will be available in the next multi-year planning cycle. This makes local strategic planning possible and provides a financial ceiling that makes such planning a meaningful exercise and an opportunity for local communities to take autonomous decisions on the use of limited resources.

Losses incurred by agencies which run business activities, can rapidly reduce their capital. The extent to which operations offer realistic possibilities of building up capital again naturally varies, but the extreme case of an agency with negative capital cannot be excluded.

One example on solidity as indicator/benchmark: As is evident from the annual report of the Swedish Railways group for 1997, the solidity of the group has decreased from 25,5% in 1996 to 10,6% in 1997. According to its spending authorisation, one of Swedish Railway' financial goals is to achieve solidity of at least 30% in the long-term. In fact, however, the probability that a public utility in this situation would achieve the financial goals laid down by the Government in respect of solidity etc. in a short period of time is extremely small. It is important that, where necessary, the Government is given advance warning signals on the prevailing situation from the management of the agency. Then the Government is given the possibility to take actions, e. g. increase the solidity or replace the management.

2.4.2 Financial Management Ratings of Central Government Agencies

For some years the National Audit Office (RRV) in Sweden made financial management ratings of agencies under the Government. Today this task is carried out by the Swedish National Financial Management Authority (ESV). When the Government decided to introduce a financial management rating system for government agencies, the aim was that it should be an instrument for the regular follow-up by the Government of the financial management standards of government agencies. On the basis of answers to 44 questions on the agencies' financial management, the RRV establishes a rating for all agencies which submit annual accounts. The rating system has also proved to be a viable method to improve the quality of agency reports to the national accounting system.

The very significant import of introducing this system can be seen in the improvements in ratings over the three first years as noted in the table below. The agencies whose annual audit reports contained objections were given the assessment "Unsatisfactory" regardless of how they met other requirements.

Table 11. Financial Management ratings of central Government Agencies the first three years

	1994/95		1995/96		1997	
	No	%	No	%	No	%
Fully satisfactory	111	44%	162	67%	185	80%
Satisfactory	120	47%	60	25%	27	12%
Unsatisfactory	22	9%	19	8%	19	8%

Source: National Audit Office 1995, 1996 and 1998

Note: The Swedish Fiscal year is equal to calendar year from 1997

2.4.3 Mobilisation of Financial Resources in Local Government

In Sweden and many other western countries the Constitution has laid down the principle that municipalities and the county councils are entitled to levy income taxes. They have also the right to increase the tax rate to meet citizen demands for services. Indeed, self-determination by local authorities as regards the raising of revenue is a corner stone in the building of strong and effective local self-government. Thus, the municipalities decide the level of tax rate and user fees. The only tax the municipalities have the right to levy is income taxes on the citizens personal income. The citizens in Sweden are as an average paying 31 % of their income as a tax to the municipalities and the county councils.

In many non-western countries local governments possess either no, or very limited, revenue raising capacity. This makes them very dependent upon their central governments, either to set local tax rates or to transfer funds to support various local activities. Such dependence greatly limits the capacity of local governments to meet the needs of their citizens. Consequently, the highest priority in Sweden in terms of strengthening local governance has always been the development of independent revenue raising and taxing capacity.

Another rapidly emerging issue in many transitional countries is the right of local governments to incur debt by taking loans. This option has been available to local governments in Sweden for many decades. In the past this was governed by special legal regulations that were very limiting. Now local governments are free to borrow money without any permission from the central government. In about 10% of the municipalities the possibility of borrowing has led to financial problems. In a couple of cases the central government has had to save the local government from bankruptcy through the awarding of special grants.

The most critical issue for local governments however is having ready access to the resources needed to finance necessary programs and service delivery. In Sweden, local income tax accounts for 63% of municipal revenues, general state grants 11% and special purpose grants 5%. User fees account for most of the remaining 21% of local income. Municipal power stations, garbage collection, water and sewage are fully financed by user fees.

In Sweden, the relationship between central and local government has come to be based on "*the financing principle*". That means that Parliament voluntarily limits its own ability to impose new expenditures on the municipalities and county councils without simultaneously giving them ways of financing other than through higher local taxes. Parliamentary decisions that lead to declining expenditures for the municipalities, or indirectly increase their tax revenues are also meant to be neutralised by corresponding changes in central government grants.

In Sweden the local governments impose the largest income tax, which is the opposite of the case in many transitional countries where almost all tax rates are decided by the Parliament. The continuing development of the financial system, combined with the negotiation of revenue systems between central and local governments, represent very significant ongoing political debates in Sweden.

2.5 Complementary Systems making Public Administration Performance Driven

The instruments we have dealt with so far are aimed at handling the direct relation between resource allocation (as part of the political process) and the evaluation of the performance of the operative level. They are thus part of the direct link between the political decision-making level and the administrative operative level. In this section we will briefly discuss two related systems, namely performance auditing and the role of inspectorates.

2.5.1 Performance Auditing

The Concept of Performance Auditing

The role of performance auditing is to check, on its own initiative, whether guidelines laid down by Parliament and the Government for government undertakings and government agencies are appropriate and followed successfully. The performance audit makes studies which examine whether government undertakings are implemented in the most efficient way possible, that government agencies achieve high levels of goal fulfilment with a good use of resources, and that advantage is taken of all opportunities to improve efficiency and quality, to adapt to external requirements, and to make savings. Performance audits also analyse reasons for shortcomings in efficiency and often provide new knowledge. The aim is to contribute to the evaluation, review and transformation of central government operations. The audits mainly focus on cooperation or dependence between different agencies. A theme approach is used.

The audit mandate includes, in principle, all government operations - with the exception of the Government itself and Parliament and the goals determined by these political bodies for the agencies and their operations. The purpose of performance auditing is not merely to indicate shortcomings in efficiency. Performance auditing aspires to give the Government, Parliament and agencies information

and proposals to enable the agencies to take action which can lead to greater efficiency, to change their operations and organisation to meet new needs, and to review their operations.

Performance auditing has the function of being a perpetual agent for change within the government administration. Part of its task is to follow developments in all areas of government and then, on the basis of this overall picture and its expertise in government operations, to focus on efficiency problems which stand out as requiring a closer examination. The independence of the audit, combined with its overall view of operations, makes it possible for the audit to question situations which others take for granted and to present well-founded arguments for change. Without renouncing its professional integrity and its aspiration to take only rational considerations, performance auditing has an open dialogue with the world in which it works. Characteristic of this constructive approach to performance auditing is its focus on problems and an open dialogue, together with a search for appropriate solutions to the problems found.

The area covered by performance auditing is extensive. To live up to the demands of its role and of public interest, it is essential that many different problems of efficiency on different levels be given attention. Performance auditing cannot therefore merely be judged on the basis of individual audits carried out over a limited period of time. Its production and degree of coverage can only be fully appreciated and utilised in a long-term perspective. It is also this breadth and long-term perspective which makes it possible for performance auditing to draw conclusions from several audits, to carry out annual audits of agencies performance follow-up reports, to comment on official reports, to carry out specially-commissioned government assignments and, in appropriate forms, to compile and present the collective knowledge of performance auditing.

The strategy of performance auditing is to adapt audits to a changing world and, in general terms, to direct efforts towards areas where an external, independent and impartial audit can be considered to fill a vital function in achieving greater efficiency or a review of operations. This can relate to structural or operational issues specific to individual agencies or to entire sectors.

The Performance Audit Departments

The two Performance Audit Departments of the Swedish National Audit Office are responsible for examining and promoting effectiveness and efficiency in central government activities. They shall draw the attention of the Government, Parliament and the agencies to factors, which hinder effectiveness and shall provide proposals for measures, which can lead to a reappraisal of activities, savings and greater efficiency.

The main task of the Departments is to audit, on its own initiative, the effective fulfilment of central government goals and commitments. The Performance Audit Departments follow developments in the public sector and current research. With the aid of this knowledge, performance audits focus on central government activities that are deemed to be in need of closer examination. Thus, there is an emphasis on areas of substantial central government expenditure as well as areas that are important for the proper functioning of society and the economy. Approximately twenty such audits are carried out annually.

The work resembles a research project. This type of auditing is carried out in accordance with Generally Accepted Auditing Standards for Performance Audits, which briefly describe ethical and theoretical requirements for how a performance audit should be carried out, reported on and followed up.

The mandate of the Performance Audit Departments covers, in principle, the entire field of central government activities including public enterprises and certain state-owned companies. This type of audit can apply to a single agency, several agencies within a particular government sector, or within several sectors. Sector-specific audits and audits covering several sectors are also important, since many agencies and government sectors are affected by similar problems.

The Financial Audit Department has the main responsibility for auditing the annual reports of the government agencies. The Performance Audit Department contributes to this work by auditing the agencies' performance accounting, which among other things presents the goals, the achievements, the productivity and the quality of the agencies' work.

The Performance Audit Departments also carry out special audit assignments for the Government. A crucial difference between the performance audits and the specially commissioned Government assignments is that, in the case of the latter, government directives regulate the formulation and contents of the audit. In addition, another important task for the two Performance Audit Departments is to comment on reports prepared by public commissions of inquiry or ministry-led inquiries.

2.5.2 Inspectorates and Supervisory Authorities

There are several different approaches and instruments in the Swedish National Government system to promote performance oriented management. Performance management (or result-based management and budgeting) is probably the most central instrument in defining the requirements set by Government for the executive agencies and is consequently an important element of the budget process. Performance auditing carried out by the National Audit Office is a second instrument. In both cases Government itself (the Ministries and the Parliament) are the most important recipients of the performance-related information produced through these procedures. In this section we will mention a third general administrative system which is important in keeping up the performance level of the different parts of public administration and private or public service producers. This third approach comprise of inspectorates set up by national Government.

Sweden has developed a sophisticated but rather complex system of supervisory authorities and inspectorates. Usually the system follows the principle that one or a limited number of laws are subject to supervision by one inspectorate. There are some 230 laws of this sort and some 70 central authorities have been entrusted to follow their implementation through different means of supervision. In addition the 21 regional authorities have some supervisory duties, often under the control by national agencies. The 289 local authorities have in some cases, such as environmental control, been delegated the power to exercise inspection on behalf of the state. Some supervisory authorities have functions limited to the role of being an inspectorate. In other cases the authorities have a mix of supervisory, normative and other functions. Some inspectorates are small bodies with a small staff (around ten people) while others are bigger as in the case of work environment and medical care, with more than 100 staff.

In the Swedish case, the citizens in their capacity as clients, users or customers are the beneficiaries of the system of inspectorates and supervisory authorities. Inspectorates are set up by the State to safeguard the interests of the citizens as specified in different acts of legislation, especially in areas of social services and safety. These bodies have in common to make sure that the citizens receive the products and services that have been defined in national legislation regardless of whom actually is providing the services – private or public institutions. Inspection (or supervision) is thus relevant in cases where Parliament or Government has promised (or committed itself) to a certain standard or quality regarding specific services, this standard being defined by law. It could pertain to private services and products where the State has regulated standards or it could be services provided by public institutions where national Government or national authorities set the standards, e.g. services provided by municipalities. Typical examples would be education, medical services and care of children and elderly or regulation and inspection of work environment (occupational safety and health).

Typically an inspectorate is focussing on the relation between what is stipulated by law and the actual outcome rather than the relation between performance and resources for producing the services etc. Thus, the aim of an inspectorate is to find out if services hold the standard as defined by superior levels of administration or not – i.e. if delivery is “right or wrong” in relation to legislation. This makes the inspection approach different from evaluations, which often are an important part of result (or performance) based budget systems. In evaluations the usual aim is to judge if production is “good or bad” in relation to allocated resources and experience of this relation in other cases. Inspectorates are thus not primarily interested in performance interpreted as efficiency, but in performance interpreted as the quality of services being delivered to a citizen, regardless of cost of production. An inspectorate could therefore be seen as a representative of the citizens as clients or users, not as taxpayers or financiers.

In many cases inspectorates have access to various means of sanctions to affect the institutions being responsible for the provision of services, if these are not up to standard. Sanctions could be an order to pay a fine if the situation is not corrected or to abolish permits for an activity.

Usually each relevant area of legislation is linked to a system of inspection including an identified inspectorate with mandates stipulated by law. Normally the criteria for an inspectorate are only broadly defined in Acts of Parliament while lower levels of the national administration decide more concrete regulation. In many cases the same institution has been given the powers to issue regulation and carry out inspections. In all cases it is highly important that the subjects of inspection are fully informed of the standards defined.

Closely related to the regulatory function is also the task of making surveys of the general performance level in the area of interest. It could for example regard the general level of performance in the education system. (Inspection in its proper sense would only deal with conditions in one specific case; one subject of inspection.) Survey information could be obtained through the inspections but could also be collected through other means.

2.6 Establishing a Context of Performance Culture

The various technical instruments to enforce a culture of performance are dependant on the context in which they operate. Two management aspects seem to be especially important to make sure that the instruments are implemented in a successful way. They are the system for selection and development of senior management and the character of the personnel policies. Both these systems have to be developed so as to support the performance ideals built into the instruments discussed in this paper.

2.6.1 Human Resource Management Policy to Strengthen a Performance-oriented Administration

Management Policy in a Performance Context

Swedish public administration sets out, subject to stringent requirements in terms of the rule of law, efficiency and democracy, to be available and responsive to citizens and businesses. The aim is for the various central-government agencies to perform their tasks in a manner characterised by quality, openness and a highly motivated, skilled workforce.

Central-government administration, with its agencies, is the Government's principal instrument for implementing government policy. Accountability to the Government for the agencies' activities rests, in most cases, on the agency heads. Thus, the creation of a performance-oriented administration is very much dependant of the development of a group of performance-oriented managers. Given these considerations, the Government's power of appointment and managerial resource policy are crucially important. This policy, in turn, should be reflected on lower levels of administration where, responsibility for recruitment and skills development is the responsibility of top managers appointed by Government.

Central-government administration needs professional managers. Leadership in the state must be characterised by a good ability to implement activities. This ability may be measured in terms of efficiency and quality requirements, as well as favourable working conditions and ample scope for employees' personal development.

Delegation of powers and responsibilities has given the agencies substantial freedom while, at the same time, they are subject to higher requirements in terms of fulfilling performance targets. Proficient, responsible leadership in public administration has become more important than ever. The top managers' skills and leadership qualities largely determine how far the Government succeeds in implementing its policy, e.g. regarding a decentralised results-oriented management system.

Human Resource Development

Personnel matters are delegated in the Swedish structure. Human Resource Development (HRD) policies are the responsibility of the heads of agencies. Government monitors the HRD situation in the different agencies through an institutionalised system of yearly reporting. Thus the Ministry of Justice, which is currently responsible for over-all personnel policies in the national administration, always has an up-dated picture of the state of human resources. HR and HRD issues are also dealt with in the yearly dialogue between the minister (or state secretary/vice minister) and the Director General of the agencies.

Each agency is responsible for training of its staff. To a limited extent there are some training programmes covering all agencies. This is the case for strategic management, training of women managers and induction programs. A small agency, Swedish National Council for Quality and Development, is responsible for these programs. This agency inherited many of the training programs developed by the National Fund for Administrative Development, which was integrated in the Council when it was started in 1999. Participation in these programmes is voluntary for the agencies which are free to make use of training programs available on the market.

Recruitment and Supply of Top Managers

An active policy to ensure an adequate supply of managerial skills is a key instrument for attaining the targets of the Government's administrative policy and making it performance-oriented. These concern general issues of control, leadership, organisation and rationalisation in public administration. The aim of the Government's managerial resource policy is to attain quality in its supply of top managers.

The Prime Minister plays a particularly important part in preparing the Government's appointment agenda. Every ministry is responsible for the work of recruiting agency heads within its own sphere of activities. Appointments of director-generals and other heads of central administrative agencies and equivalent top managers must be prepared jointly with the Prime Minister's Office. Moreover, joint preparation should take place with, first, the ministry whose area of activities is primarily affected by the work of the agency where the head is to be appointed and, secondly, the ministry from whose area of activities the prospective appointee comes.

Recruitment of agency heads must take place on the basis of defined requirements, an extensive search procedure and careful selection. A written profile of requirements based on the agencies' present and future work must always be drawn up before the quest for candidates starts. Special emphasis should be laid on leadership qualities and previous managerial experience. A broad search process means that the Government seeks candidates from the business sector, municipalities and county councils. As far as possible, the short-listed candidates should always include one man and one woman. The aim of recruiting leaders whose qualifications in public administration are as high as possible must be attained with reference to women's, as well as men's, skills.

Induction and Skills Development

Induction and managerial skills development play an important role in making operations more performance oriented, as agency heads are key figures in the process of implementation of a more performance-oriented Government. Good induction should lay the foundations for constructive, smoothly functioning co-operation between the ministry management and agency head concerned.

The principal features of the joint induction and leadership development programme offered to agency heads are as follows.

The induction starts with a basic seminar on administrative policy, aimed at enhancing knowledge of the constitutional functioning of public administration, the budget process and financial control. The seminar also deals with issues connected with the state as an employer and the agency heads' responsibility for their own agencies' employer policies. The seminar also elucidates the distinctive nature of the government official's role, and covers issues of ethics, responsibility and accountability.

The programme then continues with a leadership seminar in three stages, lasting a total of six days. This module is aimed at clarifying demands and expectations in the managerial role and developing leadership capacity in the culture of central-government administration. This seminar, which is headed by an experienced consultant, is shaped to a high degree by the agency heads' own experience. Every leadership seminar concludes with the participants being offered further skills training in a development group headed by a consultant. The purpose of this group is for the members to discuss

with their colleagues current issues relating to the managerial role. The development group meets two to four times a year. After two years, interest in further work in the group is reviewed.

Agency heads who have taken part in the leadership seminar and development group can carry on developing their own leadership skills by joining a network for agency heads. The intention is that this network should work in a consultative way, offering collegial support on leadership issues among the participants. The network is headed by a consultant, and should comprise seven or eight members.

A leadership seminar with a corresponding purpose is also offered to all Government-appointed Deputy Director-Generals.

Individual programmes of managerial skills development, aimed at developing specialist skills, are shaped in discussion with the individual agency heads. Examples of individual inputs are language and mass-media training, management support and career planning.

All the agency heads are invited to specially arranged theme seminars, at which they are briefed on key political issues of relevance to the whole of public administration.

Performance Dialogue

According to Government policy, liaison between the ministry management and respective agency heads should be developed by means of regular performance dialogues. Performance dialogue is a supplementary control instrument within the framework of the budget process, and should be implemented regularly.

To be instrumental in agency governance, performance dialogues must be given high priority in the Government Offices, i.e. the Ministries. The head of each specialist unit is responsible for ensuring that performance dialogues are included in the planning of activities, and such dialogues with the agency management are actually conducted. The Ministry of Justice and the Ministry of Finance jointly monitor the progress of these dialogues.

The basic purpose of a performance dialogue is to follow up the agency's work in the past year and discuss activities in a future-oriented perspective. The dialogue is adapted to every agency's particular situation and other circumstances. It comprises a discussion of activities as well as a planning discussion. Discussion of activities serves as feedback and a way of checking up on attainment of objectives, the supply of skills, efforts to promote gender equality and quality, organisation, etc. The separate planning discussion is a one-to-one talk between the agency head and the minister or state secretary concerned. This discussion should focus on the agency head's personal ability to perform his or her duties, and also on the need for development inputs.

Mobility

Mobility among agency heads should be striven for. In the performance dialogue with the agency head concerned, the minister or state secretary concerned should bring up in good time – not later than six months before the term of employment expires – the issue of further tenure.

In every ministry, there should be smoothly functioning routines for monitoring and planning with respect to agency heads. One natural opportunity for the ministry management to discuss mobility with the agency head is in conjunction with the performance dialogue.

Salaries and Conditions of Employment

The Government appoints agency heads and decides on their salaries. Salaries are individual and determined in the light of the requirements of top managers' posts and the managers' qualifications and experience. Most agency heads are appointed for limited periods – six years as a rule. They cannot be dismissed until their tenure expires. But for organisational reasons or if required "out of consideration for the agency's best interests", an agency head can be moved to another position.

2.6.2 Personnel Policy for Good Performance

The Context of Government Personnel Policies

Unlike the majority of European countries, the Swedish central government administration comprises agencies, which are, in principle, independent of the Government. This principle of independence of central government authorities was introduced as early as the seventeenth century when the foundations of today's civil service were laid.

However, modern public administration has been influenced by international trends from both the public and private sectors. For many years, delegation and decentralised decision-making have been regarded as the ideal. Sweden has introduced wide-ranging reforms in this respect and the structure of Swedish central government administration is extremely decentralised as compared to other countries. As a consequence, employer responsibilities have largely been delegated to agency level. The aim has been to improve efficiency by ensuring that most decisions are made as close as possible to the people affected by them.

Some 250,000 of an approximate total of 1.3 million public (i.e. central, regional and local government) sector employees are employed by central government administration. The public sector in Sweden answers for one third of the labour market while national government agency employees account for approximately 6 per cent. There are approximately 270 agencies, ranging in size from a handful of employees to a staff of 25,000.

In recent decades Sweden's central government administration has undergone major structural changes. Expenditure cuts and redundancies, privatisation and other changes in the overall responsibilities of government agencies have halved the number of central government employees since 1985.

Central government administration in Sweden is primarily governed by decisions on objectives and funding passed by the Government and the Swedish parliament, the Riksdag, and by the evaluation of results. Both the Government and the Riksdag monitor government agency operations through their respective audit authorities.

The Government has increasingly delegated responsibility and authority to individual agencies with the aim of improved efficiency in operational and financial decision-making. There is no detailed regulation and reporting. The agency is notified of what is to be done, but not how it is to be carried out in detail. Each agency is free to use its resources as it sees fit within its mandate and within the framework of general regulations, which control government agencies.

Frame Appropriations

In Sweden's national budget system the Government and the Riksdag set out objectives for agencies and allocate a direct budget within which these objectives are to be achieved. Each agency is allocated funds to cover administrative expenses such as payroll costs and premises. These funds are adjusted in line with price and productivity developments in the private sector but are not automatically increased as a result of new pay agreements.

All agencies produce budget proposals for the next three financial years on which the Government bases its assessment of the agency's activities and resources. The Government may also decide that an agency is to produce more comprehensive documentation for in-depth examination. Each year, agencies submit reports to the Government, which cover performance and financial statements as well as details on human resources.

The Government continuously monitors the agencies' employment policy. Information is obtained from the agencies' annual reporting concerning their competence planning, salary level development, gender distribution, age structure and staff turnover.

Agencies Recruit All Staff Except Senior Management

The Government appoints Directors-General who head agencies and, in a few cases, other senior officials while all other staff is recruited by each individual agency. Consequently there is no central recruitment procedure into a civil service career as such. Instead, each agency determines the staff it requires. Careers in the traditional sense still exist for groups such as judges, prosecutors, the police and Foreign Service staff. In these cases the respective agency is still responsible for appointments and training. The previous distinction between civil servants, white-collar and blue-collar employees no longer exists.

The Swedish Constitution sets out the criteria for selecting staff to central government posts. Merit and competence and other reasonable grounds are to be decisive. Competence however is now given precedence. What competence consists of in each individual case is determined by the agency concerned and is defined by the requirements of each post.

Salary Levels and Other Employment Conditions

Salary levels and other employment conditions for central government are established in collective agreements. Employment conditions are largely similar to those valid for the rest of the labour market. The authority to conclude collective agreements on behalf of the State has been delegated to the Swedish Agency for Government Employers, which in turn may delegate this authority to other government agencies.

As mobility between different sectors of the labour market is desirable, it is necessary to harmonise terms of employment in the public and private sectors. Employment conditions in the central government sector must therefore be adapted to market conditions with the proviso, however, that this sector does not play a primary role in salary negotiations.

In 1990, the former system where posts were positioned in salary grades was replaced by a system of individual salary setting. This change was preceded by large-scale information and training initiatives for both employers and employees. The majority of managers and their staff are now familiar with the system and have confidence in it.

Individual salaries are set on the basis of the difficulties and responsibilities inherent in the post, the performance of the employee and the impact of the market situation on employment conditions. The most common method applied is for the immediate superior to evaluate results attained by the employee and his or her performance in conjunction with the annual salary review and to propose a new salary. Salary increases are then confirmed after negotiation as stated in collective agreements. Individual salaries are also set on the appointment of new staff when the employer determines the level. Otherwise, an agreed negotiation procedure regulates when and how salaries are to be revised.

2.7 Customer Orientation and Quality Systems

Within all major areas of welfare policy (e.g. education, pre-schools, elder care, handicap care, health care) new demands on the development of the quality system at all workplaces have been introduced during the past few years through legislation. Within the social service sector, for example, there has to be an appropriate system to continuously govern, monitor, evaluate and develop quality. The quality system should include the structure, responsibilities, processes and resources to lead and govern the unit, in order to secure that the quality goals are reached. Every organisation must, according to the quality legislation, successfully define its customers and their needs, demands and expectations. There are even more specific demands placed on the quality systems for elder care and handicap care.

When it comes to education, the Government has decided that all schools have to evaluate their activities and produce quality reports annually. These reports should include assessments based on both local quality measures and the national quality examination. The reports should contain a description of goals and results, assessment of the fulfilment of the goals, and proposals as to how the operations can be improved.

Sweden, the provides relevant examples of CQM across a range of different public services, for example childcare, education, and social security and care of the elderly. The work involves clarifying and strengthening the connection between the commitments the unit undertakes (based on the goals that direct the unit's activities, the needs of its customers, and the unit's chosen image), and the working methods and routines that are applied. Education, child care and care of the elderly are customer-affiliated activities, which are characterised by intensive, long-term and close relationships with customers. Customers' needs are often based on the values of security, consideration and respect. This emotive dimension is also often what attracts people to work in schools, hospitals and social welfare. By taking stock of these values, it is possible to create a multi-faceted picture of the

needs the unit is required to satisfy. Experience has shown that an initial stock- taking of such values, together with the personnel, provides an invaluable basis for commitment to development work.

3. The Reform Process

In this section we have summarized the reform process in Sweden and lessons learned.

3.1 Implementing Innovative and Effective Management Systems

Historically, the effective management of governments has been beset with contradictions in policy implementation, plagued by limited capacity and inhibited by significant financial constraints. The requirement for achieving successful reform and change in Swedish government has been effectively to balance between various competing requirements, such as: (a) approaches to management which emphasise efficiency, devolution and decentralisation, (b) the development of equitable and sustainable governance institutions, (c) institutionalising strategic and co-operative leadership, (d) maximizing participation by stakeholders, and (e) ensuring transparency and accountability. Each of these issues must be addressed if one is to improve the quality of the management of government. Consequently, significant performance management reforms often take time to implement and sometimes the ideas behind them are slow to take root.

The management solutions that have been applied to structural reorganizations tend to focus more and more on Management by Results approaches. They have often followed the pattern of imitating business models and promoting competition. The main elements of such efforts are:

- decentralization of operational management responsibilities to individual units;
- creation of a business management ethos - including cost consciousness, management by results and financial accountability within organisations;
- competition between providers;
- treating the public as citizen customers, rather than clients, in a purchaser-provider contracting system, and;
- implementing centralised financial control with local management discretion.

External and internal audit must also be in place (performance assessment, performance auditing).

Today a variety of new performance management methods, concepts, models and values are being accepted as integral to the way public administration is conducted. Recent experience at central and local levels suggests that typically there are four phases in the process of public management reforms. The first phase has involved addressing the full range of familiar bureaucratic shortcomings: waste, unnecessary activity, over complex regulations, overlap and duplication of functions, confused lines of responsibility, slow and over centralised procedures for decision making, divided authority, unclear performance standards and lack of information about results and costs. Such reforms have focused on matters like the elimination of outdated reporting systems, of expensive work being conducted by government when it is clear that external purchasing is cheaper and of common services being provided free of charge to user departments.

The second phase of reform typically has focused on more general public management modernization. The objective has been to shift from procedures-based administration to a results-based management style, with improvement in performance. This provides measures on a yearly basis of results and costs and leads to better methods of using human and financial resources. This phase relied on a "one-best way" management-by-objectives (MbO) philosophy strongly influenced by private sector experience. The main themes of the second phase have been:

- strengthening accountable line management
- developing new systems, structures and priorities to decentralize financial management and cost control.

The third phase of performance management reform involves the changing of culture, attitudes and behaviour in government so that continuous improvement becomes a widespread and built in feature

in the search for better value for money and steady improvement of services. This phase can be summarized in the following way:

- focus operational management responsibilities by clearly defining objectives and tasks
- keep strategic policy and resource decisions at the centre, but devolve implementation decisions to the units responsible for results; and,
- establish processes for agreeing on performance measures and "contracts" between the centre and the units responsible for programme results.

The fourth phase of reform is often quite different. This phase aims at large-scale structural reorganisation of public service delivery systems. A macro management process is always required to steer structural changes because they ultimately are beyond the control of individual organisations. Another defining feature of the new method of management is its responsiveness to stakeholders' interests and needs. Thus, one task of the reform, if it has not previously occurred, is to identify and support the development of local partnerships (e.g. with community-based organisations, non-governmental organisations, and the private sector).

3.2 Management Reform and Organisational Change

There have been major changes in the key concepts of performance management in Sweden along with the worldwide movement from highly centralised planning to more sustainable, participatory and democratic procedures. It is being increasingly realised that the central government should not interfere in the administration of local government and that the local governments must have the financial resources to run their programs.

For those countries making the transition to a market economy, addressing issues about performance management reform and decentralisation, the appropriate role of local governments, and new approaches to governance is central to the reform process. This has also been the case in Sweden. It was e.g. not until 1990 that it became possible for local government to contract the teachers in the schools and to remunerate them as local personnel. Local governance in this situation required the acquisition, by both officials and administrators, of new skills and management systems. Moreover, citizens will certainly try to influence governmental institutions to cater to their own increasingly diversified needs - thus placing even more locally focused demands on systems. Consequently, decentralisation, which moves decision-making power closer to communities, is a logical reform. For citizens, the demand for decentralisation is strong, but the struggle to achieve it is much more complex and far from won.

As administrators find themselves drawn to the challenges of the market place on the one hand and the demands of the citizenry on the other, they have increasingly had to become the political managers, negotiators and mediators of central-to-local relations as well as of newly emerging public-private partnerships. They are the initiators of reform and, therefore, need substantive knowledge and skills for strategic planning in all its dimensions.

To respond to these challenges, the Swedish government has adopted an integrated performance management approach, including:

- the introduction of participatory performance management which encourages the decentralisation of institutions;
- the decentralisation of administrative, political and development processes to lower levels - counties, municipalities, districts and neighbourhood committees;
- greater citizen/community participation to ensure the co-operation and support of the public for municipal programs;
- the opening up of institutions to public scrutiny in order to ensure accountability, thus enhancing efficiency, probity, transparency and effective program execution; and,
- greater efforts to develop improved institutional capacity.

Recent management innovation involves creation of closer linkages between budgets (resource allocation) and performance. The main aim has been to switch from a system based on inputs, to a system based on outputs, where the day-to-day management is left in the hands of autonomous units. This implies more stringent stipulation of the results required as well as greater freedom for the units to obtain them.

3.3 Measuring Effective Performance

Discussions regarding effective performance within the public sector are often carried out in two completely different dimensions. On the one hand, there are discussions about the evaluation of the amount of the service provided to customers and, on the other hand, there is the discussion and evaluation of the result of what is provided. In an effort to move beyond the tendency to evaluate government services in terms of the amount of activity carried out, many governments have begun to focus on new techniques for the measurement of performance with particular emphasis on issues of quality.

This growing movement is stimulated by many factors, including the demand for a "results orientation", the desire for greater accountability and responsiveness on the part of various constituencies, the new demands placed upon local administrators as a consequence of the contracting out of services and, finally, the fact that local officials are finding themselves increasingly required to justify their activities in the face of fiscal constraints. These new demands upon government administrators have had the consequence of requiring them to develop an ability to assess quickly and effectively whether the programmes that they, or their contractors, are delivering are in fact meeting the needs of their clientele in the most effective manner.

Government officials and administrators are responding to these circumstances by developing increasingly elaborate systems of performance measurement in which relevant and significant indicators of agency and government performance are used to assess the success of a programme in terms of the effectiveness of the services delivered and their congruency with the needs of the clientele that they are designed to serve. This effort has led to the development of benchmark measures by which an agency can compare its performance at different periods of time and with that of other governmental units and jurisdictions.

3.4 Lessons learned

Lessons learned 1: The dilemma of consensus versus change.

The process of performance management reform in the public sector has highlighted the fundamental dilemma of upholding the government's role as a promoter of change as well as of stability and consensus. Creating conditions in the public sector - which promote a culture of continuous improvement, foster innovation and capitalise on individual and team performance, is in itself an ongoing challenge for the government. However governments are also required constantly to maintain a balance between under and over stimulating change and innovation. The change from monopolised to pluralistic provision - involving private sector and non-profit agents - must be properly managed to ensure effectiveness and adequate feedback into the policy process. Opportunities to increase flexibility and efficiency must always be weighed against the risks involved in losing political control and the responsibility for public sector activities, which must be based on societal consensus.

Lack of confidence is always a problem in too over-centralised systems. Local and regional governments are therefore key elements in the political systems of many liberal democracies, not only in Sweden. It is seen as an appropriate level for effective government intervention to meet welfare needs and also to stimulate economic efficiency. In Sweden, experience shows that local government is central to the establishment and maintenance of the democratic process.

The changing relations between central and other levels of government have been an increasingly important consideration in the development process during recent decades in Sweden. As people's income grows, the amount of social services increases. Above all, this means investing in education and health, building social, physical, administrative, regulatory and legal infrastructures of better

quality, mobilising the resources to finance public expenditure and providing a stable macroeconomic foundation. It is important to define these issues as investments for the future in a positive and prospective way.

Multiple interests must be brought into a participatory policy-making process, without jeopardising the capacity to govern. The general development tendency which has most affected the organisation of work in recent decades in Sweden, is decentralisation. Management by Results as a management philosophy is a natural consequence of the decentralisation of an organisation, which leads to a clear focus on results. An increased orientation towards the market, performance-linked incentives and new management information systems has meant that operations have been adapted more rapidly to changing needs. Performance management strategies involve a shift from traditional procedural approaches to a more results-oriented culture where priority is given to outcomes of public policies. The aim has been to move from a mode of operation based on ex ante control of resources, extensive regulation to prevent abuse and ex post inspection to ensure compliance with legal standards, to one based on continuously monitored performance and management with accountability for results and all dimensions of performance (economy, efficiency, effectiveness, service quality, financial performance).

These efforts need to be woven into a framework where the central capacity to govern is enhanced, especially in the face of globalisation; where an appropriate balance is struck between central direction and local discretion; where the interests of many policy actors are considered; and, where democratic accountability is protected. Traditional values of neutrality, integrity, and equity must be married with today's demands for value-for-money and quality of service.

Therefore, the challenge facing governments is to re-establish political strength by being more explicit when defining goals and more consequential in following up results. Using market mechanisms should encourage quality improvement and cost-effectiveness. We believe that only by applying both these strategies can governments solve the dilemma of consensus versus change.

Lessons learned 2: The link between PMS and PMM

The implementation of Management by Results (MbR) has been applied in central and local government, in many cases very successfully, especially on the local and regional level. MbR and other performance management strategies involve a shift from traditional procedural approaches to placing emphasis upon the outcomes of public policies. An evaluation of the lessons of experience in central and local government in Sweden up to 1997 suggests the following guidelines for implementing such a reform process (Svensson, 1997):

Table 12: Guidelines for implementing a performance management reform process

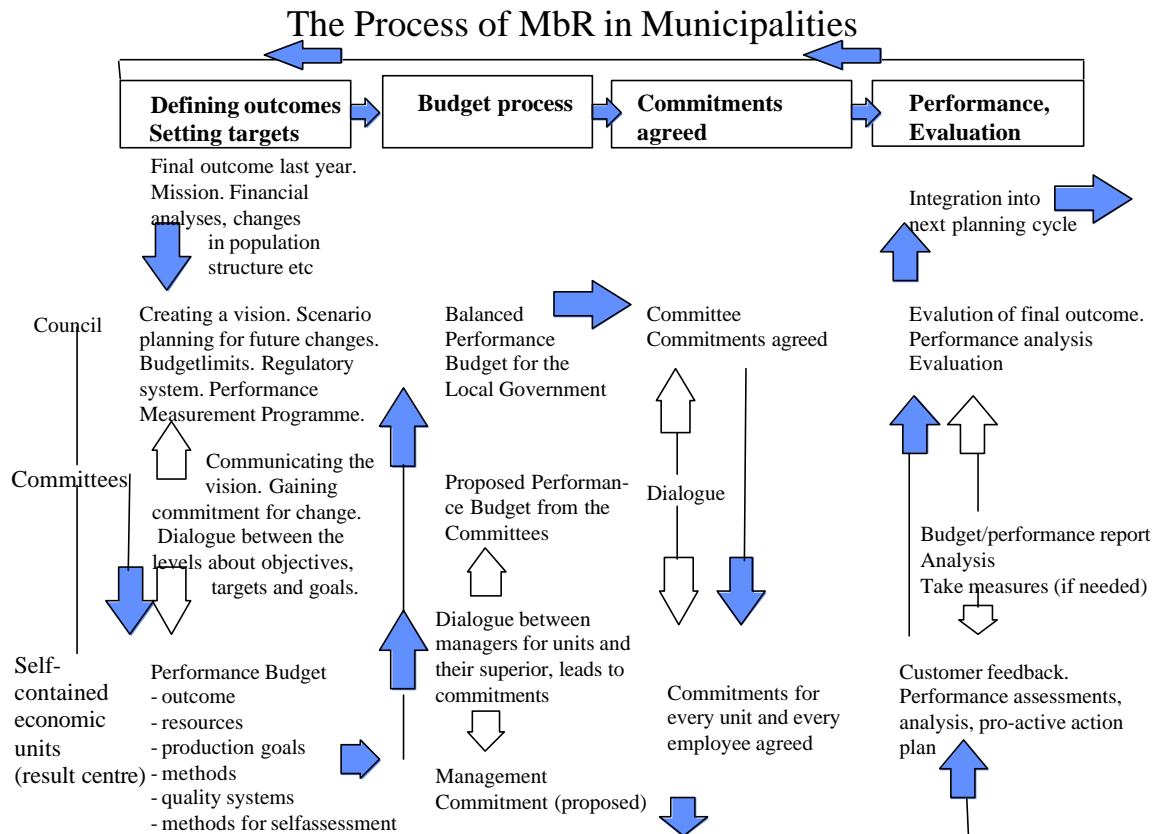
- The effects for the target groups should be focused at all levels of the organisation.
- Discussions about visions, goals and objectives should be integrated into the budgetary process and all decisions should relate resources to demands for results in terms of the quantity and quality of services delivered.
- This process should be designed in such a way as to engage every politician and every employee of the organisation. Objectives which are credible and motivating must be established.
- The government should be organised into "result units" and there should be a commitment (contract) for every result unit signed by the manager and her/his superior, where responsibility for certain results is agreed upon.
- Required results (which are possible to follow up and evaluate) must be linked to resource allocation.
- Outdated and unnecessary regulations should be abolished. Decentralisation of authority and employee empowerment is fundamental.
- The commitment of every employee to defined results is critical.
- Effective monitoring, evaluation, performance incentive systems and accountability must be implemented.
- Essential prerequisites for MbR are systematic customer/citizen quality feedback systems. Evaluation and accounting systems should be implemented so that the achieved results can be measured against visions, goals, objectives and guaranteed outcomes.

- The philosophy of MbR should be carefully implemented among all politicians and all employees through well thought-out introductory programs and appropriate training systems.

Source: Svensson, 1997

Management by Results was introduced in the entire national government in the early 1990s but had then already been introduced in some Swedish municipalities during the 1980s. Today at least 75% of the Swedish municipalities have decided to use Management by Results in the budget process. The process, in most local governments using Management by Results, is summarised below:

Figure 2: The process of Management by Results (MbR) in municipalities

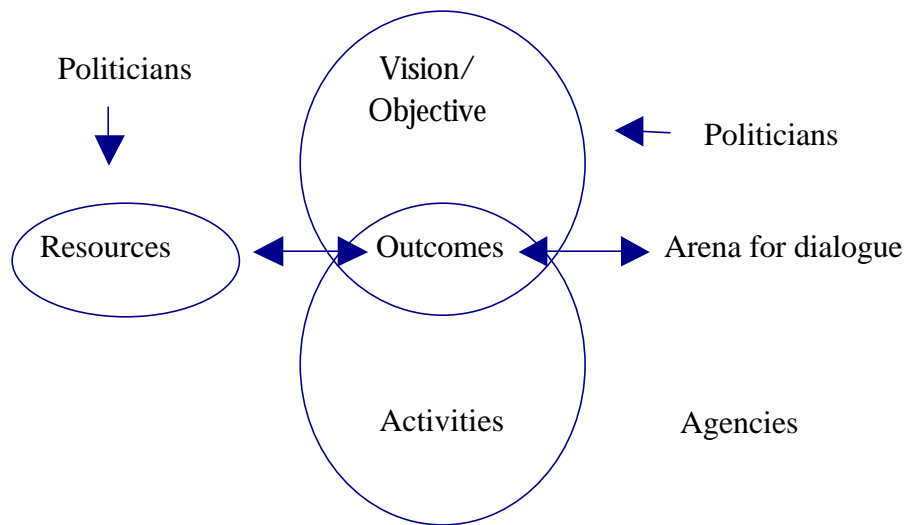


Source: Gustafsson and Svensson, 1999

The commitments aim to clarify the responsibilities of each party and represent a formal commitment by the parties to what has been agreed. These include a specific type and level of performance in return for specified funding and the specified level of autonomy and related reporting requirements (sanctions and rewards may also be prescribed).

The problems due to the hierarchical structure of the organisations in the public sector have been solved in most Swedish municipalities using MbR by emphasising dialogue regarding the goals, rather than their breakdown, as illustrated in the following figure:

Figure 3: Illustration on the formulation and dialogue on goals : division on responsibilities between politicians and agencies



Source: Svensson, 1997

Note: The figure illustrates the importance of a clear division of responsibilities between politicians and agencies and at the same time the need of a dialogue on the expected outcome.

The management systems in many Swedish municipalities have been further developed into the model Commitment Quality Management (CQM). Its aim is to balance external demands with limited resources and to create a culture where achieving customer satisfaction and real results is the commitment of every committee, manager and employee in central and local government. Contracts are drawn up to clarify the responsibilities of each party and constitute a formal commitment by the parties to mutually developed and shared goals. This system specifies the specified type and level of performance required in return for specified funding, and sets an agreed level of autonomy and the related reporting requirements.

CQM highlights

- Leadership based on clear specifications of performance (including quality standards) in aims, objectives, goals and targets
- Focus on the results achieved for the citizens and their perception of them
- Performance Commitments based on participation of every employee in the process
- Measurement and evaluation of performance, including service standard quality; and
- A program for continuous improvement of quality and efficiency.

Efforts to reform government in this direction have been very successful and have served as model for the reform of the management of both central and local government. This would involve:

- utilisation of the MbR negotiating process as a step towards CQM
- utilising MbR systems in the form of interactive co-planning with citizens in technical and social areas.
- integrating MbR systems with systematic customer/citizen quality feedback systems.
- distinguishing between - but linking together - programming, financing and implementation
- ensuring interaction between results orientation, regulation and competition in local government services.
- integration of MbR systems and organisational outsourcing with the aim of stimulating institutional competition.

This approach builds upon the growing trend towards quality control of public service production through citizen and customer participation. Above all, it includes systematic and decentralised citizen quality feedback systems and in some cases explicit service obligations by the administration towards citizens within the framework of a citizen charter, focused upon issues such as timeliness, accessibility and continuity of services.

This approach to reform does, however, lead to a strategic dilemma in the course of the internal modernisation process: typically the central unit proves to be an important, if not indispensable, motor initiating the reform process, once a certain stage of development has been reached, however, the headquarters often constitute a major barrier for the further course of the modernisation process. A second strategic dilemma is found in the fact that by abandoning administrative in favour of results-oriented steering, one creates organisational space for autonomous action by the units at local level. Such a steering logic can, however, lead to the centrifugal fragmentation of the administrative system unless monitoring skills to accompany the process of reform are developed as a medium for collective observation, learning and self-steering.

Internal modernisation is not merely a task for management, but is inherently a function of the work and action of all the employees participating in the value added process. Thus the development of working structures which are conducive to learning and favour task integration, together with corresponding personnel development systems, is essential.

Lessons learned 3: The relations between politicians and officials will be changed

The roles of politicians and officials in a democratic system have to be continuously discussed. This is of course of special importance on local and regional level where the introduction of MbR in Sweden has affected the traditional roles of the politicians. That is why Parliament in 1994 took the initiative to make a comprehensive scientific study of the results of the renewal work in local government. A parliamentary commission, the Local Government Renewal Commission, filed its report in 1996 and concluded that so far sensitive evaluation instruments had not accompanied the introduction of MbR. Thus the methods of MbR and related systems for evaluation have to be further developed and improved.

Furthermore, decentralisation of operational responsibility from the central government to the municipalities and county councils made it necessary to get greater clarity as regards the division of responsibilities between central and local government was necessary. The Commission emphasised the necessity of democracy issues taking a significantly more prominent role in future renewal work. It meant that more people must be afforded an opportunity of participating and training themselves in solving common problems by democratic processes,.

A related but different problem that is sometimes brought up in the political debate has to do with the relationship between financial resources and the quality of services. Opponents of the modern systems of MbR argue that politicians avoid taking responsibility for budget cuts and corresponding cuts in operations by delegating the implementation of reduced programmes to executives. It is argued that the delegation of decisions to cope with the consequences of the budget cuts is just a way of avoiding criticism and not taking full political responsibility for necessary decisions. According to this line of reasoning officials faced with objectives that are not compatible with available resources are blamed for the results of what is actually political reprioritisation.

The roles of politicians and officials in national government are basically different. Also in this context we can see that modern systems for control and monitoring lead to new challenges for the stakeholders. We comment on this aspect when we describe the new central government budget process through which the relationship between Government (the politicians) and the central administrative agencies (the officials) has been redefined. We will see that expectations of the new administrative systems are not always compatible.

The problems that we have identified here are systematically addressed in many municipalities and county councils. In the following we will highlight some of the instruments that they have applied.

Lessons learned 4: PMS for Insuring Accountable and Transparent Governance

In recent years the role of the civil servant as a servant to the citizens has been stressed and developed. Openness is an important part of this policy. In the current reform program for the national public administration ("Public Administration in the Service of Democracy") this view is underlined: "Public access is one of the basic principles of Swedish society. Swedish public administration is characterized by transparency vis-à-vis citizens, companies, municipalities, organizations and media. Central-government agencies' work and contacts with citizens, businesses and the media must be characterized by great accessibility and language that is as simple and intelligible as possible. None the-less, it is essential to point out that the citizens' demands, as well as the preconditions for developing and meeting transparency requirements, change over time. Public administration must therefore derive benefit from the available opportunities of, for example, using new technology in its efforts to facilitate openness and access to information."

A key concern in many countries is the lack of transparency in government and the impact of widespread corruption on the effective delivery of needed services. Democratic society based on the principle of the rule of law without accountability and openness is a contradiction of terms. If the citizens are the "owners" of the state it is self evident that they must have the right to information as to the condition of their "property". Secrecy is an antithesis of the very essence of democracy. As never before information is the basis of both economic and political power thus determining the rules and realities of governance.

Many countries are undergoing extraordinary and profound transformations very rapidly. Economic, political and governmental systems, not to mention a variety of institutional and social structures, are being dramatically altered, sometimes with stunning speed. The ambiguity and insecurity produced by profound change, carried out in a very short period of time, has in many places contributed to a growth of corruption and unethical behaviour on the part of public sector employees and government officials. Such corruption ranges from minor incidents involving low level bureaucrats seeking petty favours for the performance of what ought to be routine responsibilities, to corrupt practices involving tens of millions of dollars in activities such as the awarding of contracts, privatisations and the like.

Every country experiences some problems of corruption. However, well-established democracies have had considerable periods of time - from decades to centuries - to build and develop the means to lessen and impede the likelihood of individual and institutional corruption. Factors contributing to maintaining ethical behaviour on the part of public employees and government officials can be divided into two general categories: the "procedural", that is the various systemic arrangements and relationships which have been designed to limit the opportunities for corrupt behaviour and activities; and, the "institutional", that is the structural arrangements which have been established as part of the process of democratic institution building which help to sustain ethical behaviour.

There are a myriad of procedural arrangements which governments around the world have adopted to ensure ethical conduct on the part of public employees and officials. In general, procedural approaches to maintaining ethical behaviour tend to fall into two very broad categories – first, ensuring the availability of full and adequate information on governmental activities in order to enable the citizenry to exercise effective oversight over public officials and government employees; and, second, the regulation of the behaviour of public officials and governmental employees.

The first category of procedural approaches includes the implementation of open records laws, the practice of open meetings, the holding of public hearings (generally and especially on governmental budgets) and the provision of extensive, relevant information to enable the citizenry to accurately assess the activities of their government and those who represent them. This includes making readily available to the citizenry of governmental statutes, regulations and rules and providing clear and extensive written information about proposed budgets including performance indicators, the activities and programmes of government and the organization and delivery of services. While many, if not almost all, of these practices have been in use for some period of time in well established democracies, many of them are relatively new or, in many cases, still do not exist in countries presently making the transition to democracy.

Consequently, it is important when introducing performance budgeting to encourage governing bodies to adopt procedures that make more governmental information readily available. This has included

encouraging the introduction of public hearings on budgets at all levels of government. In some instances, efforts have been made to support the introduction of open records laws which require that all of a government's written documents - ranging from an individual's personal notes of a meeting, to formal government records (with the exception of private personnel records) be open to the scrutiny of the public and the news media.

Another, perhaps less radical, approach to making adequate information available to the public involves institutionalising administrative procedures that ensure the adequacy of information produced by government agencies. The introduction, for example, of management information, performance measurement and planning, performance budgeting systems all contribute significantly to making governmental information more available - thus enabling the citizenry to evaluate the performance, and, in many instances, the integrity and accountability of their government officials. In this sense, making available better and more detailed agency reports and informational documents and the use of new technologies such as web pages, and the provision of information about government contracts via internet, all contribute to establishing procedures that ensure the openness and integrity of government performance.

Another form of procedural arrangement designed to support open, transparent and honest government involves establishing processes that ensure that, when there is a question about the ethical behaviour of government officials and public employees, adequate investigations can occur to determine the validity of the concerns. Governments around the world have taken a number of different approaches to dealing with this matter. These include the establishment of internal and external audit arrangements, the conduct of legislative oversight activity and the requirement of direct executive responsibility for governmental performance.

In many democracies, it is typical for government officials to contract with private sector accounting and auditing firms to review the effectiveness and integrity of financial management. The companies contracted are themselves subject to legal prosecution should their reports prove to be negligent or misleading. Likewise, various kinds of procedures exist for oversight to be carried on internally within the government itself. These range from simply requiring that the chief executive be held responsible for the performance of those who report to him or her and to requiring routine reviews of agency performance.

The second major procedural approach to ensuring open, ethical and accountable government is to regulate the behaviour of government employees and public officials. Frequently this is done through the establishment of codes of ethics. In some instances these are developed by professional associations and are enforced principally through social pressure and informal sanctions. In other instances, however, governments have chosen to pass laws, which regulate the performance of public employees and make those employees who deviate from the standard established in law liable for criminal penalty. Such arrangements exist particularly in areas involving financial matters, such as the procurement of supplies, equipment and facilities.

Another area in which the activities of public employees are regulated in order to minimize the possibilities of corruption is with regard to political activities. In many Western democracies, public employees are by law not allowed to engage in partisan political activity and therefore are assumed to be less susceptible to efforts to manipulate governmental activities in such manner as to benefit one political party, or set of individuals, at the expense of another. Finally, it should be noted that increasingly, democratic societies are finding it necessary to establish procedural safeguards to protect those individuals who reveal unethical conduct and performance.

Without question, the most important structural arrangement helping to ensure ethical government involves the separation of contemporary government into different branches and levels in such a manner as to disperse power and authority and the ability to control government funds and activity among different individuals in different units of government. These arrangements limit very significantly possibilities for the monopolization of power and provide a critical opportunity for the checks and balances and competition among branches and levels of government. Competition, as well as the need for coordination, also encourages the making available of information which the public requires to ensure open, effective and transparent government.

Many democratic governments have established and rely heavily upon various kinds of institutional arrangements, which provide for substantial oversight of the activities of government. Sweden introduced the Ombudsperson, a highly independent government official, who has extraordinary investigative powers to determine that governmental agencies are acting appropriately - both in terms of responsiveness to the citizenry and in ethical terms as well. In the United States, there has been a proliferation within government agencies of what is called "Inspector General's" offices. These are units within government agencies which are given extraordinary powers and authority to investigate the normal operations of the government agencies of which they are a part in order to ensure the maintenance of the highest levels of professional and ethical standards.

Also important in this regard is the oversight and investigative authority given to legislative and judicial branches of government. Judicial branches, through grand juries, can carry out their investigative activities unimpeded by the executive branch. Often, legislative branches (usually through their committees) exercise significant oversight authority and will have various resources enabling them to carry out thorough and independent investigations of the activities of the executive branch. They will possess expert staff and, in most cases, be given subpoena power that enables them to compel honest and full testimony from members of the executive branch on the threat of imprisonment. In addition, many legislative bodies have established specific agencies designed to exercise direct oversight over the executive branch. Some of these agencies focus principally on issues of financial management, while, in other cases, their authority is much more wide ranging and includes the assessing of performance and the measurement and assessment of results.

There are numerous other structural arrangements that contemporary democratic governments have established to encourage open, accountable and ethical government. These include, for example, techniques to involve private citizens in the practice of government. Thus, many democracies rely heavily upon citizen boards to advise, oversee and, in some cases, actually make policy decisions for government agencies. These boards often have access to trained staff and have varying levels of legal authority to require information from the government agencies they oversee or advise. The use of such boards enable citizens to gain better access to information as well as to develop expertise in the area of policy for which the board is responsible.

Both the procedures established by government and even its institutional structures can often be significantly altered – especially in more fragile democracies. Consequently, in the end, the traditions, values and cultural norms of a society represent a very important means of sustaining the procedures and structures that ensure accountable, ethical and open government. Certainly, one of the key factors promoting ethical and accountable government in many democracies is the longstanding tradition of a free, open and effective press. It is arguable that the existence of a strong investigative media may represent the single most important force for preserving integrity and ethical behaviour in government. While frequently attacked and criticized by government officials for having its own bias, in most democratic societies, media investigation is an extraordinarily important force in the promotion of honesty in government. However, because of the tradition of politicians frequently attacking the media, it is essential that countries have constitutional or statutory protection for those individuals in the media who call attention to unethical or inappropriate behaviour on the part of those within government.

Another key factor, especially in many democratic societies, is the general approach which is taken to both educating and socializing those who work for a government. In many countries, great emphasis is placed upon the notion of the person working in government being "a public servant". In that sense, each individual government employee is held responsible and accountable to the citizenry for the highest standards of performance and ethics. Much effort goes to educating those who will go into government, and the citizenry of the country, to ensure that there is a widespread consensus that public officials must be held accountable for high standards of integrity. The culture of government, as well as the expectations of society (reflected in both public attitudes and professional norms), should place great emphasis upon the ethical behaviour of public servants.

Another set of factors that contribute in important ways to ethical governance is the combination of long term political and economic stability and an active civil society. It is apparent that the development of a tradition of ethical behaviour within a society requires a reasonable degree of stability and responsiveness on the part of the government. Stability facilitates the establishment of strong norms and expectations for individual performance. Similarly, the existence of an energetic

civil society, which demands responsiveness on the part of government officials, can become a critical factor in maintaining governmental integrity. In a number of Western democracies there are many non-profit organizations and groups, which employ individuals who become very expert in particular areas of public policy and governmental activities. These individuals, through their investigative skill, represent an important form of check on the potential for corruption in government. Indeed, many such organizations take great pride in their capacity to investigate the activities of government officials and serve as “watchdogs” over government agencies.

Lessons learned 5: Improved Accountability is Essential to the Reform Process

A major need some decades ago was to integrate what were frequently several highly independent financial budgeting and accounting systems into a single integrated financial management system. In Sweden there was disconnect among investment planning, budget, accounting, cash and departmental management, audit and evaluation (concurrent and ex-post), which undermined the feedback necessary to enhance accountability and sound policy choices. Incorporating evaluation as a managerial tool is still a feature of public management in Sweden that needs to be further developed.

The government in Sweden has also been moving to modernise its procurement systems. Some strengthening of such systems through legal reforms has occurred however. This has involved the introduction of more transparent procedures, adoption of improved bidding documentation and competitive bidding. In addition training programs for politicians and staff members have been introduced to improve accountability and support better budgetary performance.

With democracy and a free press as a part of the civil society, major incidents of corruption have been very rare in Sweden. Increased publicity about corruption reflects the increased attention shown to such practices rather than any increase in corruption itself. Nevertheless there is no doubt that the prevalence of any corruption will have a serious detrimental effect on development, particularly in terms of confidence in the government. To combat corruption, efforts must be made at the central level, where governments are attempting to simplify policies and procedures, and at the local and institutional level. To increase transparency and improve accountability the government is involved in the process of:

- developing systems to help ensure the consistent application of norms and regulations (accounting standards)
- strengthening and creating effective and efficient supervisory institutions
- strengthening internal managerial and financial control

4. Normative Conclusions and Recommendations

Finally we will make some normative conclusions and give some general recommendations on how to design pilot projects on Performance Management and Performance Budgeting.

4.1 Conclusions

The introduction of management by results as an administrative philosophy is a natural consequence of the focus upon the decentralization of government organization, which leads to a clear focus on results. Performance management strategies involve a shift from traditional procedural approaches to a more results-oriented culture where priority is given to the outcomes of public policies. The aim is to move from a mode of operation based on ex ante control of resources, extensive regulation to prevent abuse and ex post inspection to ensure compliance with legal standards, to continuously monitored performance and management with accountability for results and all dimensions of performance (economy, efficiency, effectiveness, service quality, financial performance).

Therefore, the challenge facing both central and local governments is to gain or re-gain political strength by being more explicit when defining goals and more consequential in achieving them. Quality improvement and cost-effectiveness should be encouraged by using market mechanisms when and where appropriate. Only by applying these strategies can central and local governments solve the dilemma of assuming a new relevance through simultaneously juggling the complexity of protecting stability and consensus while seeking to achieve significant change.

Increasingly, it is evident that one of the keys to future development is found in the area of governance reform. Better governance means greater citizen participation and increased public accountability. Together these conditions lead to improved, and more equitable, economic development. Therefore, the national and the public domain must be opened up to further participation by the many actors whose contributions are essential to successful and equitable economic development and good and fair governance. This involves not only the reform of the institutions of government but the mobilization and involvement of civil society and the private sector as well. The effective collaboration of all three of these sectors is a necessary pre-condition for people centred development. Such development includes men and women of all age groups and provides them with equal choice and access to a society's services and opportunities.

4.2 Suggestions For Building Effective, Responsive, Democratic Governance on Performance Management Strategies

In many countries, experiments with the building and strengthening of performance management strategies have now been underway for some time. As a consequence, there is an increasing body of knowledge regarding what we can do to make things better. Among the key points in this regard are the following:

1) Recognize the Complexity of the Task of Performance Budgeting

The reality is that many of the world's governments are severely lacking in adequate resources. Moreover, in far too many cases, the likelihood of finding significant new resources is not very great. At the same time, the public problems with which governments now must routinely deal have grown greatly in number, are becoming ever more complex and are often highly technical in nature. In many instances, there appears to be no clear-cut solution to a growing number of the problems faced by governments. The introduction of performance management methods is an excellent mean to increase effectiveness and efficiency. But we have to bear in mind its limitations. That this is the case should not undermine the ongoing, and growing, commitment to the constructing of strong and vigorous governance. Consequently, it is imperative that, despite the seeming complexity of the task, efforts at building, and sustaining, effective and creative institutions of governance continue.

2) Citizen Empowerment Underlies Performance and Effective Governance

The single greatest virtue of democratic governance is its closeness to the people who are being governed. Performance Budgeting aims at focusing on the outcomes for the target groups. In some of the performance management techniques, e. g. Commitment Quality Management, it is a prerequisite to work in close contact with the citizens. However, all too often only part of the people being governed are effectively involved in or able to influence their governments. Frequently, the poor and the marginalized within a community are not able to effectively influence the decisions of their governments. Such a situation serves in the long run to undermine the effectiveness of government - both as a democratic institution and as a generator of needed economic development.

Consequently, it is critical that efforts to build and strengthen government include major initiatives to encourage the empowerment of all citizens – especially the poor and the marginalized. Programs that reach out to the urban poor, that provide them with adequate information to understand both the opportunities for and the responsibilities inherent in governance, are critical. As experience in many highly developed countries has shown, the failure to undertake such initiatives will have significant costs in ways ranging from civil disorder, to growing financial burdens, to a decline in basic infrastructure and economic capacity.

3) Build Sustainable Partnerships on the Commitments

Frequently the solving of problems requires the collaboration of different levels of government, neighbouring agencies and international organizations. Stakeholder analyses may help to identify those who should be involved in formulating objectives and outcomes. Equally importantly, many of the contemporary problems faced by governments require the collaboration of both the public and private sectors and, increasingly, civil society. Often these groups have different and, in some cases, even competing interests and values. Consequently, it is essential that efforts be made by each of the participating parties to understand the needs of the other participants to be able to formulate common commitments.

4) Understand the Fragility of the Performance Budgeting Reform Process

Even in the most highly developed and strongest governments, the process of performance management reform is a complex and difficult one. Frequently one must negotiate among many established interests with strong needs and/or desires to maintain existing practices. Economic or political circumstances well beyond the control of the participants in the performance management reform process frequently complicate and undermine reform initiatives. Consequently, it is crucial that those involved in the process of introducing performance budgeting and building and/or reforming the institutions of governance recognize that such efforts often require both much patience and a long-term commitment. Just as there will be success and triumph, there will be losses and disappointments.

5) Strengthen Management Capacity and Performance Management Systems

It is imperative that the management capacity of government be significantly enhanced. This is just as true in highly developed countries as it is in transitional countries. In many instances, governments lack adequate capacity to develop the kind of information on citizen needs that is necessary to formulate SMART goals and to respond effectively. Critical for performance is the implementation of various kinds of measurement and quality management systems. However, in many cases the need is even more basic than this. In many communities, basic financial management practices, both in terms of budgeting and accounting, are woefully lacking. The effective implementation of such systems is in many cases critical to maintaining public confidence and trust in government.

6) Recognize the Centrality of an Adequate and Dependable Revenue Base

In many countries regional and local governments possess only the most limited revenue raising capacity – thus making them highly dependent upon central government subventions. Increasingly, as new demands are being brought to bear upon them, they become ever more dependent upon their national governments to provide funding either through routine transfers or by specific appropriations. Such dependence inevitably limits the capacity of regional and local governments to provide the services their citizens require and to play their role in the process of democratic institution building. It also makes it difficult to establish a budget process where all employees are involved in defining the realistic level on performance.

The authority and capacity to raise revenue, whether through imposing taxes and fees, or incurring reasonable debt, is essential to the building of strong regional and local governments. That is so not just because revenue is a pre-requisite to the provision of effective and adequate public services, but also because the raising of revenue forces local public officials to act more responsibly. Public officials who are required to impose taxes upon the people who are going to vote them in or out of office will remain attentive to their constituents and behave responsibly.

7) Build Coalitions of Support by Drawing Upon the Strength of Civil Society

Governments, both at the national, regional and the local level, can create environments that are either friendly to and supportive of civil society growth or that retard and limit its development. Through the protection of such basic rights as freedom of speech, association and press, as well as through a variety of specific legislative actions (including taxation, financial support and regulatory activity) government – both national and local – can profoundly impact the ability of civil society institutions to develop and flourish. Performance auditing and the role of inspectorates are important parts of the complementary systems making public administration performance driven and thus also prerequisites for an accountable and transparent government.

Performance management strategies focus on results. It is less important who is actually carrying out the activities. It is crucial that civil society organizations and governments work in partnership to explore the most effective means for delivering services to the citizens of a given community. In some cases it may well be that civil society organizations represent a more effective means for the delivery of the basic services that citizens require. On the other hand, it is equally imperative that governments not abdicate their responsibility for the delivery of needed service to their citizenry on the assumption that civil society organizations can provide them. The most effective system of delivering needed services to citizens involves both civil society and government working together.

8) Strengthen the Partnership of Local, Regional and Central Governments in the Performance Budgeting Process

National governments - through their legislation and through their fiscal policies - shape the environment within which regional and local governments operate and can limit or support their capacity to act effectively. Consequently, it is of critical importance to the future of governance that national, regional and local officials, as well as civil society representatives, work together. In that regard, it is especially necessary that those at both the local level and the national level recognize that the strengthening of one or another level of government does not represent a “zero sum game” in the sense that, if one level of government is enhanced, another will inevitably become weaker. Indeed, much contemporary experience, particularly in those countries where governmental institutions are highly developed, suggests quite the opposite. When one level of government becomes institutionally stronger and more competent, pressure builds for the other existing levels of government to follow suit and likewise enhance their capacity.

9) Develop Effective Public-Private Partnerships in the Performance of Activities

Performance management strategies focus on defining specific results to be achieved but at the same time to choose transparently between alternative options in designing courses of action (activities). The building of public-private relationships can be an effective option even if it is a complicated and difficult task. In many instances, institutional cultures differ and both sides need to learn new ways of dealing with one another. In so doing, they often find that they need to reassess some of their own basic values and beliefs. As a result, both parties will often find the effort a highly productive one. Consequently, when joint public-private ventures work, the resulting synergy can be extraordinarily beneficial - both to the participating organizations and to the citizenry of the community.

10) Performance Budgeting is at the Heart of Responsive Government

There is no more important annual document produced by any government than its budget. The budget reflects both the specific priorities and the general goals of the government for the time period involved. That is why it is critical that budgetary processes be open, transparent and highly professional and that the staff of the budget agency be committed to such goals.

Almost as important as the performance budgetary process within government are the monitoring activities that occur. This is especially the case when planning and monitoring activities, as they should, involve a wide spectrum of the citizenry. Community based planning that reflects the needs of the entire community is perhaps the single most effective means to develop priorities that truly reflect

the needs of the community. Consequently, the implementation of participatory performance management techniques is increasingly important to the development of effective government and the linking of the outcomes of such processes to the development of budget priorities is even more important.

11) Accountability and Transparency are Critical to Building Citizen Confidence

Citizens are increasingly demanding that government be both accountable and transparent. This is especially true where citizen confidence in government is very directly related both to the responsiveness of government to the needs of citizens and its openness to participation and involvement by them. For citizens to participate effectively in government, they must be able both to understand it and to have confidence in it. Governments creating performance management techniques have the opportunity to set a new standard of excellence in terms of accountability and transparency and, in so doing, to help reverse the growing trend of citizen disillusionment with government institutions.

12) Recognize the Importance of a Long Term Commitment to the Performance Budgeting Reform Process

Even in economically fortunate countries, the process of performance budgeting reform and the building of good governance require time, patience and effort. As a result, performance budgeting reform must continue to be an important matter of concern for international organizations and donors as well. Frequently, donors tend to support short-term reform projects designed to produce quick results. While there can be no doubt that positive results have to be achieved in some reasonable amount of time, donor organizations and their beneficiaries need to develop strategies that provide continuing support to the process of performance budgeting reform and democratic institution building. The service delivery and governance needs are essential to the citizens' future well being. Ways and means must be developed for communities to realize their full potential through creative policy frameworks and sound performance management practices. The stakes are too important, and the opportunities for improving the well being of the people are too great to do otherwise.

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