

**Network of Asia-Pacific Schools and Institutes
of Public Administration and Governance (NAPSIPAG) Annual Conference
2005**

BEIJING, PRC, 5-7 DECEMBER 2005

*THEME: THE ROLE OF PUBLIC ADMINISTRATION IN BUILDING A HARMONIOUS
SOCIETY*

**INNOVATIONS IN GOVERNANCE AND PUBLIC SERVICE
TO ACHIEVE A HARMONIOUS SOCIETY**

**Perormance-Based Budgeting In China:
A Case Study Of Guangdong**

Meili Niu

Assistant Professor, Sun Yat-Sen University, China

Alfred Ho

Associate Professor, Indiana University - Purdue University Indianapolis, USA

Jun Ma

Professor, Sun Yat-Sen University, China

ABSTRACT

For the past decade, many developing counties have followed in the footsteps of western countries and introduced performance-based budgeting (PBB) reforms. China is no exception to this trend. In 2003, Guangdong became the first provincial government in China that implemented PBB reforms. Based on documentation review and personal interviews of program officials and budget staff, we analyze the implementation of the Guangdong reform, its accomplishments, and some of the future challenges. We conclude by arguing that many issues faced by the Guangdong government are very similar to the experiences of other countries. How performance should be defined and measured, how performance information should be aligned with budgeting and strategic planning, and how the reform should be implemented within the existing political system are common core questions. We also argue that the future success of the Guangdong PBB reform will depend not only on the improvement of the managerial and technical capacity of the Chinese bureaucracy, but also on the political will of the leadership to tackle some of the sensitive political questions, such as intergovernmental fiscal arrangements and the party-state relationship.

INTRODUCTION

Performance-based budgeting (PBB) refers to a systematic effort that integrates performance information with program goals and objectives to assist budgetary decision-making (Cope 1995; Grizzle and Pettijohn 2002; Willoughby and Melkers 2000). It is intended to shift the focus of budgeters and policymakers from internal control and input to the efficiency and outcomes of programs, so that performance information is used to enhance the quality of budget deliberations and decision-making and so that resources are allocated more effectively to meet the expectations of politicians and the public (Schick 1966; GAO 2001).

The 1990s were a golden era for PBB reforms. For example, the U.S. Congress passed the Chief Financial Officer Act of 1990 and the Government Performance and Results Act of 1993, which together laid down the legislative foundation for PBB reforms in recent years. The George W. Bush administration has also initiated a performance rating scheme that ties agency performance with program funding requests (Peckenpaugh 2002). In addition to reforms at the federal level, many U.S. state and local governments introduced their own version of PBB in the 1990s (Berman and Wang 2000; NASBO 2002; Poister & Streib 1999; Willoughby and Melkers 2000).¹ Despite criticism by the skeptics about the accomplishments of these efforts, the momentum of reform has remained strong.

PBB has also advanced rapidly in other OECD countries over the past decade because many politicians see it as a way to make government more competitive and cost-efficient and a possible response to cynical taxpayers who demand more accountable government spending.

¹ By the end of the 1990s, forty-seven of the 50 U.S. states had some sort of performance-oriented budgeting requirements, thirty-one had legislated how the process was to be conducted, and sixteen had specifically tied the reform to budget guidelines or instructions (Willoughby and Melkers 2000).

Many have expanded the practice of PBB and introduced new legislation that requires performance measurement and benchmarking (Helgason, 1997). For those countries that have been using performance measurement for a number of years, many have also begun to shift their focus to outcome reporting and to building a stronger link between performance measurement and budgeting (OECD, 2002; Perrin, 2003).

PBB initiatives have not been introduced solely in developing countries over the past decade. Thailand, Egypt, India, Malaysia, the Philippines, and Sri Lanka, for example, have all introduced their own versions of PBB (Dean, 1986; Hassanein; OECD, 2002; Straussman, 2005). Some of these countries have adopted the reform to reduce waste, enhance government efficiency, and increase public satisfaction with public programs. Others have adopted PBB because of external pressure from donor countries and international organizations, which have begun to demand more transparency in recipient countries to demonstrate how grant resources are used and what results foreign aid has brought.

Regardless of the motivation for reform, there is little doubt that PBB has become more widespread among both developed and developing countries today than it was a decade ago. Its worldwide popularity, however, does not imply that it always offers an easy quick-fix for many governmental problems. Quite the contrary, the decades-long experience of western countries in PBB reforms shows that PBB tends to create many new challenges for policymakers and requires tremendous time and resource commitments in implementation.

The purpose of this paper is to examine these challenges in the context of China. In 2003, Guangdong became the first Chinese provincial government that initiated PBB reform. Through personal interviews of Guangdong officials and documentation analyses, we evaluate the implementation process and analyze the administrative and political challenges that Guangdong reformers may face in the future. In the following discussion, we first review the reform experiences of developed countries, primarily in the U.S., to highlight some of the critical factors of success in PBB reforms. Then we apply the framework to analyze the recent Guangdong PBB reform.

CRITICAL FACTORS OF SUCCESS IN PBB –WESTERN EXPERIENCES

For the past few decades, many studies have been done to evaluate the significance, challenges, and the impact of PBB in the U.S. and other developed countries. The general consensus is that if implemented effectively, PBB can help improve the communication between the legislative and executive branches and the communication between the budget office and departments (Lee 1997; Willoughby and Melkers 2000). It can also encourage stronger accountability and customer focus, and better strategic planning to guide program decisions and management (Broom and McGuire 1995; Barrett and Greene 2002; Hatry 1999; GAO 2000; GASB 2001; Melkers and Willoughby 2001).

However, these potential benefits cannot happen in a vacuum. A close examination of western experiences, particularly in the U.S., shows that an organizational, technological, and cultural infrastructure has to be present to make PBB work. These fundamental factors of success include the following:

1. Top leadership's support, emphasis, and legislative mandate

Top leadership support is critical to any governmental reform. If the top leadership is enthusiastic and shows full support for the reform, the lower hierarchy of the organization is more likely to take the reform seriously and implement it faithfully. Legislative mandate can often help to reinforce the political urgency and importance of the reform. By passing performance measurement requirements as law and specifying how government officials should follow the requirements, government officials are given the legal responsibility to implement the reform and can be held accountable if they fail to do so. The 1993 GPRA of the U.S. federal government is an example of legislative-mandated reform (Radin, 2000). Many PBB reforms in U.S. state governments are also initiated and required by state legislatures to make sure that the executive branch will follow through (Willoughby and Melkers, 2000). New Zealand has also relied on legislation, including the Public Finance Act of 1989 and the Fiscal Responsibility Act of 1994, to guide the progress of PBB reforms.

2. A solid foundation of cost accounting in government

One of the key types of performance measures is cost-efficiency measures. However, to accurately account for cost-efficiency, a government needs to first build a reliable and accurate cost accounting system for all government programs and budget items (Breul, forthcoming; U.S. GAO, 2003). The system must cover all direct functional expenses, such as salaries, benefits, and supplies, as well as overhead costs, such as administrative overhead, rent and physical building costs, and utilities. In addition, it needs to develop clear methodology to allocate these costs not only to departments, but also to various programs within each department, so that the program cost data can be compared with the output and outcome data to evaluate cost-efficiency and effectiveness.

3. A clearly defined and well-organized budgeting structure

A budgeting structure is the fundamental infrastructure of a PBB reform. At the very least, a government should have a well-defined line-item budget for all departments and programs, so that government managers and policymakers can hold departments accountable for financial management results.

However, to truly implement PBB, the line-item budget must be re-organized by programs, which can be multi-departmental, and should be aligned with a clearly defined structure of strategic goals and targets. This allows government officials and policymakers to see more clearly what social and economic goals they are trying to accomplish, how many resources are budgeted to accomplish these goals, and what results these resources have achieved at the

end of the fiscal year. This alignment exercise can be very difficult, costly, and time-consuming. In the U.S., for example, the federal government has spent decades to align the goals of many federal programs, but it is only in recent years that significant progress has been made (U.S. GAO, 2002).

4. An effective administrative mechanism for budgeting

Having a budgetary structure is not sufficient. Someone is needed to enforce and monitor the usage of the structure and rules and to use the information to improve the performance of government programs. In the U.S., this responsibility falls primarily on the executive budget office within each department. A successful PBB reform often requires giving these budget offices sufficient manpower, legal authority, and analytical capacity so that they can help program managers analyze and use performance results effectively (Lee, et al., 2004).

Equally important is the central budget office that oversees all departmental budget requests. They are often responsible for providing budgetary guidelines and priorities to departments and agencies. They also help compile and analyze departmental performance information so that the information can be integrated into the executive's budget requests.

5. A well-defined strategic plan / goal structure for agencies to define “performance”

Another success factor is to align performance measurement with a well-defined strategic plan and goal structure of a government. Past studies on PBB show that the reform can help program managers see more clearly what they try to accomplish and rethink how they can accomplish those goals more effectively (Ho, forthcoming; Willoughby and Melkers, 2000; U.S. GAO 2004). However, these benefits can only be realized if there is a strategic planning process that defines the long-term and short-term goals and the performance targets of public programs.

6. Competent budget analysts and program managers to handle program evaluation

PBB also requires the presence of many competent and well-trained budget analysts and program evaluators within each department and at the budget office. These analysts need to understand not only program operation and budgeting, but also evaluation methodology and different types of performance measurement (Melkers and Willoughby, 2001). They may require training not only on cost accounting, statistics, and budgetary analysis, but also on program evaluation, policy analysis, and other public administration skills.

7. Organizational capacity to handle program evaluation

Personnel capacity is just one of the building blocks for implementing a successful PBB reform. A government also needs to build other administrative capacity, such as for data collection and analysis (Newcomer and Scheirer, 2001). The use of modern information technologies can offer tremendous help and time savings. For example, many U.S. city

governments today use a computerized system that tracks when they receive an emergency call for police or fire assistance, what type of assistance the caller needs, and how much time the police or fire department needs to take to arrive at scene. Without these information technologies, performance measurement would be very costly and difficult to implement effectively and accurately.

8. Positive and negative incentives for workers to focus on performance

Positive incentives are important to reward and encourage government officials who perform well to enhance public program efficiency and effectiveness. These positive incentives may include financial rewards, such as performance bonuses, faster and better promotion, and higher salaries. They can also be non-financial, such as public recognition of the accomplishments by a program and a department.

Negative incentives can also be used, but have to be applied more cautiously because they tend to generate strategic behaviors and rebellion against the reform. Negative incentives may include delay in promotion or salary raise and public embarrassment of the people who are in charge of a poorly-performing program.

9. Necessary cultural shift to embrace “results-oriented” management

A successful PBB reform also needs to help officials understand that the old ways of managing programs and budgets are insufficient, and that the government needs to develop a new organizational culture that emphasizes public accountability and results. PBB is not just about data collection and reporting. It is a cultural transformation that requires government officials think and work differently (Wholey, 2002).

10. The reform takes a long time to sink in and make a difference

Finally, the western reform experience shows that a successful PBB system takes a long time to evolve and can only happen incrementally. In the U.S., for example, the first systematic PBB reform, the PPBS, was introduced in the federal government in the late 1960s. It was later followed in the past decades by Zero-Based Budgeting, Management-by- Objectives, and National Performance Review. Today, the U.S. federal government has an elaborate system that links performance information with strategic goals and budgetary information. However, after four decades of implementation and experimentation, the federal government still struggles with many technical and administrative issues in performance measurement and needs more time and effort to refine its current system (U.S. GAO, 1997).

PERFORMANCE-BASED BUDGETING INITIATIVES OF GUANGDONG PROVINCE

Background

The above lessons from western countries provide a useful framework to analyze and evaluate some of the potential challenges faced by PBB reforms in developing countries, including China. In recent years, several subnational Chinese governments have paid close attention to the development of performance measurement and performance budgeting in developed countries and have introduced their own versions of PBB reform to rationalize and systematize their budgetary process. These reforms include departmental budgetary reform, zero-based budgeting, procurement management, and treasury management (Ma & Niu, forthcoming). Several local governments, such as Hebei City, Shenzhen City, and Guangdong Province, are often recognized as pioneers among their peers (Niu, 2005).

In 2003, Guangdong Province became the first provincial government in China to launch a PBB reform. The province, located in Southern China, is well known for bold economic and political reforms. In the late 1970s, it was selected by the Chinese central government as the first experimental area for market-oriented reforms. Since then, the province has been transforming its economy and has experienced rapid economic growth. In 2003, Guangdong's per-capita GDP reached RMB 17,310.84 yuan, one of the highest among subnational governments in China. Its general revenue and expenditure were RMB 131,551.51 million yuan and RMB 169,563.24 million yuan, respectively. These amounts represented the largest share of the total local government revenue and expenditure of China in 2003, about 13.4 percent and 9.8 percent, respectively.

The Finance Department of Guangdong Province initiated and coordinated the PBB initiative. In preparation, the department sent officials to Canada, France, the United Kingdom, and the United States to learn about international experiences in PBB reforms. In addition, it successfully secured support from key governmental and party officials and from the local congress and the Chinese People's Political Consultative Conference (CPPCC). Even though no formal legislation was passed with respect to PBB, legislative support for the reform was widespread and strong.

To promote the idea further among departmental officials, the Finance Department publishes an annual publication, *Guidelines for Expenditure Performance Evaluation in Guangdong*. In addition to updated regulations and guidelines for the reform, the annual volume contains public speeches made by key officials, including the President of the Guangdong Communist Party, the Governor and Vice Governors, and the Director of the Finance Department, to showcase the political significance of the PBB reform. It also includes expert opinions from the central Ministry of Finance, local congress, the Guangdong Finance Department, the Guangdong Audit Department, and the Guangdong Supervision Department to demonstrate the broad support behind the reform initiative.

Furthermore, a new division, the Performance Evaluation Division (PED), was created. It is charged with two major responsibilities: (1) to compile financial statistics and conduct analysis; and (2) to organize and conduct performance evaluation of provincial programs. It has eight employees, three of whom are responsible for statistical analysis. The remaining five employees are divided into two groups: one person is in charge of “basic performance evaluation”, and the other four are in charge of specified or focused program evaluation. “Basic evaluation” is also called “self-evaluation,” which is conducted by agencies as the first stage of performance evaluation under PBB. Using guidelines from the Finance Department, each agency conducts its own basic evaluation and then submits the report to PED. Based on the information received, PED organizes and conducts “focused program evaluation” to examine selected programs and agencies.²

An Overview of the Implementation Process

In the first year, the Finance Department launched six pilot projects for performance evaluation (see Table 1). They were the Science and Technology Park for Private Enterprises, the Reconstruction Project of Elementary Schools for Mountainous and Old Areas in 16 Cities, Highroad Construction for 16 Poor Areas, Basic Construction for Universities in the Tenth Five-Year Plan, Asset Reorganizations of Commercial and Enterprises Group, and Supporting Poor Areas with Developing Tourism.

The selection of these programs was a top-down, centralized decision by the Finance Department. The decision was based primarily on the following criteria:³ (1) programs that drew the President’s or Governor’s attention; (2) programs that were believed to have the capacity to implement PBB; (3) programs with a large appropriation and fiscal significance;⁴ (4) programs within agencies that had strong incentives to support PBB. Also, most of these programs were included in the long-term strategic plan of Guangdong Province and had relatively well-defined program goals and performance targets. The only exception was the Tourism Department, which had had a performance evaluation program a year before the PBB experiment. More details about this department are discussed later in this study.

Table 1. Six Experiment Programs of PBB Implementation in Guangdong in 2003

Program Code	Pilot Programs	Responsible Agencies
1	Science and Technology Park for	Science and Technology

² Participants of focused evaluation include public officials from the Finance Department and experts on related issues and topics. The Finance department is responsible for maintaining an expert inventory composed of scholars, public officials, and agents whose opinions may be solicited for focused program evaluation.

³ From 2004, all programs with over 5 millions budget or long term programs (more than five years) are required to use performance evaluation.

⁴ For example, the highroad construction program for 16 mountainous poor areas received annual funding of RMB 250 million yuan.

	Private Enterprises	Department
2	Reconstruction of Elementary Schools for Mountainous and Old Areas in 16 Cities	Accelerating Commission for Development of Revolution and Old Areas and Education Department
3	Highroad Construction for 16 Poor Areas	Transportation Department and Road Department
4	Basic Construction for Universities in the Tenth Five Year Plan	Education Department
5	Asset reorganizations of Commercial and Enterprises Group	Commercial and Enterprises Group
6	Supporting Poor Areas with Developing Tourism	Tourism Department

Source: Finance Department of Guangdong,2004.

After the six pilot projects were selected, the Finance Department notified the responsible agencies. It also organized a working committee, which consisted of the Director of the Finance Department as the committee chair and representatives from different divisions of the Finance Department, to guide PED in the performance evaluation process.

The working committee then designed a performance evaluation form for the pilot programs. After receiving the evaluation forms from the pilot programs, PED began the performance review process, which consisted of four major steps. First, PED checked for information completion and data errors in the basic data review. Second, the division conducted fieldwork evaluation and site visits and asked programs managers and agency officials to present performance information and respond to questions that PED and its experts group might have about the programs. Third, PED used the data and site visit information to conduct analysis and produce performance reports. The final step was to disseminate the results. An early draft of the evaluation report was circulated among the relevant expert groups and agencies for feedback. Based on the feedback, PED revised the report and sent the final results to the responsible agencies and other relevant organizations and individual officials.

Two Case Studies

To better understand the challenges and accomplishments of the PBB pilot project, personal interviews and site visits were conducted in fall 2005 with officials in the Guangdong Finance Department and two other departments from which pilot programs were selected, namely, the Tourism Department and the Transportation Department (see Appendix II). The Tourism Department was chosen because it had the longest history of performance measurement among the six pilot programs and has been highly supportive of PBB. It is also a functional agency and has relatively more autonomous authority in its daily operation and management. The Transportation Department, on the other hand, was new to the idea of PBB. The department itself did not volunteer to participate in the PBB pilot phase. Because of differences in background, capacity, and attitude toward PBB, the following case studies

should provide an interesting comparison that highlight some of the daunting challenges and barriers in implementing PBB.

1. A Case Study of the Guangdong Tourism Department

The Tourism Department began to conduct program performance evaluation in 2002, a year before the PBB pilot project by the Finance Department. In 2002, 14 programs were evaluated and the number was increased to 35 in 2003. One of its programs, "Supporting Poor Areas with Tourism Development," was selected by the Finance Department to be included in the PBB pilot project. The program has an annual budget of about RMB 30 million yuan.

Because the Tourism Department has had an internal history of performance measurement, it has shown strong support for the idea of PPB and has been very proactive about it. For example, it has included promotion of tourism development in poor areas as one of its strategic goals (Interviewee D). It has also arranged for representatives of the local congress and CPPCC to visit these poor areas to improve their understanding of the importance of the program and its accomplishments.

A working committee was created to assist the implementation of PBB. The Deputy Director of the Department, who is also the Vice President of the branch committee of the Communist Party in the Tourism Department, was the head of the committee. The committee also drew members from each division of the Guangdong Tourism Department to represent different areas of expertise, such as natural resource extraction, tourism program management, and tourist management. In addition, the Department developed a vertical reporting structure and required tourism departments at the city level to create their own working committees if they had tourist programs in poor areas. In these cities, mayors were often the head of the committees, showing the political significance of the performance evaluation work.

To align its internal performance evaluation program with the PBB pilot of the Finance Department, the Tourism Department had to break down the program of "Supporting Poor Areas by Tourism Development" into many sub-programs. Individual sub-programs prepared financial plans and submitted them with the budget request to the Finance Department. Currently, the PBB pilot focuses on the evaluation of public facility investment, such as restrooms and sidewalk, as well as security and tourist product development. Entertainment projects in scenic spots, however, were not reviewed because they were usually done by private investment (Interviewee D).

Since the National Tourism Bureau had not started any performance measurement reform, the Guangdong Tourism Department did not have a lot of prior experience to draw from and had to rely on its own thinking and research to define and measure performance. The key performance measures collected and used by the Department included: (1) number of tourists; (2) increase in local employment, hotels, and restaurants; (3) increase in local resident income;

(4) the amount of matched private investment; and (5) the amount of matched investment from local governments. It also tracked whether scenic spots were open to the public (availability measures), whether local residents started paying attention to protecting natural resources, and the quality of communication between residents and tourists.

However, due to lack of experience and data, some of the measures were still primitive and the data were not comprehensive. Also, no significant change was made to the line-item budget structure to make it more oriented toward performance. Interviewee D admitted that the current accounting system was still not able to provide adequate information for financial analysis. Also, most of the budget analysts and program managers of the Department still lacked the necessary experience and analytical capacity to define, measure, and analyze "performance." As a result, "the Tourism Department used mostly qualitative evaluation" (Interviewee D).

Despite these limitations, the performance measurement effort has stimulated innovative thinking and had a positive effect on program management. For example, it has stimulated more discussion among the Tourism Department and the agriculture, fishery and forestry industries to facilitate development in poor mountainous areas. It has also raised policymakers' awareness of the need to improve highway and highroad development and to develop long-term economic development and environmental protection measures.⁵ Furthermore, training programs were conducted to help budget analysts and program analysts use performance information more effectively. Although there were some complaints about the workload associated with the PBB program, departmental staff was generally supportive (Interviewee D). The management also contributed to the success in reducing staff resistance to PBB by linking program performance with employees' performance evaluations and paying public compliments to high-performing employees. Moreover, financial incentives, such as continuous funding and easier budget approval, were offered to well-performing programs.

Finally, PBB has contributed to the cultural shift within the Tourism Department. When compared with the management culture before PBB, public officials and programs managers today have become more aware of the importance of public accountability and pay closer attention to the results of public spending. PBB also raised the significance of the program within the department. Such success is directly linked to the attitude of the top leadership. As Interviewee D commented, "top leaders' acknowledgement is very important for PBB implementation. They re-stated the importance of tourism development in supporting poor areas many times in public so that the voice of tourism could be heard and be taken seriously."

2. A Case Study of the Guangdong Transportation Department

In contrast to the Tourism Department, the Transportation Department PBB initiative had a

⁵ However, Interviewee D also admitted the shortsightedness of tourism development policies. "Programs can not be too long, two or three years is ok. Otherwise, private investors or local governments would not like to invest."

very different development path. First, even though one of its programs, “Highroad Construction for 16 Poor Areas” was selected to be a PPB pilot in 2003, the department itself did not start using PBB until 2004. It also had limited capacity to handle performance measurement tasks and had to rely on the Guangdong Finance Department to do most of the data work for the pilot project in 2003.

“Highroads” refers to the road system that connects highway and rural roads. Highroad construction was an important item in the *Guangdong Province Tenth Five-Year Plan for Supporting Poor Areas*. According to this plan, RMB 250 million yuan would be invested annually in highroad construction for 16 mountainous poor areas from 2001 to 2005, and by 2009, Guangdong is to build 48,000 more kilometers of highroad to satisfy different transportation demands in the province.

The project not only has economic significance but also political significance. According to Interviewee E, highways are built for public officials who like to get credit and national attention for their accomplishments. Rural roads, on the other hand, are built for the public, especially in poor areas, to improve the quality of life. Highroads, acting as the link between these two road systems, are critical to politicians because they help realize the full potential benefits of both types of infrastructure investment (Interviewee E).

However, the results of the first two years spending on highroad programs in poor areas was not satisfactory, which was probably one of the reasons why the program was selected as a PBB pilot by the Finance Department (Interviewee B). Since the Transportation Department itself had no history in performance measurement reform before, support for the PPB pilot was weak (Interviewee E) and the pilot was done only to satisfy the demands of the Finance Department.

From the beginning of the project, there were many technical hurdles to overcome. For example, since there was no unified accounting system within the Transportation Department, it was almost impossible to provide all details for programs evaluation and cost analysis (Interviewee E). The task of performance measurement in the Transportation Department was further complicated by the fact that multiple providers and funders were involved. The Department had over 30 programs, with a total budget of about RMB 400 million yuan. However, this was just part of the financial picture, as the Department often required matching funds from local governments and private investors.⁶ Because external parties were involved, the performance of the department in road construction was more difficult to measure because it depended not only on the effort of the provincial government but also on the cooperation of the external entities.

The Transportation Department was also highly constrained in staffing the management of performance measurement tasks. Its financial division had nine employees: the director, the deputy director, the internal auditor, the cashier, three internal accountants, an accountant responsible for managing business with the central government, and finally, an accountant

⁶ One of the performance measures in the PBB pilot was whether the Department successfully secured matching funds for projects.

responsible for managing business with the provincial government. All of them were already heavily occupied and could not commit much time to the tasks of performance evaluation. Since individual departments do not have the fiscal and administrative authority to add and hire new positions, the problem could not be resolved easily (Interviewee E).

In addition, due to the diversity of different transportation programs, the Department faced many difficulties in defining the goals of the programs and developing reliable and valid measures for program evaluation. For example, determining how it should define and measure the effectiveness of environment protection or the social benefits of building a new road was a serious challenge. As a result, the Department only kept track of very simple performance data, such as whether roads were open or closed. It also relied mostly on qualitative analysis in the evaluation process. As Interviewee E remarked, the Department could only focus on very raw performance measures and the ultimate goal of the Department was to ensure that people could "carry a coffin out and transport products in" (Interviewee E).

This is not to say that there was no benefit from the PBB pilot. The program was believed to have contributed to better strategic planning and helped shift the budgeting focus from input to results of programs. However, with its highly constrained staff and administrative capacity, the Transportation Department was not enthusiastic about the PPB pilot. In reviewing the situation, Interviewee E agreed that involvement of a third party, such as a private agent funded by the Finance Department, might help the situation and increase the financial transparency of the Transportation Department. Also, more incentives to encourage voluntary cooperation by the department are necessary. Interviewee E remarked,

The Finance Department is responsible for developing an incentive system to increase agencies' initiatives to implement PBB. . . . For example, the Finance Department can simplify the budgetary request process for agencies that have better performance. This will help reduce the workload of these agencies. In addition, the Finance Department can publicize the PPB results and give non-financial acknowledgments to agencies that implement PBB well. This will further motivate not only agencies that have good performance but also agencies that have poor performance. Financial incentives could work, but if more resources are given to programs with better performance and less resources to poorly performing programs, this may contradict the principle of fiscal administration and reduce the efficiency of budget allocation (Interviewee E).

LESSONS FROM THE GUANGDONG PBB EXPERIENCE

Accomplishments

A review of the pilot projects shows that Guangdong Province had to, and will need to, overcome many hurdles in implementing PBB. However, the province should be complimented for the progress made so far and the realistic approach adopted in the implementation process. Comparing the Guangdong experience with the decades-long

experiences in western countries confirms several critical factors to the success of PBB reforms:

1. Securing top leaders' support is important.

Similar to the western experiences, the Guangdong case study shows that strong commitment and support from the top leadership is a key to successful implementation of PBB. From the very beginning of the reform, the Finance Department had carefully secured political support for reform. The Finance Director introduced PBB personally to the President of the Communist Party in Guangdong, Dejiang Zhang, and Guangdong Governor Hua Huang and received their full support. Careful selection of the six pilot projects and the ability to demonstrate accomplishments to top leaders helped them win further political support. For example, President Zhang complimented the department by stating, "The [Guangdong] Finance department has done a great job in the performance evaluation of the program of Science and Technology Park for private enterprises. I recommend the department to draw lessons for others from this pilot..." (Guangdong Finance Department, 2005, p.2).

2. Be patient and give the reform time to evolve.

The western experiences show that PBB reforms may take decades of experimentation to evolve and succeed. Therefore, the Guangdong reformers set a modest goal at the early stage of the reform – to “enhance the understanding of performance evaluation.”⁷ They did not expect to make drastic changes in the system. Instead, they focused on learning, education, experimentation, and information dissemination to enhance officials' understanding of the importance of PBB. As Interviewee A remarks, “We will not introduce PBB in all agencies until people have very good understanding of PBB ... [Challenges in] PBB implementation in Guangdong is more political than technical.”

3. Focusing on the cultural shift is important.

Guangdong officials realized that even though many technical and administrative conditions were not fully ready for a comprehensive PBB reform, they could start working on the necessary cultural shift and create a different managerial mentality in the bureaucracy. They wanted all provincial officials to understand that PBB was a necessary and inevitable step of reform. “We must show the results where we spend money.” (Interviewee B). They also wanted to make sure that all budget officials within the Finance Department understand the importance of PBB as the driving force for the result-oriented reform in the future (Interviewees E and A).

Future Challenges

Despite these accomplishments, tremendous hurdles still confront the Guangdong

⁷ This is the first principle of Guangdong's PBB, published in the *Notice for Performance Evaluation Experiment Plan* (2004) (Guangdong Finance Department, 2005, p. 227).

Finance Department. These challenges include:

1. How to define “performance”

The first technical challenge is how to define “performance” for different departments. The Finance Department needs to develop an inventory or a knowledge base of performance measures, including both quantitative and qualitative measures, for different departments. This is especially important at the early stage of reform, when many departments lack experience and understanding about what measures are appropriate, reliable, and quantifiable.

2. How to benchmark “performance”

After performance measures are defined, the Finance Department and program analysts within each department still need to know whether performance is acceptable or not. Currently, there is no benchmark for the PBB pilots. As a result, PED has had difficulty evaluating and analyzing the performance of various programs.

3. How to expand the pool of expertise on performance evaluation

Currently, the Finance Department is the primary source of expertise on performance measurement and budgeting, and within the department, PED is the specialized agency on performance evaluation. However, PED originated from the statistics and evaluation division, which focuses primarily on evaluation of state-owned assets, not program evaluation. Hence, if PBB is to expand to more programs and agencies, the Finance Department will have to provide more training and staff development to reorient its analysts. In addition, it may need to rely on external experts in related fields. Unfortunately, the progress in establishing an expert inventory has remained unsatisfactory. This may create a bottleneck problem for the future expansion of the PBB reform in Guangdong.

4. Need for complementary personnel reforms to support PBB

As shown in the western experiences, PBB is an intensive data exercise and demands a lot of time and resources from departments. Even though PED has created special software programs to reduce departmental workload on reporting, this has only helped the basic data exchange between agencies and the Finance Department. Performance evaluation still requires time and people to collect and analyze data. Unfortunately, hiring decisions are outside the control of the functional departments and the Finance Department and are in the hand of the Staff Administration Commission (Interviewee B). If the Commission fails to recognize the mounting hiring needs of the Finance Department and other agencies, this will only create more work stress among staff and ultimately resistance to reform.

5. Need to create stronger departmental support for PBB

The case study above shows that there are varying degrees of understanding and support for

PBB among different departments. The Finance Department apparently has the strongest support and motivation to implement the reform. The Tourism Department also got solid support for PBB from its director, the President, and the Governor. The Transportation Department, however, has been less enthusiastic about the reform. Diverse opinions about PBB can be expected. However, if it is not managed carefully, it may create significant political roadblocks for the reform.

6. A need for accounting and financial management reforms

The current focus of the Guangdong PBB reform is on performance measurement and program evaluation. Not much has been done to link performance information to cost information and budgetary requests, which is the focus of PBB reforms in western countries today. To fully link budgeting and performance measurement will require major reforms of the accounting system of the Chinese government so that better cost analysis of programs can be conducted. However, the Ministry of Finance at the national level, not provincial finance departments, is in charge of managing government accounts. Hence, how this can be accomplished in the future remains a puzzling intergovernmental question.

In addition, the current PBB reform in Guangdong only focuses on individual programs without considering the full operation and personnel costs of an agency. Under the current budgeting structure, budget expenditures are divided into three major categories: personnel expenditures, operation expenditures, and program expenditures. "Personnel expenditures" refers to payments to agencies' employees, including basic salary, allowances, subsidies, social security and retirement benefits, education stipends, health insurance, and housing subsidies. "Operation expenditures" refer to spending related to daily operations, such as business travel, supplies, maintenance and repairs, reception, and other business-related spending. "Program expenditures" are used for the repair and purchase of large facilities, basic construction, renovation, and providing products and services.

The current PBB implementation in Guangdong only applies to program expenditures and excludes personnel and operation expenditures. Hence, the exercise does not give a full cost picture of programs. If future PBB reform is to include other expenditures in the analysis, significant changes in the accounting and budgeting system will be needed.

7. Issues of power distribution between the Finance Department and the budget offices of functional departments

The Finance Department currently plays a significant role in initiating and coordinating the PBB reform in Guangdong. However, it has to work closely with the executive budget offices within each functional agency, which are responsible for financial management and budgeting at the agency level. Due to lack of understanding about PBB and miscommunication between the Finance Department and these budget agencies, agencies sometimes fail to meet the reporting requirements set by the Finance Department. Some agencies also play "word games" with the Finance Department and fail to submit the necessary information.

How the power structure between agencies' budget offices and the Finance Department should be restructured in the future is another major challenge and may create certain political hurdles for the PBB reform.

8. Realignment of responsibilities among different divisions of the Finance Department

As mentioned above, PED is a newly created division within the Finance Department, responsible for performance evaluation and PBB implementation. However, within the Finance Department, there are other functional divisions that are responsible for monitoring departmental budgets. How PED should coordinate with these divisions has remained a challenge (Interviewee B). For example, before the implementation of PBB, these functional divisions had the authority to review budget requests from an agency and provide suggestions. Under PBB, after division review, all program budgets must be sent to PED for performance evaluation. This can sometimes be regarded as a challenge to the authority of functional divisions and can create political resistance to the reform. The problem is further complicated when PED is short of expertise in specific fields and when agencies complain that PED guidelines are unhelpful or are misinformed. These problems may require more careful examination of the administrative structure of the Guangdong Finance Department, which may need to evolve toward the model of the Office of Management and Budgeting (OMB) of the U.S. federal government.

9. Difficulties in aligning strategic planning and performance measurement

As shown in the western countries' experiences, strategic planning is an essential element of PBB. Program objectives should be the basis for developing performance measures, and performance measurement should be used to evaluate whether program goals have been met. In an ideal situation, program goals, objectives, and performance measures should be aligned. However, the institutional setting of China may not allow this to happen easily. First, strategic planning is a top-down process. Public policies and goals are often set by the central and provincial government, and departments have little flexibility in establishing their own strategic goals and performance targets. Even if a program is found to be ineffective and inefficient, a department may still need to continue its operation if the program is mandated by the higher level of the government. Situations like this may frustrate program managers and performance analysts who believe that PBB may be meaningless and futile.

10. Creating incentives to enhance performance

As in the western experience, creation of positive incentives is critical to encourage compliance and support for PBB reforms. In the current PBB system, there is no formal incentive policy to reward high-performing agencies or punish poorly-performing programs. However, according to Interviewee B, the Finance Department has maintained informal rules to give agencies incentives to perform. For example, it tends to give higher priority to the budget requests and concerns of programs and agencies that have performed well in previous years. "It does not mean that programs that were not done well will get budget cuts," said

Interviewee B. "Budget allocation should serve public policy and strategic plans, but we have considered providing agencies more convenience if they are done very good job." Under this strategy, "the better the agencies spend their budget, the easier it is for them to have the next year's budget approved" (Interviewee E). These rules seem to be reasonable and are highly consistent with the PBB practices in many western countries. In the future, the Finance Department may formalize these rules and make them more transparent to program and agency managers so that they can respond positively to the PBB reform. Also, they may extend the incentive system to personnel management and reward managers that help organizations become more effective and efficient.

CONCLUSION

This paper analyzes the recent PBB reform in Guangdong Province of China. Our analysis shows that reformers in Guangdong have very similar technical, administrative, and political challenges that other countries have encountered before. For example, how "performance" should be defined and measured, how performance information should be aligned with budgeting and strategic planning, and how the reform should be implemented within a political system seem to be the common core questions that every PBB reformer has to face.

Our analysis also implies that the future success of the Guangdong reform will not only depend on the improvement of its administrative and technical capacity, but also on the political will of the leadership to tackle some of the sensitive questions, such as the roles of the finance department and its relationship with functional departments, the power distribution between different divisions of the budget office, the question of intergovernmental relations, and the responsibilities of the executive and the legislative branches. In the context of China, the role of the Communist Party in the budgetary process and in other governmental decision-making is also a fundamental issue that deserves special attention. Whether PBB can indeed rationalize the Chinese budgetary process and enhance government performance depends in part on whether the Communist Party is willing to let go of part of its administrative control of the Chinese bureaucracy and let government managers manage according to the principles of cost-efficiency and effectiveness.

Hence, PBB is not just an idea for a technical, administrative reform. It also challenges policymakers and reformers to rethink some of the fundamental questions of governance, such as who should have what power in the decision-making process, and when they should be granted the power. Perhaps one reason why PBB reforms in many western countries often took decades to evolve is because the answers to some of these questions are not easily resolved. If any lesson can be drawn from the western experience with PBB, it would be the prediction that the reform by Guangdong is just the beginning of a long journey that may take decades to complete.

REFERENCES

- Barrett, Katherine, and Richard Greene. (2002). Proof Positive: Louisiana has undergone a sea change in the use of performance information. *Managing for results is working there. Governing* (July).
- Berman, Evan, and Xiaohu Wang. (2000). Performance Measurement in U.S. Counties: Capacity for Reform. *Public Administration Review* 60(5): 409-420.
- Boston, John. & J. Pallot. (1997). Linking strategy and performance: Developments in the New Zealand Public Sector. *Journal of Policy Analysis and Management*, Vol, 16, No. 3, 382-404.
- Breul, Jonathan. (forthcoming). GPRA – A foundation for performance budgeting. *Public Performance and Management Review*.
- Broom, Cheryle A., and Lynne A. McGuire. (1995). Performance-oriented Government Models: Building a Track Record. *Public Budgeting & Finance* 15(4): 3-17.
- Cope, Glen Hahn. (1995). Budgeting for Performance in Local Government. *The Municipal Yearbook 1995*. Washington, D.C.: ICMA, 42-52.
- Dean, Peter N. (Spring 1986). Assessing the Performance Budgeting Experiment in Four Developing Countries, *Financial Accountability & Management*, Vol. 2, Iss. 1; p. 1-24.
- Governmental Accounting Standards Board. (2001). Performance Measurement at the State and Local Levels: A Summary of Survey Results. [On-line] Available: <http://www.gasb.org>.
- Grizzle, Gloria A., and Carole D. Pettijohn. (2002). Implementing Performance-oriented Program Budgeting: A System-Dynamics Perspective. *Public Administration Review* 62(1): 51-62
- Hassanein, Medhat.(2002/2003). Egypt: Finance minister's statement. *Euromoney*. p. 70
- Hatry, Harry. 1999. Performance Measurement: Getting Results. Washington, D.C.: the Urban Institute.
- Helgason, S. (1997). International benchmarking: Experiences from OECD countries. Conference paper on international benchmarking organized by the Danish Ministry of Finance. Paris: Organizational for Economic Co-operation and Development.
- Ho, Alfred Tat-Kei (forthcoming). "Accounting for the Value of Performance Measurement from the Perspective of City Mayors." *Journal of Public Administration Research & Theory*.
- Joyce, Philip G. (1996). Appraising Budget Appraisal: Can You Take Politics Out of Budgeting? *Public Budgeting & Finance* 16(4): 21-25.
- Lee, Robert D. 1997. "A Quarter Century of State Budgeting Practices," *Public Administration Review* 57(2): 133-140.
- Lee, Robert, Ronald Johnson, and Philip Joyce. (2004). *Public Budgeting Systems*, 7th edition. Sudbury, MA: Jones and Bartlett Publishers.
- Ma, Jun. (forthcoming). Zero-based budgeting in China. *Journal of Public Budgeting, Accounting & Financial Management*.
- Ma, Ju. & Meili, Niu (forthcoming). Modernizing public budgeting and financial management in China. Co-author. In *Handbook of Public Financial Management*, Edited by Howard, A. F. New York: Marcel Dekker, Inc.

-
- Melkers, Julia, and Katherine Willoughby. (2001). "Budgeters' Views of State Performance-Budgeting Systems: Distinctions Across Branches." *Public Administration Review*, 61(1), 61-64.
- National Association of State Budget Officers. 2002. *Budget Processes in the States*. Washington, D.C.: National Association of State Budget Officers.
- Newcomer, K. E., & Scheirer, M. A. (2001). *Using evaluation to support performance management: A guide for federal executives*. Washington, DC: The PricewaterhouseCoopers Endowment for the Business of Government.
- Organization for Economic Co-operation and Development, Development Assistance Committee Working Party on Aid Evaluation. (2001). *Results-Based Management in the Development Co-operation Agencies: A Review of Experience*. Paris: OECD.
- Organization for Economic Co-operation and Development. (2002). *Developing Performance Measures for Public Financial Management*. Paris: OECD.
- Peckenpaugh, Jason. 2002. *A First, Bush Budget Links Funding to Program Performance*. Accessed at www.govexec.com/dailyfed/0202/020402p1.htm (February 4, 2002).
- Perrin, B. (2003). *Implementing the Vision: Addressing Challenges to Results-Focused Management and Budgeting*. Paris: Organization for Economic Co-operation and Development.
- Poister, Theodore H., and Gregory Streib. (1999). *Performance Measurement in Municipal Government: Assessing the State of the Practice*. *Public Administration Review*, 59(4), 325-335.
- Radin, Beryl. (2000). *The Government Performance and Results Act and the tradition of federal management reform: Square pegs in round holes?* *Journal of Public Administration Research and Theory*, 10(1), 111-135.
- Roth, Senator William V., Jr. (1992). *Performance-Based Budgeting to Enhance Implementation of the CFO Act*. *Public Budgeting & Finance* 12(4): 102-107.
- Ridley, Clarence E. and Herbert A. Simon (1938). *Measuring Municipal Activities. A Survey of Suggested Criteria and Reporting Forms for Appraising Administration*. Chicago: The International City Managers Association.
- Schick, Allen. (1966). *The road to PPB: The stages of budget reform*. *Public Administration Review* 26(6): 243-258.
- Schick, Allen. (1990). *Budgeting for Results: Recent Developments in Five Industrialized Countries*. *Public Administration Review* 50(1): 26-34.
- Strassman, Jeffrey (2005). *Presentation at Sun-Yat-Sen University, Guangzhou, China*.
- Thompson, Fred. (1994). *Mission-Driven, Results-Oriented Budgeting: Fiscal Administration and the New Public Management*. *Public Budgeting & Finance*, 14(3): 90-105.
- U.S. General Accounting Office. (1997). *Performance budgeting: Past initiatives offer insights for GPRA implementation (GAO/AIMD-97-46)*. Washington, DC: U.S. General Accounting Office.
- _____. (2000). *Managing for Results. Emerging Benefits from Selected Agencies' Use of Performance Agreements*. GAO report GAO-01-115. Washington, D.C.: U.S. General Accounting Office.
- _____. (2001). *Results-Oriented Budget Practices in Federal Agencies*. GAO-01-1084SP. Washington, D.C.: U.S. General Accounting Office.

-
- _____. (2002). Managing for results: Agency progress in linking performance plans with budgets and financial statements (GAO-02-236). Washington, DC: U.S. General Accounting Office.
- _____. (2003). Financial management systems: Core financial systems at the 24 Chief Financial Officers Act agencies (GAO-03-903R). Washington, DC: U.S. General Accounting Office.
- _____. (2004). Results-oriented government: GPRA has established a solid foundation for achieving greater results (GAO-04-38). Washington, DC: U.S. General Accounting Office.
- Wholey, Joseph S. (2002). Making results count in public and nonprofit organizations: Balancing performance with other values. In K. E. Newcomer, E. Jennings, C. Broom, & A. Lomax (Eds.), Meeting the Challenges of Performance-Oriented Government (pp. 13-35). Washington, DC: The American Society for Public Administration.
- Williams, Daniel W. (2003). Measuring Government in the Early Twentieth Century. *Public Administration Review* 63(6): 643-659.
- Willoughby, Katherine G., and Julia E. Melkers. (2000). Implementing PBB: Conflicting Views of Success. *Public Budgeting & Finance* 20(1): 105-120.

APPENDIX I. ABBREVIATIONS

CPPCC: Chinese People's Political Consultative Conference

PED: Performance Evaluation Division

SED: Statistics and Evaluation Division

RMB: Ren min bi, the Chinese currency

APPENDIX II. LIST OF INTERVIEWEES

Interviewee A: A budget official of the Performance Evaluation Division, the Guangdong Finance Department

Interviewee B: A budget official of the Performance Evaluation Division, the Guangdong Finance Department

Interviewee C: A budget analyst of the Performance Evaluation Division, the Guangdong Finance Department

Interviewee D: A budget analyst of the Guangdong Tourism Department

Interviewee E: A budget analyst of the Guangdong Transportation Department

**APPENDIX III. THE SELF-EVALUATION REPORT OF
PERFORMANCE EVALUATION OF
GUANGDONG PROVINCIAL DEPARTMENTS**

1. Cover Page:

Report of Program Performance Self-Evaluation in Guangdong
(recommended version)

Type of Evaluation: Evaluation for execution process Evaluation for program results

Title of Program: _____

Program Code: _____

Program Legal Representative Code: _____

Agency Code: _____

Expenditure Code: _____

Program Official Seal: _____

Agencs Official Seal: _____

Date: _____

2. Contents

Name of program principal		Telephone	
Program manager address		Zip code	
Category of program		<input type="checkbox"/> 1. basic construction <input type="checkbox"/> 2. special fund <input type="checkbox"/> 3. long term program <input type="checkbox"/> 4. others	
Program expenditure category			
Program start date			
Selection of performance measures			
Selection of evaluation method			
Total budget		Provincial fiscal investment	Other investment
Accomplished investment		Accomplished provincial fiscal investment	Other

Accomplishd expenditure		Provincial fiscal expenditure		Other	
Program introduction					
Performance measures					
Program execution					
Self-evaluation of program performance					

ABOUT THE AUTHORS

Meili Niu is an assistant professor at the School of Government, Sun Yat-sen University. Her research concentrates on government budgeting, fiscal administration, public policy, and comparative public administration. Her publications appear in *Wuhan University Journal of Social Sciences*, *Public Budgeting & Finance Journal (forthcoming)*, and *Handbook of Public Financial Management (forthcoming)*.

Alfred Ho is an associate professor at the School of Public and Environmental Affairs, Indiana University-Purdue University at Indianapolis. His research focuses primarily on state and local finance, performance measurement, and e-government. His publications have appeared in *American Review of Public Administration*, *Public Administration Quarterly*, *Public Administrative Review*, *Public Budgeting & Finance*, *State and Local Government Review*, and other professional journals. Between 2001-2004, he was one of the co-principal investigators of the "citizen-initiated performance assessment" (CIPA) project in Iowa funded by the Alfred P. Sloan Foundation. He can be reached by email at altho@iupui.edu.

Jun Ma is a professor at the School of Government, Sun Yat-sen University, commissioner of All-China Youth Federation. His research focuses on public policy, fiscal administration, new institute economics, public finance history and administration history. His work has been published in *Journal of Economic Research*, *Journal of Policial Sciences*, *Administrative Theory and Praxis*, *Journal of Public Budgeting, Accounting & Financial Management (forthcoming)*. He also has some articles published in some edited books, including, *Evolving Theories of Public Budgeting*, *Financial Management Theory in the Public Sector*, and *Handbook of Public Financial Management (forthcoming)*. Professor Jun Ma is also the author of two books, *China's Budgetary Reform: Rationalization and Democratization* and *Classic Theory of Public Administration in Western Countries*.