Managing for Development Results (MfDR) is a results-based management approach that has been developed over the last twenty years to improve the efficiency and effectiveness of social and economic development. Its core is a method for developing a results framework around which detailed action plans can be built and actual results assessed. In theory, MfDR unites planners, implementers, budget makers, donors, and other stakeholders in a collaborative planning process and a system of mutual accountability, which includes close monitoring and evaluation and more specific institutional learning as well as coherent and effective program implementation. In practice, one of MfDR’s major challenges has been the nexus between budget and results. The connection of action plans to budget is often the weakest link. But without critical input from budget officials, the whole process is weakened; budget input is needed at all stages—very early in the planning stage as well as during implementation, where financial data is crucial to effective monitoring and evaluation. In general, the development community promotes results-based budgeting as the best solution to these problems, but attempts to implement results-based budgeting have had limited success. This knowledge note presents recommendations as to the best way to implement results-based budgeting, which include taking concrete steps—even if just a few—toward linking budget and results, involving top budget officials much earlier and much more deeply in the planning process, and keeping the program budgeting system as simple as possible.

Introduction

Managing for Development Results (MfDR) is a form of results-based management that promises to make development cooperation and implementation more effective: to more efficiently and more quickly bring about the changes that will benefit individuals and the society as a whole, while at the same time creating a learning process that will improve results over time (see Appendix 1 for a brief description of fundamentals of MfDR). One of the persistent challenges of MfDR is harmonizing planning and implementation with the budget process.

In MfDR, stakeholders—government agencies, civil society, target beneficiaries, development agencies, and others—work together on the solution of a development problem, collaboratively specifying long-term goals as well as intermediate outcomes. At the core of MfDR is a results framework that articulates the program’s theory of change—the causal pathways from planned interventions through intermediate outcomes to the overarching
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development goal. Once the framework is agreed upon, stakeholders can select appropriate indicators, establish baselines, and set targets against which to measure progress and hold all stakeholders accountable. Ideally, planners and stakeholders create a concrete, detailed blueprint for change, supported by a resource plan, a communication strategy, and a monitoring feedback loop. A persistent challenge is engaging and adjusting the financial management system to provide useful financial data that can answer key performance questions, such as: how much did this intervention cost? What is the relationship between these costs and the net outcomes and impacts?

In the best case, MFDR—whether in the context of a single project, a sector program, or a national strategy—is founded upon a well-wrought strategic plan that serves to align and coordinate the actions of government, civil society, development agencies, and other stakeholders. Clearly articulated indicators and expected results and actions, align programming, monitoring, and assessment, and provide lessons for the future. The clarity provided by a results framework is especially important when, as is often the case, many different agencies have a role to play in the achievement of a particular development goal.

The use of a results framework in MFDR has many potential benefits:

- **More effective planning** through “backwards design” – starting the planning process from the strategic objectives to be achieved and working backwards through intermediate goals
- **Consensus-building, coordination, and “ownership”** – stakeholders and implementers build a common understanding and shared goals for the project/program, agree on a step-by-step path and the division of responsibilities
- **Communication, reporting, monitoring, and evaluation** – the results framework provides a clear set of objectives, which can guide communications, reporting, monitoring, and evaluation
- **Evidence-based management and learning** – performance data can and should inform programming decisions, whether in the form of mid-project course corrections, assessment of progress, or resource allocation.

But a plan is just a plan if it does not have a managerial system capable of implementing the plan effectively, meeting its targets in the near term, and reaching its goals in the long term. The budget is a foundational tool in any management system, but, unfortunately, it is too often the weakest link in MFDR. The biggest challenge in deepening MFDR is strengthening the nexus between budgeting and results.

For MFDR to work well, senior budget staff need to be involved from the beginning, because budget structure as well as performance auditing need to be re-oriented: they need to focus on the agreed-upon objectives of the MFDR plan and must establish a clear correlation between activities, on the one hand, and budgetary and human resources, on the other. Indeed the budget should support the entire MFDR process (planning, implementation, completion, and learning). Moreover, budget officials need to ensure that planning takes into account financial constraints, including the contingency of possible fiscal shocks. The assessment of an MFDR initiative should include evaluation of the budget and expenditure dimensions—economy, efficiency, productivity, and overall cost-effectiveness—and ultimately lead to changes in resource allocations.
“Plans are only good intentions unless they immediately degenerate into hard work.” Peter Drucker

In this note, we seek to provide simple, actionable recommendations for the introduction or deepening of results-based budgeting for MfDR.

Building a results-based budgeting system for MfDR

MfDR endeavors to unite stakeholders, planners, implementers, and budget makers in a coherent effort to achieve particular development results. The results framework is an explicit articulation of a causal chain (theory of change) leading from a particular action or intervention through intermediate results to a final result. Once the priorities are articulated, allocating resources to those priorities is the way a government agency or other implementing organization begins to move toward the desired future expressed in the plan. MfDR depends on close monitoring and evaluation against the targeted outcomes. Cost considerations are also a critical element of the MfDR system, ideally shaping resource allocation in light of efficiency and effectiveness.

Implementation of MfDR—whether at the national, sectoral, or project level—requires a shift from the traditional budget-and-planning process in order to optimize allocation of resources. If the budget is not made to reflect the results of an MfDR initiative, the entire initiative will be significantly weakened. Crucial information—whether resources are being spent effectively—will be missing. It is possible that there will be a serious misalignment: either a crucial actor (the budget agency) is not aligned to the strategy and/or the strategy is not aligned to budgetary reality.

In the words of a leading expert, while “it is not feasible to budget performance without measuring it. It is feasible to measure and not budget for performance. … [T]he government cannot budget for performance if it does not manage for performance (Schick 2007, pp. 123-124). The upshot is that it is possible for an MfDR approach to limp along without critical focused input from the budget side. In other words, it is possible to build detailed implementation plans on the basis of a results framework created in dialogue and unite stakeholders, but the problem is that the monitoring structure lacks key information.

If, for instance, there is a national goal to build 100 new rural health clinics, but the budget does not reflect that goal, then implementation is likely to fall apart. In order to achieve the objective, the implementing agency or agencies must plan and budget for the appropriate infrastructure in 100 locations, with all the necessary equipment, staffing, and so on. All these activities have a cost, and the overall plan has a multiyear implementation horizon (and possibly multiple agencies playing an important role). Without a results-based budget, even if implementation is more or less successful, it will be difficult to understand project costs and consequently impossible to understand whether the project was cost-effective. Once the long-term plans are reached, the traditional way to gauge the effectiveness of this whole project would be to assess the gap between the budget and the actual money spent; however, under the result-based budgeting approach, the questions to answer are more probing:

- Did we truly succeed in improving the health of rural communities?
- Was the cost of the project what we expected?
- Have we done what we should have done to improve health?
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The solution usually proposed to address these issues is **results-based budgeting**—tying the way the budget is formulated and structured to the results framework. At its simplest level, results-based budgeting is the allocation of resources in conformity with the development project plan and, in particular, the outputs and outcomes specified in the results framework.

Results-based budgeting may be easy to describe, but it has proven difficult to implement. In practice, the link between the budget and the results is often weak or lacking. Experience in many countries, both developed and developing, shows that moving beyond the traditional budget process is difficult. We cannot be surprised: we are asking that the financial management system adjusts its orientation in regard to budget review and budget formulation and those senior leaders make a commitment to the new system. Ultimately, we are asking that they factor program performance into resource-allocation.

Even if done with a light hand, as we will recommend, these are not trivial changes and will undoubtedly encounter resistance. It may also encounter “incrementalism,” a type of bureaucratic inertia peculiar to budgetary systems. Typically, when the budgetary authorities create the budget for the upcoming cycle, they start with the previous year’s budget and make small adjustments that reflect inflation, specific pressures from government agencies, or the most pressing political priority of the day. The priorities spelled out in the development strategy are likely to be considered last, if at all.

Indeed, some analyses see a profound “culture clash” between planners and budget officials, which is the result of their differing responsibilities and work processes. Table 1 delineates the contrary tendencies that are common, perhaps inevitable, among those tasked with planning the development strategy and those responsible for marshaling and accounting for resources.

Both planners and budget officials have crucial perspectives. Without planning, we cannot move toward the future we want; without recognizing budget constraints, fiscal discipline can be undermined and in any case planning will be unrealistic. The two perspectives must be integrated—something that is easy to say, but difficult to do.

It is useful to be aware of typical barriers to change, but they should not discourage one from taking any step at all towards a new results-based approach, but neither should one invest efforts in radical changes that are unlikely to succeed. Stability is important in budget processes. We recommend a middle path: **implementing results-based budgeting, but keeping it as simple as possible.** Simple concrete steps are important, because they will set the stage for dialogue about how well or poorly funds are being spent, even if the links between objectives and the budget are loose on the initial go-round.

**Table 1. Natural tendencies of Planners and budget officials**

<table>
<thead>
<tr>
<th>Budget People . . .</th>
<th>Planners . . .</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firmly based in the reality of costs and limited resources: the budget has to be executed <strong>now in this way</strong></td>
<td>Dreamers focused on opportunities: the plan will be executed over the next few years <strong>if everything goes according to plan</strong></td>
</tr>
<tr>
<td>Oriented to the past and continuity (first question: what did we do last year?)</td>
<td>Oriented to the future and to change (first question: where do we hope to be in five years?)</td>
</tr>
<tr>
<td>Focuses on the short-term (what)</td>
<td>Focuses on the mid- to long-term (what is)</td>
</tr>
</tbody>
</table>
The experience of countries as well as development agencies has established a number of important general lessons that apply to results-based budgeting:

- Allow sufficient time and resources to build effective systems
- Keep the results-measurement system simple and user-friendly
- Leadership support is vital
- Begin with pilot efforts to work out difficulties and demonstrate effective practice
- Communicate clearly and continuously and provide sound guidance on new policies and procedures
- Give managers greater spending autonomy even as accountability is increased

Adapted from DAC Results Based Management

Our goal should be a very basic model for results-based budgeting that is affordable, within the capacity of budgeting units, and not overly complicated, but which still incorporates the key steps toward harmonizing the budget with the MfDR plan. A checklist for a simple results-based system is given in Table 2.

For planners, this set of recommendations means, among other things, reaching out early and persistently to the relevant budget authorities to bring them into the process and convince them of the importance of their participation. Planners would be wise to develop a communication plan that would include regular meetings with the budgetary authorities. For budget professionals, the checklist means allotting a good deal of staff time to the planning process, investing in some modifications to the accounting system, and, above all, taking on a new mindset in regards to planning—one that takes a longer-term view and that is built on a small set of targets.

Table 2. Checklist for a Simple Results-Based Budgeting System

| Do we need to do to get through the current cycle? | the development path that will lead to better social and economic outcomes? |
| Structure the budget by administrative unit | Structure the plan by sector (in which there are many actors) |
| Avoid conflict by repeating previous year | Avoid conflict by ignoring cost |
| Do not recognize failure to meet objectives, only failure to execute budget | Blame failure on “poor implementation” or a “delivery problem” |
| Budget people think, “Planners make promises that they can’t achieve.” | |

Source: adapted from Schick (2007).
Program budgeting involves budgeting according to the objectives and grouping cost information accordingly instead of by spending unit. It emphasizes outcomes while de-emphasizing transactions. Some countries have tried to build their budget exclusively according to programs rather than according to units, but generally these attempts have failed. A leading expert, Prof. Allen Schick, warns against radical change in the budget system and recommends a lighter approach to program budgeting—looking at it as a system of classifications providing supplemental information about expenditures, without displacing traditional classifications (Schick 2007, p. 114). In other words, this light form of program budgeting is a means of displaying useful data for understanding and analysis, but does not disrupt existing financial management systems.

**Technical challenges**

**Program budgeting:** The essence of MfDR is assessing performance against outcomes. Without a system that can explain costs in light of outcomes, an essential element of assessment would be lost. In that case, one would not be able to assess whether resources have been allocated effectively and there would be no evidentiary basis for shifting allocations to the most productive uses. In short, results-based budgeting is meant to provide critical information into the MfDR process. At the very least, there has to be movement toward **program budgeting** (grouping costs according to program objectives rather than spending unit), **revised methods of scrutinizing expenditures** (proposed and actual), including, when warranted, **more managerial discretion** in spending units.

Below we will discuss certain technical challenges as well as provide advice on how to close the communication loop between budget makers and planners.

### Technical challenges

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**Establish procedures for updating the plan:**
Avoid the danger of doing the opposite of planning (changing goals and objectives frequently) but accept that unforeseen shocks are likely to occur and that you may have little capacity to adjust to them. Revisiting the plan is how we steer our project, control its path, and react to a changing environment.

**Source:** adapted from Robinson & Last, A basic model of performance-based budgeting, IMF Technical Notes & Manuals (2009)
successes and failures. Again, from the budgetary side, good financial data makes it possible to answer questions of economy, efficiency, productivity, cost-effectiveness, and sustainability.

While a drastic restructuring of the budget is ill-advised, adding a new results-based classification layer will, at the very least, move us beyond discussion of simple variances between the budget and actual expenditures. Old-style variance analysis has its place but by itself does not lead to productive dialogue on budget priorities. Results-based budgeting sets the stage for an important dialogue about how well or poorly funds are being spent.

Loosened audit controls. The MfDR process aims at creating a well-formulated, realistic, detailed multiyear plan. A budget based on a plan structured according to activity or type of service, is likely to be more explicit. Due to relatively more detailed work plans of MfDR initiatives, greater responsibility for monitoring expenditures falls on the line agencies, and somewhat less on the central authorities. In other words, because a manager’s work plan is spelled out in the budget in line with the MfDR results framework, the manager is bound to achieving certain outcomes. Since service providers generally know more than central agencies about what they are doing and how to do it, one will expect that they have greater flexibility as to how he or she chooses to meet the targets. To return to a previous example, if the budget allocates resources to building rural clinics, those resources cannot be spent on staff salaries, but a manager should have greater flexibility in deciding how best to build a clinic in a particular village.

Under this system, line agencies (spending departments) are responsible for control of major expenditure items, such as salaries, equipment, etc. This is “internal control”; its main mode of accountability is audit of systems and results. Internal control is concerned with policies and procedures for spending money, acquiring and maintaining assets, hiring staff, etc. By contrast, external control means that an agency must receive approval from the center in order to spend money, purchase assets, hire staff, etc. Internal controls are the main instruments for assuring that government entities are capable of meeting government standards (and sometimes the standards of other stakeholders, such as the donors). The quality of internal control may be the most important determinant of whether an agency is capable of self-management and may be entrusted with broad discretion. Auditors must ensure that there are no material weaknesses in internal controls that would expose the government to loss or risk.

None of this is meant to imply that actual expenditures do not have to be monitored; of course they do. The finance ministry or other budgeting authority has to trace the flow of funds from the budget to the project and ultimately to the beneficiaries. If funds are spent on staff rather than their intended use (rural clinics, from our previous example), it undermines budgeting and severs the link between resources and results.

We are talking about a shift in emphasis from external to internal control (from central agencies to spending departments). The magnitude of the shift depends on local conditions. A table of general characteristics is provided below:
### Table 3: Characteristics of the General Shift from External to Internal Expenditure Control

<table>
<thead>
<tr>
<th>FROM</th>
<th>TO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditures itemized in the budget</td>
<td>Classes of expenditures specified in the budget</td>
</tr>
<tr>
<td>Spending controlled by central agencies</td>
<td>Spending controlled by line departments</td>
</tr>
<tr>
<td>Pre-audit (before spending occurs)</td>
<td>Post-audit (after spending has occurred)</td>
</tr>
<tr>
<td>Audit of individual transactions</td>
<td>Audit of internal control systems</td>
</tr>
<tr>
<td>Audit of all transactions</td>
<td>Sample transactions to test the system</td>
</tr>
<tr>
<td>Managers have no flexibility</td>
<td>Managers must have the opportunity to improve performance</td>
</tr>
<tr>
<td>Rules enforced by outside monitors</td>
<td>Rules are internalized and accepted as legitimate</td>
</tr>
</tbody>
</table>

Source: Implementing Results-Based Budgeting (OECD) 2013

The concept of factoring program performance into resource-allocation decisions is fundamental to results-based management, but there is not yet much evidence as to what extent performance influences resource allocation. One will expect resources to flow to the programs/projects/activities that are performing well and generating the expected results but that are usually not the case. Most evaluations attribute poor program/project performance and impact to insufficient resources. It is critically important that budget agencies play a major role in ensuring that resources are adequately aligned with expected results.

### Conclusions

Results-based budgeting is an important part of managing under the MFDR approach—a part that is often given too little attention. MFDR is hindered by the use of traditional budget systems that do not specify the results and focus on strategic objectives and targets. It is essential to MFDR but it demands a new approach to budget formulation as well as some structural adjustments to the budget process. To a certain extent, it is a new mindset and for it to be internalized by budget officials, it needs strong support from high levels.

While we favor simplicity and indeed we caution against radical change to the financial management system, it is important that real changes are made and to understand that real changes take time.

If you are a planner, invite and pester budget people to participate in the entire MFDR process, from the very beginning of the planning phase to the end. If you are a budget maker, recognize that you have an interest in ensuring that national, sectoral, and project plans are formulated within realistic constraints. You should see yourself as an important stakeholder in the process. Everyone has to recognize that

### Closing the gap between budget and planning agencies

We have emphasized throughout this note the importance of involving budget officials more deeply in the planning process. Those drafting the budget must be intimately aware of the goals, objectives, indicators, and targets articulated through the MFDR process. The best way to do that is to involve them from the beginning of the dialogue. This means that the timeframe for formulating the budget should be lengthened, especially since it is likely that important changes will have to be introduced in order to harmonize budgeting and planning.
the planning dialogue as part of the budget cycle.

References


OECD. (2013). *Implementing Results-Based Budgeting*.

Appendix 1: fundamentals of MfDR

Managing for Development Results (MfDR) is a technique for stakeholders to co-design and agree upon a path (usually extending over several years) towards particular desirable changes and align efforts towards overarching development goals. By building a consensus among stakeholders and clearly articulating intermediate as well as long-term targets and objectives, MfDR is meant to integrate planning, monitoring, implementation, and evaluation—as well as provide a feedback loop so that actual results evidence will be incorporated into future planning. MfDR itself has been elaborated in a series of international conferences aimed at making development assistance more effective: Washington Roundtable on Managing for Development Results (2002), the Marrakesh Roundtable (2004), Paris High-Level Forum on Aid Effectiveness (2005), the Hanoi Roundtable (2007), and others.

At the Second Roundtable in Marrakesh, five core principles were agreed upon. As Figure 1 illustrates, MfDR begins with a commitment to “focus the dialogue on results.” This means at all stages, not during the planning stage alone but throughout implementation until the project is completed—and even beyond when the results achieved are assessed against what was specified in the results framework and, after enough time has passed, in terms of sustainability. The unwavering focus on the agreed-upon objectives is meant to align all activities of all actors with achievement of the goal.

*Figure 1: The Five Core Principles of Managing for Development Results*

The backbone of the system is a results framework (Box 1). The framework can be applied to a national development strategy, a sectoral strategy within a country, a
development program, or even an individual project. It is essentially a hierarchy of inputs, activities, outputs, and outcomes—all leading logically through a causal chain to the overall goal of the project. For each step in the hierarchy, a small set of indicators is articulated in order to facilitate monitoring and assessment. Crucially, the framework is the product of “backwards design,” in which the long-term goal that is desired is first established and then, building backwards chronologically, intermediate goals leading to the final goal are articulated and assigned realistic timeframes. The illustration below shows the basic structure of the results framework.

The process of building the results framework for a program or project brings together stakeholders—government agencies, development organizations, civil society, intended beneficiaries, and the public—who through an iterative process or “dialogue” agree upon goals and a path to achieving those goals. Once the goal and the intermediate objectives have been established, the stakeholders build out a detailed action plan, which spells out who “owns” the initiative, the team members responsible for moving the initiative forward, the required resources, and the timeline.

If the plan and the budget are sufficiently explicit and specific, managers should have greater flexibility as to implementation. In other words, if a manager’s work plan and budget are spelled out in line with the government’s intentions, the manager is bound to those intentions and should have greater flexibility in how he or she chooses to fulfill that intention, since service providers generally know more than central agencies about what they are doing and how to do it. To return to a previous example, if the budget allocates resources to building rural clinics, those resources cannot be spent on staff salaries.

The results framework, then, depicts the future that the consensus of stakeholders wants and, ideally, a well-defined path to that future. The framework presents an explicit definition of results—precisely what is to be achieved through the project or program or national strategy and by when. With measurable objectives in sight, the framework provides the basis for monitoring progress toward those objectives and managing and adjusting program implementation. Box 2 gives an example.
Box 1: results framework and types of indicators

A results framework is a logical representation of how inputs, activities, and outputs affect outcomes and the long term goals through causal pathways (see figure below). The framework can be applied to a national development strategy, a development program, or an individual project.

GOAL(S):
long-term improvement, impact
Impact Indicators

OUTCOME(S):
intermediate effects
Outcome Indicators

OUTPUTS:
services delivered, products produced
Output Indicators

ACTIVITIES:
tasks and actions
Process Indicators

INPUTS:
financial, human, material resources
Input Indicators

Box 2: sample results framework for reducing childhood morbidity through Oral Rehydration Therapy (ORT)

**Goal**
Reduce mortality rates for children under 5 years of age

**Outcome**
Improved ORT for managing childhood diarrhea

**Outputs**
- 15 media campaigns completed
- 100 health professionals trained
- increased maternal knowledge of ORT services
- increased access to ORT

**Activities**
- Launch media campaign to educate mothers
- Train health professionals in ORT

**Inputs**
- Trainers
- ORT supplies
- Funds
- Participants


This knowledge series is intended to summarize good practices and key policy findings on managing for development results. The views expressed in the notes are those of the authors. Notes are widely disseminated and are available on the website of the Africa for Results initiative (AfriK4R), at: www.afrik4r.org/page/resources