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**Performance Management in
Korea :**
Introducing Performance Management in Korea

Session 2-2 : Performance Management in Korea

PRESENTERS

Introducing Performance Management in Korea

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1. Performance Management Framework

A. Structure of Performance Management Framework

Performance management typically consists of the following four steps:

1. Setting performance targets
 - Delineating the mission and strategic objectives of the organization
 - Defining quantitative and/or non-quantitative performance indicators
 - Choosing targets for indicators
2. Designing the program
 - Designating who is in charge of the program
 - Designing the service delivery system
 - Planning human and financial resources
 - Drawing up evaluation plans
3. Implementing the program
 - Delivering service with inputs of human and financial resources
 - Measuring performance indicators
4. Assessing the performance
 - Performance monitoring
 - Program evaluation

As the last step indicates, there are various tools to assess performance. The first is performance monitoring. In performance monitoring, performance indicators are defined and then measured on a regular basis. The measured performance is in turn compared to the targets that were chosen at the start of the period. In Korea, examples can be found in the Performance Budget Pilot Project (PBPP) that was carried out in 1999-2002 and the Performance Management System (PMS) that was introduced in 2003.

Performance monitoring can produce information on outputs and outcomes in a frequent and timely manner at relatively low costs. Based on this information, the organization in charge of the program can modify its business plans and service delivery system. On the other hand, monitoring by itself can rarely explain the causality between inputs and outputs/outcomes. It only describes the measured performance of a program, and says nothing about the extent to which the program contributed to the observed

performance. In addition, performance monitoring does not question the relevance and appropriateness of the chosen performance indicators, and takes as given the objectives and design of the program. Moreover, it is often difficult to measure with only a limited number of indicators the performance of a program that has diverse stakeholders and multiple objectives. In some cases, it is even impossible to define performance indicators. Despite these limitations, however, performance monitoring plays an important role in the overall performance management process by providing the basic information on program performance.

A second tool for performance assessment is program evaluation. According to the OECD (1999), performance evaluation can be defined as “a systematic and analytical assessment addressing important aspects of a program and its value and seeking reliability and usability of results.” Program evaluation addresses the question of why and how the program produced certain outputs and outcomes. It purports to analyze scientifically the impact of a program on the expected and unexpected results, describe objectively the factors that contributed to the success or failure of the program, and provide information that can be used to redesign the program and for other purposes. Program evaluation can also question the relevance and appropriateness of the chosen performance indicators and reassess the objectives and design of the program. On the other hand, program evaluation usually requires large amounts of money and time, and cannot be performed on all programs.

Of course, there are other tools for performance assessment than these two. Audits have traditionally been the most important instrument to ascertain the regularity and integrity of public sector operations. More recently, performance audits have been employed by the supreme audit institutions of many countries to analyze the efficiency of government programs. In addition, many countries have also been utilizing performance appraisal of individual government employees to attribute the outputs and outcomes of an organization to those of individuals, and to reflect the information on their promotion and salary determination.

Table 1. Key Differences between Evaluation and Monitoring

Monitoring	Evaluation
<ul style="list-style-type: none"> ● periodic; ● assumes appropriateness of program, activities, and indicators; ● tracks progress against small number of indicators; ● usually quantitative; ● use data routinely gathered or readily available; ● cannot indicate causality; ● difficult to use for impact assessment; ● usually internal. 	<ul style="list-style-type: none"> ● usually episodic; ● can address a wide-range of potential questions about a policy, program, or project; ● can identify what has happened as a result of an intervention and provide guidance for future directions; ● can address “how” and “why” questions; ● wide-range of quantitative and qualitative research methods possible; ● can use data from different sources; ● can identify unintended as well as planned impacts and effects; ● can involve internal, external, or self evaluation.

Source: Perrin (2000).

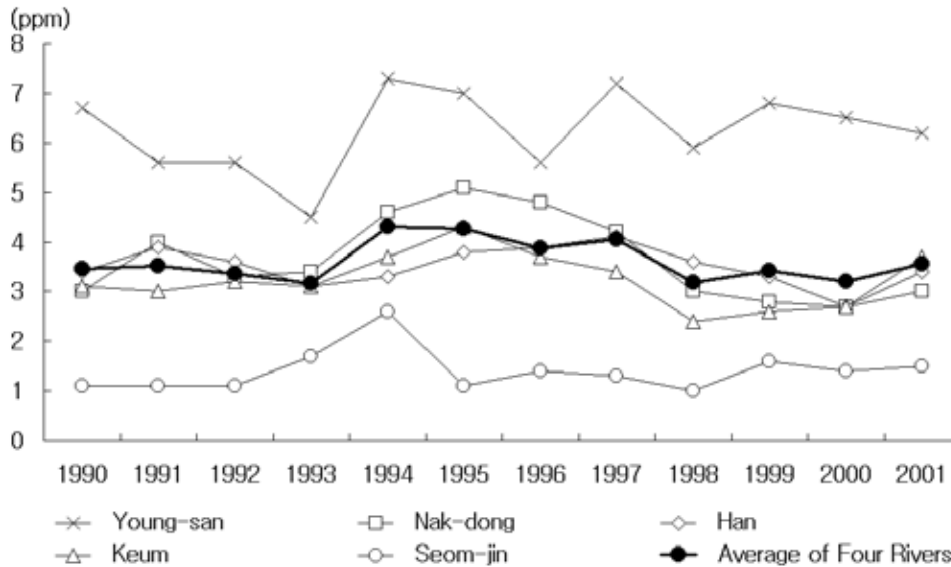
Among these tools, performance monitoring and program evaluation are deemed the most important, and accordingly they take a central stage in performance management. Some, such as Rist (2003), even equate performance management with performance monitoring and evaluation (PM&E). Table 4-1 contrasts the main characteristics of monitoring and evaluation.

B. Performance Assessment: an Example

The Korean Government has made a lot of efforts to reduce pollution in rivers. An example is provided below of the performance monitoring and evaluation of pollution abatement programs.

Graph 1 shows the BOD (Bio-chemical Oxygen Demand) level of four major rivers in Korea. The graph indicates a weak declining trend in the BOD level since the mid-1990s, but the trend is not clear.

Figure 1. BOD Levels of Four Major Rivers



Source: Kang and others (2003).

Kang and others (2003) tried to estimate the impact of pollution abatement investment in the following way. First, they calculated EBOD, which is defined as the difference between the actual BOD and the assumed level of BOD when no investment has been made since 1990:

$$EBOD_t = 3.46(w_1 D_t + w_2 W_t + w_3 L_t) - BOD_t,$$

where

- 3.46 = BOD in 1990 (ppm),
- D_t = pollution by households (1990 = 1),
- W_t = pollution by firms (1990 = 1),

L_t = pollution by livestock farming (1990 = 1),
 w_1, w_2, w_3 = weight of each pollution source, and
 BOD_t = actual level of pollution (ppm).

Because they did not have data on $w_1, w_2,$ and w_3 , Kang and others (2003) assumed various levels for these weights. In the next step, they estimated the following equation with the standard regression method:

$$EBOD_t = \alpha + \beta R_{t-1} + \gamma P_t + u_t,$$

where

R_{t-1} = accumulated investment after depreciation up until year $t-1$ (100 million won),
and

P_t = annual precipitation (100mm).

The estimated value of β ranges between 2 and 2.5, and indicates that the pollution abatement investment has not been very cost-effective. According to Table 4-2, each investment of 100 million won (around 83 thousand USD) reduces pollution by 0.00002 ppm. In this case, it costs 500 billion won (around 420 million USD) to reduce pollution by 0.1 ppm.

Table 2. Estimation Results

weights				(x 0.00001)	(x 0.01)	R ²	DW
w ₁	w ₂	w ₃					
0.4	0.1	0.5	-1.02	2.14 (3.47)	6.16 (1.67)	0.64	1.80
0.4	0.2	0.4	-1.05	2.28 (2.75)	7.50 (1.37)	0.53	1.56
0.3	0.2	0.5	-0.84	2.19 (2.67)	6.71 (1.24)	0.51	1.59
0.3	0.4	0.3	-0.90	2.47 (1.93)	8.20 (0.97)	0.36	1.33
0.2	0.3	0.4	-0.87	2.33 (2.22)	7.46 (1.08)	0.43	1.43
0.2	0.4	0.4	-0.07	2.38 (1.86)	7.41 (0.88)	0.34	1.35
0.1	0.4	0.5	-0.49	2.28 (1.78)	6.61 (0.78)	0.31	1.36
0.1	0.5	0.4	-0.52	2.43 (1.60)	7.36 (0.74)	0.27	1.29

Note: In parentheses are t-statistics.

Source: Kang and others (2003).

In this example, the annual measurement of BOD in Figure 4-1 corresponds to performance monitoring, while the estimation on the impact of pollution abatement investment in Table 4-2 corresponds to program evaluation.

It should be noted that the above program evaluation has a couple of deficiencies. First, Kang and others (2003) took account of only point-sources of pollution, and did not include pollution from non-point sources such as farm land and roads in their estimation. Presently, there are no data on the latter kind of pollution. Second, they estimated the

impact of pollution abatement investment on the average level of BOD across the four major rivers, rather than on those of individual rivers. This is again due to the lack of data.

Such a lack of adequate data can be observed in other areas as well, and poses a serious threat to the successful introduction of a performance management framework in Korea.

C. Uses of Performance Information

Performance information produced in the performance assessment process can be utilized in many ways. The OECD (1999) defines three objectives of evaluation, which can be readily extended to the case of performance management in general:

- improving decision-making;
- assisting in resource allocation; and
- enhancing accountability.

According to Schick (2003), “the big problem is not in measurement, but in application. Much attention has been paid to the former, but not enough to the latter. With some notable exceptions, governments that invest in measuring performance rarely use the results in managing programs. They do not base civil service salaries on performance, nor do they hold managers accountable for performance or allocate resources on this basis. Efforts to budget on the basis of performance almost always fail, as do reforms that aim to link pay and performance.”

This observation indicates that producing performance information is a separate issue from utilizing it. Below we will discuss various problems surrounding the uses of performance information.

Improving decision-making

Most importantly, performance information should be used by those who are directly responsible for the success of the program. For example, the program manager can identify more efficient and effective ways to implement the program, change the design, and utilize the lessons learned in planning future programs. At a higher level of decision-making, the ministry in charge can modify current policies or propose new ones based on performance information. In short, performance information provides an opportunity to learn and improve.

A performance management framework cannot be established on a firm ground unless it is used as a tool for learning. As Perrin (2002) notes, there appears to be general agreement that performance management can only be effective if people working within the system actually *believe* in the value of a results-orientation. With a true results-focus, a results-focus permeates everything that one does, for example, with managers and staff constantly asking themselves what the benefits of their activities are supposed to be, how they know, and what they can do to be more effective. Otherwise, what takes place would likely be mainly a paper exercise, with people going through the motions rather than really acting in a results-oriented manner.

A great danger emerges when managers and staff do not believe in the value of a results-orientation, which is distorted performance data. Performance data often rely on official statistics produced, for example, by national statistical offices. But more often they are produced by managers and staff themselves. When they suspect that performance information will work against their own interests, they have an incentive to distort the

data in their favor. At the least, when they perceive performance management as an unnecessary and onerous exercise, they will take little care in recording and reporting the data, and the data quality will suffer.

In this regard, improving decision-making is the most important use of performance information. The information produced for this purpose also forms the basis for information produced for the purposes of assisting in resource allocation and enhancing accountability. Managers and staff should check whether the expected outputs and outcomes have been obtained at each stage of the program implementation. They should also scan all major aspects of the program. They therefore need to produce as detailed and diverse information as possible on program performance. In contrast, higher-level decision-makers or the budget authorities need far less information on individual programs unless they want to overwhelm themselves with an excessive amount of data. The information supplied to them is therefore necessarily a subset of that produced by the program.

Assisting in resource allocation

Two ways to link performance to budgeting

Performance information can be used in the budgeting process. In particular, when the government is faced with severe budget constraint, performance information can provide valuable guidance in setting up priorities across different expenditure areas and reallocating resources from less efficient and effective programs toward more efficient and effective ones.

Resource allocation proceeds in multiple steps (Politt (2001)). In the first step, the budget is allocated among various sectors such as defense, education, and infrastructure investment. In the next step, sectoral budgets are further divided among major programs. For example, within education, the budget is allocated among elementary, secondary, and higher education. In the third step, program budgets are allocated to individual projects (free lunch for elementary school students, for example) and/or institutions (universities, for example). In the final step, the budget is allocated to specific activities (teachers' salaries, research support, library maintenance, etc.).

The budget authorities usually have the final say in the first and the second steps. Line ministries and offices and bureaus below them often take responsibility for the next two steps, as they correspond roughly to the decision-making process within ministries. Below we will confine our attention to the first and the second steps, namely the macro-budgeting carried out by the budget authorities.

There are two ways to link performance to budgeting. One is pursuing a direct linkage between performance and budgeting, and the other an indirect one. In a direct linkage, a functional relationship between performance and budget is assumed. For example, the Government Performance and Results Act (GPRA) of 1993 in the U.S. originally defined performance budget as that which presents varying levels of performance resulting from different budget amounts.

In an indirect linkage, no such one-to-one relationship is assumed between performance and budgeting. Performance information serves only as one of many references. The budget authorities take other social, economical, and political factors into account when deciding on budget allocation. Subsequently, poorly performing programs are not necessarily cut back or discontinued, and are sometimes assigned more resources.

Direct linkage between performance and budgeting

Most commentators agree that a direct linkage entails many problems (Politt (2001), Perrin (2002), and GAO (2002)).

First, one should be able to measure performance precisely in order to directly link it to budgeting. But many government programs do not lend themselves to precise measurement. Basic research programs, for example, aim to accumulate and diffuse scientific knowledge, which in itself is not quantifiable. Even when quantification is possible, it may be difficult to establish the causality between the intervention and final outcomes. The educational achievement of middle school students, for example, can depend on the current education as much as on the previous education they received in kindergartens and elementary schools.

Second, program costs should also be measured precisely. To this end, overhead costs from support services should all be allocated to programs. In addition, economic, rather than historic, costs should be the basis for cost comparison, and this requires the introduction of accrual accounting in budgeting. For example, annual depreciation of buildings and facilities should be added to program costs. While many countries currently employ accrual accounting for their financial statements, only a handful of them, including the U.K, New Zealand, and Australia, have introduced accrual accounting in budgeting. This indicates the degree of difficulty involved in the task.

Third, even if it is possible to measure both performance and costs precisely, it will be difficult to link them directly when their relationship is not stable. And even if their relationship is stable, past stability does not guarantee the same stability in the future. For example, a large expansion of a certain program can result in substantial changes in average and marginal costs. When this is expected, the government cannot rely on past data to budget for expansion.

The experiment by the U.S government shows that these concerns are real. The GPRA required the Office of Management and Budget (OMB) to report on the feasibility and advisability of including a performance budget as part of the President's budget (GAO (2002)). In 2001, OMB reported the results of five performance budgeting pilots that explored agencies' capabilities of more formally assessing the effects of different funding levels on performance goals. Overall, OMB concluded that the pilots raised key challenges regarding performance budgeting at the federal level including, for example, the following:

- In many instances, measuring the effects of marginal, annual budget changes on performance is not precise or meaningful.
- While continuing to change from a near total reliance on output measures to outcome measures, it will be much more difficult to associate specific levels with those outcomes, particularly over short periods of time.
- Establishing clear linkages between funding and outcome will vary by the nature of the program and the number of external factors.
- Delays in the availability of performance data, sometimes caused by agencies' reliance on non-federal program partners for data collection, will continue to present synchronization problems during budget formulation.

Based on these findings, OMB is currently aiming at an indirect linkage between performance and budgeting, as indicated by the following passage from the budget circular for FY 2005: "A performance budget consists of a performance-oriented framework, in which strategic goals are paired with related long-term performance goals (outcomes) and annual performance goals (mainly outputs). ... At a minimum, resources are aligned at the program level within this framework, and agencies are encouraged to align resources at the performance goal level (OMB (2003))."

Indirect linkage between performance and budgeting

Even pursuing an indirect linkage between performance and budgeting is not easy. Many of the problems discussed above still apply. When we cannot quantify and measure the performance or cannot identify external factors that affect the outcomes, even an indirect linkage is difficult to achieve. In addition, resistance from stakeholders can make the task even more difficult.

First, in order to reach the complex and sensitive distributional deals which budget-making entails, and in order to create or maintain sufficiently broad coalitions of support (or at least, acceptance) for continuing this program or cutting that one, politicians (both in the executive and the legislature) need to appeal to vague and general values (Politt (2001)). The last thing they are interested in, during this delicate and frequently adversarial process, is careful comparative evaluations of rival programs or the specification of precise operational priorities and targets. Such exercises would show only too clearly who gains and who loses and what is the relative cost-effectiveness of different programs, and would thus make coalition-management all the more difficult. The progress of performance management, by contrast, requires the participants to discuss and agree on realistic, measurable, dated goals, targets, and standards, with a highly specific identification of client groups and their preferences.

Moreover, politicians are under constant pressure to propose solutions to present political, social, and economic problems, and once their proposals have been accepted and implemented, they need to prepare themselves for the attacks from opponents. When somebody comes along with performance data and says that the proposed program has been ineffective in producing the desired impact, only embarrassment will follow.

For these reasons, politicians usually do not welcome performance management.

Second, line ministries may not want performance management for similar reasons. For many civil servants, the most serious threat is the condemnation of poor performance by the public and politicians, which should be avoided at all costs.

Third, the budget authorities may not want to link performance to budgeting even in an indirect way. In any country, the primary responsibility of budget authorities lies in collecting budget requests from line ministries, setting priorities, allocating the budget, and containing the total within a certain limit. In carrying out this function, budget authorities may fear that performance management would reduce their room for discretion. For example, they would sometimes feel obliged, against their will, to increase the funding level for those programs that showed good performance.

There is also what might be termed a cultural divergence between financial and performance management (Politt (2001)). Financial management by the budget authorities emphasizes the central control of spending ministries' demands for resources. In contrast, performance management encourages continual and spontaneous learning and improvement in a spirit of devolution and empowerment. This tension between control and spontaneity can hinder a whole-hearted acceptance of performance management by the budget authorities.

A prudent and gradual approach

The above discussion suggests that a one-to-one direct link between performance indicators and budget discussions generally is not possible or appropriate (Perrin (2002)). Nevertheless, integration does not have to be viewed as being all or nothing. It would not be responsible for a government to forsake completely any hope of linking resources and performance in some way at least. Information about results clearly should represent *one* source of information for use in planning and decision-making, including decisions about future allocations. One should also remember that perfect information is not essential. Decisions are always made on the basis of imperfect information. Making available at

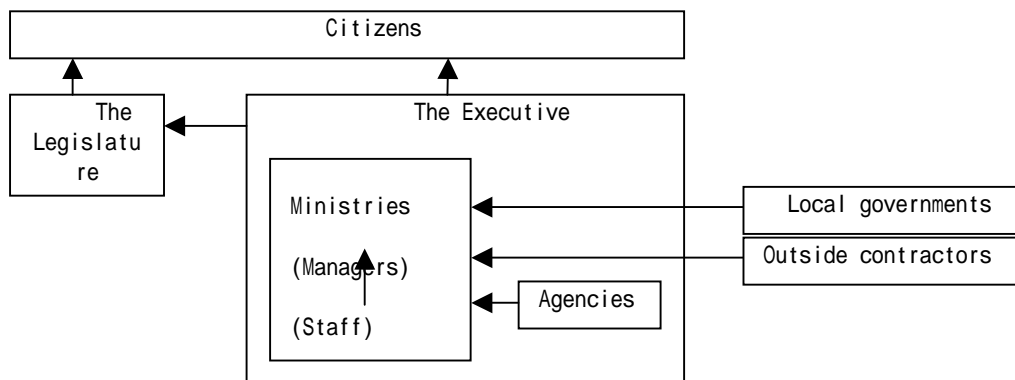
least some information on performance may be able to add some greater degree of confidence to the decision-making process. At the least, it can be used to raise questions that should be considered or explored through other means.

At the same time, efforts should be made to minimize the resistance by various stakeholders to performance management. A better understanding of their incentives and interests would help in this regard. Further, a realistic expectation on what performance management can bring about will also help. Success is guaranteed only by a prudent and gradual approach; a firm belief in the value of performance-orientation, but with a clear recognition of the gap between hope and reality.

Enhancing accountability

Performance information can also be used for enhancing accountability. Figure 2 illustrates the accountability relationship between citizens, the legislature, the executive, and others. The legislature and executive are held directly responsible to citizens, and their accountability is ascertained through the general election (and the presidential election in a presidential system). The executive is held responsible to the legislature through parliamentary hearings, budget approvals, and so on. Within the executive, staff are held responsible to managers, and agencies are held responsible to parent ministries. When the central government provides funds for or imposes regulations on local governments, an accountability relationship can be established between them. Lastly, when ministries contract out part of their operations to outside contractors, the latter are held responsible to the former for the delivery of goods and services.

Figure 2. Accountability Relationship



Note: The arrows denote accountability relationships.

In this universe of relationships, performance information can be used to assure accountability. In a line ministry, for example, managers can review performance of their staff when considering a promotion or a salary increase for the latter. Citizens can refer to the performance budgets and other documents when assessing the effectiveness of government programs. In addition, a formal contract on performance can be agreed on between those involved in the accountability relationship. For example, line ministries may stop paying for the service when an outside contractor does not meet the requirements in the performance contract. But even when such formal contracts do not

exist, each of the above accountability relationship assumes an informal and implicit contract between the concerned parties.

One should remember, however, that in making efforts to meet the numerical targets specified in performance contracts, government employees may forget their broad and non-quantifiable responsibility to work for the public good as civil servants. Performance contracts can also foster “silo-views” in the public service and hamper cooperation between individuals and organizations. When this happens, the overall performance of the government can be poorer than before the introduction of contracts. Performance contracts should therefore be devised in such a way as to minimize these kinds of risk. Setting a cross-departmental target for interdependent programs is an example.

Trust is another issue to consider in utilizing performance information for enhancing accountability. Schick (2003) emphasizes that performance contracts within government are better characterized as “relational contracts.” They are not real contracts in the sense that they rarely have the same effect as those between private parties. For one thing, within the government, politicians and managers rarely have an arm’s-length relationship; for another, politicians often have little or no effective recourse and have to turn the other cheek when managers fail to perform. They cannot close down the Department of Education and in some cases are pressured to reward the poor performance by increasing the resources provided. In contrast to formal contracts, relational contracts derive their force from the incentives of the parties to the contract to behave in a cooperative, trustworthy manner because they are interdependent. Ministers need managers to produce public services and managers need ministers to get them resources and political support. When the relationship works well, the parties may periodically review progress under the contract and discuss problems with a strong result-orientation.

In contrast, when the public sector lacks trust between its members, relational contracts cannot hold. The contracts cannot be expected to enhance performance by spurring the parties to focus on results. Even worse, they can generate rancor among the employees and lower the morale if they find the contracts as unfair and unjust. It is therefore important to build trust in the public sector in general and in the performance management system in particular before utilizing performance information for accountability purpose.

2. Current Performance Management Practices in Korea

A. Overview

Currently, several systems of performance management are simultaneously at work within the Korean government. They are; (i) the Performance Management System, (ii) the Government Operations Assessment System, (iii) Management by Objectives, and (iv) performance audits by the Board of Audit and Inspection. Table 4-3 explains the main features of these systems. Below we will take a closer look at the first and second systems.

Table 3. Systems of Performance Management

System (Agency in charge)	Main features
Performance Management System (Ministry of Planning and Budget)	<ul style="list-style-type: none"> - Objectives: To shift the focus of expenditure management from inputs to outputs/outcomes by setting up performance goals, measuring the indicators, and feeding back the information to resource allocation. - Based on the pilot project on performance budgeting carried out in 1999-2002.
Government Operations Assessment System (Office for Government Policy Coordination)	<ul style="list-style-type: none"> - Objectives: To enhance the efficiency, credibility, and accountability of government operations by assessing the performance and organizational capacity of ministries and citizens' satisfaction with them, and by utilizing the results in improving the current operations and planning the future ones. - Composed of the assessments of (i) the central government ministries, (ii) local governments, (iii) specific programs, etc. - The Basic Law on Government Operations Assessment was introduced in 2001 to provide a legal basis for the system.
Management by Objectives (Ministry of Government and Home Affairs)	<ul style="list-style-type: none"> - Objectives: To foster competition within public service by providing performance-based rewards to individual civil servants with a strict performance assessment of policies and programs. - Applies to civil servants of degrees 1-4. Sets up individual performance targets, assesses their achievement, and reflects the results on their annual salaries (for degrees 1- 3) and bonuses (for degree 4).
Performance Audits (Board of Audit and Inspection)	<ul style="list-style-type: none"> - Objectives: To analyze and evaluate the efficiency and equitableness of major government activities and programs from a holistic and comprehensive perspective and to propose effective alternatives, rather than focusing on the disclosure of irregularities. - Performance audits carried out in 1999 corresponded to 3.7 percent of all on-site audits. - Performance audits still mostly address the issue of regularity, and do not meet the standards for program evaluation.

B. Performance Management System

Overall design and implementation schedule

The *Performance Management System* (PMS), which started in the spring of 2003, is led by the Ministry of Planning and Budget (MPB). PMS corresponds to performance monitoring and does not include program evaluation as its component. PMS requires line ministries to set up performance goals and indicators, prepare annual performance plans and performance reports, and submit them to MPB at the start of the annual budget cycle.

MPB is in charge of making the system in place by examining the status of PMS in line ministries, coordinating the implementation, and feeding back the results to resource allocation.

PMS covers only part of ministries' activities, as those activities not involving large sums of expenditure (such as pure policy-making) are excluded from performance monitoring. Also, activities for which the benefits of performance monitoring are expected to be small (such as wages and salaries, "basic program" expenditures,¹ and general administrative expenses) are excluded as well.

For now, PMS applies to 22 "leading" ministries but will be eventually extended to all ministries in the central government. The leading ministries were asked to list the programs ("PMS programs") that will be subject to PMS, pick 30 percent of them for 2004, set up strategic and performance goals for these programs, and develop indicators. In 2004, they begin to measure these indicators, and set up goals for the rest of their PMS programs. Non-leading ministries will start developing their indicators in 2004.

Table 4. Timetable for the Performance Management System

Year	Leading ministries	Non-leading ministries
2003	<ul style="list-style-type: none"> ● Develop performance goals and indicators. 	
2004	<ul style="list-style-type: none"> ● Prepare performance plans for FY 2005 (At least 30 percent of PMS programs should be covered). ● Develop performance goals and indicators for remaining PMS programs. 	<ul style="list-style-type: none"> ● Develop performance goals and indicators.
2005	<ul style="list-style-type: none"> ● Prepare performance plans for FY 2006 (All PMS programs should be covered). 	<ul style="list-style-type: none"> ● Prepare performance plans for FY 2006 (A least 30 percent of PMS programs should be covered). ● Develop performance goals and indicators for remaining PMS programs
2006	<ul style="list-style-type: none"> ● Prepare performance plans for FY 2007. ● Prepare performance reports for FY 2005. 	<ul style="list-style-type: none"> ● Prepare performance plans for FY 2007 (All PMS programs should be covered).
2007	<ul style="list-style-type: none"> ● Prepare performance plans for FY 2008. ● Prepare performance reports for FY 2006. 	<ul style="list-style-type: none"> ● Prepare performance plans for FY 2008. ● Prepare performance reports for FY 2006.
2008	<ul style="list-style-type: none"> ● For the first time, all ministries will prepare performance reports for FY 2007 that cover all PMS programs. 	

Source : MPB, *Guidance on the PMS*, 2003.

¹ In Korea, programs with small and recurrent costs are designated as "basic programs" after negotiation between line ministries and MPB. Others are designated as "major programs."

Coverage of PMS

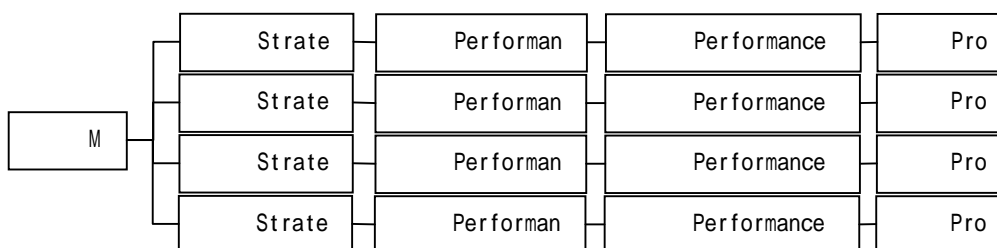
Programs in the general and special accounts that consist entirely of local shared taxes, formula-based grants, financing items, internal transactions between accounts, and contingencies are excluded. Basic programs are excluded except when it is deemed necessary to subject them to PMS. Those programs for which the benefits of performance monitoring are expected to be small are also excluded.

Similar standards are applied to the programs in public funds. In 2003, public funds totaled 59 in number. Among them, 20 are excluded from PMS. Examples of those excluded are the Foreign Exchange Stabilization Fund, various financial funds (which reside outside the scrutiny of MPB and parliament), and those soon to expire..

Performance plans and reports

A performance plan sets out in a systematic way the mission, strategic and performance goals, performance indicators, and the budgetary resources of the ministry. It should also contain explanations on how the indicators will be measured and how it can be verified. Optionally, it can describe external factors that affect the performance.

Figure 3. Performance Structure



Source : MPB (2003).

A performance report describes in a systematic way the degree to which goals have been met. It should list performance goals and indicators as set out in the performance plan; describe the performance in terms of goals and indicators; explain the reasons for any poor performances; summarize the assessment; and describe future plans. Optionally, it can include audit results by the Board of Audit and Inspection and summary findings of program evaluations.

Utilizing the performance information

According to MPB, the performance reports should tell us not only whether goals have been met or not but also why. When the poor performance is not due to uncontrollable factors (such as the unexpected change in economic circumstances or in laws and regulations), the program will receive an extensive review by the budget authorities. When it is difficult to identify the reasons for poor performance, a program evaluation will be planned.

PMS will provide one source of information for budget allocation across sectors and programs. Line ministries should present performance information when requesting resources, and MPB will utilize it when preparing the National Fiscal Management Plan and drafting the budget.

PMS in a performance management framework

To the extent that PMS is composed of strategic goals, performance goals, and performance indicators, it is very similar to the performance management framework employed in the U.S, the U.K, Australia, and others. But a significant difference exists in its coverage. PMS is confined to a subset of activities carried out by ministries. In the case of the Ministry of Education, for example, PMS programs take up only 30 percent of total expenditure in 2004. In contrast, the countries mentioned above monitor the performance of all major programs.

Table 5. Budget of the Ministry of Education

	(Unit: Billion won)	
	2003	2004
Total expenditure	4,112.3	4,535.2
Major programs (A+B)	3,905.7	4,323.4
PMS programs (a+b)	1,319.3	1,339.9
The general and special accounts	2,490.3	2,639.0
Major programs (A)	2,348.0	2,485.9
PMS programs (a)	1,319.3	1,339.9
Public funds	1,622.0	1,896.2
Major programs (B)	1,557.7	1,837.5
PMS programs (b)		

Source : MPB.

The pilots on performance budgeting that were carried out in 1999-2002 covered all expenditures of line ministries. When significant difficulty was encountered in developing performance indicators, MPB decided to change the design of the system and cover only those programs for which clear performance targets can be established. But the current design can result in the exclusion of important activities and programs from performance management. In particular, programs whose expenditure consists mainly of wages and salaries or recurrent running costs will be excluded regardless of their importance, as well as the grant programs for local governments. If these programs take a large part in carrying out the mission of the ministry, performance management will lose its substantial meaning.

Of course, there exist cases where performance indicators are difficult to build. But indicators are only a part of the whole exercise. A more important aspect of performance management lies in clarifying the mission of the ministry and classifying its activities in terms of strategic and performance goals. In this process, managers and staff are reminded of the ultimate objectives that they want to achieve, and a cultural change toward a results-orientation emerges within the organization.

C. Government Operations Assessment System

Overall design

The *Government Operations Assessment System* (GOAS) aims to enhance the efficiency, credibility, and accountability of government operations by assessing the performance and organizational capacity of ministries and the citizens' satisfaction with them, and by utilizing the results to improve current operations and to plan future ones (OGPC (2000)). GOAS is composed of five types of assessments; (i) assessments of the central government ministries (*aka* organizational assessments), (ii) assessments of local governments, (iii) self-assessments of the central government ministries and local governments, (iv) assessments of specific programs, and (v) assessments of agencies by their parent ministries.

Table 6. Components of Government Operations Assessment System

Types of assessments	Main features
Assessment of the central government ministries (<i>aka</i> organizational assessment)	<ul style="list-style-type: none"> Assesses ministries in terms of (i) the implementation and performance of their major programs, (ii) their organizational capacities, and (iii) citizens' satisfaction with them. Covers 43 ministries, agencies, and commissions.
Assessment of local governments	<ul style="list-style-type: none"> The central government ministries assess the operations delegated to and performed by local governments and their grant-based programs and implementation of the national agenda. Covers 16 provinces and metro-cities. Municipalities can also be subjected to the assessment.
Self-assessments by the central government ministries and local governments	<ul style="list-style-type: none"> The central government ministries and local governments assess their own operations.
Assessments of specific programs	<ul style="list-style-type: none"> Evaluates those programs that have drawn large public attention or that have surfaced as national and social issues. In some cases, assesses the implementation of major policies and examines urgent problems.
Assessments of agencies by their parent ministries.	<ul style="list-style-type: none"> Each ministry assesses their agencies in terms of the implementation and performance of their major programs, their organizational capacities, and citizens' satisfaction with them.

Source : OGPC (2003).

GOAS is led by the Office for Government Policy Coordination (OGPC) within the Office of the Prime Minister. OGPC performs organizational assessments and oversees other assessments with the help of the Committee for Policy Assessment (CPA). The latter is an advisory committee serving the prime minister² and has private sector experts as its members.

Below we will explain the organizational assessment, self-assessment, and assessment of specific programs in greater detail.

Organizational assessment

Organizational assessment examines ministries in terms of (i) the implementation and performance of their major operations, (ii) their organizational capacities, and (iii) citizens' satisfaction with them. Assessment of the implementation and performance of major operations is further divided into (i) assessment of major policies and (ii) indicator-based assessment of operations.

Table 7. Organizational Assessment

Types of assessments	Main features	Frequency
Assessment of implementation and performance of major operations	● Assessment of major policies	● Biannual
	● Indicator-based assessment of operations	● Annual
Assessment of organizational capacities	● Assesses the management capacities of knowledge-base, organization and personnel, and policies.	● Annual
Assessment of citizens' satisfaction	● Assesses citizens' satisfaction with major policies, customer services, and administration.	● Annual

Source : OGPC (2003).

The most important one of these is the assessment of major policies. It is carried out over the core programs of the ministries and/or those programs that embody the major policy agenda of the government. When selecting the programs to be subjected to the assessment, OGPC selects them at the level of bureaus. Once selected, they become part of the self-assessment programs. That is, ministries should first provide their own assessment of the programs selected by OGPC. OGPC then reviews these self-assessments and provide their own views with the help of CPA. The results are reported to the prime minister in a ministerial meeting twice a year.

The criteria for assessment as suggested by OGPC are presented in Table 4-8.

² The prime minister in Korea is appointed by the president just like the ministers and does not have a political affiliation with a particular party.

Self-assessment

Self-assessment is carried out over the central government ministries and local governments. Self-assessment of the central government ministries is implemented in much the same way as the organizational assessment, except that ministries themselves select the programs to be subjected to the assessment. Each ministry also has a “Committee for Self-assessment” in place, which provides assistance in making self-assessment. The criteria for self-assessment are the same as those for the organizational assessment (Table 8).

Table 8. Criteria for Assessment

Aspects	Criteria	Questions
Policy formulation	Appropriateness of the policy objectives	<ul style="list-style-type: none"> ● Does the objective conform to the policy agenda of the government and respond to the changes in policy environment? ● Is the objective clearly presented?
	Adequacy of the implementation plans	<ul style="list-style-type: none"> ● Have operational targets and tools to achieve the objective been set out? ● Have due steps (such as a survey of the public opinion) been taken in the planning process? ● Has cooperation been sought with other ministries that have related roles in achieving the objective?
Policy implementation	Efficiency in implementation	<ul style="list-style-type: none"> ● Is the operation being carried out on schedule? ● Are the resources being spent efficiently?
	Appropriateness of the implementation process	<ul style="list-style-type: none"> ● Are the changes in policy environment adequately accounted for during the implementation process? ● Are adequate efforts being made for public relations? ● Is a cooperation network in place with other ministries that have related roles?
Performance	Achievement of the objectives	<ul style="list-style-type: none"> ● Have the objectives been achieved?
	Effectiveness of the policy	<ul style="list-style-type: none"> ● Does the policy have real impacts on the public?

Source : OGPC (2003).

Assessment of specific programs

In the assessment of specific programs, those programs that have drawn large public attention or that have surfaced as national and social issues are evaluated. The evaluations are carried out by OGPC. CPA first selects the programs to be evaluated and for each evaluation, designates one of its members as a supervisor. The supervisors then organize evaluation teams that include outside experts and OGPC officials. Ministries in

charge of the programs also participate in the evaluations. Evaluation results are reviewed by CPA and reported to the prime minister.

Line ministries can also initiate evaluations. In this case, they need to submit their evaluation plans by mid-March to OGPC and report the evaluation results to the prime minister.

GOAS in a performance management framework

GOAS has many features that can be found in a performance management framework. OGPC (2003) requires ministries to state their policy objectives and the expected results of their programs in terms of quantifiable targets similar to those employed in performance monitoring. In addition, the assessment of specific programs corresponds to program evaluation.

But the similarity ends there. There are significant differences between GOAS and a genuine performance management framework. First, GOAS does not require ministries to set up missions and strategic and performance goals and classify their programs in a systematic way. The focus of the assessment is placed on a limited number of programs that are deemed important. No clear explanation is given on the relation between the selected programs and the overall mission and strategies of the ministry. Second, despite OGPC's call for quantifiability, performance targets are often stated in abstract terms and lack concreteness and output- and outcome-orientations. That is, one can see what ministries are doing but not the ultimate benefits they bestow on the public. Third, enough use has not been made of the assessment of specific programs. Since 1998, only about 5 programs have been evaluated each year. The quality of evaluations is deemed low in most cases.

3. Developing a Performance Management Framework

A. Need for Expanding the Coverage of PMS

Our goal should be developing PMS into a full-fledged performance management framework. That is, the coverage of PMS should be expanded to all major activities of the ministries. In addition, GOAS should be eventually incorporated into the new framework, making it possible to manage ministerial performance in a comprehensive and coherent way. In my view, there are several obstacles to these efforts.

First, there is a general misunderstanding within MPB about the purpose of performance management. Many officials in MPB view it only as a tool for resource allocation and disregard its role in improved decision-making by line ministries. For these officials, setting targets, measuring performance, and then reflecting the results on budget formulation is all that counts. As a result, MPB decided to confine performance management to those programs whose performance can be easily defined and measured in numerical terms. Even then, suspicions on the practicability of performance management and worries about the constraint it can impose on the budget authorities' discretion are holding back the support for PMS within MPB.

Second, most line ministries in Korea do not have a sound system of planning and reporting established within them. All ministries report their annual plans to the president at the start of the year, but they are usually 20-30 pages long and contain main policy directions only. Some ministries sporadically publish 5-year or longer-term plans, but these plans mostly lack a close examination of resource availability in the future. They stop at expressing the hopes and expectations of the ministries.

As discussed previously, performance management can have the greatest impact when it is accepted and utilized in the decision-making process of line ministries and when it is part of their planning and reporting process. That is, a system of planning and reporting is a precondition for good performance management. When it is not well established in line ministries, and when they do not feel the need for such a system, it is difficult to instill a performance-orientation in them.

Moreover, when the primary use of performance management as envisaged by the budget authorities lies in linking performance and budgeting, line ministries will take it as another source of external interference in ministerial affairs and resist its introduction.

Third, the diverse system of performance management as explained in the previous section provides another obstacle to transitioning toward a new framework. PMS, GOAS, MBO, and performance audits are likely to overlap each other and be a source of turf-wars between the sponsoring agencies. To avoid this possibility, MPB openly announced that it will differentiate PMS from other forms of performance management by focusing on the programs with large expenditures and measurable performances.

But the current fragmented efforts by various central agencies are only second-best to a consolidated drive toward a comprehensive and coherent framework for performance management. Such fragmentation can increase confusion in line ministries, overburden them with paperwork, and generate skepticism. It should therefore be minimized in coming years.

B. Major Issues in Developing a Performance Management Framework

Avoiding a direct linkage between performance and budgeting

As repeatedly stressed above, we should avoid directly linking performance to budgeting. Performance data obtained in performance monitoring and evaluation can and should be utilized as one source of information for budget decisions. But it is neither desirable nor possible to set up a one-to-one relationship between performance and resource allocation for most programs. MPB should be aware of this fact. Otherwise, performance management will be forever stuck in the current approach that focuses on those programs whose performance can be easily defined and measured in numerical terms.

In this regard, it is worth noting that the performance budget as currently prepared in the U.S federal government does not aim for a direct linkage between performance and budgeting. Similarly, no direct linkage is being pursued in the U.K and Australia, which represent another group of countries that have systematically introduced a performance management framework in their government.

Establishing a sound system of planning and reporting in line ministries

As discussed above, a system of planning and reporting is a precondition for good performance management. A first step to help build the system is requiring line ministries to prepare annual business plans and performance reports. The business plan would describe in detail the mission, the strategic and performance goals, the activities to attain the goals, and the associated resources. The performance report would review the performance results and discuss the future course of actions.

Table 9. Documents Required in GPRA

Documents	Requirements
Strategic plan	<ul style="list-style-type: none"> ● Should cover not less than 5 years, and should be updated at least 3 years. ● Must contain: <ul style="list-style-type: none"> - A comprehensive mission statement for major functions and operations of the agency; - General and outcome-related goals; - A description of how the agency will achieve the goals and the operational process and resources required; - A description of how the goals relate to annual performance plan goals; - An identification of key factors external to, and beyond the control of, the agency that could significantly affect the achievement of goals; and - A description of program evaluations, with a schedule for future program evaluations.
Performance plan	<ul style="list-style-type: none"> ● Should cover each program activity in the agency's budget. ● Must: <ul style="list-style-type: none"> - Establish goals that define the level of performance to be achieved by a program activity; - Express goals in an objective, quantifiable, and measurable form unless an alternative form is approved by OMB; - Describe the operational processes and resources required to achieve goals; - Establish performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity; - Provide a basis for comparing actual results with the established goals; and - Describe the means to be used to verify and validate measured values.
Performance reports	<ul style="list-style-type: none"> ● Should include actual program performance results for the 3 preceding fiscal years. ● Must; <ul style="list-style-type: none"> - Review how successfully performance goals were achieved; - Evaluate the performance for the current year relative to the performance goals achieved during the fiscal year(s) covered by the reports; - Where goals are not met, explain and describe (a) why the goals were not met, (b) plans and schedules for achieving the goals, and (c) if the goals are impractical or infeasible, why that is the case and what action is recommended; - Describe the use and assess the effectiveness in achieving performance goals of any waiver under 31 U.S.C section 9703; and - Include the summary findings of program evaluation completed during the fiscal year.

Source : GAO (1998).

In the U.S, federal agencies should prepare strategic plans, performance plans, and performance reports under GPRA (Table 9). In Korea, line ministries are expected to prepare performance plans and reports under PMS. More detailed requirements like

those in GPRA would help enriching the plans and reports. MPB can also compare them across different ministries and propose best practices. It can also rate their quality and publish the result on a web-site. Of course, line ministries should be given the freedom to determine the document formats and encouraged to experiment with different modes of presentation as long as they satisfy basic requirements.

A second step to build a system of planning and budget is introducing a medium-term expenditure framework. The reason for the weak planning capacity in many line ministries can be traced back to the uncertainty surrounding the amount of available resources in coming years. It is very difficult and often meaningless to plan for the future when uncertainty is large. I believe this explains why most ministries currently live from hand to mouth, without a serious effort to prepare a realistic long-term plan and design their annual operations within this plan. A medium-term expenditure framework will certainly be of much help in this regard.

Third, when reviewing the budget requests from line ministries, MPB should pay attention not only to the outputs and outcomes of individual programs but also to their design and implementation process. This point is illustrated in the Program Assessment Rating Tool (PART) as employed in the U.S federal government. The PART purports to provide a consistent approach to rating programs. It consists of approximately 30 questions, which are divided into four sections (OMB (2003)). The first three sections address program purpose, strategic planning, and management, respectively. The fourth hones in on results and asks whether performance can be demonstrated. Thus a substantial part of the PART questions deal with the issues of program design and implementation under the premise that a good performance cannot follow from a poor design and/or implementation.

Consolidating the Diverse Systems of Performance Management

As noted above, PMS and GOAS should eventually be merged into a new framework for performance management. MBO should also be subsumed under the new framework. For this purpose, once a system of planning and reporting is established, all documents required under different systems should be consolidated into the performance plans and reports, greatly reducing the workload for line ministries.

But the question still remains who will take charge in leading this effort; *i.e.*, who will review the plans and reports of individual ministries, discipline the laggards, and coordinate the whole process. At face value, OGPC has these responsibilities within the government. But with only limited manpower and without strong leverage against line ministries, OGPC is not in a position to pursue this effort without help from MPB. On the other hand, MPB's role is confined to budgetary matters within the government, and many believe that pursuing a government-wide administrative reform is beyond its ambit.

Therefore a close cooperation between OGPC and MPB looks essential, with OGPC taking the lead and MPB providing logistics. In particular, officials in MPB should remember that a performance management framework was initiated and led by the ministry of finance in most countries. In these countries ministry of finance, with the best talent within the bureaucracy, has the capacity to perceive the necessity for change and to carry out the government-wide reforms.

Emphasis on Program Evaluation

There appears to be increasing awareness among many countries that performance monitoring and evaluation can provide different types of complementary information

(Perrin (2002)). An effective performance management system, in particular one that can provide a focus on outcomes, requires both monitoring and evaluation.

Data obtained through monitoring is rarely sufficient to get at outcomes, and used alone, is not capable of identifying attribution or causality (*e.g.* to what extent can one say that a program activity is directly responsible or not for the given results?). Monitoring information often can best be used to direct management attention and to raise questions that should be explored in greater depth through evaluation.

Evaluation has the potential to identify what actually has happened as a result of a program or initiative, whether planned or not, including unintended outcomes and effects that often may be more significant than the stated objectives. In particular, evaluation has the potential to identify why and how outcomes have come about. This is essential information in order to be able to attribute effects to program activities. It is also critical information in order to make decisions about future policies and programs, to assist in program improvement, and to be able to generalize what has happened from a single setting to elsewhere.

In a country like Korea which has little experience in evaluation, a formal strategy to introduce the evaluation practice seems desirable. The Australian Ministry of Finance, for example, imposed the following four requirements on line ministries (Mackay (2003)):

- Every program should be evaluated every 3-5 years.
- Each portfolio (*i.e.*, comprising a line ministry plus other agencies) should prepare an annual portfolio evaluation plan, with a 3-5 year forward coverage, and submit it to the Department of Finance – these plans comprise major program evaluations with substantial resource or policy implications.
- Ministers' new policy proposals should include a statement of proposed arrangements for future evaluations; and
- Completed evaluation reports should normally published, unless there exist important policy sensitivity, national security, or commercial-in-confidence considerations, and the budget documents which ministries table in parliament each year should also report major devaluation findings.

This strategy had significant influence in spreading the evaluation practice among line ministries in subsequent years. MPB should consider adopting a similar strategy. In addition, attention should be paid to the accumulation of data, which is essential for good evaluation. As illustrated at the beginning of this paper, almost all sectors are in dire need of basic data. In particular, an income panel data set, none of which exists at the present, would provide a valuable basis to assess the various welfare programs that have been expanding rapidly in recent years.

Restructuring budget accounts

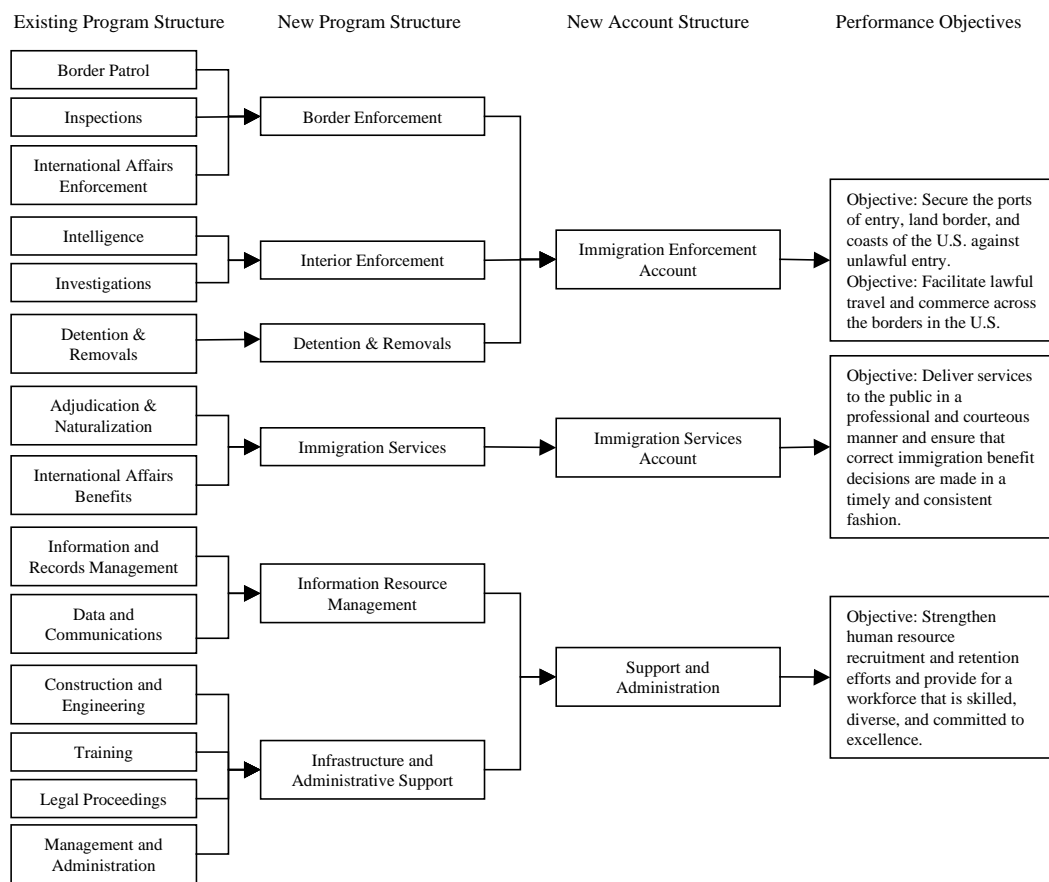
Under PMS, line ministries are asked to reclassify their programs following the structure of strategic and performance goals. This requires in many cases aggregation, disaggregation, or consolidation of existing accounts. The restructuring should continue in the future as PMS expands its coverage over all activities of line ministries. The primary responsibility for restructuring as well as for developing strategic and performance goals would lie with line ministries themselves. Of course, they should consult MPB and parliamentary committees and get their approval when necessary.

A closely related issue is the allocation of overhead costs across programs. Ideally, program costs should reflect not only the direct costs of running the program but also the indirect costs associated with, for example, central services such as payroll management

and ministry-wide IT investment. This will facilitate the comparison of costs between programs. But this task can encounter serious practical difficulty and impose undue burden on line ministries. It should therefore proceed to the extent that it is feasible and meaningful.

Figure 4 illustrates how the Immigration and Naturalization Service (INS) of the U.S government realigned its programs and accounts to link them to performance goals. In the new account structure, the support and administration account is temporary, capturing the overhead and support costs that could not be easily spread in 2003 (the first years of restructuring). INS spread these costs in the 2004 budget.

Figure 4. Restructuring of Accounts in INS



Source : OMB (2002).

Introducing Accrual Accounting in Budgeting

At a later stage, we should also consider introducing accrual accounting in budgeting. The restructured budget accounts mentioned above will enable us to better assess and compare the performance and costs of individual programs. However, as long

as the programs are costed on a historic, rather than economic, basis, the information on costs has limited value. The accrual accounting would reveal the true economic costs of the programs.

Here again a pragmatic approach is needed, focusing our efforts on those areas that make significant differences in terms of cost. For example, the U.S government has introduced accrual accounting in federal credit programs – direct loans and loan guarantees – in 1990. Currently, efforts are being made to extend it to three additional areas; government employees' pension programs, the removal of hazardous materials, and capital assets. According to OMB (2002),

- Pensions and retiree health benefits are earned as Federal employees work; they are paid much later, after the employees retire. The legislation transmitted [to the congress] would require program and other employer accounts to pay the employer share of the accruing costs of these benefits to retiree benefit accounts. These accounts would pay the benefits when they come due.
- Similarly, programs that generate hazardous substances would be required to pay the accruing cost to clean up contaminated assets at the end their useful life. These payments would go to funds responsible for the cleanup.
- In contrast, capital assets are bought before they are used. In this case, an agency Capital Acquisition Fund would be created. Following good budget practice, the CAF would request budget authority (BA) up front to acquire assets that are included in the budget, and outlays would be recorded when payment was made. However, this BA would be in the form of borrowing from Treasury authority. The CAF would then borrow for the period of the asset's useful life; collect annual capital user charges in proportion to asset use, and make the mortgage payments to Treasury.

Other countries have already introduced accounting in budgeting in full scale; examples include the Resource Accounting and Budgeting in the U.K and the Outputs and Outcomes Framework in Australia.

Greater Use of Performance Agreements

When a performance-orientation has been reasonably established in the government, a greater use of performance agreements can be encouraged. A minister and staff members would agree on a set of performance targets, review the progress, and discuss problems. Similar practices can be introduced between managers at all levels and their staff and between ministries and their agencies.

Under the current system in Korea, performance cannot significantly influence the annual salaries of individual employees. Salaries are determined in most part by the years of service and rank of the individual. But performance agreements do not require performance-based monetary rewards to be effective. As discussed earlier, they provide for “relational contracts” and help enhance performance by spurring the parties to the contract to focus on results.

But it should be remembered that the introduction of performance agreements should be preceded by establishing a reasonably working performance management framework. Otherwise, they can generate rancor and lower the morale among the employees. It is important to build trust in the public sector in general and in the performance management system in particular before utilizing performance information for accountability purposes.

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