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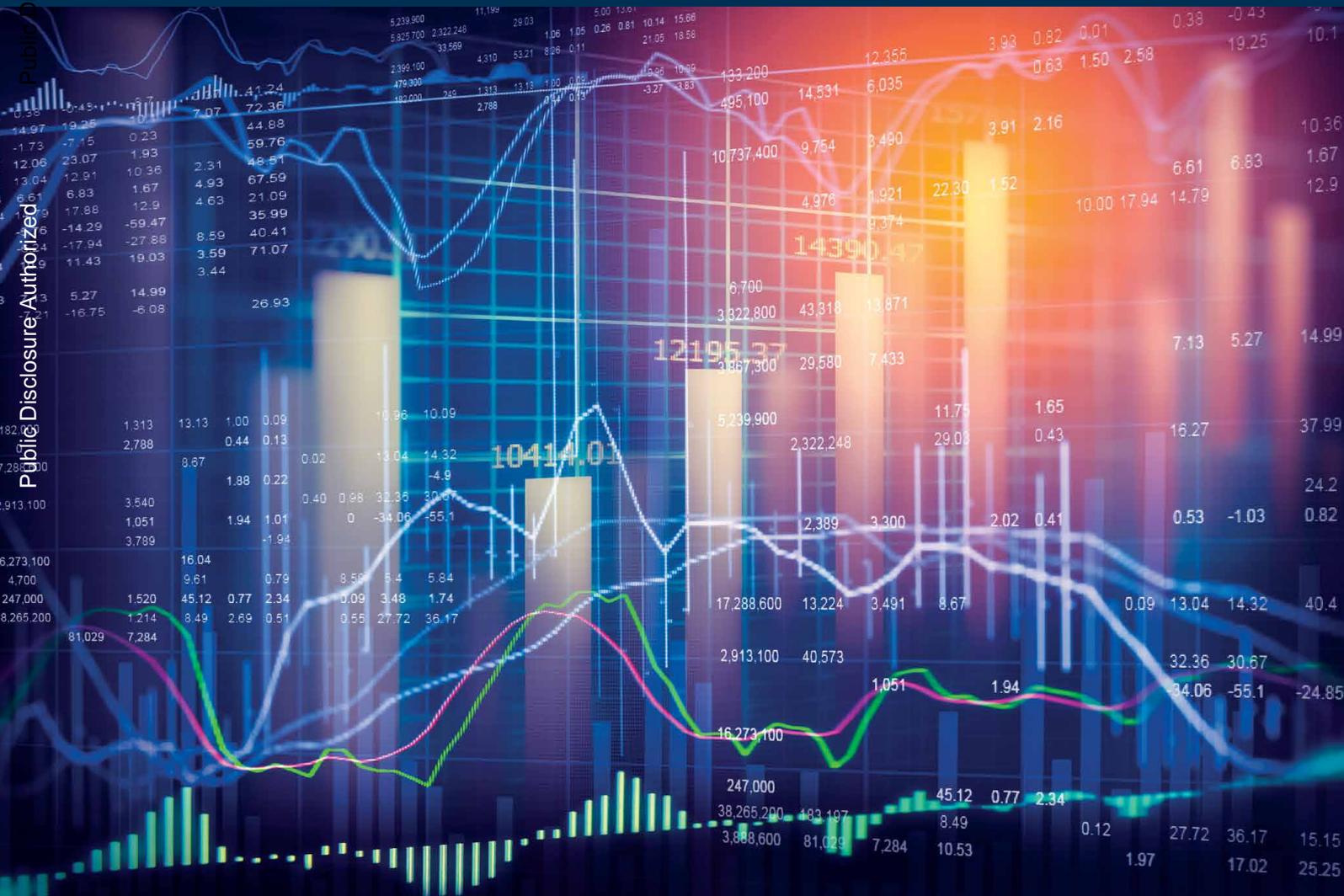
GOVERNANCE GLOBAL PRACTICE

MARCH 2018

THE MALAYSIA DEVELOPMENT EXPERIENCE SERIES

Budgeting for Performance in Malaysia

A Review of the Design, Implementation and Application of Malaysia's Outcome Based Budgeting System



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WORLD BANK GROUP
Global Knowledge & Research Hub
in Malaysia

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Foreword

Ministries of Finance around the world have strived to make national budgeting processes more aligned with medium-term strategic plans and more impactful on improving public sector performance. Malaysia has been at the forefront of many trends in public sector management, and this report is aimed at providing knowledge to other countries on how Malaysia has approached this objective.

Outcome Based Budgeting (OBB) has been used successfully by Malaysia to enhance the focus of its ministries, departments, and agencies on the achievement of national development outcomes. Clear results and accountability frameworks are established for ministries, programs, and activities, and performance agreements are signed by senior officials. The story of Malaysia's design and implementation of OBB may be valuable to other countries who have embarked upon a similar path or are anticipating it in the future.

The Ministry of Finance's collaboration with the World Bank to develop this report also reflects Malaysia's confidence that it still has much to gain from international experience and perspectives. OBB has not yet achieved its full potential, but it is through such collaboration that Malaysia has the opportunity to deepen OBB's impact on public sector performance – to the benefit of all Malaysians.



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Abbreviations

BRO	Budget Review Officer
CPMC	Central Performance Management Committee
DE	Development Expenditure
EPU	Economic Planning Unit (of the Prime Minister's Department)
ETP	Economic Transformation Programme
GTP	Government Transformation Programme
IRBM	Integrated Results-Based Management
KPI	Key Performance Indicator
KRA	Key Results Area
MAMPU	Malaysian Administrative Modernization and Management Planning Unit
MBS	Modified Budgeting System
M&D	Ministries and Departments
M&E	Monitoring and Evaluation
MES	Ministry Executive Summary
MOF	Ministry of Finance
MOIC	Ministry OBB Implementation Committee
NBO	National Budget Office
NBOS	National Blue Ocean Strategy
NOSC	National OBB Steering Committee
OBA	Outcomes Based Approach
OBB	Outcome Based Budgeting
OE	Operational Expenditure
OECD	Organization for Economic Co-operation and Development
PADU	Education Performance and Delivery Unit
PBB	Performance Based Budgeting
PBS	Programme Budget Sheet
PEMANDU	Performance Management and Delivery Unit
PPBS	Programme Performance Budgeting System
PPMC	Programme Performance Management Committee
PPMF	Programme Performance Management Framework
ProLL	Programme Logic and Linkages Model
PSD	Public Service Department
RM	Ringgit Malaysia
SPPII	Project Monitoring System II
SRI	Star Rating Index
TTP	Treasury Transformation Programme
WBG	World Bank Group



Executive Summary

Performance based budgeting (PBB) has been a popular reform among ministries of finance across the world, accompanied by high expectations for its ability to transform national budget processes. PBB offers the hope of a more evidence-based rationale for making budget decisions across an array of competing policy and program areas. It offers a framework for linking medium-term national strategies with the annual budget process, while the program logic structure gives a more transparent view of the activities being undertaken than a traditional line-item budget does. Ultimately, PBB holds out the allure of providing incentives for improved public service delivery. Despite significant time and effort devoted to PBB implementation, the experience of many countries is rather mixed.

This report explores some of Malaysia's successes and challenges in implementing PBB in recent years, the rationale for undertaking the reform, and how Malaysia's experience with PBB compares with that of other countries.

Malaysia is an interesting case study because it was an early PBB reformer in Asia, and because it has in recent years introduced new measures to deepen its implementation. As in other countries, PBB implementation in Malaysia is a journey. No middle- or high-income country reaches a point where it is fully satisfied with its level of PBB implementation. Malaysia's experience reflects a particular stage in this journey, and also provides some insights into the types of challenges that other countries may need to confront to reap the full benefits that PBB promises.

Outcome Based Budgeting (OBB) represents an evolutionary step in Malaysia's implementation of PBB, building on a foundation of budget reforms first rolled out in the early 1990s as the Modified Budgeting System (MBS). MBS incorporated the principle of devolving authority to managers, while setting up an accountability framework built around the definition of program outputs and measurable targets. MBS introduced the notion of program agreements and set up the skeleton of a potential reporting system for line ministries and agencies back to the Ministry of

Finance (MOF). MBS was in operation for about 20 years before changes to the national planning approach (reflected ultimately in the 10th Malaysia Plan) drove demand for changes to the annual budgeting system.

Malaysia's OBB is a good example of how a country can successfully link high-level national strategies to specific budget programs and activities using a common results framework to define accountability. The national strategies and priorities are guided by the five-year national development plans. OBB in turn links the different levels – national strategies, ministerial outcomes, program outcomes, and activity outcomes – through an integrated results framework. While the budget is formulated at the activity level based on agreed outputs, each activity must be mapped to a specific program. National strategies are comprised of national key results areas or key focus areas, as well as national key performance indicators (KPIs). KPIs are in turn defined for each of the subsequent contributing levels of outcomes – ministry, program, and activity.

The OBB reform was instrumental in enabling government to re-orient budget preparation toward the achievement of clearly defined policy outcomes. Substantial efforts went into the design of the OBB logical framework so that programs and activities could better reflect their contribution to high-level, cross-sectoral outcomes. Under the 9th Malaysia Plan (2006–2010) – which preceded the introduction of OBB – it was unclear how programs and activities were mapped to national and ministerial plans. There was no consistent method to document or validate the linkages between budget activities and the ministerial strategies and outcomes. Moreover, budget discussions focused primarily on input utilization due to a lack of visibility on the outcomes expected. Starting with the 10th Malaysia Plan (2011–2015) and the government's adoption of the Outcome Based Approach (OBA), the MOF required ministries to show how their programs and activities would contribute to national development goals. Implementation of OBB has also enabled MOF to better identify potential duplication across spending agencies.

Change management, staff training, and stakeholder outreach were all key components of the MOF's strategy for rolling out OBB.

Anticipating the potential time pressures imposed on staff by reform activities, the MOF established a small independent unit to manage the design and implementation of the OBB system. The OBB team organized their work around three dimensions of the budget transformation strategy : i) the budget model and framework – program-activity structure, vertical and horizontal linkages; ii) the people and stakeholders involved in the budget process – change management, capacity building, enhanced accountability through greater empowerment to the CEOs; and iii) the management information system that facilitates budget planning, monitoring, and reporting. Specific requirements and strategies were identified for each of these dimensions. During the first two years of the transition period (2010–2012), the OBB team developed the conceptual framework for OBB, creating the necessary training materials to support the reform. Through extensive use of Strategic Programming Workshops, the OBB team was able to work with each ministry to define outcome statements and determine the specific interventions needed to address identified problems, using a logical framework methodology.

While the “front-end” program and results structure of OBB is very well developed, the stages related to performance reporting and performance evaluation are much less developed.

Budget Review Officers (BROs) can request performance information as they need it to facilitate their consideration of new requests. The annual budget circular states that programs should be evaluated by the ministry every five years, but there is no enforcement mechanism for BROs to ensure that such performance assessments are submitted to MOF. While under MBS there was a requirement for ministries to report output variances that were outside the mutually agreed range, this proved to be impractical to enforce and was generally limited to financial performance. The most recent enhancement of OBB (as of January 2018) was to request ministries to report on their outcome KPIs on a quarterly basis.

Many countries with PBB have found that merely collecting performance information from ministries is not enough; Malaysia is still at a stage where it can carefully contemplate strategies that will enable information to be used effectively in decision-making.

Performance reporting adds little value unless the broader processes for budgeting and performance management provide appropriate motivation for people to care about their program performance and empowers them to act on such information. While the normal exchanges between BROs and program managers include discussions about financial and non-financial performance, BROs are at an information disadvantage compared to the program managers in their ability to understand the program issues and they may lack the right experience to conduct in-depth evaluation. Ultimately, whether to make significant changes to the design of the program or the level of the funding allocation, or to terminate a program, all require a level of authority beyond the BRO and a demand for performance information from senior officials.

Few ministries of finance have developed the procedures within the annual budget cycle to systematically evaluate performance across government and to take action on it.

Lessons from more than two decades of PBB worldwide suggest that senior decision-makers can only act on a limited number of performance related issues and that such interventions need to be strategic. Finance ministries are constantly challenged to manage the volume and quality of information that comprehensive, government-wide PBB can generate each year. For the line ministries that must generate the reports, the incentives to take such reporting seriously diminishes over time if there are few consequences to non-compliance. International experience suggests that performance management may be more impactful when it goes beyond the tight deadlines of the annual budget cycle and targets a selective number of policy areas. The actual number should be consistent with the absorptive and technical capacity of the administration to manage.

As countries gradually take stock of what has worked and what has not, they are applying those lessons to the next generation of PBB. The World Bank has helped curate some of the international experiences in the book “Toward Next-Generation Performance Budgeting” (2016). **Five lessons** drawn from this diversity of experience and relevant for Malaysia are:

1. Set realistic objectives of what PBB can achieve
2. Create space for performance discussions to go beyond the tight annual budget cycle
3. Take into account the administrative and analytical capacity constraints that exist
4. Tightly control the amount of data generated so as not to overload those who review it
5. Prioritize those programs that have a genuine service delivery component

For OBB to have a more direct impact on public sector performance in Malaysia, MOF may need to enhance the value of performance information to policy makers and improve the institutional capacity to evaluate such information. The challenges that Malaysian reformers face are not unlike those found in other middle- and high-income countries who started before them. Indeed, for Malaysia to enhance the value of OBB it may wish to prioritize the following: (1) Encouraging timely and accurate reporting on performance by ministries, when and where it is most relevant; (2) Developing the technical capacity to evaluate performance information and presenting it in ways helpful for senior level decision-making; and (3) Stimulating demand for performance information, possibly by linking it to individual and institutional recognition/reward systems.

Achievements and Future Directions

Key Features of OBB

- The focus of national budgeting shifts from outputs to outcomes;
- Clear links are established between ministry outcomes and the medium-term national strategic thrusts and national outcomes;
- Multi-sectoral contributions to national outcomes are more visible;
- Ministry outcomes cascade down into articulation of program outcomes and activity outcomes, with key performance indicators established at both levels;
- Performance agreements document the accountability for all levels;
- Budget activities are mapped to a single program to enhance transparency and accountability;
- Programs are defined in terms of interventions, rather than institutions or organizations;
- Program managers have flexibility to manage line-item allocations within the program;
- Allocations for operating expenditures and development expenditures can both be reflected within the budget program;
- Logical frameworks are used to validate the rationale for the budget program, i.e., why the specific intervention is needed and who it benefits; and
- An online information system (MyResults) captures the mapping of programs/activities and the complete set of results frameworks.

Further Enhancements Planned

- Systematic reporting on performance indicators to MOF
- Capacity to evaluate performance information effectively
- Additional IT modules to facilitate budget preparation and performance reporting



Origins of Performance Based Budgeting in Malaysia

Malaysia was an early leader in Asia in applying performance management to annual budgeting, starting in 1969 with the introduction of its Programme Performance Budgeting System (PPBS). This system drew inspiration from the United States' approach to program budgeting first pioneered in the 1960s. It recognized the shortcomings of a traditional line-item, input-control approach to budgeting and instead introduced a program-structure approach, with dedicated indicators related to specific managerial responsibilities. Activities were measured and used as an indicator of performance. PPBS brought with it more explicit prioritization of budget items, modernization of the accounting system from strict cash to a modified cash basis, and harmonization of budget codes and classification across agencies. This provided a foundation for future budget reforms.

Responding to the limitations of PPBS and global trends around "New Public Management," Malaysia introduced in 1989 a new system called the Modified Budgeting System (MBS). During the late 1980s, government was growing in size, but retained highly centralized controls, which inhibited responsiveness, accountability, and flexibility. As such, a primary objective of MBS was to devolve managerial and spending powers away from the center and towards program and project managers, improving flexibility and responsiveness. With this devolution came the need to hold managers accountable for results and to define measurable targets. These results chains were articulated through program agreements between line agencies and the MOF, which specified inputs and outputs at the ministry level and the activity level. The MBS also featured a set of expenditure targets, with the objective of improving selectivity of spending, while also imposing a degree of fiscal discipline. In practice, MBS perpetuated a focus on input utilization; program managers were more likely to draw attention if they failed to meet financial targets for budget execution.

The MOF has not been the only Malaysian institution with initiatives to improve public sector performance. Performance management today takes multiple forms, and is carried out for different purposes. Malaysia's performance initiatives can broadly be broken down into three different categories covering: i) expenditure and revenue management, i.e., use of public resources, ii) service delivery, and iii) organizational performance. Some of the major initiatives under each category are outlined in the Annex.



Objectives and Design of Outcome Based Budgeting (OBB)

The Prime Minister's decision to adopt a more outcome-based approach to national development planning became the driver for MOF to begin looking at ways to update the annual budget process.

The 10th Malaysia Plan (2011–2015) was designed to be outcomes focused, establishing a development vision for Malaysia that was linked to the achievement of outcomes across various national key results areas.

To strengthen the linkages between policies, planning, and budgeting, the MOF determined that the annual budget should also be outcomes-focused. Six key transformation levers were identified to guide the development of the new budgeting system: i) a strong focus on outcomes, ii) clear vertical alignment of national priorities and ministry programs and activities, iii) management of cross-cutting initiatives, iv) coordination of development and operating expenditure, v) accountability for results and authority over resources, and vi) a systematic monitoring and evaluation mechanism.

OBB was designed to address some specific shortcomings recognized by MOF in the implementation of MBS. The primary shortcoming was a perceived focus on input utilization and outputs at the expense of performance and results. Additionally, MBS did not adequately support clear linkages between government policies, national planning, and the annual budget process. Ministries could claim that budget activities supported ministerial strategies, but there was no means to link these to the broader national strategies outlined in the five-year plan. Therefore, MBS did not function effectively as a strategic planning tool, as program agreements were not based on top-down strategic planning. Without good information on results from line agencies, Budget Review Officers (BROs) continued to focus on line items rather than accountability for results. Under-execution of one's budget allocation could be more easily assessed than performance outcomes.

OBB has created an integrated results framework at every level of the budget process. Under OBB, the program structures are reviewed and refined through an integrated program-activity structure, which provides hierarchical linkages of ministry programs and activities, and systematically aligns them to national priorities. It

also establishes a logical structure on how program information is strategically collected and utilized for planning, budgeting, and M&E. Each program under OBB is an intervention aimed at addressing a specific problem, compared to programs under MBS, where many were institutional in nature. Activities are a common unit for under MBS and OBB, but they can only be mapped to one specific program, even where they may contribute to achieving multiple program outcomes. This helps to create a one-to-one match between the administrative and program-activity structures to preserve accountability and line of sight. Outcome objectives, along with relevant KPIs, are defined at all three levels of ministry, program, and activity. As the budget book is still approved by program, the activity level detail is used for internal management purposes within the ministry.

OBB was also designed to better integrate development and operating expenditure processes under a unified results framework. Like many countries in Southeast Asia, Malaysia has an institutional separation between the budgeting functions for capital or development expenditure (DE), which fall within the Economic Planning Unit (EPU) under the Prime Minister's Department, and the budgeting functions for operational expenditure (OE), which fall within the National Budget Office (NBO) at the Ministry of Finance. This institutional separation can sometimes create issues such as poor alignment between policy objectives under different types of spending or inadequate resourcing of operational costs for new development projects. Thus, OBB was designed to help manage this issue by requiring spending agencies to coordinate and prepare both operational and development budget submissions under a single, unified results framework. Doing so was intended to eliminate redundancy in funding and promote better value for money through improved coordination of DE and OE.

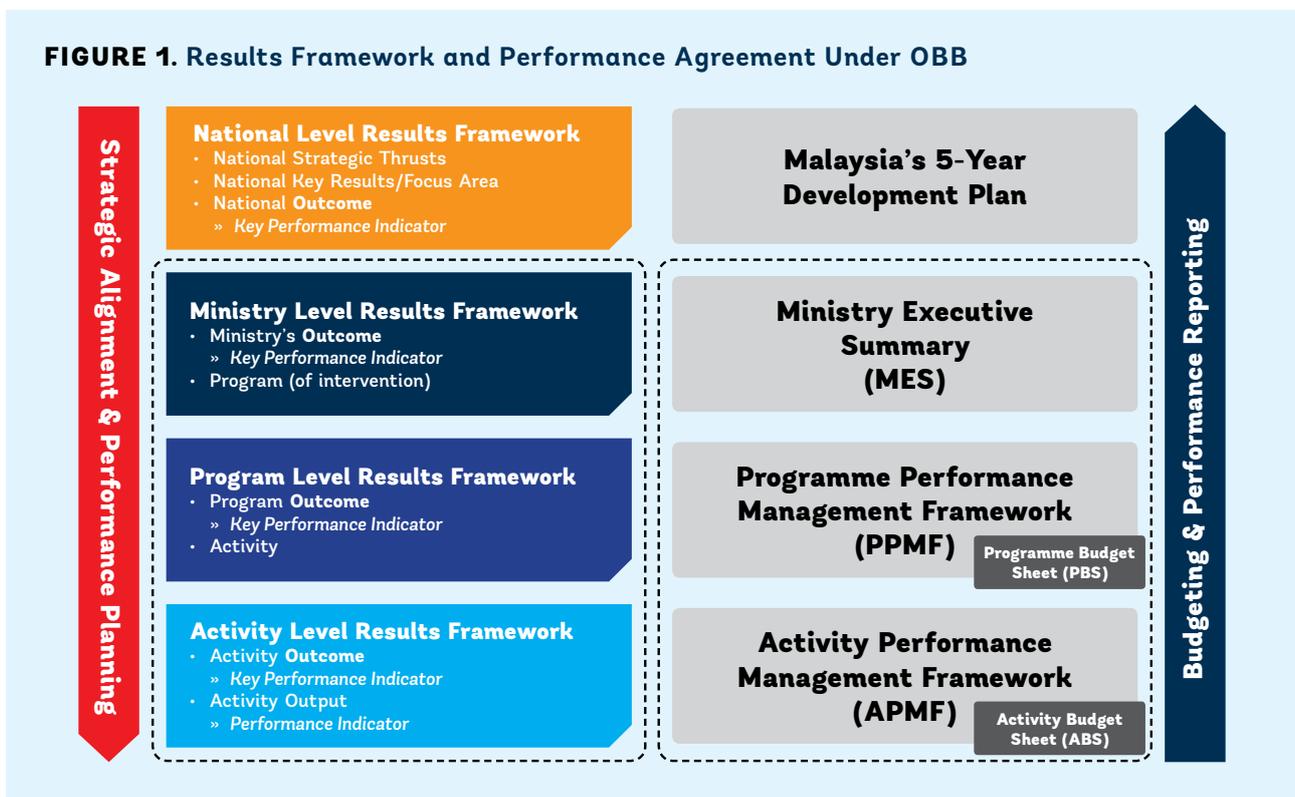
How is OBB designed to work?

Conceptually, the OBB system is grounded in a results framework involving top-down strategic planning and alignment, followed by bottom-up budgeting and reporting. The national level strategies and priorities are guided by the five-year national development plan. OBB in turn links the different levels – national strategies, ministerial outcomes, program outcomes, and activity outcomes – through an integrated results framework. While the budget is formulated at the activity level based on agreed outputs, each activity must be mapped to a specific program. National strategies are comprised of national key results areas or key focus areas, as well as national key performance indicators (KPIs). KPIs are in turn defined at each of the subsequent levels of outcomes – ministry, program, and activity. Each program is comprised of individual activities, each with its own results framework, specific outcome areas, KPIs, and outputs. The budget is built at the activity level, aggregated up to the program level, and finally consolidated at the ministry level, based

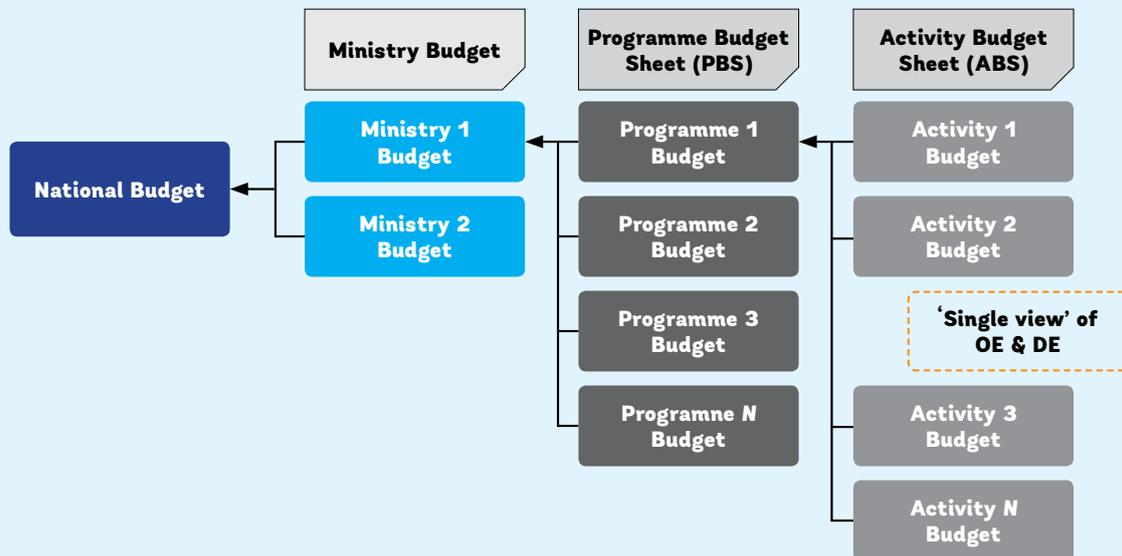
on the performance agreement for the budget year.

Performance agreements capture the target outcomes and establish the institutional accountability for their achievement at all levels. Performance agreements at the activity level, namely the Activity Performance Management Framework (APMF), are accompanied by the Activity Budget Sheet (ABS). At the next level up, the Programme Performance Management Framework (PPMF) displays the agreed outcomes and KPIs for each program, and it is accompanied by the Programme Budget Sheet (PBS). The Ministry Executive Summary (MES) summarizes the Ministry’s overall Results Framework and total inputs required for the implementation of all its programs and activities. Figures 1 and 2 detail the conceptual framework for OBB. In summary, each results framework, starting with the activity level, forms the basis of a performance agreement that is rolled up into the ministry-wide executive summary agreement.¹

FIGURE 1. Results Framework and Performance Agreement Under OBB



¹ The ministry agreements are shared with the MOF for their purposes; they are not published or shared with the Parliament.

FIGURE 2. Budget Building Under OBB

Source: Adapted from National Budget Office

Ministries justify their new programs, following transmission of the budget circular in January, using an online analytical framework called the Program Logic and Linkages model (ProLL).²

Senior managers use ProLL to identify and outline program objectives. They are required to begin with a demand analysis, which helps to identify clients/stakeholders, what their problems and needs are, and which policies will best address these problems and needs. In principle, it is from this demand analysis that a program is defined with preliminary outcomes to be achieved. Using ProLL, strategies for achievement of outcomes are also identified with short-, medium- and long-term actions. This strategic planning exercise helps lay out a clear results chain from inputs all the way to outputs, outcomes and impact. Of course, in the transition from MBS to OBB there was already a substantial legacy of programs that had a set of pre-defined beneficiaries and a set of existing performance indicators. What MOF gained from OBB was a fresh opportunity to revisit that existing structure of budget programs, validate their consistency with the higher-level strategic priorities, strengthen the results chain between outputs and outcomes, and

enhance the quality and relevance of KPIs. OBB also created the opportunity to strengthen the focus of organizational accountability more directly on the program manager.

After results frameworks have been developed at the ministry, program, and activity levels, spending units begin to develop budget submissions from the bottom up. The inputs required to undertake various activities are budgeted for, and then rolled up to the program and eventually the ministry level. Ideally by March, budget proposals are submitted to the NBO, which then disseminates budget proposals to the Central Performance Management Committee (CPMC). The CPMC is responsible for reviewing all ministry proposals and results frameworks, and for performing a challenge function against the ministerial requests. Once the CPMC has reviewed and approved the various ministries' allocations, the proposals are submitted for the Budget Director's approval, before proceeding to the cabinet and subsequently Parliament. The budget process and timeline are summarized in Table 1.

² ProLL © 2010, Arunaselam Rasappan and Jerome Winston CeDRE International

TABLE 1. Budget Preparation Calendar and Stakeholders in Malaysia

STEP	TIME	ACTOR	ACTION
1.a	Y0 Q1-Q4	MOICs	Top-down planning, propose programs based on 5-year plan
1.b	Y0 Q2	PRC	Evaluates and rationalizes new/existing programs and activities in partnership with MOICs based on 5-year plan
	Y1 Q1	FED	Updates 3-year Medium Term Fiscal Framework to inform expenditure estimates
2	Y1 Q1	NBO	Issues call circular with proposed expenditure estimates guidelines
3.a	Y1 Q1	MOICs	Finalize Ministry Results Framework, with program and activity managers
3.b	Y1 Q1	PPMCs	Finalize Programme Performance Management Framework
3.c	Y1 Q1	APMC	Finalize Activity Performance Management Framework
4	Y1 Q1	MOICs	Undertake bottom-up budgeting from activity, to program, to ministry level
5	Y1 Q2	NBO	BROs received budget proposals and reviews ministry proposals
6.a	Y1 Q2	CPMC	Reviews and challenges ministry proposals
6.b	Y1 Q2	CPMC	Reviews ministry allocations
7	Y1 Q3	NBO	Allocations approved by Budget Director
8	Y1 Q3	NBO	Consolidates budget, briefs cabinet
9	Y1 Q4	NBO	Prepares and presents budget estimates to parliament
10	Y1 Q4	Parliament	Reviews, debates, and promulgates budget
11	Y1 Q4	NBO	Issues general warrant authorizing expenditure
12	Y2 Q1	MOICs	Commence spending

APMC Activity Performance Management Committee
BROs Budget Review Officers
CPMC Central Performance Management Committee
FED Fiscal and Economics Division of MOF

MOIC Ministry OBB Implementation Committee
NBO National Budget Office
PPMC Programme Performance Management Committee
PRC Programme Rationalisation Committee

Source: National Budget Office

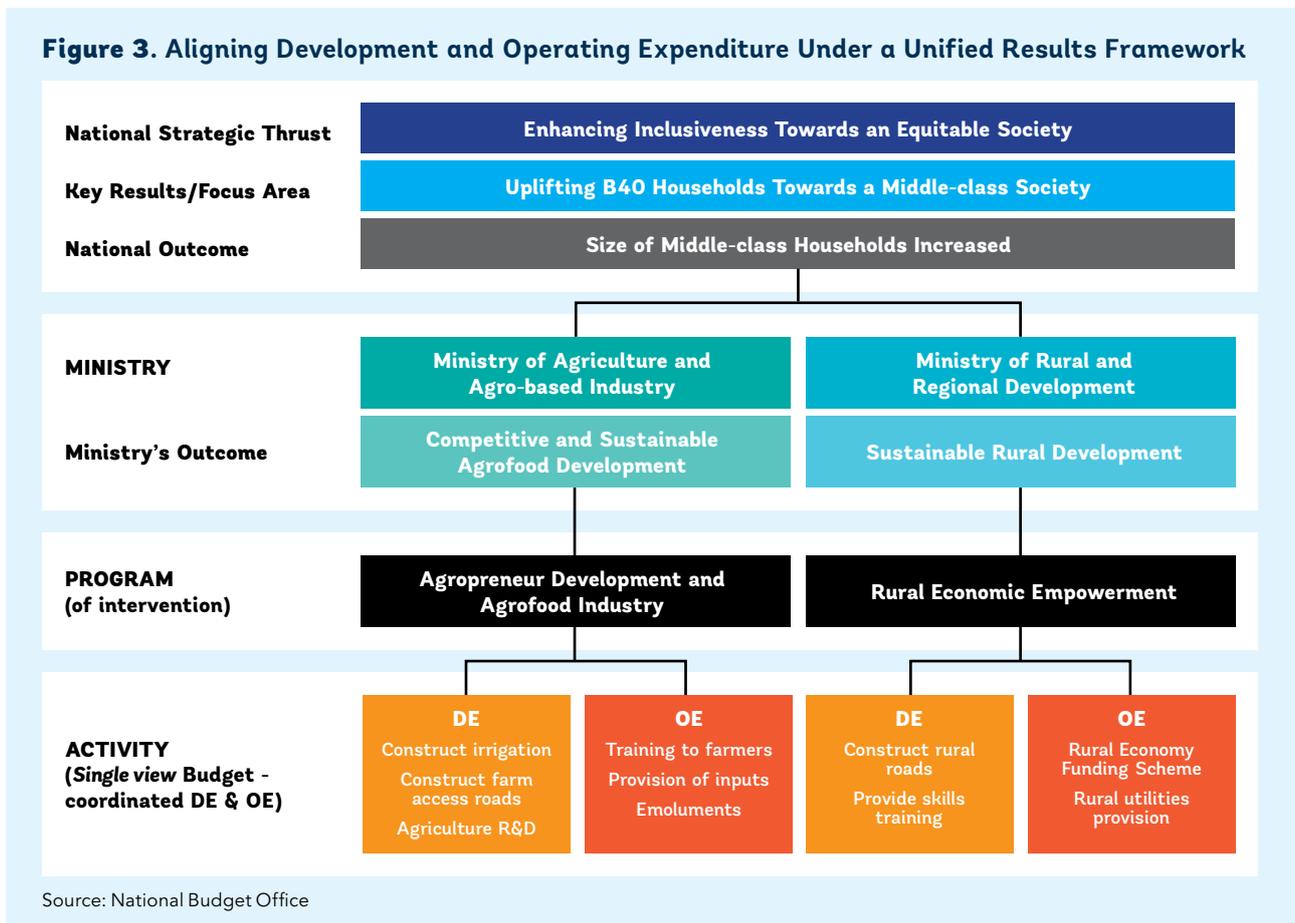
The OBB results framework: Aligning strategic plans with budget programs

The OBB results framework was instrumental in enabling government to re-orient budget preparation around the achievement of national policy outcomes. Substantial efforts went into the design of the OBB logical framework so that programs and activities could better reflect their contribution to high-level strategies and cross-sectoral outcomes. Under the 9th Malaysia Plan – which preceded the introduction of OBB – the mapping of programs and activities to national and ministerial plans was not well understood. There was no consistent method to document or validate the linkages between budget activities and the ministerial strategies and outcomes. Moreover, budget discussions focused primarily on input utilization due to a lack of visibility on the outcomes expected. When EPU decided to introduce its Outcome Based Approach (OBA), the mapping of such linkages was reflected in the preparation of the 10th Malaysia Plan. Responding to this new direction, the MOF was able to require ministries to show how their programs and activities contribute to national policy goals.

OBB also enabled MOF to establish accountability for achievement of outcomes at multiple levels of a ministry. Ministry outcomes are cascaded down and supported by program outcomes, which are in turn supported by the achievement of activity outcomes. Performance agreements are signed at the activity level and at the program level, accompanied by a series of KPIs. The Ministry Executive Summary (MES) is the only one that is seen by Parliament, but all performance agreements are available within the MOF. The explicit mapping of programs from OBB implementation has enabled government to show the cross-sectoral contributions to national strategies. The OBB framework is also helping to facilitate coordination

of operating and development expenditures, which are currently planned and managed separately by MOF and EPU, respectively. As of the 2018 Budget, the OBB framework covers a total of 34 ministries and agencies, 116 programs, and 740 activities.

Figure 3 provides an example of how the OBB results framework looks in practice. At the highest level of the 11th Malaysia Plan is the National Strategic Thrust. “Enhancing inclusiveness towards an equitable society” is one of six strategic thrusts. Within this strategic thrust, one of the five national key focus areas is “Uplifting the bottom 40 percent of households (B40 households) towards a middle-class society” with one measurable outcome, namely “Size of middle-class households increased”. The Ministry of Agriculture and Agro-based Industry is one of the ministries that contribute to this national outcome, through its ministerial outcome “Competitive and Sustainable Agrofood Development”. It does so through a program of intervention called “Agropreneur Development and Agrofood Industry”. The Ministry of Rural and Regional Development also contributes, through its ministerial outcome “Sustainable rural development”, with a program named “Rural Economic Empowerment.” The program will then be implemented by activities of both ministries with inputs from OE and DE.



OBB has also enabled MOF to better identify potential duplication across spending agencies. Multi-day Strategic Programming Workshops with ministries allowed the OBB team to work systematically through a logical framework instrument (ProLL) to identify the target outcomes, programs, and activities needed to support the key national results or focus areas. The more rigorous activity and program mapping for each ministry could then be captured in an online database (see Figure 4). From its vantage point at the center, the NBO can now more easily identify where overlaps exist when scrutinizing proposals, and suggest either elimination of overlapping programs or revision and coordination across different spending agencies.



Information Systems to Support OBB

To support the implementation of OBB, MOF embarked upon development of an integrated IT platform called MyResults.

MyResults is an online application that is intended to eventually serve as a complete, integrated results and budget management information system. MyResults has a number of different modules. These modules are being rolled out in stages based on technical readiness as well as absorptive capacity and training with users. The first module focuses on strategic planning. The second module, which is still under development and testing, is intended to enable spending agencies to input their budget requests directly online – currently there is a mix of online and manual submissions. When fully implemented, MyResults will enable BROs to view and scrutinize results frameworks under a single user interface, and connect them with spending proposals.

Figure 4. MyResults Landing Page



Source: <https://www.myresults.gov.my/portal/>

MOF envisions two additional modules being developed and rolled out over the medium term; one will facilitate in-year budget management and the other will capture reporting of performance indicators. Some testing has already begun of a module that allows agencies to manage cash flow and spending within the MyResults system. This module will be linked directly with the Government Financial Management Accounting System under the Accountant General's Department and the Project Monitoring System II (SPP II) under the Implementation Coordination Unit of the Prime Minister's Department. It will be used to track and report on spending performance against targeted allocations. The later-stage modules of MyResults will focus on performance monitoring and reporting. Currently, budget monitoring is largely restricted to actual expenditure against budgeted allocations. Going forward, MyResults is intended to serve as a platform for monitoring and reporting on performance targets outlined in results frameworks at the ministry, program, and activity levels. These performance monitoring and reporting modules are currently being tested and checked while training is being provided to spending agencies on their use.

MOF also sees the eventual development of the MyResults system as a way to automate production of the annual budget book, and to reduce many of the heavy manual processes. Currently, a major activity for the NBO is compiling, consolidating, and publishing the annual budget book. This process demands significant time and resources, with heavy staff involvement, reducing the time and resources available for more strategic activities. By integrating submission of results frameworks, budget proposals, and budget management under a single management information system, MyResults is intended to facilitate the timely and efficient generation of the annual budget book going forward, replacing the current manual approach.



Change Management in the OBB Roll-out

At the outset of the reform, MOF created a high-level committee to set the policy, steer the process, and study possible approaches for the new system.

In preparation for the design of the OBB, the MOF in 2010 created the National OBB Steering Committee (NOSC) chaired by the Secretary General to the Treasury, with representation from key stakeholders including the NBO, EPU, MAMPU, the Public Service Department (PSD), the National Audit Department, the Accountant General's Department of Malaysia, the Attorney General's Chambers of Malaysia, and the Ministry of Works. An independent unit was also formed – the OBB team – to act as the secretariat to the NOSC and to study the budget systems of interest.

The OBB team drew on both local and international experience to expand on the foundation provided by MBS. For example, the OBB team made benchmarking visits to Canada, New Zealand, and Singapore. They also recruited a team of international consultants to assist in developing the OBB conceptual framework and the design process. The initial framework, which drew heavily on the MBS, was developed by a local research institution called the Center for Development & Research in Evaluation, which later upscaled to meet the requirements of the Integrated Results-Based Management (IRBM) system. The OBB team had a broad range of activities to coordinate: conceptual design, outreach and change management programs, developing training materials, providing training to BROs and line ministries, setting the OBB implementation strategies, hand-holding the pilot agencies on implementation coordination, and developing the MyResults system to support OBB implementation.

The OBB team had the institutional freedom to work full-time on developing the reform. Recognizing the challenges of undertaking reform while also managing core daily tasks, and in line with the Treasury Transformation Programme (TTP), the OBB team was moved to the NBO in 2014 to form a new wing called the Performance Management and Evaluation Sector. This team is responsible for supporting, coordinating, and managing the implementation of OBB. This sector is also tasked with developing a systematic monitoring and evaluation (M&E) framework to complete the full strategic cycle of OBB, as well as with maintaining continuous engagement and capacity building at the NBO and line ministries.

The OBB team organized their work around three dimensions of the budget transformation system. These dimensions were: i) the budget model and framework – program-activity structure, vertical and horizontal linkages; ii) the people and stakeholders involved in the budget process – change management, capacity building, enhanced accountability through greater empowerment to the CEOs; and iii) the management information system to complement M&E, as well as the Decision Support System through which OBB is applied and managed. Specific requirements and strategies were identified for each of these dimensions. For example, model development was guided by strong vertical alignment between policies, programs, and activities, with horizontal linkages between related programs, as well as by an integrated approach to budget preparation and review. An OBB policy framework and guidelines were required to ensure the model's consistent application across the public sector. People and stakeholder strategies were informed by the principles of accountability at all levels, a comprehensive training and capacity building program, special sessions with senior management, and a carefully constructed communications strategy. The information technology system strategies focused on development of a robust online system for budget submission and review, with modules for performance monitoring and reporting.

Changes to the budget system were driven administratively, rather than through changes to the legal framework governing the budget process.

Malaysia's organic budget law (Financial Procedures Act of 1957) serves as the foundation for its management of public finances. However, the move to the OBB system was accomplished through administrative channels, rather than through changes to the underlying legislation. The OBB roll-out was accompanied by an MOF circular to spending agencies. This circular described the OBB concepts, detailed the process and regulatory changes necessary for implementation of OBB, and outlined the new responsibilities of spending agencies with regards to preparation and submission of results frameworks, as well as performance monitoring and reporting. This allowed for a smoother and more efficient transition where civil servants could drive change within an existing legal framework.

The first two years of the transition period were devoted to design of the reform, communication with key stakeholders, and development of a pilot program.

From 2010–2012, the OBB team was engaged in developing the conceptual framework for the OBB, creating the necessary training materials to support the reform, and visiting the ministries and departments to give talks and run forums whereby line agency input could be incorporated into the design. Five ministries were chosen to participate in a pilot program for OBB, with another joining voluntarily. Ministries were chosen for specific reasons, with a view to testing OBB across a range of different stakeholders. For example, MOF was chosen as a core central ministry; the Public Works Department was chosen to test OBB in a setting with significant Development Expenditure; the Ministry of Transportation and Ministry of Human Resources were chosen as ministries with very specific mandates; and the Ministry of Education was chosen as a large, complex ministry; and the Ministry of International Trade and Industry volunteered based on its recognition of the importance of OBB as a strategic planning tool.

Initial success with the pilot ministries led to an attempted full roll-out in 2013, which was subsequently scaled back as being too ambitious.

After successfully testing the OBB with the original 5+1 pilot ministries, the OBB team attempted to roll the system out across the whole of government. However, it quickly became apparent that there was a low level of understanding about the details of performance budgeting. The results frameworks that were submitted were of poor quality, with significant confusion between inputs, outputs, and preliminary, intermediate, and tertiary level outcomes. Concluding that more individual training and capacity building was necessary, the OBB team rolled back the scope to focus on three "champion ministries" with whom they could have detailed discussions on how to develop appropriate results chains. The demonstration effect of OBB being effectively used as a strategic planning tool in the three champion ministries led to additional ministries volunteering in subsequent years.

The OBB team has since focused on providing specific training and capacity building on a ministry-by-ministry basis to ensure good understanding of the principles of performance management and support the development of quality results frameworks. At the central agency level, resource leaders were identified, comprising all the BROs at the NBO, desk officers at the EPU who are overseeing development budgets for line ministries, and desk officers at the Public Service Department who are responsible for public sector organizational development. Resource leaders serve as reference points to give advice on OBB matters to line ministries (since the OBB team has a limited number of staff and is mandated to focus on more complex issues and advancing the OBB agenda). Continuous Resource Leaders Training (RLT) is being conducted by the OBB team to provide the resource leaders with the necessary conceptual and technical knowledge on OBB.

A key feature of Malaysia's change management strategy was the extensive program of training and awareness-raising across all levels of stakeholders. At the national level, the OBB team employed a multi-faceted approach with a combination of awareness briefings, forums and seminars, structured training programs, and information sessions on the MyResults portal. In addition to the national level training, the OBB communication strategy focused on agency specific training at various levels. These included targeting top management as champions and sponsors of the reform, working with activity heads to establish technical activists at the "user" level, liaising with human resource units to leverage trainers as OBB coaches, and identifying focal persons and end users, typically at the deputy director/assistant head of department level. Training and communication materials were developed and delivered domestically through collaboration between members of the OBB team and the domestic think tank which worked on the conceptual framework. In addition, the team used a "training of trainers" approach to develop expertise within ministries.



Challenges to Managing Performance

Some institutional challenges that were evident during the period of MBS could still be constraints to OBB implementation now, despite a significant increase in performance information available to MOF.

Even when ministries of finance are able to obtain substantial amounts of data on program results – i.e., reporting against agreed indicators – it may not lead to improvements in service delivery. Many factors could affect how data generated from PBB reforms gets used, and whether it helps generate a change in budget culture or changes in policy design and implementation. The World Bank's 2011 review of public expenditure management in Malaysia highlighted challenges to performance management that are still potentially relevant today: (1) Quality and completeness of the performance reports submitted by ministries; (2) Technical capacity of the MOF to use performance information effectively in the annual budget process; (3) Encouragement for program managers and senior officials to draw on performance information and to take actions based on it; and (4) The level of authority and freedom of managers to deliver on performance agreements.

Quality and completeness of performance information

Managing the quantity and quality of performance information is a struggle for many countries, and a strategic decision point for OBB going forward. Malaysia's experience with MBS showed the limitations of performance reporting. Under MBS, ministries submitted exception reports only when performance deviated by an agreed range; but report submission was not consistently enforced, and reports focused on the wrong things. OBB has improved on MBS by incorporating outcome information that was previously missing. In addition, training and capacity building for line ministries and departments helped them to improve their specification of programs, activities, and performance indicators. However, until January 2018, ministries were not required to report on performance. It was only recently that the budget circular requested ministries to report quarterly on their performance indicators. This is considered by NBO as a first step in performance monitoring and they will assess its implementation over the year. The potential risks for MOF under the current approach are already well understood: i) there is no enforcement mechanism to ensure that ministries submit the data when required; ii) there is no mechanism to verify and validate the quality of the data submitted; and iii) the volume of data generated risks overwhelming staff and in turn obscuring potentially meaningful findings.

Capacity to use performance information

Even when countries can generate extensive data, the bigger challenge is having the capacity to interpret it and generate appropriate policy responses. This is a fundamental challenge for PBB globally. For example, failure to achieve a given performance level does not necessarily provide a justification to cut future budgets; on the contrary, it could reflect a deeper underlying problem that would require more budget to resolve. Thus, the interpretation of major variances requires time and judgment that does not always align well with the time pressures of the annual budget cycle. For this reason, some countries find that they need to be quite selective in the number of programs that they can review in-depth, and others find it best to stretch the period of performance evaluation beyond the confines of the annual budget cycle.

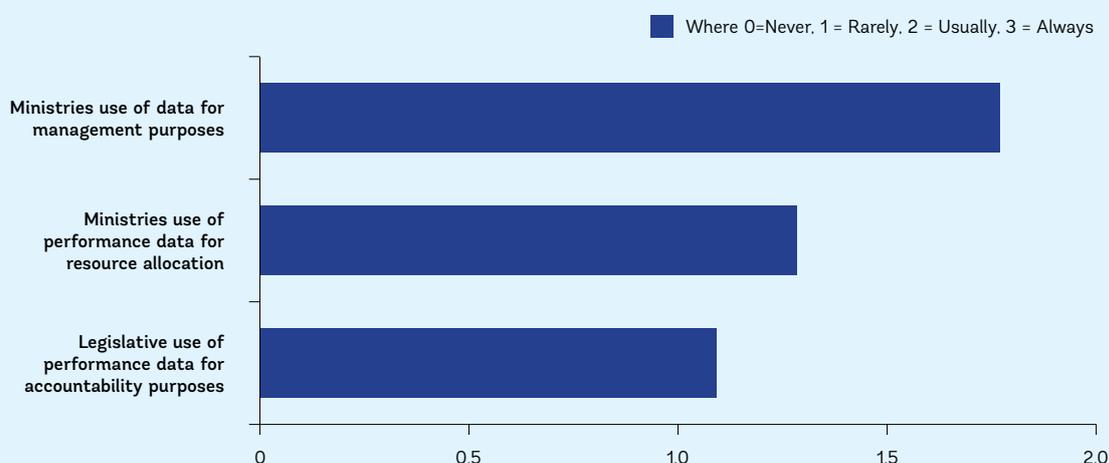
Staff capacity is still a relevant consideration for PBB implementation, and collaboration with line ministries is critical to success. Staff who review budget submissions do not necessarily have the right skill profile or experience to conduct credible performance evaluations. Furthermore, even with capable staff, there will be a natural asymmetry between MOF and line ministries in terms of program knowledge. Line ministries themselves are usually the best-placed to understand and exploit the performance data and to apply it to their future program management. The strategic question for Malaysia would be how to encourage line ministries and program managers to use the performance information that is available, and to work jointly with MOF to identify and solve program challenges.

Tools to encourage greater focus on performance

PBB initiatives aim to stimulate good performance and spur evidence-based decision-making; however, this is more challenging when reward systems are not well aligned. In theory, the establishment of performance agreements and the requirement to report on performance should motivate program managers in a positive manner. But in many countries, there is traditionally a lack of effective rewards or sanctions aligned to performance agreements. For program managers that are motivated and capable, PBB could be a promising tool to showcase what they have achieved and to be recognized for it. In Malaysia, some line ministries appeared to be early adapters of OBB because of the potential benefits they perceived from it. However, if outstanding performance and poor performance are not addressed through the system, then there is a risk that ministries and departments will lose interest and view PBB as only another reporting burden placed upon them. At the level of individual performance, it is worth noting that Malaysia’s civil service management policies and practices for talent management were not developed with OBB in mind; rather they preceded it. The Public Service Division has maintained its existing approaches to career management, which may use other metrics to assess performance and determine rewards.

Performance information may not be perceived by senior policy makers or Parliament as sufficiently valuable to inform their decisions on budget. Few OECD countries that have implemented PBB reforms are able to realize a high level of interest and demand from Members of Parliament or their Budget Committees, at least not in proportion to the volume of information that is at their disposal. Even within the Government itself, Ministers of Finance and other senior officials have limited bandwidth to absorb and process the information that is available to them. Moreover, many national budget processes start with a high degree of constraints on the budget allocations across sectors and sub-sectors, and therefore, the “room to maneuver” is often quite limited. Many of the policy decisions hinge around the approval of new initiatives – using the space between the “baseline” and the projected revenues as the envelope – rather than a review or rationalization of existing programs. Demand for selected program evaluations – a small number of programs selected each year – needs to be cultivated and not assumed. In an effort to provide policymakers with a comprehensive coverage of the budget at all times, PBB reforms sometimes overwhelm the decision-making processes of government, with the result that very limited information is used in practice. Figure 5 shows the experience of OECD countries in the use of performance information for budgeting.

Figure 5. Usage of Performance Data in OECD Countries with PBB



Source: “Toward Next-Generation Performance Budgeting”, World Bank, 2016.

Authority of program managers to manage

Accountability for performance needs to be aligned with authority to manage; budget predictability is one element of that. During MBS, program managers in Malaysia faced constraints on their authority to manage programs against their performance agreements. For example, Malaysia's budget data showed a high degree of variability between the original budget estimates and the actual expenditures at year end. While there may have been national and global macroeconomic factors that contributed to this "credibility gap" between the planned and actual spending of ministries, the effect was to undermine the budget predictability needed by managers to implement their programs. Recalibrating budgets and outputs is generally difficult to manage, and therefore, few countries (including Malaysia) bother to do it. Malaysia's expenditure reports from 2015 and 2016 suggest that budget variability for operational expenses has declined significantly.

OBB has given program managers greater flexibility over reallocation of funds between line items, although there are still some constraints. Within the OE budget, managers can do virements within the program without prior permission, and within DE they can shift as much as 15 percent across projects. There remain appropriate controls on the ability to increase personnel spending. In addition, ministries are usually locked into the staff levels and composition of skills that they currently have. Over the medium to longer term, this could become an issue when some skill sets become outdated and others are in high demand.



Conclusions

Malaysia's OBB provides an excellent example of how strategic planning processes can be linked effectively with budget programs through an integrated results framework.

OBB built on the program budgeting structure that was in place under MBS, and improved on it by emphasizing national development outcomes and mapping the contribution of the budget to them. OBB strengthened the focus on outcomes by driving it down to all levels of the central government – from the national level to the ministry level, then to ministry programs and finally to activities. OBB also reinforced the accountability for outcomes by establishing performance agreements at ministry, program, and activity level. Although budget planning is still based around specific activities, these must be able to show their contribution to the five-year national plan. In principle, these programs are comprised of both OE and DE allocations and will facilitate greater coordination among the two institutions responsible for the planning of both budgets.

These formal linkages established under OBB have the potential to help policymakers validate the relevance of long-standing activities to the achievement of national strategies. While IT systems facilitate this mapping of programs and activities to national strategies, the story of OBB has more to do with the NBO's policy guidance than the IT system. Nevertheless, the current modules of MyResults provide the facility for ministries to plan the results chain to justify the creation of new programs and activities. It also enables BROs to see more clearly the range of programs and activities across ministries, and to identify potential overlaps that may exist.

Managing the change process was at the forefront of OBB implementation and was addressed by MOF from multiple angles. From the start, MOF recognized the challenges inherent in implementing a complex reform process and created a dedicated unit to manage OBB implementation. It then gave this unit access to both international and local consultants to help backstop staff during the development process. Communication and outreach to stakeholders across government figured prominently in the change management plan, and substantial time and effort were devoted to developing a training-of-trainers approach to build capacity in developing results frameworks. Although there were some initial starts and stops, officials learned to pace the reform roll-out in line with their capacity to work with line ministries on their results frameworks.

The design of a comprehensive IT system to support OBB reflected foresight, although actual implementation has been slower than expected. Substantial work remains to realize the vision that was laid out for the MyResults system. However, if the remaining modules are fully developed and rolled out as planned, MOF will have succeeded in creating a single online system for ministries to input their budget submissions, plan expenditures during the year, and report on non-financial performance.

Systematic reporting and evaluation of performance information are not yet well-developed; thus, the eventual impact of OBB on service delivery is still to unfold. Quarterly reporting against KPIs began only in January 2018, and it will require time to assess the compliance and the impact of such. There are no requirements in place to compel ministries to report on their achievement of performance agreements. Nor are there any mechanisms in place to validate the accuracy of the information or to parse which data are most useful to analyze. Capacity to evaluate performance information will understandably take time to build. The pace of capacity building, however, could be affected by the degree to which senior policy makers or Parliament demand performance evaluation as an input to their decision-making and oversight, respectively.

The most challenging part of any PBB reform is to create and sustain demand for performance information. Demand can be reflected at multiple levels within the government, as well as external to the government. Presenting information in new ways that are informative and useful for each audience is part of the equation, and potentially could be developed over time in Malaysia. But human resource and career management practices can also help encourage a performance orientation among managers and directors. In Malaysia, as in many other countries, human resource policies are generally set centrally and not driven by MOF. While OBB makes program managers directly responsible for program performance, it did not usher in major changes to the reward or recognition systems of government. Such changes can contribute to program performance, the quality of performance information, and, in turn, to the sustainability of the demand for such information.



Lessons from International Experience

The opportunity to link budget allocations to program performance has been a compelling selling point for PBB over the past decade, although the reality has often fallen short of expectations.

Consequently, many of the countries that have been leaders in PBB have been progressively taking stock of what has worked and what has not, and applying those lessons to the next generation of PBB. The World Bank has helped curate some of the international experiences in a book called “Toward Next-Generation Performance Budgeting,” published in 2016.

Drawing on a series of case studies from countries across the world, the authors have attempted to synthesize some lessons for countries that are still on the journey. The ten lessons below are adapted from the book, with some refinements.

1. **Set realistic objectives of what PBB can achieve** based on the political and administrative context: rarely does PBB lead to major changes in budget allocations, but it can contribute to better service delivery in select areas
2. **Create space for performance discussions to go beyond the tight annual budget cycle:** understanding the causes and remedies of poor performance may take more time and may need to be delinked
3. **Take into account the administrative and analytical capacity constraints that exist:** it can be counter-productive to pursue government-wide reforms if capacity is limited to manage it; meanwhile invest in expanding capacity (e.g., skills, data systems)
4. **Tightly control the amount of data generated so as not to overload those who review it:** excessive data undermines its value, and risks obscuring where the real problems lie; data can be tailored to audiences
5. **Prioritize those programs that have a genuine service delivery component:** trying to cover all programs to the same standard may dilute attention from those areas that matter most to citizens and where impact could be greatest
6. **Avoid creating incentives for “gaming the system”** by not exaggerating the importance of performance indicators: gaming undermines credibility of the system, and indicators can only be a starting point for dialogue
7. **Diversify the opportunities to obtain performance-related data and to learn from it** (e.g., program evaluation, performance audits, spending reviews, learning events, etc.)
8. **Create a performance culture through the human resource management policies and practices,** and allow time for these to take hold: PBB requires reforms beyond merely the budget process
9. **Balance the need for both political and bureaucratic support** for reforms to be accepted: both types of champions must see value
10. **Take an honest look at past shortcomings** and what specific actions are needed to address them: early reformers are not abandoning PBB, but adapting it over time to their context



Potential Next Steps for Malaysia

Drawing on the wider international experience, Malaysia could prioritize its future OBB development along three core dimensions: (1) Encouraging timely and accurate reporting on performance by ministries, **when** and **where** it is **most** relevant; (2) Developing the technical capacity to evaluate performance information and presenting it in ways helpful for senior level decision-making; and (3) Stimulating demand for performance information, possibly by linking it to individual and institutional recognition/reward systems.

- **Encouraging Performance Reporting:** Senior level officials in government have a limited amount of performance information that they can usefully act on. The same can be applied to BROs, although their intake of information would be narrower but deeper. The challenge for MOF officials is to engage different stakeholders to understand how such information can be made more timely and more relevant to the policy decisions of the day. The volume, frequency, and timing of reporting should be structured to fit the needs of different audiences – whether the audience is BROs, the National Budget Director, the line minister, or the Cabinet.
- **Building Technical Capacity:** Ministries of finance are challenged to build high-quality technical capacity to evaluate the data that is generated from government-wide performance frameworks. Some skills/experience may be already available within the MOF, but some may need to be acquired externally (e.g., from consultants) or developed intensively over time. As capacity emerges, MOF may wish to select a limited number of programs to evaluate or assess each year and create space in the budget calendar to use the information consistently. Some countries are known to engage policymakers at an early stage to discuss programs that are of special interest or high risk. Attention also needs to be given to how conclusions can be presented most effectively to different audiences for their action.
- **Stimulating Demand for Performance Information:** Demand for performance information entails developing among program managers a culture of using performance information to enhance their programs. This could be stimulated if MOF were to coordinate with the Cabinet or Prime Minister’s Office to develop options to recognize and reward those managers or entities whose programs are positively evaluated from the start or who have successively implemented changes coming out of an assessment. The objective would be to reinforce for managers and directors that performance matters at the highest levels. Such recognition does not necessarily need to be monetary. Malaysia has a robust culture of public sector management on which to build, and OBB can be a constructive tool to strengthen that even further.



ANNEX: The Malaysian Performance Ecosystem

OBB operates in a broader context of performance management in Malaysia.

Performance budgeting, which constitutes one example of a broader approach to public sector management, places results at its core. Malaysia was an early adopter of the results-based management paradigm, and today, many different performance initiatives can be observed in the public sector. Some Malaysian observers have suggested that harmonization of the different systems should be considered. Performance initiatives in Malaysia can broadly be broken down into three different categories: those dealing with expenditure and revenue management, those dealing with service delivery performance, and those dealing with organizational performance.

Performance management in the use of public resources

The Auditor General's Accountability Index (AI) rating system aims to improve performance on financial compliance and controls. The AI rating system was introduced in 2007 as a response to concerns about poor compliance by ministries and agencies with public financial management policies, regulations and statutory requirements. It provides a framework for comparison on the quality of financial management and controls across government bodies, with a weighted index comprising such dimensions as organizational management, internal controls and audits, system and procedural performance compliance, and human resource development. The framework is championed by the Auditor General's office and appears to have driven improvements in financial management controls, with a significant increase in 4 star ratings (the highest possible score). Box 1 summarizes the key dimensions of the AI rating system.

The Economic Planning Unit (EPU) is continuing its effort to enhance the performance monitoring framework for its five-year development plans. The EPU has developed its own "Outcomes Based Approach" (OBA) for the performance monitoring framework for the development planning function, focusing on the achievement of high-level objectives. As with the OBB, the OBA draws on a single unified results framework which is grounded in the five-year development plan; however, the OBA reporting dashboard is intended to measure performance and achievement of high-level outcomes, including the National and Ministerial Key Results Areas, across the whole of government, as opposed to program and activity level achievements of line agencies. The OBA is being developed in consultation with the Performance Unit at the NBO.

Performance management in the delivery of public services

The Performance Management and Delivery Unit (PEMANDU) has a cross-cutting mandate to drive performance for major economic and service delivery initiatives. In 2010, the Prime Minister of Malaysia launched two major initiatives intended to help Malaysia achieve "high income" status by 2020: the Government Transformation Programme (GTP), and the Economic Transformation Programme (ETP). Both are broadly linked to the framework of Malaysia's five-year national development plan; the GTP focuses on improvements in seven critical social areas such as health, education and security, while the ETP focuses on developing twelve key areas of the economy. PEMANDU was created to facilitate and oversee delivery of these two programs. PEMANDU developed and deployed a range of delivery mechanisms including a "lab" based approach for developing specific results indicators and action plans across the various program dimensions, and a series of project management mechanisms to monitor, report, evaluate and refine initiatives. Process owners are held accountable through various committees, which at the highest level are chaired by the Prime Minister, and results are reported to the public at regular intervals.³ While the ETP and GTP are grounded in the same high-level policy framework of the national development plan, these initiatives operate independently of the OBB system, with separate processes, an independent timeline, and separate monitoring and reporting functions.

³ For more detailed discussion on PEMANDU, please see *World Bank report "PEMANDU: Driving Performance from the Center" (2017)*

BOX 1

The Auditor General's Accountability Index (AI) for Financial Management

The AI index was first introduced in 2007 as part of the Auditor General's ongoing efforts to improve financial management and compliance with financial control systems. It is an objective, quantitative assessment of the extent to which auditees, which include Federal and State Government Ministries, Departments, Statutory Bodies, Local Authorities and Islamic Religious Councils, comply with prescribed financial management controls. For federal and state level ministries and departments (M&Ds), compliance is assessed across six dimensions:

- i. Organizational management control
- ii. Budgetary control
- iii. Receipts control
- iv. Expenditure control
- v. Trust accounts/trust funds/deposits accounts management
- vi. Assets and inventory management

For federal and state statutory bodies, local authorities and Islamic religious councils, an additional three elements are assessed:

- vii. Investment management
- viii. Loans management
- ix. Financial statement compliance

Each dimension is broken down into a set of indicators which is assessed by the Auditor General's office. Assessments take place on a yearly basis. Dimensions are weighted based on perceived importance; weights differ for M&Ds versus other government agencies. For example, budgetary controls, receipts controls and expenditure controls together comprise 60 percent of the total score for M&Ds, whereas they only comprise 45 percent of the total score for other statutory bodies – reflecting the relative importance of these tasks for M&Ds. The weighted dimensions are used to calculate a score out of 100, on which basis a number of stars (between 1 and 4) are assigned, with 90%-100% being required for the full complement of stars.

Source: Auditor Generals Department, Government of Malaysia

The National Blue Ocean Strategy (NBOS) under the Ministry of Finance’s National Strategy Unit seeks to deliver low-cost, high-impact public service results. First introduced in 2009, the NBOS was adapted from principles outlined in the eponymous private sector initiative, which focuses on opening uncontested market space and utilizing cost reduction strategies to achieve business results. In the Malaysian public sector, these principles are applied through an annual NBOS summit, in which key stakeholders from all levels of government as well as the private sector come together to identify initiatives which are low cost, high impact and can be rapidly executed. Broadly speaking, projects should be aligned with the national development plan, and are selected on the basis of delivering economic growth and development, as well as enhancing the level of public well-being through service delivery. Examples of projects include the establishment of Urban Transformation Centers, which repurpose existing but underutilized public assets to serve as one-stop shops for services such as utilities and other bill payments, or ID and passport applications. The NBOS reports creating savings in excess of RM721 million over the past five years, and has a number of high profile success stories. The initiative appears to achieve results in part due to the application of the innovative NBOS principles, and in part due to the strong convening power of the NBOS management, which sit in the MOF’s National Strategy Unit. The annual summit, which is chaired by the Chief Secretary of Government, brings together senior managers from across more than 80 ministries and departments, and appears to be effective in bridging government silos to achieve service delivery improvements.

Individual ministries and departments may also have performance initiatives related to their specific service delivery responsibilities. For example, the Ministry of Education has the Education Performance and Delivery Unit (PADU) responsible for helping to manage delivery of education initiatives outlined in the Malaysia Education Blueprint. The Blueprint is a 12-year plan (2013-2025) which articulates strategies and action plans to improve education in line with the goals established in the national development plan and the GTP. PADU undertakes such activities as weekly monitoring of KPIs, hosting problem-solving labs, and ensuring regular monitoring and reporting to internal management. There is a financial element, whereby budgets are driven by the activities needed to achieve program objectives under the Blueprint. Formal review includes a bi-annual performance review to assess progress and achievements, and a yearly auditing process where external auditors verify the accuracy of reported results. Other ministries, such as the Ministry of International Trade and Industry, and the Ministry of Agriculture and Agro-based Industry, employ their own internal performance tools in a similar fashion.

Organizational performance management

The Star Rating Index (SRI) seeks to measure and motivate organizational performance across government ministries and departments. The SRI was first introduced in 2007 and is managed by the Malaysian Modernization and Administrative Planning Unit (MAMPU) under the Prime Minister’s Office. The framework uses performance criteria and indicators determined jointly between MAMPU and the relevant agencies, which cover such areas as customer orientation, continuous improvement, project management capability, human resource development, and financial management. The index is also intended to promote healthy competition across public sector agencies related to organizational performance, and to recognize agencies that have demonstrated high standards of governance and continuous improvement in public service delivery. The index is not grounded explicitly in any national plan or vision, but instead serves to drive organizational and management improvement on an ongoing basis.

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