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Abstract
Programme and performance budgeting (PPB) was first introduced in Malaysia in 1969 and experience with operating and developing the system carries lessons for other countries. The initial introduction under the influence of external advisers, involved treating PPB as a mechanical exercise in which right procedures had to be followed. From 1972 the strategy changed to making the system serve to assist with utilizing and managing resources more efficiently in relation to programme objectives. The successful development of the system agency by agency points first to the importance of local rather than foreign expertise; second, to the need for the agency head to be committed and involved, rather than leave the introduction and management of the system to lower level experts; and third to the significance of the leadership role of the Treasury.

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Modernizing the Budget System: the Malaysian Experience

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SUMMARY

Programme and performance budgeting (PPB) was first introduced in Malaysia in 1969 and experience with operating and developing the system carries lessons for other countries. The initial introduction under the influence of external advisers, involved treating PPB as a mechanical exercise in which right procedures had to be followed. From 1972 the strategy changed to making the system serve to assist with utilizing and managing resources more efficiently in relation to programme objectives. The successful development of the system agency by agency points first to the importance of local rather than foreign expertise; second, to the need for the agency head to be committed and involved, rather than leave the introduction and management of the system to lower level experts; and third to the significance of the leadership role of the Treasury.

To be useful, the budget system of a country must complement the changing needs of government. When its role is simple and relatively limited, such as the concern of a colonial government with the collection of revenue and the maintenance of law and order, a traditional system of budgeting would suffice. In this system the focus is on control and the legality of expenditure. Such control is effected through the itemization of objects of expenditure. While this system of budgeting facilitates the enforcement of legal accountability (by the process of auditing the items of expenditure), it does not provide useful information for the purpose of planning or the management of programmes.

When the basic objective of government changes from custody to development, it has to undertake new functions and expand existing ones. In the process the scope and the volume of government activity increases greatly. The task of management in government becomes more complicated. Much greater demand is placed on the budget system as well as the accounting system to supply relevant information for the purpose of planning and management. With increasing aspirations on the part of people and the limited resources at the disposal of government, the question of the effective and efficient utilization of resources assumes greater significance. Since this question is what budgeting is all about, it is not surprising that the governments of developing countries have been very receptive to the idea of modernizing their systems of budgeting.

Owing to the support and publicity given by the United Nations to programme and performance budgeting (PPB), including the publication of a manual in 1965,

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this system has been well received by developing countries especially in the sixties. Under this system much emphasis is paid to three interrelated features: (1) Output classification; (2) Improvement in the financial management system; and (3) Measurement of physical performance. Thus says the manual (United Nations, 1965, p.2):

> In the first place, under this approach, meaningful programmes and activities are established for each function entrusted to an organization or an agency in order to show precisely the work objectives of various agencies. Secondly, the system of account and financial management are brought into line with this classification. Thirdly, under each programme and for its operational subdivisions, action is taken to establish programmes and work measures that are useful for evaluation of performance.

With PPB, the attention of government is directed from the things it purchases to the things it does. The focus is on the objectives of government expenditure and the efficient management of resources to produce results or output. Much emphasis is laid on the measurement of work performance of programmes and activities and also the accurate measurement of their costs. The integration of budget and accounting classification has the effect of facilitating fund reporting, fund control and performance reporting. The system can be said to be much superior to the traditional line-item system of budgeting practised by many countries before in which the concern was on relating expenditure to the purchase of items of goods and services.

This paper will examine Malaysia's experience with PPB since 1969. The first section will provide the setting and the circumstances leading to the decision to introduce PPB; the next section will focus on the first, or mechanical, phase of the experience; the third section will concentrate on the second phase of modernizing the budget system in which the approach has become more dynamic; the following section will review the accomplishments; and the concluding section will discuss the future direction of PPB in Malaysia and the lessons from the Malaysian experience.

SETTING AND STATUS OF FINANCIAL MANAGEMENT PRIOR TO 1968

Since independence from the British in 1957, Malaysia has been practising a democratic system of government with political parties and elections every five years. The country inherited its administrative system from the British. Since independence, five-year development plans have become a dominant feature in the economic life of the country. By 1965 the country had already implemented two development plans with the public sector development expenditure increasing from M$1148.7 million in the first plan to M$2159.0 million in the second plan—an increase of 87 per cent. In accelerating the tempo of development, existing activities, such as education, were expanded, and new ones (such as land development, agricultural marketing, family planning and public housing) undertaken. There was, however, no concomitant upgrading of the administrative machinery in government to meet the challenge posed by the shift of goals from custody to development. The inadequacies of the administrative machinery were clearly reflected in the annual shortfall in development expenditure which averaged 32.3 per cent for the period 1958 to 1965.

Anxious to improve the efficiency of the administrative machinery, in 1965 the Malaysian Government invited two American consultants, arranged with the assistance of the Ford Foundation, to undertake a review of public administration in the country. In their report entitled *Development Administration in Malaysia*, (Montgomery and Esman, 1966) in relation to financial administration, the Ford consultants highlighted the inadequacies of the traditional expenditure budget inherited from the British, as the system was neither supplying the kind of data to Parliament and the Treasury for making informed decisions nor to the public to understand the performance of government. The Treasury was paying too much attention to minor matters arising from the emphasis on detailed prior control of expenditure. The Treasury was inadequately staffed, and the budget examiners in the Supply Division of the Treasury did not have adequate opportunities to specialize in their work. The consultants recommended the revision of the budget system so as to furnish data on programme and performance. The granting of financial discretion to the heads of departments was also recommended.

As a follow-up of the report, another American consultant was invited by the Malaysian Government to make a detailed survey of the budget system. In his report (Mudford, 1967), apart from endorsing the necessity to introduce PPB, the consultant also pointed out the deficiencies of the accounting system based purely on the receipt and disbursement of cash, as such an after-the-fact accountability was not meeting the criteria of an effective modern accounting system.

In 1968 the Government of Malaysia made the decision to introduce PPB from 1969 onwards.

THE MECHANICAL PHASE

At the time when the decision was made to introduce PPB to the federal government agencies, the system was new to Malaysia. There was very limited local knowledge about the system and its implications. Looking back it would appear that the expectation at that time was that once the new system was installed, the deficiencies of the traditional system would be corrected, and that the benefits of the new system would be readily realized. Unfortunately, the foreign budget adviser did nothing to correct such optimism.

The consequence was that the budgetary reform became something mechanical. 'Converting' was the word used in the Treasury circular to the agencies announcing the gradual replacement of the traditional budget system by PPB. Such an approach to budgetary reform had significant implications.

Implications of mechanical approach

PPB for the treasury

In the early years of PPB in Malaysia, there was suspicion that the *raison d'être* of the new system was the information needs of the Treasury. This was understandable since the operating agencies were not consulted regarding the introduction of PPB nor were their views sought in relation to their own information requirements. The budget formats, too, were determined entirely by the Treasury.

Emphasis on how to do PPB

The means tended to displace the ends. Instead of focusing attention on how PPB could contribute to the more efficient utilization and management of resources to accomplish programme objectives, an undue emphasis was laid on formats, procedures and the filling of forms. The outcome was that much of the efforts expended on doing PPB became unproductive. Massive unutilized or unutilizable data were generated.

Programme-activity structure a matter of conversion

The development of a meaningful programme-activity structure was an essential feature of PPB. Before such a structure could be developed, objectives of an organization had to be identified, work activities of the agency had to be studied and analysed, and a frank exchange of views between the various levels of management had to occur. Obviously this required expertise, a greater amount of thinking and investment of time. In a mechanical approach to PPB, it is possible to dispense with all the above steps. By a simple process of conversion or re-designation, an agency, whether a ministry or a department, became a programme and its organizational units activities. A programme-activity structure derived from this conversion would clearly not have contributed anything to the improvement of budgeting and the better management of resources.

Human resource development neglected

With a mechanical approach to budgeting, the introduction of PPB would only entail installing the system and operating it, and this installation and its operation would be the primary concern of technical people. It was therefore understandable that there was great dependence on the foreign advisers and foreign accountants in the implementation of the system. Apart from the budget adviser, the Treasury also utilized the service of Canadian accounting advisers and a team of U.S. Peace Corps serving in ministries and departments as 'systems accountants'. While the job of the foreign experts was to install the system, it was to be the responsibility of the local counterparts to operate the system. These were to be the finance officers responsible for the preparation and the submission of agency budgets. Whatever little training that occurred, the opportunities were offered to the finance officers. The provision of PPB training and orientation to middle level programme managers and to top agency management, respectively, was neglected. Consequently, top management involvement in, and support for, PPB was not forthcoming. This was, of course, disastrous from the point of a meaningful development of PPB.

During the mechanical phase, the objective was to extend the mechanics of PPB horizontally to all federal government agencies as quickly as possible. In the fiscal year 1969, eight agencies (Accountant-General, Chemistry, Immigration, National

Archives, National Registration, Road Transport, Surveyor-General and the Treasury) were selected for implementing the new budget system. More agencies were added to the implementation list in fiscal years 1970 and 1971, and by fiscal year 1972 all federal government agencies were under PPB insofar as the format of presentation was concerned. The official term used by the Treasury in describing this phase of PPB was the 'horizontal approach'.

THE DYNAMIC PHASE

It did not take the Treasury long to discover the weaknesses of the mechanical approach to budgeting. While it did enable the budget documents to have some semblance of change with the inclusion of agency objectives, activities and some workload data, agency management was hazy about PPB, and support for the system was, at best, lukewarm. There was also no personnel in the operating agencies with a broad-based training in PPB. While the system generated much data, there was hardly any indication to suggest that agency heads had paid much attention to them or attempted to utilize them for improving the management of their programmes.

It was against this background that at the beginning of 1972, the Treasury undertook a review of the status of PPB. Arising from the review, the most crucial issue which emerged was whether the horizontal approach to implementing PPB be continued or a shift be made in the direction of an in-depth approach in which the focus would be on the application of all facets of PPB[1] on a limited number of 'pilot' or test agencies before applying the approach further to other agencies. Since the Treasury was already unhappy with the progress of PPB under the horizontal approach, it was argued that the in-depth approach would have the following advantages:

(1) Implementation can be conducted with relatively fewer persons trained in the system.
(2) Coordination and control of the progress of the system in the setting of the limited agencies would be much simpler and much more manageable.
(3) During the development and the application of the system, agency line management would be involved in all aspects of the system.
(4) With fewer agencies involved, the monitoring of the progress and the effectiveness of the system and the taking of remedial actions would be facilitated.
(5) Decentralization and delegation of authority could be done on a gradual basis as the in-depth implementation of PPB proceeded (Federal Government of Malaysia, Treasury 1972).

In view of the tremendous shortage of trained personnel in PPB, accounting, auditing, data processing and so on to make the system meaningful on a government-wide basis, the Treasury decided to commit itself to the in-depth

[1]The facets, among others, include the definition of objectives, the development of a meaningful programme-activity structure, the identification of responsibility centres, the identification of units and indicators of performance, and the development of a management information system.

approach. This would allow the government time to develop the necessary manpower and to be less dependent on foreign expertise. Moreover, the agency selected for the in-depth implementation could also be used as a training ground for the implementation teams of other agencies.

The in-depth approach can be described as a dynamic one. The modernization of budget systems is no longer seen in terms of the mechanics of budgeting. There is an appreciation that budgeting operates in an organizational and human setting with a dynamic of its own. For PPB to result in beneficial returns, it has to operate in a supportive environment which has to be created.

An examination of the in-depth strategy would seem to indicate the following as its salient features:

(1) It called for much greater commitment on the part of the government in the form of manpower and financial resources.
(2) There was explicit recognition of the importance of top management support for the success of innovations.
(3) The importance of institutions in guiding innovations was clearly reflected in the strategy.
(4) The strategy took cognizance of the role of trained manpower in implementing innovations.
(5) There was a broadening of the scope of reforms.
(6) There was much greater emphasis on the planned implementation of reforms.
(7) The implementation of PPB was also tailored to suit the country's shortage of manpower trained in the system.

Operationally the strategy has the following as its elements:

The PPB Steering Committee

To provide guidance and direction to the in-depth implementation of PPB, the new approach called for the establishment of a PPB Steering Committee. Members of the committee included the head of the Treasury serving as the Chairman, the Auditor-General, the Accountant-General, the Director of Budget, the head of the Economic Planning Unit, the head of the Implementation Coordination Unit, the head of any agency involved in the in-depth implementation of PPB, and a lecturer from the University of Malaya serving as the Technical Consultant. The Manager of the newly created Financial Management Systems Unit was to serve as the secretary to the committee.

Judging from the high-level composition of the committee, it is evident that the government was strongly committed to the new strategy. The importance of participation by top management of operating agencies in the committee was also well recognized.

The PPB Steering Committee was charged with the following responsibilities:

(1) Approve all plans associated with implementation which have government-wide implications.
(2) Make policy decisions related to implementation.

(3) Provide general direction, advice and assistance to agencies selected for implementation.
(4) Act as the medium for obtaining changes required in the constitution, ordinances or other legislation.
(5) Plan long and short-term resource requirements and acquire or train the same when necessary.
(6) Appoint sub-committees for special studies to be made as and when required, and approve recommendations and initiate action thereon.

From the above description, it will be clear that the committee has wide authority to take action on literally all matters related to the implementation of PPB. Moreover, the presence of the head of the Treasury, the Director of Budget and the head of the Public Services Department on the committee implied that decisions involving the provision of funds and personnel could be readily acted upon. In a way the position of the committee was an enviable one as it could take decisions and allocate the necessary resources for implementing its own decisions. This has enabled the committee to be highly action-oriented.

The Financial Management Systems Unit (FMSU)

Innovations are the source of progress but the enemy of status quo and routine. Progressive elements in society will welcome innovations whereas those whose interests are identified with the status quo will resist the change. Innovations thus require change agents and organizational vehicles for their diffusion. Change agents can take advantage of the sources of support, reduce resistance to change, and enhance receptivity to, and acceptance of, the new norms, values and the technology involved in innovations. The presence of an innovative organization facilitates the task of building an institutional core which is committed to innovations and change, and which is also willing to diffuse them on a sustained basis.

The establishment of the FMSU provides a base for the entire reform movement. This Unit has the responsibility for 'innovating, developing, designing, and coordinating the implementation of an effective and efficient financial management system in government'. Being the secretariat of the PPB Steering Committee, it is the institutional arm of the committee staffed with trained personnel in PPB, accounting and data processing. Apart from servicing and implementing the decisions of the Committee, it is the organization responsible for the direction and control of all operating activities associated with the implementation of PPB in government. The unit, headed by a Manager, is located in the Budget Division of the Treasury.

To be effective in innovating on its own and to implement the decisions of the PPB Steering Committee, the FMSU has organized itself into four sections:

(1) The In-depth Implementation Section—responsible for initiating, organizing and monitoring the in-depth implementation of PPB in agencies.
(2) The Treasury Projects Section—responsible for all projects dealing with financial management policies, guidelines, procedures and for the provision of direction and advice on the technical aspects of budgetary reforms.
(3) Accounting Projects Section—responsible for projects pertaining to

reforms in the accounting system in support of the in-depth implementation of PPB.

(4) The Automatic Data Processing Section—responsible for the design of systems and procedures to capture and analyse data for the purpose of preparing financial and management reports for evaluation by management.

A review of the projects undertaken by the FMSU indicates very clearly that the scope of reform under the dynamic approach has broadened beyond the narrow confines of budgeting to include accounting, auditing and data processing.

The Planning Task Force

For the systematic and orderly in-depth implementation of PPB and the reforms of financial management as a whole, much emphasis has been laid on advanced planning. For this purpose the Planning Task Force was created in the early part of 1972 to draw up the master plan for in-depth implementation. This plan completed in 1972 incorporates all projects deemed essential for the implementation of PPB. Apart from the projects in the four sections of the FMSU mentioned earlier, the others include training projects and special projects. The recommendations of the Planning Task Force are channelled through the FMSU for consideration by the PPB Steering Committee. The plan is subject to review and updating by the Planning Task Force from time to time.

Organization at agency level

At the outset it was clear to the PPB Steering Committee that the primary pay-off from the modernization of budgeting would accrue from its success in the operating agencies. Much thought was therefore given to the provision of organizational infrastructures to enhance the effectiveness of the implementation efforts at the agency level. In the agency selected for in-depth implementation, the arrangement calls for the personal involvement and identification with the PPB efforts on the part of the agency head. Beside representing his agency in the PPB Steering Committee, he is also the chairman of his own agency Steering Committee.

The Agency Steering Committee

The Agency Steering Committee is the agency counterpart of the PPB Steering Committee with the agency head as the chairman and other senior officers as members. It operates on the basis of the following terms of reference:

(1) To make decisions on policy matters related to PPB implementation in the agency within the guidelines set by the PPB Steering Committee.

(2) To approve plans and recommendations of the Agency Implementation Team.

(3) To provide general direction and guidance to the Agency Implementation Team Leader.

(4) To monitor PPB implementation progress for ensuring that objectives are met and remedial action taken where necessary.

(5) To bring to the attention of PPB Steering Committee matters requiring decisions and action which are outside the Agency Steering Committee's own jurisdiction.

The Agency Implementation Team

The Agency Implementation Team is the operating arm of the Agency Steering Committee responsible for the development and implementation of the agency's work plan for PPB after approval by the Agency Steering Committee. Headed by a senior officer of the agency concerned, it includes among its members both programme and financial officers. This is to ensure that programme perspective and the management needs of the programme people would be emphasized in the process of strengthening the agency's financial management system.

The inter-relationships between the various elements of the implementation strategy are diagrammatically summarized in Figure 1.

Human resource development

The PPB Steering Committee has recognized from the very outset that for the planned in-depth implementation of PPB to lead to the more effective and efficient utilization of resources, serious attention has to be given to the development of human resources to support the implementation efforts. Two target groups were identified: the programme managers and finance officers. PPB can only be meaningful if programme managers understand the system, and make use of the system to generate relevant data to improve the management of their programmes and activities. Finance officers tend to regard budgeting as their preserve without paying much attention to how the system could service the needs of programme managers. A broad training would enable the finance officers not only to grasp the

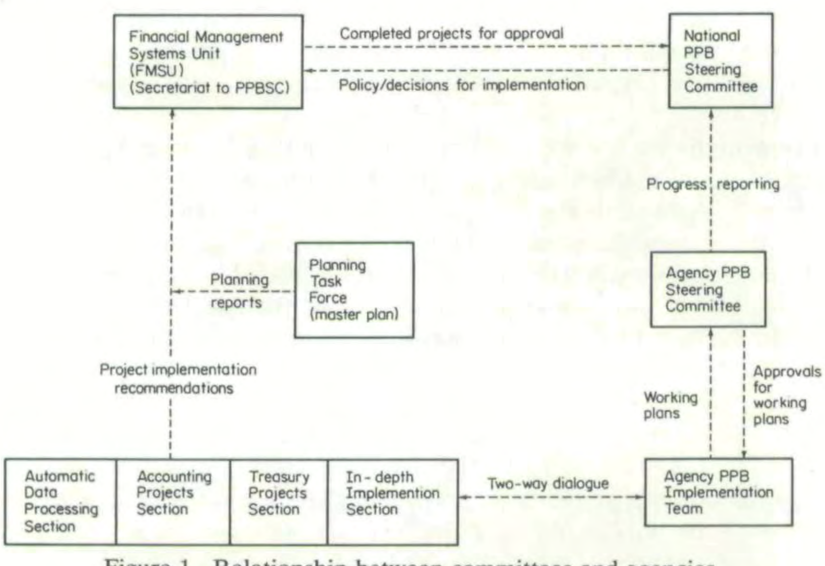

Figure 1. Relationship between committees and agencies

technical aspects of PPB but also the significance of the system for programme managers.

Owing to the strong support for training given by the government, an aggressive training programme has been incorporated into the Master Plan. The PPB Steering Committee has decided that training would be given to all levels of management either overseas or locally.

Overseas training

As opportunities for specialized training for the finance staff were hardly available in Malaysia, the government took advantage of the assistance offered by Canada to send staff there for training. Such training was generally of six months to one year's duration. Specialized skills sought include accounting, auditing, systems analysis, ADP and so on.

Local training

Two continuing types of programmes were initiated locally. The first, being an orientation seminar, was conducted for heads of ministries and departments for the first time in May 1973. The second type of programme was in the form of a training course of three weeks' duration. It was instituted in April 1973 in the National Institute of Public Administration. The course was primarily for middle management.

In-depth implementation

In 1973 the Ministry of Health was selected by the PPB Steering Committee for in-depth implementation as its outputs were considered to be relatively measurable and the agency was sufficiently complicated for most of the problems of implementation to arise as lessons for the other ministries and departments. On a gradual basis the Ministry of Finance, the Ministry of Education, the Postal Department, the Ministry of Social Welfare, the Ministry of Public Works and Utilities and the Department of Communications were added for in-depth implementation.

Drawing on the experience of the pilot agencies, the Treasury felt that the other agencies would be ready to undertake the in-depth implementation on their own. Thus from 1976 onwards the Treasury began to incorporate elements of in-depth implementation into the annual Treasury circular calling for budget submissions from the agencies. By 1980 the Treasury had succeeded in including in the circular all the elements of in-depth implementation. For the fiscal year 1981 budget, all agencies in the federal government have come under in-depth implementation.

ACCOMPLISHMENTS

What are the accomplishments of modernizing the budget system in Malaysia? In the private sector, this would be a relatively simple question as accomplishments could readily be translated into dollars and cents in the profit and loss statement. In the absence of monetary profit as the criterion for evaluation in the public sector, qualitative judgement has to be exercised. This makes the task of assessing accomplishments much more difficult. As one who has been taking a professional interest in the experiment almost from the very beginning, the author has identified five types of accomplishments.

Budget dialogue more meaningful

The annual Treasury circular calling for budget estimates from agencies has become a highly useful guide for agency actions. Prior to the 1969 budget, the Treasury circulars provided no useful direction to the agencies in preparing their annual budget requests apart from the meaningless and oft repeated exhortation to hold spending down. Today, the circular, in addition to the provision of a management-oriented format for requesting information, highlights the long-term budget objectives of government and the priorities for the budget year. This gives the agencies a sense of direction in the formulation of their annual budget estimates.

As a consequence of this, and of the greater exposure and training of agency staff in PPB, the budget submissions of the operating agencies have become much more informative. Today each agency's budget submission, among other things, includes its budget strategy (emphasis) for the year, its programmes and their activities, the objectives of the individual programmes and activities, and the performance (primarily workload data) of each activity. This is very different from the pre-PPB days when the budget submission of an agency would only supply information on funds requested for salaries of personnel and purchase of things.

In the process of PPB implementation, the Treasury has paid much attention to upgrading the quality of its budget examiners responsible for the review of agency budget estimates. The examiners today tend to belong to the category of middle management with many years of working experience in the government. Post-graduate education and training in management related disciplines have prepared them to be confident in their work and to be more at ease in discussing budget matters with the staff of the agencies concerned.

The corollary to the above development is that the budget dialogue has become much more meaningful. The improvements in the quality of information and the quality of the participants in budget discussions have prepared the ground for the dialogue to be focused much more on the substantive issues in budgeting: the objectives, the priorities, the programmes, the activities and their performance. This is a great departure from the pre-PPB days when, owing to the absence of a meaningful framework for budget discussion, much of the energy and efforts in budget examination were dissipated on a poker-like game in which the participants on each side tried to outwit the other.

Foundation of good management established

The management climate in the government as a whole has changed. There is awareness and understanding at the various levels of management about the importance of the need to think in terms of programmes and activities and their objectives. At the top management level in agencies, there is a much better grasp that resources can be related to the accomplishment of objectives.

Most agencies have, to a varying extent, been able to develop physical measures of performance. There is considerable success in relating finance to the physical measurement of work although not much headway has been made in developing output measures which can relate directly to the accomplishment of programme objectives.

The revision of the vote book to incorporate obligation accounting, the completion of the bulk of the accounting projects and the development of a comprehensive accounting classification through the use of a coding system have contributed to the modernization of accounting. As the programme and the activity structure of the budget has yet to become stabilized, at this stage of development the accounting classification does not follow the budget classification. The development of the coding system for use in accounting, however, has facilitated the task of translating accounting information in the form required by the budget classification.

The approach to the development and the operating budgets has become much more rational. In the pre-PPB days, the development and the operating budgets were fashioned independently into two separate budget documents under the direction of the Economic Planning Unit in the Prime Minister's Department and the Treasury, respectively. Today there has been much success in bringing the three central agencies (the Treasury, the Economic Planning Unit and the Public Services Department) together in reviewing the development and operating expenditures, and in forging them into a common set of documents.

In the process of developing the programme and the activity structure of agencies, the duplication of efforts within the same agency and between agencies has stood out more prominently. An example is the existence of agricultural subsidy programmes in several agencies. A beginning has been made in reducing and minimizing such duplications.

In line with the philosophy of PPB of letting the managers manage their programmes, the advent of PPB has provided the impetus for the Treasury to delegate a certain amout of financial authority to the controlling officers or heads of agencies. Unlike the pre-PPB days when every virement, or the transfer of funds from one sub-head of expenditure to another in the operating budget, had to be approved by the Treasury, today the controlling officer of an agency has been delegated the authority to approve any virement in his agency for sums not exceeding $M50,000.00 or 10 per cent whichever is less of the subhead or item which is deficient. For development projects, the controlling officer has been given the authority to make forward commitments for projects in his agency for the entire duration of each five-year plan as long as the sum does not exceed the amount authorized in the plan. Formerly, such commitment had to receive prior approval from the Treasury.

When taken together, developments of the above nature have made a positive contribution to the modernization of financial management in the Malaysian government. While further improvements of a continuous nature are needed, the reforms associated with the implementation of PPB have certainly reinforced each other in building a solid foundation of good management.

Budget more informative

The budget has become a highly useful source of information about the objectives, the programmes and, to a certain extent, the workload of agencies. On the basis of the information, the Treasury and the Cabinet are in a much better position to make informed decisions. The budget has also contributed to the strengthening of the democratic process in the country. The availability of relevant information about the programmes and the performance of government has already made a beginning in raising the quality of debates in the Parliament. Both the government back-benchers and the opposition members can read the budget documents and have a better understanding of what the government is doing with the taxpayers' money either as basis for voicing support or for dissent. Interested members of the public also have a ready source of information about the activities of government. In a way it can be said that the budget has provided the government with an additional channel to communicate with the public.

Treasury as leader in management

PPB has done wonders to the Treasury. It has served as a catalyst in transforming the Treasury from a conservative and primarily control-oriented type of agency into a progressive and management-conscious one. With PPB the Treasury has for the past decade assumed the role of management leadership in government. The Treasury has acted quite aggressively in pushing and guiding the operating agencies in financial management improvements, supporting training and human resource development and it has even delegated part of its financial authority to the agencies—an act of management by example. Such transformation on the part of the Treasury makes it justifiable to describe it as a development agency. This is certainly an accomplishment of immense importance in the development process of the country.

CONCLUSION

Malaysia's experiment with PPB has been beneficial although the initial encounter was a disappointing one. It was introduced in an environment in which the local human infrastructure for making the system meaningful was practically non-existent. The consequence is that the system was approached mechanically. Fortunately, the Malaysian civil service was capable of self-learning. Instead of being satisfied with maintaining PPB as a facade of modernity, the leadership in the Treasury took up the challenge of infusing it with a new lease of life. During the in-depth implementation, the system has instilled much more meaning into the annual budget dialogue between the Treasury and the other central agencies on the one hand, and the operating agencies on the other hand. PPB has also contributed to the development of a foundation for good management in Malaysia. The budget has become much more informative. In playing the leadership role for PPB, the Treasury has transformed itself into a development agency instead of a traditional one 'respected' for its power of negative control.

Future direction

While the accomplishments are substantial, many challenges lie ahead. Three areas deserve special attention. Firstly, at the time when a development project is approved, there is still no requirement for the operating cost implications to be spelled out. This state of affairs is unsatisfactory as each project has two cost components: the cost for developing the project and the cost for maintaining it once the development stage is over. Approving the development projects on the basis of the development costs alone can cause the future operating budget to become uncontrollable without consciously knowing it. From the standpoint of sound financial management, it is imperative that the operating agencies be required to work out the annual operating cost implications before they submit development projects for consideration by the National Development Planning Committee of the government. It is equally important that a formula for an acceptable level of increase in the annual operating budget of the government, resulting from the implementation of development projects, be developed. Such a formula would be useful in equipping the government with a means for exercising some control over the expansion of the operating budget as well as enabling the government to be more selective in the choice of development projects as the operating costs of development budgets would have to fall within a certain pre-determined acceptable level.

Secondly, while the operating agencies have been cooperating with the Treasury in the development of a government-wide PPB, they have not paid as much attention to the development of an agency-based PPB which can meet fully the internal management needs of the agency itself. So far, in the development of the government-wide PPB, the internal management needs of the agencies have been somewhat subordinated to the information needs of the central agencies, especially the Treasury, for making resource allocation decisions. Even though the benefits of PPB so far have been substantial, much greater payoff would only accrue if PPB were to become a regular internal management tool of the operating agencies. For this to happen, top management in each agency would have to take the leadership role in developing an agency-based PPB which would satisfy their needs for planning, management and control of their programmes and activities in order to accomplish national objectives as defined in the country's five-year plan. The emergence of agency-based PPB deserves priority attention in the future development of the system.

Lastly, the Treasury has to continue its leadership role in financial management improvements in the government. On the one hand, it has to build up further its expertise in management, and upgrade the quality of its staff, and on the other hand, to encourage and support the operating agencies in the development of an agency-based PPB. This will ensure that the Treasury will continue to be respected as a development agency.

Lessons for other developing countries

Can other developing countries learn something from the Malaysian experience with modernizing its budget system? The answer is a positive one. Briefly three aspects of the experience are worth highlighting. The first is that the introduction of a new system of budgeting should never be primarily dependent on expertise from external sources. For the new system to be beneficial there is no substitute to the development of local expertise. Programmes have to be established for the training of both programme managers and finance staff in the new system. It is only in a setting in which there is understanding about the new system and how it can be designed and implemented to meet the needs of agency management that the full potential benefits of the new system can be realized. To introduce the system in the absence of local expertise is a sure way of making the new system a formalism to be operated mechanically as a meaningless routine.

The second is that since the support of the agency head is essential if the new system is going to prove beneficial, a supportive environment ought to be created to encourage the agency head to play the leadership role in the introduction and implementation of the system. Externally, the importance of the role of the agency head in shaping the direction of the new system in his agency deserves to be explicitly recognized by the Treasury. In the case of Malaysia, such a recognition was accorded to the agency head through his participation in the national PPB Steering Committee. The Treasury can also attract the support of the agency head for the system by structuring the annual budget dialogue with the operating agencies along the lines of the new system. Internally, the support of the agency head will be enhanced if he understands the system, knows its strengths and weaknesses and has a clear picture of how he can utilize the system to strengthen his own internal agency management. This implies the need for well-planned orientation programmes for agency heads. An agency head's faith and confidence in the system can be further reinforced and strengthened if his senior staff reporting directly to him can appreciate the benefits of the system, and if sufficient expertise in the system is developed among members of his staff so that they can be of assistance to him in the introduction and implementation of the system.

Finally a sustained leadership role on the part of the Treasury, or the central agency in which the function of the national budget office is located, is a necessary condition for a new system of budgeting to be meaningfully implemented. There are two aspects to this leadership role. One aspect involves the availability of expertise in the Treasury to provide assistance to the operating agencies, and also, as mentioned before, the commitment of budget examiners to conduct budget hearings in accord with the spirit of the new system as a way of expressing the importance that the government is attaching to it. The second aspect involves the Treasury playing a role which will facilitate the agencies in implementing the new system. This includes the provision of financial and human resources for the orientation and training of the staff of operating agencies in the new system. Such a move on the part of the Treasury will facilitate the task of agencies in implementing the new system.

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