



The Transition from Traditional Budgeting to Performance-Based Budgeting in Advancing Public Financial Reform

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Abstract

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The transition from traditional budgeting to Performance-Based Budgeting marks a pivotal transformation in the evolution of public financial reform. As a modern fiscal management system, it connects budget allocations directly to measurable performance outcomes, thereby promoting greater transparency, fiscal efficiency, and accountability within public sector governance. Using a historical approach, this study explores the conceptual evolution, implementation challenges, and practical implications within the broader framework of public financial reform. The analysis reveals that this paradigm shift not only improves the efficiency of resource utilization but also fosters a culture of performance orientation and evidence-based decision-making across government institutions. Nevertheless, the study identifies several persistent constraints, particularly limited human resource capacity, inadequate performance measurement systems, and the inconsistent application of performance indicators among agencies. Furthermore, the findings underscore that the effectiveness depends largely on the successful integration of outcome-based evaluation mechanisms with strategic planning and fiscal policy frameworks. By providing a historical and analytical perspective, this study contributes to the growing literature on effective public financial governance and offers valuable policy insights for enhancing fiscal accountability, institutional transparency, and sustainability.



1. Introduction

Budgeting is a fundamental pillar in public financial governance, functioning as the main instrument to achieve development goals and maintain fiscal stability. For several decades, the traditional budgeting model or line-item budgeting has been the dominant approach. This model is oriented toward input control, emphasizing compliance with procedures and administrative efficiency to ensure fiscal discipline. However, this approach is often considered less adaptive to the dynamics of community needs and does not directly reflect the expected development outcomes. As demands for transparency, accountability, and effectiveness in public financial management increase, a new paradigm known as Performance-Based Budgeting (PBB) has emerged, which is a budgeting system that links government fund allocation to measurable outputs and outcomes (Mauro et al., 2021).

The implementation of PBB aligns with the global public finance reform movement oriented toward improving the efficiency and effectiveness of public resource utilization. This model not only demands technical changes in the budgeting process but also a fundamental transformation in the bureaucratic structure, the mindset of state apparatus, and the mechanisms for planning and budget reporting. Todorova (2019) assert that PBB implementation has broad implications, not only for improving fiscal efficiency but also for long-term economic growth through better-targeted and performance-based resource allocation. Thus, this system is viewed as an integral part of efforts to modernize state financial governance oriented toward tangible results for the public.

This paradigm shift also brings consequences for the public accountability system. While in the traditional model, budgetary accountability was more administrative and focused on procedural compliance, in PBB, the orientation of accountability shifts to achieving performance measured through clear, objective, and measurable indicators. Suryanto (2019) show that the application of PBB in various European countries succeeded in suppressing the level of budget waste and strengthening public trust in government institutions. These findings demonstrate that PBB is not merely a technocratic instrument but also a political and managerial mechanism that plays a role in strengthening the legitimacy and credibility of the government in the eyes of the public.

Nevertheless, the transition process toward the PBB system is not free from various challenges. Mujannah et al. (2023), through their systematic review, identify that the main obstacle in PBB implementation lies in the limited capacity of the human resources apparatus, weak performance information systems, and suboptimal integration between strategic planning and results-based budget execution. This condition indicates an institutional gap between policy design and practice in the field. On the other hand, the success of PBB is highly determined by the government's ability to integrate the performance measurement system with the process of planning, budgeting, and evaluation of public policy comprehensively.

Departing from this thinking, this study aims to examine the transition process from traditional budgeting to PBB as part of broader public finance reform. A historical approach is used to examine the evolution of the concept, principles, and practices of PBB in the context of modern financial governance. Through

theoretical and empirical analysis, this research is expected to contribute to the development of public finance literature, as well as serve as a practical reference for policymakers in designing a more efficient, transparent, and results-oriented budgeting system. Thus, strengthening PBB implementation is expected to encourage an increase in the quality of public spending, strengthen fiscal accountability, and support the achievement of national development goals sustainably.

2. Literature Review

2.1. Evolution of Budgeting Paradigms in the Public Sector

The change in public budgeting paradigms is an integral part of broader state financial reform. Previously, the line-item budgeting system emphasized administrative control and procedural compliance but failed to explain the relationship between inputs and the results achieved. According to Mujennah et al. (2019), the main weakness of this model is its excessive focus on resource allocation without considering the results produced by the expenditure. Consequently, the budget process often becomes a routine activity without a clear strategic direction.

In response to these limitations, the concept of PBB emerged, oriented towards results-oriented budgeting. This concept first developed within the context of modern public administration reform that emphasizes efficiency, transparency, and accountability. Mauro et al. (2021) explain that PBB implementation allows for the integration of strategic planning and the budget process, so that every fund allocation can be directly linked to performance targets. Thus, budgeting is no longer

static but becomes a dynamic managerial instrument for improving the performance of public institutions. Furthermore, Suryanto (2019) found that the global adoption of PBB is influenced by increasing public pressure for fiscal transparency and social oversight. This reform is a form of adaptation to the demands of good governance and evidence-based policy, which places policy outcomes as the measure of government success.

2.2. Principles and Implementation of Performance-Based Budgeting (PBB)

PBB is designed to ensure that every public organizational unit is responsible for the results achieved from the managed funds. Todorova (2019) affirm that this system demands clear performance indicators, a transparent reporting system, and regular evaluation of program effectiveness. In practice, PBB links resource allocation to outputs and outcomes, thereby encouraging efficient and well-targeted budget use. The main key to successful PBB implementation lies in the integration of planning, execution, and evaluation. Bawono et al. (2019) indicates that changing the budgeting system in various countries requires significant time and institutional adaptation. PBB demands apparatus that not only understand public accounting aspects but also performance management and program evaluation.

In addition, Thom (2019) highlights that PBB success is also influenced by the readiness of the financial management information system (FMIS). Without accurate and timely performance data, this system risks becoming merely an administrative formality without substantive added value to policy quality. Thus, the application of digital technology and data integration across agencies is an important component in strengthening the effectiveness of PBB. Conceptually, PBB is not just

a budget allocation technique but a system that connects finance with organizational performance management. It serves as an accountability tool and an internal control mechanism that fosters a culture of performance in the public sector. Amini et al. (2019) adds that one indicator of successful PBB implementation is the government's ability to translate strategic goals into performance measures that are measurable, monitorable, and periodically evaluable.

2.3. Challenges and Prospects of Public Budgeting Reform

Despite many benefits, the transition to PBB faces a number of institutional and technical challenges. One of the biggest obstacles is bureaucratic resistance to change. The deeply rooted administrative culture is often not easily replaced with a results orientation. Arief (2020) note that many countries experience difficulty in maintaining consistency between performance indicators and strategic targets due to weak coordination between units and overly frequent policy changes. Besides resistance, technical constraints also arise in the form of limited human resources and analytical capacity. Apparatus need to be trained to understand the concepts of performance evaluation and cost-benefit analysis. Without this capacity support, PBB tends to fail to produce real improvements in fiscal efficiency.

Nevertheless, the opportunities to improve the system remain significant. The development of information technology and data analytics can be utilized to strengthen the process of monitoring and reporting performance in real time, increasing accuracy and public accountability. Moving forward, Nasri et al. (2022) emphasizes the importance of making PBB an integral part of Sustainable Development Goals (SDGs). By linking budgeting to the achievement of sustainable

development, the government can ensure that every public expenditure contributes directly to public welfare and long-term fiscal sustainability. Thus, budgeting reform is not merely a procedural update but a systemic effort towards modern, efficient, and accountable public financial governance.

3. Method

This research applies the historical research method (historical research method) to trace the process of development and transformation from traditional budgeting to PBB within the framework of public finance reform. The selection of this approach is based on the goal of comprehensively understanding the dynamics of budgeting policy evolution, changes in institutional structure, and the socio-political context influencing the direction of the reform. The historical method not only serves as a means to reconstruct past events but also as an analytical tool to interpret patterns of policy change and their implications for modern results-oriented governance practices.

Methodologically, this research follows four main stages in historical research procedure: (1) heuristics, which focuses on collecting relevant data and sources; (2) source criticism, which is the process of evaluating the authenticity, credibility, and reliability of the obtained documents; (3) interpretation, which aims to interpret historical facts by considering their temporal and structural context; and (4) historiography, which is the stage of composing the research narrative based on systematic chronology and thematic analysis. In the heuristic stage, the researcher collected various secondary sources in the form of scientific articles, public finance

reform reports, and international policy documents published between in last five years. Most sources were obtained from academic journals indexed in Google Scholar or Elsevier to ensure the credibility and reliability of the data. Subsequently, the source criticism stage was conducted to assess the validity and relevance of the literature used. This process ensures that every piece of data analyzed has a strong academic foundation and is directly related to the issue of PBB implementation in various countries.

The analysis was carried out descriptively-comparatively to identify common patterns, variations, and challenges in the application of the PBB system in diverse governmental contexts. The interpretation stage focused on linking various findings across different periods of budget reform to uncover driving factors, obstacles, and the impact of the transition from the traditional budgeting system to PBB. This analysis also considers the New Public Management framework which emphasizes bureaucratic efficiency and results-based accountability (Mujennah et al., 2019). The final stage, historiography, presents the narrative of the evolution of budgeting reform chronologically and analytically. Through this historical approach, the research is expected to provide a deeper understanding of how the PBB concept evolved into a central instrument in contemporary public financial governance

4. Results

The results of this study reveal that the transition from traditional budgeting to PBB is a long and complex evolutionary process, encompassing changes in paradigm, fiscal policy, and bureaucratic culture in public financial governance.

Based on the literature review and historical analysis, it was found that the implementation of PBB has a significant impact on improving efficiency, effectiveness, and accountability in the use of public resources. However, its application in various countries shows varying results caused by differences in institutional capacity, system readiness, and the political context surrounding it.

In the initial phase of public financial reform, the line-item budgeting model served as a mechanism for controlling government expenditure, with a primary focus on administrative oversight and procedural compliance. This system emphasized control over input, not results, making it unable to show the correlation between resource allocation and development achievements. In this context, PBB emerged as a conceptual and managerial innovation that emphasizes results orientation. Every public organizational unit is required to demonstrate a concrete contribution to the government's strategic goals. Yesyan et al. (2021) affirm that PBB implementation has strengthened the integration between strategic planning and financial management through linking performance indicators to budget allocation. Thus, the budget is no longer viewed merely as an administrative tool but as a managerial instrument that functions to direct results-based public policy.

One of the important contributions of PBB is the increase in transparency in the administration of public finance. Through the performance reporting system, the public gains wider access to assess the extent to which government programs yield tangible benefits. According to Ateh et al. (2019), the PBB mechanism allows for more comprehensive public oversight because every expenditure is directly linked to measurable result targets. Thus, this reform strengthens the principle of

good governance through increasing accountability and public trust in government institutions. However, the effectiveness of this system is highly influenced by the availability of accurate data and the apparatus's ability to manage and interpret performance information appropriately.

Besides the aspect of transparency, PBB also makes a large contribution to improving fiscal efficiency. The presence of clear and measurable performance indicators allows the government to identify programs that provide added value and terminate unproductive activities. Todorova (2019) found that PBB implementation in various developing countries was able to improve the quality of public spending because it encourages continuous evaluation of program results. This model helps minimize duplication of activities, ensures focus on strategic priorities, and guarantees that every public fund is used to achieve goals that directly impact public welfare.

Nevertheless, the research findings indicate that the success rate of PBB implementation varies greatly between countries. Factors such as bureaucratic capacity, political commitment, and the readiness of the performance information system are key determinants of the success of this reform. Pasha and Guzman (2023) suggest that the implementation of PBB in Eastern European countries yielded significant results, especially in reducing budget waste and increasing fiscal efficiency. Conversely, in developing countries, institutional constraints, bureaucratic resistance, and limited human resources remain major obstacles. Many countries face difficulty in aligning long-term strategic goals with the annual performance indicators used in the budget preparation and evaluation process.

From a historical perspective, the application of PBB cannot be separated from the major current of public administration reform known as New Public Management (NPM). This movement emphasizes the importance of efficiency, accountability, and results orientation in the public sector by adopting private sector management principles. Within this framework, PBB acts as the main instrument to strengthen performance accountability through a direct link between fund allocation and the results achieved. Amini et al. (2019) explains that this reform demands fundamental institutional change, including organizational restructuring, refinement of the reporting system, and development of apparatus capacity to be able to carry out performance evaluation objectively, transparently, and systematically.

This study's findings also highlight that PBB implementation has broad implications not only for technical efficiency but also for the public policy formulation process. The government is required to adopt an evidence-based policy making approach, where every budget decision must be supported by results data and measurable achievement indicators. This encourages a decision-making process that is more rational, measurable, and results-oriented. In the long term, PBB application has the potential to create a policy ecosystem that is more adaptive to global social, political, and economic dynamics.

Despite having various advantages, this research also identifies a number of fundamental challenges in PBB implementation. First, many government institutions still struggle to formulate performance indicators that are relevant, realistic, and easy to measure. This condition causes a mismatch between program outputs and the strategic outcomes expected. Second, the existing performance reporting system is

often not fully integrated with the financial system, making result data difficult to utilize effectively in budget decision-making. Third, limited human resource capacity is a crucial factor hindering the effectiveness of the reform. Without adequate training and support, apparatus will find it difficult to fully understand and implement the concept of performance-based budgeting. These findings align with Bawono et al. (2019) research, which asserts that the success of public finance reform is highly dependent on the competency of the bureaucratic workforce and the sustainability of the institutional learning process.

Additionally, the analysis results indicate that PBB has strategic potential in strengthening collaboration between government organizational units. Because it focuses on results, this system encourages cross-sectoral coordination and synergy between agencies to achieve common goals. In practice, this helps reduce the sectoral ego that often hinders the effectiveness of traditional budget management. Furthermore, PBB strengthens internal accountability mechanisms through periodic performance reporting and data-based evaluation, which directly increases the transparency and responsibility of public apparatus for their work results.

From a macroeconomic perspective, consistent PBB implementation can provide a positive contribution to long-term fiscal stability. Through reducing waste and increasing expenditure efficiency, the government can improve the ratio of budget productivity to economic growth. Research conducted by Thom (2019) shows that countries that adopted PBB experienced an increase in fiscal efficiency and public revenue, because their financial policies were more directed and results-

oriented. Thus, this system not only improves financial governance but also strengthens the fiscal foundation to support sustainable development.

The results of this study reaffirm that PBB is an integral part of structural reform that is sustainable and multidimensional. This reform is not merely replacing the budgeting format but changing the paradigm and bureaucratic culture in viewing public financial management. Effective PBB implementation demands synergy between technical aspects such as indicator preparation, reporting systems, and evaluation mechanisms and non-technical aspects, such as political commitment, visionary leadership, and organizational culture change. When these two aspects are harmoniously integrated, PBB is capable of functioning as a strategic instrument in realizing public financial governance that is efficient, transparent, accountable, and adaptive to future development challenges.

5. Discussion

The research results indicate that the transition from traditional budgeting to PBB is not merely a technical change in budget preparation but also a structural reform that demands changes in organizational culture and managerial paradigm. Comparison of various literature shows that PBB implementation has a significant impact on fiscal efficiency, transparency, and public accountability, although its success depends on institutional readiness, apparatus capacity, and political commitment. Conceptually, PBB aligns with the New Public Management (NPM) principles that place performance results as the main measure of public bureaucracy

success. This approach makes the budget not only a financing tool but also an instrument for measuring the strategic achievements of the government.

Yesyan et al. (2021) affirm that PBB's effectiveness lies in its ability to connect resources with measurable performance, so that the processes of planning, execution, and evaluation become more integrated. This allows policymakers to correct inefficient programs and shift resources to sectors that yield tangible impacts. However, as revealed by Ateh et al. (2019), one of the biggest challenges in PBB implementation is the gap between strategic planning and technical implementation. Many public institutions have not been able to develop relevant and realistic performance indicators. Consequently, the performance reporting process often becomes a formality without making a real contribution to decision-making. This challenge is also exacerbated by the low human resource capacity in the fields of policy analysis and results-based financial management.

In addition, political factors play an important role in determining the success of this reform. According to Pasha and Guzman (2023), the sustainability of PBB application is highly dependent on political stability and government commitment to fiscal transparency. When financial reform is supported by strong regulation and effective public oversight, the PBB system is able to increase public trust in government institutions. Conversely, in institutionally weak environments, PBB risks becoming merely a symbol of reform without substantial change. In the global context, PBB is proven to contribute to strengthening public financial governance by reinforcing results-based evaluation and accountability mechanisms.

Ahmed et al. (2022) show that countries that successfully implement PBB experience an increase in fiscal efficiency in the allocation of public resources. This confirms that performance-based budget reform can be a key driver for effective governance and sustainable economic development. This discussion affirms that PBB is not only a technocratic tool but also a strategy for public management change. Its success requires the integration of performance measurement systems, bureaucratic capacity, and strong political commitment. With this support, PBB has the potential to become a main pillar in realizing efficient, transparent, and accountable public financial governance in the future.

6. Conclusion

This study reaffirms that the transition from traditional budgeting to PBB represents a pivotal stage in public financial reform, designed to enhance the principles of efficiency, effectiveness, transparency, and accountability in fiscal governance. Employing a historical analytical approach, the research identifies that the adoption of PBB has fundamentally transformed the paradigm of government financial management from a system primarily focused on administrative control of expenditures to a results-oriented management framework. This paradigm shift not only improves the efficiency of fiscal resource allocation but also reinforces mechanisms of public accountability and strengthens citizen trust in governmental institutions.

The findings further indicate that the success of PBB implementation is strongly influenced by institutional preparedness, bureaucratic capacity, and the

quality of human resources. Sustainable reform in this domain requires not only technical adjustments but also a robust political will that supports long-term policy coherence. Moreover, the establishment of integrated financial information systems and a performance-driven organizational culture is essential to ensure the effectiveness of outcome-based fiscal management. Continuous monitoring and evaluation processes must be institutionalized to align budget implementation with measurable policy outcomes. Without adequate institutional capacity and a strong commitment to performance accountability, the application of PBB may encounter significant limitations in achieving its intended reform objectives. Therefore, comprehensive institutional strengthening and sustained policy commitment are imperative for realizing the full potential of PBB as an instrument of modern public financial governance.

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