

BUDGET TRANSPARENCY AS A COMPLEMENTARY ASPECT OF PERFORMANCE BUDGETING

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I. Introduction

1. *The key objectives of public financial management (PFM) - maintaining a sustainable fiscal position, the effective allocation of resources and the efficient delivery of public services:*
 - *Maintaining sustainable fiscal position (strategic planning)* - a way to achieve legitimate macroeconomic objectives, inclusive and balanced growth, in an orderly fashion
 - *The effective allocation of resources (program budgeting)* - public money should be allocated on the basis of evidence of program effectiveness and in furtherance of the priorities of government
 - *The efficient provision of public services (performance management)* - government should achieve value for money in delivering public services and should provide the quality and accessibility of services
2. *Appropriate information, adequate processes and effective rules – a set of instruments/levers needed to achieve key objectives*
3. *Fiscal / budgetary reforms – activities/innovations (fiscal rules, MTBF, performance information, accounting, auditing, institutions) critical for integration of key PFM objectives and instruments*

II. An integrated budgetary approach incorporating transparency and performance in OECD advance countries – experience with PFM reforms

1. *PFM reforms* - set to support the transition from traditional incrementalist (“line item”) budgeting to budget process where performance information and management *are* incorporated into resource allocation decisions (“performance and risk management budgeting”)
2. *Good budgetary institutions* (the laws, procedures, rules, and conventions) and *fiscal transparency* (fiscal sustainability and performance, costs of deviating from fiscal objectives, full costing of public finance interventions- direct and contingent) - stressed as vital elements of the PFM approach
3. *PFM reform sequencing* - first, enrich information available to policy makers; second, use processes to induce policymakers to make prudent and effective decisions; third, culminate in rules pr(o)escribing appropriate actions
4. *Modernizing basic PFM infrastructure (accounting, budgeting, auditing and human resource management)* - a critical precondition for effective implementation of PFM reforms
5. Therefore - *modern PFM system* is a logical construct that links the three sets of ideas: core objectives, effective levers, and innovations (A. Schick)

II.1 Transparency – a new paradigm of PFM reforms

1. Significant decline in citizens trust in national leaders and institutions, economic crisis, financial stresses of aging population and the future costs of pension rights and health benefits - main causes to introduce more fiscal policy and institutional transparency elements in PFM reforms
2. *Fiscal policy transparency* - a new strategic ingredient to PFM
 - *fiscal sustainability* (comprise long-term fiscal projections, macroeconomic estimates, sensitivity and fiscal risk analysis); it is the ability of the government to maintain public finances at a credible and servicable position over the long run
 - *medium-term expenditure framework*; it aims to improve the quality and certainty of medium-term fiscal planning by combining prescriptive current ceilings with descriptive forward estimates
3. *Institutional transparency* – an additional public confidence element
 - *high quality* budget information and reporting (disclosure of underlying assumptions and publicly available budget documents)
 - *effective role* for Legislator (capacity and authority to influence budget proposal)
 - *independent* fiscal institutions (Supreme Audit Institution, Fiscal Council)

II.2 Performance budgeting – a tool, not a cure-all

1. *Performance budgeting* refer to a budget process where information on program goals and performance is incorporated into spending decisions (whether it be at budget preparation, approval, execution or audit and evaluation stage) and also seeking to focus more attention on assessing the validity of historical budget decisions
2. *Basic lessons* learned in the implementation process:
 - *performance initiative* should not be aimed at reducing expenditure but to more efficient resource allocation decisions
 - *performance budgeting requires* sufficient time and effort to add value and achieve success (permanent institutional commitment, statutory base, staff resources, oversight agency, investment in data management)
 - *a good implementation of performance initiative* asks for defining purpose and objectives and then designing the approach to fulfill them (more informed, data-driven, accountable, and output-oriented approach with greater inter-institutional collaboration)
 - *outcome indicators* are most desirable because they represent the result a program is intended to achieve; but they are hard to measure
 - *successful performance initiative* has to be part of the budget process (what are the right things to be done?-*strategic planning*; How things can be done better?-*performance management*)

III. The study “ Ten years of budget reviews in CESEE* countries“ - experience with PFM reforms

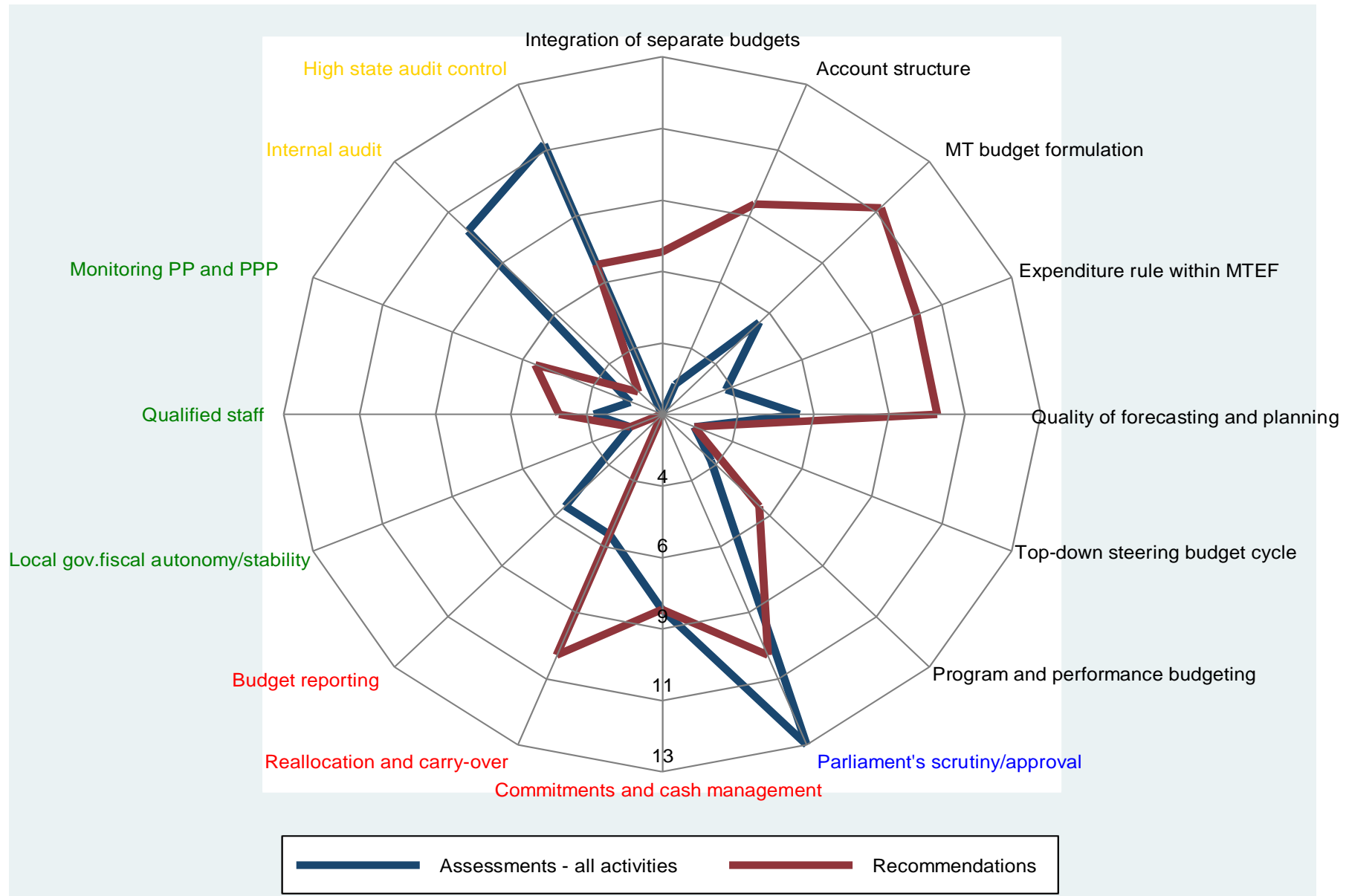
- Overview of the OECD reports (2004-2012)
 - Assessments
 - Recommendations
- Survey of the important reforms in PFM activities since publishing the OECD reports (2013)
- Comparisons
 - Cross evidence (assessments, recommendations, survey)
 - Cross country
 - Cross PFM activities
- Smaller number of aggregated PFM activities (five groups of activities- budget programming and formulation, budget approval, budget execution, public sector structure and public procurement, budget evaluation)) are presented in radar graphs which are used for comparison of the intensities (country frequency) of PFM activities

* *Albania, Bulgaria, Croatia, Estonia, Georgia, Hungary, Latvia, Lithuania, Moldova, Montenegro, Romania, Russia, Slovenia, Turkey, Ukraine*

III.1. Assessments and Recommendations

- According to the assessments, countries are on the improvement track in general government budgeting; it is, however, much weaker in the areas crucial for the OECD best-practice standards
- Countries differ in completed PFM activities more than in all (completed and partly completed) activities, which indicates that initial reform commitment does not necessarily signal their rapid and efficient finalization
- Changes in budget execution, parliamentary approval and audit activities proved to be less complicated and socially demanding than improvements in budget formulation and preparation activities
- As many countries have been strongly hit by the crisis since the reviews were conducted, they had to concentrate on short-term interventionist measures and at least temporarily postponed more structural reforms/innovations
- The OECD recommendations were concentrated in the area of the budget formulation (medium-term budget frameworks, efficient fiscal forecasting, fiscal rules and top-down budgeting) and much less on the budget execution (reallocation and carry over of spending items, appropriation commitment controls and cash management) and parliamentary approval processes
- Program and performance budgeting activity did get rather lukewarm support; OECD reviewers most likely believed this activity were more difficult for CESEE countries to accomplish and less critical for the effectiveness of medium-term budget reforms
- Although the assessed and recommended PFM activities were not incompatible, their correlation do not corroborate the proposition of (more pronounced) doctrine-based recommendations

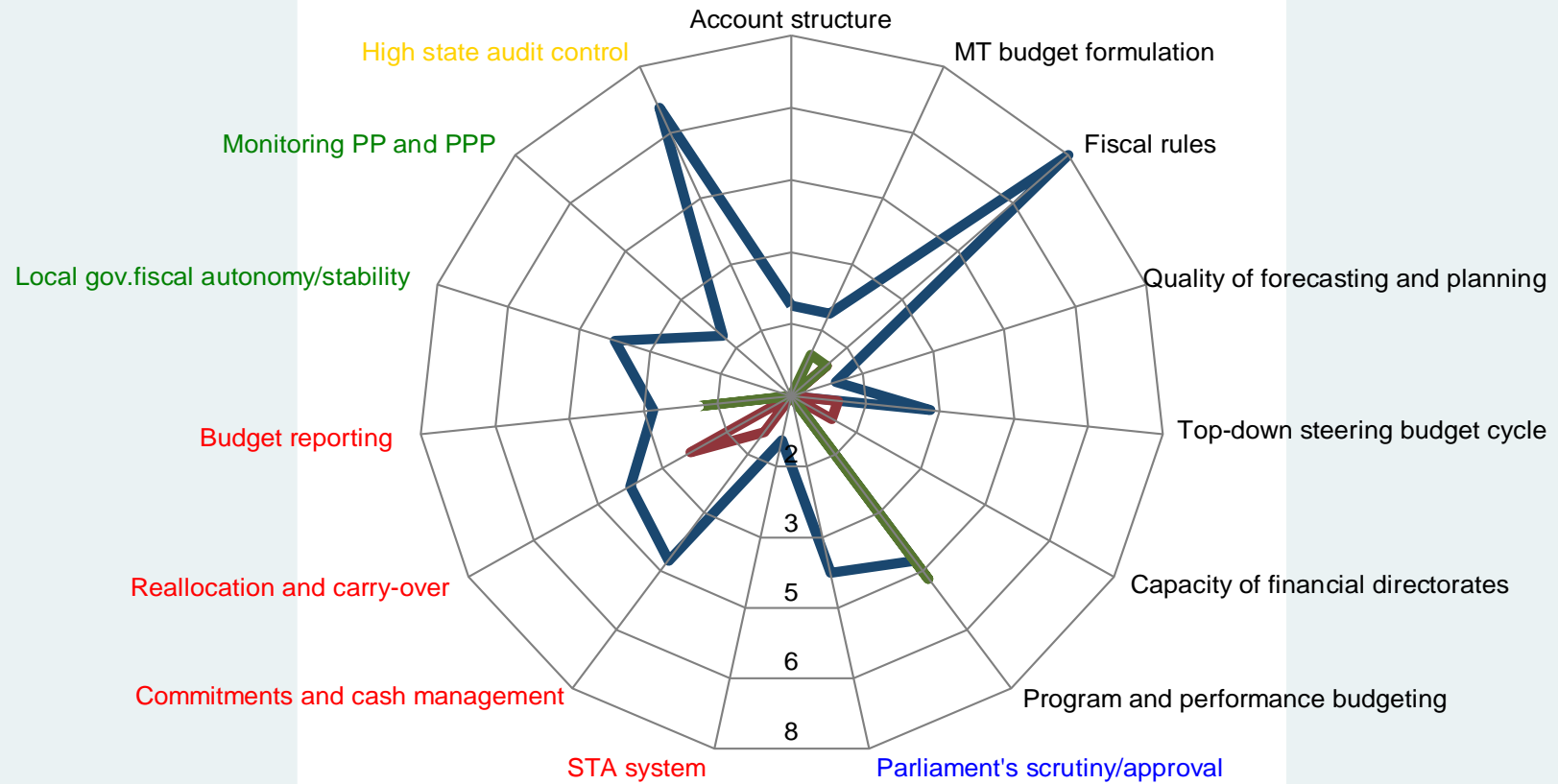
Assessed PFM activities and OECD Recommendations



III.2. Survey

- After the OECD reviews, the main changes have been made in implementing fiscal rules and in empowering follow-up procedures of the external audit decisions. Noticeable improvements have also been achieved in appropriation commitment controls and cash management, reallocation and carry over of spending items, and parliamentary approval activities
- Reforming institutions towards implementation of program-oriented/ performance-based budgeting have been also successful in several (40%) CESEE countries; however, at the same time, in almost half of countries same reforms have failed or had poor results
- Reforms engaging in crucial activities for the sustainable fiscal consolidation (medium-term expenditure framework, baseline estimation and single treasury account) have been rare or poorly implemented
- The survey results show the PFM activities that could be launched and/or implemented quickly, are more robust (less risky) to implement and are simple to master have had priority in the PFM innovations and reforms
- The pattern of successful PFM activity implementation differed significantly among CESEE countries. There was hardly any PFM activity pattern similarity in groups of more than three countries. The similarity of poorly implemented PFM activities was much higher
- Heuristically, it could be maintained that there had to be some common (not country specific) factors behind poor or even failed implementation of the PFM activities in the period after the OECD reviews. It is unclear whether such phenomena resulted from avoiding corresponding reforms or from poor preparation/implementation and a lack of reform determination

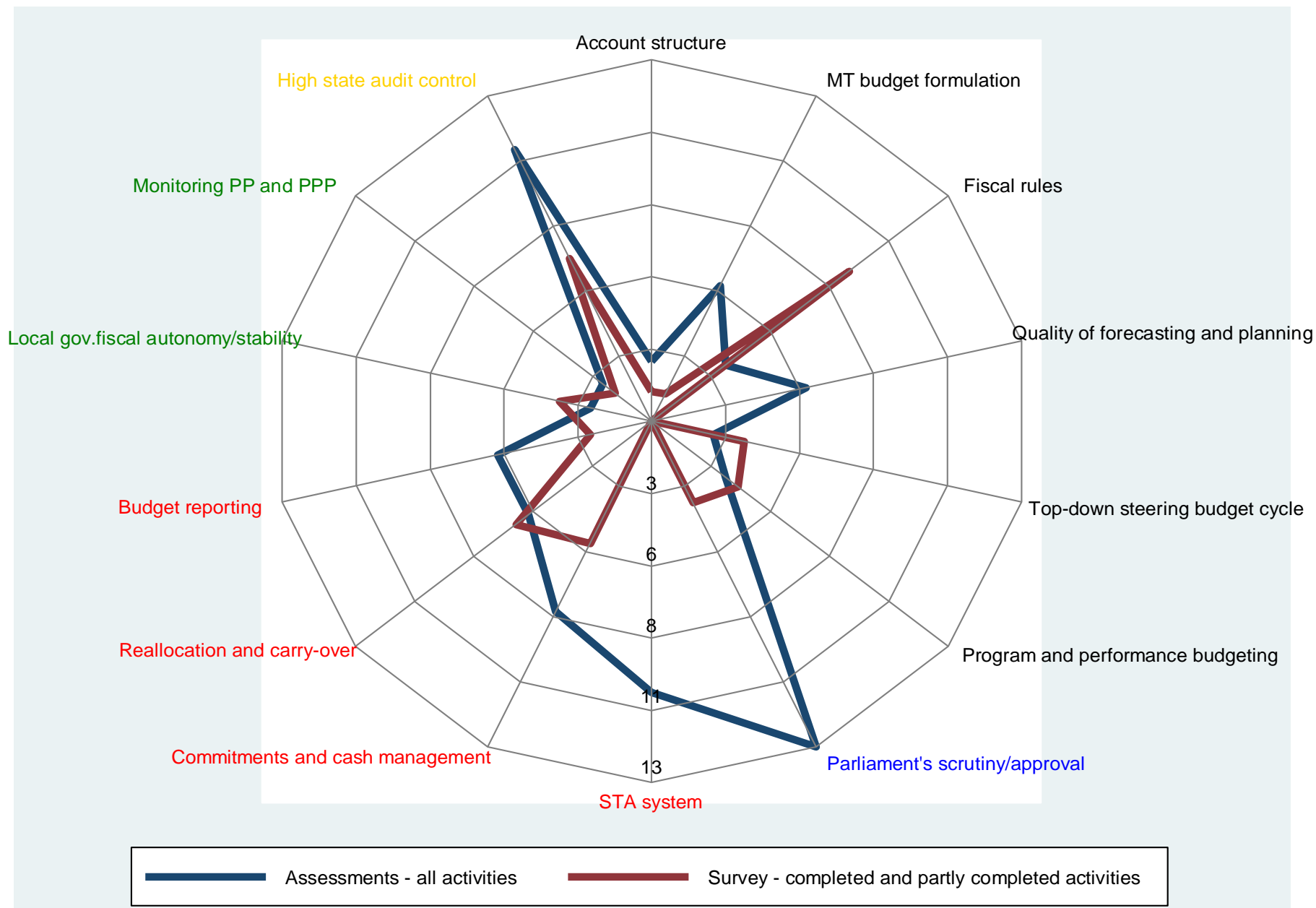
Intensity of PFM activities - Survey



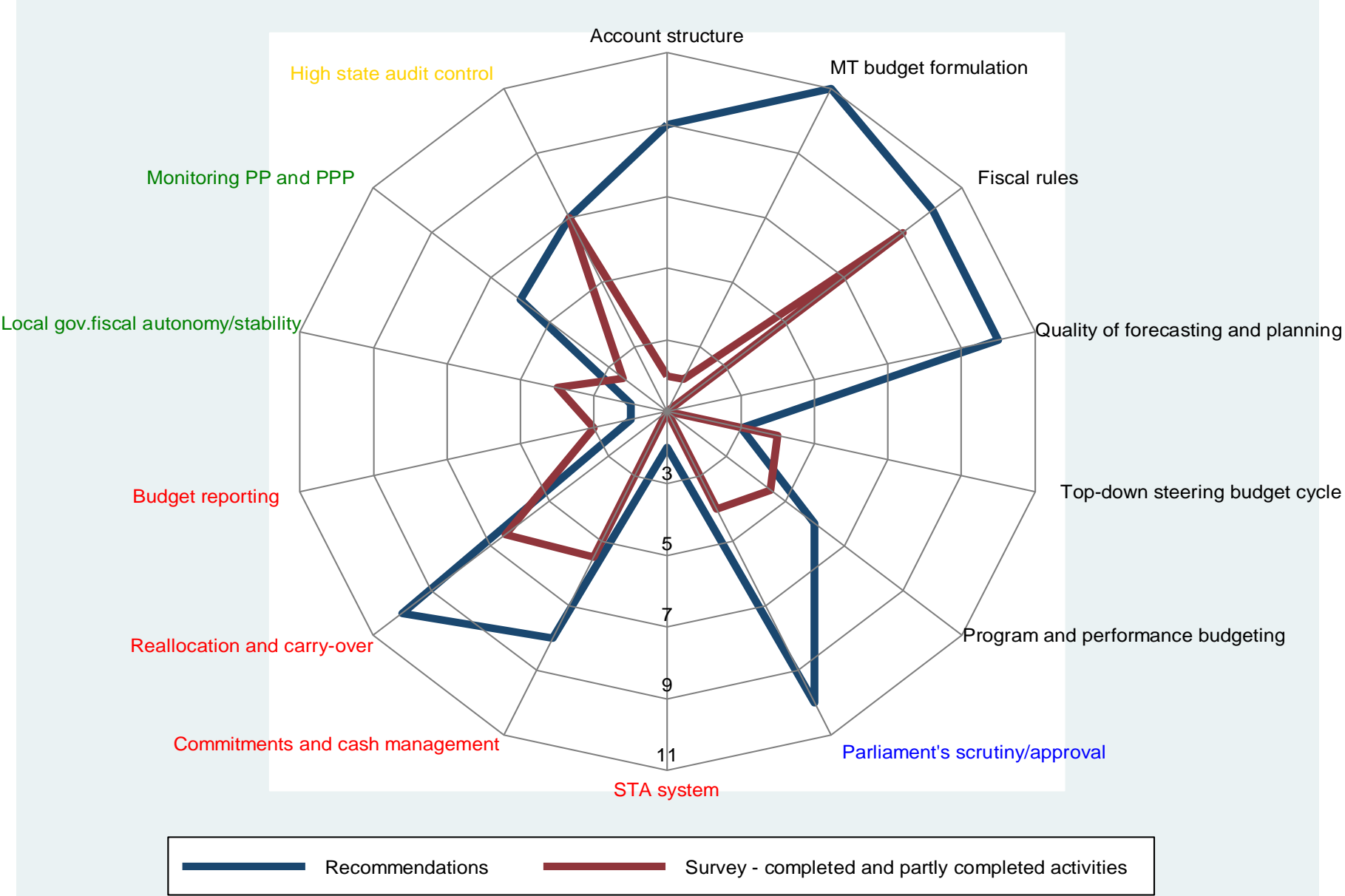
III.3. Assessments and Recommendations versus Survey

- PFM activities launched after OECD reports at least partly follow the activity structure recommended by OECD staff in those reports. Two groups of activities (budget execution and parliamentary approval process) are the same as in the recommendations, while fiscal rule implementation is the only one from the budget formulation group
- Institutions important for long-term sustainable fiscal performance (medium-term budget formulation and quality of forecasting and planning) were indicated in the recommendations; but there is almost no successful implementation of any of these PFM activities in the aftermath.
- Developments in medium-term budget formulation, quality of forecasting and planning, and program-based budgeting are not revealed in the survey to be important in any CESEE country; such slower advancement in the implementation of those activities seems sensible, because of their technical and human resource sophistication
- In the survey, the reported implementation intensity of the procedures for the external audit decisions enforcement is relatively much higher than in the OECD report recommendations
- Frequency pattern of the implementation of PFM activities in the survey is much more similar to the corresponding pattern of the recommended activities than the assessed ones. The recommendations obviously took into consideration not only assessed situations, but also other constraints, which significantly shape the implementation time profile for each specific PFM activity.

Intensity of PFM activities – OECD Assessment and Survey



Intensity of PFM activities – OECD Recommendations and Survey



IV. Conclusions

1. Political economy of public financial management (PFM) innovations and reforms- open issues:

- 1.1 The degree of general public awareness of fiscal sustainability and risks
- 1.2 Political system structure (presidential/parliamentary) as an important factor for strategic fiscal reforms - medium-term budgetary framework and fiscal rules
- 1.3 Government structure (coalition/non-coalition) which influences the character of multi-year budgeting and programme/performance budgets

2. Main trade-offs in PFM innovations and reforms for transition economies:

- 2.1 Fiscal consolidation approach (MTFF, fiscal rules, performance management) versus traditional budgetary practices (incremental budgeting, indexation, financial control)
- 2.2 Top-down (strategic planning/programming) versus bottom-up (incrementalist/line-item) budgeting procedures
- 2.3 The central budgetary authorities (CBA) versus decentralized line ministries (LMs)

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