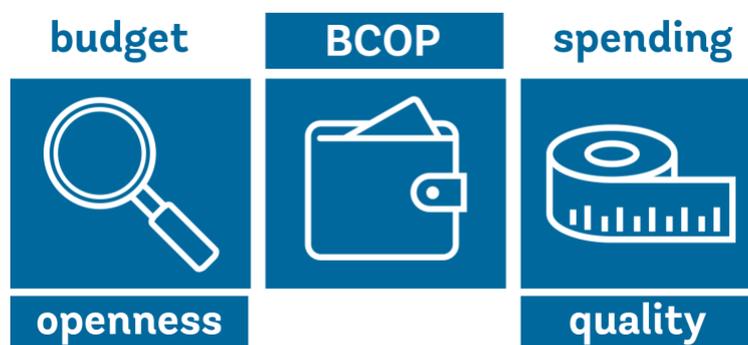


# PERFORMANCE BUDGETING AND SPENDING

## REVIEWS IN PEMPAL COUNTRIES:

### Current Practices, Challenges, and Recommendations



Knowledge Product prepared by  
the Program and Performance Budgeting Working Group (PPBWG)  
of the PEMPAL Budget Community of Practice (BCOP)  
*June 2020*

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**PEM****PAL**

**Budget Community of Practice (BCOP)**

T: +7 495 745 70 00 ext. 2038 or +7 499 921 20 38

E: [BCOP@worldbank.org](mailto:BCOP@worldbank.org)

W: [www.pempal.org](http://www.pempal.org)



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## Foreword



As the leader of the Program and Performance Budgeting Working Group (PPBWG), I am pleased to present this report, which is a result of collaboration among 16 Ministries of Finance (MFs) across the Europe and Central Asia (ECA) region, all members of the Budget Community of Practice (BCOP) under the Public Expenditure Management Peer Assisted Learning (PEMPAL) network.

The PPBWG, formed in 2016, focuses on the design and implementation of program and performance budgeting and spending reviews with the aim of improving spending effectiveness. Reforms in this area have been continuously reported as priority areas by most of our members.

This group has worked in close partnership with the Organization for Economic Cooperation and Development (OECD) Public Management and Budgeting Division and OECD delegates from the Ministries of Finance of OECD countries, as well as with the World Bank. We are indebted to these partnerships and value the opportunity for knowledge exchange, as well as for their peer review of this knowledge product.

I would like to take this opportunity to thank all of our 16 member countries that actively participate in the PPBWG for their contributions, especially to those countries who participated in the surveys on performance budgeting and spending reviews used in this report, as well as those countries that provided comments on the draft version of this report and additional updates on activities and plans in their countries.

The analyses and recommendations outlined in this report provide valuable information for our members and provide excellent “food for thought” as we continue our efforts on improving the effectiveness of government spending. Based on the information we gathered from our member countries, many PPBWG member countries plan specific ways to use the recommendations from this knowledge product that are applicable for their countries to potentially implement and improve their performance budgeting and spending review systems.

I wish our member Ministries of Finance all the best in their ongoing reforms in program and performance budgeting and I look forward to our future collaboration to build on this work.

***Nikolay Begchin***

PEMPAL BCOP PPBWG Lead and Executive Committee Member  
Head of the Department of Program Planning and Effectiveness of Budget Expenditures, Ministry of Finance of the Russian Federation

## CONTENTS:

LIST OF EXHIBITS.....	6
ABBREVIATIONS.....	7
EXECUTIVE SUMMARY .....	9
BACKGROUND INFORMATION ON PEMPAL, BCOP, AND PPBWG .....	14
<b>OBJECTIVES AND METHODOLOGY OF REVIEW OF PERFORMANCE BUDGETING AND SPENDING REVIEWS IN PEMPAL COUNTRIES.....</b>	<b>16</b>
<b>1. PERFORMANCE BUDGETING IN PEMPAL COUNTRIES COMPARED TO PERFORMANCE BUDGETING IN OECD COUNTRIES.....</b>	<b>18</b>
PERFORMANCE BUDGETING FRAMEWORKS .....	18
CHARACTERISTICS OF PERFORMANCE INFORMATION AND HOW THEY ARE DEFINED AND TARGETTED .....	22
USE OF PERFORMANCE INFORMATION .....	29
CHALLENGES IN PERFORMANCE BUDGETING .....	31
EXAMPLES OF ONGOING AND PLANNED ACTIVITIES IN PERFORMANCE BUDGETING IN SELECTED PEMPAL COUNTRIES .....	32
<b>2. SPENDING REVIEWS IN PEMPAL COUNTRIES.....</b>	<b>34</b>
DATA ON SPENDING REVIEWS IN PEMPAL COUNTRIES.....	34
REGULATORY AND METHODOLOGICAL BASES FOR SPENDING REVIEWS AND CHARACTERISTICS OF THE SPENDING REVIEW PROCESS.....	34
SPENDING REVIEW USAGE AND CHALLENGES .....	37
EXAMPLES OF ONGOING AND PLANNED ACTIVITIES IN SPENDING REVIEWS IN SELECTED PEMPAL COUNTRIES .....	38
<b>KEY CHALLENGES AND RECOMMENDATIONS ON PERFORMANCE BUDGETING AND SPENDING REVIEWS FOR PEMPAL COUNTRIES.....</b>	<b>41</b>
<b>ANNEX 1: ILLUSTRATIVE POSSIBLE DESIGN OF AN INTERLINKED STRATEGIC POLICY PLANNING, BUDGET PLANNING, AND INSTITUTIONAL PLANNING .....</b>	<b>56</b>
<b>ANNEX 2: EXAMPLE OF PROGRAM STRUCTURE AND INDICATORS IN AN ILLUSTRATIVE DESIGN OF INTERLINKED STRATEGIC POLICY PLANNING, BUDGET PLANNING, AND INSTITUTIONAL PLANNING .....</b>	<b>57</b>
<b>ANNEX 3: HORIZONTAL AND VERTICAL LOGIC OF CAUSAL CHAIN WITHIN THE ILLUSTRATIVE DESIGN OF INTERLINKED STRATEGIC POLICY PLANNING, BUDGET PLANNING, AND INSTITUTIONAL PLANNING.....</b>	<b>58</b>

## LIST OF EXHIBITS

<b>Exhibit 1: Main Activities of the PPBWG in 2016-2019</b> .....	15
<b>Exhibit 2: National Performance Framework</b> .....	18
<b>Exhibit 3: Legal/Regulatory Basis for Performance Budgeting</b> ( <i>number of countries</i> ) ....	19
<b>Exhibit 4: Performance Budgeting Approaches</b> .....	20
<b>Exhibit 5: Elements of National Performance Framework</b> ( <i>number of countries</i> ).....	21
<b>Exhibit 6: Trends in Number of Programs and, Indicators, and Targets</b> ( <i>number of countries</i> ) .....	24
<b>Exhibit 7: Roles in Defining Performance Indicators</b> ( <i>number of countries</i> ).....	25
<b>Exhibit 8: Roles in Setting Performance Targets</b> ( <i>number of countries</i> ).....	25
<b>Exhibit 9: Roles of CBAs and Line Ministries/Agencies in Different Stages of Generating and Using Performance Information</b> ( <i>percentage of countries</i> ) .....	27
<b>Exhibit 10: Breakdown of Different Types of Performance Information Used in Budget Submissions</b> ( <i>average percentage</i> ) .....	28
<b>Exhibit 11: Cross Cutting Indicators in Budget</b> ( <i>number of countries</i> ).....	28
<b>Exhibit 12: Use of Performance Information</b> ( <i>number of countries</i> ) .....	29
<b>Exhibit 13: Rationale and Effectiveness of Introducing Performance Budgeting</b> ( <i>weighted average</i> ).....	30
<b>Exhibit 14: Challenges in Implementation of Performance Budgeting</b> ( <i>weighted average</i> ) .....	31
<b>Exhibit 15: Basis for Spending Reviews</b> ( <i>number of countries</i> ).....	35
<b>Exhibit 16: Topics/objectives of Spending Reviews Conducted in PEMPAL Countries</b>	36
<b>Exhibit 17: Institutional Roles in Spending Review Stages in PEMPAL Countries</b> .....	37
<b>Exhibit 18: Challenges in Implementation of Spending Reviews</b> ( <i>weighted average</i> ) .....	38

## ABBREVIATIONS

<b>ARM</b>	Armenia
<b>AUS</b>	Australia
<b>AUT</b>	Austria
<b>BEL</b>	Belgium
<b>BCOP</b>	Budget Community of Practice
<b>BGR</b>	Bulgaria
<b>BiH</b>	Bosnia and Herzegovina
<b>BLR</b>	Belarus
<b>BLTWG</b>	Budget Literacy and Transparency Working Group
<b>CAN</b>	Canada
<b>CBA</b>	Central Budget Authority
<b>CESEE</b>	central, eastern and south-eastern European countries
<b>CHE</b>	Switzerland
<b>COP</b>	Community of Practice
<b>CRO</b>	Croatia
<b>CSO</b>	civil society organization
<b>DEU</b>	Germany
<b>DNK</b>	Denmark
<b>ECA</b>	Europe and Central Asia
<b>ESP</b>	Spain
<b>FIN</b>	Finland
<b>FRA</b>	France
<b>GBR</b>	Great Britain
<b>GEO</b>	Georgia
<b>GRC</b>	Greece
<b>IA</b>	internal audit
<b>ICT</b>	Information and Communications Technology
<b>IMF</b>	International Monetary Fund
<b>IRE</b>	Ireland
<b>ITA</b>	Italy
<b>JPN</b>	Japan
<b>KAZ</b>	Kazakhstan
<b>KGY</b>	Kyrgyz Republic
<b>KNI</b>	Key National Indicator
<b>KOR</b>	South Korea
<b>KOS</b>	Kosovo
<b>KP</b>	knowledge product
<b>LM</b>	Line Ministry
<b>LUX</b>	Luxemburg
<b>MDA</b>	Moldova

<b>M&amp;E</b>	monitoring and evaluation
<b>MEL</b>	monitoring, evaluation, and learning
<b>MEX</b>	Mexico
<b>MF</b>	Ministry of Finance
<b>NLD</b>	Netherlands
<b>NOR</b>	Norway
<b>NZL</b>	New Zealand
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>PB</b>	Performance Budgeting
<b>PB&amp;SRs</b>	performance budgeting and spending reviews
<b>PEMPAL</b>	Public Expenditure Management Peer Assisted Learning
<b>PER</b>	World Bank Public Expenditure Review
<b>PFM</b>	Public Finance Management
<b>PI</b>	performance indicator
<b>PM</b>	Prime Minister
<b>PPB</b>	Program and Performance Budgeting
<b>PPBWG</b>	Program and Performance Budgeting Working Group
<b>P&amp;R</b>	performance and results
<b>PRT</b>	Portugal
<b>RUS</b>	Russia
<b>SAI</b>	Supreme Audit Institution
<b>SBO</b>	Senior Budget Officials
<b>SDGs</b>	Sustainable Development Goals
<b>SECO</b>	Swiss State Secretariat for Economic Affairs
<b>SER</b>	Serbia
<b>SMART</b>	Specific, Measurable, Achievable, Relevant, and Time-Based Indicators
<b>SR</b>	Spending Review
<b>SWE</b>	Sweden
<b>ToR</b>	Terms of Reference
<b>TUR</b>	Turkey
<b>UKR</b>	Ukraine
<b>UZB</b>	Uzbekistan
<b>VIPRT</b>	validity, integrity, precision, reliability, and timeliness
<b>WB</b>	World Bank

## EXECUTIVE SUMMARY

### Background, Objectives, and Methodology

The Budget Community of Practice (BCOP) of the Public Expenditure Management Peer Assisted Learning (PEMPAL) network facilitates exchange of professional experience and knowledge transfer in budget methodology, planning, and transparency among budgeting practitioners from Ministries of Finances across the Europe and Central Asia (ECA) countries. BCOP member countries have continuously identified the area of program and performance budgeting areas as their priority budgeting reform area. Thus, BCOP created the Program and Performance Budgeting Working Group (PPBWG), in operation since 2016 and including representatives of 16 member countries. Initially, the PPBWG took stock of practices in member countries, reviewed global best practices, examined country cases, and analyzed performance indicators used in PEMPAL countries. In the last two years, the PPBWG deepened its focus and collected new and more detailed data to take an updated stock of current practices and challenges in member countries benchmarked to OECD countries in performance budgeting and spending reviews. This report analyzes the collected data together with additional data and information collected and shared by the PPBWG.

This report is developed as a knowledge product of the PPBWG to present data on performance budgeting and spending reviews in PEMPAL countries, to benchmark the practices in PEMPAL countries to those in OECD countries, and to provide food for thought for PEMPAL countries considering introducing or improving their performance budgeting and spending review systems. Quantitative data used in this report is based on responses from PEMPAL and OECD countries to the 2018 OECD Performance Budgeting Survey and the internal BCOP survey of PEMPAL countries on spending reviews. The report analyses the performance budgeting of 14 PEMPAL countries - Armenia, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Moldova, Russia, Serbia, Ukraine, and Uzbekistan. There are several limitations of the quantitative data used in this report, most notably that data is based on countries' self-assessment.

This knowledge product provides a practical set of recommendations consistent with the OECD Good Practices but adapted to the circumstances in PEMPAL countries. Given the complexities of budgeting reforms (and in particular those related to program and performance budgeting and spending reviews), as well as the diverse nature of PEMPAL countries, the report seeks to offer advice and recommendations but does not advocate for a one-size-fits-all nor an overnight reform approach. Each country is advised to carefully consider the recommendations through the lens of its own unique historical, institutional, administrative, and political context and specificities and to implement the reforms in a step-by-step approach.

### Summary Findings on Performance Budgeting

The coverage of performance budgeting frameworks is wider and more uniform in PEMPAL countries compared to OECD countries. Almost all PEMPAL countries having compulsory performance budgeting frameworks (i.e. linking budgetary allocations with information about performance, objectives, and/or results) for both line ministries and agencies. The legal/regulatory basis for performance budgeting is in organic budget law for almost all PEMPAL countries and in two thirds of OECD countries. PEMPAL countries most frequently describe their practices as a presentational approach, compared to the more advanced performance-informed approach most frequently reported by the OECD countries. Almost all

PEMPAL countries have general guidelines and definitions for performance budgeting and standards templates for reporting performance information. More than half of PEMPAL countries report having standard information and communications technology (ICT) tools for performance budgeting, compared to around one third of the OECD countries.

Survey results confirm that PEMPAL countries are taking steps to reduce the numbers of programs and performance indicators (PIs), following the trend in OECD countries and reflecting the previous tendencies of the overly fragmented structure of programs and high volume of performance indicators. The control and use of performance information is more centralized than in OECD countries, where line ministries are dominant in most stages of generating and using performance information. PEMPAL countries are defining performance indicators at a higher outcome level compared to OECD countries. At the same time, cross-cutting performance indicators are notably less frequent in PEMPAL countries. Use of performance information continues to increase in both OECD and PEMPAL countries, including by program managers, ministers/senior civil servants, parliaments, and civil society and media.

In both OECD and PEMPAL countries, operational data is still most frequently used in budget negotiations over performance information. The use of evaluations, spending reviews, and independent performance information is notably less frequent in PEMPAL than in OECD countries. There were very high expectations of benefits of introducing performance budgeting across a wide set of factors; however, actual achievement has been more limited in both OECD and PEMPAL countries. Overall, there is a bigger gap between expectations and realization in PEMPAL countries than in OECD countries, mostly in respect to improved oversight and performance culture. Accountability and transparency were the key motivation factors behind introducing performance budgeting and are also its key benefits. Consequences of missing performance targets are not a norm and improvements resulting from performance budgeting are non-quantifiable in both groups of countries.

Overall, challenges in implementation of performance budgeting are perceived as greater by PEMPAL countries, compared to OECD countries. In particular, the lack of a culture of performance and leadership and poorly formulated indicators and targets are the biggest challenges. Most PEMPAL countries are undertaking or planning to undertake budget planning measures/reforms related to performance budgeting. Details on ongoing and planned activities in two PEMPAL countries are provided in the report (Bulgaria and Russia).

### **Summary Findings on Spending Reviews**

Most PEMPAL countries do not conduct spending reviews, although there is a trend towards their introduction. Seven countries reported having spending reviews (Croatia, Bulgaria, Russia, Belarus, Serbia, Moldova, and Bosnia and Herzegovina), while an additional three countries reported plans to conduct spending reviews. Where they exist, spending reviews in PEMPAL countries have weaker regulatory and methodological bases compared to OECD countries. Spending reviews in PEMPAL countries most frequently cover social sectors such as health, welfare and education. Institutional roles at different stages of the spending review process are mixed among PEMPAL countries, with line ministries generally having a weaker role compared to OECD countries. Teams conducting spending reviews in PEMPAL countries are mostly mixed. Ministries of Finance have the primary role, similar to OECD countries; however, the role of line ministries is more limited, and significant external expertise is being

provided to most PEMPAL countries by international development organizations (World Bank or International Monetary Fund).

Essentially all challenges in implementing spending reviews preidentified in the OECD Survey (total of twelve challenges) are perceived as significantly greater in PEMPAL countries compared to OECD countries, especially those associated with the earliest stages of introducing spending reviews. This in particular relates to challenges of capacity (both in terms of staff availability and technical expertise), political support, and ICT challenges. Most PEMPAL countries that responded to the survey reported some plans related to spending reviews. Details on ongoing and planned activities in three PEMPAL countries are provided in the report (Croatia, Bulgaria, and Russia).

## Recommendations

Governments worldwide have increasingly become aware of the need to plan for and report on the outcomes of spending, i.e. the quality and effectiveness of public services, to citizens through program and performance budgeting. This contrasts with the focus on spending amounts and inputs (i.e. salaries and other costs to deliver public services) in traditional budgeting. However, overall, not all the expected results of program and performance budgeting have been achieved, including in the most advanced countries with longest implementation experience. The reasons are likely numerous and inter alia include objective challenges in measuring and controlling performance and in linking performance information to actual budget allocation decisions, complex relationships between spending and outcomes, as well as innate biases towards short-sightedness and the political nature of the budgeting process. Consequently, governments, including those with a long history of performance budgeting, continue to refine and modernize their approaches to take into account lessons learned and rationalize expectations, while not losing sight of the importance of capturing spending outcomes. A reflection of evolved thinking on performance budgeting is the shift in its definition from “performance-based” towards more “performance-informed” budgeting. The continued evolution of performance budgeting is reflected in *OECD Good Practices for Performance Budgeting* that directly speak to past weaknesses. PEMPAL countries have also worked to improve their program and performance budgeting systems, especially in terms of simplification and linkages with strategic policy decision-making.

Based on the analyzed data and the previous work and discussions of the PPBWG, some food for thought and recommendations are given in the concluding section of this report. PEMPAL countries may take these into account when improving or introducing performance budgeting and spending review systems. The recommendations are organized around the seven areas of good practices in performance budgeting recommended by the OECD. Within each of the seven areas, challenges applicable and specific to PEMPAL countries are defined and recommendations offered to address those challenges.

Key recommendations include that within the reforms in performance budgeting and spending review areas, each individual country should first analyze its country system and context in detail, then analyze both best global practices and practices in similar countries. After careful selection of applicable recommendations, these should be adapted for the country’s specificities and the reforms implemented step-by-step, with the involvement of key stakeholders. In its essence, program and performance budgeting is a tool for implementing strategic policy objectives; thus, it must be completely linked to the strategy planning processes. To advance from presentational performance budgeting to performance-informed

budgeting, adequate program structure must be set to enable transparent setting, implementation, and monitoring of strategic policy objectives. Relationships between the Ministry of Finance and line ministries/agencies must be balanced. The Ministry of Finance has a key role in establishing guidelines and analyzing and securitizing programs and performance information, as well as the crucial challenging role for quality assurance; however, the line ministries should have a dominant role in generating and using performance information, given that the responsibilities for implementation and accountability lays with the line ministries. Programs and performance indicators should be designed around the final expected policy/service outcomes for the citizens/users, while at the same time being clearly linked to institutional set-up for accountability. Usability and usefulness of performance information should be the key criteria in selection of performance indicators and where adequate performance data is missing, new data collection should be established, making use of underused administrative data, as well as external data collection mechanisms. Adequate attention must be given to cross-cutting objectives, which should flow through to individual programs and high-level government objectives should be decomposed into lower level objectives. The starting point for doing so is to determine the theory of change and causal chain based on policy priorities, using logical framework type of tools (as laid out in the Annexes of this report) to map out a hierarchy of expected results and performance. Indicators should be associated with each of those levels of expected results, ranging from highest level outcome, through intermediate level outcomes to outputs. This policy causal chain should then be mapped against the institutional framework. In some cases, these exercises and overall performance budgeting will indicate where institutional set-ups should improve and adjust, as was, for example, the case in France. Final and arguably the most important recommendation is a reflection of evolved thinking on performance budgeting in terms of shift from “performance-based” towards more “performance-informed” budgeting and general abandonment of the concept of “direct performance budgeting”, in which budget allocation decisions are directly made based on performance in favor of using performance information to supplement the financial and operational information when making budget decisions. It underlines the importance of focusing on learning from program and performance budgeting and spending reviews. Responses to program under-performance should emphasize learning and problem solving, rather than individual financial rewards and penalties. This should be reinforced and promoted by the chief executive to develop a management culture focused on performance and learning.

An overview of all recommendations is given in the next figure.

## Summary Recommendations for Systems of Program and Performance Budgeting (PPB) and Spending Reviews (SRs) in PEMPAL Countries

### Rationale and objectives of performance budgeting:

#### Make it clear & strong-rooted

1. Clear and wide PPB frameworks with strong legislative basis and additional guidelines, ensuring adequate objectives and uses for decision making clear to all



#### Joint ownership

2. PPB reforms championed not only by the MF and civil service, but rather by political leadership more widely, across branches



### Alignment of expenditure with the strategic goals and priorities:

#### Connect more directly to strategic planning

3. Clear and strong connection with strategic planning consider strategic document templates to include PIs connected to PPB



#### Capture cross-cutting objectives and initiatives

4. Additional attention to government-wide objectives, avoiding parallel processes of initiatives for priority budgeting (e.g. SDGs, green, gender, well-being)



#### Decompose high level objectives

5. Use theory of change and logframe tools and map against institutional set-up to trickle to flow to programs; linking to both strategic planning and institution-level planning.



### Flexibility to handle the varied nature of government activities and the complex relationships between spending and outcomes:

#### Balance standardization and flexibility

6. Ensure not only standardization and coverage of all expenditure by PPB but also enough flexibility PIs can be defined for all programs, but PI type and usages vary.



#### Design programs and PIs around outcomes & institutions

7. Determine program scope and PIs around final expected outcomes but also indicate connection to institutions / departments for accountability



#### Ensure PIs follow rules

8. Rules: i) limited in number, ii) clear, iii) trackable, iv) linked with govt objectives, v) avoiding lowest level outputs, vi) use very high long-term outcome PIs but with additional controllable PIs



#### Ensure focus on citizen-centric PIs

9. Consider the use of different instruments to gather citizens' feedback, perceptions, and satisfaction, with careful considerations



### Investing in human resources, data and supporting infrastructure:

#### Ensure continuous capacity building

10. Provide strong and continuous technical capacity building both internally in MFs and in the line ministries/agencies, led by or through MF



#### Strengthen ICT support to PPB

11. Ensure ICT allows: i) balance of standardization and flexibility, ii) explanations, and iii) integration with the ICT for budget planning by other classifications, treasury, and strategic planning



#### Establish new data collection mechanisms

12. Where adequate performance data missing, gather it—including administrative data and external data collection mechanisms



### Facilitating oversight by the legislature and civil society:

#### Secure legislature's engagement

13. Integrate PIs into main budget document or at minimum in supplementary information presented to legislature and integrate performance outcome in execution reports



#### Provide capacity building to the legislature

14. Consider capacity building of parliament members and building of technical expertise in administrative support departments in parliaments



#### Give a role to SAL in PPB

15. Provide a role for SALs in PPB, at minimum to review and validate performance, while more substantial roles should be considered, including performance audits



#### Make PPB data open and re-usable

16. Provide re-usable performance data open to public online; include performance information in citizens' budgets; provide PPB capacity building of CSOs and media



### Complementing tools enforcing performance orientation:

#### Use tools complementing PPB

17. Tools such as SRs and performance and impact evaluations complement PPB, noting the need for their careful design and technical expertise



#### Design SR carefully

18. Design depends on the economic, political, and institutional context; note the importance of availability of performance data and usefulness of broader expenditure review prior to SRs



#### Incentivize LMs for SRs

19. Motivate LMs to adequately engage - broad political support behind SRs can help; moreover initial incentives could also be considered (e.g. part of the identified savings)



#### Consider giving a role to IA in SRs

20. Explore whether the IA function can engage by e.g. checking the quality of the design of PIs, verifying the performance data accuracy, and assisting in SR process



### Encouraging performance-oriented behavior and learning:

#### Focus on learning from PPB and SRs

21. Responses to under-performance should emphasize learning and problem solving, rather than individual rewards and penalties to develop a performance and learning based management culture



## BACKGROUND INFORMATION ON PEMPAL, BCOP, AND PPBWG

- The PEMPAL network facilitates exchange of professional experience and knowledge transfer among public finance management (PFM) practitioners across the Europe and Central Asia (ECA countries).** The network was launched in 2006 and is supported by the Swiss State Secretariat for Economic Affairs (SECO), the Ministry of Finance of the Russian Federation, and the World Bank (WB)<sup>1</sup>. It aims to contribute to strengthening PFM practices in 21 member countries through developing and disseminating information on good PFM practices and their application. PEMPAL members are Ministries of Finance (MFs), national Treasuries, or other related central agencies that are responsible for government budget planning, preparation, execution, and monitoring and coordination/harmonization of the internal audit and internal control function in ECA countries. The network is organized around three thematic communities of practice (COPs) focusing on budget, treasury, and internal audit issues and it uses peer-to-peer learning as the main instrument of knowledge sharing and capacity development.
- The key objective of the BCOP is to strengthen budget methodology, planning, and transparency in member countries.** BCOP members represent 21 ECA countries: Albania, Azerbaijan, Armenia, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Republic of North Macedonia, Moldova, Montenegro, Romania, Russian Federation, Serbia, Tajikistan, Turkey, Ukraine, and Uzbekistan. BCOP activities are driven by member-led action plans that address key budgeting priorities of member countries. BCOP activity plans include sharing and creation of knowledge through face-to-face and virtual meetings, learning visits, exchanges with other networks, and development of knowledge products.
- The PPBWG focuses on design and implementation of program and performance budgeting and spending reviews with the aim of improving spending effectiveness.** The group was formed in 2016 and its membership includes 16 of the 21 BCOP member countries: Albania, Armenia, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kosovo, Kyrgyz Republic, Moldova, Republic of North Macedonia, Russian Federation, Serbia, Turkey, Ukraine, and Uzbekistan. The PPBWG is led by Mr. Nikolay Begchin, BCOP Executive Committee Member and Head of the Department of Program Planning and Effectiveness of Budget Expenditures in the Ministry of Finance of the Russian Federation.
- BCOP members have consistently identified program and performance budgeting as the top priority area in their countries' budget reforms in recent years<sup>2</sup> and the PPBWG addressed members' interest in information and advice in this area.** In 2016-2018, the PPBWG focused on an initial stock take of program and performance budgeting practices in PEMPAL countries, an initial general review of best global practices, and development of a knowledge product (KP) on performance indicators. Since 2018, the PPBWG has deepened its focus and collected new and more detailed

<sup>1</sup> Refer [www.pempal.org](http://www.pempal.org) for more information.

<sup>2</sup> Based on an online survey of members conducted annually by PEMPAL in preparation for the annual plenary meetings to collect country priorities.

data on member countries' current practices and challenges, benchmarked to OECD countries in performance budgeting and spending reviews. Analyses of collected data and additional data and information collected and shared by the PPBWG are presented in this report. The PPBWG's activities are summarized in Exhibit 1.

**Exhibit 1: Main Activities of the PPBWG, 2016-2020**



5. **PPBWG has a close cooperation with the Organization of Economic Cooperation and Development (OECD), which provides content contribution to the work of this group.** This cooperation has entailed PPBWG's facilitation of the participation of PEMPAL countries in the OECD Performance Budgeting Surveys in 2016 and 2018 and participation of the PPBWG leadership or small delegations in the meetings of the OECD Senior Budget Officials' (SBO) Network on Performance and Results (P&R)<sup>3</sup>, the OECD's content contribution to BCOP's plenary meetings and PPBWG workshops, as well as facilitation of access to the practitioners from the Ministries of Finance of OECD countries (OECD delegates) to share their experiences with the PPBWG. The World Bank has also been an important contributor to the PPBWG, including in the review of international country case studies<sup>4</sup> and providing content for BCOP plenary meetings and PPBWG workshops.

<sup>3</sup> PPBWG delegations that attended the OECD SBO P&R meetings contributed to working sessions to provide inputs for the recently published *OECD Good Practices for Performance Budgeting*, available at <http://www.oecd.org/gov/oecd-good-practices-for-performance-budgeting-c90b0305-en.htm>.

<sup>4</sup> For example, based on the World Bank study *Toward Next Generation Performance Budgeting: Lessons From the Experiences of Seven Reforming Countries*, available at <http://documents.worldbank.org/curated/en/356081478497402740/Toward-next-generation-performance-budgeting-lessons-from-the-experiences-of-seven-reforming-countries>.

## OBJECTIVES AND METHODOLOGY OF REVIEW OF PERFORMANCE BUDGETING AND SPENDING REVIEWS IN PEMPAL COUNTRIES

6. **This report is developed as a knowledge product of the PPBWG to present data on performance budgeting and spending reviews in PEMPAL countries, to benchmark the practices in PEMPAL countries to those in OECD countries, and to provide some recommendations and food for thought for PEMPAL countries on what to take into consideration in their performance budgeting and spending review systems.** The main part of this report is structured in three chapters. First, the report examines performance budgeting, providing a review of the status of PEMPAL countries in performance budgeting in 2018 and highlighting some of the key trends and differences in OECD and PEMPAL countries and trends in PEMPAL countries in 2018 compared to 2016. Next, the report examines spending reviews, providing information on PEMPAL countries' spending review plans and status and benchmarking the main characteristics of spending reviews in PEMPAL countries to those in OECD countries. Finally, based on the analyzed data and the previous work and discussions of the PPBWG, the report provides some food for thought (key challenges and recommendations) for PEMPAL countries to take into account when introducing or improving performance budgeting and spending review systems, organized around the seven areas of good practices in performance budgeting recommended by the OECD.
7. **Quantitative data used in this report is based on the results of the PEMPAL and OECD countries in the 2018 OECD Performance Budgeting Survey and results of the internal BCOP survey of PEMPAL countries on spending reviews.** Taking part in the 2018 OECD Performance Budgeting Survey, in addition to enabling regional and international benchmarking, for the first time also enabled comparison of trends over time for PEMPAL countries that took part in both 2016 and 2018 survey editions. The PPBWG was formed in 2016 and launched its work by facilitating PEMPAL's participation in the 2016 Performance Budgeting Survey designed by the OECD<sup>5</sup>. That was the first time that cross-country data on performance budgeting was collected for PEMPAL countries in a comparable format. The 2018 Performance Budgeting Survey was conducted between August and October 2018. The questionnaire covered three topics: i) performance budgeting (26 questions), ii) evaluation (9 questions), and iii) spending reviews (9 questions). The next section of this report gives an overview of the results for PEMPAL countries on performance budgeting. Results on the spending review parts were supplemented with PEMPAL pre-event survey results and are presented in the following section. Data on OECD countries presented in this report are based on the chapter on quality of public expenditures from the OECD report on Budgeting and Public Expenditures in OECD Countries in 2019 and the accompanying database, as well as data in the presentation delivered by the OECD at the meetings of the OECD SBO Network for (P&R)<sup>6</sup>.

<sup>5</sup> See OECD, 2016, *Performance Budgeting Questionnaire*; OECD, 2016 *Performance Budgeting Survey Highlights*; OECD, 2016 *Performance Budgeting Glossary*; and OECD, 2016 *Performance Budgeting database*, all available at <https://qdd.oecd.org/subject.aspx?Subject=90B147D4c-005C-462A-9678-4CF7A931A4CA>.

<sup>6</sup> See <https://www.oecd.org/governance/budgeting-and-public-expenditures-in-oecd-countries-2018-9789264307957-en.htm> for OECD, 2019, *Budgeting and Public Expenditures in OECD Countries* and <https://www.oecd.org/gov/budgeting/14thannualmeetingoftheoecdseniorbudgetofficialsperformanceresultsnetworkoecdparis26-27november2018.htm> for materials from the 14th Annual Meeting of the OECD SBO P&R meeting.

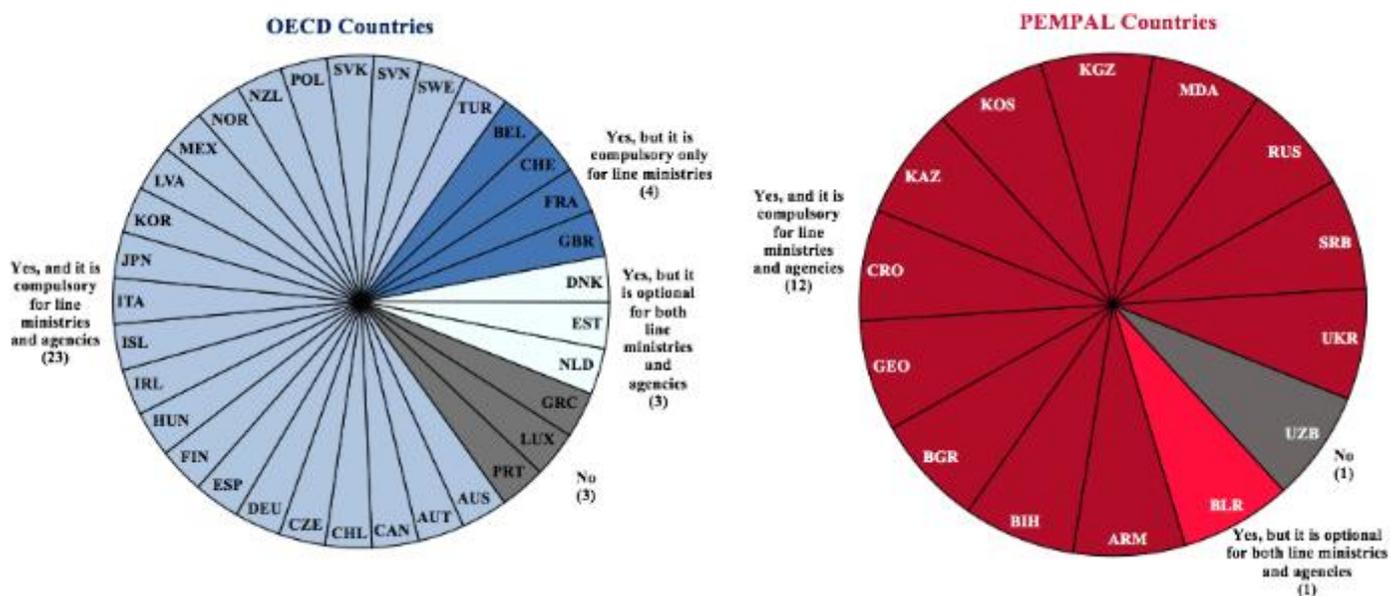
8. **PEMPAL countries' responses to the OECD 2018 Performance Budgeting Survey were the starting point for this report.** The report analyses performance budgeting of around two thirds of PEMPAL countries, which include countries that can be considered the more advanced PEMPAL countries in these budgeting areas, alongside a few countries that are in very early stages of reforms in this area. Fourteen PEMPAL countries participated in the OECD 2018 Performance Budgeting Survey: Armenia, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Moldova, Russia, Serbia, Ukraine, and Uzbekistan. The same countries also filled out the 2016 survey, with the exception of Kazakhstan, thus offering for the first time a possibility of capturing trends over time in PEMPAL countries (for OECD countries, the 2018 survey edition is the fifth iteration of this survey). The survey was sent to all 21 BCOP countries, however, several of the remaining seven countries that did not participate informed the BCOP Resource Team that they consider their performance budgeting systems not sufficiently advanced for them to be able to answer the survey meaningfully. In addition to the Performance Budgeting Survey, supplementary data on spending reviews was collected from PEMPAL BCOP member countries in February-March 2019 within BCOP's internal annual survey.
9. **An additional survey on spending reviews was conducted to address issues of interpretation of questions.** Based on the responses of some PEMPAL countries in the spending review section of the Performance Budgeting Survey, it was evident that there were different interpretations of what a spending review is, with some PEMPAL countries using less rigorous definitions than those used by the OECD/World Bank. Thus, to double check the data and collect expanded data on the spending review process, topics, and plans of PEMPAL countries, an additional survey was conducted. Thirteen countries responded to this internal BCOP survey: Armenia, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kosovo, Republic of North Macedonia, Moldova, Montenegro, Russia, and Serbia. Of these, seven countries reported having conducted spending reviews so far (Croatia, Bulgaria, Russia, Belarus, Serbia, Moldova, and Bosnia and Herzegovina), all of which also participated in the 2018 Performance Budgeting Survey as aforementioned.
10. **There are several data limitations that restricted the analyses in this report.** Firstly, OECD questionnaires for Performance Budgeting Survey in 2016 and 2018 survey editions differ. Secondly, data collected from PEMPAL countries in 2016 were incomplete for some questions and indicated some weaknesses in terms of understanding of performance budgeting concepts for some countries. Thirdly, the period between the two survey editions was quite short, thus limiting the identification of trends. Fourthly, survey data for PEMPAL countries for both the Performance Budgeting Survey and the internal BCOP survey conducted on spending reviews are based on PEMPAL countries' own self-assessment. Data has not been verified and inconsistencies and terminology differences are still evident in some countries' responses. Finally, there are additional potential terminology limitations, in particular related to spending reviews – although additional explanations were provided in the internal BCOP survey to help ensure the proper understanding of spending reviews, there are still indications that the self-reported data on spending reviews may include analyses that does not qualify as a spending review by international definition and/or include analyses undertaken fully by international organizations with limited involvement of Ministries of Finance in some PEMPAL countries.

## 1. PERFORMANCE BUDGETING IN PEMPAL COUNTRIES COMPARED TO PERFORMANCE BUDGETING IN OECD COUNTRIES

### PERFORMANCE BUDGETING FRAMEWORKS

11. **Almost all PEMPAL countries have compulsory performance budgeting frameworks (i.e. linking budgetary allocations with information about performance, objectives, and/or results) for both line ministries and agencies.** Out of 14 countries that responded to the Performance Budgeting Survey, Uzbekistan reported that there is no performance budgeting framework and Belarus reported an optional framework. The remaining 12 countries reported having a compulsory framework for both line ministries and agencies, as shown in Exhibit 2. Kosovo reported going from optional in 2016 to a compulsory framework in the 2018 compared to what they reported in 2016 edition of the survey.

**Exhibit 2: Performance Budgeting Framework**



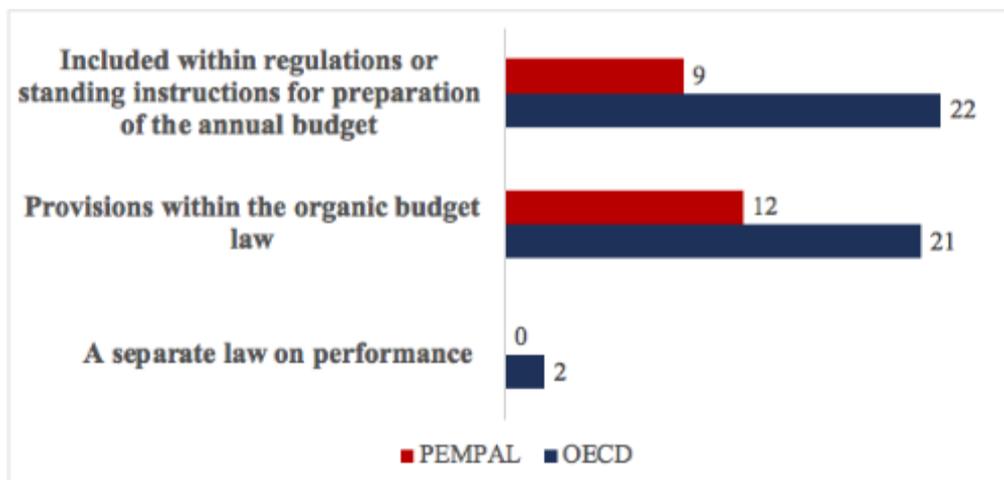
12. **Overall, coverage of performance frameworks is wider and more uniform in PEMPAL countries compared to OECD countries.** Around two thirds of OECD countries have compulsory performance budgeting frameworks for both line ministries and agencies, compared to over 85% of PEMPAL countries. There is a trend of increase in uniformity and coverage of national performance frameworks in OECD countries (68% of OECD countries had compulsory frameworks for both in 2018, compared to 51% in 2016<sup>7</sup>). Among OECD countries, Greece, Luxembourg, and Portugal do not have frameworks; Belgium, France, United Kingdom, and Switzerland have compulsory frameworks only for line ministries; while Denmark, Estonia, and

<sup>7</sup> 33 out of 35 OECD countries responded to the 2018 OECD Performance Budgeting Survey: Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Latvia, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, and United Kingdom. The United States and Israel have not responded. It should also be noted that not all of the 33 countries responded to all of the questions in the OECD Performance Budgeting Survey, thus the data shown in this report is based on the total number of countries that responded to the specific question.

Netherlands have optional frameworks for both line ministries and agencies. The number of OECD countries with a compulsory framework for both line ministries and agencies went from 17 in 2011 to 18 in 2016 to 23 in 2018. Examples of OECD countries that recently introduced compulsory frameworks are Belgium (for line ministries) and Hungary.

13. **The legal/regulatory basis for performance budgeting is in organic budget law for almost all PEMPAL countries and in two thirds of OECD countries.** Of 14 PEMPAL countries that responded to the survey, the only exceptions are Belarus (presidential decree) and Kosovo. The basis for performance budgeting is also included in regulations/instructions for budget preparation for most PEMPAL countries. No PEMPAL country has a separate law for performance budgeting. As shown in Exhibit 3, of 33 OECD countries, the legal/regulatory basis for performance budgeting is in budget regulations/instructions in 22 countries, in organic budget law in 21 countries, and in a separate law in 2 countries (Australia and Italy).

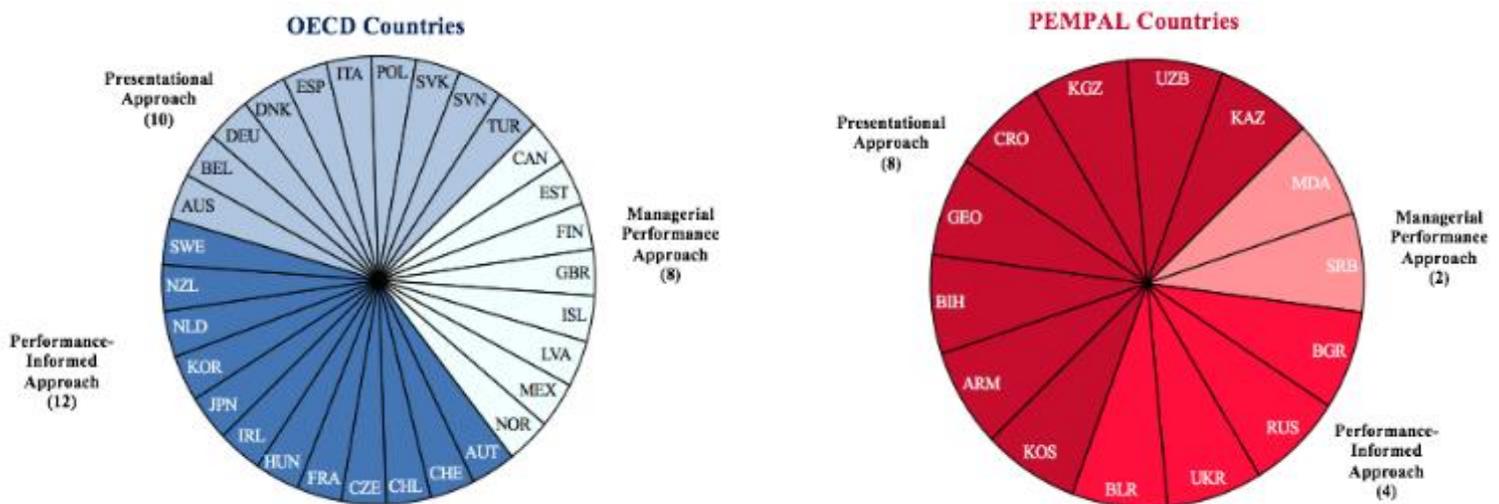
**Exhibit 3: Legal/Regulatory Basis for Performance Budgeting** (*number of countries*)



14. **There are various models of performance budgeting in PEMPAL and OECD countries: PEMPAL countries most frequently describe their practices as a presentational approach; most OECD countries report a performance-informed approach.** No OECD or PEMPAL countries report having direct performance budgeting. Exhibit 4 shows approaches reported by each OECD and PEMPAL country that responded to the survey. The four models of performance budgeting defined by OECD are as follows:
- Presentational performance budgeting* - This shows outputs, outcomes, and performance indicators separately from the main budget document. This is relatively easy to achieve and is appropriate where the objective is limited to demonstrating that budget allocations and actual expenditures are responsive to the government's strategic objectives and policy priorities. However, by separating performance and budget data it is harder to relate the two.
  - Performance-informed budgeting* - This approach requires considerable effort to achieve and is appropriate for governments that want to achieve more ambitious goals such as re-prioritization of expenditure linked to performance and increased devolution of budget control to program managers. This is the form of performance budgeting that many OECD countries have adopted.

- c. *Managerial performance budgeting* – Managerial performance budgeting is a variant on performance informed budgeting. In this approach, the focus is on managerial impacts and changes in organizational behavior, achieved through combined use of budget and related performance information. This depends on a performance culture existing within government that will take time to establish if it does not already exist.
- d. *Direct performance budgeting* – Direct performance budgeting establishes a direct link between results and resources, usually implying contractual type mechanisms that directly link budget allocations to the achievement of results, implying a budgetary response to over or under-achievement of performance objectives.

**Exhibit 4: Performance Budgeting Approaches**

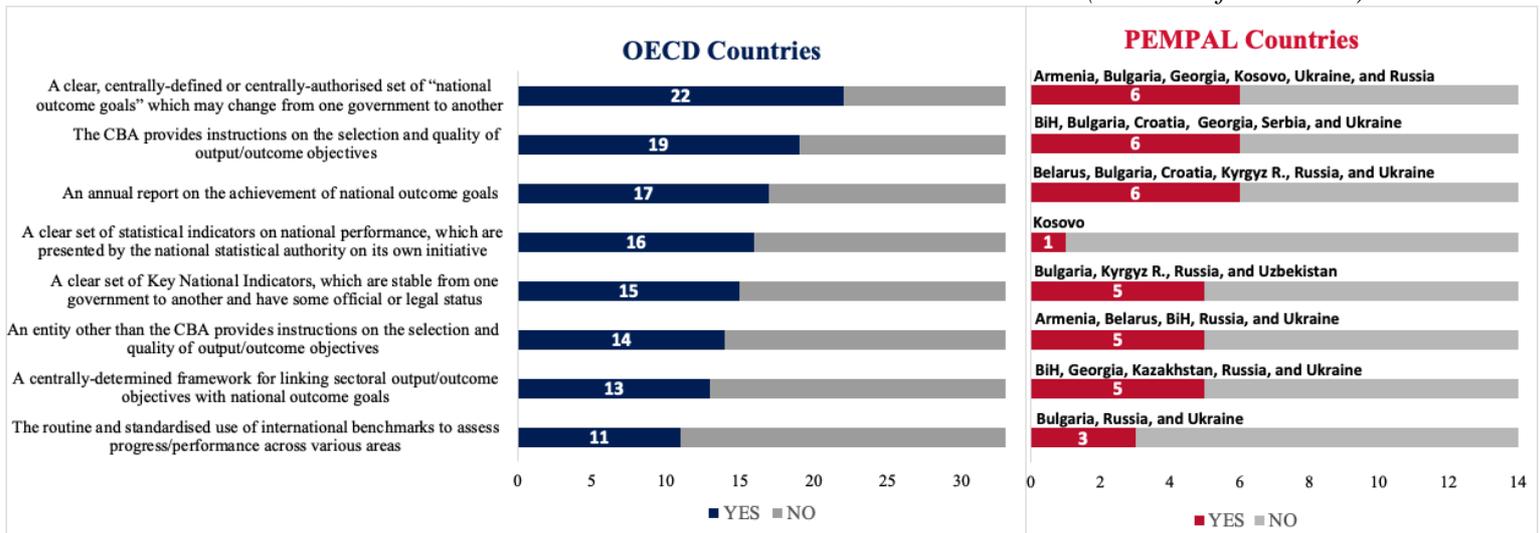


15. **When it comes to elements of national performance frameworks, there are no standard elements that are used in all countries.** National performance frameworks are broader than the performance budgeting frameworks discussed above. OECD defines a national performance framework as a framework to support an outcomes-based approach to performance, not necessarily linked to the budget. A national performance framework would typically comprise of high-level expected results (often called objectives, depending on the terminology used) such as targets for key national indicators (KNIs) and lower-level indicators linked to these high-level objectives in a hierarchy of expected results (called goals and outcomes in common terminology). The most widely spread approach is the use of a centrally authorized set of national outcome goals (i.e. highest-level expected results), which exist in 22 out of 33 OECD countries that responded to the survey. As shown in Exhibit 5, more than half of OECD countries also have instructions on the selection and quality of output/outcome objectives (i.e. expected results) set by the Central Budget Authority (CBAs), as well as an annual report on the achievement of national outcome goals. In PEMPAL region, six out of 14 countries reporting having these three elements (of which only Bulgaria and Ukraine have all three). In both OECD and PEMPAL countries, less than one third of countries have a centrally determined framework for linking sectoral output/outcome objectives

8 The CBA is defined by the OECD as a public entity, or several coordinated entities, located at the central/national/federal level of government, which is responsible for the custody and management of the national/federal budget. In most governments, this is the Ministry of Finance.

with national outcome goals and the routine and standardized use of international benchmarks to assess progress/performance across various areas. Among PEMPAL countries, Bulgaria, Kyrgyz Republic, Russia, Belarus, and Uzbekistan report having a clear set of KNIs<sup>9</sup>. Fifteen OECD countries reporting having a clear set of KNIs (Canada, Greece, France, Austria, Turkey, Iceland, Sweden, Latvia, Ireland, Mexico, Slovenia, Poland, Germany, Netherlands, and Estonia).

**Exhibit 5: Elements of the National Performance Framework** (*number of countries*)



- 16. Almost all PEMPAL countries have general guidelines and definitions for performance budgeting (all but Kosovo and Uzbekistan) and standards templates for reporting performance information (all but Kyrgyz Republic).** Four PEMPAL countries (Bulgaria, Kyrgyz Republic, Armenia, and Kazakhstan) report having a standard set of performance indicators. Similarly, almost all (around 85%) of OECD countries have general guidelines and definitions (all but Luxembourg, Portugal, Czech Republic, Greece, and Estonia). However, only half of OECD countries have standard templates for reporting performance information, in contrast with almost all PEMPAL countries reporting to have them. Only five OECD countries (around 15%) have a standard set of performance indicators/targets (Canada, Czech Republic, Estonia, Chile, and Japan). However, some OECD countries which do not have standard templates, have standard information and communications technology (ICT) tools for entering and reporting performance information, which in essence have the same role of standardizing performance information. If both standardized templates and ICT tools are counted, 2/3 of OECD countries have a standardized way of reporting.
- 17. More than half of PEMPAL countries report having standard ICT tools for performance budgeting, compared to around one third of the OECD countries.** The following eight PEMPAL countries report having standard ICT tools for entering/reporting performance information: Moldova, Bosnia and Herzegovina, Croatia, Serbia, Ukraine, Georgia, Russia, Armenia, and Kazakhstan. By contrast, only 36% of OECD countries reporting having such tools: Austria, Czech Republic, Italy,

<sup>9</sup> KNIs are a subset of indicators for the highest level of expected results, i.e. typically impact or highest-level outcome indicators (discussed in the next section of this report), and they are defined by the OECD as a specific set of indicators that measure progress in achieving national goals in the respective policy areas. Taken as a whole, KNIs should provide a comprehensive overview of the progress and wellbeing of a nation. KNIs are used to comprehensively describe performance in a policy area while minimizing information overload for stakeholders.

Slovak Republic, Estonia, Poland, Slovenia, Mexico, Turkey, Hungary, Switzerland, and New Zealand. Lack of adequate ICT tools for performance budgeting remains an important challenge for PEMPAL countries (as shown later in the report in Exhibit 14).

## CHARACTERISTICS OF PERFORMANCE INFORMATION AND HOW THEY ARE DEFINED AND TARGETTED

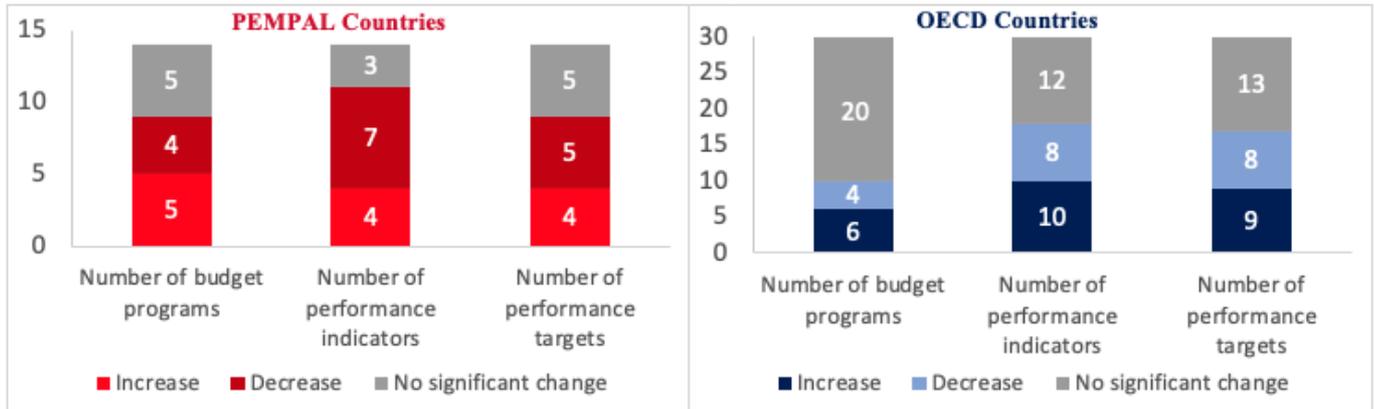
18. **The types of performance information, and their use, vary widely across both PEMPAL and OECD countries.** The OECD Performance Budgeting Survey defines performance information as quantitative and qualitative information that refers to metrics/indicators/general information on the inputs, processes, outputs, and outcomes (i.e. expected results) of government policies/programs/organizations and that can be ultimately used to assess the effectiveness, cost-effectiveness, and efficiency of the same. Performance information can be found in statistics; the financial and/or operational accounts of government organizations; performance reports generated by government organizations; evaluations of policies, programs or organizations; or spending reviews, for instance.
19. **There are various categories of performance information used in budget submission.** Those specified in the OECD Performance Budgeting Survey include outcomes, intermediate outcomes, outputs, milestones, and activities. Among these, activities are typically expressed in a narrative way and they are defined by the OECD as the actions taken or work performed through which inputs, such as financial or other types of resources are mobilized to produce specific outputs. For example, the actions of ministry staff on efforts designed to meet a project's objectives/expected results such as hiring staff, purchasing equipment, constructing facilities, or commissioning studies. Outcomes (intended results of government action, e.g. the change in income inequality following the introduction of a new welfare payment) and outputs (goods and services produced and/or provided by government to achieve the intended result, e.g. welfare benefits paid) are for performance budgeting purposes usually expressed quantitatively. Milestone indicators are a specific type of outcome/output indicator and they measure progress towards a desired outcome by dividing the progress into a series of defined steps, and they can be expressed quantitatively using indices, scales, stages, or similar measurement tools. Inputs are defined by the OECD as measures of the units of labor, capital, goods, and services (or the costs of such units) utilized by government organizations to produce public goods and services and they are typically expressed in the financial terms in the economic classification of the budget expenditure and are not part of the performance indicators used in program and performance classification of the budget expenditure.
20. **Around half of PEMPAL countries have no official typology of performance indicators, while the other half use some combination of output and outcomes** (and also efficiency in some cases). This was found in the 2018 PPBWG knowledge product *Performance Indicators in PEMPAL Countries: Trends and Challenges – How Does Budget Spending Measure Up*<sup>10</sup>, which provides information on characteristics of performance indicators and examples of performance indicators in PEMPAL countries.

10 Available at <https://www.pempal.org/events/2019-annual-bcop-plenary-meeting>.

- 21. Around 27% of PEMPAL countries and 13% of OECD countries have worked to reduce the number of programs, indicating the need to increase the scope of a program.** In the context of program and performance budgeting, a program is defined as a grouping of government activities in relation to a specific set of policy objectives. A government program can consist of several initiatives and address multiple policies simultaneously, though both the initiatives and policies are likely to be closely related. For each program, performance indicators are defined, and the specific targeted value of the indicator is set (i.e. performance target). For example, for a pre-school education government program, a performance indicator may be the percentage of all children age 3-6 that receive pre-school education, while a performance target for this indicator may be 75%, to be increased from the current coverage of 60%. Some information on characteristics of programs and examples of programs in PEMPAL countries are also included in the above-mentioned PPBWG knowledge product on performance indicators. That report found that in PEMPAL countries, in most cases, there are two levels of programs – programs and activities/sub-programs (or policy areas and programs, depending on different terminology used in different countries and on the scope of programs, which also varies greatly among different countries).
- 22. There have been previous tendencies in PEMPAL countries towards overly fragmented program structures and too many performance indicators.** This was shown in the previous analyses undertaken by the PPBWG within the knowledge product on performance indicators. This highlighted that program scope varies among PEMPAL countries, from whole sectors to much smaller scope at a level of one department in one agency/Ministry. Overall, PEMPAL countries tended to introduce overly detailed program and performance budgeting with fragmented programs and numerous performance indicators that were at the same time not adequate for informing budgeting decisions (a typical example are indicators measuring outputs at a very low operational level and process yes/no indicators). These tendencies are also present in some OECD countries.
- 23. Overall, survey results confirm that PEMPAL countries are taking steps to reduce the numbers of programs and PIs, following the trend seen in OECD countries.** There are mixed trends on number of programs and indicators in both OECD and PEMPAL countries, with a somewhat more frequent trend of a decrease in the number of performance indicators and number of programs in PEMPAL countries. Thus, many countries have recently worked on increasing the scope of programs and simplifying and improving the quality and adequacy of performance indicators, including prior to 2016. The above-mentioned 2018 PPBWG knowledge product on performance indicators found that the number of performance indicators per program varies greatly in most PEMPAL countries and among them, with roughly estimated averages per country ranging from 10 to 80. Exhibit 6 shows trends in the number of programs, performance indicators, and performance targets in OECD and PEMPAL countries based on the data from the 2018 Performance Budgeting Survey. Among PEMPAL countries, Georgia, Kosovo, Kyrgyz Republic, Russia, and Uzbekistan report an increase in the number of programs (noting that some are due to program budgeting being newly introduced or program budgeting being expanded from piloting/partial stage to cover more expenditure), while Kazakhstan, Ukraine, Bosnia and Herzegovina, and Belarus report a decrease in the number of programs. Among OECD countries, Canada, France, Poland, and Mexico reported a decrease in the number of programs. In terms of number of performance indicators, there seems to be an even a stronger trend

of decrease in the number of indicators in both PEMPAL and OECD countries. Among PEMPAL countries, Russia, Moldova, Kazakhstan, Ukraine, Serbia, Bosnia and Herzegovina, and Belarus report a decrease in number of indicators, while Armenia, Uzbekistan, Kyrgyz Republic, and Georgia report an increase in the number of indicators (noting that in some cases this is due to performance indicators being newly introduced). Among OECD countries, Norway, Finland, Italy, Turkey, New Zealand, France, Mexico, and Chile report a decreased number of indicators.

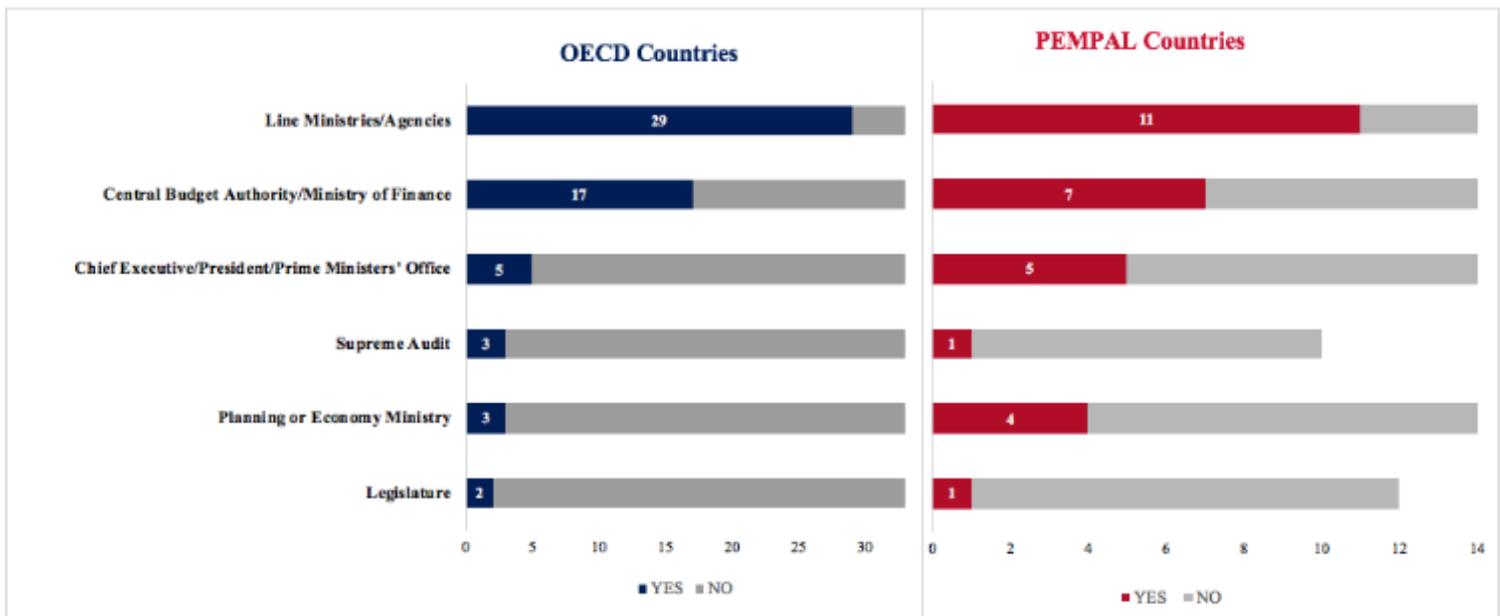
**Exhibit 6: Trends in Number of Programs, Indicators, and Targets** (*number of countries*)<sup>11</sup>



24. **Line ministries and agencies have the primary role in defining performance indicators in most PEMPAL and OECD countries, with the CBA, i.e. Ministry of Finance, also having an important role in around half of the countries,** as shown in Exhibit 7. Among PEMPAL countries, only in Kazakhstan, Kosovo, and Uzbekistan do line ministries/agencies not have an important role in defining indicators, while among OECD countries, this includes Portugal, Belgium, Greece, and New Zealand. CBA plays an important role in Serbia, Bosnia and Herzegovina, Belarus, Kosovo, Uzbekistan, Russia, and Bulgaria among PEMPAL countries, and in New Zealand, Spain, Chile, Sweden, Ireland, Slovenia, Poland, Netherlands, Estonia, Canada, United Kingdom, Japan, Latvia, Mexico, Turkey, France, and Korea among OECD countries. Overall, responsibility for defining performance indicators seems to be more distributed in PEMPAL countries than in OECD countries, with the chief executive and Planning/Economy Ministry having a greater role in PEMPAL countries than in OECD countries. The chief executive role (President/Prime Minister) is important in Finland, United Kingdom, Japan, Latvia, and Mexico in the OECD and in Russia, Bulgaria, Kosovo, Uzbekistan, and Kazakhstan in PEMPAL. The role of the Planning/Economy Ministry is more frequent in PEMPAL countries (Kosovo, Uzbekistan, Kazakhstan, and Russia) than in OECD countries (Korea and Turkey). The legislature is involved in Bulgaria, New Zealand, and Hungary, while supreme audit has a role only in Russia, France, Korea, and New Zealand.

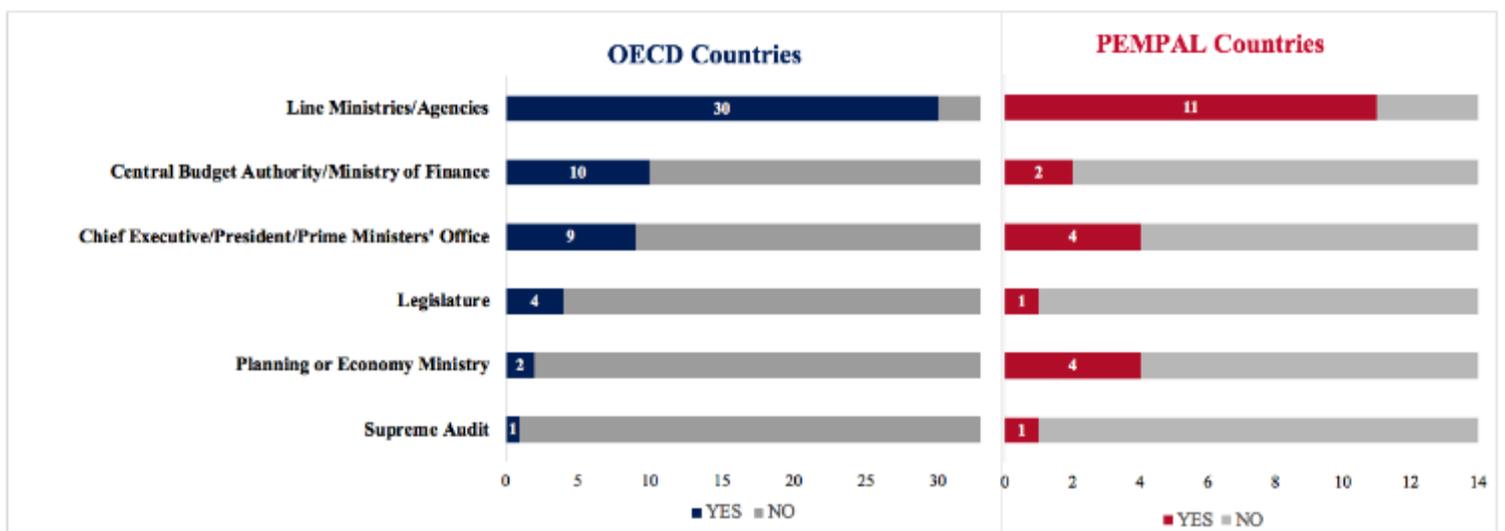
<sup>11</sup> Among the survey results for the OECD countries, three countries did not answer these survey questions – Belgium, Portugal, and Greece.

**Exhibit 7: Roles in Defining Performance Indicators** (*number of countries*)



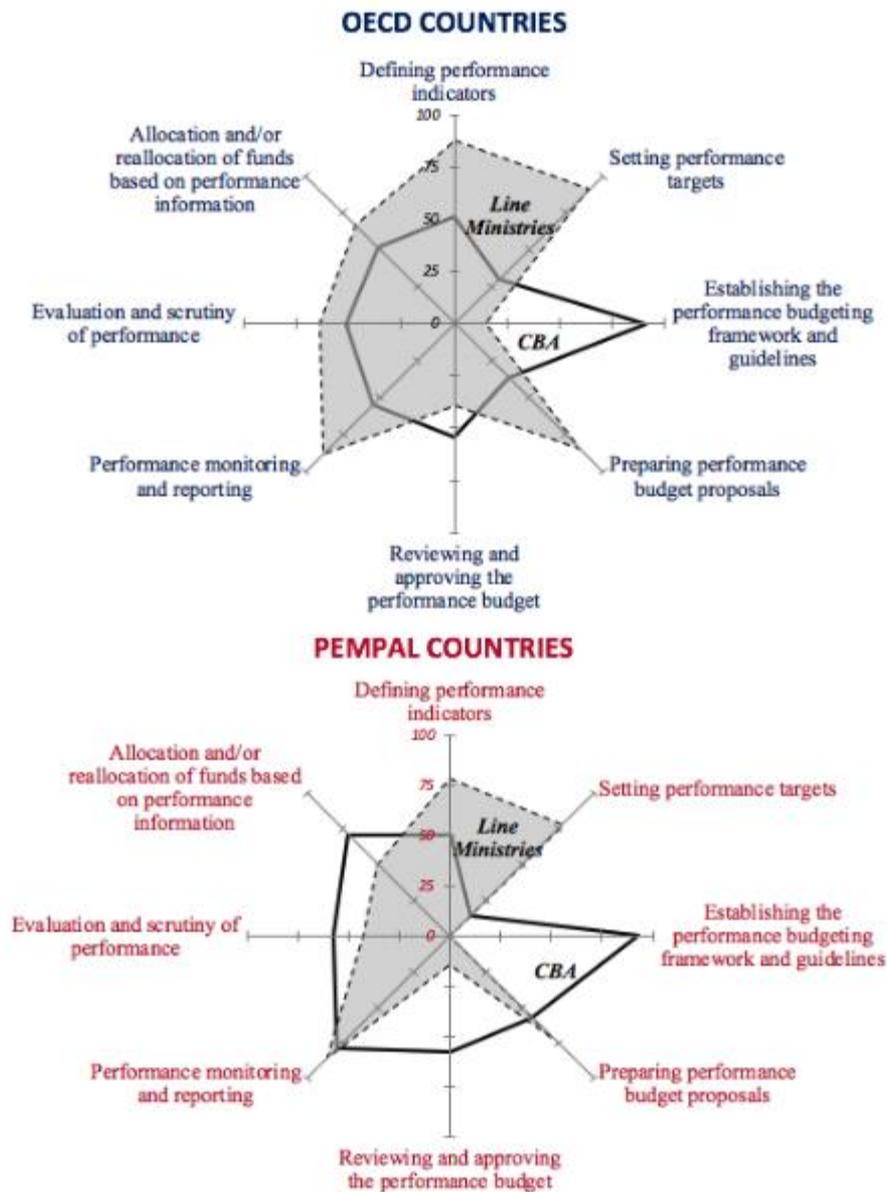
25. **Performance targets (i.e. targeted values of performance indicators) are set by line ministries and agencies in almost all countries, as shown in Exhibit 8** (exceptions are Kosovo, Uzbekistan, and Kazakhstan among PEMPAL countries and Portugal, Belgium, and Greece among OECD countries). The CBA has a role in setting performance targets only in Bulgaria and Russia among PEMPAL countries, while in the OECD this is the case in about one third of the countries (Spain, Chile, Latvia, Canada, United Kingdom, France, Sweden, Finland, Hungary, and Korea). Among both PEMPAL and OECD countries, in almost 30% of countries, the chief executive and/or Planning/Economy Ministries also have a role in setting performance targets (this is the case in Ukraine, Uzbekistan, Russia, Bulgaria, Kazakhstan, and Belarus among PEMPAL countries and in Korea, New Zealand, Estonia, Japan, Mexico, Canada, United Kingdom, France, Finland, and Hungary among OECD countries).

**Exhibit 8: Roles in Setting Performance Targets** (*number of countries*)



26. **The control and use of performance information seems to be more centralized in PEMPAL countries than in OECD countries, where line ministries are dominant in most stages of generating and using performance information.** Institutional roles for generating and using performance information is primarily divided between the line ministries/agencies and CBAs in both PEMPAL and OECD countries for other stages of using performance information as well; however overall in PEMPAL countries the system seem to be more CBA-centric, while in OECD countries line ministries and agencies have a more prominent role. As shown in Exhibit 9, CBAs mostly have an exclusive role in establishing the performance budgeting framework and guidelines and the primary role in reviewing and approving the performance budget in both groups of countries. However, in PEMPAL countries CBAs more frequently also have a role in performance monitoring and reporting, in preparing budget proposals, and in allocation and/or reallocation of funds based on performance information compared to OECD countries. On the other hand, in OECD countries, line ministries/agencies take a primary role in these stages, most notably in performance monitoring and reporting.
27. **There are centrally defined quality standards or criteria that are applied to the selection and approval of performance indicators in around half of OECD and PEMPAL countries.** Among PEMPAL countries, Kazakhstan, Serbia, Ukraine, Georgia, Bulgaria, and Russia report having such standards/criteria. The following OECD countries also report having such standards/criteria: Australia, Slovak Republic, Norway, Italy, Austria, Switzerland, Ireland, Poland, Turkey, Chile, Latvia, Estonia, Japan, Mexico, France, Korea, and New Zealand. For OECD countries, most frequently required quality criteria are: indicators developed/owned by the line ministries/agencies; consistency with ministry/agency plans and strategies; and compliance with generic quality standards for performance indicators (e.g. SMART - specific, measurable, achievable, relevant, and time-based indicators or VIPRT – validity, integrity, precision, reliability, and timeliness). In PEMPAL countries that have quality criteria/standards, the most frequently required standards are consistency with the national plan or strategy and consistency with ministry/agency plans and strategies.

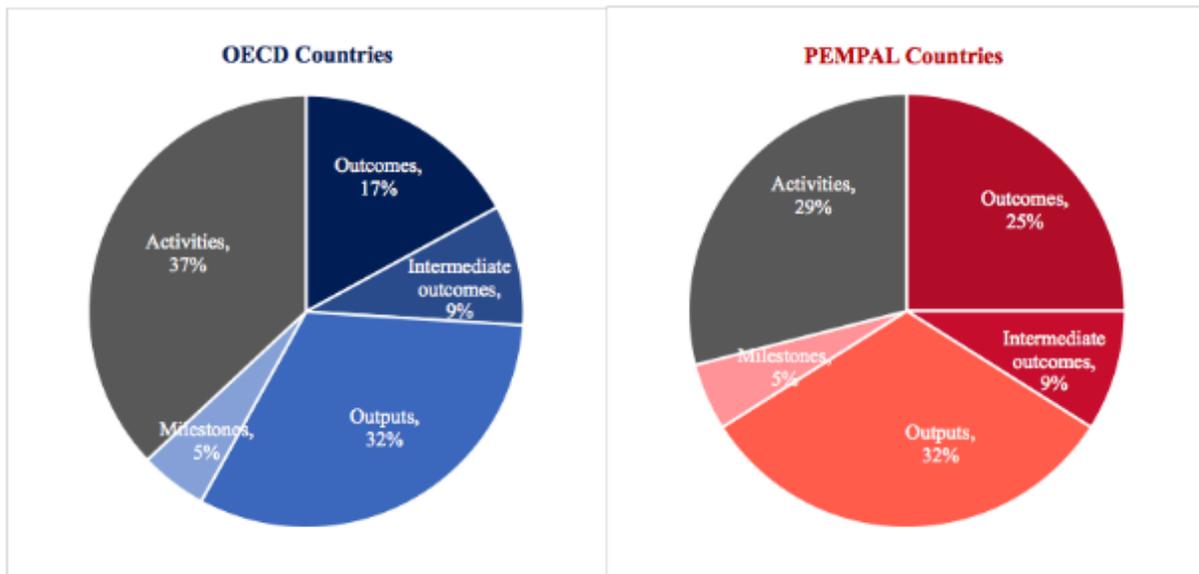
**Exhibit 9: Roles of CBAs and Line Ministries/Agencies in Different Stages of Generating and Using Performance Information (percentage of countries)**



28. **PEMPAL countries are defining performance indicators at a higher outcome level compared to OECD countries.** Among 11 PEMPAL countries and 23 OECD countries that were able to provide approximate breakdowns of performance information used in budget submissions by five categories identified by the OECD (outcomes, intermediate outcomes, outputs, milestones, and activities), the overall average share of outputs is around one third in both groups of countries, as shown in Exhibit 10. Milestones are used least frequently (5% in both country groups), while intermediate outcomes represent around one tenth of all performance information. Notably, 37% of performance information in OECD countries is on activities, while the same share in PEMPAL countries is lower at 29%. On the flip side, PEMPAL countries on average report that 25% of performance information are outcomes, compared to 17% in OECD countries. However, it should be noted that the shares of different types of

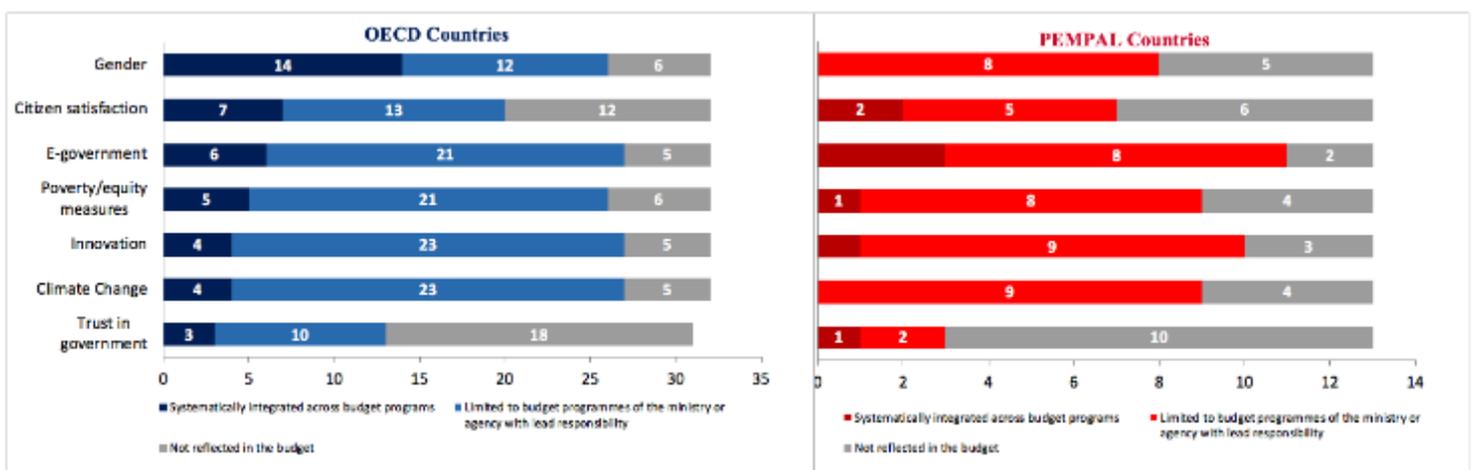
performance information vary greatly from country to country in both OECD and PEMPAL country groups.

**Exhibit 10: Breakdown of Different Types of Performance Information Used in Budget Submissions (average percentage)**



29. **Cross-cutting performance indicators are notably less frequent in PEMPAL countries than in OECD countries.** As shown in Exhibit 11, gender is not systematically integrated in any PEMPAL country and trust in government is rarely measured. As in OECD countries, in most PEMPAL countries, responsibility for Sustainable Development Goals (SDGs) is with the President/Prime Minister's (PM) Office. SDGs are significantly less aligned with national frameworks in PEMPAL. In almost all PEMPAL countries, there is no budget reporting related to SDGs. On the other hand, e-government features seem to be more prominent in PEMPAL countries than in OECD countries.

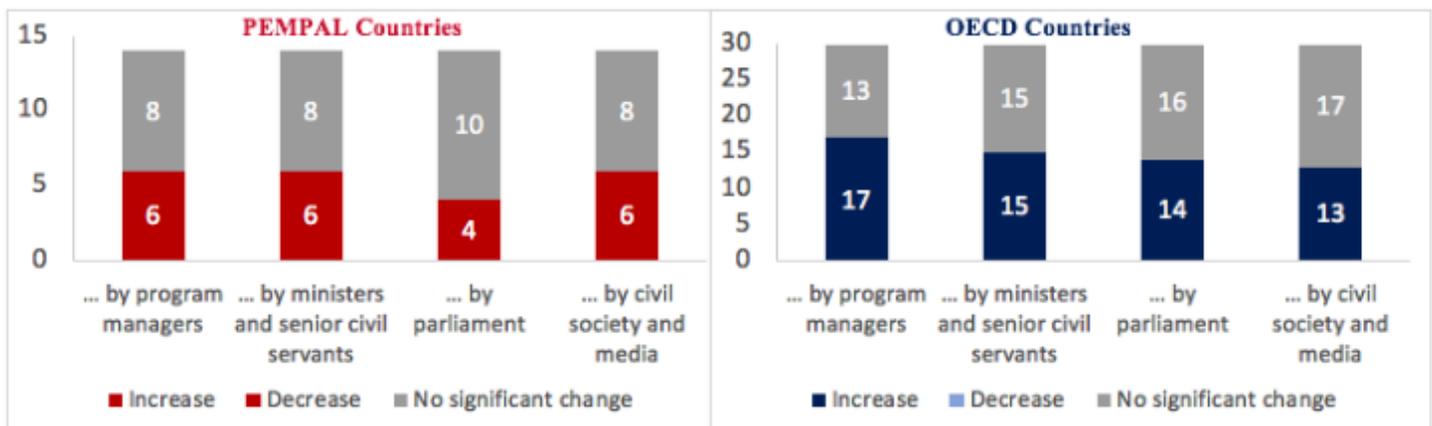
**Exhibit 11: Cross Cutting Indicators in Budget (number of countries)**



## USE OF PERFORMANCE INFORMATION

30. **Use of performance information continues to increase in both OECD and PEMPAL countries. OECD countries show a somewhat more frequent trend of increased usage by program managers, ministers/senior civil servants, and especially parliaments, as shown in Exhibit 12. No OECD or PEMPAL country reports decrease of usage. Among PEMPAL countries, Georgia, Kazakhstan, Bulgaria, Ukraine, Serbia, and Belarus report increased use by managers; Russia, Kazakhstan, Bulgaria, Ukraine, Serbia, and Belarus by ministers/senior civil servants; Armenia, Russia, Kazakhstan, and Bulgaria by parliaments; and Bosnia and Herzegovina, Ukraine, Armenia, Russia, Kazakhstan, and Bulgaria by civil society and the media.**

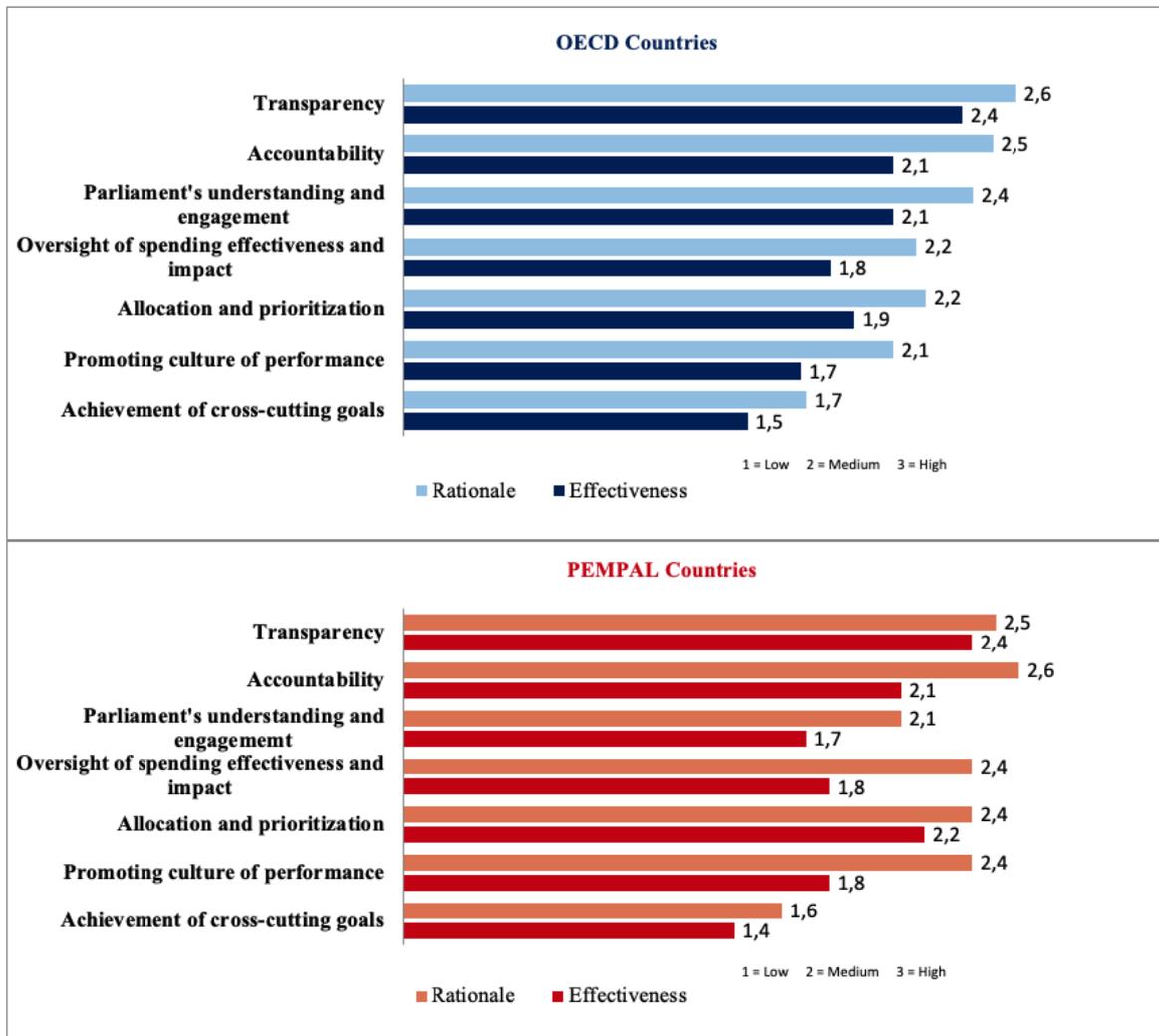
**Exhibit 12: Use of Performance Information** (*number of countries*)<sup>12</sup>



31. **In both OECD and PEMPAL countries, operational data is still most frequently used in budget negotiations over performance information.** The use of evaluations, spending reviews, and independent performance information is notably less frequent in PEMPAL than in OECD countries. There is a clear trend in increase of use of spending reviews in OECD countries, less so in PEMPAL countries.
32. **There were very high expectations of benefits of introducing performance budgeting across a wide set of factors; however, actual achievement has been more limited in both OECD and PEMPAL countries.** Overall, there is a bigger gap between expectations and realization in PEMPAL countries than in OECD countries, mostly in respect to improved oversight and performance culture. Accountability and transparency were the key motivation factors behind introducing performance budgeting and are also its key benefits; however, expectations were higher in PEMPAL countries for other factors, including oversight of spending effectiveness and impact, allocation and prioritization, and promoting the culture of performance, as shown in Exhibit 13.

<sup>12</sup> Among the survey results for the OECD countries, three countries did not answer these survey questions – Belgium, Portugal, and Greece.

**Exhibit 13: Rationale and Effectiveness of Introducing Performance Budgeting**  
(weighted average)



33. **Consequences of missing performance targets are not a norm and improvements resulting from performance budgeting are non-quantifiable in both groups of countries.** Among different types of consequences, management responses (such as more intense monitoring of organizations or programs, replacement of program managers, negative staff performance assessment etc.) to poor performance are more likely than budgetary consequences. There is some increase in frequency of negative consequence on program leaders and for making poor performance public. Only five PEMPAL countries expressed any level of agreement with the statement that there are benefits from performance budgeting in terms of quantifiable improvements in their countries (Bulgaria strongly agreed with this statement and Russia, Serbia, Kyrgyz Republic, and Ukraine somewhat agreed). However, all PEMPAL countries agree that there are non-quantifiable improvements, except Kosovo and Uzbekistan (slight increase since 2016). Among 31 OECD countries that answered these questions, 19 expressed agreement with the statement that there are benefits from performance budgeting in terms of quantifiable improvements and 18 in terms of non-quantifiable improvements<sup>13</sup>. OECD countries that stand out in terms of positive assessment of the

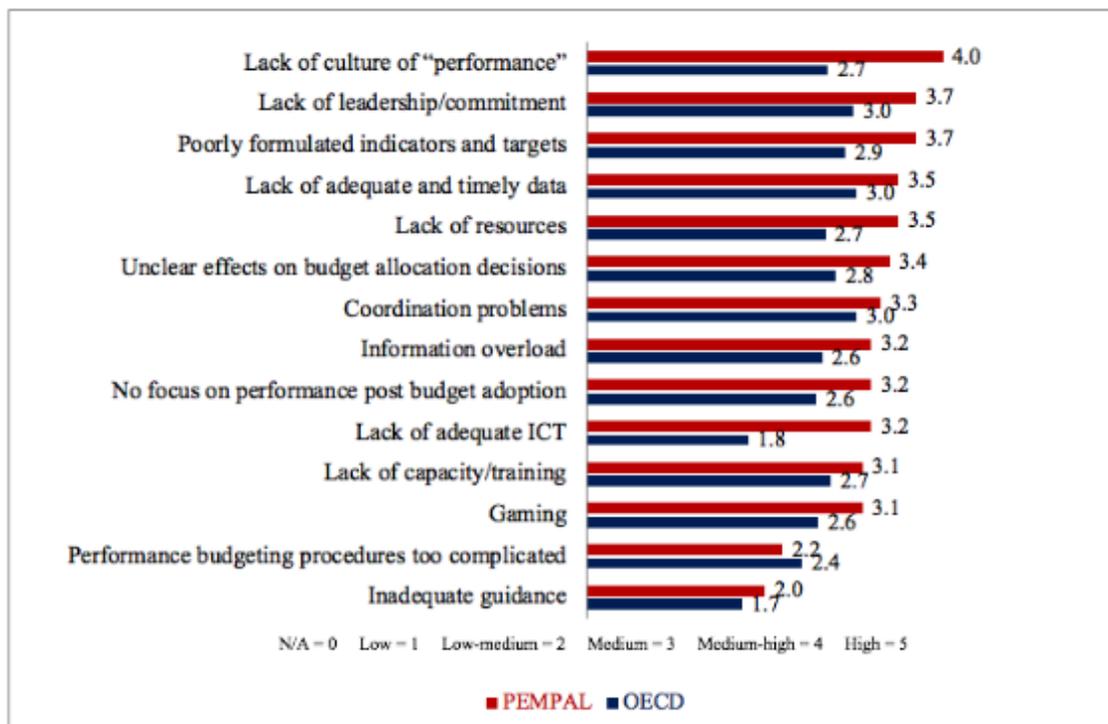
<sup>13</sup> Noting that several countries reported both quantifiable and non-quantifiable benefits.

benefits of performance budgeting are Iceland, Austria, Latvia, New Zealand, and Korea.

## CHALLENGES IN PERFORMANCE BUDGETING

34. **Overall, challenges in implementation of performance budgeting are perceived as greater by PEMPAL countries, as compared to OECD countries.** In particular the lack of a culture of performance and leadership and poorly formulated indicators and targets are the biggest challenges. These are typically associated with the earlier stages of performance budgeting implementation. As shown in Exhibit 14, PEMPAL countries assess challenges to be higher compared to OECD countries across thirteen out of fourteen factors (the only factor perceived by OECD countries as slightly more challenging compared to PEMPAL countries is performance budgeting procedures being too complicated). Lack of adequate and timely performance data is assessed as one of the two greatest challenges by OECD countries (despite the typically much longer history of performance budgeting in these countries compared to PEMPAL countries) and even though it is ranked fourth for PEMPAL countries, this challenge is still significantly higher in PEMPAL countries than in OECD countries (on a 0-4 scale in which 4 marks highest challenge, this challenge is on average 3.0 for OECD countries and 3.5 for PEMPAL countries). The other challenge assessed as the greatest among OECD countries is lack of leadership/commitment, which is the second highest challenge in PEMPAL countries and again significantly higher in PEMPAL countries compared to OECD countries (on a 0-4 scale in which 4 marks highest challenge, this challenge is on average 3.0 for OECD countries and 3.7 for PEMPAL countries).

**Exhibit 14: Challenges in Implementation of Performance Budgeting** (*weighted average*)



## EXAMPLES OF ONGOING AND PLANNED ACTIVITIES IN PERFORMANCE BUDGETING IN SELECTED PEMPAL COUNTRIES

35. **Most PEMPAL countries are undertaking or planning to undertake budget planning measures/reforms that are related to performance budgeting.** Examples of these activities in two selected PEMPAL countries are given in the box below.

### Ongoing Activities and Plans Related to Performance Budgeting in Selected PEMPAL Countries

#### Bulgaria

Performance budgeting is used as an important element for improving the quality of public finances in Bulgaria. Bulgarian organic budget law - the Public Finance Act - contains a requirement for all ministries and state agencies to apply program format in their budgets. In 2016, a classification of policy areas/functional areas and budget programs implemented by the first-level spending units was adopted, which created a sustainable framework for strengthening program and performance budgeting and its closer link with the functions and activities of budget organizations. The changes to the approved classification are only permissible in the case of structural and/or legislative amendments.

An important step in the process of improving the program approach to budgeting was the initiative launched by the Ministry of Finance in 2018 to review and prioritize performance indicators in the program formats of budgets of first-level spending units across key sectors. The aim was to identify the indicators which adequately reflect the degree to which strategic goals in the given sectors are being achieved, to measure the effectiveness of the policies pursued as well as the continuous monitoring and evaluation of their dynamics. As a result of this initiative, objectively defined and reliable key indicators were selected that are relevant for the related policies in various sectors. The indicators are included in the medium-term government budget documents (the medium-term budgetary forecast and its update, which is prepared together with the annual state budget law) and they have contributed to the improvement of the quality of budget documents and enabled better monitoring and reporting on progress in achieving the government's national strategic goals. Emphasis was placed on achieving better linkage between the financing of policies pursued and the results achieved in their implementation, aiming to strengthen the sustainable link between the budgetary organizations' strategic objectives and the conducted policies/budget programs on the basis of monitoring the defined key performance indicators and the benefits to society.

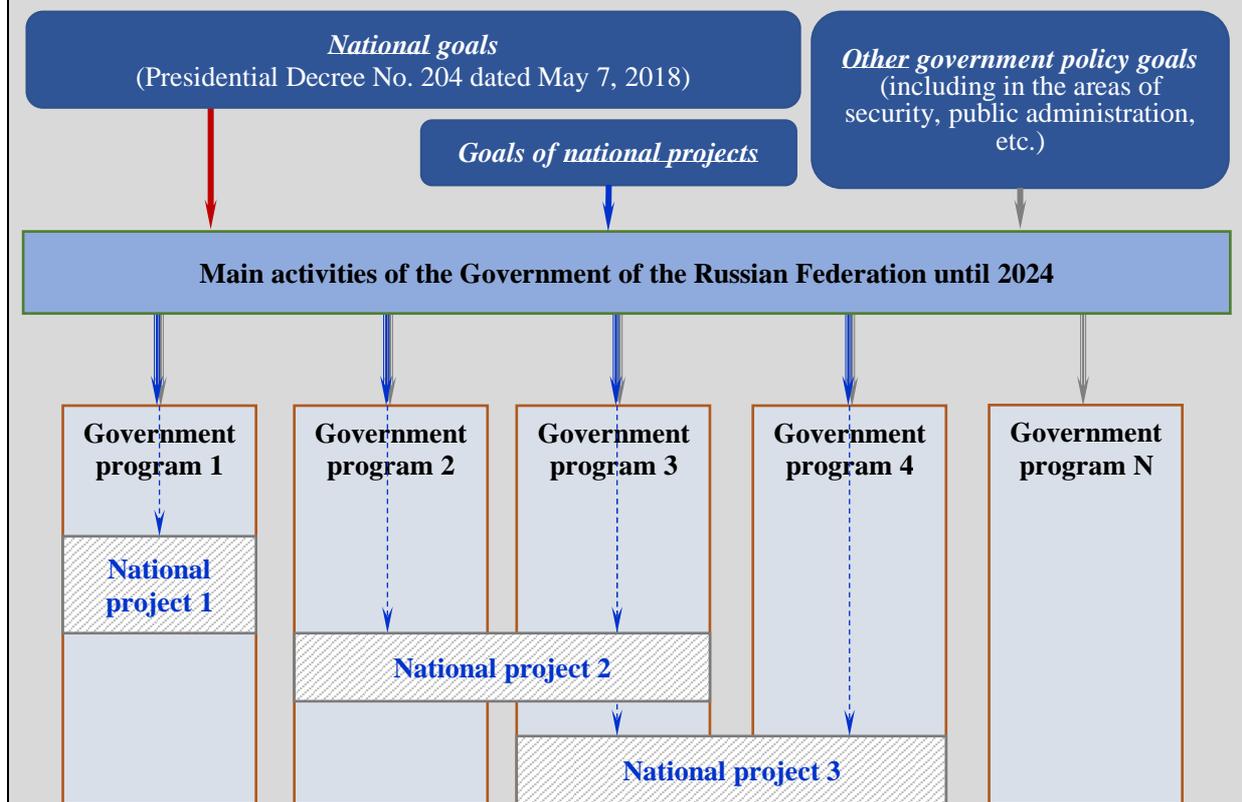
The most recent improvement is extension of coverage of program classification within the 2020 budget cycle. In addition to the ministries and state agencies, for which there is a legislative requirement for program format, the Council of Ministers determined that other executive bodies are also to use the program budget format. The objective is to increase the accessibility and transparency of information on the performance of the functions of budget organizations.

#### Russia

The evolution of program and performance budgeting elements in Russia has gone through four stages:

1. In 1995, *federal programs* were introduced, to set aside the key typically cross-sectoral issues such as social, economic, defense, research, environmental, and other key issues;
2. In 2007, *agency-level programs* were introduced to target goals, objectives, and performance benchmarks of individual governmental bodies;
3. In 2012, *government programs* were introduced to transition to program-based budgeting, to support the attainment of wider government policy priorities and goals and to link activities with their objectives, implementation periods, executing agencies, as well as resources; and
4. In 2017, *projects* were introduced to strengthen the project management principles for some specific targeted activities within the financial and time constraints.

Currently, program and performance budgeting in the Russian Federation is developing in the context of the *national development goals* defined for the period up to 2024 by a Presidential Decree in May 2018. Within the framework of this Decree, 13 *national projects* were defined for achieving the national development goals. One of the basic principles used for national projects is the attempt to more directly link the amount of budget allocated to the results, taking into account achieved results from previous periods, but also the prioritization of expected results of different national projects, the contribution of a specific result to the achievement of national development goals, and the assessment of demand and cost of its implementation. National projects are implemented within the framework of government programs, as illustrated below.



## 2. SPENDING REVIEWS IN PEMPAL COUNTRIES

### DATA ON SPENDING REVIEWS IN PEMPAL COUNTRIES

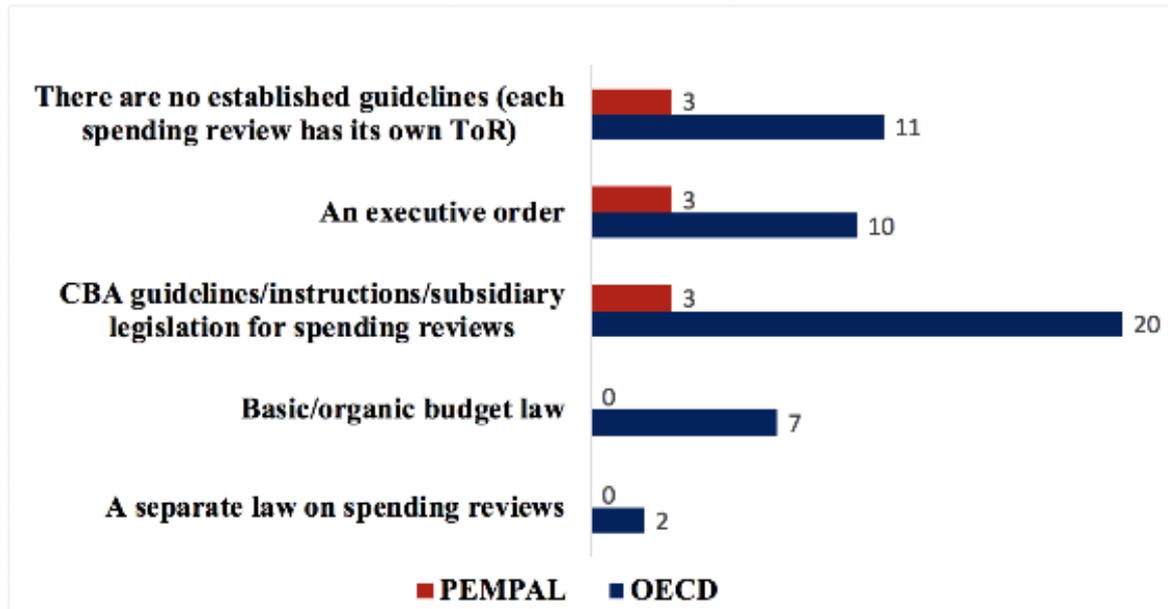
36. **The results for PEMPAL countries of the 2018 OECD Performance Budgeting Survey indicated some increase in experience with spending reviews, however, it also indicated that different interpretations of spending reviews remain.** To double check the data and to also collect additional data beyond the questions from the OECD survey, BCOP PPBWG included a section on spending reviews in the 2019 annual internal BCOP survey. The definition and general characteristics of spending reviews were explained in detail to ensure better understanding of respondents. Specifically, the following characteristics were underlined:
- a. spending review is the process of identifying scope to make savings to reduce overall government expenditure or to identify fiscal space to be reallocated in line with the government's policy priorities;
  - b. it reviews baseline expenditures and may include specific targets for spending reductions;
  - c. it can be broad based, covering all government expenditures (in rare cases), or limited to certain spending programs/projects, processes (e.g. IT systems and process, procurement processes, or human resources management processes), or ministries;
  - d. it differs from regular or more detailed analyses conducted by the Ministry of Finance in the process of drafting the budget – spending reviews are much more in-depth, take longer to be conducted, and they are conducted by a designated team/body that, in addition to Ministry of Finance staff, also includes other experts – typically from the line ministries/agencies responsible/relevant for the spending that is being reviewed, as well as external experts;
  - e. spending reviews are typically requested and, ultimately, decided on by the Executive (the Government or the President/Prime Minister's Office), rather than the Ministry of Finance; and
  - f. an integral part of spending reviews in most cases is examination of performance of the programs that are being reviewed, including performance information.
37. **Most PEMPAL countries do not conduct spending reviews although there is a trend towards their adoption; seven countries reported having spending reviews, while an additional three countries reported plans to conduct spending reviews.** Croatia, Bulgaria, Russia, Belarus, Serbia, Moldova, and Bosnia and Herzegovina reported that they have spending reviews. Montenegro, Kazakhstan, and Georgia report existing plans to introduce spending reviews.

### REGULATORY AND METHODOLOGICAL BASES FOR SPENDING REVIEWS AND CHARACTERISTICS OF THE SPENDING REVIEW PROCESS

38. **Where they exist, spending reviews in PEMPAL countries have weaker regulatory and methodological bases compared to OECD countries.** As shown in Exhibit 15, of 7 PEMPAL countries that report having spending reviews, only Croatia and Moldova report having both executive order/decision and guidelines/methodology (published in

Croatia). Bulgaria reports having guidelines/methodology developed with the assistance of the World Bank (however not legislatively adopted), Serbia reports having executive order/decision, Belarus reports that each review has its own terms of reference (ToR), while Bosnia and Herzegovina reports that reviews are done only within an International Monetary Fund (IMF) program and have no specific basis. Russia (where two pilot spending reviews were concluded as of 2018 and an additional five in 2019) has been working on introduction/publication of official spending review methodology.

**Exhibit 15: Basis for Spending Reviews** (*number of countries*)



39. **Spending reviews in PEMPAL countries most frequently cover social sectors such as health, welfare, and education.** Exhibit 16 shows topics/objectives of spending reviews as reported by PEMPAL countries, as well as when they were conducted.

### Exhibit 16: Topics/Objectives of Spending Reviews Conducted in PEMPAL Countries

Belarus	2011 - Pension system sustainability; social assistance targeting; and energy and agriculture subsidies 2013 - Intergovernmental fiscal relations; and education and health 2015 – Improving public services delivery under hard budget constraints 2019 – Health, education, and social policy
Bosnia and Herzegovina	2009 - Reduction of wage bill and material costs 2011 - Reduction of material costs 2012 - Reduction of wage bill 2015 - Reduction of material costs
Bulgaria	2018 - Improving efficiency and effectiveness of waste management 2018 - Policing and firefighting 2015 - Judicial performance, caseload, and expenditure review 2015 - Agriculture and rural development
Croatia	2014 - Reducing spending: i) wage bill; ii) subsidies apart from agriculture; iii) healthcare; iv) operation of agencies, institutes, funds, and other legal persons with public authority; and v) tax expenditures
Moldova	2018 - Education (higher education and vocational education), to identify savings for other priorities
Russia	2018 - International cooperation (relevance, appropriateness, and necessity) 2018 - Communication services (telecommunications service, internet, cable, satellite costs - analysis of current practices and development of uniform cost standards)
Serbia	2014-2018 - Salaries and pensions for fiscal consolidation

40. **Institutional roles at different stages of the spending review process are mixed among PEMPAL countries, with line ministries generally having a weaker role compared to OECD countries.** In both PEMPAL and OECD countries, spending review systems are mostly MF-centric. Exhibit 17 shows the institutional roles in seven spending reviews in PEMPAL countries. In OECD countries, MFs have the main role in determining methodology (in 27 countries), with line ministries also participating in a few countries (in 5 countries). The scope of the spending review is mostly determined by MFs in OECD countries (in 26 countries), but with a more frequent role of line ministries and President/Prime Minister’s Office (in 12 countries each). Providing guidance and steering is also the job of MFs in OECD countries (in 27 countries), but in several cases they are assisted by the line ministries (in 8 countries). Finally, decision making in terms of adoption of spending review recommendations in OECD countries varies, in most cases there are shared roles among the President/Prime Minister’s Office, CBA, and line ministries. Final decision making in terms of adoption of spending review recommendations does not seem to be clear in some PEMPAL countries, with only Russia, Serbia, and Bosnia and Herzegovina providing an answer to this question, all noting that this is the role of President/Prime Minister’s Office.

Exhibit 17: Institutional Roles in Spending Review Stages in PEMPAL Countries

	Determining methodology	Determining the scope	Providing guidance/steering	Conducting the spending review and preparing reports	Supervision and review of reports	Final decision making	Monitoring and follow up
Bosnia and Herzegovina	President/Prime Minister (PM)	MF	MF	Committee/team	MF	President/PM	President/PM, MF
Belarus	Committee/team	MF	Line ministries	MF, line ministries	MF, line ministries		
Bulgaria	MF	MF, line ministries	MF	MF, line ministries, committee/team	President/PM		
Croatia	MF	MF, line ministries	MF	MF, line ministries, committee/team	MF		MF, line ministries, committee/team
Moldova		President/PM	MF	MF, line ministries, committee/team	President/PM		President/PM, committee/team
Russia	President/PM, MF	President/PM	MF	MF, committee/team	President/PM	President/PM	MF, line ministries, committee/team
Serbia	MF	MF, line ministries	MF	MF, line ministries	President/PM	President/PM	President/PM, MF

- 41. Teams conducting spending reviews in PEMPAL countries are mostly mixed.** MFs have the primary role, similarly to OECD countries; however, the role of line ministries is more limited, while there is significant external expertise being provided to most PEMPAL countries by international development organizations (World Bank or International Monetary Fund). For example, Belarus reported that the team conducting the spending review is a World Bank-led team comprising representatives of the MF and relevant line ministries/agencies and subnational government representatives. In Croatia, the Government appointed a Central Committee for Spending Reviews for each of the five expenditure areas that were examined. The Government appointed a president and six members from senior civil service positions to work in the Central Committee. The members come from the relevant line ministries (one each) and two members from MF (one of which was appointed the Central Committee Chair). In Serbia, representatives from MF, line ministries, and IMF were involved in conducting spending reviews. Moldovan and Russian spending review teams included representatives from the MF (also chairing the team) and line ministries.
- 42. Four PEMPAL countries report that performance indicators used in the budgetary process are considered in spending reviews sometimes or to some extent** - Russia, Moldova, Bulgaria, and Belarus. In Belarus, Croatia, Moldova, and Russia (upcoming) spending review reports are publicly available.

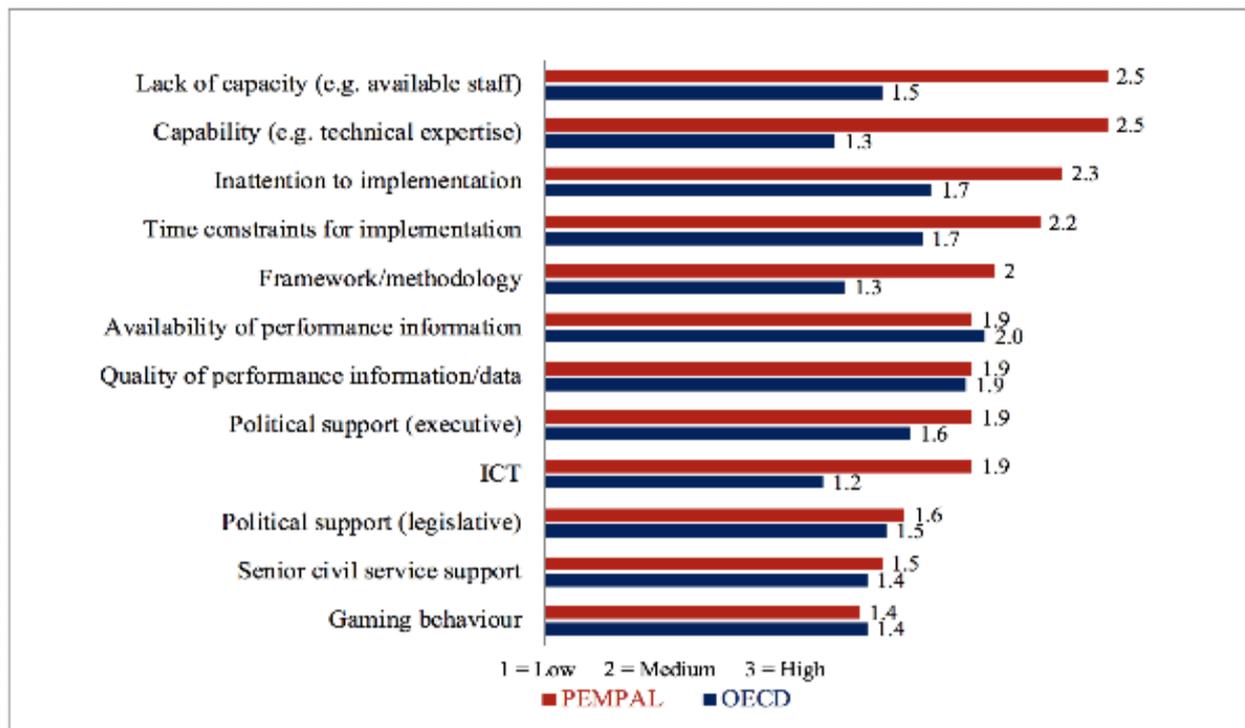
## SPENDING REVIEW USAGE AND CHALLENGES

- 43. Most PEMPAL countries in which spending reviews have been conducted report that recommendations from spending reviews have been mostly implemented.**

Specifically, Belarus, Bosnia and Herzegovina, Croatia, and Serbia report that most recommendations have been implemented; Bulgaria reports that some have been implemented; while Moldova reports that a small part of the recommendations have been implemented.

44. **Of twelve challenges in the implementation of spending reviews, eleven are perceived as greater in PEMPAL countries compared to OECD countries, especially those associated with the very beginning of introducing spending reviews.** This relates in particular to challenges of capacity (both in terms of staff availability and technical expertise), political support, and ICT challenges, as shown in Exhibit 18. The only challenge perceived as slightly greater by OECD countries than by PEMPAL countries is the availability of performance information (on a 0-3 scale in which 3 marks highest challenge, this challenge is on average 2.0 for OECD countries and 1.9 for PEMPAL countries).

**Exhibit 18: Challenges in Implementation of Spending Reviews (weighted average)**



## EXAMPLES OF ONGOING AND PLANNED ACTIVITIES IN SPENDING REVIEWS IN SELECTED PEMPAL COUNTRIES

45. **Most PEMPAL countries that responded to the survey reported some plans related to spending reviews.** Several countries reported on specific plans, including a World Bank-led review in Belarus, focusing on social sector spending; review of the Ministry of External Affairs in Bulgaria; integration of spending reviews into the budget calendar and its institutionalization in Moldova; and planning to involve line ministries in the introduction of spending reviews in Montenegro. Further examples of activities being conducted or planned related to spending reviews in selected PEMPAL countries are given in the box below.

## Ongoing Activities and Plans Related to Spending Reviews in Selected PEMPAL Countries

### Croatia

Within the National Reform Plan, spending reviews were initiated in 2019 for several selected budget areas in the sectors of health, water management, and environment. The overall goals of these reviews are related to ensuring sustainability of fiscal management of these activities, continuous improvement of the budget planning system, and better expenditure controls.

Within the healthcare system, spending review covers the most expensive activities of the Croatia Health Insurance Fund, including activities related to medication prescription, especially of the costliest medications. Within the water management and environment sectors, due to an identified trend of high and rising costs, reviewed areas include regular maintenance and restoration of watercourses, water structures, and water resources, as well as activities related to management of special waste categories.

The previous cycle of spending reviews conducted in Croatia in 2014 was motivated largely by the need for fast savings. The main focus of the current reviews is the effectiveness of the reviewed spending areas and the basis on which they are being implemented. This refers in particular to justification of the implementation of reviewed activities, their cost-effectiveness (which includes cost-benefit analysis), optimization, and sustainability of results. Moreover, the overall effects of the reviewed activities are being analyzed, including their potential positive and negative aspects.

### Russia

Spending reviews and implementation of recommendations from spending reviews are mandatory in the process of budget drafting. A regulation on conducting spending reviews adopted in February 2019 sets requirements, procedures, and roles and responsibilities for conducting and implementing spending reviews within the framework of the budget preparation process.

Key spending review requirements are:

1. Timeline: Spending reviews are conducted between October and April with the results (i.e. spending recommendations/options) approved by April 30;
2. Roles: The Government Commission on Optimization and Improvement of Public Expenditure Effectiveness has been formed as the primary decision-making body for spending reviews, with the Ministry of Finance coordinating spending review activities, including leading working groups and making recommendations for the decisions of the Commission; and
3. Expected outcome: Optimization targets are set at the beginning of the spending review process to guide the work of the working groups; a target is a percentage share of budget appropriations planned to be reallocated to address priority tasks based on the results of the spending review.

In 2018-2019, spending reviews were conducted in the following areas (in addition to two pilots on communication services and international cooperation):

1. Management of environment sector;
2. Bailiff services;
3. Industry development;
4. Operational/material and technical support of state bodies; and
5. Research and development expenditure.

Reports of the most recently completed spending reviews are publicly available on the budget portal (<http://budget.gov.ru>, [direct link](#) (Russian language)).

Within the 2020 budget planning cycle, the following expenditure areas were selected to undergo spending reviews:

1. Healthcare;
2. Energy;
3. Agriculture and fisheries;
4. Unearmarked subsidies to budgetary (autonomous) institutions;
5. Support to state-owned enterprises; and
6. Creation and operation of information systems and introduction of digital technology.

### **Bulgaria**

Spending reviews have been conducted as a tool for identifying necessary sectoral reforms in specific policy areas. With the support of the World Bank, horizontal cost reviews of seven ministries and 21 municipalities were recently conducted in Bulgaria. Subsequently, attention was focused on two sectoral areas - waste management and police and firefighting, outlining potential opportunities for positive changes in terms of cost effectiveness.

In addition, during the preparation of the 2020 budget, the Ministry of Finance initiated a spending review of specific areas of activity within the Ministry of External Affairs, the results of which were used for the purposes of operational planning. In the process of preparation of the 2021 budget, a similar review is planned for thematic areas in the culture sector.

## KEY CHALLENGES AND RECOMMENDATIONS ON PERFORMANCE BUDGETING AND SPENDING REVIEWS FOR PEMPAL COUNTRIES

- 46. Governments worldwide have increasingly become aware of the need to plan for and report on the outcomes of spending, i.e. the quality and effectiveness of public services, to citizens through program and performance budgeting. This contrasts with the focus on spending amounts and inputs (i.e. salaries and other costs to deliver public services) in traditional budgeting. However, overall, not all the expected results of program and performance budgeting have been achieved, including in the most advanced countries with the longest implementation experience.** The reasons are likely numerous and include objective challenges in measuring and controlling performance and in linking performance information to actual budget allocation decisions, complex relationships between spending and outcomes, as well as innate biases towards short-sightedness and political nature of budgeting process. The budget is fundamentally a political document, thus political considerations will normally outweigh considerations of technical efficiency or performance. Another reason for results falling short of expectations likely lies in the high volume of performance information needed to capture the achievements of fragmented spending programs. Moreover, and most importantly, it is now increasingly obvious that overall expectations of performance and program budgeting were overly ambitious and optimistic (especially to be achieved in the shorter term), as the technical reforms of budgeting process were essentially expected to drive reform of the public sector, which in many countries suffer from subpar quality of strategic policy decision-making and systems. In addition, it has become clear that the common initial expectation that performance information could be the main basis for making budget decisions was not realistic, given challenges in capturing performance in an adequate and timely manner, gaming/manipulation dangers, as well as the need to balance performance targeting with fiscal discipline and input planning.
- 47. Consequently, governments, including those with a long history of performance budgeting, continue to refine and modernize their approaches to take into account lessons learned and rationalize expectations, while also not losing sight of the importance of capturing spending outcomes.** A reflection of evolved thinking on performance budgeting is the shift in its definition from “performance-based” towards more “performance-informed” budgeting. OECD defines performance budgeting as “the use of performance information to inform budget decisions, whether as a direct input to budget allocation decisions or as contextual information and/or inputs to budget planning, as well as to instill greater transparency and accountability throughout the budget process, by providing information to the public on performance objectives and results”. The recently published OECD Good Practices in Performance Budgeting<sup>14</sup> includes seven recommended characteristics of a modern performance budgeting system, which directly speak to the aforementioned weaknesses of past systems:
1. The rationale and objectives of performance budgeting are clearly documented and reflect the interests of key stakeholders.

<sup>14</sup> For more details and examples see OECD, 2019, *OECD Good Practices for Performance Budgeting*, available at <http://www.oecd.org/gov/oecd-good-practices-for-performance-budgeting-c90b0305-en.htm>.

2. Performance budgeting aligns expenditure with the strategic goals and priorities of the government.
  3. The performance budgeting system incorporates flexibility to handle the varied nature of government activities and the complex relationships between spending and outcomes.
  4. Government invests in human resources, data, and other infrastructure needed to support performance budgeting.
  5. Performance budgeting facilitates systematic oversight by the legislature and civil society, reinforcing the government's performance orientation and accountability.
  6. Performance budgeting complements other tools designed to improve performance orientation, including program evaluation and spending reviews.
  7. Incentives around the performance budgeting system encourage performance-oriented behavior and learning.
- 48. PEMPAL countries have also worked to improve their program and performance budgeting systems, especially in terms of simplification and linkages with strategic policy decision-making.** This is shown in the results of the 2018 Performance Budgeting Survey outlined in this report. PEMPAL countries, through BCOP PPBWG, benefitted from taking part in the discussions on performance budgeting experiences and challenges with senior budget officials from OECD countries through the OECD Performance and Results Network and other BCOP collaboration with the OECD (including PPBWG leadership participation in working sessions that provided inputs to the OECD Good Practices in Performance Budgeting publication).
- 49. Based on the results of the surveys outlined in the previous sections of this report and the overall work and discussions held within PPBWG, some recommendations for PEMPAL countries to take into account when improving or introducing program and performance budgeting systems are provided in the next and concluding part of this report.** They are grouped around the previously mentioned recently published seven OECD Good Practices in Performance Budgeting.
- 50. Given the complexities of budgeting reforms (and in particular those related to program and performance budgeting and spending reviews), as well as the diverse nature of PEMPAL countries, the advice and recommendations do not advocate for one-size-fits-all nor overnight reform approach.** When considering the recommendations provided in the next part of this report, each country is advised to carefully consider the recommendations through the lens of the national historical, institutional, administrative, and political context and specificities and to implement the reforms in a step-by-step approach.

**Good Practice I: The rationale and objectives of performance budgeting are clearly documented and reflect the interests of key stakeholders.**

OECD Good Practices recommend that the rationale, objectives, and approach to performance budgeting are set out in a strategic document, such as organic budget law or public finance management reform program. PEMPAL countries that have introduced program and performance budgeting have mostly already followed the recommended approach of prescribing performance and program budgeting within the legislation. Specifically, when introducing program and performance budgeting, PEMPAL countries mostly secure the

legislative basis in organic budget legislation, make it obligatory for all government institutions (both line ministries and agencies), and develop standard templates for reporting performance information; although in some PEMPAL countries what is actually included in the legislative basis and templates may be too vague or unclear. On the other hand, OECD countries are more likely to have a weaker legislative/regulatory basis, less uniform coverage, and leave more flexibility to line ministries/agencies in terms of ways to report performance information. This may partially reflect different administrative cultures and generally the more legislative orientation of public administrations in PEMPAL countries, as well as lower capacity/additional assistance needs of line ministries/agencies in reporting performance information. An additional challenge for PEMPAL countries is that in many cases the legislation may prescribe the means of program and performance budgeting but fail to adequately and realistically explain the purpose (key objectives and how it informs budgeting and policy decision-making).

As a result, despite having wider and more uniform coverage of the performance network and a stronger legislative basis than many OECD countries, PEMPAL countries still use program and performance information less in budgeting decisions compared to OECD countries and are less advanced towards full adoption of program budgeting. Some PEMPAL countries have made noticeable progress over recent years and further advancements towards full program and performance budgeting is planned in many cases. PEMPAL countries most frequently describe their practices as a presentational performance budgeting approach (showing performance information separately from the main budget document), compared to a performance-informed approach (that includes performance metrics within the budget document and involves restructuring of the budget document on the basis of the program) most frequently reported by OECD countries. Several PEMPAL countries have, however, advanced to self-assessing their approaches as performance-informed or as a managerial performance approach, such as Russia, Bulgaria, Belarus, Ukraine, Moldova, and Serbia.

**RECOMMENDATION 1 FOR PEMPAL COUNTRIES: Clear performance frameworks should be applied that are obligatory for all line ministries and agencies with a strong legislative basis, along with additional more detailed guidelines that are understood, accepted, and implemented adequately (according to the spirit and not only to the letter). The content included in the legislative and methodological basis for program and performance budgeting should be carefully considered to ensure that objectives and intended uses for decision-making are adequate and clear to all stakeholders, including the Ministry of Finance, line ministries and agencies, the legislative branch, as well as externally to the public.**

Another important aspect of this good practice is the need to have performance budgeting championed by political leaders, supported by senior officials. This is of course easier said than done given that the political leadership and commitment cannot be “manufactured”. However, given its importance, it is advisable to consider any possible way of encouraging it. If the political support and commitment is relatively low, it is important to adjust the expectations downwards, slow down the planned pace of reform, and put some building blocks in place first, such as adequate performance data and quality program structure.

Lack of leadership and commitment is one of the top challenges identified by the PEMPAL countries, and compared to 2016, PEMPAL countries are now even more aware of the challenges related to this aspect. In many cases in PEMPAL countries, the program and performance budgeting reform has been designed, carried out, and implemented only (or in a

disproportionately large part) by the Ministry of Finance and by civil servants (and often with significant steering of the donors/international organizations and insufficient involvement of policy decision-makers). As governments came to realize this weakness, some have started working on correction mechanisms in several cases; for example, in Russia, responsibility of all ministers and deputy chief executive for advancement in performance budgeting reform was introduced recently. Austria is another recent example of involving both the wider executive branch and also the legislative branch in performance-oriented reform of budgeting and policy making<sup>15</sup>.

**RECOMMENDATION 2 FOR PEMPAL COUNTRIES: The reform and implementation of program and performance budgeting must be championed not only by the Ministry of Finance and the civil service, but by political leadership more widely and preferably across government branches.**

**Good Practice II: Performance budgeting aligns expenditure with the strategic goals and priorities of the government.**

Another reflection of program and performance budgeting reforms having been initially carried out primarily by the Ministries of Finance in PEMPAL countries with inadequate involvement of broad executive government and political leadership is its insufficient connections with the overall strategic policy planning and decision making in most PEMPAL countries. There are recent indications of increased awareness in PEMPAL countries of the importance of performance information used in the budgeting process being interlinked with national strategic documents and ministry/agency plans and strategies. Around half of OECD and PEMPAL countries now have centrally defined quality standards or criteria for selection and approval of performance indicators, within which the most frequently required standards are consistency with the national plan or strategy and consistency with ministry/agency plans and strategies.

**RECOMMENDATION 3 FOR PEMPAL COUNTRIES: Clear and strong connection between program and performance budgeting and the government's overall strategic planning should be established, given that that the primary role of performance budgeting in its essence is to support implementation of governments' strategic goals. Good practices include the development of templates used for strategic documents (e.g. national development plans and sector strategies) that have direct links to performance and program budgeting, including performance indicators. These templates should be developed in consultation with the relevant line ministries and policy decision makers to ensure that all stakeholders are on board and on the same page.**

Linking program and performance budgeting with governments' overall strategic planning is not easy. One of the key issues relates to capturing cross-institutional, government-wide objectives within programs and performance indicators. In PEMPAL countries, but even more globally, there is considerable scope for improvement in planning and complex government objectives that require inter-ministerial collaboration. PEMPAL countries are not giving enough attention to cross-cutting performance indicators, in contrast to good practices in OECD countries.

<sup>15</sup> For more information on the Austrian example, see event report from the 2018 PPBWG workshop in Austria, available at <https://www.pempal.org/events/workshop-program-and-performance-budgeting-working-group>.

Connected to this is the recent global trend of additional focus on selected high-level priorities and budgeting approaches for these specific priorities. Some advanced examples of recent efforts on priority budgeting initiatives include gender budgeting (e.g. in Canada and also introduced in many PEMPAL countries, often with significant donor assistance), green budgeting (e.g. in France), well-being budgeting (e.g. New Zealand: Wellbeing budget; Bhutan: Gross National Happiness; and United Arab Emirates: National Program for Happiness and Positivity), and budgeting towards the SDGs (e.g. in Mexico). These processes (defined as priority budgeting within the current working definition of the OECD P&R Network<sup>16</sup>) can be useful in raising awareness of the importance of taking into account high-level outcomes in budgeting processes and are important to signal the political importance of select priorities and mobilize a whole-of-government response. They can, however, also present an additional parallel process to budgeting processes, if not properly interlinked.

It is also important to note that although these have been more prominent recently, in their essence these priority budgeting initiatives for select priorities reflect a long-standing issue in public sector management on how to accommodate cross-cutting objectives or address so called “wicked issues”, such as child poverty or mental health, which are multi-dimensional. Mechanisms are needed to coordinate actions across different parts of government. In budgetary terms this means that cross-cutting performance objectives should flow through to individual programs. In a case like gender this might flow through to all programs, while in other cases, programs in multiple agencies will contribute towards higher level policy objectives (e.g. mental health) and there will be cross-government coordination mechanisms (e.g. cabinet level committee or a delivery/implementation unit) to ensure that programs work together.

**RECOMMENDATION 4 FOR PEMPAL COUNTRIES: More attention to cross-institutional, government-wide objectives is needed. This includes careful consideration in the design and monitoring of cross-cutting performance indicators to which multiple ministries and line agencies contribute. Any initiative related to priority budgeting for select high-level government priorities (for example gender budgeting, green budgeting, well-being budgeting, or budgeting towards the SDGs) should be designed with care to ensure complete integration within the program and performance budgeting processes and to avoid parallel separate processes. In other words, cross-cutting performance objectives should flow through to individual programs to demonstrate that the programs are responding to these issues.**

A particular challenge related to interlinking cross-cutting and highest-level government strategic objectives with program and performance budgeting is how to decompose these into lower level objectives and define associate performance indicators, so that they can flow through individual programs. Moreover, an important issue related to connecting budget planning and strategic planning is that in many cases in PEMPAL countries, program and performance budgeting was introduced and implemented as a process parallel to strategic planning processes and to processes of internal planning of work programs of separate line ministries and agencies. This has resulted in very burdensome processes of line ministries and agencies collecting and reporting high volumes of different performance data for different

<sup>16</sup> See <http://www.oecd.org/gov/budgeting/performance-results-meeting-2019.htm> for materials from the 15<sup>th</sup> Annual Meeting of the OECD SBO Performance and Results meeting from November 2019.

administrative processes, while the use of this data in actual government budget allocation and policy decision-making has been only limited.

Annexes 1-3 provide some illustrative tools to assist PEMPAL countries with these challenges. Annex 1 shows an illustrative possible design of an interlinked framework that connects the processes of strategic policy planning, budget planning, and institution-level planning. The terminology and the number of levels used in the system, as shown in Annex 1, may vary, depending on many variables, including the complexity of the systems. However, the main point should be to put the processes into a hierarchical structure (which in essence takes the shape of a pyramid, given that each level starting with the second level branches out so that more than one branch contribute to the result level directly above it) and to distinguish the level of detail needed for each of the three planning processes – strategic policy planning level (including government-wide priorities and sectoral strategic priorities), budget planning level, and planning at the level of individual institutions (i.e. Ministry or Agency) while simultaneously ensuring the interconnectedness of the three processes. For ease of reference, Annex 2 shows an example of a program structure and performance indicators within this illustrative scheme, using the example of cyber safety.

This procedure of putting the strategic policy planning, budget planning, and institutional planning processes into a hierarchical structure in its essence needs to include some type of consideration of how a government action is intended to produce the expected results. This exercise can be more or less formal and can entail different ways to articulate the expected causal chain of government action, with careful consideration of attribution versus contribution at different levels of expected results and indicators. Tools used for such exercise can include a logical framework, theory of change, development hypothesis, results framework, decision tree etc. All these tools assess if-then relationships among different elements of government action. While such tools are more often used for different smaller-scale projects (in many cases externally financed projects in PEMPAL countries), the exercise of articulating the expected causal chain of actions is very important for overall government policy planning and in fact it implicitly lies at the center of performance budgeting and the design of performance indicators. Annex 3 shows an example of horizontal and vertical logic of a causal chain within a logical framework, again noting that terminology and the number of levels used in the system may vary. This approach establishes a vertical logic that defines the series of causal linkages intended to transform inputs into expected policy/program/developmental changes. The hierarchical structure can be tested by asking the question “how” when moving down the causal chain and asking “why” when moving up the causal chain. The horizontal logic, on the other hand, is “if-then” logic which puts the logical framework into a narrative by connecting expected results to respective assumptions that need to hold so that the higher-level expected results can be achieved/contributed to.

**RECOMMENDATION 5 FOR PEMPAL COUNTRIES: Highest level cross cutting strategic policy objectives need to be decomposed into lower level objectives to flow through individual programs. The starting point for tackling these challenges is to determine a theory of change and causal chain based on policy priorities, using logical framework type of tools to map a hierarchy of expected results and performance. There should be indicators associated with each level of expected results, from highest level outcome, through intermediate level outcomes, to outputs. This policy causal chain should then be mapped against the institutional framework. Programs and performance indicators used in budgeting processes should be determined based on their usability in budgeting and policy decision-making and should, in addition to being linked to the**

government's overall strategic planning documents, also be directly connected to the processes of internal planning of work programs of separate line ministries and agencies (such as annual work plans and annual reports on activities of individual ministries and agencies).

**Good Practice III: The performance budgeting system incorporates flexibility to handle the varied nature of government activities and the complex relationships between spending and outcomes.**

Experience in implementation of program and performance budgeting globally has shown that special considerations must be made to reflect the multi-dimensional nature of activities and performance in the public sector. This in essence means that a one-size fits all approach to how programs and performance indicators are defined and measured cannot be applied to all government institutions and programs, given the varied nature of the work institutions carry out and the varied level of influence they have on outcomes. The OECD advises that differentiation can be made among the following types of programs and thus the performance indicators measuring their achievement:

1. direct service delivery, for example police and education services;
2. entitlement programs, for example pensions and social insurance;
3. transfers, grants, and subventions, for example financing of local government services;
4. investments, for example construction of roads and bridges;
5. policy programs, for example foreign affairs and trade; and
6. running operational costs.

For PEMPAL countries, especially given the traditionally legislative orientation of public administrations and efforts to cover as much expenditure as possible with program and performance budgeting (given that there was an initial tendency for program and performance budgeting to stay limited to “pilots” only), this aspect is reflected in frequently very detailed prescribed ways to define programs and performance indicators for all ministries/agencies and programs, regardless of their nature. For example, in some cases, the guidelines prescribe the number/range in number of programs per institution and number/range in number and type of performance indicators per program (for example, 3-5 outcome indicators, and 5-7 output indicators per program). It should be noted that in its essence, this comes down to a question of organization of institutions rather than only a question of the number of programs per institution; for example, when an institution is involved in too many programs, the answer is not in restructuring the programs, but in reforming the institution.

Another challenge connected to this is whether running, support, and payroll costs, as well as costs of lower-level spending units, should be included in program budgeting, i.e. the costs of program, as these costs are sometimes seen as not subject to change and/or hard to divide among different programs in one institution.

**RECOMMENDATION 6 FOR PEMPAL COUNTRIES: Careful balance should be achieved between ensuring the coverage of all government expenditure by program and performance budgeting and an adequate level of standardization across programs and indicators on one side and ensuring sufficient flexibility to account for the varying nature of different programs on the other side. Performance indicators can and should be defined for all programs, however, the type of those indicators and the way they are used**

in decision-making can vary depending on the nature of program. The innate logic of program budgeting is to focus on expected results, thus all costs that in any part contribute to the achievement of program results should be included in program costs. This recommendation is also in line with the OECD Good Practices, which state that programs should group all resources (splitting them across different programs of the same institution) that contribute to the achievement of its goals, including wages, goods and services, subsidies and transfers, and investments as well as expenditures funded from own resources of entities included in the program. Payroll and common services and support functions like legal, communications, human resource management, IT, utilities etc. should ideally be approximately allocated across programs. Alternatively, a general “support” program could be included capturing such costs, with its own set of expected results and performance indicators.

OECD Good Practices also advise that program structures are aligned with the administrative responsibilities and service delivery functions of ministries and agencies. It is acknowledged that while the definition of a program is focused on outcomes and delivery of key public services and goods, in practice budget resources are allocated to organizational units that have both the authority to spend and the mandate to deliver specific services. In essence, accountability for expected results can be ensured only when clear managerial accountability is established, which in turn reflects institutional organizations, noting that an adequate level of power to make managerial choices must also be granted at administrative/institutional level.

**RECOMMENDATION 7 FOR PEMPAL COUNTRIES: While the scope of programs and performance indicators should be designed around final expected spending outcomes, it is recommended to clearly indicate the ways in which programs are connected to institutions and institutional departments for all types of programs, including the complex cross-institutional programs, for which shared managerial accountability at the highest level may be required to promote clear accountability. This also means that the program managers are enabled to focus on results rather than focusing only on budget.**

A key challenge in any country (even in the most advanced OECD countries) is identifying a balanced set of indicators that reflect the multi-dimensional character of performance in the public sector. A particular challenge lies in ensuring indicators are adequate to inform policy decision-making, while also capturing the final outcomes of spending for final service users and overall society. This reflects several complexities.

The traditional tendency in many PEMPAL countries is for line ministries/agencies wanting to measure as much of their activities as possible to show their work. This results in indicators measuring outputs at very low operational level, measuring operational processes, and/or even yes/no indicators. This in turn ends up in excessive details and a very bulky and voluminous set of performance indicators for the whole budget, which is not only difficult for policy makers to digest but is also inadequate for their decision-making as it does not provide enough information on the intended results of spending.

At the other end of the spectrum are very high outcome performance indicators for which a long time is needed to move values, and which are affected not only by government spending and decisions but also external factors. Examples of such indicators are indicators measuring education outcomes, literacy rates, disease mortality rates, poverty rates, crime rates, employment rates, exports volumes etc. In some cases, even if government implements all

needed measures to achieve improvements in such indicators, it will take a long time to see improvement (e.g. modernizing the education of teachers so that they can implement more effective teaching styles, which in turn will result in students graduating with better skill sets). In some cases, external factors also have an important influence that can negatively affect the improvements in performance indicators despite all the right measures being taken by the government (e.g. the effects of factors such as commodity prices or the strength of the global economy or those of the country's main trading partners on economic growth rates and employment rates). Moreover, for some indicators of this nature, a complex set of measures taken by different government institutions and at different government levels affect the value of indicators, sometimes even combined with external factors (e.g. crime rates). For such performance indicators, the tendency in some PEMPAL countries is for line ministries/agencies to not want to use them all (with the explanation that government institutions cannot be held accountable as they do not have a full control in influencing them).

**RECOMMENDATION 8 FOR PEMPAL COUNTRIES: Performance indicators need to follow the general rules of: i) being limited to a small number for each program or spending area, ii) being clear and easily understood (a good practice is for each indicator to have its own short “ID sheet” defining everything measured by the indicator, measuring mechanisms and units, as well as the contribution of different ministries/agencies in the case of cross-cutting indicators), iii) allowing for tracking of results against targets and for comparison with international and other benchmarks whenever possible, and iv) being clearly linked with government-wide strategic objectives<sup>17</sup>. Indicators measuring outputs at a very low operational level, measuring operational process, and/or even yes/no indicators should be avoided for the purpose of including indicators in budgeting documents; however, individual ministries/agencies can still use them for their internal management purposes to set-up a hierarchy of measuring activities that will be jointly taken to achieve the higher output and outcome indicators used in budgeting process. Similarly, over-fragmentation of programs into smaller programs with very limited scope (e.g. at a level of a department in a Ministry) should be avoided for the purpose of program and performance budgeting, but further disaggregation of programs (into sub-programs or activities as they are called in some PEMPAL countries) can be used by the individual ministries/agencies for their internal management purposes. On the other end of spectrum are the very high outcome performance indicators which require a long time to move values and which are significantly affected by external factors and not just by government spending and decisions. Such indicators should be included (often within KNIs) and closely followed; however, additional intermediate indicators (lower-level outcome performance indicators) should also be tracked. This is a way to capture intermediate indicators that will contribute to achievement of the highest outcome performance indicators in the long term, while in the short run they are useful in informing budgeting decisions and are under the control of ministries/agencies.**

An illustrative approach in designing performance indicators with careful consideration of attribution versus contribution at different levels of expected results and indicators is given in Annexes 1-3, these illustrate the possible design of a performance framework, give an example of a framework for one specific policy, and provide a horizontal and vertical logic of causal chain within a logical framework.

<sup>17</sup> Based on the OECD, 2015, *OECD Principles of Budgetary Governance*, available at <http://www.oecd.org/gov/budgeting/principles-budgetary-governance.htm>.

A recent tendency in performance indicators globally is to focus on citizen-centric indicators<sup>18</sup>. This is connected to the trends of priority budgeting initiatives discussed above under recommendation 4. In many PEMPAL countries there is a need to include more citizen-centric indicators within program and performance budgeting. One example is France, which, despite long experience in performance budgeting, continuously reflects on the quality of indicators, make them more focused on outcomes as they pertain to citizens, and seeking to capture the quality of services from the citizens'/users' perspective rather than focus on the users' experience from an administrative view point (in terms of e.g. service delays). There are different instruments for gathering citizens' feedback, including international surveys, existing national surveys, and specific targeted questionnaires<sup>19</sup>, each with specific advantages and disadvantages.

**RECOMMENDATION 9 FOR PEMPAL COUNTRIES: A proper focus on citizen-centric indicators should be ensured within the design of performance indicators, and the use of different instruments to gather citizens' feedback, perceptions, and satisfaction should be considered. Important consideration should also be given to capacity building in both Ministries of Finance and line ministries in survey design, methodology, and analyses, as well as in understanding the natural differences between objective and subjective information. Objective service quality improvements do not necessarily translate into equal improvement in citizens' satisfaction, so information from multiple sources should be used for complementarity.**

**Good Practice IV: Government invests in human resources, data and other infrastructure needed to support performance budgeting.**

Building the capacity needed for good program and performance budgeting is a key need for PEMPAL countries. This includes human resource capacity in Ministries of Finance and in particular in the line ministries/agencies. These are the key pre-conditions for continuous improvement of the performance measurement systems to be able to provide quality and adequate data on a reliable basis, as advised in the OECD Good Practice.

**RECOMMENDATION 10 FOR PEMPAL COUNTRIES: Strong and continuous technical capacity building both internally in Ministries of Finance and in the line ministries/agencies should be implemented. Ministry of Finance should have an active role and lead the training and capacity building of the line ministries/agencies (with external assistance as needed) to ensure shared understanding across all line ministries/agencies. Some examples of good practices include the formation of peer-learning communities of practice of mid- to high- level civil servants working on technical aspects of program and performance budgeting in line ministries/agencies, led by peers from the Ministry of Finance.**

<sup>18</sup> This was one of the topics of a joint workshop of two BCOP's working groups held in November 2019; materials are available at <https://www.pempal.org/events/joint-workshop-program-and-performance-budgeting-working-group-ppbwg-and-budget-literacy-and>.

<sup>19</sup> For additional information, see for example *OECD Serving Citizens Framework* available in *OECD Government at a Glance* (2015) report at [https://www.oecd-ilibrary.org/docserver/gov\\_glance-2015-en.pdf?expires=1573822876&id=id&acname=guest&checksum=C5E338AAEC3036162AD02F2628052AA6](https://www.oecd-ilibrary.org/docserver/gov_glance-2015-en.pdf?expires=1573822876&id=id&acname=guest&checksum=C5E338AAEC3036162AD02F2628052AA6) and World Bank Group( 2018) *Indicators of Citizen-Centric Public Service Delivery* <https://openknowledge.worldbank.org/handle/10986/30030>.

PEMPAL countries report a significant need for strengthened ICT tools for program and performance budgeting. Challenges include an absence of such systems but often also inadequacies of the systems where they exist.

**RECOMMENDATION 11 FOR PEMPAL COUNTRIES:** ICT capacities should be strengthened, however, the design of the ICT system for programs and performance indicators should be carefully considered to allow: i) the right balance of standardization and flexibility to differentiate among different nature of programs and performance indicators, ii) brief narrative explanations of why expected results and targeted value of indicators were or were not achieved, and iii) adequate integration with the ICT solutions for budget planning by other classifications (economic and functional classifications), treasury system for budget execution, and ideally also the ICT solution used for strategic planning.

Another key challenge is related to data collection capacities. A lack of capacity in many PEMPAL countries is resulting in the use of inadequate or suboptimal indicators instead of exploring all available existing administrative data or working on new data collection mechanisms to gather more adequate data.

**RECOMMENDATION 12 FOR PEMPAL COUNTRIES:** Special attention should be given to establishing new data collection mechanisms to gather adequate performance data if there are existing gaps. This may include adjusting the ways administrative data is collected to start gathering better data or alternatively collecting new data through designing new data collection mechanisms, for example through statistical agencies or through private data collection vendors.

**Good Practice V: Performance budgeting facilitates systematic oversight by the legislature and civil society, reinforcing the government's performance orientation and accountability.**

In most PEMPAL countries, parliaments have not been sufficiently involved in program and performance budgeting. In most cases, budgets are still officially adopted only by economic/functional classification. Program classification and performance indicators are often sent to parliaments only as additional information within the budget documentation (as explanation) and are barely discussed within the budget adoption procedures. Budget execution reports in many cases do not include any or enough information on the achievement of performance targets.

**RECOMMENDATION 13 FOR PEMPAL COUNTRIES:** Securing broad political support for program and performance budgeting ideally includes the legislature in addition to the executive (as per recommendation 2). The OECD recommends that performance information should be presented alongside financial information as part of the annual budget presented to parliament, with best practice being to integrate performance information into the main budget document that forms the basis of appropriations. Alternatively, performance information may be presented as supplementary information accompanying the budget. Moreover, the year-end budget execution reports sent to the parliaments should also include both financial and performance outturn.

In most cases in PEMPAL countries, there is a large need for capacity building of parliaments and their technical services in program and performance budgeting.

**RECOMMENDATION 14 FOR PEMPAL COUNTRIES:** Capacity building for members of parliaments is advised. This could include a module on program and performance budgeting in orientation training for new parliamentarians (where such practices exist) or holding mock budget hearings for parliament members to discuss a proposed budget of a ministry based on performance information. Additionally, building technical expertise among administrative support departments serving parliamentarians should be considered.

Supreme audit institutions, which act on behalf of the legislature, are typically not involved at all or significantly in program and performance budgeting in PEMPAL countries.

**RECOMMENDATION 15 FOR PEMPAL COUNTRIES:** Supreme audit institutions should have an important role in the performance budgeting system. The OECD advises that, at a minimum, external audit should review program performance as reported in the public accounts and validate the reported results, while more substantial roles are also advised, including in particular performance audits.

Public oversight of spending performance is an important segment of program and performance budgeting system. Civil society and the media in particular can play an important role in scrutinizing performance and contributing to the development of an improved public sector performance and accountability culture.

**RECOMMENDATION 16 FOR PEMPAL COUNTRIES:** Continued efforts should be invested in making performance data open to the public via online access, in a re-usable format. Publishing citizens' budgets which include performance information is also advisable. In PEMPAL countries where there is low capacity of civil society organizations and media to analyze performance information, capacity building should be provided.

**Good Practice VI: Performance budgeting complements other tools designed to improve performance orientation, including program evaluation and spending reviews.**

The use of other tools complementing performance budgeting and reiterating government's performance orientation are used to a much smaller extent in the PEMPAL region than in OECD countries. As noted in this report, PEMPAL countries are starting to introduce spending reviews but performance and impact evaluations are not yet widely conducted. As already mentioned, a lack of capacity and technical expertise are the biggest challenges for PEMPAL countries in implementing spending reviews.

**RECOMMENDATION 17 FOR PEMPAL COUNTRIES:** Tools such as spending reviews and performance and impact evaluations are important tools complementing performance budgeting. While performance budgeting itself can answer only the question of whether the measures being implemented are achieving the expected results, the evaluations and spending reviews assist the government in assessing mechanisms used for implementing the measures and the underlying reasons for the achievement, or not, of results. This includes assessment of policy/program design, rather than focusing only on policy/program implementation. These tools should thus be considered by PEMPAL

**countries, noting the need for their careful design and for capacity building to ensure the availability of adequate technical expertise to conduct them.**

It is important to note that the nature of spending reviews is adaptable and that they should serve a clear purpose to fit the specific economic and political context of each country. This is particularly important for PEMPAL countries. The objective of the spending review can change over time and does not necessarily have to include spending cuts. The OECD Performance and Results Network is currently working on collecting and defining good practices in OECD countries in spending reviews<sup>20</sup> and it notes that in the years since the financial crisis spending reviews have become more widely applied by OECD countries. As the effects of the crisis have faded, the objective and scope of spending reviews have changed to focus more on re-prioritization of public expenditure through assessing the efficiency and effectiveness of funding allocations. The OECD highlights that the process of conducting spending reviews shifts the focus from inputs to outcomes and supports the increased demand for performance information, further emphasizing the importance of using spending reviews as a tool to create a larger stock of evidence on the impact and effectiveness of public spending.

An example of a country that experimented with different types, objectives, and processes of spending reviews over the last decade is Italy. Its objectives for spending reviews have changed over time and now depend on three key context factors: economic context (depending on economic situation, spending reviews can have different objectives, such as expenditure prioritization, fiscal consolidation space, improvement in service quality etc.), institutional context (institutional structure determines the roles and relationship in spending reviews), and electoral cycle.

BCOP PPBWG examined World Bank experience and advice for conducting their Public Expenditure Reviews (PERs)<sup>21</sup>, which include some elements of traditional spending reviews but within a different context. Based on recent discussions in the OECD Performance and Results Network, there is a trend in several OECD countries of moving spending review objectives closer to the overall objectives of broader reviews such as the PER. PERs typically begin by focusing on higher level issues of the government's overall fiscal position; the aggregate level and structure of public expenditures and revenues and fiscal balances; and the consistency of fiscal policy with the country's macroeconomic framework and fiscal sustainability. They next focus on spending in key sectors. In contrast, spending reviews as per traditional OECD definition typically focus mainly on how to improve economy and efficiency of spending at sector level and where to make short-term savings. Unlike typical OECD spending reviews, PERs also often look at the institutional architecture, including regulatory frameworks and systems for management of revenues and expenditure (including budget planning procedures), and their effect on achieving key fiscal policy objectives. Moreover, while both typical spending reviews and PERs focus strongly on efficiency and effectiveness of spending, typical spending reviews have a strong focus on economy (i.e. how to minimize costs), while PERs focus on equitable access to services, poverty reduction, and impact on economic growth. PERs are typically conducted over a longer period compared to typical spending reviews, which are usually under time pressure to fit into the budget cycle. PER

<sup>20</sup> See <http://www.oecd.org/gov/budgeting/performance-results-meeting-2019.htm> for materials from the 15<sup>th</sup> Annual Meeting of the OECD SBO Performance and Results meeting from November 2019.

<sup>21</sup> This was another topic of a joint workshop of two BCOP's working groups held in November 2019; materials are available at <https://www.pempal.org/events/joint-workshop-program-and-performance-budgeting-working-group-ppbwg-and-budget-literacy-and>.

recommendations tend to be more policy oriented and it is up to Ministries of Finance and line ministries to decide on implementation.

A shortage of good survey and performance data is a typical limitation to PERs and to spending reviews overall. The OECD Performance and Results Network's ongoing work on collecting and defining spending review good practices in OECD countries includes consideration of specific enablers for spending reviews. These refer, inter alia, to the existence of necessary preconditions, in particular well developed and functioning PFM tools including well-functioning performance budgeting system with indicators and data. Many PEMPAL countries may currently lack the preconditions of an existing well-functioning performance budgeting system with indicators and data and the availability of good performance data.

**RECOMMENDATION 18 FOR PEMPAL COUNTRIES: Spending reviews should be carefully designed, depending on the specific economic, political, and institutional context of each country rather than attempting to copy in full an approach implemented elsewhere. A typical traditional spending review requires an adequate performance budgeting system with performance indicators and data. Information on spending and any available performance information can still be analyzed without such a system; although in a less systematic and a more patchy and time-consuming way (and likely with additional external expertise needed). Thus, in such cases, the objective and design of spending reviews needs to be adjusted accordingly. Furthermore, for countries where such broader reviews have not yet been conducted, prior to conducting traditional spending reviews focused on improving efficiency and effectiveness of spending at sector level, it may be advisable to first conduct a broader review that examines higher level issues of overall fiscal position; the aggregate level and structure of public expenditures; consistency of policies with the country's macroeconomic framework and fiscal sustainability; institutional PFM architecture and budget planning procedures; and policy-oriented sectoral reviews.**

One additional specific challenge identified by PEMPAL countries that have conducted their first spending reviews is resistance and/or lack of interest of line ministries in conducting spending reviews.

**RECOMMENDATION 19 FOR PEMPAL COUNTRIES: Broad political support for the tools complementing performance budgeting, such as spending reviews, is important to ensure the proper involvement of line ministries/agencies. Some initial incentives could be considered to ensure adequate participation of the line ministries/agencies – for example, if the goal of the spending review is to produce savings they could be allowed to retain a portion of the identified savings for new spending initiatives – while not losing sight of the final expected outcome of the spending reviews, which is to improve public goods and services to citizens.**

Internal audit tools can also contribute to performance budgeting efforts; although this has not been a common practice in either OECD countries or PEMPAL countries. Performance budgeting is one of the key reform drivers for internal audit, as it focuses on system-level improvements, organizational performance, and spending effectiveness and accountability.

**RECOMMENDATION 20 FOR PEMPAL COUNTRIES: Potential roles of internal audit to contribute to the performance budgeting efforts should be considered. The internal audit function can contribute by providing an insurance and advisory function:**

checking the quality of the design of performance indicators, verifying the performance data accuracy, conducting performance audits, and assisting in spending reviews and evaluations.

**Good Practice VII: Incentives around the performance budgeting system encourage performance-oriented behavior and learning.**

Perhaps the main reason performance budgeting was not more successful globally in past decades was an insufficient focus on the learning aspect of performance budgeting and underestimating the complexity of relationships between spending and outcomes. This includes the afore-mentioned challenges of failure to achieve results caused by wrong policy design rather than wrong policy implementation (as per recommendation 18), complexities related to high-level outcome indicators for which need a long time to move values and which are affected not only by government spending and decisions but also external factors (as per recommendation 9), as well as the difference in nature of different spending programs and government activities (as per recommendation 7). Moreover, experience in some countries with longer experience of performance budgeting, suggests there are dangers of gaming and manipulation of performance information if the stakes are very high.

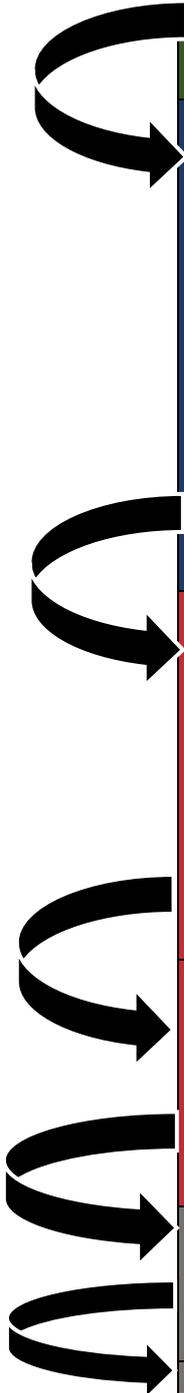
As a result, and as discussed in this report, even countries with a long history of performance budgeting continue to refine their approaches to take into account lessons learned and rationalize expectations, while also not losing sight of the importance of capturing spending outcomes.

A reflection of evolved thinking on performance budgeting is the shift in its definition from “performance-based” towards more “performance-informed” budgeting, as well as a general abandonment of the concept of “direct performance budgeting” in which budget allocation decisions are directly made based on performance in favor of using performance information to supplement the financial and operational information when making budget decisions. In PEMPAL countries this is particularly important, given the more prominent and traditional need for fiscal discipline tied to inputs. A focus on learning is also now more prominent in many countries including, for example, the terminology adjustment from performance monitoring and evaluation (M&E) to monitoring, evaluation, and learning (MEL).

**RECOMMENDATION 21 FOR PEMPAL COUNTRIES: More attention should be given to learning aspects of performance budgeting. Responses to program under-performance should emphasize learning and problem solving, rather than individual financial rewards and penalties. This should be reinforced and promoted by the chief executive to develop a management culture focused on performance and learning.**

## ANNEX 1: Illustrative Possible Design of an Interlinked Strategic Policy Planning, Budget Planning, and Institutional Planning

LEVEL OF EXPECTED RESULTS/PROGRAM STRUCTURE	EXPLANATION OF EXPECTED RESULT LEVEL	LEVEL OF PERFORMANCE INDICATORS	
<b>NATIONAL PRIORITY</b>	<b>Main long-term social goal</b> , which can be connected to a Government mandate or to a national development strategy if it exists. Multiple sectoral priorities can contribute to one national priority, depending on how detailed national priorities are.	<b>Highest long-term impact indicators</b> to which policies/programs contribute (could be Key National Indicators – KNIs)	<b>Government-level Strategic Planning</b>
<b>SECTORAL PRIORITY</b>	<b>Key aggregate high-level result/strategic objective</b> to which all main programs within the relevant sector contribute. Defined in sectoral strategies/sectoral development plans. Multiple general budget programs can contribute to one sectoral priority and one or more sectoral priorities can contribute to one national priority. <i>Can be connected to one of ten broad objectives of the first-level of COFOG functional classification, as well as to the seventeen Sustainable Development Goals (SDGs) – alternatively, the SDG connection can be made at the national priority level, depending on how detailed national priorities are, in which case SDG targets would be connected to this level.</i>	<b>Highest-level outcome indicators at sectoral level</b> to which policies/programs contribute (KNIs could also be at this level, depending on how detailed national priorities are)	<b>Sectoral Strategic Policy Planning</b>
<b>GENERAL BUDGET PROGRAM</b>	<b>Highest program outcome to which multiple individual programs contribute.</b> One or more general budget programs can contribute to one sectoral priority. Can also be called main program or government program or general program. It is a grouping of government activities in relation to a set of higher-level policy objectives, which can be cross-institutional. Can be <i>connected to 69 areas within the second level COFOG functional classification, as well as to one of 169 SDG targets.</i>	<b>Intermediate outcome indicators</b> to which higher-level output indicators contribute, but which can be affected by other factors outside of control of implementing institutions	<b>Budget Planning</b>
<b>PROGRAM</b>	<b>Outcome from a grouping of government activities in relation to a specific set of policy objectives</b> , at the level of an institution/agency/Ministry. Multiple subprograms/activities can contribute to one general budget program and one or more programs can contribute to one general budget program.	<b>Lower-level outcome indicators/higher-level output indicators</b> that are under control of implementing institutions to a great extent	
<b>SUBPROGRAM</b>	<b>Activities</b> to use resources to achieve results at program level. Can also be called activity. One or more subprograms/activities can contribute to one program.	<b>Lower-level output indicators and process indicators</b> that are under full control of implementing institutions	<b>Institution-level Planning and Management</b>
<b>INPUT</b>	<b>Resources</b> for implementation of activities	<b>Input indicators</b>	



## ANNEX 2: Example of Program Structure and Indicators in an Illustrative Design of Interlinked Strategic Policy Planning, Budget Planning, and Institutional Planning

LEVEL OF EXPECTED RESULTS	EXAMPLE OF NAMES OF EXPECTED RESULTS/ PROGRAM STRUCTURE	EXAMPLE OF EXPECTED RESULTS	EXAMPLE OF INDICATORS
NATIONAL PRIORITY	SAFETY	Increased level of safety for citizens	<i>Percentage of citizens who assess overall general level of safety as high</i>
SECTORAL PRIORITY	CYBER SAFETY	Lower general crime rate (connected to COFOG 03 on public order and safety and SDG 16 on peace, justice, and strong institutions)	<i>Crime rate for targeted crime type/area - e.g. cyber crime</i>
GENERAL BUDGET PROGRAM	POLICE FORCES	Increased effectiveness of police forces (connected to COFOG 03.1 on police services and to SDG relevant target for the specific crime type, e.g. 16.2)	<i>Effectiveness of police forces measured for example by share of cases that are solved</i>
PROGRAM	INVESTMENT IN MODERNIZATION OF POLICE FORCES	Adequately trained and equipped police forces	Number of police officers (or share of all police stations) that are given new training and equipment
SUBPROGRAM	TRAINING EQUIPMENT	Training conducted and equipment delivered	Number of training hours delivered; Number of equipment pieces delivered
INPUT	RESOURCES FOR TRAINING/ EQUIPPING POLICE FORCES	Trainers, new equipment, training plan	Funds used for training/equipment

### ANNEX 3: Horizontal and Vertical Logic of Causal Chain Within the Illustrative Design of Interlinked Strategic Policy Planning, Budget Planning, and Institutional Planning

Level of Expected Results	Name of Result	Performance Indicators	Data Sources	Assumptions
<b>NATIONAL PRIORITY/Main longer-term social goal</b>	HOW	← THEN →		
<b>SECTORAL PRIORITY/Strategic objective</b>	↓ ↑	IF ← THEN →		
<b>GENERAL BUDGET PROGRAM/Intermediate outcome</b>	↓ ↑	IF ← THEN →		
<b>PROGRAM/Higher-level output</b>	↓ ↑	IF ← THEN →		
<b>SUBPROGRAM/Lower-level output</b>	↓ ↑	IF ← THEN →		
<b>INPUT</b>	↓ ↑ WHY?	IF		

*This knowledge product has been developed by PEMPAL and is available in English, Russian and Bosnian-Croatian-Serbian languages. Permission to use, reproduce, or translate this product can be sought from the project's Team Leader Arman Vatyán at [avatyán@worldbank.org](mailto:avatyán@worldbank.org). Technical questions can be sent to Naida Carsimamovic Vukotic at [naidacar@gmail.com](mailto:naidacar@gmail.com) and Iryna Shcherbyna at [ishcherbyna@worldbank.org](mailto:ishcherbyna@worldbank.org). For more information on PEMPAL, BCOP, and PPBWG, see the program's website at [www.pempal.org](http://www.pempal.org).*



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