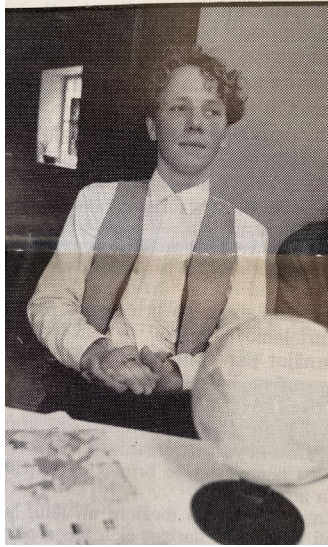


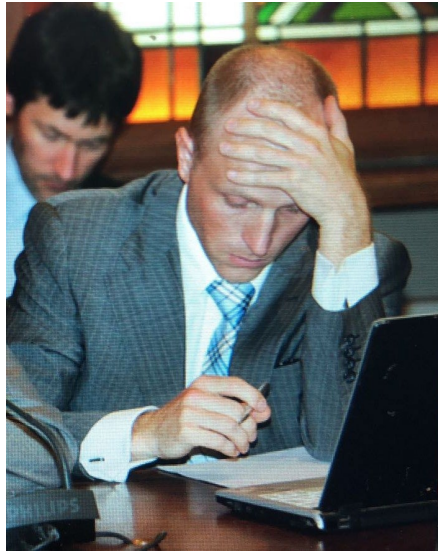
Are Strategic Planning and Modern Budgeting Really Married?

March 25, 2025

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1996



2009



National Development
Plan in 2004-06



Where did this all started for me?

Latvia, 1995-2011



Azerbaijan

- Medium-term and Result Based Budget Reform
- Introduction of sector strategies and budget (performance) plans



Georgia

- PFM Reform Strategy, PEFA score A
- Implementation of program budget



Ukraine

- PIM reform, including
- Review of Strategic Planning Framework

...and continued

for the World Bank clients

- ❑ How do you get the strategy **really strategic**?
- ❑ How do you make the strategy matter for **budget and public investment** allocation decisions?
- ❑ How and why does it work in **Nordic** countries?
- ❑ Where and why does it goes **wrong**?



30 years later the question is still
there

Is it a happy marriage?



Process



Architecture



Moral Hazard



Impact



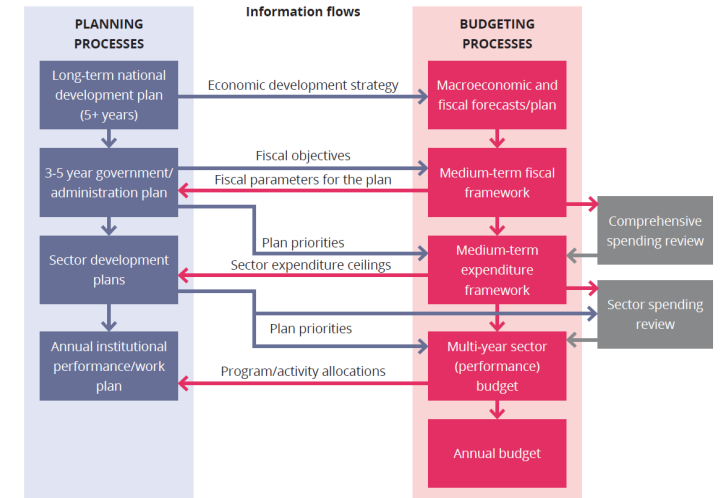
Let's break it down.

Marriage counseling



Process

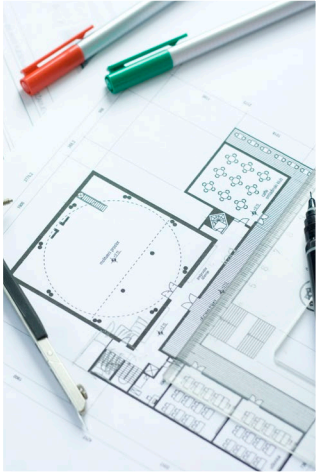
- Complex
- Time and Resource Consuming
- Lack of Incentives
- Undermines the trust / credibility of the system



Source: PEMPAL BCOP [General Guidance on Linking Strategic Planning and Budgeting](#)

Let's break it down.

Marriage Counseling



Architecture and Drivers

- Budget classification vs Strategic directions
- Purpose vs Administration
- Fragmentation
- Aggregation that does not make sense
- Two different types of prioritization



Let's break it down.

Marriage Counseling



Moral hazard

- Goodhart's law
- Linking money to performance = perverse incentives
- Behavioral change
- Asymmetric information

"Any observed statistical regularity will tend to collapse once pressure is placed upon it for control purposes."

- Charles Goodhart

That is:

When a measure becomes a target, it ceases to be a good measure.



Let's break it down.

Marriage Counseling



Impact

- Bulk of expenditure incremental
- Irrational expectations
- External factors
- Budget just one of policy tools



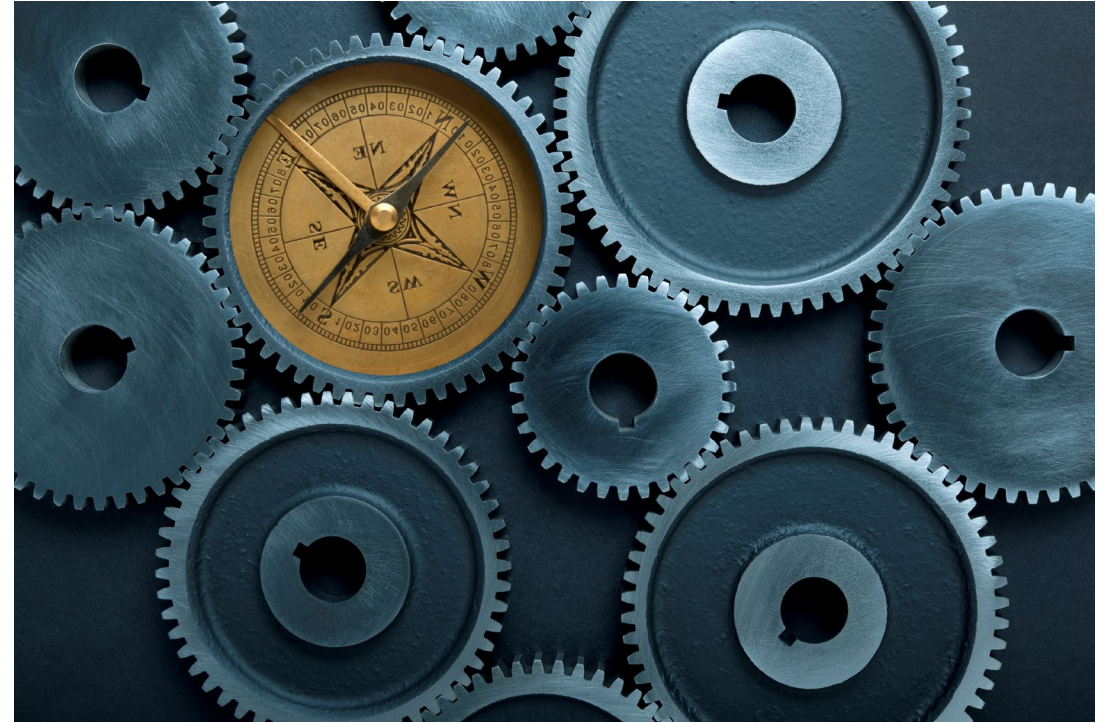
Let's break it down.

Marriage Counseling

Happy Marriage = Dedication and Hard Work

Strategy and Budget Aligns When

- ❑ Strategy and plans provides good sense of direction (not micro planning)
- ❑ Broad political consensus on priorities – where resources should go
- ❑ Strong institutions (MOF, Center of Gov., Fiscal Watchdog)
- ❑ Accountability mechanisms



To sum up

Purpose and Simplicity