

STUDY VISIT REPORT ON PROGRAM BUDGETING AT THE LOCAL LEVEL IN POLAND

This document provides a report prepared for PEMPAL members on the study visit to Poland in early December 2013. It provides information on the objectives of the study visit, the institutional structure of Poland, revenue and expenditures of the subnational governments, and the history and progress of implementation of program budgeting reforms. Information was sourced from presentations and discussions held during the visit, and supplemented with documents available from the World Bank Country Office in Poland. An initial draft of this document was distributed to participants before the study visit, to assist in participating in discussions with Polish government representatives.

Objectives of the Study Visit

All our PEMPAL Budget Community of Practice members are currently implementing program budgeting in some form, and it has been the topic of two major plenary meetings over the last two years. At one of the meetings, the approach by Poland was showcased which was of interest to some of our members who are implementing reforms at the local government level. Reports on these meetings have been posted on the IMF's blog and can be found at (<http://blog-pfm.imf.org/pfmblog/2012/05/program-budgeting-is-on-the-reform-agenda-across-europe-and-central-asia.html>) and

<http://blog-pfm.imf.org/pfmblog/2013/05/twenty-one-countries-meet-in-albania-to-discuss-program-budgeting-reforms.html>

Thus, based on interest expressed by several countries (Croatia, Serbia, Bulgaria, Moldova, Russia, Turkey, Ukraine, Kyrgyz Republic) during the 2012 BCoP plenary meeting and subsequent discussions by the BCoP Executive Committee, a study trip was organized to examine Poland's approach to program budgeting at the local level.

PEMPAL participants were interested in getting an overview of the budget planning process in Poland including the program budgeting reforms, and how these have been used to establish, monitor, measure and improve performance at the local government level. Thus within this context the objectives of the peer learning visit are:

- Improved knowledge of program budgeting in Poland through PPT presentations, and more effectively through discussions with peers on how best these reforms can be applied at the local government level.
- Had the opportunity to consider and discuss with peers and experts how the approaches outlined during the study visit could be applied to their own country contexts (if appropriate) and how their own experiences could be meaningful for other countries.

The agenda included an overview of budget planning processes in Poland and EU; details on program budgeting and performance measures; an overview of the intergovernmental relationships, processes, procedures in program budgeting in the context of strategic planning; and practical case studies of program budgeting from Cracow city, and two regions. During the last day of the Study Visit, participants held a discussion/round table on lessons learnt from the reforms in Poland and from their own countries.



The study visit was hosted by the Marshall Offices of Malopolskie and Świętokrzyskie Voivodships (regional level) and Cracow City Hall (municipal level) in addition to presentations made by the Ministry of Finance (central level). Grzegorz Orawiec, Director of the Department of Regional Policy from the Marshall Office of Świętokrzyskie Voivodship assisted with the development and coordination of the agenda. All logistical and administrative tasks were organized by Tamara Maisuradze-Simic, of the PEMPAL Secretariat at the Center of Excellence in Finance in Slovenia (tamara.maisuradze-simic@cef-see.org) and technical content support provided by Deanna Aubrey, PEMPAL BCOP Resource Team, from the World Bank (deanna_aubrey@hotmail.com). All costs of participation of BCOP members were funded by PEMPAL.

The agenda, and all presentations and documents can be found at <http://www.pempal.org/event/read/99>

Institutional structure

Poland is a republic. The system of government is based on the separation of and balance between the legislative, executive and judicial powers. Legislative power is vested in the two chambers of Parliament, the Sejm and the Senate. Executive power is vested in the President of the Republic of Poland and the Council of Ministers, and judicial power is vested in the courts and tribunals.¹

Since January 1999, Poland has a three-tier system of local (subnational) government (16 regions/provinces or 'voivodships', 314 counties or 'powiats', 2478 municipalities known as 'gminas').² Major cities normally have the status of both municipality and county.



Each of the three tiers has an elected executive and council.

Municipalities (gminas) are the foundation of the self-government system and are responsible for most of the public services at the subnational level. These include, education (kindergarten, elementary schools and lower-level high schools); local public transportation; maintenance and lighting of local roads; maintenance of urban green areas, burial grounds, libraries and community centers; provision of water supply, sewerage, refuse collection and disposal, and distribution of electric power and gas.³ Although municipalities are autonomous, they have incentives for efficiency and effectiveness through citizen pressure and benchmarking between each other. Indicators for each municipality are published to increase accountability and if there are significant differences in costs of

¹ <http://www.president.pl/en/about-poland/polish-political-system/>

² Source: World Bank: Poland: Managing Subnational Debt Sustainability, draft report by Lili Liu and Emilia Skrok (June 2013)

³ Source: World Bank Report No. 52037-PL Poland Mazowieckie Public Expenditure Review Local Responses to the Global Financial Crisis, April 29, 2010

service provision between the municipalities, there is pressure to account for these differences and reduce these costs.

Counties (powiats) are explicitly responsible for certain tasks (constructing and maintaining county roads, operating upper-level high schools and vocational schools and certain general hospitals and cultural institutions). They also perform tasks on behalf of the central government, mainly in the area of social assistance. The heads of counties are also in charge of managing State property.⁴

Regions (voivodships) represent the central government at the regional level. They do not have the task of direct provision of services to citizens like the counties and municipalities. Instead, their role is plan and coordinate the development of their territory. This entails managing EU regional development funds and drafting development strategies. They are also responsible for coordinating the activities of other subnational governments in for example, the areas of environmental protection, transportation, spatial planning and rural development. However, they are directly responsible for the maintenance of regional roads, financing regional railroads, protecting historical monuments, and running certain cultural institutions, and health facilities including some hospitals.⁵ EU funds are coordinated through the Ministry of Regional Development at the central level, with oversight by an audit authority and certifying authority (Ministry of Finance) at the central level. Marshall Offices within each region are in charge of investment expenditures. There is a Chamber of Control in each region, which monitors and controls projects financed by the EU. It reviews the legality of decisions and the economic justification of expenditures. There are also punitive measures such as having to pay back funds with interest, if they are not spent within the required timeframes. From 2014, the Ministry of Finance will collate a chart of regional indicators that are unified across each region. This is aimed at promoting benchmarking across the regions, to improve efficiency and effectiveness.

There are also fiscal rules and targets associated with being a member of the EU. For example, the deficit must not exceed three percent of GDP and the national debt, must not exceed 60 percent of GDP. There are also other targets such as three percent of GDP must be spent on research and development. In accordance with EU planning timeframes, seven year budgets are prepared. There are three levels of indicators: the monitoring of strategy indicators; outcome indicators; and project indicators. The monitoring is done by a Regional Board of the Government and also a Monitoring Committee for Development (who adopt and accept annual reports, evaluate the effectiveness, and recommend changes to the regional Parliament). There is a Coordinator in the Department of Regional Development at the central level who prepares statistical indicators, and coordinates the development and approval of the annual report. Contextual indicators that are monitored include GDP per capita compared to EU average; un/employment rate; average monthly gross salary; change in population. Specific indicators that are monitored include the impact of the strategy on GDP; level of private consumption; share of patents; balance of external migration; and share of exports.

Subnational governments' financing and expenditures

Expenditures: Poland is one of the most decentralized countries in the European Union (EU), with subnational spending accounting for about 33 percent of general government expenditures. The subnational level also undertakes about 60 percent of total capital spending, mainly on transport and

⁴ Ibid

⁵ Ibid

communications.⁶ About half of the EU structural funds⁷ at the subnational level are for infrastructure investments, in particular transport, and water and solid waste management. During the EU structural fund program period 2007-2013, 67.3 billion euros of funds were made available to Poland.⁸ The next cycle of EU structural funds covering 2014-20 will continue to support large capital investments by subnational governments with the objective of closing the infrastructure gap between Polish and Western European cities. The co-financing of much of these investments by the subnational level will be secured through debt instruments.⁹ The European Social Fund has allocated over 9 billion euro to Poland for 2007-13, the biggest allocation on 'soft skills' in Europe, with the next round of funding currently in preparation.

Revenues: The scope of financial autonomy granted to subnational governments is relatively narrow. Only municipalities have revenue autonomy, as they are the only units that can derive revenues from local taxes (the largest being property taxes), but they are unable to create them. Such taxes are imposed with centrally determined ceilings. However, the fiscal policy of municipalities must fit within the limits of the national law enacted by the Parliament.¹⁰ Some subnational governments differ considerably from one another so a system of equalization grants has been constructed. Thus the system allows the subnational governments' access to broad based taxes, while preserving the central governments control over the instruments of fiscal policy, and the ability to redistribute tax money from richer jurisdictions to poorer ones. However, it does make subnational level of governments vulnerable to discretionary decisions of the central government.¹¹ Currently there are court battles within Poland whereby municipalities are suing the Ministry of Finance for delegating tasks to them, without providing adequate sources of financing, to implement them.

Subnational governments derive the vast majority of their revenues from the central government, either in the form of shared taxes or as transfers aimed at particular functions or at revenue equalization (based on set formula).

- The largest source consists of shares of centrally administered personal income tax and corporate income tax. These shares are distributed on the basis of origin (ie where they were collected). As at 2009, municipalities were entitled to nearly 40 percent of the personal income taxes collected within their jurisdictions, counties about 10 percent and regions only 1.6 percent.¹²
- The second most important source is the 'general grant'. The largest component of this grant is for education. This is intended to compensate subnational governments for the costs of providing the level of education assigned to their respective tiers. Its level is not set by formula but is set annually in the budget law. Ministry of Education, then allocates the funds based on enrollment, higher weights for pupils in rural areas and small towns, pupils with disabilities etc.

⁶ Source: World Bank, Subnational Debt Market in Poland – Status and Challenges of Development, May 2013.

⁷ EU Structural Funds are for regions of the EU that earn less than 75 percent of average GDP per capita in the EU. There are currently 372 regions in the EU.

⁸ Source: World Bank: Poland: Managing Subnational Debt Sustainability, draft report by Lili Liu and Emilia Skrok (June 2013)

⁹ *ibid*

¹⁰ Source: Tomasz Uryszek, Financial Management of Local Governments in Poland – selected problems, Journal of Economics, Business, and Management, Vol 1, No. 3, August 2013 available at <http://www.joebm.com/papers/55-X00017.pdf>

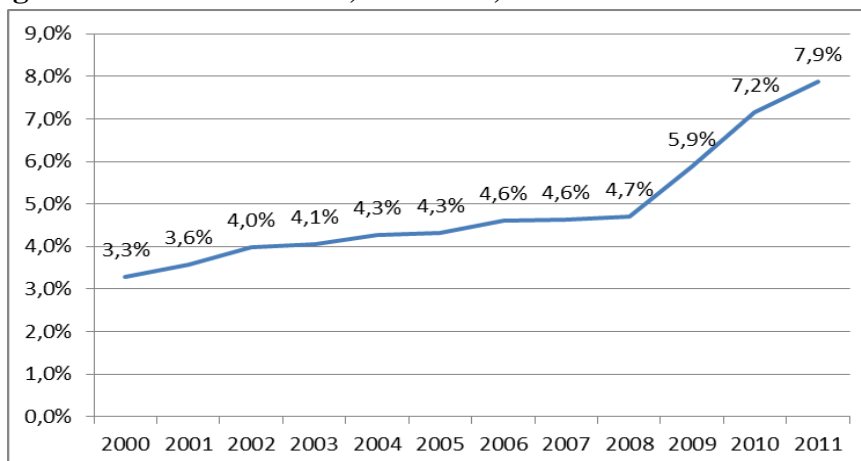
¹¹ *Ibid*

¹² Source: World Bank Report No. 52037-PL Poland Mazowieckie Public Expenditure Review Local Responses to the Global Financial Crisis, April 29, 2010

- Another component is the equalization subvention which is allocated to those subnational governments whose per capita revenues from shared taxes (ie personal income tax, corporate income taxes and municipal local taxes) is lower than the national average. The formula does not attempt full equalization. For example all counties with per capita revenues less than the national average, receive a transfer equal to 90 percent of the difference, regions 72 percent of the difference, and for municipalities a much more complicated approach is adopted that achieves something similar, based on ranges.¹³ The equalization mechanism is also funded by contributions from richer jurisdictions.
- A further (small) component is for specific purpose grants which are provided by the central government and earmarked for specific purposes (transfers to finance centrally-mandated social assistance programs, such as the child allowance or unemployment benefits).

Continuing decentralization and the economic downturn have revealed vulnerabilities in subnational finances with their budgetary performance deteriorating in recent years. In 2009-11, subnational debt more than doubled in both absolute and relative terms, due to less revenue coming in from the economic downturn, the reduction in PIT rates, and the transfer of new responsibilities without adequate financing. Thus subnational debt is increasing its share of total public debt (currently 7.9 percent in 2011, and 4.2 percent of GDP). The subnational governments are free to incur debt, limited only by indicators set forth in the Public Finance Act. Effective from 2014, the previous limits of debt to revenue ratio not exceeding 60 percent and the ratio of annual debt service to revenue not exceeding 15 percent will be replaced. The new debt servicing rule essentially applies the balanced budget rule normalized by the local government's total debt stock, averaged over three years. Thus, in practice, given that since 2011 revenue must be balanced with expenditure, debt can only be used to finance investment.¹⁴ Whether subnational governments can manage their finance and debt prudently is relevant to whether they can sustainably finance capital investments, which are critical to the long term growth prospect of Poland.

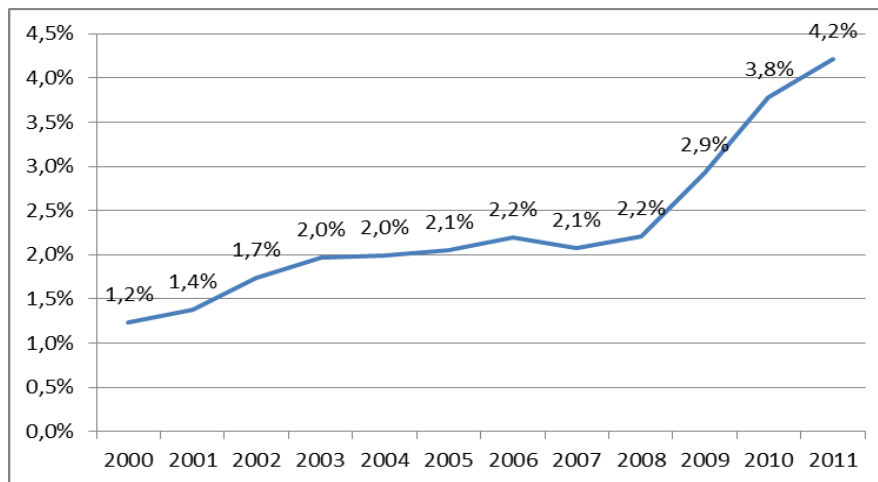
Figure 1. Subnational debt, 2000 – 11, Percent of Total Public Debt



Source: Ministry of Finance data. Taken from World Bank, Subnational Debt Market in Poland – Status and Challenges of Development, May 2013

¹³ Ibid

¹⁴ Source: World Bank, Subnational Debt Market in Poland – Status and Challenges of Development, May 2013.

Figure 2. Subnational Debt, 2000–11, Percent of GDP

Source: Ministry of Finance data. Taken from World Bank, Subnational Debt Market in Poland – Status and Challenges of Development, May 2013

Performance-based budgeting reforms

Improving the quality of governance in Poland through Performance-based budgeting (PBB) at the local level dates back to 1989-1990 when the first budget was prepared by a non-communist government. An important trend in budgetary reforms in the 90s was a strong movement towards decentralization. In 1990 independent self-governed municipalities (gminy) were created. This was an important step towards popularizing the logic of linking money with results given the results of financial interventions at the local level were more visible. Thus, the first performance budget was prepared by the city of Cracow in 1994-1995.¹⁵ This system of program budgeting was based on that implemented by Rochester in the USA. In the case of Cracow, part of the national taxes (40 percent of personal income tax and 10 percent of corporate income tax). Given Cracow is a comparatively richer municipality it must provide equalization monies to support the poorer municipalities.

Cracow has 18 districts and each district has its own budget. There is a multi-annual financial plan for the city and the President and the budget team allocate initial priorities, based on investments already underway, and those investments with complete documentation that are ready for implementation. Expenditures are presented in a multi-annual framework with information on tasks, financing, milestones, estimated results and total costs.

There are two budget units in Cracow city, one for current and the other for investment expenditures. In July the budget preparation process begins with both units providing cost and income forecasts for the following year. The first draft of expenditures for the current budget must be submitted by September each year. Prioritization must be done, and estimates of expenditures are strongly linked to the cost of people, and outsourcing plans specified where used. Staff input is measured by number of

¹⁵ Lukasz Hardt and Maarten de Joung (2011) report on improving the quality of governance in Poland through Performance-based budgeting (PBB) Available at [http://webapp01.ey.com.pl/EYP/WEB/eycom_download.nsf/resources/Raport_11-12-01_IMPROVING_THE_QUALITY_EN.pdf/\\$FILE/IMPROVING_THE_QUALITY_EN_.pdf](http://webapp01.ey.com.pl/EYP/WEB/eycom_download.nsf/resources/Raport_11-12-01_IMPROVING_THE_QUALITY_EN.pdf/$FILE/IMPROVING_THE_QUALITY_EN_.pdf) page 60-61

working hours, with 1,776 hours allocated per year. Cost of working hour per staff is calculated by adding the cost of staff to the investment costs and dividing it by the total working hours. Each task is costed and a coordinator appointed. Each task must be described, including what is to be achieved and how. Each municipality has a strategy of development and each task must be linked to this strategy or at a minimum, linked to a legal act justifying the task. The needs of citizens must also be specified and important issues of economic and infrastructure identified. There is a template for indicators provided in the program budget to present information on results and performance. The financial plan of a task is more detailed to fulfil the rules of the traditional budget. All data is sent by the information system to the budget department of the municipality and then the President presents the budget to the city council until mid-November. For the investment budget, all units must send their plans to the Treasury unit by mid-September each year. The State Property Unit also estimates how much is needed for land purchases and it maintains a registry of strategic (eg sports center for all cities) and operational (investment one street) investments.

On 15 November each year, each municipality must send its total budget to the Regional Audit Chamber. There are 16 such chambers, one in each region. Execution reports must also be sent to the Chambers, and also to the Ministry of Finance at the central level. The Chambers are independent bodies who report to the Minister for Public Administration at the central level under the supervision of the Prime Minister. According to the Public Information Act, the budget must also be published and information given to all citizens.

Although PBB reforms at the local level have been around for over 18 years, central government reforms are relatively new. These new reforms aim to improve public finance management and strengthen allocative and operational efficiency, multi-year budgeting, and transparency and accountability.

The reforms at the central level, were motivated by the EU, which identified results-oriented budgeting as a priority for public finance reform in its assessment of the Polish Convergence Program. The reforms were initially led by the State Secretary in the Chancellery of the Prime Minister, Ms Lubińska, who championed the reform and had experience of PBB at the local level. Ms Lubińska created a special 'Department for State Performance Budget' in the State Secretary in the Chancellery of the Prime Minister, responsible for preparing a methodological framework for PBB. This department was supported by an inter-ministerial working group and independent experts. Methodological guidelines were prepared and PBB was then piloted in the budget chapters of Science and Higher Education. The guidelines, based on best international practice, were developed in 2006. The Department for State Performance Budget collaborated with countries already using a program and performance framework (France, the Netherlands, Slovakia) or on a similar level of reform development (Latvia, Bulgaria). Best practice examples of PBB were reviewed during an international conference organized by the Chancellery of the Prime Minister and the World Bank specifically held to gain lessons for Poland.¹⁶

The resulting guidelines obligated Budget managers to specify tasks, with planned expenditures and description of objectives, indicators and multi-year expenditure for these tasks in the justification to the budget act for 2008. Amendments were also made to the Public Finance Act. After elections in 2007 and a change of government, MoF took over reform efforts. The existing group, that was

¹⁶ Kasek L and Webber D (editors), 2009, Current Issues in Fiscal Reform in Central Europe and the Baltic States 2008: PBB and MTEFs in Emerging Europe

responsible for the reforms, was partly relocated to MoFs Department for Public Finance Reform. Momentum in reform progress was then slightly stalled while MoF revisited existing rules and guidelines.¹⁷

Although the Parliament has received a performance-based version of the budget as part of the justification to the traditional budget since 2008, it was only provided as information. This situation is changing in 2013 with the PBB becoming a legally binding part of the budget Law. Other key stages of the reform include establishing a reporting and monitoring framework, and implementing guidelines for effective management of public funds via multi-year budgeting and developing a comprehensive performance indicators database. Further reforms include preparing methodological guidelines for program evaluations, implementing an IT system for PBB, preparing the first report on budget execution (based on the performance framework from 2013), and reporting on the impact of PBB on the public finance system after it has been in operation for a few years.¹⁸

The system identifies 16 functions of Government (drawn from COFOG) and is similar to France in approach. These 16 functions are divided into 800 programs, which are further divided into sub-tasks for the operational, managerial level. Each program has three to five indicators. There is a five year planning horizon and nine strategies for development. The central level is also considering introducing a process of spending reviews similar to what has been introduced in UK. There are two types of spending reviews, strategic reviews that have a multiyear perspective which prioritize particular expenditures, and secondly, functional spending reviews, which are more of an ad hoc exercise to identify savings. In 2014, the Ministry of Finance will prepare evaluation documents for the main areas of spending and will examine key performance indicators of budget holders, to assess the efficiency and effectiveness of expenditures as part of an initial spending review process.

The OECD has called the scope and ambition of the reforms as ‘striking and great ingenuity and effort have gone into their design and implementation so far.’¹⁹ However, in 2011 the Supreme Audit Office appraised negatively the principles and methods applied by the Minister of Finance in carrying out the process of implementing the concept of results-based budgeting but recommended that the government should continue the full implementation of the methodology. The Minister of Finance refused to accept the negative general assessment of PBB implementation presented in the post-audit report but declared his willingness to implement the recommendations formulated in the post-audit report.²⁰

Key Learnings from the Polish Experience

The main learnings from the reforms are the importance of having a multi-level governance approach within the context of strong, strategic planning. There are clear and precise legal acts, a system of

¹⁷ Kasek L and Webber D (editors), 2009, Current Issues in Fiscal Reform in Central Europe and the Baltic States 2008: PBB and MTEFs in Emerging Europe

¹⁸ Kasek L and Webber D (editors), 2009, Current Issues in Fiscal Reform in Central Europe and the Baltic States 2008: PBB and MTEFs in Emerging Europe

¹⁹ OECD, Performance Budgeting in Poland: And OECD Review, in OECD Journal on Budgeting, Vol 1, 2011 available at <http://www.oecd.org/gov/budgeting/49042959.pdf>

²⁰ Supreme Audit Office of Poland presentation of audit of results-based budgeting available at <http://www.asz.hu/professional-event/audit-concerning-the-introduction-of-the-results-oriented-budgeting-in-poland/17-poland.pdf>

institutions (both external and internal), and incentives for regions who spend the most efficiently (in the form of extra reserves for the top five performing regions) and municipalities, through benchmarking against other regions. There is a strong system of monitoring which involves data collection and analysis. For the regions, this includes clear links back to the strategic plan, and corrections are made where necessary. For example, if there is a 10 percent difference in the forecasts, an official procedure is to be following and explanation required. If there is a 15 percent difference, the Ministry of Regional Development must provide explanation. Electronic reports are sent to the European Commission, and there is a monitoring committee within Poland that comprises representatives from the public sector, social partners, local self-government, universities, and employers' associations. They monitor aims, outcome, output and financial indicators. The regional strategy also has an obligation to link to the national strategy and the Ministry of Regional Development issues methodological guidelines in strategy development.

For more information on the reforms, the following government websites have been provided:

www.mf.gov.pl

www.malopolskie.pl

www.wrotamalopolski.pl

Ministry of Finance, Performance Budget in Poland, Marta Postula, Piotr Perczyński (ed), Warsaw 2010 (hard copy provided).

Status of Reforms in Participating Countries

Bulgaria

Bulgaria has three levels of government including 264 municipalities. The National Assembly adopted a new Public Finance Act in 2013 which shall enter into force in 2014. It is the legal basis for preparing the budget of local authorities. The Ministry of Finance's Local Government Financing Directorate oversees the transfers and subsidies and a draft bill is prepared and presented to the National Association of Municipalities, and reviewed by the Council of Ministers.

The Municipal Council adopts a regulation on the conditions and procedures governing the drawing up of the budgetary forecast on local activities for the following three years, within the context of compliance to principles, rules, and procedures set out in the Public Finance Act. The regulation may stipulate that the municipal budget shall be drawn up, adopted, implemented and reporting in a 'programme' format. All transfers, subsidies are included in the State budget and must be approved by the National Assembly and are subject to audit.

According to the Bulgarian legislation a programme budget format is a budgetary document which presents the medium-term objectives of a budgetary organisation that require the relevant financing, expenditure under budget programmes that, once implemented, will lead to the achievement of objectives, as well as performance indicators that include information necessary to measure the results achieved and the implementation of the budget programmes.

Ukraine

Ukraine has much in common with Poland. There are three levels of government and the second level will introduce program budgeting by 2014, with program classification already implemented in pilot regions. Ministry of Finance has issued orders clarifying these reforms. Some personal income taxes are given to the local budget, and any gaps are subsidized from the central level. Local authorities have delegated tasks and are autonomous from the central level.

Russia

The budget system of the Russian Federation has three tiers: federal (federal budget), regional

(budgets of 83 subjects of the Russian Federation), and local (budgets of 22,955 municipal entities, including: 1,816 municipal districts, 517 city areas, 1,672 urban localities and 18,693 rural localities, and intra-city municipal divisions of the federal cities of Moscow (146) and Saint-Petersburg (111)).

In 2000, the Budget Code of the Russian Federation came into force defining major approaches to organization of the budget process at all tiers of the budget system of the Russian Federation. It gradually introduced various instruments providing for implementation of budget reforms, including program budgeting.

In 2010-2013 the Russian Federation formulated and stipulated in legal acts to start implementation of basic methodological approaches to national program budgeting at the federal level. At present, the Government of the Russian Federation has approved a list of 42 national programs of the Russian Federation covering the main fields (areas) of executive federal bodies' activities.

The 2014 federal budget and 2015 and 2016 plans have been drawn up for the first time not only by institutions, but also based on 39 national programs approved by the Government of the Russian Federation. The share of program expenditure in the 2014 federal budget will make up 58.6%. After adoption of the national programs "Developing the Pension System in the Russian Federation", "Ensuring National Defense Capability" and "Social and Economic Development of the Arctic Zone of the Russian Federation by 2020", the share of program expenditure in the federal budget will exceed 90 per cent.

Since 2014, the subjects of the Russian Federation and municipal divisions can choose to apply budgeting approach based on the structure of national (municipal) programs. Some of the regions have already done a lot of work to move towards national program budgeting: as of 2013, legal acts on the order of development and implementation of national programs were adopted by 45 subjects of the Russian Federation.

Within the National Program of the Russian Federation "Enabling Efficient and Accountable Regional and Municipal Finance Management, Improving Budget Sustainability for the Subjects of the Russian Federation", the Ministry of Finance of the Russian Federation provides subsidies from the federal budget by tender on implementation of regional programs on improving performance of public spending, including, among others, activities on implementation of program budgeting at the regional and local levels. In the 2014 federal budget and 2015 and 2016 plans, provisions for these subsidies make up 950 million rubles yearly.

For the future, there are plans to update the methodology and practice of budgeting national programs of the Russian Federation, subjects of the Russian Federation and municipal programs.

Serbia

Serbia has two levels of government. Serbia is not a member of the EU but is a candidate country. It is piloting program budgeting in 6 line ministries since 2006 and hopes to achieve full implementation by 2015. Serbia is currently in the process of training budget beneficiaries. As part of the process of implementation, the MoF prepared draft program structures in February at the start of the budget process. This enabled dialogue to start with the line ministries and although they initially saw this as additional work, over time they have come to see the value of measuring results to promote their achievements and to improve their performance.

Kyrgyz Republic

Activation of the process related to implementation of program budgeting in the Kyrgyz Republic took place in 2011, when six line ministries were included in the pilot project on program budgeting; these ministries presented their budgets for 2012-2014 by budget programs and budget measures, with breakdown of funds by them, with performance indicators and their target values.



In 2012, in continuation of works related to implementation of program budgeting, the Ministry of Finance prepared a step-by-step instruction on preparation of budgets in the program format, and took measures aimed at enhancement of capacity of specialists of ministries and departments by means of conducting trainings and workshops on program budgeting; the list of ministries and departments that present budgets for years 2013-2015 in the program format was expanded from 6 to 15.

For the purpose of strengthening interconnection of the budget with strategic priorities, the list of ministries and departments that present budgets in the program format is being expanded. Thus, in the current year, during preparation of the draft budget for years 2014-2016, the list of ministries and departments that presented their budgets in the program format has been expanded from 15 to 28. Meanwhile, budget expenditures are presented in the program format for 60 %. Practically all large budget recipients are presented in the program format, except for power departments.

However, based on the results of the preparatory work carried out in the course of the last three years, the following problems remain pressing:

- Formal approach of ministries and departments to the program budget,
- Despite annually conducted trainings, there is not enough capacity of specialists of certain line ministries for preparation of budgets on the program basis, and it is because of permanent personnel turnover in public bodies and also because of resistance of certain ministries and departments to new ways.

At present the program budgets of ministries and departments are rather of informative nature, and because of that one can clearly see goals, priorities and areas of activities of the ministries and departments. As of today, methodological manuals were developed on program budgeting for application both on the level of the Ministry of Finance, and on the level of line ministries, such as:

- The budget circular on preparation of a budget on a program basis for 2013, and forecast for 2014-2015;
- The Instruction on determination of performance indicators for the purposes of program budgeting;
- The methodological guidance on elaboration of Medium-Term Budget Expenditure Strategies (hereinafter referred to as the MTBES) in the framework of the medium-term budget forecast;
- The instruction on the procedure of preparation and presentation of a report on achievement of performance indicators on of public bodies of the Kyrgyz Republic;

The planned measures related to implementation of program budgeting are as follows:

- Providing a legislative framework for program budgeting in the budget legislation (the draft of the Budget Code envisions a section “Budget Programs”);
- Further improvement of guidance materials related to preparation of budgets in the program format;
- Preparation of the mechanism for monitoring indicators and control over efficient use of budgetary funds;
- Creation of a database for monitoring performance indicators;
- Development of program classification of expenditures and its implementation in the execution system;
- Systematic trainings for specialists of Ministries and departments on the topic “Program Budgeting”;
- Expansion of the list of ministries and departments that present budgets in the program format with full coverage in the course of preparation of the budget for years 2015-2017.

The Ministry of Finance began work on monitoring indicators of performance of budgetary programs and measures. At present, an instruction has been approved on the procedure for formation and presentation of the report on achievement of performance indicators in connection with budget

programs and measures of public entities of the Kyrgyz Republic, which was tested in pilot ministries. According to the results of 2012, the Ministry of Agriculture and Amelioration, the Ministry of Education and Science, the Ministry of Transport and Communications, the Ministry of Health, the Ministry of Youth, Labour and Employment and the Compulsory Medical Insurance Fund provided information on execution of performance indicators. It is a good practice, and there are plans to implement them further on. At present, implementation of program budgeting is at the initial stage, when budgets on the program basis are in informative format.

Republic of Moldova

For the first time, Performance-based budgeting approach was applied in Republic of Moldova in 2003, and covered expenditures of several central public authorities(4). For the budget year 2014, all central public authorities have their budgets covered by programs. Programs (Purpose, Objectives and Performance indicators) are not part of the annual budget law and are provided to Government and Parliament, just for information.

Programs are developed in accordance with national and sectoral strategies (included in the Medium Term Expenditures Framework). The structure of a program is: 1. Program; 2. Subprogram and 3. Activities. Elements of a subprogram are: 1. Purpose; 2. Objectives and 3. Performance indicators. List of programs, subprograms and activities are part of the Budget classification, which is approved by the Ministry of Finance. Program classification has a strong linkage with Functional classification. In order to regulate process of drafting, approving, monitoring and reporting of programs, Ministry of Finances also has approved a methodological instruction.

Concerning the program budgeting at the local level, first of all, it has to be mentioned, that Republic of Moldova has two levels of local government: First level (I) – city halls (900 units) and Second level (II) – districts (35 units). According to the Government Action Plan, performance-based budgeting has to be implemented for Local public administration authorities of the second level (districts), beginning with year 2015, for Local public administration authorities of the first level (city halls), from year 2016. The guidelines in program budgeting at the local level are The Methodological instructions and The Budget classification approved by the Ministry of Finance.

In order to ensure a better understanding of the performance-based budgeting approach at the local level, Ministry of Finance intends to provide, during the year 2014, an extensive training for all civil servants from local public authorities, involved in the budget preparation process. At the moment, Ministry of Finance is developing a Financial Management Information System, which will perform all stages and steps of the budget process (inclusive medium-term planning and program budgeting) for all spending units (inclusive units at the local level).

Croatia

In the Republic of Croatia there are two levels of authorities: state and local level of authority.

Republic of Croatia has two types of local authorities, and they are:

1. counties [territorial (regional) self-government units]
2. cities and municipalities (local self-government units)

In the Republic of Croatia there are 20 counties, the capital city of Zagreb has the authority and legal status of both a county and a city, 127 cities and 428 municipalities, which all totals to 576 local and territorial (regional) self-government units. In the Republic of Croatia medium level of authority is not established, as the case in many European Union countries. In the case of Poland, as we have been introduced to, there are voivodeships.

In the Republic of Croatia education (elementary and medium level), social welfare (social welfare centers and homes for elderly), health and firefighting services (public firefighting units) are decentralized. During 2013, 183 local and territorial (regional) self-government units have taken over of one or several decentralized functions.



In accordance with the Budget Act, the state budget and budgets of local and territorial (regional) self-government units are planned, prepared and adopted covering a period of one year with forecasts for the following two years.

Local and territorial (regional) self-government units plan their budgets in accordance with the Instructions of the Ministry of Finance for preparation of local and territorial (regional) self-government units budgets for a three-year period and in line with their financial capabilities (fiscal capacities). Above mentioned Instructions of the Ministry of Finance have been developed on the basis of Economic and Fiscal Policy Guidelines of the Government of Republic of Croatia for a three-year period, enacted by the Government on the basis of a Strategy of Government Programs for a three year period, which clearly defines priorities and goals of the Government of Republic of Croatia.

The Budget Act provisions stipulate budgetary classifications which represent a base for budget planning at the state, as well as at the local level. The Rulebook on budgetary classifications stipulates the type, content and implementation of budgetary classifications. The provisions of above mentioned Rulebook refer to the state budget and budgets of local and territorial (regional) self-government units, state budget's budgetary users and budgetary users of local and territorial (regional) self-government units, and extra budgetary users. The budgetary classifications provide a framework for presenting and performing systematical monitoring of revenues and receipts, and expenditures and expenses per user, goal, purpose, type, location and source of financing. The budgets and budgetary users are obligated that in planning, executing, accounting and reporting processes report on revenues and receipts, as well as on expenditures and expenses in accordance with the budgetary classifications, aligned with the Budget Act provisions and above mentioned Rulebook.

Having in mind that study visit to Poland covered the topic of program based budgetary planning at the local level in Poland, below you can find some additional information on program based classification in the Republic of Croatia.

Program based classification is established upon definition of programs, activities and projects, while at the state budget level upon definition of main programs. Therefore, the main program exists only at the state level, and is comprised out of programs directed toward the fulfillment of goals stipulated in the Strategy of Government Programs of the Republic of Croatia for a three year period. Program of a county should be aligned with the main program of the state, while programs of the cities and municipalities should be aligned with the program of a county which they are part of. Program is a set of independent, closely related activities and projects directed toward the fulfillment of a common objective. Program is comprised out of one or more activities and/or projects, while activity and project belong to only one program. Activity is part of a program whose duration of implementation is not pre-determined, and where expenditures and expenses for achieving of goals determined by the program are planned. Project is part of a program whose duration of implementation is pre-determined, and where expenditures and expenses for achieving of goals determined by the program are planned. Project is planned on one-time basis, and can be current or capital.

With the introduction of medium term fiscal framework and program based planning in accordance with the best European practice, the emphasis is placed on the results being achieved by implementing programs, activities and projects that are planned in the budget, instead on the type and the amount of costs. This requires taking over the responsibilities for results related to the program implementation (and activities and projects) from local and territorial (regional) self-government units and their budgetary users.

Other information related to the Republic of Croatia

The State Audit Office is the highest audit institution of the Republic of Croatia, autonomous and independent in its activities. On the basis of the Law on State Audit, the audit of state expenditures is performed, as well as audit of financial reports and financial transactions of public sector units, local

and territorial (regional) self-government units, legal entities which are partially or completely financed from the budget, public enterprises, companies and other legal entities in which Republic of Croatia, i.e. local and territorial (regional) self-government units have a majority ownership of the shares, i.e. interests, and of the Croatian National Bank. Beside State Audit Office, the Budget Supervision Sector is established within the Ministry of Finance, which performs supervision function over the implementation of above listed institutions' regulating acts.

Until January 1, 2013, the Republic of Croatia was divided into three NUTS 2 statistical regions (nomenclature of territorial units for statistics). After the mentioned date, the Republic of Croatia is divided into two NUTS 2 statistical regions (defined by the number of inhabitants, NUTS 2 region is limited to the scope from 800.000 to max 3.000.000 inhabitants). For comparison purpose, Poland has 16 NUTS 2 regions. In the Republic of Croatia this new classification is used for Cohesion policy purposes and is being implemented as of July 1, 2013, i.e. after the accession to the European Union.

Key Learnings of Participants

All participants were very interested in performance based budgeting from the point of view of the Polish experience and their approach to budgetary documents, and subnational financing and expenditures. The performance based budgeting approach was presented as a useful tool for breaking down a broad range of policy objectives by introducing the elements of concrete targets, clear accountability for results and cyclical reporting and monitoring. Those countries that are not a member of the EU, were also interested in the fiscal rules adopted by the EU such as those applied to the budget deficit and public debt. The trends and issues currently being experienced by EU countries, and how these are measured across the 372 EU regions, was also of interest. Indicators show that Europe has a declining and aging population, with insufficient technological innovation. The strategies of Europe 2020 and European Territory 2050 strategy aim to reverse these trends and ensure the EU can compete with other areas such as the USA and the countries comprising the BRICs who are growing in comparison. Concerns still exist related to emigration of the population, with Poland losing 2 million of its 40 million population and challenges still existing in the poorest regions situated on the 'East Wall' of the country.

Participants were also interested to hear about the way staff costs were divided between different programs and practical aspects of program budgeting in the context of regional development policy. Also, although not mandatory, the local governments tracked execution of the budget at the program level, which provided a useful example of application of program budgeting.

One of the most important characteristic (lessons) of the Cracow system for program budgeting is the need for political support for such a budgetary and management tool. Using it since 1994-1995, the local administration demonstrated an understanding of benefits of program budgeting and its value to showing governments' commitments to taxpayers to explain how the local public finance will be used.

Participants were grateful for the governments of Poland for sharing their experiences with program budgeting, which they hope the tool will assist the country in addressing some of its key challenges.