

# Financial Law Review

No. 19 (3)/2020

UNIVERSITY OF GDAŃSK • MASARYK UNIVERSITY • PAVEL JOZEF ŠAFÁRIK UNIVERSITY • UNIVERSITY OF VORONEZH  
<http://www.ejournals.eu/FLR>

ALEKSEI G. PAUL\*

## PERFORMANCE BUDGETING AS AN INTERNATIONAL APPROACH TO BUDGET REGULATION

### Abstract

The paper discusses introduction of multiannual budgetary planning and transition to performance budgeting in the Russian Federation. The author describes some results, problems and the future of the reform.

The paper highlights implementation of international experience in the process of the reform. Performance budget is applied in the practice of many countries (the United States, New Zealand, the United Kingdom, the Netherlands, France, Germany, Slovakia). The Russian Federation has also taken ideas of the new system of budget planning. In the middle of 2000s the Russian Government approved the Conception concerning the reform of budget process in the Russian Federation for the period 2004-2006. It was the start of the reform. However, more than 15 years after the beginning of the reforms the Russian budget legislation and practice are in the process of improving. Foreign and international achievements in the field of performance budgeting could be helpful for Russian budget law.

**Key words:** performance budgeting, medium-term financial planning, budget expenditure, state program, agency target program.

**JEL Classification:** K20, H61, H68, H72

---

\* Professor of Financial Law Department, Faculty of Law, Voronezh State University (Russia, Voronezh), doc. habil., ResearcherID V-1728-2018, ORCID ID 0000-0003-3955-5479, [pag@law.vsu.ru](mailto:pag@law.vsu.ru)

## Introduction

The Russian Federation is a sovereign state that has its own financial (budget) legislation and develops its own theory of financial law. At the same time Russian scientists and officials study foreign and international experience and implement the best practice.

One of the most significant reforms of a budget regulation over the latest years was connected with the introduction of performance budgeting as a new system of budget planning and public administration.

Performance budget is an institution that has been applied and proved effective in the practice of many countries (among which are the United States and New Zealand), including European Union Member States (e.g. the United Kingdom, the Netherlands, France, Germany, Slovakia) [Postula 2018: 247].

Firstly, the greatest success in design and implementation of performance budgeting was reached in the USA where the first attempts to use it were carried out in the late 1940s – early 1950s [Khanafina 2016: 48–49]. In the 1960s – 1970s new ideas of budget planning and financing started to be implemented in Great Britain and France [Ruśkowski 2011: 9–12]. In the 2000s some Central and Eastern European countries began introducing some elements of performance budgeting as well. For example, in 2006 the reforms started in Poland [Ruśkowski 2011: 19].

The Russian Federation has also taken ideas of the new system of budget planning. In the middle of 2000s the Russian Government approved the Conception concerning the reform of budget process in the Russian Federation for the period 2004-2006 [Act no. 249/2004]. The Conception became the basis for introducing performance budgeting in the Russian Federation.

However, more than 15 years after the beginning of the reforms the Russian budget legislation and practice are in the process of improving. Foreign and international achievements in the field of performance budgeting could be helpful for Russian budget law.

The aim of the paper is to discuss some results and prospects of performance budgeting as well as to make advances for the improvement of the legislation.

To achieve this goal the author applied a dialectical method as well as a historical method.

## **1. International and domestic guidelines of performance budgeting in the Russian Federation.**

Performance management and budgeting reforms are intended to transform public budgeting systems from control of inputs to a focus on outputs or outcomes, in the interest of improving operational efficiency and promoting results-oriented accountability [Shah 2007: 137]. The reform should concern the whole system of public administration, not just a budget system and financial authorities.

The Russian Government tried to consider the international experience and reflect it in its domestic rules. The principles of the performance budgeting were established in the Russian Federation by the Conception concerning the reform of budget process in the Russian Federation for the period 2004-2006.

Earlier in the post-Soviet period budget planning was based on other approaches. By the beginning of the reform Russian budget law had not provided for an estimation of budget expenditure results. There were the following problems:

- a) mid-term financial plans were developed for annual budget cycle only; budget expenditures were planned just for the next year. Budget legislation did not determine sums and structure of budget appropriations allocated to budget administrators;
- b) budget expenditures were calculated by adjusting (indexing) recent year expenditures. The Budget Code of the Russian Federation did not prescribe mechanisms of budget resource redistribution. We did not have clear criteria and procedures for selecting funding directions in accordance with the priorities of the state policy;
- c) there was no clear formulation of budget expenditure objectives as well as criteria for estimating budget administrator results.

The main purpose of the Conception was the introduction of the conditions for the most efficient management of the state (municipal) funds in accordance with the priorities of the state policy. The essence of the reform was to shift the budget process from "management of budgetary resources (expenditures)" to "management of results"; to enhance responsibility and to expand the independence of budget administrators in the framework of medium-term targets.

Russian authorities offered the following directions of the reform:

- a) to change the budget classification of the Russian Federation and the fiscal accounting in accordance with international financial reporting standards;
- b) to divide the budget into existing obligations and accepting (new) obligations;
- c) to improve medium-term financial planning;
- d) to introduce performance budgeting;
- d) to streamline procedures for drafting and adopting law on budget.

The core of the new organization of the budget process should be the concept of "performance budgeting in the medium-term financial planning" widely used in the world. In other words, the main purpose was to increase the horizon of financial planning and to introduce program-objective methods of budget planning.

Some guidelines of the reform were based on international experience of budget reforms. According to the Russian financial authorities, a number of budgetary and legal institutions were affected by international standards adopted by the International Monetary Fund, the World Bank and the Organization for Economic Co-operation and Development [Artukhin, 2012]. In relation to the introduction of multi-annual financial planning and performance budgeting the Conception stated that one of the main elements of budget reforms undertaken in the last decade in most developed countries was the transition to medium-term budget planning. A budget cycle begins with a review of the main parameters of the medium-term financial plan, which were approved in the previous budget cycle, with the analysis of changes in external factors and conditions, with substantiating changes in the main budget indicators of the planning year as well as updating the budgetary projections for the next years of the forecasting period.

The authors of the reform proposed introducing the above mentioned approach into the Russian practice of budget planning. The budget for the next fiscal year should become a part of the mid-term (three-year) plan that was annually updated. On the one hand, this system ensures the continuity of the state policy and predictability of budget allocations; on the other hand, it allows making transparent annual adjustments in accordance with the policy objectives and the conditions for their achievement.

## **2. Multiannual budget planning as an element of performance budgeting**

Multiannual budget planning is a significant element of the performance budgeting. A medium-term expenditure framework is a structured approach to integrating fiscal policy and budgeting over a multi-year horizon, and links fiscal forecasting, fiscal objectives or rules and planning of multi-year budget estimates [OECD Best Practices For Performance Budgeting, 2018: 17]

In the Russian Federation a multiannual budgeting was introduced from the beginning of the reform. Budget legislation provided for the transition to drawing up three-year budget in 2007 when the Parliament of the Russian Federation amended the Budget Code. The first multiannual budget was the federal budget for 2008 financial year and 2009–2010 planning period. The amendments to the Budget Code of the Russian Federation provided for the annual drafting and adopting of the federal budget for three years (the next financial year and two-year planning period). Those rules should ensure continuity and predictability of fiscal policy, contribute to the sustainability of the budget system of the Russian Federation, improve the reliability of budget expenditures, and provide an opportunity to conclude state contracts for three years or for the whole period of implementation of the long-term objective programs (investment projects).

The basis of budget planning consisted of the method of "sliding three-year budgeting". In such conditions budget expenditures adopted earlier for second and third years of the three-year period become the basis of the next year budget. Actually, the Russian budget legislation reflected provisions of European approaches prescribed to Member States to establish a credible, effective medium-term budgetary framework providing for the adoption of a fiscal planning horizon of at least 3 years, to ensure that national fiscal planning follows a multiannual fiscal planning perspective [Act no. 2011/85/UE/2011: Art. 9].

Adopting projections for second and third years of planning period did not mean a prohibition of their adjustment in the next budget cycle. However, these changes should not worsen the position of the main budget administrators and recipients of budgetary transfers.

Thus, the "sliding three-year budgeting" ensures, on the one hand, the stability and predictability of the budgetary projections and, on the other hand, the possibility of their amending in case of changes, restructuring expenditures, and the implementation of new priorities of the budget policy.

In order to increase budget sustainability, the Budget Code introduced "conditionally adopted expenditures" (5 percent of the total expenditures) that are not distributed among main budget administrators and articles of budget classification for planning period (second and

third year of the three-year period). These rules allowed to create a reserve in case of an unexpected decline of incomes or to use the "conditionally adopted expenditures" for making new obligations in the next budget cycle.

Budget rules concerning "sliding three-year budgeting" were firstly indispensable just for the federal budget. Regional and local authorities of the Russian Federation have a choice between adopting their budgets for three years or for the next financial year. From 2015 the Budget Code prescribed three-year budget planning for regional budgets. So, now only the local budgets could be drawn up for either one year or three years. However, in such a case the local authorities should make a mid-term financial plan. This practice is similar to some European countries. For example, in Czech Republic territorial self-government units are obliged to compile not only annual budgets, but also budgetary outlooks for the period of 2 to 5 years following the year for which the annual budget is compiled [Parizkova 2017: 178].

### **3. Performance budgeting and target programs.**

Performance budgeting is a system of budgeting that presents the purpose and objectives for which funds are required, the costs of programs and associated activities proposed for achieving those objectives, and the outputs to be produced or services to be rendered under each program [Shah 2007: 143].

Before the reform Russian budget legislation provided for line-item budgeting. Financial authorities drafted budgets by indexing previous year budget expenditures. There were no estimations of budget expenditure effects.

Targeted programs have begun to be introduced in budgetary practice since 1995. However, the procedure and methodology for their development and implementation did not fully comply with the requirements of the program-target planning method. The goals and results of a number of federal target programs were stated amorphously, without defining criteria for evaluating their results; responsibility for the implementation of the program was blurred between executive bodies of state power. As a result, on the one hand, the funds allocated for the financing of targeted programs were actually used as a kind of additional financing of the functions performed by the executive bodies, and on the other hand, the amount of allocated funds was constantly changed because of ambiguity of the wording of the goals of the programs [Veremeeva 2018].

After the start of the reform federal and agency target programs became the main instruments

of budget planning. The federal target programs had an inter-sectoral nature. They should be adopted by the Government of the Russian Federation and include a large investment, scientific-technical and (or) structural projects requiring a long period of realization. The agency target programs were intra-sectoral. Special executive authorities adopted them.

The Budget Code of the Russian Federation provided for those types of programs. They were used in the budget planning. However, currently federal target programs were renamed into the state program of the Russian Federation.

Nowadays the state programs should, in particular, contain the objectives and priorities of the state policy; the list and characteristics of the main activities to achieve the state program objectives with timelines for their implementation and expected results; the main measures of the legal regulation aimed at achieving the objectives and (or) the expected results of the state program; the information about the objectives indicators of the state program broken down by years of its implementation, information about financial provision of the state program funded by the federal budget (details by the main budget administrators, by state programs and by the years of the state program implementation).

Now the Government of the Russian Federation adopted the Procedure for development, implementation and estimation of effectiveness for state programs of the Russian Federation [Act no. 588/10], and the List of state programs of the Russian Federation [Act no. 1950-r/2010]. The Ministry of Economic Development approved the Methodological recommendations for the development and implementation of state programs of the Russian Federation [Act no. 582/2016]. As a result, over 40 state programs are implemented in the Russian Federation at the federal level.

Sometimes a significant problem arises in connection with an inclusion (reflection) of target in law on budget. In the European Union a budget is presented to the legislature as a set of programs. This may be in addition to, or replace, presentation based on administrative and economic classification [OECD Best Practices for Performance Budgeting 2018: 7]. In Russia the law on federal budget for 2014 and for planning period of 2015 and 2016 became the first budget approved in the context of state programs. It contained an annex (functional classification of expenditure) that broke down expenditures by state programs.

Nowadays performance budgeting is implemented at the regional as well as federal level with methodical support of the Ministry of Finance.

#### 4. Nowadays problems of performance budgeting establishment

Despite the gradual implementation of multi-annual financial planning and performance budgeting in Russian budget law the reforms continue. Russian authorities took into account the approaches adopted by some international organizations. The Code of Good Practices on Fiscal Transparency prescribes that an annual budget be realistic, and be prepared and presented within a comprehensive medium-term macroeconomic and fiscal policy framework. Fiscal targets and any fiscal rules should be clearly stated and explained [Act 2007: Art. 2.1.2]. In fact, Russian budget law tries to solve the same problem.

The Government of the Russian Federation adopted the Program for increase of public (state and municipal) finances management efficiency for the period until 2018 that showed some unsolved problems in budget planning, including:

- absence of regulated procedures for drafting, studying and using socio-economic development forecasts in the budgetary process and in drafting of state strategic planning documents;
  - the Government of the Russian Federation did not take into account achievement of state program objectives in planning of budget appropriations. The issues of state program efficiency are not essential in drafting of federal budget;
  - absence of an integral system of strategic planning and weak linkage between strategic and budget planning;
  - uncertain relations and lack of coordination between various target program means;
- the incompleteness of formation and limited practice of state (local) programs as the main instrument to achieve the objectives of the public (local) policy as well as the basis for budget planning [Act no. 2593-r/2013].

The Program suggested the following solutions:

- 1) to define all directions of the state (local) policy only in the framework of state (local) programs. At the same time, strategic planning documents should define the main directions of the policy as well as requirements for the state (municipal) programs;
- 2) to draft the Budgetary strategy of the Russian Federation for the period until 2030 that should determine budget expenditures for the state programs on the basis of



main budget parameter forecast. The President of the Russian Federation prescribes the Government of the Russian Federation to complete the development of the budgetary strategy of the Russian Federation for the period up to 2030 in a short time as well as to amend the long-term forecast of socio-economic development if it is necessary (Act, 2013). This suggestion meets the requirements of some European directives that demand that projections adopted within medium-term budgetary frameworks be based on realistic macroeconomic and budgetary forecasts (Act no. 2011/85/UE: art. 9(3)).

Russian scientists express the same opinion. They say that the problems related to the performance budgeting due to the objectives of budget expenditures are formulated outside the budget process in the course of budget administrator activity. In addition, detailed plans of economic and socio-economic development (national economic plans) (three years, five years, and others) are not published.

The mechanism of drawing up such plans in the Russian Federation was lost with the dissolution of the USSR and the State Planning Committee of the USSR [Komyagin 2011].

By now, the Ministry of Economic Development of the Russian Federation has adopted the Forecast of long-term socio-economic development of the Russian Federation for the period until 2030. Based on this document in accordance with the requirements of the Budget Code of the Russian Federation, the Ministry of Economic Development drafts a forecast of socio-economic development of the Russian Federation for the next financial year and a two-year planning period. In its turn, this forecast is the economic basis for drafting budget for the next financial year and a two-year planning period. In addition, the Government of the Russian Federation has adopted the Concept of long-term socio-economic development of the Russian Federation for the period until 2020 [Act no. 1662-r/2008].

Moreover, from 2018 in the Russian Federation state policy started to be realized through the so-called national projects. The President of the Russian Federation prescribed the Government to develop (adjust) the national projects in accordance with the national targets [Act no. 204/2018]. At the same time the Russian Budget Code does not define legal nature of the national projects and their correlation with state and agency target programs. So it is necessary to revise existing programs and reflect targets of the national projects in state and agency target programs.

## 5. Conclusion

Thus, over the last 15 years the Russian Federation has made serious steps in the transition to medium-term financial planning on the basis of performance budgeting. Federal and regional budgets are adopted for the next financial year and a two-year planning period with breaking down by state and agency target programs. Local budgets could be drawn up for either one year or three years. However, in such a case the local authorities should make a mid-term financial plan.

There are problems related to correlation between mid-term financial planning and socio-economic planning, to estimation of program implementation. These problems should be solved by continuing reforms in the field of financial sector.

In addition, law on budget should get more performance nature. Breakdown of expenditures in accordance with the state and agency target program (functional classification) should become the main annex.

It is necessary to revise existing programs and reflect targets of the national projects in state and agency target programs.

In the future it will be necessary to strengthen the role of the Parliament in approval of state programs. Now executive authorities develop state and agency target programs and just submit them to the representative authorities with the law on budget for information purpose.

Scientists have offered to set up responsibility for misallocation of public funds for a long time. However, now there is just a principle of effective use of budget resources. So the Budget Code of the Russian Federation should provide for details of the principle and prescribe measure of compulsion for its contravention.

Finally, there is a need to develop a mechanism of financial audit concerning effective use of budget resources in accordance with targets of the state and agency target programs.

It appears many of the problems could be solved in an efficient and timely manner with taking into account the experience of European and other foreign countries.

## References

- Artukhin, R.: Voprosy razvitiya byudzhethnogo prava (Issues Of Budget Law Development), Reformy i pravo (Reforms and Law) no. 3 (2012).
- Hanafina, K.: Mezhdunarodnyj opyt razrabotki i vnedreniya programmno-celevogo byudzhetirovaniya (International Experience of Development and Implementation of Performance Budgeting), Financy i credit (Finance and Credit) no. 33 (2016).
- Komyagin, D.: Byudzhetnoe pravo Rossii (Russian Budget Law), Moscow: The Institution of Public Law Researches, 2011.
- Parizkova, I.: The Budget Process of Territorial Self-Governing Units in the Czech Republic in: Radvan, M. et al. (eds.): The Financial Law towards Challenges of the XXI Century, Brno: Masaryk University, 2017.
- Postula, M.: Ten Years of Performance Budget Implementation in Poland – Successes, Failures, Future in: Lotko, E. et al. (eds.): Optomozation of Organization and Legal Solutions Concerning Public Revenues and Expenditures in Public Interest, Bialystor–Vilnius, Temida, 2, 2018.
- Ruskovski, E.: Novye napravleniya razvitiya byudzhethnogo (finansovogo) planirovaniya i ih vliyanie na reshenie, prinimaemye v stranah Central'noj i Vostochnoj Evropy (New Directions for the Development of Budget (Financial) Planning and their Impact on Decisions Made in Central and Eastern Europe), Publichnye finansy i nalogovoe pravo (Public Finance and Tax Law), vol. 2 (2011).
- Shah, A. (ed.): Budgeting and budgetary institutions, Washington, D.C., the World Bank, 2007. (<https://elibrary.worldbank.org/doi/pdf/10.1596/978-0-8213-6939-5>)
- Veremeeva, O.: Byudzhetirovanie, orientirovannoe na rezul'tat, kak instrument upravleniya byudzhetnym processom Rossii: tendencii i perspektivy pravovogo razvitiya (Performance Budgeting As A Tool For Managing Budget Process Of Russia: Trends And Prospects For Legal Development), Finansovoe pravo (Financial Law) no. 4 (2018).

## Legal acts

- Act no. 145-FZ/1998, the Budget Code of the Russian Federation (as amended).
- Act no. 1662-r/2008, on the Concept of Long-Term Socio-Economic Development of the Russian Federation for the Period until 2020 (with the Concept of Long-Term Socio-Economic Development of the Russian Federation for the Period until 2020) (as amended).
- Act no. 1950-r/2010, on Approval of the List of State Programs of the Russian Federation (as amended).
- Act no. 2011/85/UE/2011, on Requirements for Budgetary Frameworks of the Member States.
- Act no. 204/2018, on the National Targets and Strategic Tasks of the Development of the Russian Federation for the Period until 2024 (as amended).
- Act no. 249/2004, on Measures to Increase Effectiveness of Budget Expenditures (with Conception Concerning the Reform of Budget Process in the Russian Federation for the Period 2004-2006) (as amended).
- Act no. 2593-r/2013, on Approval of the Program for Improving the Efficiency of Managing Public (State and Municipal) Finances for the Period until 2018.

Act no. 582/2016, on Approval of the Guidelines for the Development and Implementation of State Programs of the Russian Federation (as amended).

Act no. 588/2010, on approval of the Procedure for the Development, Implementation and Evaluation of the Effectiveness of State Programs of the Russian Federation (as amended).

Act of 2007, the Code of Good Practices on Fiscal Transparency, International Monetary Fund (2007).

Act of 2013, the Budget Message to the Federal Assembly of the Russian Federation of 13 June 2013 "On Budget Policy in 2014 - 2016".

OECD Best Practices For Performance Budgeting, 2018.