

Processes and Problems of Introducing Performance Budgeting on State Administration Level in Kazakhstan

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Abstract: The authors examine problems and aspects of performance budgeting in Kazakhstan. Performance budgeting could be very important tool to increase efficiency and effectiveness of the budget expenses. We analyze implementation problems and provide recommendations on the implementation of the performance budgeting on central public administration level in Kazakhstan on the base of international experience and local environment. As of today the process of implementation of performance budgeting in Kazakhstan is in very early stage, but the government clearly understands the potential of this important instrument.

Key words: Performance budgeting % State administration % Efficiency % Effectiveness % Budget management % Planning, financial resources % Program

INTRODUCTION

Reforms of budgeting process in Republic of Kazakhstan are one of the most important tasks of the policy of increase in national competitiveness and international stability.

Budget transformations have been started in the Republic of Kazakhstan to make state expenses more efficient and effective. The main idea of new approaches to budget process is that the results of budget performance are measured by specific socially significant results of leading budget policy instead of extent of development of allocated budgetary appropriations.

The main idea of new approaches to budget process is that the budget performance is not measured by inputs used, but by socially significant results in a given policy area.

It means gradual refusal from estimated budget expenses financing and allocation of budget resources for State services and activities, which correspond to the strategic areas of focus and the purposes of the State authorities. [1,1].

It represents continual switch from financing by budget items to allocation of budget resources for State services and activities on the base of the strategic tasks of the public authorities [1,1].

The task set forth before the State authorities in new conditions is to give grounds to their budget requests not in terms of the expenses (how much money must be spend) but in terms of the results, which their activity can bring. Budget program must exactly demonstrate the connection *task - expenses - direct result (services delivered) - final results + [1; 1-2]. Budget programs are formed and they must reflect the connection of planned expenses of a State authority with quality and quantity of its services and especially with strategic goals of the authority.

In future all these measures must re-direct State authorities' activity from formal execution of functions and budget resources development to delivering high-quality services for citizens, legal entities, State, Parliament and achievement of good results [2; 1].

Analysis of the Recent Publications: heoretic and scientific and methodological works on these problems can be widely observed in the economic and industrial literature. The significance scientific researches are: M. Robinson (2008), R. Freeman (1984), R. Mc.Gill (2006), Du-Young Choe (2004), E. Araral (2007), Folscher (2007), Edward (1984), R.Michel, Kelman (2007), S. Rowlings-Blake (2011), A. Aristovnik (2009),

D. Tumanyan (2010), J. Freedman (2007), J. Seljac (2009), I. Rasmussen (1998), K. Aihorn (2001), J. Diamond (2007).

A modern assessment of budget and budget process is based on the in our region on researches conducted by D. S. Lyuvov (2004), N. Y. Petrakov (2009), G. B. Polyak (2008), L. I. Abalkin (2005), S. V. Glazyev (2008), Y. Radionova (2011), O. Makashina (2008), G. B. Kleyner (2005), M. V. Romanovsky (2006), V. Sharp (), M. Kadirova (2012), S. Khabaev (2010), A. Chulkov (2011), V. Kireeva (2008) and others.

Also the role of international organizations is important - especially OECD comprehensively deals with PPB - OECD handbook on PPB (2007) is really valuable source of knowledge.

On the base of the existing knowledge, we may conclude that the most important theoretical/practical problems connected with PPB are as follows:

- С Limited capacity to understand “performance budgeting” (further referred to as “PPB”) as a method of result based control over budgeting process;
- С Problems of modernization of the system of state financial and budgetary control that will take into account specific character of PPB;
- С “Technical problems” connected with the practical use of PPB (described below).
- С We may add that the specific issue in Kazakhstan is limited understanding of scientific grounds of approaches to the realization of PPB in the State authorities of the Republic of Kazakhstan

MATERIALS AND METHODS

The goal of this article is to provide information about the current state of art of the performance budgeting in Kazakhstan and to suggest most important implementations steps and instruments to be used in future.

Main methods used in this article are qualitative analysis and synthesis. The analysis is based on the evaluation of available secondary resources.

Theoretical Framework: The performance budgeting process is the system of organization of budget process and state (local) administration, where planning of expenses is carried out in the direct connection with reached results [3; 1].

In order to form performance budget the expenses of all divisions of central and local state authorities have to

be divided in accordance with the kinds of activities intended for solving of state tasks set forth before them. For every kind of activity its own program must be developed. The program must contain a description of purposes and tasks, demanded resources and indicators of program implementation performance, as well as procedures for measurement of these indicators. Budget requests in PPB are formed in terms of tasks and programs [3; 1].

The authors of the research share M. Kireeva’s attitude giving us an opportunity to arrive at the conclusion that the PPB must allow us to trace (monitor) interrelation among goals, carried-out budget expenses, executed events and achieved results. Such logic of forming of budget promotes increase of its transparency and of degree of control over the programs` realization and budget resources` expenditure. For these purposes such indicators must be present in the accompanying documents:

- С Goals and tasks of a public policy;
- С Performance indicators of results of a public policy;
- С Implementation plan (description of measures necessary for achievement of the planned tasks in order to avoid functions` duplication and estimate to what extent carrying out this or that event is justified, what events, on the contrary, are not enough, how much does event`s realization cost);
- С Financial resources, which have been spent (or will be spent for budget project) for achievement of the goal.

Now most of these indicators are either missed or not specified in Kazakhstan, or they are not expressed by measurable targets (in the most of evaluated programs) [4; 2-3].

It’s natural that one of the most important elements of PPB at the stage of budget forming is the evaluation of a real value of budget programs and services. It is necessary to formulate goals and targets, state authorities must determine what range of events and actions will be needed for their achievement and estimate their expenditure requirements for realization of these events.

Potential advantages of the PPB system can be realized in full only when the whole national economy of the country is covered by the targeted programs and all that will demand much time.

In practice the necessity and appropriateness of the implementation of PPB, as a rule, is argued as follows:

- C A situation when traditional methods of increasing of the efficiency of budget expenses (first of all, public tenders, intensification of the financial discipline and exchequer technologies) have almost exhausted themselves and are not able to solve the problems of budget's non-balance or raise the quality of budget services;
- C A situation of the budgetary crisis in which radical measures are necessary for reduction of expenses at simultaneous holding to the 'won' positions in the level of rendering of budgetary services;
- C A condition when the budget ceases to be valuable instrument of control, when its items of expenditure start to "lead their own life", but there is political 'will' and desire to change the situation, to put the budget sphere in order, to clear up the purposes and the reasons of implementation of expenses of the budget;
- C An aspiration to receive money from the State Fund of reforming of the central and regional finance or the funds of the international sponsor's organizations allocated for the purposes of reforming of the budgetary process [4; 4-5].

The potential benefits from implementing PPB are as follows:

- C Transition to the budget focused on the result allows to re-consider the available directions of the public expenditures and to refuse from many types of the expenses which are carried out "by momentum", without appropriate social and economic justification of need of these expenses [5];
- C Significant increase the ministerial responsibility for the end result which means not only provision of a certain amount of services or performance of a certain amount of works, but also achievement of certain quality indicators [6; 46-47];
- C The choice of decisions is made in terms of not only short-term, but long-term goals;
- C Significant increase the information base of the budgetary decisions made by the government. Particularly, thanks to existence of information on how different levels of financing of programs will influence social and economic efficiency of the state expenditures, there will be an opportunity to reduce expenses, without reducing the programs;
- C The state will provide those public benefits and services to the population, which they are really interested in [7].

Thus, conversion to the PPB demands changes in all stages of the budget process: planning, budget performance, control over its execution, reporting [8; 97].

Potential Problems:

- C Establishing proper link between strategic goals and performance indicators;
- C Limited possibilities for measurement of targets achieved (certain indicators are multidimensional and difficult to measure);
- C Limited quality of planning processes in a country;
- C Potential for pervasive effects when using any kind of performance management [9].

International Experience: The experience of the progressive countries incoming to the Organization of Economic Cooperation and Development (OECD) has been being studied during this research.

For Kazakhstan, which takes the first steps in the direction of transition to fundamentally new approaches in management of the state expenditures, studying of the best foreign practices in the sphere of state administration, in particular, development of new technologies of budgeting and expenses management will be useful. Such countries as the USA, Great Britain, Australia, New Zealand, the Netherlands and Sweden use PPB and its variants for very long time.

Since the beginning of the 90s of the last century most of the countries of OECD, in the framework of development PPB, began to collect and use information on the results of activities at all stages of the budget process - including an initial stage of definition of structure of the budget, distribution of the budget resources according to priorities.

So, accordingly to the survey in the states entering into OECD, three PPB models different on extent of use of information on results of realization of state programs in the budgetary process, it means - and on applied model of the description of state programs (Table 1) were developed [9]:

- C Presentational model
- C Orientated-to-results budgeting
- C Budgeting strictly linked to the results

Demonstration (analytical) model of PPB is called so because information on the results is included into structure of the budgetary or other governmental documents in informational purposes. This information

Table 1: Models of result-orientated budgeting

PPB models	Task which is solved in the framework of budgeting process	The link between information on the results and budgetary provisions	Countries
Presentational	Accountability and transparency	No connection	Netherlands, Russia, Denmark
Orientated-to-results budgeting	Planning and/or accountability and account the	Weak indirect connection	USA, Canada, Australia, Netherlands (Budgeting taking into results in prioritized spheres)
Budgeting strictly tied to the results	Distribution of budget resources, planning and accountability	Direct rigid connection	Italy, Luxembourg, New Zealand, Turkey, Brazil, Chili, Denmark (in some sectors - high and higher education, partially - public health care)

Note: data are used [9; 127].

can contain data on the planned or actual values of target indicators and is included in the budget process to increase the accountability of authorities and transparency of the budget, to enhance dialogue with legislators and citizens about the directions and priorities of policy of the government. There is no connection between results and the budget, including the stage of financial planning and distribution of budget appropriations.

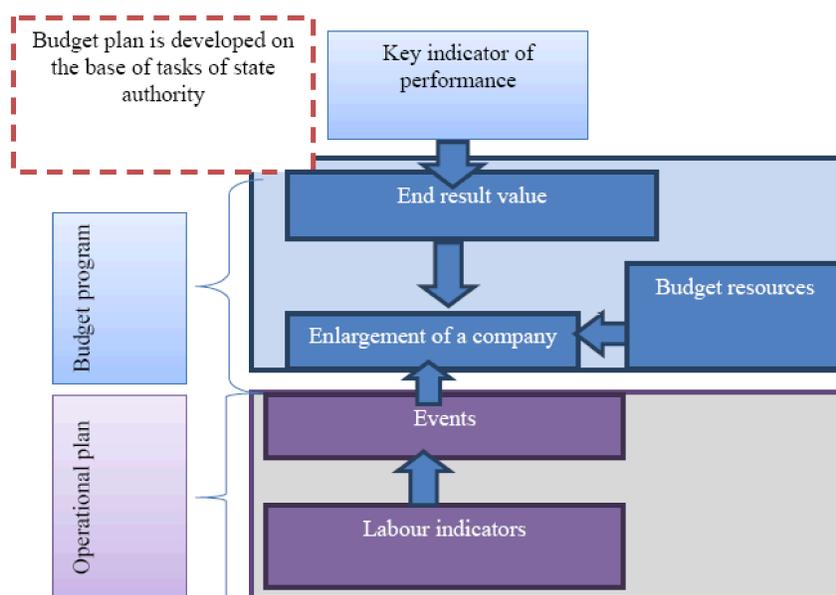
In the second model of the budgeting which take into account the results of activity, financial resources have a linking either to planned level of achievement of results or to actually received results - but not directly. Indirect relationships guarantee that information on results (equally with other information - about political priorities, fiscal restrictions and macroeconomic restrictions) is systematically used for justification of the budget decisions. However, there is no rigid, simple correspondence (correlation) between results (planned or actually received) and distribution of budget appropriations, moreover, the specific weight of the received results is significantly inferior to such factor, as political appropriateness.

The third model - the budgeting, which is rigidly connected with the results of activity - is based on accurate and direct link between distribution of budget appropriations and indicators of results (usually direct). The structure of budget appropriations and real financing from the budget thus is based on a formula (or the contract), connecting financing level with concrete meanings of performance indicators or indicators of fulfillment of events (functions, services). The PPB is used only in separate sectors of economy of a few

countries of OECD - for example, at higher education when level of financing of universities depends on release of the planned number of the trained Master's studies graduates.

Summarizing, it is necessary to emphasize that transition to management and budgeting tied to results is long and stage-by-stage process. The uniform model of management by results and PPB has not formed in the developed countries yet. Moreover, even the countries, which use similar models, with different depth and with a different speed, realize the budget reforms; adapt them for national features, opportunities and priorities.

Situation in Kazakhstan: The reform from item based to performance budgeting started in Kazakhstan in 2007. On the base of first steps and preparatory works the Presidential Decree has been issued on 18th of June, 2009 "The system of planning in the Republic of Kazakhstan". This decree defines thy system of documents connected with planning/strategic planning in the republic. In the same year the new Budget Code came into force, setting direct rules for the implementation of PPB in Kazakhstan - on all levels of government. Despite the fact that PPB should work today in Kazakhstan, the situation is much more complicated. On the local level, especially because of the lack of experience and implementation capacity, PPB schemes have not been properly implemented, yet. Even on the central level the implementation of PPB did not reach expected progress. Several core problems remain, especially limited capacity to link strategic goals to performance indicators and targets, lack of capacities to link different strategic priorities, etc.



Pic. 1: Recommended process of formation of the budget request.

Table 2: Offered format of the budget program for strategic plans of state authorities

Name of programme	
Main goal of the programme	
Value: Reference period	Value: Planed period
Year	Year
Indicator	
Resources allocated	
Measure	
Responsibility	

Source: authors own construction on base OECD, 2007 [14]

One of purposes for this situation is lack of training opportunities and missing implementation guidelines and handbooks.

The analysis of the international experience and the current situation in Kazakhstan on mutual tie of strategic and budget planning allowed making the following recommendations about improvement of this process in the country:

- C To increase the importance of operational plans where norms of labor will be registered in a section of each event. This document will serve as grounding for the budget requests and also fro updating of the budget programs;
- C To optimize indicators of the budget programs, so that they are interconnected with key indicators of performance of government authorities. It is proposed to reflect an indicator of the final result that has direct dependence on a key indicator of

productivity of government authority in the budget program. Indicators of quality and efficiency will be integrated into a key indicator of performance [10]. The events corresponding to the tasks or the block of tasks of government authority will be presented instead of indicators of direct result of the budget program (Table 2).

To revise uniform budget classification so that the budget programs are being developed according to the tasks (the block of tasks) of specific government authority, registered in its provisions. This approach will allow controlling the accounting of financial resources during passing of functions from one government authority to another. Recommended process of formation of the budget request on the basis of definition of the budget programs accordingly to authority`s tasks is presented below.

To develop methodological approaches to evaluation of optimal number of staff for state authorities to effectively use budget money;

CONCLUSIONS

PPB gives great opportunities for increase of efficiency and effectiveness of public expenditures [11]; however its implementation is not fast simple and cheap process. The existing analysis of introduction of models and PPB mechanisms in the countries of OECD shows

that today practically all countries of OECD use performance indicators to evaluate the activity of authorities and state establishment in the budget process. At the same time, direct coordination of the amounts of financing with indicators of performance is used only in several countries (small ones) and only for a limited number of the state services. It is also well known that PPB development in every country proceeds individually according to the features of development and functioning of national economy and system of state administration. That is why borrowing of the suitable model and the PPB mechanisms, detached from their political and social and economic context, seems very doubtful.

In conclusion it is necessary to emphasize that successful implementation of the PPB into the government authorities of the Republic of Kazakhstan can't be restricted only to a reform of state finances. It is necessary to emphasize that PPB implementation is a complex reform of all systems of the state administration for its re-orientation to the effective achievement of socially significant results [12].

We recommended following practical measures that would allow refocusing the orientation of the work of the state authorities from inputs to outputs and results:

- C Regular collection complex priority based information on realization of the state tasks and use of budget resources in various spheres of activity of the state;
- C Changing the patterns of distribution of budget money among competing items of expenses on the base of receiving more exact and full information on results of implementation of programs accordingly to the priorities of state policy [13];
- C Requesting to compare offered variants of programs from the point of view of expected results and expenses;
- C Establishing the system of performance based control over the ministries and departments on the base of established performance indicators and comparisons of actually approached results with the planned ones;
- C identification and abolition of duplicating each other programs, inefficient programs.
- C Introducing systematic training system for implementation of PPB in Kazakhstan.

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