

## PERFORMANCE BUDGETING IN THE SOUTH-EAST EUROPE COUNTRIES: A COMPARATIVE STUDY ON PRESENT STATE AND FUTURE PERSPECTIVES

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### Abstract

*Adoption of any budget is perhaps the most important and time-consuming activity of any government. As a modern tool for linking strategic planning and budgeting, performance budgeting is conditio sine qua non for implementation of modern multi-annual budgeting system. Performance budgeting was first introduced in the United States and today different models are used in practice. The aim of this research is to investigate the state of implementation of performance budgeting reform(s) in the South East Europe (SEE) countries, namely Albania, Kosovo, Montenegro, North Macedonia, Serbia, Bosnia and Herzegovina, Bulgaria, Croatia, Moldova, Romania, Greece, Slovenia, and Turkey and their struggle to implement performance budgeting reform. The United States, Australia and the European Union are the examples of developed countries implementing performance-based budgeting and their experience can be helpful to SEE countries in their efforts to establish working performance budgeting system. In this research, the focus is on answering questions about presence and elements of national performance framework, UN Sustainable Development Goals, performance budgeting framework and characteristics, and authority for the design and implementation of performance budgeting system. Based on the research results, the authors provide recommendations for better implementation of performance budgeting in selected countries.*

**Keywords:** Budget, Performance budgeting, SouthEast Europe

**JEL:** H61, H53, I38

### 1. Introduction

Most of the South East Europe (SEE) countries started with implementation of budgeting reform in the last two decades with more or less success. Perceived as a tool for achieving “Value for

Money”, accountability, transparency, efficiency, and effectiveness of allocation of resources, governments of all SEE countries accepted this method of budgeting based on performance. All countries, except Bosnia and Herzegovina and Greece, fully incorporated performance-based budgeting into the budgeting legal system. Besides legislation, performance-based budgeting reforms are still in the early development phase. Due to the importance and implications for fiscal policy and, consequently, for the lives of ordinary citizens, there is a need to understand the state and outlook of performance-based budgeting in Southeast European countries. The need for this type of paper was raised due to the fact that academic literature in the last decade or so has not provided a comprehensive analysis of budgeting practices in the SEE countries. This paper aims to contribute to the existing literature in the manner to address the present state of performance budgeting system implementation in the SEE countries, focusing on addressing obstacles to its implementation and providing recommendations which arose from the experiences of developed countries.

Based on experiences of developed countries, the objective of the paper is to provide recommendations to the SEE countries to resume the questions regarding performance budgeting implementation.

This paper contributes to the existing literature and resume the questions regarding present state of performance budgeting in the SEE countries since there are no significant number of most recent research on this topic.

To fulfill the goal of this paper and find answers to this research, the following main questions were asked:

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- What is the state of implementation of performance budgeting reform(s) in the SEE countries?
- Are elements of national performance framework, the UN Sustainable Development Goals, and performance budgeting framework present in the SEE countries?
- Is performance budgeting system implemented in the SEE countries?
- What is the present state of performance budgeting system in the SEE countries?
- What are the potential challenges/obstacles and recommendations to effectively implement performance budgeting in the SEE countries?

The rest of the paper is structured as follows. In the first part of the paper, the authors present the theoretical conceptual definition, history, models, benefits, impacts, and challenges of performance budgeting. Previous research on implementation and challenges is presented in the second part of the paper, focusing on the application of program budgeting and its efficiency in the United States, the European Union, and Australia as important players in global trade, deeply involved in performancebased budgeting. The research methodology is explained in the third part of the paper, while in the fourth part the analysis and discussion about the findings and the research results are presented. The last section provides a summary on perspectives of performance budgeting in the selected countries.

## 2. Theoretical background: from program to performance budgeting

### 2.1 Conceptual Definition(s) of Performance Budgeting

From the first introduction of Planning Programming Budgeting System, the budgetary system(s) in USA (and later in many of developed countries) were transformed from planning, programming, and budgeting systems, to program budgeting, output budgeting, and at the end to “new performance budgeting”. Due to the complexity of these new budgeting practices and systems, slight confusion in defining the program budget and performance budget still exists, and it can be observed that in the literature these two terms

are being used interchangeably. First introduced by the United States Secretary of Defence Mr. Robert S. McNamara in the Pentagon in 1949, program budgeting is still raising interest. Today, based on experiences of developed countries such as the USA, Canada, and New Zealand, and on the need to improve public sector and government performance, many developing countries showed interest in applying this model in their budgeting practices. Nevertheless, the most important reason to adopt program budgeting is related to creating more efficient, transparent and program-oriented budget. Many scholars have therefore tried to define program budgeting, but the literature is still characterized by divergent and occasionally unclear definitions of program budgeting. Jordan and Hackbart (1999) defined performance budgeting as “the process of preparing the budget document with identified performance measures”.

Schick (2003) pointed out that performance is not a static measure, but one that requires ongoing feedback from situations and results to policies and action. Even the best developed countries can improve by focusing on results. Budgeting operationalizes the concept of performance as a right by entitling citizens to certain payments from government. Schick (2003) distinguished two polar versions of performance budgeting, a broad definition that accommodates virtually any application and a strict definition that is limited to budgets that meet certain criteria.

Broadly defined, performance budget is any budget that presents information on what agencies have done or expect to do with the money provided to them. Strictly defined, performance budget is only a budget that explicitly links each increment in resources to an increment in outputs or other results. Schick (2003) observed a broad concept of budgeting in presentational terms and the strict version in terms of allocations and pointed out that many governments satisfy the broad definition, but few satisfy the strict definition. Robinson and Brumby (2005) defined that performance budgeting refers to procedures or mechanisms intended to strengthen links between the funds provided to public sector entities and their outcomes and/or outputs through the use of formal performance information in resource

allocation decision-making. They defined the core objectives of performance budgeting as enhanced allocative and productive efficiency in public expenditure. In contrast to previous definitions, Kong (2005) pointed out that performance based budgeting is simply a repackaging of old techniques, because performance measurement as an integral mechanism for planning, management, and budgeting is an old idea, and he quotes Poister and Streib (1999) that “Measuring workload and worker efficiency was clearly part of the scientific management approach at the turn of the century”. As innovative budget practice, the OECD (2008) has defined performance budgeting as budgeting that links funds allocated to measurable results. Later, the OECD (2019) expands definition and defines performance budgeting as the systematic use of performance information to inform budget decisions, either as a direct input to budget allocation decisions or as contextual information to inform budget planning, and to implant greater transparency and accountability throughout the budget process, by providing information to legislators and the public on the purposes of spending and the results achieved. SEIU<sup>1</sup> (2010) explained that performance-based budgeting is a system that bases program and agency funding on results or outcomes by measuring performance towards key program objectives that support the overall mission of the agency. The Union emphasized that the key to a successful program-based budget initiative is the quality of the used performance indicators for measuring advanced objectives and goals. Poor indicators will not necessarily bring meeting goals and fulfilling mission even if efforts are successful. Łukasz and de Jong (2011) defined performance budget as a budget that presents information on what government has done or expects to do with the money it was provided with. The degree to which performance information is expected to determine funding levels can vary from no connection at all (presentational performance budgeting) to direct links (formula performance budgeting). Łukasz and de Jong emphasized that performance-based budgeting is a management tool of public administration, and that performance-based budgeting should not be considered as a budget format only but as a continuous process of monitoring and

evaluating public administration’s results and efficiency. Robinson (2013) defined performance budgeting as public sector funding mechanisms which use formal performance information to link funding to results (outputs and/or outcomes), with the aim of improving performance. The core objective of program budgeting is improved expenditure prioritization. That means that limited government resources are allocated to the programs that deliver the greatest benefits to the community given the money spent. Robinson also defined characteristics of program budgeting as:

- Funds are allocated in the budget to “programs” which mainly represent product lines – groups of outputs with common outcomes. For example, the education ministry’s budget would contain allocations to a primary education program, a secondary education program and a tertiary education program, and the environment ministry’s budget would include a nature conservation program and an anti-pollution program.
- “Line item” controls – limits imposed by the parliament or the ministry of finance on the amounts ministries can spend on specific types of inputs (such as office supplies, travel, and utilities).
- Good performance information on programs is collected and used in the budget preparation process to assist budget decision makers to determine program funding allocations.

Sapała (2018) concluded that despite many years of international exchange of best practices in the field, there is little convergence on the definition, scope and implementation of performance budgeting. She pointed out that experts assert a kind of terminological chaos, performance budgeting defies standardization, and a variety of terms and definitions are incorporated under the label of performance budgeting. By Hayes (2021) performance budget reflects both the input of resources and the output of services for each unit of an organization, and the goal is to identify and score relative performance based on goal attainment for specified outcomes. He emphasized that performance budgets are designed to motivate employees, enhancing

their commitment to producing positive results. The conceptual definition has been repeatedly reinterpreted and expanded to include additional aspects of budgetary reform. Today, as part of their policy to promote higher standards of budgetary management, organizations such as the OECD, the IMF and the World Bank have taken a leadership role to constantly clarify definition, classification and types of program budgeting. As organizations which promote higher standards, for many years, they are supporting member countries to design and implement performance budgeting in their public finance.

## *2.2 Challenges for Implementation of Performance Budgeting*

There are several key challenges in the implementation of performance budgeting systems, namely: measurement of outcomes, resistance among public servants in the process of implementation, and necessary change in the behavior of politicians. Facing challenges of measurement, especially with outcomes, it can be difficult to find accurate measures for specific activities. Since governments have a wide variety of functions, from building roads to providing advice on foreign travel, certain types of performance measures are more applicable on some functional and program areas than others. Problems arise when it comes to intangible activities which are very difficult to assess. The most developed performance measures are the most tangible activities as education and health. Besides accurate measures, other challenges related to measurement include setting clear targets and having best possible systems of data collection. (OECD, 2007) Almost any reform faced some kind of resistance. Usually, resistance is based on the fact that actors are unwilling to adapt to altered circumstances, especially when they have to do with long-term budgeting practices that impact on the whole of government. The question is how to motivate key actors to move away from traditional and familiar budget practices? Resistance can exist at all levels. Managers can oppose the change, primarily if it is unclear how performance information will be used by the Ministry of Finance and politicians. Misused information, publicly criticized programs, and

fear of funding cuts are often reasons of managers' fear. Besides that, managers are afraid that they will be held accountable for the results that are not within their control (Curristine, et al., 2007). Politicians are important actors in promoting the development and use of performance information in the budget process. Their role is to apply pressure on other actors of implementation. They have an active function in setting objectives and budgetary decision making. Most performance budgeting models include politicians setting clear goals and objectives and creating formal mechanisms to monitor the progress of achieving these goals. Finally, the budget process is political, and performance information will not change it into a rational decision-making process. The goal is to create the right incentives so that performance information can be considered as part of this process. (OECD, 2007)

## **3. Research methodology and data source**

For the purposes of understanding the current state of performance budgeting practices in the SEE countries, the method of theoretical analysis and questionnaire-based survey were used. The theoretical research included a wider set of relevant aspects of the performance-based reform as part of the cross-country research study. The importance of individual aspects for application of performance budgeting system in selected countries was assessed. Finally, the research aggregated assessments of each country; it quantified the present progress and introduced perspectives of performance budgeting in the SEE countries. The approach of this research merges political, legal, administrative and economic perspectives in assessing the performance budgeting practice.

The methodology for collecting data was created based on the previous research by Maksimovska-Veljanovski and Stojkov (2014). We compiled two questionnaire-based survey, namely the World Bank Country Survey Form (Moynihan & Beazley, 2016) and the OECD International Database of Performance Budgeting (OECD, 2018) to create the questionnaire which will feed in information if



a performance budgeting system is in place in the SEE countries.

Based on the established set of 11 questions (the questions are provided in Table 1), the data were collected by investigating relevant documentation, legislations, and available information from the web sites of the SEE countries' ministries of finance.

The analysis included documents on countries' fiscal strategies, organic budget laws, and other general guidelines, reports and information. More detailed information on the sources of data verification per country is provided in Annex 1. The data for the research were

collected in the period from December 2021 to April 2022. In total, 15 sets of questionnaires were obtained for the following SEE countries: Albania, Kosovo, Montenegro, North Macedonia, Serbia, Bulgaria, Croatia, Moldova, Romania, Greece, Slovenia, Turkey and Bosnia and Herzegovina (consisted of two entities: Federation of Bosnia and Herzegovina and Republic of Srpska). The research results are provided in the following part of the paper.

#### 4. Research results and discussion

Table 1 provides the summary on the obtained data related to performance budgeting implementation in the SEE countries.

Table 1. Summary of the present state of performance budgeting implementation in the SEE countries

No.	Research question	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
1.	A national performance framework in place (national development strategy)	1	1	1	1	1	1	0	1	0	1	1	1	1	1	1
2.	What elements of a national performance framework are in place															
	A clear, centrally-defined or centrally-authorized set of "national outcome goals" which may change from one government to another	1	1	1	1	1	1	0	1	0	1	1	1	1	1	1
	A clear set of Key National Indicators, which are stable from one government to another and have some official or legal status	1	1	n	1	1	1	0	1	0	1	1	1	1	1	1
	A clear set of statistical indicators on national performance, which are presented by the national statistical authority on its own initiative	0	0	a	0	0	0	0	0	0	1	1	0	1	1	1
	The routine and standardized use of international benchmarks to assess progress/performance across various areas	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	A centrally-determined framework for linking sectorial output/outcome objectives with national outcome goals	0	0	0	0	0	0	0	0	0	1	1	0	1	0	1
	The Central Budget Authority (CBA) provides instructions on the selection and quality of output/outcome objectives	0	1	1	1	1	1	0	0	0	1	1	1	1	0	1
	An entity other than the CBA provides instructions on the selection and quality of output/outcome objectives	1	0	0	0	0	0	0	1	0	1	1	0	1	0	1
	An annual report on the achievement of national outcome goals	1	1	1	1	1	1	0	0	0	1	1	1	1	0	1
3.	Coordination on UN Sustainable Development Goals	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
4.	Is there a performance budgeting framework in place															
	Yes, and it is compulsory for line ministries and agencies	1	1	1	1	1	1	0	0	0	1	1	1	1	0	1
	Yes, but it is compulsory only for line ministries	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Yes, but it is optional for both line ministries and agencies	0	0	0	0	0	0	1	1	1	0	0	0	0	0	0
	No	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0
5.	Which of the OECD performance budgeting system definitions most accurately describes the system															
	Presentational Approach	1	1	1	1	1	1	0	0	0	1	1	1	1	0	1
	Performance-Informed Approach	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Managerial Performance Approach	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Direct performance budgeting	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

<b>6.</b>	What is the legal or regulatory basis for performance budgeting																		
	A separate law on performance	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Provisions within the organic budget law																		
	Included within regulations or standing instructions for preparation of the annual budget	1	1	1	1	1	1	0	0	0	1	1	1	1	0	1			
<b>7.</b>	What are the main operational characteristics of the performance budgeting framework																		
	General guidelines and definitions	1	1	1	1	1	1	0	0	0	1	1	1	1	0	1			
	Standard templates for reporting performance information	1	1	1	1	1	1	0	0	0	1	1	0	0	0	0			
	Standard set of performance indicators and/or targets	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0			
	Standard ICT tool for entering/reporting performance information	1	1	1	1	1	1	0	0	0	1	1	1	1	0	1			
<b>8.</b>	Which institution has overall authority for the design and implementation of the performance framework?																		
	Central budget authority	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0			
	Ministry of Economy/Finance	0	1	1	1	1	1	0	0	0	1	1	1	1	0	1			
	Planning Office	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0			
	Prime Minister/President's Office	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0			
	Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0			
<b>9.</b>	Who is responsible for quality of auditing data?																		
	Left to agencies themselves	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0			
	Supreme audit institution	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1			
	Other body:	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0			
<b>10.</b>	Are individual ministries/agencies required to provide performance reports?	1	1	1	1	1	1	0	0	0	1	1	1	1	0	1			
<b>11.</b>	Are individual ministries/agencies required to provide strategic plans?	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0			

Source: Authors' research

Note: (A=Republic of Turkey, B=Republic of Albania, C=Republic of Kosovo, D=Republic of Montenegro, E=Republic of North Macedonia, F=Republic of Serbia, G=Bosnia and Herzegovina entity: Republic of Srpska, H=Bosnia and Herzegovina entity: Federation of Bosnia and Herzegovina, I=Bosnia and Herzegovina: state level, J=Republic of Bulgaria, K=Republic of Croatia, L=Republic of Moldova, M=Republic of Romania, N=Greece, O=Republic of Slovenia: "Answer YES=1, NO=0")

As it can be observed, besides Bosnia and Herzegovina, all of the SEE countries have national performance framework in terms of integrated development strategy implemented on the national level.

The performance budgeting is compulsory for line ministries and agencies. All the SEE countries adopted presentational performance budgeting, meaning that budgeting provides transparency or basic information of policy makers, without the necessary expectation that this information will be taken into account when deciding on budget allocations.

To determine what elements of a national performance framework are in place, the authors examined some of national performance framework elements for each country and affirmed that the majority of countries created a centrally-defined or

centrally-authorized set of national outcome goals and key national indicators.

A clear set of statistical indicators on national performance, presented by the national statistical authority on its own initiative is set only by Bulgaria, Croatia, Romania, Greece, and Slovenia. Not a single country set in place routine and standardized use of international benchmarks to assess progress/performance across various areas. Bulgaria, Croatia, Romania and Slovenia set a centrally-determined framework for linking sectorial output/outcome objectives with national outcome goals. Only Turkey and Bosnia and Herzegovina did not establish the central budget authority for providing instructions on the selection and quality of output/outcome objectives. Instead of central budget authorities, Turkey and the Bosnia and Herzegovina entity (Federation of Bosnia and Herzegovina) set another body that provides

instructions on the selection and quality of output/outcome objectives.

Besides central budget authority, Bulgaria, Croatia, Romania and Slovenia also set other body that provides instructions on the selection and quality of output/outcome objectives. All countries, except Bosnia and Herzegovina and Greece do not create annual reports on the achievement of national outcome goals. All the examined countries joined global partnerships and cooperation for the UN Sustainable Development Goals as a universal call to action to end poverty, protect the planet, and improve the lives and prospects of everyone, everywhere. The 17 goals were adopted by all UN member states in 2015, as part of the 2030 Agenda for Sustainable Development which set out a 15-year plan to achieve the Goals (United Nations, 2022).

Only Greece does not have performance budgeting framework set. All the observed countries set performance budgeting as compulsory for line of ministries and agencies, except Bosnia and Herzegovina, where performance budgeting framework is optional for both line ministries and agencies. Based on the OECD performance budgeting system definitions, all countries accepted the presentational approach of performance budgeting. Based on Downes, Moretti, and Nicol (2017), the OECD defines this model as budgeting that provides performance information in parallel with the annual budget, meaning that budgeting provides transparency or basic information to policymakers without the necessary expectation that this information will be taken into account when deciding on budget allocations.

All countries that accepted performance budgeting, incorporated provisions within the organic budget law included within regulations or standing instructions for the preparation of the annual budget. General guidelines and definitions are the main operational characteristics of the performance budgeting framework. Standard templates for reporting performance information are incorporated in organic budget law at majority of countries.

A standard set of performance indicators and targets is only part of organic law of the Republic of Serbia. A standard ICT tool for

entering/reporting performance information is part of organic laws of all countries, except Bosnia and Herzegovina and Greece. The overall authority for the design and implementation of the performance framework is in line of ministry of Economy/Finance for all investigated countries that accepted the presentational approach of performance budgeting. All the examined countries established supreme audit institutions, responsible for auditing quality of budgeting data. Provisions of organic laws of all the countries proscribed that individual ministries/agencies are required to provide performance reports but not strategic plans. All the countries analyzed struggle with the implementation of performance budgeting. Klepšvik *et al.* (2014), for example, emphasized that *"budget formulation procedures in Albania are more effective than those of many countries."* Programme budgeting entered Albanian budgeting practice in 2001 as a pilot five-year period. All ministries implemented programme budgeting during 2006 and in 2008, this model of budgeting was incorporated into the Organic Budget Law and became the central legal structure for the budget (Klepšvik, Emery, Finn, & Bernhard, 2014).

As the foundation of successful performance-based budgeting, Albania adopted a main national strategic document that sets out the national development vision, set priorities and goals for five years (Ministria për Evropën dhe Punët e Jashtme, 2022). Albanian Organic Budget Law No. 57, dated June 2, 2016, regulates the local budgets and special funds in the same way as the classification of the state budget.

Budget classifications include administrative, economic, functional, and classifications according to programs and sources of financing. Article 81 (IV), of the Rules of Procedure of the Republic of Albania says that *"the report contains a complete assessment of the structure of the draft state budget law, such as macroeconomic indicators, key indicators, planned revenues and expenditures, their financing and implementation, according to the program of the Council of Ministers approved by the Assembly, as well as estimates for draft budgets of constitutional and independent institutions"* (Albanian Parliament, 2021).

The Ministry of Finance (department within the Ministry) has the overall authority for the monitoring process. Through Organic Budget Law, Law on Financial Management and Control, Law on Public Financial Inspection, and Law on Internal Audit, Albania created the legal basis for internal financial control system which can support managerial accountability. The implementation and effectiveness of the system is not the aim of this research, but it would be great to investigate the effects of the Albanian program budgeting practice. During this research, it was not possible to find the web page or central place where Albanian citizens can monitor (program) budget spending and be informed about fiscal performances of the country. This implies that Albania practices the OECD-based presentational performance budgeting approach.

The Law on Public Financial Management and Accountability (Assembly of the Republic of Kosovo, 2008) and the Law on Local Government Finance (Assembly of the Republic of Kosovo, 2008a) are the basis for the budgeting process of Kosovo. The first one determines assigned responsibilities to institutions and stakeholders and describes the budgeting process. The second regulates the budgeting process at the level of municipalities. Article 21 of the Law on Public Financial Management and Accountability emphasizes that the total expenditures can be aggregated by economic, functional and/or program category. The Government of the Republic of Kosovo (2016) developed and accepted the National Development Strategy. Even though it is the youngest state, Kosovo signed the Coordination agreement on the UN Sustainable Development Goals. Based on the budget for the year 2022, it can be determined that a budget has a program and functional budgeting categories. Based on the Public Finance Internal Control Law, Kosovo Government developed the Methodology on monitoring and annual reporting for internal control systems of public sector entities (Kosovo Ministry of Finance, 2018). At the end of 2017, the Central Harmonization Department of Ministry of Finance prepared *“Public Procurement Management Process Book”*, which represents a model for guiding the public sector entity at all levels of management in implementing the

financial management and control requirements with focus on risk management (Ministry of Finance, 2017). Based on OECD performance budgeting categories, Kosovo created legal assumptions for presentational performance budgeting. There is open space for better approach to informing citizens about program budget spending's. Even though significant economic development is evident, GDP is still the lowest in the region, and this country is one of the poorest.

In order to ensure adequate expertise and familiarize with the best practices of the EU member states, Montenegro set out to improve the budget planning process. A significant part of activities is aimed at the program of improving the budget system, multi-year budget planning and public financial internal control system as well as the program of improving IT budget planning system. The implementation of these projects effectively began in January 2019 (Government of Montenegro, 2020).

The fiscal strategy of Montenegro for the period 2021 – 2024 was proposed by the government at the end of 2021 (Government of Montenegro, 2021). By the Organic Budget Law “program budget is a part of the annual Budget Law that contains tasks and activities of individual spending units that are carried out in order to effectively manage funds under the proposed programs and subprograms, and which contribute to achieving strategic goals in accordance with economic policy”. The Ministry of Finance is responsible for budget planning and execution, accounting, borrowing and government debt management (Ministry of Economic Development, 2021).

Montenegro's budgeting is definitely program-based, legally regulated, and controlled. It would be interesting to explore the impact and implementation of program budgeting because Montenegro is on course for stronger economic recovery (The World Bank, 2022). The budgeting by Organic Law of North Macedonia is based on programs (Ministry of Finance of North Macedonia, 2022). The government created a development strategy and the web page where any citizen can be informed about major financial indicators of municipalities (Councils, 2022). The program is defined as a



set of related activities and projects aimed at achieving a common goal or goals. The UN Sustainable Development Goals are aligned with North Macedonia's national development priorities, human rights and gender equality. As key national priority, United Nations Sustainable Development Cooperation Framework strives to ensure full alignment with the EU accession process (United Nations, 2022). Based on the research of Borce and Nikolov (2015), the estimated benefits of overall policy reform for implementation of performance-based budgeting in Macedonia are higher than the estimated costs, which means that for every Macedonian *denar* (the national currency) invested in reform, additional 2,600-8,000 Macedonian denars of gross value added in the Macedonian GDP are expected. Macedonia accepted this reform, and it appears that program budgeting practices will be implemented at some point.

As a country, Serbia registered some of the highest GDP growth rates in the past few years. Perhaps one of the reasons for this is the implementation of performance budgeting reform. Serbia's major budget reform of public expenditure management issues was initiated during 2001. At that time, Serbia had the highest inflation in Europe and weak parliamentary budget control (SIPU International, 2010). The Organic Budgeting Law defined that budgeting in Serbia must have program classification and must be based on the Fiscal Strategy.

The Ministry of Finance gives direct users of the funds instructions for the preparation of medium-term and financial plans for the preparation of the budget. Pursuant to Organic Budgeting Law, fiscal procedures include preparation, submission and publication of reports, forecasts, assessments and announcements prescribed. Internal financial control in the public sector and financial management and control are incorporated in system (Organic Budgeting Law of Republic of Serbia, 2021). Based on all our findings, we concluded that Serbia had created a legal framework for the implementation of program-based budgeting.

As a fragmented political structure, Bosnia and Herzegovina at all political levels it does not

have explicit obligation to create program-based budgets, except in case of investments. This means that Organic Budgeting Laws of all political and administrative structures in Bosnia and Herzegovina are not obligatory (except in case of investments), but it is not forbidden to use this approach of budgeting. Unfortunately, the practice does not demonstrate much program budgeting. As the basis for program budgeting, only Bosnia and Herzegovina's entity: Federation of Bosnia and Herzegovina developed the Public Financial Management Reform Strategy. Bosnia and Herzegovina and all other researched countries accepted to incorporate the UN Sustainable Development Goals in their own development strategies. This means that they accepted 17 interlinked global goals designed to be a "blueprint to achieve a better and more sustainable future for all" (United Nations, 2022).

The goals are: no poverty, zero hunger, good health and well-being, quality education, gender equality, clean water and sanitation, affordable and clean energy, decent work and economic growth, industry, innovation and infrastructure, reduced inequality, sustainable cities and communities, responsible consumption and production, climate action, life below water, life on land, peace, justice, and strong institutions, partnerships for the goals (United Nations Human Rights, 2022). Basically, Bosnia and Herzegovina is at the beginning of implementation of program-based budgeting. There is a need to create a legal frame, so that all expenditures are planned, executed and controlled based on programs.

In 2008 the implementation of the program budgeting began in Croatia. At the beginning, performance indicators were in the pilot phase. Pilot projects were in selected line of ministries and state agencies. Key performance indicators were developed and tested (Madzarevic-Sujster & Laco, 2009).

Today, after 13 years of implementation, Croatia implements presentational type of program budgeting, partly combined with performance-informed budgeting (Jakir-Bajo & Zoricic, 2018). Croatian government developed the National Development Strategy for the

period 2018-2030, as an umbrella document and a comprehensive act of strategic planning which directs the long-term development of society and the economy in all important issues for Croatia (Government of Republic of Croatia, 2018). During this period, Organic Budgeting Act was updated with multiple amendments to achieve higher quality of budgeting and key performance indicators (Ministry of finance, 2022). The Ministry of Finance proposed the Structural Reform Support Program to address a deficient administrative capacity using EU funds. The main objective of this program is higher quality of budget justification and key performance indicators of the line of ministries (Jakir-Bajo & Zoricic, 2018). Today, besides all obstacles in implementation, Croatia is heading forward to reach EU standards in program budgeting.

Slovenia introduced program classification in budgeting during 1999. The first pilot ministry was the Ministry of Economy. After six months, the pilot ministry lost interest and discontinued cooperation with budget department.

At the beginning of 2000 implementation of bottom-up approach started with five other pilot ministries (Bizilj, 2007) Today, as a young and relatively small country, Slovenia holds its public expenditure firmly under control. This is a product of a well-designed budget procedure with strong institutional barriers against runaway programme expansion and overspending. As a strong basis for ex post accountability, Slovenia made substantial improvements in recent years. Still, there is space for further improvements to reach practice in many OECD countries. (Kraan & Joachim, 2006)

To strengthen aggregate fiscal discipline and to improve allocative efficiency of public finances, Bulgaria reached an impressive stage of progress in adopting good international practice of budgetary governance. Back in 2009, the OECD noted that the Bulgarian budget preparation process exhibited many of the modern budgeting techniques such as top-down budgeting, multi-year budgeting perspectives, and the use of performance information (Hawkesworth, Emery, Wehner, & Saenger, 2009). Since then, Bulgaria adopted

new and ambitious organic budget law, called the Public Finance Act, and several amendments. Today, the Bulgarian legislative framework for budgeting appears comprehensive and fully complied with the EU Directive 85/2011 and the OECD Principles of Budgetary Governance. (Park, et al., 2021).

Over the past two decades, Moldova reached solid economic performance. Still, Moldova remained among the poorest countries in Europe (The World Bank, 2022). Along with economic performance, Moldova modernized its budget formulation process and budget classification is based on programs. The resources and expenditures of the budgets formed within the budgetary system are consolidated in the national public budget. The consolidated national public budget is consisted of the state budget, the state social insurance budget, the mandatory health insurance fund and the local government budgets (Public Finance and Fiscal Budgetary Responsibility Law (Parliament of the Republic of Moldova, 2021)). Moldova, as all the SEE countries signed the UN Partnership Framework for Sustainable Development, but still needs to accept the concept of fiscal rules as the concept usually understood in the OECD countries (Kraan, Kostyleva, Forthun, & Albrecht, 2010).

According to the OECD report, Romania is accelerating the pace of structural reform, investing EU funds effectively. Together with good fiscal management, Romania will strengthen future growth (OECD, 2022). Romania's budgeting regulation is fully adjusted, aggregated and consolidated according to EU regulations. The general consolidated budget is made up of the state budget, local budgets, the state social security budget, the health insurance special fund, the unemployment fund, external loans for project funding, and the budget for privatization activities. It excludes expenditures and revenues of some activities funded from revenue collected and managed by certain credit holders, revenue and expenditures of public institutions fully funded from own revenue, and external non-reimbursable assistance (Ruffner, et al., 2005). Romania's "Sustainable Development Strategy 2030" fully incorporated the UN Sustainable Development

Goals. The Strategy's holistic approach requires a change in the institutional framework to ensure a successful implementation (Borbély, 2022).

Although the debt crisis began in 2010, Greece, with the help of the EU, survived the largest financial bankruptcy of a country in history. Today, despite major austerity measures, many aspects of Greece's economy are still problematic (Amadeo, 2022). Greece has been a member of the OECD since 1961, and the EU member since 1981. As Although it has been a member of these two organizations, Greece is still in process of modernization of budgeting. Today, Greece has the "National Strategy for Sustainable and Fair Growth 2030" with a clear set of key national indicators and statistical indicators on national performance (Greek government, 2018). Budget preparation process is to a large extent a bottom-up exercise and lines of ministries enjoys a high degree of freedom to propose their spending wishes. Early guidelines primarily slow down new policy initiatives. It has to be underlined that some important reforms are still ongoing, in areas such as accounting, performance budgeting or cash management. Concerning future budgetary reforms, the OECD advises that priority be given to improving expenditure prioritization and effectiveness, through the use of spending reviews and the introduction of performance budgeting. The OECD reported that Greece's fiscal policy framework has showed to be quite effective in recent years, but the government must be prepared for new economic and other challenges that may emerge in the future. That is why the government needs to place greater emphasis, ongoing forward, into identifying and mitigating potential fiscal risks, in order to further increase the resilience public finances (Moretti, et al., 2019).

## 5. Concluding remarks: perspectives of performance budgeting

The research showed that all the countries observed, except Bosnia and Herzegovina and Greece, created a legal frame for implementation of performance-based budgeting. Some countries are more advanced in program implementation of budgeting reforms than the others. All these countries

created a legal frame for internal financial control and financial management and control in the public sector. As the UN member states, all states accepted implementation of 17 Sustainable Development Goals. Except one entity of Bosnia and Herzegovina, all the countries created their national (fiscal) development strategy. It can be concluded that all the countries are in some phase of performance budgeting reform. Based on the scientific research in the case of North Macedonia (Borce & Nikolov, 2015), political elite should know that the estimated benefits of implementation of performance-based budgeting are higher than the estimated costs. All the countries are fighting with strict fiscal discipline, good quality of revenue and expenditure forecasts. Even countries that entered more deeply than others do not have clear measuring of results against targets. Perhaps the most important and necessary requirement to implement good performance-based budgeting system in any country is political commitment.

Based on experience of developed countries, to achieve "Value for Money", accountability, transparency, efficiency, and effectiveness of allocation of resources, governments of all countries should accept some recommendations found during this research:

- Make expenditure review, estimates and budget statements always open for reforms and adjustments;
- Create clearer definitions of goals and objectives;
- Develop performance indicators and reporting of performance against stated objectives;
- Transfer responsibility for financial management to the executive directors of the agency;
- Introduce agency banking and abolish of central payments system run by finance ministries;
- Introduce monthly reporting by agencies;
- Introduce reward/penalty for successful/unsuccessful project managers; and
- Create Office of the Controlling (independent from all other units and highly qualified to identify risks in a timely fashion) which will be responsible for the

overall quality and integrity of the financial management and control system.

Implementation of performance-based budgeting is a process that requires considerable amount of time, combination of factors, trained and educated staff, major investments in technology systems, acceptance of experimentation and failure and it is an ongoing process for all the SEE countries, where the evaluation of the implementation will be needed in the future.

Given the research theme attractiveness and significance of performance budgeting, the future research should investigate progress of countries as they move closer to the EU, especially the impact of EU membership on performance budgeting of the latest member states.

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<sup>1</sup> Service Employees International Union is a labor union representing almost 1.9 million workers in over 100 occupations in the United States and Canada.

#### ANNEX 1 – Data sources per country

Republic of Turkey: Q1: OECD performance budgeting database (OECD, 2018), verified with The Eleventh Development Plan (2019-2023) (The grand national Assembly of Turkey, 2019); Q2: OECD performance budgeting database (OECD, 2018), verified by authors research and cognition based on development plan; Q3: Verified on (UN Sustainable development, 2022); Q4: OECD performance budgeting database (OECD, 2018), Verified with Law on public fiscal administration and control, Law No: 5018 (Turkey Ministry of Finance, 2013); Q5, Q6, Q7, Q8; Q9, Q10, Q11: Authors' research and cognition based on Law on public fiscal administration and control. To check and confirm all the answers, during the research the following sources were also consulted: Budgetary Institutions in Turkey (Atiyas & Sayin, 2000); Changes in Turkish Budget System: Transition to Performance-Based Program Budgeting (Yavuz, Özgül, & Susam, 2021); Regulatory reform in Turkey: Government capacity to assure high quality regulation (OECD, 2002); Budgeting in Turkey (OECD, 2007).

Republic of Albania: Q1: National strategy for development and integration 2014-2020 (Albania Council of ministers, 2013); Q2: Authors' research

and cognition based on national strategy; Q3: Verified on (UN Sustainable development, 2022); Q4: Law on the management of the budget system in the republic of Albania (Assembly of Republic of Albania, 2008-2016); Q5, Q6, Q7, Q8; Q9, Q10, Q11: Authors' research and cognition based on Law on the management of the budget system in the Republic of Albania. To check and confirm all the answers, during the research the following sources were also consulted: Regulations of the Assembly of the Republic of Albania (Albanian Parliament, 2021); Budgeting in Albania (Klepvik, Emery, Finn, & Bernhard, 2014).

Republic of Kosovo: Q1: National development strategy 2016 – 2021 (Government of Republic of Kosovo, 2016); Q2: Authors' research and cognition based on national strategy; Q3: Verified on (UN Sustainable development, 2022); Q4: Law no. 03/l-048 on public financial management and accountability (Assembly of Republic of Kosovo, 2008); Q5, Q6, Q7, Q8; Q9, Q10, Q11: Authors' research and cognition based on the Law on public financial management and accountability of the Republic of Kosovo. To check and confirm all the answers, during the research the following sources were also consulted: Book of processes for management of public expenditures (Kosovo Ministry of finance, 2017); Methodology on monitoring and annual reporting for internal control systems of public sector entities (Kosovo Ministry of Finance, 2018); Zero Based Budgeting in Kosovo Correctional Service (Haxholli, 2015); The Budgeting Process of Kosovo: A critical analysis (Maxhuni, 2018); Law no. 08/l-066 on budget appropriations for the budget of the Republic of Kosovo for year 2022 (Assembly of Republic of Kosovo, 2021).

Republic of Montenegro: Q1: National Strategy for Sustainable Development until 2030 (Montenegro Ministry of Sustainable Development and Tourism, 2017); Q2: Authors' research and cognition based on National strategy, Q3: Verified on (UN Sustainable development, 2022); Q4: Law on Budget and Fiscal Responsibility (Parliament of Montenegro, 2014-2018); Q5, Q6, Q7, Q8; Q9, Q10, Q11: Authors' research and cognition based on Law on Budget and Fiscal Responsibility of Montenegro. To check and confirm all the answers, during the research the following sources were also consulted: Law on the Budget of Montenegro for 2021 (Parliament of Montenegro, 2021); Fiscal strategy of Montenegro for the period 2021-2024 (Government of Montenegro, 2021); Budgeting in Montenegro (Kraan, Kostyleva, Duzle, & Olofsson, 2012); Information on the improvement of the budgeting system and the multi-year budget framework (Government of Montenegro, 2020).



Republic of North Macedonia: Q1: Fiscal strategy for the Republic of North Macedonia for 2022-2024 (with prospects until 2026) (Government of Republic of North Macedonia, 2022); Q2: Authors' research and cognition based on fiscal strategy; Q3: Verified on (UN Sustainable development, 2022); Q4: Budget law (Parliament of Republic of North Macedonia, 2010); Q5, Q6, Q7, Q8; Q9, Q10, Q11: Authors' research and cognition based on Budget Law of North Macedonia. To check all the answers, during the research the following sources were also consulted: Cost-benefit analysis of performance based budgeting implementation (Borce & Nikolov, 2015); Budget of the Republic of North Macedonia for the year 2021 (Parliament of Republic of North Macedonia, 2020).

Republic of Serbia: Q1: Revised Fiscal strategy for 2022 with projections for 2023 and 2024 (RFS) (Government of the Republic of Serbia, 2021); Q2: Authors' research and cognition based on RFS; Q3: Verified on (UN Sustainable development, 2022); Q4: Law on the budget system (National Assembly of the Republic of Serbia, 2009-2014); Q5, Q6, Q7, Q8; Q9, Q10, Q11: Authors' research and cognition based on Law on the budget system of Republic of Serbia. To check and confirm all the answers, during the research the following sources were also consulted: Instructions for creating the program budget (Serbia Ministry of finance, 2014-2021); Review of program budgeting in Serbia – 3 years of reform (DAI-SIPU-PALGO CENTER, 2022); Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report (The World Bank, 2021).

Bosnia and Herzegovina entity: Republic of Srpska: Q1: National performance framework (national development strategy) not found; Q2: Authors' research and cognition based on previous question; Q3: As part of Bosnia and Herzegovina, verified on (UN Sustainable development, 2022); Q4: Law on the budget system of the Republic of Srpska (Parliament of Republic of Srpska, 2012-2016); Q5, Q6, Q7, Q8; Q9, Q10, Q11: Authors' research and cognition based on Law on the budget system of Republic of Srpska. To check and confirm all the answers, during the research the following sources were also consulted: Recommendations for improving the budget process in the Republic of Srpska (CPI Fondacija, 2014).

Bosnia and Herzegovina entity: Federation of Bosnia and Herzegovina: Q1: Public Finance Management Reform Strategy 2021-2025 (PFMRS), (Parliament of Federation of Bosnia and Herzegovina, 2021); Q2: Authors' research and cognition based on PFMRS; Q3: As part of Bosnia and Herzegovina, verified on (UN Sustainable development, 2022); Q4: Law on budgets in the

Federation of Bosnia and Herzegovina (Parliament of Federation of BiH, 2013-2109); Q5, Q6, Q7, Q8; Q9, Q10, Q11: Authors' research and cognition based on Law on budgets in the Federation of Bosnia and Herzegovina. To check and confirm all the answers, during the research the following sources were also consulted: Development strategy of the Federation of Bosnia and Herzegovina 2021-2027 (Parliament of Federation of BiH, 2020) and Development Programming institute of Federation of BiH (Development Programming institute of Federation of BiH, 2022).

Bosnia and Herzegovina: Q1: National performance framework (national development strategy) not found; Q2: Authors' research and cognition based on previous question Q3: Verified on (UN Sustainable development, 2022); Q4: Law on financing institutions of Bosnia and Herzegovina (Parliament Bosne i Hercegovine, 2000-2013); Q5, Q6, Q7, Q8; Q9, Q10, Q11: Authors' research and cognition based on Law on financing institutions of Bosnia and Herzegovina and Law on the budget of the institutions of Bosnia and Herzegovina and the international obligations of Bosnia and Herzegovina for the year 2020 (Parliament Bosne i Hercegovine, 2020). To check and confirm all the answers, during the research the following sources were also consulted: The impact of the introduction of program budgeting on the transparency and responsibility of the public sector in Bosnia and Herzegovina (Trkić, 2007); Manual for program budgeting for local self-government units in Bosnia and Herzegovina (UNDP, 2020); Public administration reform assessment of Bosnia and Herzegovina (OECD, 2014).

Republic of Bulgaria: Q1: The National Development Programme BULGARIA 2030 (Bulgaria Ministry of Finance, 2020); Q2: Authors' research and cognition based on NDP; Q3: Verified on (UN Sustainable development, 2022); Q4: Public Finance Act (Bulgaria Ministry of Finance, 2022); Q5, Q6, Q7, Q8; Q9, Q10, Q11: Authors' research and cognition based on Public Finance Act of the Republic of Bulgaria. To check and confirm all the answers, during the research the following sources were also consulted: Budgeting in Bulgaria, OECD Journal on Budgeting (Hawkesworth, Emery, Wehner, & Saenger, 2009) and Budgeting in Bulgaria (OECD, 2021).

Republic of Croatia: Q1: National development strategy of the Republic of Croatia until 2030 (Government of Republic of Croatia, 2022); Q2: Authors' research and cognition based on National development strategy of the Republic of Croatia until 2030; Q3: Verified on (UN Sustainable development, 2022); Q4: The Budget Law (Croatian Ministry of finance, 2022); Q5, Q6, Q7, Q8; Q9, Q10,

Q11: Authors' research and cognition based on the Budget Law. To check and confirm all the answers, during the research the following sources were also consulted: European Commission (2019), Country Report Croatia 2019: Including an In-Depth Review on the prevention and correction of macroeconomic imbalances (European commission, 2019).

Republic of Moldova: Q1: National development strategy "MOLDOVA-2030" (Participation Platform: State office, 2022), Q2: Authors' research and cognition based on National development strategy "MOLDOVA 2030"; Q3: Verified on (UN Sustainable development, 2022); Q4: Public finances and budgetary-fiscal responsibility Law (Parliament of the Republic of Moldova, 2021); Q5, Q6, Q7, Q8; Q9, Q10, Q11: Authors' research and cognition based on the Public finances and budgetary-fiscal responsibility Law. To check and confirm all the answers, during the research the following sources were also consulted: Budgeting in Moldova. OECD: OECD Journal on Budgeting (Kraan, Kostyleva, Forthun, & Albrecht, 2010); World bank (2016), Moldova Public Finance Review: Towards More Efficient and More Sustainable Public Finances (World bank, 2016).

Republic of Romania: Q1: National sustainable development strategy Romania 2013-2020-2030 (NSDS) (Government of Romania – Ministry of Environment and Sustainable Development, 2008); Q2: Authors' research and cognition based on NSDS; Q3: Verified on (UN Sustainable development, 2022); Q4: Fiscal Responsibility Law no. 69/2010 (Romania Fiscal Council, 2015); Q5, Q6, Q7, Q8; Q9, Q10, Q11: Authors' research and cognition based on the Fiscal responsibility Law of Romania. To check and confirm all the answers, during the research the following sources were also consulted: Strategic planning and program budgeting in Romania – recent developments (Dănulețiu, 2019); Romania's sustainable development Strategy 2030 (Romanian Government, 2018); The fiscal framework in Romania – the efficiency of fiscal rules (Dumitrescu, 2015), OECD Journal on budgeting – Vol. 4/4 (Ruffner, Wehner, & Witt, 2005); Considerations Regarding the Public Budget in Romania (Huseraş & Balteș, 2019).

Greece: Q1: National Strategy for Sustainable and Fair Growth 2030 (European Sustainable Development Network, 2019); Q2: Authors' research and cognition based on National Strategy for Sustainable and Fair Growth 2030; Q3: Verified on (UN Sustainable development, 2022); Q4: Budgetary Governance in Practice: Greece, (OECD, 2019b) and Organic budget law (Greece Ministry of finance, 2017); Q5, Q6, Q7, Q8; Q9, Q10, Q11: Authors' research and cognition based on the Budgetary Governance in Practice: Greece and

Organic budget law of Greece. To check and confirm all the answers, during the research the following sources were also consulted: GREECE: Recent developments in Public Financial Management (Miliakou, Pappa, Teterou, & Tserkezis, 2017).

Republic of Slovenia: Q1: Slovenian Development Strategy 2030 (Government of the Republic of Slovenia, 2017); Q2: Authors' research and cognition based on Slovenian Development Strategy 2030; Q3: Verified on (UN Sustainable development, 2022); Q4: Fiscal rule act (The Government of the Republic of Slovenia, 2015); Q5, Q6, Q7, Q8; Q9, Q10, Q11: Authors' research and cognition based on the Fiscal rule act of Slovenia. To check and confirm all the answers, during the research the following sources were also consulted: Case Study: Performance-oriented budgeting in Slovenia – Achievements so far and obstacles encountered (Bizilj, 2007); Performance Budgeting in Slovenia - Lessons from International Experiences and some Methodological Issues (Aleksander & Janko, 2010); Budgeting and Public Expenditures in OECD Countries 2019: Budgetary Governance in Practice: Slovenia (OECD, 2019a)