

STRATEGIC PLANNING AND PROGRAM BUDGETING IN ROMANIA RECENT DEVELOPMENTS

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The paper emphasizes the efforts of Romanian authorities to implement program budgeting. Based on the first results, authorities decided to establish a link between strategic planning and budgeting, as a condition for implementing multi-annual budgeting. There are presented the steps toward this goal and there are made some remarks on future measures.

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Program budgeting divides public expenditures by activity. Sometimes, program budgeting is officially related to a planning process where the national objectives are set and the allotment of resources is done in accordance with the necessary effort to achieve these objectives.

The program budgeting's characteristics can be synthesized as follows:

- identifying and operationally stating the objectives that must be reached on medium term (“planning”);
- stating the services' outputs which must be produced in the annual budget in order to achieve the objectives (“programming”);
- calculating the services' production costs in the annual budget, possibly followed by an adjustment of the outputs and objectives in order to comply to the deficit or budget constrains.

The program – an objective of the public policy, to which are associated the necessary means to reach it¹²⁰, represents the essence of this type of budget. The budgeting based on programs has placed the emphasis explicitly on the budgetary choices between the competitor policies. While performance budgeting aimed to discover the most efficient method to achieve a certain objective, program budgeting has regarded the objectives as variables. Therefore, program budgeting strived for a connection between the program's costs and the results of the public programs. This budgeting method wanted to be an alternative to the traditional manner of making budgetary compromises, its supporters claiming that this way the decisions to allot the budget expenses will be taken in accordance to the marginal value, which can be obtained through a different use of the budget's resources.

From a political point of view, the program budgets have a great potential to allow the Parliament to analyze the political implications of the decisions regarding public expenses, because these are concentrated on generating information about the services' efficiency in connection to the formal objectives that were set for them; while from the economic point of view, because of the reasons stated above, the program budgeting represents a lead in relation to the performance budgeting.

Based on the economic theory of bureaucracy, it can be noticed the information supplied by this type of budget helps the Parliament to fairly assess the individual benefits resulted from the budgetary allotments; this generates tension in the executive branch, because this branch can't influence the information about individual benefits. Therefore, the information on effects is welcomed because, although it won't impact the productive efficiency, at least not directly, the allotments' efficiency will grow when the members of the political authorities will improve their estimations regarding the benefits.

120 ***, Manuel de gestion des dependences publiques, Banque Mondiale, Washington D.C., 2000, pag. 22.

At the level of the central public administration, Romania has experimentally introduced in the year 2000 the program budgeting in 8 Ministries, and in 2002 this type of budgeting was extended to all the Ministries. The 2002 Law on Public Finance requires that all primary credit holders provide a report on programs as an annex to the budget. The law required that the Government, through the Ministry of Public Finance, elaborate the projects of annual budgeting laws and of the budgets. Among others, these projects were based on the programs drawn up by the primary credit holders in order to finance actions or a set of actions that are associated with accurate objectives and results indicators and efficiency indicators. The programs are accompanied by the annual assessment of each program's performances, which must set out: the actions, the associated costs, the aimed objectives, the estimated and obtained results for the coming years, measured by precise indicators, whose choosing is justified.

Thus, each program must define:

- the final purpose of the activity carried by a Ministry or a different central public entity;
- the aimed objectives, meaning the expected results that occur after running the program and which must mark a certain progress in reaching the desired goal;
- defining the program, specifying the priorities and indicating the time horizon it refers to; assessing the increasing possibilities of the efficiency/effectiveness after running the program; the financial effort needed to carry the program;
- results indicators, qualitative and quantitative indicators;
- financing the program – total financing and sources of descent.

Government approved the programs drawn up by the primary credit holders.

A few problems were encountered regarding the programs' settlement¹²¹:

- in some cases, the programs were established depending rather on the activities, than on the policies;
- in other cases, the programs were established depending rather on the finality, than on the policies.

The main indicators relating to the technical efficiency of the project were taken into account (for example, the unit cost) when evaluating the financed programs.

In 2004, each ministry had several programs. But program budgeting does not seem to be a serious requirement as there are little incentives or penalties to make credit holders take it seriously and parliament and civil society have not used the data to hold the executive to account. The 2003 Country Financial Accountability Assessment noted that line ministries needed to improve the realism and relevance of the quantitative performance indicators presented with the programs. As an answer, the Ministry of Finance has issued Order No. 1159/2004 approving the Instructions on the Content, Format and Structure of Programs. The Instructions provided guidance for line ministries in developing their budgets and they require that the line ministries evaluate the efficiency of allocations. The annexes to the budget provide the related performance indicators for the programs.

Another weakness of the system was that the programs' elaboration was supposed to consider the objectives included in a series of strategic documents (the governing programs, the national development plan, the pre-accession economic program, the documents and results of the pre-accession negotiation process), as well as the sectoral policies and strategies. The problem is that, across these various products, it is difficult to find comprehensive consistency of thought and strategic direction. The various strategic documents all derive from different processes involving different players and with different purposes—some political, some focused on EU accession and some focused on EU fund access. In reality, none is a proper strategic government-wide

121 . C. Crăciun, P. E. Collins, Public policy management: transformations and perspectives, Polirom Publishing House, Iași, 2008, pag. 210.

framework that gives unequivocal direction to the Romanian people and public sector about what the government intends to achieve.

Government didn't have or had too few mechanisms to ensure the following:

- the revision of the political commitments that are planned or already exist in the mentioned strategic documents through the new information tied to the macro-fiscal framework;
- the revision of the planned or already existent public policies in light of decisions to follow other goals of policies rather than the ones in the documents mentioned above;
- identifying the degree in which different aspects of the existent set of policies can be put into practice on medium term, therefore the degree in which the time running and the implementation details of some policies must be changed;
- the actual testing of the viability for the current public policies options through a process of strategic planning which will give information about the impact and probability of their successful implementation.

The lack of clear policy direction in these documents is in large part a result of the fragmented processes by which policy is developed. Until 2005, Romania had more than 130 inter-ministerial committees or task forces working on different policy issues and generating their own policy products. There was no strong central policy "channeling" mechanism in the Cabinet responsible for issuing clear high-level directives and then ensuring that policy proposals all related to these, and that they were reflected in the budget. The fragmented process also results in Cabinet officials (like ministers) becoming involved in detailed aspects of policy delivery (typically the purview of delegated agencies like line ministries). This also led to the introduction of a significant number of policy products (including passing of new laws) that were not disciplined by a policy framework, or costed. In a number of cases, these resulted in unfunded mandates, sometimes introduced for implementation within a specific budget period (requiring significant funds movements, which undermined the value of the formulated budget).

Aware of its policy-making weaknesses, Romania's government has pursued various reforms in the past few years. These include organizational changes across and within ministries, with the most central involving the dismantling the over 130 Cabinet Committees and Task Forces and establishing eleven permanent Inter-Ministerial Councils (IMCs), which mirror structures at the European level (European Council of Ministers).

An important role in the public policies process is played by the Strategic Planning Council, which has the following main tasks:

- sets and coordinates the priorities derived from strategic documents in order to achieve the objectives of the Government in partnership with the resort ministries;
- correlates the governmental policies with the commitments and conditions undertaken by the Cabinet in relation with international organizations;
- makes the multi-annual programming of the fundamental strategic priorities and corroborates them with the medium-term programs budgeting;
- correlates the policies which are about to be implemented with the budget funds allotted on short and medium term.

A sequel of this measure was the drawing up in 2006 of the Strategy of improvement the elaboration, coordination and planning system of the public policies at the level of central public administration. The strategic planning within the central public administration is seen as an action that reunites in a single management framework such aspects as: public policies planning, budget drafting, establishing the priorities and the organizational planning.

According to the strategy, the strategic planning in Romania is introduced in two stages.

In the first stage, the management component of the strategic plans was prepared. Its content targets the following aspects: the institutions' mandate, its vision, joint values, the analysis of the internal and external environment, the medium-term priorities and the activity directions. The Minister who is in charge of referred to Ministry will approve the final draft of the management

component of the Institution's Strategic Plan. Before signing the final draft of the Strategic Plan, this must be assented at the level of all the ministries and must be presented within the Government's preliminary work meeting. This will insure that the way in which these norms are imposed by the methodology is kept track of, as well as an exchange of good practice between the ministries.

For the trans-sectoral policies, the management components from the strategic plans of the ministries must be conformed through the inter-ministry permanent councils. The councils have an advisory role, and their involvement will insure the coordination of the activities that take place in different ministries that have distinct tasks within a political segment. This will lead to the avoidance of their overlapping regarding functions and activities.

At the end, after all the conforming procedures are applied, the updated and improved draft of the Strategic Plan will be adopted by the government, as well as the public policies documents or other projects for normative documents.

The solicitation that the line ministries present within a matrix with 9 columns information regarding the ministries' policies, objectives, expected results, beneficiaries, current status (related to the public policies), activities of the reform programs and budgetary implications and risks was simultaneously introduced in 2006 for the budget of the year 2007.

The second stage took into account the program budgeting component, which will insure the necessary connection between the public policies planning processes and the processes regarding the preparation of the budget.

The methodology regarding the strategic planning system on medium term for the central public administration institutions mentions that the Finance Ministry will include in the annual methodology of the budget elaboration instructions about the necessity to establish a clear connection between the public policies and the priorities in the Strategic Plans of the credit holders, on one hand, and the budgetary allotments, on the other hand.

The strategic plan plays the role of an instrument that promotes coherent public policies, insures quality and the right justification of the budgetary programs and backs up the main public policies to be financed.

Introducing the strategic planning system also creates the premises for a clear, coherent and well-argued competition regarding the financing of the additional initiatives of the resort ministries (mechanism for the financing of the public policies which are initiated after the budget is approved).

In accordance with the strategic planning methodology – the program budgetary component, each program described by Strategic Plan must correspond to a program that is really included in the yearly law of the state budget. In case the ministry which creates a new budgetary program or sub-programme during the elaboration of the budgetary programming component, this will appear within the strategic plan, and afterwards is undertaken in the documents needed to draw up the budget. PSI will be updated after the passing of the budget by the Parliament.

For the drawing up of this component of the strategic plan, for each budgetary program will be presented the following: the analysis of the current state, the objective of the budgetary program, the performance results and indicators, the new financing initiatives, the implementation mechanisms and the main tasks, as well as the program's financing.

Based on the diagnosis of the current situation, the objective (objectives) that must be achieved on medium term is set by putting into practice the referred to budgetary program. The clarity in expressing the objective/objectives is essential for the success of a program's implementation, allowing the targeted allotment of the budgetary resources. In many situations, establishing the objective actually represents the solution to a major problem.

These objectives should be defined SMART: Specific, Measurable, Achievable, Relevant and Timed.

The performance results and indicators must be defined in close relation with the program's objective. The results of the program can be divided in two categories:

- the outcomes of the public policy – which describe in a measurable manner the changes that occurred in the economic, cultural and social environment. These represent the long-term impact generated by the results obtained in a different time period. Afterwards, the policy's results allow the decision factors and the society to evaluate the degree in which the objectives were achieved during the implementation step or after;
- the outcomes of the actions – which are services or products supplied by an institution depending on its goal and for which the institution is totally responsible.

The outcomes of the public policy and the outcomes of the actions must have a series of features in order to be useful in the budgetary planning process:

Therefore, the outcomes of the public policies are¹²²:

- should adequately reflect the government's objectives and priorities;
- should be indicated by the impact on the community;
- should be differentiated from the agency's strategies to which they contribute;
- should clearly identify target groups, if so focused;
- should be achievable in the specified time frame;
- should be possible to monitor and assess the achievement of the outcome;
- should be possible to identify the causal link between agency's output and the outcome;
- should have clarity in definition and description to be easily reported externally.

The outcomes of the actions are:

- should be a good or service provided to individuals/organizations external to the agency;
- should be able to be clearly identified and described;
- should be for final use and not for an internal process or intermediate output;
- should contribute to achievement of planned outcomes;
- should be under the control (directly or indirectly) of the agency;
- should be able to generate information on attributes of performance – price, quantity and quality.
- should generate information that is a basis for performance comparisons over time or with other actual or potential providers.

The performance indicators are measurable factors that show the degree in which the results were reached. The indicators must be drawn up based on the existent statistics. The results' achievement level can be tested with the help of a limited number of indicators. It is not necessary to elaborate more indicators based on expensive sampling methods for data if there is a possibility to get the same results with less effort.

All the results of the policy and of the actions must be in close relation with the results established in the public policies documents. If there is no policy document for that respective area, then the policies' and actions' results and the performance indicators must be enunciated during the drawing up of the program budgeting.

The "new financing initiatives" section of the program budgeting description gives information about all the initiatives which need additional financing from the budget, suggested by a ministry and the subordinated institutions. This section gives an abstract of the ministry's recommendations (and of the subordinated institutions) that can be accomplished by allotting additional fund in order to improve the services supplied to the society or to increase the institutional capacity. The New Financing Initiatives (NFI) include the sums needed in addition to the ones stipulated in that budgetary program for the previous year and surfaced as a result of the Government's approval of the public policy documents or of the normative documents subsequent to the budget's approval.

122 J. Diamond, Establishing a Performance Management Framework for Government, IMF Working Paper, pag. 11.

The “programme financing” section includes only numbers and presents the financial results allotted to implement that budgetary program, as well as reaching the established objectives and purposes and obtaining the results of the planned policy and action. This is the most practical part of the program budgeting, which shows the actual sums included in the annual law of the state budget. The progression of the budgetary execution for the previous year are also presented, as well as the approved budget for the current fiscal year and a two year projection based on the macroeconomic and fiscal policy framework written by the Economy and Finance Ministry.

The goal of this section of the description is to show all the financial resources allotted by the Government and Parliament (including external help and other types of incomes) for the implementation of the specific governmental policies that are the subject of the particular budgetary program, as well as the recouped presentation of the due expenses.

The worldwide economic-financial crises that affected Romania has lead to slowing down the putting into practice of these measures.

Based on the stipulated measure, the executive pursued to integrate the budget in the strategic planning system. Thus, depending on the information and data included in the program budgeting component, the Ministry of Public Finance strives to prepare the public expenses framework on medium term, but also the sectoral ceilings for the annual budget. Furthermore, in the ministries’ budget projects sent to the Ministry of Public Finance must be drawn up according to the budget programing component.

These actions represent essential elements for the introduction of the multi-annual budgeting, which is an important mechanism for the insurance of the economic stability.

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