

The Budgeting based on the Performance: Conceptual Framework and Implementation Details

Elena FUIOR, Valentina GUȚAN

***Trade Co-operative University of Moldova, Chisinau,
REPUBLIC OF MOLDOVA***

elenafuior@rambler.ru

gutan.valentina@gmail.com

Abstract: Programmer budgeting, as a method of substantiation, design and plans accumulation of budgetary resources, is based on a mechanism consisting of goals, objectives and performance evaluation indicators. In addition, by prioritizing, design and implementation decisions on the allocation of budgetary resources, performance budgeting becomes an effective management tool.

In terms of concepts, performance-based budgeting (PBB) means a new understanding of the term "budget". Currently, Moldova is implementing a new concept of public finance management system, aimed at strengthening budgetary and fiscal discipline and increasing transparency in this field, based on the implementation of best international practices.

In the context of the current reform are established primary goals that need to be considered in developing the accumulation programs of budgetary resources, obligations and responsibilities of the central authorities (PCAs) and budgetary institutions to achieve results in connection with the allocated resources. In this regard, using the legal framework as a tool for providing opportunities to accumulate sufficient resources to achieve those objectives, public authorities must implement programs based budgeting mechanism.

The conceptual framework, as a way of structuring the main components of performance-based budgeting provides internal logic of the program. The elements in the lower level components contribute to achieving higher levels components. Budgetary resources allocated for the implementation of programs contribute to achieving the objectives expressed by outputs and outcomes and objectives to achieve the goals of the program. In conclusion, programmer budgeting requires the need to establish goals, objectives and performance indicators, identify implemented policies and programs, taking into account the conceptual framework.

Keywords: budgeting, performance, management, budgetary institutions, methodology, process, public budget, reform, program, optimization, indicators, efficiency.

Introduction

Currently, local government policy is implemented on the basis of some objectives, well structured, in which implementation are used methods and tools of the economic, monetary, budgetary nature, etc. adequate to public sector specificity. Among these, a special place is assigned to the responsibility of management mechanism of resources and assessment of the financial situation on the basis of budgets.

From this point of view, management of the budgets, as a tool for financial planning of the activity is that leverage that will ensure enhancing performance. Planning, and within it financial forecast, aims to establish the revenues and expenditures of local public administration for the attainment of the objectives proposed in the next financial future.

Modernization of the budget drafting process ensures the development and efficient management of public funds. For these reasons, for the elaboration of an effective and sustainable system of financial management at the level of European standards, local public authorities must implement the related policies and procedures and apply a range of reforms that would allow for a good management of public finance.

Thus, in order to support the reforms, were adopted or amended a number of laws with those methodologies, including budgeting on programs. Program based budgeting represents a method of presenting budgets based on programs with set up goals, objectives and performance evaluation

indicators on all stages of the budgeting process. The program budgeting is also an efficient tool of budget management that ensures setting up priorities and taking decisions in regards of allocating budgetary resources. PBB signifies a new perception of the term “budget”.

The main features of the program based budget are:

- the link with the political framework: the budget is structured on programs that reflect the objectives of implemented policies in long and medium terms strategic planning documents,
- focused on performance: besides the financial information, the program based budget comprises non-financial information, goals, objectives and performance indicators being established,
- enhanced responsibility in the budgeting process: program based budgeting implies the public authorities responsibility for the achievement of the performances assumed within the budgeting process,
- multiannual perspective: the presenting format of program based budget comprises dynamic information, specifically achieved results during last two years, approved indicators for the current year, and estimation for the future three years.

The logic framework ensures the internal logic of the program. This is a way of structuring the main components of the program, so that the logic links are obvious while the elements from the lower level would contribute to implementing elements from the higher level: the resources that are used to implement activities contribute to the objectives achievements, which are expressed as products and results, so that the objectives achievements expressed by products supports the achievement of objectives expressed as results. Objectives contribute to the achievement of goals.

Whereas fulfilled goals mean implemented strategies under the condition that the logic framework is observed within the program elaboration process. Within the program elaboration process the goals, objectives and performance indicators shall be established. The indicators shall be used in order to measure the achievement degree of goals and objectives. The vertical approach (up → down) will be applied/implemented.

1. Evolution of Developing and Implementing Budgeting Systems in International Practice

Currently, the main problem of budgetary management is to ensure consistency between the financial resources needed to finance sustainable development programs with the possibility of securing these resources. The need to coordinate these two aspects requires to determine the mechanism that allows you to achieve this goal.

The notion of performance, during human development, has become more complex. Initially, in the 13th century, as the performance difference between the amount of money invested by the owner (owners) of the dish and the amount of money obtained from the sale of goods.

From 1900 to the 1960s, for the purpose of administering and preventing corruption, was used on the lines in the budgeting method which prerequisites have been created for transfer to another method of budgeting, namely the "budget planning performance".

In the period 1930-1960 was the problem of measuring performance, which are assessed by cost and volume. As a result of the development of scientific concepts in 1960 in the USA system has been developed for the planning, programming and budgeting (SPPB), marking the formation of the budget performance. Within this system of planning, the main priority is to increase the rate of efficiency of inputs and outputs.

The wide spectrum of needs, which were to be financed under the conditions of limited resources, has contributed to the emergence, in the 1960s-1970s to budget planning method based on zero (MISU). This budgetary system provide for the need to prove all costs of each program, not only the indicators that exceed budget. The second aspect of the objective of optimal resource allocation and cost effective, which can be ensured by identifying inefficient or costly activities that continue to be funded because they are never examined.

To achieve this objective, within the system, it is necessary to evaluate the work of decision makers, responsibility centres, costs, profits, investments, program elements, etc. On the basis of this assessment shall be drawn up the package of decisions and analyzed and the hierarchy of decisions on the basis of the criteria laid down, to which he is assigned a score, and the options are classified according to priority.

Rationality of this method is that it allows performing a comprehensive evaluation of objectives and needs; ensure participation of governance at all levels; identifying exaggerated budgets, requiring expenditure operations are complicated, etc. At the same time, the method has some drawbacks, among them: the required amount of work deficiencies in administration is based on honesty and understanding of managers.

Thus, budget planning method based on zero is used in the budgeting process, which has tended to use certain elements changed, so that the process of adjustment to the base line, the research opportunity, every year, one or more programs in terms of the possibility of estimation of the value of the programmer; the importance of the goals and objectives of the programmers and its placement depending on importance; consequences in the case when the program is not offered at all or if a part of the expenditure was used for other programs; in comparison with other targets they are less costly and more effective or not; the program in all existing programs.

Concurrently with the planning method based on zero budget was drawn up and the System of planning, programming and budgeting (SPPB), whose basic concept, do not differ much from the previous method. To an extent any program budgeting can equalize with performance budgeting. This method serves as the cornerstone for the development of the budgetary process performance. At this stage there were also such notions as "output-oriented budgeting", "results-based budgeting".

Performance based budgeting method, published in the late 1960s and early 1990s and was used to ensure linkages between policy and services. It is a form of budgetary allocations which relate to measurable results. The mechanism through budget planning requires a complex volume performance information used in planning, monitoring and reporting. However, the management of budget resources, the method provides a level of transparency, accountability and flexibility.

From a conceptual standpoint, "System planning, programming and budgeting" (PPBS) and "Budgeting by objectives" used in the '70s to the present stage of development of society are not appropriate, as have a number of drawbacks including: mutually exclusive objectives and results; unique relationship between outputs and outcomes; using outputs to further the objectives or results, etc.

As opposed to the methods mentioned "output-oriented budgeting" to establish the full cost of services; performance specification; consistency with cost centres and organizational structures setting and easy implementation of commitments accounting; financing combines the results/objectives by establishing, for each program. But output oriented budgeting method has some drawbacks, which, on the one hand, there is the possibility of loss resulting panel, on the other hand, little accountability for results.

Currently, the theoretical aspect, the budget performance is considered that budget, which allows improving the efficiency and effectiveness of public spending public resources used by correlating the results, using performance information permanently and performance information is information that concerns the result of the use of public funds. In some cases, the information may relate performance and cost of obtaining these results.

The literature highlights four types of budget performance, such as:

- program budgets - are based on information on costs and benefits programs, enabling prioritization of expenditure;
- funding correlated with performance - results correlate the level of funding made;

- performance incentives - motivate authorizing officers to obtain better results by providing financial incentives for good results (it may introduce financial sanctions for underperformance);
- formula-based funding - funding the results using an explicit function that depends on the expected results and/or made.

These methods identify key performance incentives to reward performance, or sanction the lack of performance; supplementary budget institution; motivational incentives as a lever.

As a modern method was attempted to ensure efficiency gains performance-based budget process is model Robinson - Last. Scientists Marc Robinson and Duncan Last in the work of Performance-Based Model Basic Budgeting (2009) proposed a simple model of budget performance, it is proposed to take into account the expected results of the expenses.

In view of scientists to implement binding model requires information on objectives and results, and the budget process should be designed in such a way as to facilitate the use of this information in making decisions. For this purpose it is necessary to have a budget classification program and medium-term financial framework.

It also specify the need for continuing analysis of the results allows to optimize prioritization of expenditure; encouragement to authorizing officers to spend more efficiently and effectively , provide fiscal space for other expenses and identify those expenses low priority that can be canceled if the required fiscal consolidation. The performance budgeting information is the basic instrument, they must be reliable and timely and should be used in the budgeting process.

According to the scientists' vision budget process should include such steps as:

- "Strategic phase" in the beginning of the budget process involves a preliminary analysis of spending priorities defined by broad category;
- an evaluation of the costs to see the adequacy and effectiveness of current programs. In this phase should be identified expenditure that can be reduced (or eliminated), respectively, to be increased;
- a stage of examination of new spending proposals.

Performance-based budgeting should be made based on the following principles:

- programs must be anchored as much as possible the results of policies
- expenditure (grouped by classification programs) must include all costs of the program
- accounting must be kept separate each program (in it can use other classifications).
- as scientists conclude that specific budget performance success depends on:
- quality of governance (closely related to the degree of corruption);
- providing funding according to the approved budget;
- compliance with budgetary principles, accounting principles and conducting audits serious;
- preparing budgets persons required to implement performance.

2. Performance based Budgeting in Republic of Moldova: Problems, Opportunities

Development budget process at the local government level and the management of public funds shall be regulated by a number of measures, including:

- Law on budget system and budget process, no. 847 of 24.05.96, as subsequently amended;
- Law on Local Public Administration, no. 436 of 28.12.2006, as subsequently amended;
- Law on Administrative Decentralization, no. 435 of 28.12.2006, as subsequently amended;
- Law on Local Public Finance, no. 397 -XV from 16.10.2003, as subsequently amended;
- Recommendations and instructions issued by the Ministry of Finance.

According to the methodological norms for assessing the performance of local public finance management in Moldova, the assessment should be made based on the following principles ar :

- ensuring the credibility of local budgets;
- comprehensiveness and transparency;

- conduct budgetary process in line with the policy and strategy of local and regional development;
- accounting, recording and reporting financial information in the budget process in the administrative-territorial unit;
- control and external audit.

Internationally, depending on the time horizon is realized, the budgets are classified in various forms, such as:

- general guidance budgets, long-term (3-5 years);
- annual budgets, specific to various socio-economic activities;
- budget outcome for estimation of economic and monetary union.

These three types of budgets have a close link is to develop them successively, starting with strategic objectives, continuing with its annual budgets implementation specific activities and ending with concrete resulting cash budget, monetary forecast all other budgets.

Long-term (3-5 years) plans are drawn up economic, financial and social conceptual guidelines that define the organization's future vision, guidance and general modelling activities and internal structures of the organization during the period of government.

Short-term financial instruments is forecast to achieve the organization's budget, which is intended to meet the needs of the business organization's internal guidance to achieve the goals, objectives over a period of one year. Organization's activities must be carried out continuously in equilibrium relationship between revenue and expenditure.

The budget is a forecast document quantifies the amount of revenue that can be mobilized by the organization and the level of expenditure that can perform in a given period of time.

In public organizations budget revenues consist of taxes and other revenues established by law, and budgetary expenditure incurred for: meeting social needs; achieving economic and social objectives; ensuring public order and safety; environmental protection; functioning of the administration and other community needs.

Object budget is to establish rigorous as the volume and structure of their income sources and expenditure, by purpose. In public institutions in the budget includes revenues and non- tax revenues, direct and indirect taxes, and excise taxes, income from capital, donations and sponsorships, etc. and on the expenditure side, staff costs, material costs and services, subsidies reserves, capital expenditures, etc.

Particularly important is the so using appropriate methods and tools for evaluating the level and evolution of each category of income and the level and evolution of each category of expenditure.

Guide "Performance-based budgeting" [10, 17] specify the main features of budgeting systems, including:

1. The planning, programming and budgeting:
 - identify and examine the goals and objectives for each area of activity of the government / agency;
 - analysis of outputs / outcomes of the program given in terms of objectives;
 - measurement of the total costs of the programs, not only for the current year and for several years before;
 - formulation of expenditure programs for a multi-year period;
 - analysis of alternatives in order to identify the most effective ways of achieving the objectives of the program;
 - establishing such procedures as part of the budget process systematically.
2. Budgeting programs
 - organizational units grouping functions and sub-functions in common;
 - identifying the functions and sub functions costs;

- choice of outputs / products organizational unit, according to these costs;
 - program budgeting removes the budget process for strategic planning functions of PPBS. It requires an interactive process of defining the distribution of costs and outputs.
3. Budgeting products
- summing all costs associated with achieving particular product, without taking into account the number of agencies involved in providing / producing it;
 - emphasis on the formation of the total cost, including the distribution of administrative costs;
 - define the products in terms of measurable indicators and assessment of quality goods and services provided / performed by comparing products / services similar, manufactured in the private sector;
 - comparing the results obtained in the previous paragraph with the products / services present to measure efficiency and effectiveness.
4. Performance -based Budgeting
- contains all programs budgeting;
 - incorporate explicit measurement and performance evaluation systems;
 - introduce the responsibility of decision makers associated with rewards and penalties.

As shown, program budgeting, budgeting and budgeting based products performance - all are functional, provided the implementation of the first two steps of budgeting PPBS.

Program budgeting is based on the classification programs. The implementation of program budgeting means that in addition to the economic classification, organizational, functional and source, use and program classification. Classification of programs is therefore fully implemented in all budgetary procedures and the whole budget cycle, both at central and local level. Budgetary cycle programs are consistent with the budget cycle traditionally filled by a new phase: Monitoring and Evaluation.

The first stage takes strategic planning as preparing budget-based programs require a considerable amount of coordination and planning in order to develop the necessary elements of the program budget. Their programs and subprograms and program elements must be designed / reviewed before starting financial allocation programs. Subprograms should be as stable as possible and, therefore, should be designed for a period as long as possible.

The second stage refers to budgeting. From this perspective, budgets are prepared in accordance with instructions and guides for the budget, based on national political regulations and the existing fiscal policy, timescales and forms as prescribed by law.

The third stage is carried review and adoption of the budget. For this purpose the Ministry of Finance budget reviews local projects and consultations with APL II on the level of local projects budget. After examining the draft budget, if necessary, adjusted the local budget budgetary resources and expenses. Then it follows a similar examination of proposals / projects budget and inter-relationships between local budgets of level I and II.

The fourth step concerns the immediate implementation of the budget. The budget cycle, budget execution starts after its adoption. This phase will last throughout the fiscal year. Department of Finance / Budget should play the leading role at this stage and to ensure that services departments spend money for purposes adopted budget. Given that spending budgets related programs are planned achievements, it is essential that the implementation phase, there is no undue budgetary reallocations. If it is necessary to perform a reallocation justified, the narrative will not be changed during the year. Any deviation will be explained in the Monitoring Report.

Step Five provides monitoring and evaluation budgets. This step must be entered in the budget cycle in relation to the introduction of program classification. Although it is defined as the final stage of the budget cycle, monitoring is an ongoing process during budget execution, which provides information on the current state of implementation of the program. Thus, during the implementation of the program, allowing corrective interventions.

Evaluation is the final stage of the budget cycle based programs. It is the systematic and objective assessment of a program, subprogram or political progress or completed / D. Program evaluation is performed in accordance with a plan of evaluation and assessment methodology. Can be done annually, but often is performed every 3-5 years to ongoing programs with medium-term expenditure horizons and multi objective. In addition, apart from during the program evaluations are recognized ex-ante or ex-post.

Monitoring and evaluation methodology will be developed in addition to the existing methodology on program budgeting.

Performance-based budgeting (BBP) is one of the reforms initiated in 2000 along with the multi-annual planning, public internal financial control, and public administration. For various forms of performance-based budgeting, program budgeting Moldova chose. Respecting the general characteristics of program budgeting, each country makes its own program budgeting models that reflect their particular political, legal and socio-economic. There is no single "ideal approach" national concept.

The most distinctive features of program budgeting in Moldova are:

- the existence of a central database of programs, sub-programs and activities coded predefined objectives assigned sub lists, lists of indicators of output, outcome and efficiency. The central database is managed by the MF. It is accessible and used them all and PLA APC them and their subordinate bodies;
- goals are formulated only subprogram level and independent activities. Although activities should contribute to the objectives, their performance is not correlated with pre-defined performance indicators. Therefore, the logic is applicable to the sub-program only to a certain extent.

Moldova has said in a number of policy documents and strategic planning, target to achieve macroeconomic stability and increased long-term financial sustainability and the environment. To achieve this goal, it was necessary to adopt the essential principles and rules are likely to lead to budget consolidation and fiscal discipline and to increase transparency of budgetary procedures.

To this end, since 2000, in Moldova was conducted a comprehensive set of reforms in public financial management. The main goal of these reforms is to strengthen and improve public financial management.

The reform process was focused mainly on:

- medium-term budgetary framework and strategic approach to the budget process;
- implementing a program-based budgeting focused on performance and efficiency;
- strengthening the treasury system;
- modernization of public internal financial control and other reforms.

Given the practice of developed countries in Moldova since 2000, along with annual planning, public internal financial control, public administration, was conducted a comprehensive set of reforms in public financial management.

Moldova has said in a number of policy documents and strategic planning, target to achieve macroeconomic stability and increased long-term financial sustainability and the environment. To achieve this goal, it was necessary to adopt the essential principles and rules are likely to lead to budget consolidation and fiscal discipline and to increase transparency of budgetary procedures.

Within these reforms, a special mechanism rests budget. It aimed implementation planning mechanism based on performance -oriented budgets. The analysis of the performance-based budget process reform (BBP) shows that the release of at central level was performed in the years 2002 to 2003 with the support of USAID, through the gradual implementation in pilot basis. In the period 2007 - 2008 was performed classification programs and BBP methodology was developed and approved.

In 2013 BBP methodology was approved by Order No. MF. 187 of 12.24.13 on approving the Regulation on the development, monitoring and reporting of program budgets, and since 2014 all state budget expenditures were based on programs that included all budget components (base component, means and special funds, foreign-financed projects).

BBP implementation at all levels of government is a strategic priority in the medium and long term. Application BBP local budgets level II is planned to be implemented in 2015 and local budgets for 2016 Level I.

Development based budgeting assistance programs are based on partners as UNDP Slovak-Aid "Public Finance for Development" funded by MF Slovakia. The main objectives of this program are:

- assisting the Moldovan Government and the Ministry of Finance to implement performance-based budgeting at all levels of government;
- creating conditions for sustainable development capacity on performance budgeting.

3. Program based Budgeting – Method of Ensuring the Efficient Use of Public Resources

One of the most important activities of the Local Public Administration by the procedure development and approval of the budget, since it identifies policies and programs promoted outcome. This method allows the estimation and tracking of budget funds track record as a result of activities undertaken by local authorities, provides efficient methods for finding solutions and programs.

From this point of view, the budget program aims to ensure the link between resources and financial charges and scoring programs and activities for their implementation. From a conceptual point of view "program budget" or "budget for results" is a method of budgeting that allows to identify and pursue budgetary resources in the budget system, taking into account the results and performance.

The program budgeting highlights results indicators, external sources of funding and provides a clear picture of what you get in exchange for resources. Advantages of program budgeting refers to the assessment of the results and not to quantify the costs, discussions on the budget is to be done in terms of results and efficiency of funds allocated for government policies, business leaders appreciation programs.

This method provides the possibility of interrupting their proposed programs and reformulation, where it is expected that the results are not as expected and obtaining additional funds for programs with outstanding results. Develop program budgeting involves: goal setting program based on general interest objectives assumed; detailing the objectives to determine achieve its purpose ; definition of the program itself; determine the cost, resources and technical indicators, physical, economic, efficiency and effectiveness proposed .

An example of a program that helps to ensure that defence is a program called "main forces " . This program aims to ensure the combat capability of units to be able to crisis or war, to go to meeting, successful combat missions after completing resources.

The program was established following indicators:

- Output indicators: training of troops and preparation commands Fuel and Lubricant insurance, the extent of repair of buildings of wages and social insurance for military and civilian personnel;
- Physical indicators: systems (complete) armaments and equipment placed in the endowment, the number of flight hours, et .;
- Efficiency indicators (average unit cost) UM (million): the average annual cost for technical maintenance of cars battle, the annual cost for fuel, lubricants and combat equipment, the annual cost of a military general military training, the average annual cost of equipping a soldier.

The program aims to create a powerful force structures and less expensive, as political operations, financial constraints and operational requirements. All of the indicators can be grouped into four categories relevant to assessing financial performance:

- Indicators that reflect income or ability to generate revenue - indicators that show the existence of an adequate level of income and the extent to which APL has control over local revenues.
- Indicators reflect costs or their rigidity - define the degree of flexibility that we have the local authorities in the allocation of resources for different purposes (destinations). This analysis distinguishes between discretionary spending APL (which it may choose to do or not) and non-discretionary expenditures (compulsory) that APL cannot decide not to do.
- Indicators of capacity investment, debt contracting and its structure - indicators that define the extent to which local authorities give importance to capital expenditures and their ability to attract long-term funding to finance investments.
- Indicators which reflect the operating result or financial management capacity - refers to the relationship between income and expenditure and define the degree to which APL implements an efficient management of financial resources.

Program based budget is based on the budgetary classification of programs that determines the structure of programs and comprises the following hierarchic levels:

1. Program (P1)
2. Subprogram (P2)
3. Activities (P3)

Program (P1) represents a set of coherent activities implemented by public authorities in the view of achieving a goal or/and long or medium term strategic objective. The program usually reflects a public area or a function of the state/government.

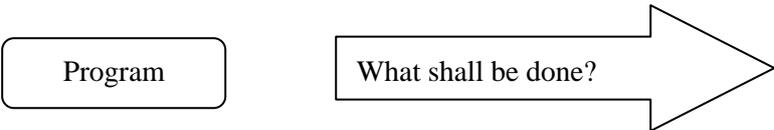
Any program shall be divided into subprograms (P2) that contain groups of interconnected activities that are gathered in logic groups, have specific objectives and aim at supporting the program implementation.

The following rules shall be observed when formulating/elaborating programs/subprograms:

- a) shall represent an area of a policy/strategy,
- b) shall reflect a single goal/aim,
- c) shall take into consideration the structure of the public authorities, so that there is a possibility to identify and verify the subprogram expenses both at the elaboration, as well as on the implementation stage,
- d) the program/subprogram may be attributed to one or more authorities/budgetary institutions based on it's complexity.

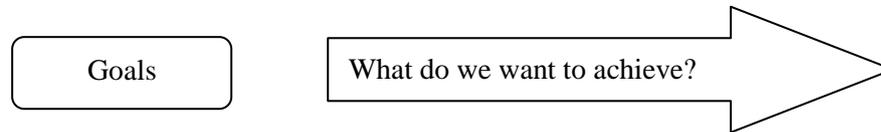
Activities (P3) are defined within the subprogram framework. The activities reflect services provided by an authority/budgetary institution in order to achieve the objectives set up by the subprogram that it is implementing. They represent the costs of the subprogram and ensure the costs estimation with the details in line with the economic classification.

Programs and subprograms, both independent, as well as intertwined, are integrated into the budget structure; whereas activities represent an independent component and may be applied depending on their relevance for a certain program.



In order to verify whether the correct program structure was set up, the following check question may be applied:

- a) If activities are implemented, will be the products achieved?
- b) If products are achieved, will be the objectives achieved?
- c) If objectives are achieved, will they contribute to the goal achievement?

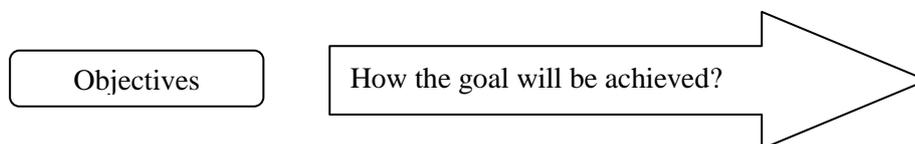


Priorities that are set up for strategies/policies (both on central, as well as on local level) have a general approach to economic and social problems or needs of certain groups of the society. The primary vision/approach of policies/strategies shall be reflected as much as possible in the goal of the program/subprogram.

The goal formulating process is one of the main aspects of the strategic planning process. A well-conceived program/subprogram shall express the way the policy strategies will be observed/followed. The LPA and CPA shall contribute to the achievement of the subprogram goal by implementing its objectives. They are responsible for achieving the related goals and objectives.

The goal represents a desideratum with a wide view; it reflects the expected positive effects or anticipated final results that shall come out of the program implementation. The goal indicates the improved state of affairs or the effects with a general impact over the society, the economic and social changes, that are expected to be achieved as a result of a public policy implementation.

It answers the question: "what shall be achieved?". In a best case scenario, the goal of the program shall be expressed concisely in a single sentence.



Objectives are essential for the efficient implementation of the program/subprogram, as well as for its evaluation. The objectives set up the way in which goals will be fulfilled. If the program/subprogram goals define the intentions of the program/subprogram, than objectives shall define the mechanisms that are applied in order to fulfil the given intentions.

Objectives are constitutive elements that represent the steps that shall be taken in order to fulfil the set up goals. These are measurable aims that describe the specific final results expected to be achieved within a defined timeframe.

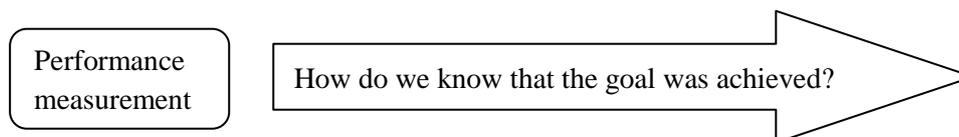
Objectives represent a more concrete way of expressing the defined goals, thus they determine the final or intermediate results that are expected to be achieved within a certain timeframe. Objectives shall be correlated with sector strategies related to expenditures, medium term development plans and shall answer the question: "How will be the established goal achieved?".

It is an expression of an expected or planned achievement that is measurable within a certain timeframe, a written intention to reach a certain situation, at a certain stage.

Well formulated objectives:

- Result/product oriented
- Specific and measurable
- Defined in time

- Realistic and achievable
- Clear and challenging
- Relevant for the informational management system



The program/subprogram performance is expressed by indicators; their aim is to measure the progress in terms of achieving the program/subprogram objectives. Performance indicators represent a value or specific features used to measure activities, products and achieved results in comparison to the set up objectives.

The performance evaluation is carried out by clear measures that allow depicting the success of a certain authority in terms of achieving the set up objectives. This is a clear and impartial method to show whether the objectives were achieved.

Performance indicators are used to measure the progress and achievements of programs and policies. Usually they measure the registered progress on the way of fulfilling objectives and goals. Performance indicators shall be formulated depending on objectives.

The indicators may be revised; they are efficient from the cost effectiveness stand point. The text approaches a product or a result that shall be achieved by means of fulfilling the objective. The values show the aim indicator and the real values.

These may be: (i) numeric (made up of chronologically comparable data, meaning the numeric value or the achieved level that shall be implemented within a measurable time frame) or (ii) logic (may offer a positive/negative result).

Public authorities may propose amendments to the budgetary classification, or new program names if they consider that the existing programs do not reflect the mission that they are performing, on the elaboration stage of budget proposal. As an example, the “education” area may be analyzed.

<i>Program</i>	<i>Sub-programs</i>	<i>Activities</i>
Public education and educational services	<ul style="list-style-type: none"> - Pre-school education - Primary education - Medium education - Special education - General education (Lyceum) - General education services 	<ul style="list-style-type: none"> - Ensuring books - Methodological activity - Summer leisure for children - Lyceum - Colleges - Vocational courses and institutions etc.

As shown in present scheme, the program ” Public education and educational services” identifies a string of sub-programs and activities. At the same time, for each category of program are established goals and objectives.

For example, the Program 88 “Public education and educational services” with the sub-program “Medium education” has as a goal: ” Sustainable development of the national educational system in the view of ensuring the applicability of knowledge in life and civic activeness, creating an integral and active personality focused on success in the context of the socio-economic progress of the country”.

Regarding objectives, they are:

- ensuring access to mandatory (till 16 years) medium level education, so that the inclusion rate to medium level education would reach 100 % till 2017;
- promoting the Curriculum based on the decision of the school, as well as empowering the teachers in elaborating the Curriculum based on the decision of the school which would be designed for three years;
- promoting the use of IT Communication technologies in the examination and evaluation process;
- optimizing the educational institutions network, classes, groups, the curriculum;
- providing equipment to educational institutions necessary for such classes as geography, physics, biology, during three years.

Developing the technical and material infrastructure. the implementation of the programme should be evaluated on the strength of performance indicators, including:

- an increased inclusion rate of students into the medium level education;
- improving the educational institutions servicing conditions;
- increasing the insurance degree with educational resources for such classes as geography, physics and biology.

While examining the performance indicators it's necessary to assay the product, it's mean, the possibilities of increasing the number of:

- children to schools;
- reorganized institutions, joined classes;
- institutions provided with educational resources for classes like geography, physics and biology;
- increasing the number of renovated schools.

No less important is the problem of effectiveness, including:

- medium level expenses for educating a student (medium school);
- medium level expenses for training a teacher;
- optimizing expenses related to maintaining municipal educational institutions;
- diminishing expenses necessary for the efficient maintenance of the buildings.

In order to ensure the efficient use of budgetary funds, it is necessary to dispose of a number of preconditions, including:

- supporting reforms at the political level;
- effective inter-ministerial cooperation;
- the impact of further reforms (financial decentralization, sector reforms, etc.);
- the use of new institutionalized tools;
- definition of the units of analysis, monitoring and evaluation of policies (DAMEP);
- public financial control and internal audit.

Conclusions

The Republic of Moldova had set up primary objectives of strengthening the fiscal and budgetary discipline, increasing the transparency degree in the area by implementing best international practices, in the context of the current reformation process of the public finances management system. The obligation and responsibility of the CPA and budgetary institutions to achieve results with the allocated resources is discussed.

Program based budgeting was selected as a tool to support the implementation of the given aspirations. The methodological and legal frameworks needed for the implementation of the assumed obligations were elaborated.

Managers of the budgetary institutions shall ensure the internal organization of the activities related to the program elaboration and appoint responsible persons. In the budget elaboration process of the program based budget the vertical (up -> down) approach shall be used. Thus, public authorities set up program goals and objectives, identify the list of performance indicators that are related to them and

request the subordinated institutions to fill in the information on product indicators and efficiency indicators related to the institution activity, as well as the financial part.

Further on, public authorities systematize analyses, and having followed the internal consultations procedure crystallizes and present budget proposals to the budget administrator/manager. In this regard, databases with financial and nonfinancial information related to programs/subprograms shall be created. The budgetary institution managers shall appoint responsible persons for creating and maintaining the database which shall be periodically updated.

In accordance with the statement of the Minister of Finance of the Republic of Moldova, it is important to promote the development of a budget process, based on principles and rules, to ensure control over the macro-budgetary and indicators, namely, the promotion of a balanced budgetary-fiscal policy. At the same time, he noted that the development of transparent procedures regarding the formulation and administration of the national public budget will help to improve the process decision for the allocation of budgetary resources which will ultimately lead to the improvement of the quality of public services.

In the last five decades the role of public finance, their importance and influence on economic development has grown considerably. Higher expenditures were financed more and more of the budget deficit and not of revenue. As a result, the state's debts were increasing continuously. Many politicians, supported by economists, have begun to introduce new approaches in public sector budgeting. "classical" budgeting based on inputs, for a period of one year. The new approach is characterized on a medium term, with a prospect of at least three years and directed for results. Not planning only in money, but also a target measured spending.

Public finance management reforms involve difficult processes, technical and political complexities, which last for many years and, in fact, not ending any time.

The Government of Moldova decided to reform the system of management of public finances and implement modern approaches, through the implementation of performance-based budgeting (PBB). From various forms of performance based budgeting, budgeting has elected on program This will make it possible to apply in practice the new law on local public finances, which adopts the methodology of budgetary programs.

Performance-based budgeting (BBP) means a new understanding of the term "budget" and will not replace linear budget today, which is used simply as a tool for resource allocation and expenditure control. Both forms have their importance and, therefore, can be effectively connected and operate in parallel, completing each other.

Program budgeting (BP) is based on the allocation of budgetary resources as planned and priority programs, emphasizing the connections between budgetary resources and results to be achieved by projects financed by these resources.

Budgetary cycle programs are consistent with the budget cycle traditionally filled by a new phase: Monitoring and Evaluation. Program budgeting is a tool to enhance the LPA increased accountability in the spending of budgetary resources and achieve higher performance.

In 2015, program budgeting will be implemented for local budgets of the two. For local budgets of the first implementation will be launched in the 2016 budget proposals.

References

- [1] *Education Code of the Republic of Moldova* no. 152 from 17.07.2014, MO no. 319-324 of 24.10.2014
- [2] *Law on public finances and fiscal* no. 181 from 25.07.2014, MO, no. 223-230 of 08.08.2014
- [3] *Law on Local Public Administration*, no. 436 from 28.12.2006, MO, no. 32-35 of 09.03.2007
- [4] *Law on administrative decentralization*, no. 435 from 28.12.2006, 029, MO, no. 29-31 of 02.03.2007
- [5] *Law on Local Public Finance* no. 397 -XV from 16.10.2003, MO, no. 248-253 / 996 of 19.12.2003
- [6] *Law on budgetary system and budgetary process* no. 847 -XIII of 24.05.96, MO, no. 19-20 / 197 of 27.03.1997

- [7] *Decision approving the Development Strategy of the Public Finance Management 2013-2020*, no. 573 from 06.08.2013, MO no.173-176/669 of 09.08.2013
- [8] *Norms on developing proposals for the draft 2008 state budget and program performance*
- [9] *Regulation on the development, monitoring and reporting of program budgets*, MO no. 45-46/107 from 04.03.2008
- [10] Roșcovan M., Manole T., Secrieru A [et al.], (2010), *Performance-based budgeting* (Guide for Local Government) – Ch. : “Nova-Imprim” SRL
- [11] *Examples of good and bad practice in setting goals, objectives and performance indicators program budgeting* (CPA and LPA)
- [12] Robinson, M., (2007), *Performance Budgeting Models and Mechanisms*
- [13] *Performance budgeting in local self-government system*, „EDRC Consulting” Ltd., Yerevan, 2006
- [14] *Performance Budgeting in OECD Countries*, OC DE, 2007

Supplementary recommended readings

- Beerkens E., Kaiser F., Boezeeroy P., *An Update on Higher Education Policy Issues in 2004 in 10 Western Countries*, Center for Higher Education Policy Studies www.minocw.nl/documenten/bhw-115-bhw115
- Diamond J., (2003), *From Program to Performance Budgeting: The Challenge for Emerging Market Economies*, IMF Working Paper
- Kovaľová, D., Baron, A., *Ghid practic pentru autoritățile publice locale cu privire la metodologia bugetării bazate pe programe în Moldova*, [http://www.mf.gov.md/files/files/Despre%20minister/ InstrMFP/bugetara/ Proiect%20de%20ghid%20practic%20.pdf](http://www.mf.gov.md/files/files/Despre%20minister/InstrMFP/bugetara/Proiect%20de%20ghid%20practic%20.pdf)
- Jandhyala B., Tilak G. (2005), *Global Trends in the Funding of Higher Education*, International Association of Universities Horizons, World Higher Education News, Vol. 11
- Kaiser F., Beverwijk J., Cremonini L. ș.a. (2006), *Issues in Higher Education Policy 2005: An Update on Higher Education Policy Issues in 2005 in 10 Western Countries*, CHEPS, www.minocw.nl/documenten/beleidsgerichtestudies121
- Theisens H. (2003), *Country report: Higher Education in the United Kingdom*, CHEPS, <http://utwente.nl/cheps/documenten/unitedkingdom>
- Thomas Paul G., (2005), *Performance Measurement, Reporting, Obstacles and Accountability: Recent Trends and Future Directions*

Acknowledgements

The publication is fulfilled within the research project **“Domestic trade and consumer cooperatives development in the context of economic integration of the Republic of Moldova in the European Community”** (the code of the project 15.817.06.28A).