
Performance budgeting

A means to improve
EU spending



IN-DEPTH ANALYSIS

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This paper discusses a popular contemporary budgeting method known as 'performance budgeting', and its application in the budget of the European Union. It considers the method's principles, its evolution over the past 60 years, and the main models used to describe it. The paper considers the benefits and challenges encountered in the implementation of the method. It then seeks to analyse how the approach has developed within the EU budgetary system and what challenges stand in the way of reform. Finally, it draws attention to some future measures related to the implementation of performance budgeting in EU public finance.

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EXECUTIVE SUMMARY

In 2015, the European Commission launched an initiative entitled, 'The EU budget focused on results'. The initiative is aimed at changing spending culture and making results a horizontal priority for the EU budget, by paying as much attention to funds' performance, efficiency and effectiveness as to their absorption and compliance with financial rules. The initiative builds on earlier EU efforts in this respect, but also takes a more consistent and coordinated approach to results-oriented spending.

The actions encompassed in the initiative are based on the concept of performance budgeting. This budgetary method considers what can be achieved with the funds available, seeks to measure the results of spending, and links the results to budgetary decision-making. The concept has a long history and is complex in nature, but it is still seen as a promising budgetary innovation and attractive to many countries and organisations around the world, including most EU Member States and the EU itself.

The method is especially appealing at times of economic crisis and constraints on public spending, as it promises to increase value for money (i.e. the efficiency, effectiveness and performance of public expenditure) and to enhance the transparency and democratic accountability of the budget. It is perceived not only as a useful method to improve budgetary management, but also as a way to strengthen the performance orientation of other aspects of management of the public sphere.

Numerous examples from literature, however, indicate that performance budgeting is not easy to implement, and requires extensive preparation, the right strategy, and determination from the authority that tries to apply it. In the context of the EU budget, there are additional challenges. The significant complexity of the EU budgetary system, multiplicity of entities responsible for budget implementation at different levels, profusion of strategies and programmes with different time perspectives, and relative rigidity of financial planning do not favour the comprehensive and smooth implementation of performance budgeting. Although much has been done to make the EU budgetary system performance-oriented, there remains much room for improvement. This concerns, in particular, the quality and quantity of performance information and its role in budgetary decision-making.

The EU institutions' support for the idea gives grounds to believe that efforts will continue. The circumstances will be particularly conducive to making changes in the coming months. The principles of performance budgeting can be enhanced in the EU's new financial architecture, which consists of the revised Financial Regulation, the post-2020 Multiannual Financial Framework and a reformed system of own resources, as well as the new generation legislative framework for EU spending programmes. A solid understanding of performance budgeting is, therefore, needed, as it could increase the chances of successful reform. This paper thus aims to improve understanding of performance budgeting. It presents the origins and evolution of the concept, and seeks to clarify the terminology and the main models applied. It also considers the benefits, challenges and typical problems encountered in its implementation, with reference to the example of the EU budget.

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List of main acronyms used

AMPR:	Annual Management and Performance Report for the EU Budget
BFOR:	Budget focused on results
BUDG:	Committee on Budgets (European Parliament)
CONT:	Budgetary Control Committee (European Parliament)
DAS:	Statement of assurance (from the French: <i>déclaration d'assurance</i>)
ECA:	European Court of Auditors
ESI funds:	European structural and investment funds
ICT:	Information and communications technology
IMF:	International Monetary Fund
MFF:	Multiannual financial framework
NPM:	New public management
OECD:	Organisation for Economic Co-operation and Development
PI:	Performance information
PB:	Performance budgeting
TFEU:	Treaty on the Functioning of the European Union

Government cannot perform if its budget does not.

A. Schick, *Evolutions in Budgetary Practice*, OECD 2009.

But the screen that anybody has to pass is: are you contributing to top priorities, and are you performing well? This is a discipline in the budget that we will relentlessly pursue day in, day out.

K. Georgieva, then-EU Commissioner for Budget and Human Resources, conference on 'An EU budget focused on results', Brussels, 27 September 2016.

1. Introduction

At times of economic crisis, constraints on public budgets and pressures for fiscal consolidation, there is increasing interest in methods and measures for improving the effectiveness and efficiency of public spending: how to do more with less; how to ensure delivery of high-quality public services even though the budget is shrinking; how to set and prioritise objectives and link to them resources; and how to maintain high standards of transparency and accountability in public finance. These kinds of questions are among the drivers for budgetary reforms introduced by public authorities.¹

One response to these questions, often chosen by governments around the world, is performance budgeting (PB). This method of managing public finances promises to improve the efficiency and effectiveness of public expenditure. Although it is an 'elastic label' and has many definitions,² it is usually conceived as a budgetary mechanism that links funds to measurable results (input and output) and makes systematic use of information on performance. Instead of focusing on inputs and on the question of how much money can be allocated, this mechanism considers what can be achieved with the funds available, seeks to measure the results of spending and links the results to budgetary decision-making, i.e. with an increase or decrease in financial resources (strict version) or with other types of consequence (broad version).

The objective is to increase value for money, i.e. efficiency, effectiveness and performance of public expenditure. A no less important benefit of PB may be enhanced transparency and democratic accountability of the budget. As Allen Schick puts it, 'Whether it merely provides information on expected outputs or outcomes, or goes further and aligns resources and results, performance budgeting makes government more accountable for what it does and spends'.³

Although PB has many advantages, it also has limitations and requirements. Experience of implementation of PB shows that it is typically a comprehensive, challenging and rather long-term process of reforming public finances. Although focused on financial management, PB reform cannot be successfully introduced without simultaneous, related changes in human resources management and organisational structures and

¹ For an overview of factors driving reforms of public finance see: George A. Larbi, ['The New Public Management Approach and Crisis States'](#), UNRISD Discussion Paper No 112, September 1999.

² 'Performance budgeting' is also known as 'performance-based budgeting', 'budgeting for results' or 'result(s)-based budgeting'. A. Schick, 'The metamorphoses of performance budgeting', OECD Journal on Budgeting, Vol. 2013/2.

³ Ibid., p. 26.

culture. It is therefore associated with broader public administration reforms and concepts such as new public management, performance management, and managing for results.

The concept of performance budgeting has been around for more than seventy years (its first versions were applied in the USA in the late 1940s), but it is still perceived as an innovative way of thinking about public finance. It has since evolved and been developed in the form of several models that can be adjusted to a country's or organisation's individual needs. Its more recent incarnations appear in the literature as 'new performance budgeting' or 'next generation performance budgeting', for example.

Over the years, many governments at all levels in developed and then in developing countries have tried to apply PB to their public finance systems. Most of the Organisation for Economic Co-operation and Development (OECD) countries, including many EU Member States, but also China and the Russian Federation, have some experience with PB. Much has been done to promote this way of budgeting by the OECD, the International Monetary Fund (IMF) and the World Bank.⁴ These organisations help member countries to design and implement performance budgeting reforms, and are a rich source of expert knowledge and publications in this field.

In the last two decades, the principles of performance budgeting have been gradually permeating the budgetary system of the European Union. Next to the principles of regularity and legality of budget implementation, the concept of European added value,⁵ focus on results and performance have become the key words in the management of EU policies and financial resources. At present, the Treaty on the Functioning of the EU refers to the report on the Union's finances based on the results achieved (Articles 318 and 319), but some principles of performance budgeting were already introduced in the regulation laying down the rules for the general budget of the EU (Financial Regulation) adopted in 2002.⁶ In 2015, the European Commission decided to enhance its efforts to put the EU's finances on a PB track, and launched an initiative entitled, 'The EU budget focused on results'. Since then, the performance orientation of the EU budget has been managed in a more consistent way. Moreover, the issue has become a guiding theme of almost all current budget-related debates, including on the post-2020 Multiannual Financial Framework (MFF).

Taking into account the worldwide popularity of performance budgeting and its growing importance in the budgetary system of the EU, it is worth looking at it in more detail. This paper presents the origins and development of the concept, and tries to clarify the terminology and the main models used to describe performance budgeting. It also considers the benefits, challenges and typical problems encountered in its

⁴ Other organisations promoting international standards and good practices in performance budgeting include the International Public Sector Accounting Standards Board (IPSASB) and Multilateral Organisation Performance Assessment Network (MOPAN).

⁵ The concepts of 'performance budgeting' and 'European Added Value' should not be confused. The added value of EU spending is the value resulting from an EU intervention, and can be used as one of the criteria in deciding on EU spending. See: E. Rubio, 'The Added value of EU spending', in: Effectiveness and added value of the EU budget, A. De Feo, B. Laffan (eds), European University Institute, 2017.

⁶ See recitals 11 and 22 and Article 27 of Council Regulation (EC, Euratom) [No 1605/2002 of 25 June 2002](#) on the Financial Regulation applicable to the general budget of the European Communities (this regulation was repealed by the Financial Regulation of 25 October 2012, which enhanced the performance requirements).

implementation. Thereafter, the paper seeks to analyse how the PB approach has been developing and look at its use within the EU budgetary system. To this end, the system will be reviewed in terms of determining what has been done so far in order to make the EU budget more performance oriented. EU achievements in this regard are then compared with the standard PB models defined by the OECD. In addition, the positions on the issue taken by the main EU institutions are presented. Finally, this analysis draws attention to some future challenges and measures related to the implementation of PB in EU public finances.

The author of the present paper faced at least two major difficulties. One was the complexity of the topic, its terminological ambiguity and the abundance of literature (mostly published by experts from the OECD, the IMF and the World Bank). The other was the scarcity of information and studies on the specific cases of implementation of PB in the EU. It should be noted that the phenomenon in the context of the EU budget is relatively new, so this analysis should be considered an introduction to further examination of performance orientation in the EU budgetary system.

Box 1 – Glossary

Budgeting: allocation and use of financial resources with objectives to ensure sound macro-fiscal outcomes, prioritise expenditure and efficiently deliver government services while maximising their effectiveness.

Effectiveness: the extent to which previously stated objectives or targets have been met.

Efficiency: measuring whether policies, programmes, and/or organisations are achieving the maximum output from a given level of resources (inputs).

Inputs: measures of the units of labour, capital, goods and services (or the costs of such units) utilised by government organisations or government-financed organisations to produce public goods and services.

Outcomes: what is ultimately achieved by an activity, including the intended and unintended results of government actions (policies, programmes etc.).

Outputs: goods and services produced and/or provided by government (or government-financed) organisations.

Performance information: qualitative and quantitative information on results achieved and/or on the cost of achieving the results.

Performance framework: a set of tools, initiatives or practices applied to collect and report on performance information in an institution, such as existence of general guidelines and definitions concerning performance information, standard templates or ICT tools for reporting performance information and a set of performance indicators/targets.

Based on: Glossary, [2016 OECD Performance Budgeting Survey](#).

2. Origins and evolution of performance budgeting

Although the term 'performance budgeting' was first used in the late 1940s in the United States (USA), the roots of its institutionalisation reach back to the period of economic, scientific and technological advancement of the beginning of 20th century. Phuong H. Nguyen traces them back to ideas at the time of modern public budgeting, growing

awareness of the costs of government activities, and public pressure to increase the effectiveness of public spending.⁷

As a fully developed budgetary reform programme, performance budgeting was first officially introduced in 1949 in a report by the US Federal Commission on the Organisation of the Executive Branch of the Government (known as the President Hoover Commission). The initiative sought to improve the budgetary processes of the US government and recommended that the concept of the federal budget be redesigned. It criticised the focus on inputs and recommended a budget based on functions, activities and projects and, finally, a budget focused on achieving objectives. Following this, PB was codified in the Budget and Accounting Procedures Act of 1950.

However, as soon as the mid-1960s, the reform was replaced by a modified version called the programme budgeting system (also known as PPB – planning, programming, budgeting, or as PPBSs – planning, programming and budgeting systems). Since then, different versions of budgetary reform based on PB have remained popular and been applied at the state and federal level in the USA⁸ (including by the Bush and Obama administrations⁹).

In the following decades, PB spread around the world in various versions and sometimes under different names, such as 'management by objectives', 'zero-base budgeting', 'programme budgeting' or 'output budgeting'. All of them were based on the initial idea of increased efficiency and effectiveness of public expenditure, the concept of performance, and a link between performance and budget decisions. They varied, however, in terms of the strength of the link.

As estimated by the IMF expert, Jack Diamond, in the 1960s, nearly 50 countries (mostly developed) introduced variants of performance budgeting. They were applied in selected ministries or entire sectors in Australia, Austria, Belgium, Canada, France, Ireland, Japan and the United Kingdom. The concept subsequently spread to developing countries in Latin America, Asia and Africa.¹⁰

From the late 1980s, performance budgeting began to be associated with the trend towards modernisation of public administration, known as New Public Management (NPM). It covers a range of changes in public administration aimed at adopting some private-sector practices and values such as efficiency and effectiveness, a focus on

⁷ Phuong H. Nguyen, '[Performance budgeting: its rise and fall](#)', Maxwell Review, A Journal of Scholarship and Opinion, November 2007.

⁸ For more, see: Phuong H. Nguyen, Performance budgeting: its rise and fall, op. cit. (this paper focuses on the situation in the USA at federal level before 2000. The 'rise' of PB occurred between 1949 and around 1965, followed by 'planning, programming budgeting' for a short while. Phuong H. Nguyen concludes that PB has seen a revival in USA at federal level since the mid-1990s. By 1999, 47 out of 50 states in the USA had officially required performance budgeting); P. L. Posner, D.M. Fantone, 'Performance budgeting. Prospects for sustainability' [in:] [Performance Management and Budgeting](#). How governments can learn from experience, F. S. Redburn, R. J. Shea, T. F. Buss, D. M. Walker (eds), M. E. Sharpe London, England, 2008.

⁹ Philip G. Joyce, 'The Obama administration and PBB: Building on the Legacy of Federal Performance-Informed budgeting?', Public Administration Review, May/June 2011.

¹⁰ However, the results of the reforms introduced at that time, especially in developing countries, are considered disappointing. An important reason for this was failure to meet the preconditions for successful performance budgeting, such as the existence of sound and efficient budgetary systems, procedures, reporting and financial discipline. J. Diamond, 'From programme to performance budgeting: The Challenge for Emerging Market Economies', IMF Working Paper WP/03/169, June 2003, p. 8.

objectives, achievement of results, and performance indicators and standards, etc.¹¹ Performance budgeting has thus become a part of the broader public-sector reforms that address issues of human resources management and organisational structure.

With the rise of NPM, performance budgeting also saw its popularity increase. In the 1990s and at the beginning of the 21st century, a majority of the OECD member countries applied some form of performance budgeting, alongside Brazil, Belarus, Ethiopia, India, South Africa,¹² China and Taiwan.¹³ Apart from the USA, the leading countries in the implementation of PB were Australia, Finland, the Netherlands, New Zealand, and the United Kingdom.

In 2016, more than 65 years after its first, official introduction, PB frameworks were the norm in OECD countries.¹⁴ This does not mean, however, that the map of the countries applying PB is stable. While in the last 15 years new countries such as Poland, Estonia and Russia have attempted to adopt performance budgeting reforms, early adopters like the USA, Australia and the Netherlands have been reviewing and improving their approaches.¹⁵

As well as spreading geographically, performance budgeting has been 'stretched to encompass a wide range of processes that purport to expand fiscal space, improve public services and administrative efficiency, review government programmes, and spur reallocation of budgeted funds'.¹⁶ As demonstrated by recent studies of the topic, current trends in the implementation of PB reforms are marked by the financial crisis and austerity.¹⁷ Dramatic changes in the conditions facing public budgets have increased the popularity of spending reviews as part of performance-based reforms. This tool is used to prioritise, reallocate and cut spending with a view to expanding the fiscal space available for priority new spending.¹⁸ The trend is evident in OECD countries. While in 2011, only about half of them conducted spending reviews, in 2016 it was a common budgetary management tool for almost 70 % of the countries, while others were considering using it in the future.¹⁹

¹¹ For more, see: O. E. Hughes, *Public management and administration. An introduction*, Fourth edition, Palgrave Macmillan 2012; W. van Dooren, G. Bouckaert, J. Halligan, *Performance management in the public sector*, Second edition, Routledge, 2015.

¹² Preface in: *Performance Budgeting. Linking Funding and Results*, M. Robinson (ed.), IMF, Palgrave Macmillan, 2007.

¹³ J. Yun-jie Lee, X. Wang, 'Assessing the Impact of Performance-Based Budgeting: A comparative Analysis across the United States, Taiwan and China', *Public Administration Review*, Special issue, December 2009.

¹⁴ 2016 OECD performance budgeting survey: Integrating performance and results in budgeting, Highlights.

¹⁵ D. Moynihan, I. Beazley, [Toward next-generation performance budgeting](#). Lessons learnt from the experiences of seven reforming countries, World Bank Group, 2016.

¹⁶ A. Schick, 'The metamorphoses of performance budgeting', op. cit.

¹⁷ M. Robinson, 'Budget reform before and after the global financial crisis', *OECD Journal on Budgeting*, Vol. 2016/1, OECD 2016.

¹⁸ M. Robinson, 'Spending reviews', *OECD Journal on Budgeting*, Vol. 2013/2, OECD 2014.

¹⁹ 2016 OECD performance budgeting survey: Integrating performance and results in budgeting, Highlights. For more on spending review process see: M. Robinson, 'Spending reviews', op. cit.; T. Shaw, 'Performance budgeting practices and procedures', *OECD Journal on Budgeting*, Vol. 2015/3, OECD 2016.

To sum up, built on the economic and social changes of the beginning of the 20th century, performance budgeting has evolved from a reform proposed by the US government to a budgetary method applied around the world. It has undergone many metamorphoses, but remains an attractive concept for governments and organisations seeking to allocate resources in an efficient, effective, transparent and accountable way.

3. Definition of performance budgeting

Despite many years of international exchange of best practices in the field, there is little convergence on the definition, scope and implementation of PB. Experts on the topic often approach the problem by pointing to a kind of terminological chaos. They agree that PB 'defies standardisation'²⁰ and that a 'variety of terms and definitions are incorporated under the label of performance budgeting'.²¹ Over the years, the concept has been repeatedly reinterpreted, stretched to include additional aspects of budgetary reform and presented as something 'truly transformative'.²²

The task of clarifying the terms and classification of types of performance budgeting has been taken up by international organisations such as the OECD, IMF and World Bank. As part of their policy to promote high standards of budgetary management, for many years the organisations have been supporting member countries to design and implement performance budgeting.²³ To this end, they have been trying to build a terminological glossary and set of tools for implementation of budgetary reforms. Their case studies, analysis and publications help to distinguish the main elements of the concept and types of performance budgeting.

3.1. Main elements of performance budgeting

As discussed in the introduction, performance budgeting is a mechanism that links funds to measurable results, and makes systematic use of information on performance. This approach implies a shift in the focus of budgeting from inputs (personnel, supplies etc.) to results (outputs and outcomes). While the traditional approach to budgeting is based on control of inputs and on incremental changes in different categories of expenses, PB is a way of allocating resources where the goals can best be achieved. In other words, the fundamental concern of a government or an organisation intending to make its budget more performance-based should shift from asking 'how much have we spent?' to asking 'what we have achieved with our money?'.²⁴

In order to answer the question, one needs information on the results achieved by public expenditure and on the cost of achieving it, i.e. performance information (PI). This includes indicators and statistical data, but also analysis, interpretation and evaluation. PI is a fundamental element of PB, considered a crucial prerequisite for its success, under the condition that it is systematic, simple, affordable and usable.²⁵

²⁰ A. Schick, 'The metamorphoses of performance budgeting', op. cit., p. 2.

²¹ Performance budgeting in OECD countries, OECD, 2007, p. 20.

²² A. Schick, 'The metamorphoses of performance budgeting' op. cit.

²³ For example the OECD Working Party of Senior Budget Officials and its Network on Performance and Results.

²⁴ Performance Budgeting: A Users' Guide, Policy brief, [OECD Observer, March 2008](#).

²⁵ M. Robinson, D. Last, [A basic model of performance-based budgeting](#), Technical Notes and Manuals, IMF, 2009.

Collecting PI is not enough to constitute PB. The next crucial question that has to be answered is 'to what extent does the systematic performance information feed into the budget dialogue, and how does it influence budgetary decisions?'. This question refers to yet another fundamental element of PB – a link between performance information and budgetary decisions. If the link is strong, PI is used to allocate or re-allocate public resources (for example, linking an increment/reduction of funding to an increment/reduction of outputs or other results). A weak link implies the limited use of PI to inform budgetary decisions (for example, as contextual information for budget planning), and to increase the transparency and accountability of the entire budget process (for example, by providing information to the public on performance objectives and results).²⁶

As explained in the following sections of the paper, making PI usable and integrating it into budget decision-making is one of the biggest challenges of PB. In assessing whether and how PI should be included in the budgeting system, international experts often use the concept of 'performance framework' or 'standard performance framework'. This describes a set of tools, initiatives or practices applied to collect and report on PI in an institution. According to the OECD, the key elements of the standard PB framework are: general guidelines and definitions concerning PI; standard templates for reporting PI; a standard ICT tool for reporting PI; and a standard set of performance indicators/targets.²⁷

3.2. Models of performance budgeting

Depending on the specific political and institutional context as well as on the goals of budgetary reform, countries adapt their approach to performance budgeting and make more or less explicit links between PI and budgetary decisions. Whereas there is no consensus on the optimal strength of the link and design of PB,²⁸ three basic models can be identified, based on three criteria: the extent to which PI determines funding decisions; whether the PI concerns future or past actions; and the main purpose of the exercise in the budgetary process.²⁹

- **Presentational performance budgeting:** PI is presented in budget documents or other government documents, but is not intended to play a role in decision-making or determine the allocation of funds. The performance data refer to targets and/or results and serve as background information for accountability and dialogue with legislators and citizens on public policy issues.

²⁶ [Glossary](#), 2016 OECD Performance Budgeting Survey.

²⁷ For example, the standard performance framework is used to assess PB in the OECD performance budgeting surveys. See: 2016 OECD performance budgeting survey: Integrating performance and results in budgeting, Highlights. The concept is also sometimes used broadly to describe the entire set of reforms and initiatives planned and implemented in a country under the label of performance budgeting.

²⁸ I. Hawkesworth, K. Klepsvik, 'Budgeting levers, strategic agility and the use of performance budgeting in 2011/12', OECD Journal on Budgeting, Vol. 13/1, 2013.

²⁹ Performance budgeting in OECD countries, OECD 2007. In recent publications on the topic, OECD experts define yet another model – managerial performance budgeting. That refers to a situation when PI is used mostly for internal managerial purposes and accountability, not as a tool for resource allocation. See: R. Downes, D. Moretti, S. Nicol, 'Budgeting and performance in the European Union: A review by the OECD in the context of EU budget focused on results', OECD Journal on Budgeting, Volume 2017/1.

- **Performance-informed budgeting:** PI is important in the budget decision-making process, and the results to be achieved or already achieved by expenditure are systematically taken into account by decision-makers. Still, PI does not directly determine the amount of resources allocated, and does not have a predefined weight in decisions. Along with other information concerning fiscal policy and policy priorities, it is systematically used in budgetary decision-making, but there is no automatic consequence in terms of the amount of funding.
- **Direct/formula performance budgeting:** PI is focused on past actions and their results, and strictly determines the allocation of resources. In other words, budget allocations are firmly based on results achieved, and distributed according to a formula; for instance, each increment in results is linked to an increment in resources.

Table 1 shows the characteristics of the three models in detail. The first two definitions of PB (presentational and performance-informed) are less restrictive, and thus more commonly applied by governments. Direct/formula performance budgeting is known as 'strict', or 'real', and used only in specific sectors in a limited number of OECD countries. However, the line between these approaches – especially the first two – can be quite fine, and even within a country the use may vary from ministry to ministry, or change from one year to the next.³⁰

Table 1 – Performance budgeting models

MODEL OF PERFORMANCE BUDGETING	LINK BETWEEN PERFORMANCE INFORMATION AND FUNDING	PLANNED OR ACTUAL PERFORMANCE	MAIN PURPOSE IN THE BUDGET PROCESS
Presentational budgeting (less restrictive)	No link	Performance targets and/or performance results	Accountability
Performance-informed budgeting (less restrictive)	Loose/indirect link	Performance targets and/or performance results	Planning and/or accountability
Direct/formula performance budgeting (restrictive)	Tight/direct link	Performance results	Resource allocation and accountability

Source: Performance Budgeting in OECD Countries, OECD 2007.

4. Benefits and challenges of implementation

4.1. Expectations, perceived benefits and impact

The continuing popularity of PB and its proliferation in different forms in many countries suggest that the method is considered attractive and advantageous. In fact, it is often emphasised that expectations of PB are high. When taking a decision on the introduction

³⁰ For example the direct/formula PB approach is present in Denmark (higher education, teaching and parts of the health sector), see: Performance budgeting in OECD countries, OECD 2007, p. 22, and in Sweden, see: Evolutions in budgetary practice, A. Schick and the OECD Senior Budget Officials, OECD 2009, p. 141.

of PB reforms, countries and organisations usually refer to at least three groups of objectives:³¹

- those linked to budgetary priorities, i.e. improving allocative efficiency (efficient allocation of public expenditure in accordance with government priorities);
- those focused on improving public-sector service delivery, efficiency, and performance; and
- those concentrated on improving the accountability of politicians.

It seems however, that determining if PB meets expectations is not easy. The literature evaluating the impact of PB is scarce, and criticised for being overly based on case studies and not providing a definitive, overall judgement on the actual benefits and impact of the method.³² Assessments differ and depend on the country, sector or aspect analysed, and are subject to a number of methodological reservations.³³ Therefore, some of the benefits listed below should be seen more as an inferred rather than a clear and direct consequence of PB.

For instance, based on surveys and analysis of its member countries, the OECD has pointed out the following benefits of PB reforms:³⁴

- they enable politicians to clarify objectives and see how different policy areas and programmes contribute to strategic objectives;
- they improve the monitoring of performance and progress against targets, and help to identify what works and what does not work and to identify areas with poor performance;
- they facilitate systematic planning (medium and long term) in budgeting;
- they improve management and service delivery;
- they improve transparency by increasing the amount and quality of information provided to the legislature and the public;
- they support citizens when they are expected to choose in the public interest, for example via participatory budgeting.³⁵

More specifically, the 2016 OECD survey provided evidence that accountability, transparency, legal compliance and improved parliamentary budget scrutiny are perceived as the key benefits of PB. Besides, these effects to a large extent met countries' expectations (see Figure 1).³⁶

³¹ Performance Budgeting in OECD Countries, OECD 2007.

³² For the review of literature on the efficacy of PB see: M. Robinson, J. Brumby, '[Does Performance Budgeting Work? An Analytical Review of the Empirical Literature](#)', International Monetary Fund Working Paper WP/05/210.

³³ The most popular ways of studying PB effectiveness are surveys and case studies (especially in the OECD studies). There are also examples of comparative analysis (see: J. Yun-jie Lee, X. Wang, op. cit.) and cost-benefit analysis (see: B. Trenovski, M. Nikolov, '[Cost-Benefit analysis of performance based budgeting implementation](#)', CEA Journal of Economics, Vol. 10, Issue 2, December 2015).

³⁴ Performance budgeting in OECD countries, OECD 2007, pp. 59-64.

³⁵ G. Sgueo, '[Participatory budgeting](#)'. An innovative approach, Briefing, EPRS, January 2016.

³⁶ 32 countries have responded to the survey: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovenia, Sweden, Switzerland, Turkey, the United Kingdom and the United States. '2016 OECD performance budgeting survey: Integrating performance and results in budgeting, Highlights'.

Figure 1 – Ranking of the expectations and effects of PB.

Note: Index calculated as high=5, medium-high=4, medium=3, medium-low=2, low=1, N/A=0. Figure represents sum of all OECD member countries.

Source: OECD 2016 Performance and Results Survey, presentation by Lisa von Trapp at 12th Annual Meeting of the OECD SBO Performance and Results Network OECD Headquarters, Paris, 24-25 November 2016.

The advantages of introducing PB are sometimes presented in comparison with traditional, line-item budgeting. For example, Van Nispen and Posseth point out that line-item budgeting focuses on inputs, is detached from planning and management, does not provide guidance as a policy- or decision-making tool and does not allow enough flexibility to address changes. It implies a 'use it or lose it' strategy at the end of the year and may lead to misallocation or inefficiency of resources.³⁷ On the contrary, PB is designed to link inputs and outputs/outcomes, to improve the system of planning and management and, as a result, to facilitate prioritisation of outlays and increase the efficiency of financial allocations. It can be a way to avoid cuts of the same percentage to all ministries ('across-the-board' cuts), and to support high-performing programmes that are achieving goals.³⁸

4.2. Challenges to implementation

The many perceived advantages and the attractiveness of PB should not obscure the complexity and challenges of its design and implementation. As early as the 1960s and 1970s, the method was strongly criticised as unfeasible.³⁹ More recent studies also point to risks and reasons why PB might not work. According to some minority views, PB is doomed to fail because budgeting is inherently a political rather than a rational area of public management, performance is not high on 'governments' list of priorities, and allocation of resources tends to be characterised by inertia.⁴⁰ Experience in OECD countries, however, shows that the most common impediments for the smooth implementation of PB are related to:⁴¹

³⁷ F. Van Nispen, J. Posseth, 'Performance informed budgeting in Europe: the ends justify the means, don't they?', EUI Working Papers, RSCAS 2009/39, p. 3.

³⁸ Performance-based budgeting, Manual, CLEAR Training Materials.

³⁹ One of the best-known critiques of the method was by American political scientist Aaron Wildavsky. See: Budgeting, Policy, Politics. An Appreciation of Aaron Wildavsky, N. Caiden, J. White (ed.), Transaction publishers, 1995.

⁴⁰ A. Schick, 'Performance Budgeting and Accrual Budgeting: Decision Rules or Analytic Tools?', in: Evolutions in Budgetary Practice: Allen Schick and the OECD Senior Budget Officials, OECD 2009, pp. 379-402.

⁴¹ The list of impediments is based on the results of the OECD's 2006 performance budgeting survey, see: Performance budgeting in OECD countries, OECD 2007, pp. 68-71. Similar challenges to effectively

- PI, its quality and quantity, in particular the methods of measuring outcomes and output, specificity and accuracy of data, as well as approaches to integration of PI into the budgetary process;
- public servants and their aptitude for changing old practices, culture and behaviour;
- institutional capacity to support and implement the reforms, including ensuring a necessary level of expertise and human and financial resources;
- political support and attention of key decision-makers and politicians to the idea, especially long-term and consistent support, independent of the political cycle;
- development and provision of the right incentives, so that PI is considered part of budgetary decision-making.

Among the impediments listed above, the most challenging concerns PI. It has to meet many requirements in order to effectively and efficiently facilitate performance-focused budgetary reforms. It has to be systematic, simple, affordable, cost-effective and usable.⁴² Moreover, PI has to be correctly analysed and interpreted.

This is not easy to achieve. Some sceptics emphasise that attempts to measure performance in the public sector are inherently flawed. They express doubts about the accuracy, relevance and cost-effectiveness of information.⁴³ They argue that interpretations of PI can be biased and subjective, as they depend on the political and economic context.⁴⁴ They warn that imperfect PI and data, when linked with decisions on allocation of financial resources may, in turn, lead to significant adverse behavioural distortions and weaken ethical and altruistic motivations, which are crucial for good public-sector performance.⁴⁵ An overly rigid linking of PI metrics to budgetary decisions can lead to a phenomenon referred to as gaming (a conscious effort to manipulate PI, in response to an awareness of being measured or evaluated).⁴⁶

Deciding on how tightly decisions on resources should mesh with evidence on results remains a crucial and challenging ingredient of successful PB. Many experts believe that the lack of consideration of PI, or too weak a link between PI and decision-making, is the key reason for failures in implementation of PB, or for disappointing results. Therefore it is right to see the first model of PB – presentational PB – in which the process concludes with a mere presentation of the PI and does not lead to any consequences, primarily as an instrument for general performance-oriented public-management reform, and only secondarily as a budgeting tool.⁴⁷

Ideally, PI should be formally integrated into the budget process, so as to make maximum use of it when deciding the budget. Such a design of the PB framework, as argued by one

implementing PB were listed by the countries surveyed in 2016 (lack of performance culture; lack of resources; lack of capacity/training; lack of accurate/timely data; lack of info on efficiency). See: '2016 OECD performance budgeting survey: Integrating performance and results in budgeting, Highlights'.

⁴² M. Robinson, D. Last, [A basic model of performance-based budgeting](#), op. cit.

⁴³ Ibid.

⁴⁴ M. Allam, [Reward the winners, punish the losers? Performance budgeting reconsidered](#), Eipascope 2007/3.

⁴⁵ By way of example, Robinson and Brumby point to the experience of Soviet central planning and the dysfunctional ways in which planning targets were filled there. See: M. Robinson, J. Brumby, *Does Performance Budgeting Work?*, op. cit.

⁴⁶ T. Shaw, *Performance budgeting practices and procedures*, op. cit., p. 7.

⁴⁷ M. Robinson, 'Budget reform before and after the global financial crisis', op. cit.

practitioner, requires changes to an organisation's 'DNA'.⁴⁸ Realistically, in the highly politicised budget process, PI is rarely linked directly to decisions on resources. Usually, it is one of many criteria for decision-making.

In practice, therefore, apart from financial consequences or no consequences at all, there may also be other types of reaction if performance targets are not met. As indicated in the recent OECD study, these usually take the form of management responses and include publication of data on poor performance, intensification of monitoring, spending review or evaluation, reinforcement of staff assigned to a programme, training for programme staff, or negative consequences for programme leaders.

Such a development is in line with the opinion commonly expressed in the literature that any type of PB cannot exist as a separate reform. Its successful implementation requires a broader approach, as well as a reorientation of a 'government's or 'organisation's performance. Changing behaviour, and the creation of a performance-based ethos and culture, should be among the main goals of PB reforms.⁴⁹ The current applications of PB are, therefore, sometimes named 'managerial performance budgeting' and to a large extent relate to improving people's managerial and decision-making capacities, not only to budget figures or indicators.⁵⁰

Human resources are an increasingly prominent aspect in the implementation of PB in countries considered the most advanced and successful in budgetary reforms: Australia, Canada, the Netherlands and the USA. There, senior civil servants' responsibilities for performance are formalised, and they are given greater responsibility for the integrity of financial accounts and for contacts with national parliament to explain performance-related measures.⁵¹

5. Implementation strategies

Given the complexity of performance-based budgeting, the variety of options and scale of reforms, as well as the challenges that have to be faced during implementation, there is a need for guidance on how to avoid mistakes. Based on the rich experience of many countries that have already applied some form of PB, the organisations promoting the method, such as the OECD, IMF and World Bank, have worked out sets of guiding rules and advice on how to approach PB strategically and how to manage challenges.

First of all, the OECD has formulated six main strategies for implementing PB (see Box 2). They are not exclusive and each of them involves potential risks and benefits. Moreover, different strategies can be applied in different sectorial policies, areas of activity, or to different ministries. Choosing the right mix depends on many conditions, for example on

⁴⁸ Kate Josephs, ['Performance management in government: Harness the power of the routine'](#), Public Administration Review, March/April 2016.

⁴⁹ These factors are emphasised in the studies of de Jong and Ho. They say that 'Culturally, specific barriers may stand in the way of embracing PB's underlying assumptions of technical rationality, openness and transparency, especially in non-western cultures and political systems. Ignoring these factors may nullify a reform effort or make it vulnerable to window dressing' M. de Jong, T. Alfred Ho, ['Sequencing of performance-based budget reforms'](#), blog, 26 January 2017 [accessed on 13 February 2017].

⁵⁰ [Performance-Based Budgeting and Medium-Term Expenditure Frameworks in Emerging Europe](#), L. Kąsek, D. Webber (ed.), World Bank 2009, p. 104; R. Downes, D. Moretti, S. Nicol, Budgeting and performance in the European Union, op. cit.

⁵¹ T. Shaw, Performance budgeting practices and procedures, op. cit.

the culture or nature of the public administration, or the goals that are to be achieved by reform. An overarching aspect of all the strategies is their legal framework, i.e. to what extent the budgetary reform is formalised, whether the reforms are introduced through legislation (legally binding standards, procedures and requirements) or via policy guidelines or recommendations.

Box 2 – Performance budgeting implementation strategies according to the OECD

Top-down – a more centralised approach, whereby the central government ministries or agencies (e.g. ministry of finance, prime minister's office) play the primary role in developing, implementing and monitoring reforms.

Bottom-up – individual ministries and/or agencies are the key actors and are free to develop their own approach to reform, to set performance targets, etc.

Comprehensive – involves all ministries and all sectors and is more popular among countries that have adopted a top-down strategy.

Partial – performance plans and performance information are required only from some ministries and from selected sectors (the most popular ones are environment, social affairs, health and education).

Incremental – changes are introduced step-by-step in line with a long-term plan and opportunities to learn from experience.

Big bang – a number of simultaneous sweeping reforms are introduced at the same time.

Based on: Performance budgeting in OECD countries, OECD 2007.

Furthermore, an important conclusion drawn from case studies is that the risk of a failure of PB can be mitigated if certain core conditions in the financial system of a country are fulfilled. It is considered easier to implement PB in countries with sound macro-fiscal policy, multi-year budgeting, the ability to enforce the execution of budgets as planned as well as adequate staff capacity to manage the change and run the new way of budgeting.⁵² As OECD expert Allen Schick puts it, the probability of success increases in governments characterised by:⁵³

- high standards of public financial management,
- a low level of or no corruption,
- a high level of public trust,
- highly skilled and well-motivated public employees,
- efficient and accessible public services,
- attentive media and interest groups, and
- freedom of citizens to communicate their concerns to government.

Another set of 'operational lessons' for PB was proposed in a 2016 publication of the World Bank. They refer to practical challenges in the design and implementation of PB, for instance:⁵⁴

- Identifying clear and realistic objectives for PB; stating explicitly what a government wants PB to achieve. This helps to avoid disappointments when assessing the reform's progress and impact.

⁵² M. Robinson, D. Last, A Basic Model of performance-Based Budgeting, op. cit.

⁵³ A. Schick, The metamorphoses of performance budgeting, op. cit., p. 10.

⁵⁴ D. Moynihan, I. Beazley, Toward next-generation performance budgeting, op. cit., pp. 35-38.

- Looking beyond the annual budget, which is usually too short a period in which to assess programme performance. It is important to see the reform within a longer timeframe and to ensure its continuity despite the political changes.
- Ensuring that capacity is in place. Take into account capacity constraints and do not under-estimate the administrative and analytical investment needed to manage PB, such as special IT solutions and financial reporting systems. If capacity constraints are significant, consider a partial or more basic approach to PB.
- Supporting PB with a broader set of reforms that can help to enforce a performance-oriented culture. This may concern human resources, data collection, evaluation and monitoring methods, auditing processes, etc.
- Investing in staff capacity-building, training and peer learning, dissemination of good practices, etc.
- Learning from experience, identifying and resolving the shortcomings of previous efforts, whilst not abandoning the whole process nor starting from scratch.
- Avoiding a one-size-fits-all approach as far as the link between performance and financial resources is concerned. Do not create indicators for sectors where PB is not relevant (for instance in counter-terrorism).
- Avoiding an information overload when creating the architecture of programmes and activities with their specific performance indicators.
- Routinely discussing the progress of PB reform throughout the year and introducing necessary corrections.

A frequently emphasised piece of advice in the literature concerns the goals to be achieved by PB and the timeframe for budgetary reforms. By and large, the more realistic they are and the simpler the systems used in implementation, the better. Modest and incremental change over a medium- or long-term period is considered more efficient than a revolutionary and rapid switch. Similarly, reaction to difficulties in the implementation of PB should not be hasty. Abandoning the process in the face of difficulties is not necessarily wise. It is better to try to modify some elements of the reform and introduce incremental, rather than dramatic changes. Such an approach allows more gradual and profound cultural (creation of cultural norms) and behavioural change, which is essential for success.⁵⁵

Last but not least, an aspect of PB implementation that should not be under-estimated concerns the role of the parliament. Obviously, its potential role depends largely on the type of political system in place, the scope of competences of the parliament in the legislative process and in budgetary decision-making and control.⁵⁶ A sceptical legislature can slow down the reform process. A supportive one, especially within specialised parliamentary committees, can ensure that PI is discussed and used. They may serve as forums for learning and discussion on performance, including with the participation of stakeholders.⁵⁷

As argued by World Bank experts, the role of the legislature can sometimes be ambiguous or paradoxical. On the one hand, parliaments are usually at the forefront of

⁵⁵ This opinion is supported by examples from the USA, Australia and the Netherlands – the countries considered the most experienced and successful in PB. See: D. Moynihan, I. Beazley, *Toward next-generation performance budgeting*, op. cit.

⁵⁶ Their competences are significant in most of the OECD countries applying a PB framework, as well as in the USA.

⁵⁷ T. Shaw, *Performance budgeting practices and procedures*, op. cit., p. 4.

supporters and advocates of PB and the transparency that it brings. On the other, in practice there is little evidence that they regularly use performance data for budgeting or oversight. This contradictory behavioural approach can be seen, for example, when a budgetary decision driven by PB conflicts with the interest of a constituency. A partial remedy for this erratic political behaviour, can be formalisation (bureaucratic institutionalisation) of the idea and practices. Examples from France, the USA and the Netherlands show that legislating the performance framework can ensure continuation of the PB approach when political support declines.⁵⁸

6. Application of performance budgeting in OECD countries

Despite many difficulties in PB implementation, neither the theoretical literature nor the empirical evidence demonstrate its failure. On the contrary, advantages seem to outweigh problems, and many governments across the world are trying to make their budgetary systems more efficient and effective by applying a performance-based approach.

In 2005, 2011 and 2016, the OECD conducted surveys aimed at reviewing the development and use of performance frameworks in the budget process in its member countries.⁵⁹ The results of the survey carried out in 2016 demonstrate that performance-budgeting frameworks are a norm across the OECD member countries, but the approaches applied differ significantly. Figure 2 presents a ranking of 35 countries based on a composite index of ten variables describing the scope of involvement and presence of different PB practices at the level of central government. The index includes information on the existence of a standardised PB framework; on whether PI is collected, and whether and how it is used during budget negotiations; and on the consequences that exist for poor performance. However, the index does not measure how successful the PB systems are in practice.⁶⁰

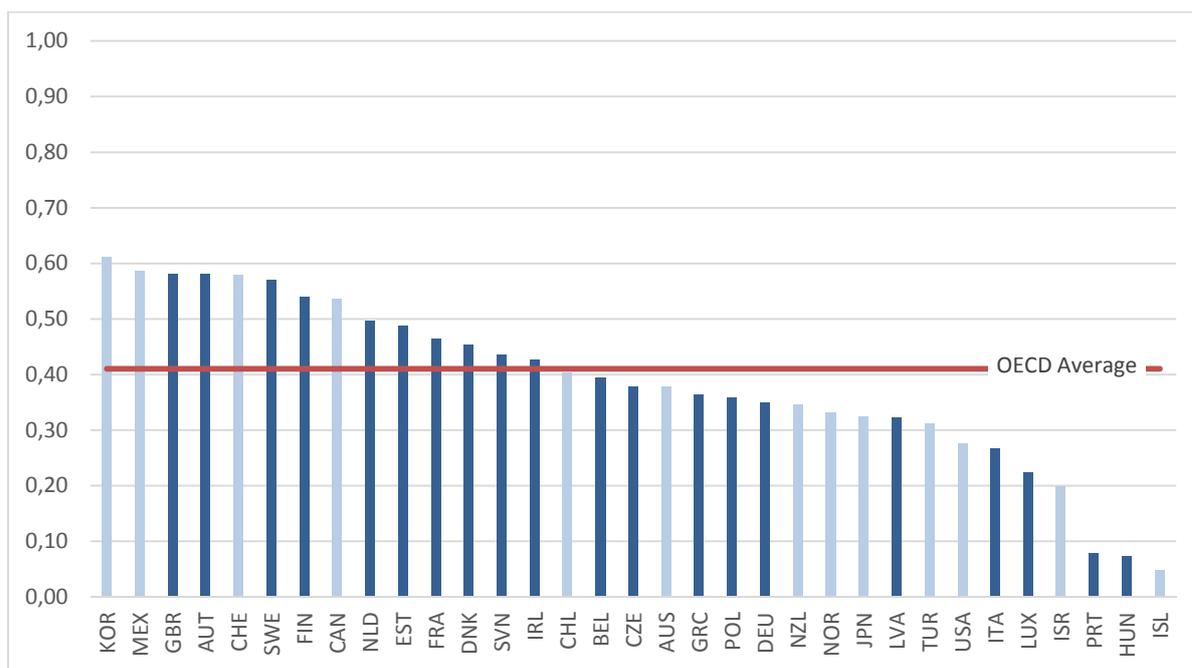
In the country ranked highest, Korea, a standardised and compulsory PB framework is in place and PI is commonly used in negotiations with budgetary authorities. The consequences of poor performance usually concern the management responsible for a programme, and may occasionally include budget reductions or freezes. In most countries examined, however, any kind of consequences (for the management or for the budget) are unlikely. Only in three countries (Czech Republic, Denmark and Sweden) does failure to achieve goals lead to budget freezes or reductions.

⁵⁸ D. Moynihan, I. Beazley, *Toward next-generation performance budgeting*, op. cit., pp. 29-30.

⁵⁹ The [OECD](#) has 35 members (2017), including 22 from the EU: Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Luxembourg, the Netherlands, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, the United Kingdom. The European Commission takes part in the work of the OECD.

⁶⁰ OECD iLibrary, *Budgeting Practices and Procedures*, [Government at a glance 2017](#). The database: <https://qdd.oecd.org/subject.aspx?Subject=90B147D4-005C-462A-9678-4CF7A931A4CA> [accessed on 1 December 2017]

For more information on previous surveys see: T. Curristine, *Performance Information in the Budget Process: Results of the OECD 2005 Questionnaire*, OECD Journal on Budgeting, Vol. 5, No. 2, 2005; *Performance budgeting*, in: *Government at a Glance 2013*, OECD Publishing, Paris, 2013.

Figure 2 – OECD index of performance budgeting practices (central level, 2016).

Note: Results based on the composite index containing 10 variables developed by the OECD.

Data source: OECD iLibrary, Budgeting Practices and Procedures, [Government at a glance 2017](#).

Among 20 EU Member States that were included in the 2016 survey, the UK and Austria are seen as the frontrunners in terms of a performance-based approach to budgeting. Sweden, Finland, Estonia and France were also ranked highly. However, 11 of the EU countries were ranked below the OECD average.

EU countries have different experiences with PB. Denmark and Spain introduced reforms to their budgetary systems in line with PB principles as early as the 1980s. The Netherlands reformed its budget by linking objectives, performance and resources in 1999. Some countries, for historical and political reasons, can be considered late starters: Latvia in 1997, Bulgaria in 2002, Croatia in 2003, and Poland in 2006.⁶¹

It is worth noting that two thirds of the EU countries examined reported that their performance-budgeting framework was related to EU funds. This may support the view that in the case of EU countries, in addition to drivers for budgetary reforms common to other parts of the world, there are also specific, EU-related motives for reform. EU cohesion funds and management rules focused on the achievement of goals and sophisticated PI reporting are one. Another important driver is the requirement to meet the Maastricht criteria, and participation in economic and monetary union.⁶²

⁶¹ For case studies of Bulgaria, Croatia, Latvia, Poland and Slovakia see: Performance-Based Budgeting and Medium-Term Expenditure Frameworks in Emerging Europe, op. cit.; for case studies of Finland, The Netherlands and Spain see: F. Van Nispen, J. Posseth, Performance informed budgeting in Europe, op. cit.; for Denmark, Sweden and the United Kingdom see: Performance budgeting in OECD countries, OECD 2007; for Romania see: <http://www.oecd.org>; for Cyprus see: <http://eurocrisislaw.eui.eu/>.

⁶² M. Allam, Reward the winners, punish the losers? Performance budgeting reconsidered, Eipascope 2007/3; F. Van Nispen, J. Posseth, Performance informed budgeting in Europe, op. cit.; Budżet zadaniowy w administracji publicznej, M. Postuła, P. Perczyński (ed.), Wydanie II, Ministerstwo Finansów, Warszawa 2010, p. 34.

7. Performance budgeting in the EU budget

7.1. Increasing role of performance-oriented management and budgeting

Although the European Commission's initiative, 'An EU budget focused on results' (BFOR), was officially launched in 2015, elements of the performance-oriented approach have been introduced since the earliest days of the European Communities. The regularity and compliance of spending, and financial accountability, have always played an important role in the EU budgetary system.⁶³ Gradually, starting about two decades ago, it has become more explicitly oriented towards the concepts of performance, results, effectiveness, efficiency and value for money.

Changes have been triggered by overarching initiatives and reform programmes announced in the White Paper on Reforming the Commission in 2000, the Lisbon Strategy launched in 2000 and in the White Paper on European governance in 2001.⁶⁴ The latter raised 'effectiveness' to the rank of principle underpinning good governance in the EU, and underlined that 'policies must be effective and timely, delivering what is needed on the basis of clear objectives, an evaluation of future impact and, where available, of past experience'.⁶⁵ Consequently, the results- or performance-oriented approach has become more important in the legislative framework and implementation of some EU policies. The trend has been especially prominent in EU cohesion policy, but also in external development policy, neighbourhood policy and research policy.

A more radical turn towards performance-oriented budgeting was triggered by the financial crisis that hit Europe in 2008. In the context of shrinking public finances and austerity measures applied in many Member States, increased attention had to be paid to the added value and impact of EU spending. In the mid-term review of the 2007-2013 MFF, the European Commission spoke of the importance of results-driven budgeting and measuring 'in terms of real impact, rather than in terms of the inputs involved'.⁶⁶ The Europe 2020 strategy, launched in 2010, was based largely on targets, priorities and deliverables. Moreover, it was, to a greater extent than the previous one, intertwined with the EU's multiannual financial planning. In 2011, while presenting the proposal for the 2014-2020 MFF, the then-president of the Commission José Manuel Barroso, emphasised that spending had to be clearly linked to the priorities agreed in the Europe 2020 strategy, and that the budget should be looked at in terms of functions and goals, not just the traditional headings.⁶⁷

At the same time, the issue of results-based EU policies and performance budgeting has become salient in discussions in the European Parliament, the Council and the European Court of Auditors (ECA), particularly in the work of the Parliament's Budgetary Control Committee (CONT) and the annual budgetary discharge procedure. While maintaining

⁶³ For a historical overview of the evolution of the EU budget and auditing and discharge practices, see: European Union Public finance, [5th edition](#), European Union, 2014; Paul Stephenson, 'Sixty-Five years of Auditing Europe', *Journal of Contemporary European Research*, Vol. 12, Issue 1, 2016.

⁶⁴ Reforming the Commission, A White Paper, Part I, COM(2000) 200 final/2, European Commission, Brussels, 5 April 2000; European Governance – A White Paper, COM(2001) 428 final, European Commission, Brussels, 25 July 2001.

⁶⁵ The other principles of good governance are: openness, participation, accountability and coherence. European Commission, [European governance - a white paper](#), COM(2001) 428 final.

⁶⁶ [The EU Budget Review](#), COM(2010) 700 final, European Commission, 19.10.2010.

⁶⁷ [Remarks by President Barroso on the Commission's proposals for the 2014-2020 Multi-annual Financial Framework](#), Brussels, 29 June 2011.

high standards of scrutiny of the regularity and legality of budget implementation, the procedure has clearly shifted towards performance culture, PI and the achievement of objectives. Consequently, the shift has been expressed and emphasised in a number of discharge-related documents.⁶⁸

Finally, the current European Commission has actively taken up the idea of performance. Better budgetary performance has been expressed as an overarching objective of the Juncker Commission.⁶⁹ Following this, in 2015 the then vice-president responsible for the budget, Kristalina Georgieva, declared performance culture and performance budgeting to be among the priorities of her job, and launched the special initiative, 'An EU budget focused on results'.⁷⁰

7.2. The European Commission's initiative 'An EU budget focused on results'

The BFOR initiative puts the focus on results as a horizontal priority for the EU budget, and thereby for the actions of the Commission. It does not replace any earlier achievements in this respect, but introduces performance budgeting in the EU budget in a more regular and coordinated manner. According to Georgieva, there were five main sources of motivation for the initiative:⁷¹

- The ceilings adopted in the current MFF are for the first time lower than in the previous one, so while needs are growing, the resources available are scarce;
- There has been too much focus on absorption of EU spending and compliance, and too little on performance and results;
- The debates during the negotiations for the 2014-2020 MFF demonstrated a need to shift the focus towards better spending and clearer presentation of results;
- The EU budget could be better presented to EU citizens, and the communication of the results achieved with EU investments should be improved;
- Obligation towards taxpayers and citizens.

The European Commission points to transparency, accountability, better-informed budgetary decisions and administrative efficiency as the main benefits of PB. At the same time, the Commission seems to be realistic about the limits of the method, and aware of the risks and challenges of its implementation in the very particular EU financial system. The Commission emphasises that this useful budgetary method cannot replace decision-making and priority setting at the political level.⁷²

⁶⁸ For instance: In the [ECA annual report concerning the financial year 2010](#) for the first time a special chapter on 'Getting the results from the EU budget' was included. See also: Council recommendation on the discharge to be given to the Commission in respect of the implementation of the general budget of the EU for the financial year 2011, 5752/13 ADD1, pp. 31-32; European Parliament decision of 17 April 2013 on discharge in respect of the implementation of the general budget of the EU for the financial year 2011, Section III - Commission and executive agencies, P7_TA-PROV(2013)0122.

⁶⁹ Jean-Claude Juncker, [A New Start for Europe: My Agenda for Jobs, Growth, Fairness and Democratic Change](#). Political Guidelines for the next European Commission. Opening Statement, Strasbourg, 15 July 2014.

⁷⁰ [Hearing by the European Parliament. Introductory statement of the Commissioner-Designate Kristalina Georgieva](#), 2 October 2014; See also: http://ec.europa.eu/budget/budget4results/index_en.cfm.

⁷¹ Kristalina Georgieva, presentation at the joint meeting of the European Parliament's BUDG and CONT Committees on 15 September 2015.

⁷² Nadia Calviño, Director General, DG BUDG, presentation at the European Parliament CONT Committee, 24 May 2016.

The BFOR initiative is based on four questions, or 'pillars', which refer to areas where the Commission is determined to increase the focus on results. The pillars are complemented by six horizontal workstreams (see Table 2). Each workstream (WS) is implemented via concrete action within the annual budget cycle, the discharge procedure, the mid-term review of the MFF, and the debate on and preparation of the post-2020 MFF. For instance, WS 1 on simplification is linked to the revision of the financial rules applicable to the general budget of the Union (Financial Regulation) and changes in sectoral legislation, as provided for in the mid-term revision of the 2014-2020 MFF.⁷³

Table 2 – EU Budget focused on results: Pillars and workstreams.

PILLARS	WORKSTREAMS
<p>Where do we spend our money?</p> <p>European public goods with higher EU added value</p>	<p>WS 1: Simplification</p> <p>Diminish administrative burden (more simplified cost options, administrative simplification scoreboard, use of financial instruments)</p>
<p>How do we spend our money?</p> <p>More leverage of EU funds and more simplification efforts</p>	<p>WS 2: Performance framework</p> <p>Support decision-making with meaningful performance information</p> <p>WS 3: Cost-effectiveness of controls & WS 4: DAS (statement of assurance) and discharge</p>
<p>How are budget implementation and performance assessed?</p> <p>Rigorous application and development of the control framework</p>	<p>Remove inefficient and ineffective controls; introduce common methodology, indicators, multiannual corrections and recoveries.</p> <p>WS 5: EU projects results</p> <p>Improve communication on policy costs and results by improving access to project data and results</p>
<p>How do we communicate the budget?</p> <p>Effective communication that provides accessible and understandable information on the results achieved</p>	<p>WS 6: Outreach and communication</p> <p>Create awareness and shape attitudes</p>

Source: Own elaboration based on a presentation by Nadia Calviño, Director-General of European Commission's DG BUDG, European Parliament, CONT Committee, 24 May 2016.

In practical terms, the initiative involves a group of Commissioners responsible for the most important spending areas. It is administered by a special unit for performance-based budgeting within the Commission's Directorate-General for the Budget (DG BUDG) and involves relevant administrators from other directorates-general. Information about the initiative is disseminated through a dedicated website and newsletter. An important communication tool increasing awareness of the results of EU investments and actions has been made available in the form of an online database of EU-funded projects. In addition, since 2015, the Commission has organised a specific, annual conference that provides an opportunity to present and discuss the progress of PB reform in the EU

⁷³ Mid-term review/revision of the multiannual financial framework 2014-2020. An EU budget focused on results, European Commission, [COM\(2016\) 603 final](#); See: A. D'Alfonso, 2014-2020 Multiannual Financial Framework (MFF) Mid-term revision, EU Legislation in Progress, EPRS, [6 July 2017](#).

budget with a wider audience. The latest conference took place in September 2018, and focused on the value added and impact of EU spending, with a specific focus on research and innovation.

As emphasised in the annual management and performance reports for the EU budget, as early as the first year a number of improvements were introduced as part of the BFOR initiative. For example, the Commission included improvements to the programme statements accompanying the draft budget to provide the EU budget authority with a more focused picture of programmes' performance. The Commission also streamlines its reporting. In 2016, for the first time, the main documents were presented in the form of the integrated financial reporting package (see section 7.3. and 7.4.).⁷⁴

The BFOR initiative and the implementation of PB is supported by the Interinstitutional Working Group on Performance-Based Budgeting (henceforth the Group). The idea of setting up a group that would consider practical measures and a time-scheduled action plan for coherent implementation of performance budgeting was born at the European Parliament. The request to the Commission was first included in the Parliament's [resolution of 3 July 2013](#) on the Integrated Internal Control Framework, and then reiterated in the [resolution of 26 February 2014](#) concerning a new tool for the Commission's improved discharge procedure.

The Group launched its work at a meeting on 22 April 2016, and had met five times by early 2018. In accordance with the terms of reference presented by the European Commission in April 2015, it is composed of representatives of the institutions involved in the budgetary process: the European Commission, the European Parliament, the Council and the European Court of Auditors. The meetings so far have also been attended by experts in the field. The Group's objectives are as follows:⁷⁵

- Reach a common understanding of performance budgeting principles applicable to the EU budget, commensurate with the applicable legal framework;
- Discuss the mutual expectations regarding the roles and responsibilities of the EU institutions and the Member States in ensuring that EU budget implementation is focused on results;
- Identify possible improvements in the performance-budgeting model currently applied in the EU budget, and a feasible schedule for their implementation, taking into account the needs for simplification, reduction of administrative burden, and the need to adapt to the specificities and size of the programmes.

The meetings organised so far have been dedicated to PB concepts, presentation of case studies from the EU Member States, the analysis of the application of the method in the shared management programmes of the EU budget, such as cohesion and agricultural policy, European added value, the role of PI and communication of the results.

The implementation of the BFOR initiative will continue in 2018 in line with the DG BUDG Management Plan.⁷⁶

⁷⁴ 2015 Annual Management and Performance Report for the EU Budget, COM(2016) 446 final, European Commission, 5 July 2016; 2016 Annual Management and Performance Report for the EU Budget, COM(2017) 351 final, European Commission, 13 July 2017.

⁷⁵ Performance-Based Budgeting, Policy Department for Budgetary Affairs, European Parliament 9 September 2015.

⁷⁶ Management Plan 2018, DG Budget, [Ref. Ares\(2017\)6324786](#) - 21 December 2017.

7.3. Elements of performance budgeting in the EU financial system

Just as the EU budgetary system is specific and different from those applied in the Member States, the system of PB currently developed in the EU is also *sui generis*. The Commission considers itself a performance-oriented institution, with a developed performance framework and performance management as an integral part of its work.⁷⁷ Moreover, in a recent study the OECD assessed the EU budgeting system as 'advanced and highly specified, scoring higher than any OECD country in the standard index of performance budgeting frameworks'.⁷⁸

Still, partly due to its high specificity, the EU performance budgeting model cannot be easily assigned to any of the standard PB models described above (section 3.2.).⁷⁹ Instead of this, features of different PB models can be found in the current EU budgetary system. A look at the EU model from the perspective of the OECD classification helps to see how much PB has already penetrated the EU budgetary system. Moreover, such analysis allows discovery of inconsistencies and challenges in the implementation of PB.

As illustrated in Table 3, performance information is collected, processed, communicated and used in many ways in the EU budgetary system. The rules of EU budget management, reporting and evaluation, budgetary discharge procedure and implementation of individual EU policies include performance budgeting practices and, therefore, the EU model can be considered 'presentational' and 'performance-informed'. However, the EU system does not score highly as far as the most advanced model – direct/formula PB – is concerned. Examples of automatic budgetary consequences based on PI are scarce. They can be found in the ESI funds (the performance reserve) and in the EU Neighbourhood Policy (attempts to link funds to achievements in the principle of 'more for more').

Table 3 – Three OECD models of performance budgeting in the EU budget

MODEL OF PERFORMANCE BUDGETING	ROLE OF PERFORMANCE INFORMATION IN THE EU BUDGETARY SYSTEM
Presentational budgeting	<ul style="list-style-type: none"> ✓ performance information (indicators, targets, milestones, evaluations, etc.) is a standard element of the budgetary system (performance reporting framework) ✓ performance information is collected and presented to the budgetary authority and the citizens ✓ performance information is used as a communication tool
Performance-informed budgeting	<ul style="list-style-type: none"> ✓ policy spending reviews and programme evaluations are a routine element of the budgetary cycle ✓ performance information is available when making budgetary decisions, although it does not play an important role ✓ performance information is taken into account in the annual audit and the annual budget discharge procedure
Direct/formula performance budgeting	<ul style="list-style-type: none"> ✓ the budgetary consequences of poor performance are provided for in the performance framework, in particular the 6 % performance reserve in the ESI funds

⁷⁷ Governance in the European Commission, Communication to the Commission from President Juncker and First Vice-President Timmermans, C(2017) 6915 final, Brussels, 11 October 2017.

⁷⁸ R. Downes, D. Moretti, S. Nicol, Budgeting and performance in the European Union, op. cit.

⁷⁹ R. Downes, D. Moretti, S. Nicol, Budgeting and performance in the European Union, op. cit.

	✓ the principle of 'more for more' in the EU Neighbourhood Policy indicates the possibility to link allocation of funds to the results achieved
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Source: Own elaboration.

The EU budgeting system has strong features of presentational and performance-informed models. It contains developed and complex performance reporting framework which have its legal basis in the Treaties (Articles 318 and 319 TFEU). They refer to 'an evaluation report on the Union's finances based on the results achieved', which should be presented by the Commission to the Council and European Parliament, inter alia for the annual discharge procedure. The report, known as the Article 318 report, is considered a driver for a systematic approach to reporting of performance and results from the Commission to the budgetary authority.⁸⁰

Since 2012, when the report was presented for the first time, its content has been criticised by the European Parliament and the ECA. In subsequent years, the Commission has improved the presentation of the results, and the report has become part of the integrated financial reporting package (along with the consolidated annual accounts of the EU and the report on the follow-up to the discharge) and renamed '[the annual management and performance report for the EU budget](#)' (AMPR).

Another important obligation related to performance budgeting results from the Financial Regulation applicable to the EU general budget. This contains principles and procedures for implementation and control of the EU budget. Article 30 of the regulation lays down the concept of sound financial management and the principles of economy, efficiency and effectiveness (see Box 3). According to it:⁸¹

- the EU's financial resources are to be used in accordance with the principle of **efficiency**, ensuring the best relationship between resources employed and results achieved, and **effectiveness**, ensuring the attainment of the specific objectives set and the achievement of the intended results;
- it is required that, for all sectors of activity covered by the budget, specific, measurable, achievable, relevant and time-bound objectives should be set and monitored by **performance indicators**; and
- in order to improve decision-making, all programmes and activities which entail significant spending are to undergo ex-ante and ex-post **evaluations**, and their **results are to be disseminated** to the European Parliament, the Council and spending administrative authorities.

Box 3 – How performance is assessed in the EU

Performance in the EU is assessed on the basis of the principles of sound financial management (economy, efficiency and effectiveness), and covers:

- (a) inputs – financial, human, material, organisational or regulatory means needed for the implementation of the programme;
- (b) outputs – the deliverables of the programme;

⁸⁰ R. Downes, D. Moretti, S. Nicol, Budgeting and performance in the European Union, op. cit. p. 17. See also the introduction to the report from the Commission to the European Parliament and the Council on the evaluation of the Union's finances based on the results achieved, [COM\(2015\) 313 final](#), Brussels, 26 June 2015, pp. 5-6.

⁸¹ Regulation 966/2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) 1605/2002.

- (c) results – the immediate effects of the programme on direct addressees or recipients;
(d) impacts – long-term changes in society that are at least partly attributable to EU action.

Source: European Court of Auditors, [Annual report](#) on the implementation of the budget concerning the financial year 2015, 13 October 2016.

The Financial Regulation will be further developed in this respect. As part of the mid-term revision of the 2014-2020 MFF, the Commission put forward a proposal for revision of the regulation and 15 related basic acts concerning multiannual programmes (including in agriculture, cohesion, the Connecting Europe Facility and space). The proposal includes a series of measures aimed at focusing the budget more clearly on results, improving the performance framework, enhancing transparency and streamlining reporting. In particular, the Commission proposed to introduce the concept of performance as an element of the principle of sound financial management (article 31 of the proposal); to increase the possibilities for linking payments to conditions fulfilled, output or performance (article 121 of the proposal); and to simplify and streamline the performance framework and reporting (articles 39 and 239-245 of the proposal).⁸²

The EU budgeting model can be considered performance-informed in the sense that PI is taken into account in the EU budgetary discharge procedure. Whereas scrutinising the regularity and legality of the budget's implementation has always been a priority, for some years now the institutions involved in the procedure have also focused on achievement of objectives. They demand more and better PI and seek to foster a performance culture. PI is not only produced and presented to the politicians, but is discussed and can play a role in the discharge-related decisions. As the European Parliament clearly declared in its resolution of 28 April 2016 concerning the decision on discharge: 'when the Parliament grants discharge to the Commission it verifies ... whether policy goals have been achieved, appropriate results reached and the principles of sound financial management and a "performance culture" respected'.

As far as the most advanced model of PB is concerned – direct performance budgeting – the EU's approach is very limited. There have been attempts to link allocation of funds to results and outcomes achieved, which could be considered signs of direct performance budgeting, but they have not been applied on a large scale and their effectiveness is criticised.

The most important example in this regard is the performance framework of EU cohesion policy, significantly developed in the provisions for the 2014-2020 programming period. Apart from an extensive structure of goals, milestones and targets it includes special mechanisms known as ex-ante conditionalities, the performance reserve and macroeconomic conditionality.

⁸² At the time of drafting, the proposal was in interinstitutional negotiations under the ordinary legislative procedure. Part of the proposal concerning the common agriculture policy had already been adopted as [Regulation \(EU\) 2017/2393](#) of 13 December 2017. Members of the BUDG and CONT parliamentary committees supported and, in some aspects, boosted the Commission's proposals aimed at increased integration of performance into spending decisions. In addition, the ECA considered the option to base payments on conditions fulfilled or results achieved as a positive development. See: proposal for a regulation on the financial rules applicable to the general budget of the Union, [COM\(2016\) 605 final](#), 14 September 2016; European Court of Auditors, [Opinion No 1/2017](#) concerning the proposal for a regulation on financial rules applicable to the general budget of the Union. For more on the current stage of the legislative procedure leading to the adoption of the revision see: [Procedure file 2016/0282\(COD\)](#).

According to the ESI funds rules, a number of conditions have to be fulfilled by a Member State before programme implementation starts (at the latest by the end of 2016).⁸³ These concern, for example, the existence of underpinning legal acts, administrative capacity to manage the funds and development strategies. In case of problems with fulfilment of ex-ante conditionalities, the Commission has a right to suspend payments.

The performance reserve is an attempt to link results and budgetary decisions, as it provides scope for rewarding the best-performing programmes. At the beginning of the financial and programming period, the Member States put aside 6 % of their ESI funds allocation (excluding European Territorial Cooperation), which, following the Commission decision, is to be used as additional co-financing for the programmes (in the same Member State) that have proven successful during the performance review to be carried out in 2019.⁸⁴

In addition, the ESI funds are subject to macroeconomic conditionality. It introduces possibility to reprogramme or suspend ESI funds when a Member State fails to comply with rules of sound economic governance. The rule is subject to many procedural restrictions and has not, so far, been applied in the current programming period.⁸⁵

In theory, therefore, both tools include an option to link performance to the allocation of funds. In practice however, at least until now, they seem to have had little or no effect on budgetary decisions. The results of the audit conducted by the ECA as well as the study by the OECD show that the performance framework of the ESI funds is an important innovation in terms of performance-based budgeting, but the details of its design impair the actual impact it could have on better result orientation of the spending programmes. According to the ECA, so far the Commission has not made use of the possibility to suspend payments when the ex-ante conditions have not been fulfilled by Member States.⁸⁶ Moreover, the role of the performance reserve in performance-based reallocation of funds is going to be very limited in the current programming period. The OECD experts consider the reserve 'modest in scope', and the consequences of not meeting the performance indicators 'not especially onerous'.⁸⁷

Another example of an attempt to introduce a link between performance and financial allocation can be found in the European Neighbourhood Policy. In line with an approach to partner countries developed after the Arab Spring in 2011, a special incentive-based system for allocating funds was introduced. This was called 'more for more', and implies that countries that go further and faster with reforms can count on greater support. There are, however, doubts about whether the principle has had any clear impact so far,

⁸³ Article 19, Annex XI of [Regulation \(EU\) No 1303/2013](#) of 17 December 2013. See also, A. Widuto, Evaluating cohesion policy for better efficiency, [Briefing](#), EPRS, European Parliament, October 2016.

⁸⁴ Article 20-22 of [Regulation \(EU\) No 1303/2013](#) of 17 December 2013.

⁸⁵ Article 23 of [Regulation \(EU\) No 1303/2013](#) of 17 December 2013. For more on the role of conditionalities in cohesion and linking the ESI funds with macroeconomic stability see: R. Huguenot-Noël, A. Hunter, F. Zuleeg, Can the EU structural funds reconcile growth, solidarity and stability objectives?. A study on the role of conditionalities in spurring structural reforms and reducing macroeconomic imbalances, EPC, Issue Paper No 83, October 2017.

⁸⁶ Ex-ante conditionalities and performance reserve in cohesion: innovative but not yet effective instruments, Special Report 15, European Court of Auditors, 2017.

⁸⁷ R. Downes, D. Moretti, S. Nicol, Budgeting and performance in the European Union, op. cit. p. 60.

and if any correlation exists between levels of democracy and increases in EU per capita assistance.⁸⁸

7.4. Challenges to performance budgeting implementation specific to the EU

When analysing the EU's progress in applying PB principles, one has to take into account the specificity and significant complexity of the EU itself and its budgetary system. The EU legislative process in the budgetary field is different from those applied in the Member States.⁸⁹ This has to be taken into account when comparing PB in the EU with experience at the level of states.

The performance of the EU can be looked at from different perspectives and within different time frames, for instance:

- the EU's performance in achieving goals of key strategic documents such as the Europe 2020 strategy (10-year strategy, not aligned with the EU budgetary cycle) or the Juncker Commission's 10 priorities (covers the period from 2015 to 2019);
- performance of EU programmes and policies in achieving the goals set in the relevant legislation, based on a seven-year MFF and annually agreed budgets, evaluated individually depending on programme-specific legislation;
- the European Commission's and its 'departments' performance as an institution over its five-year political term, evaluated annually in the discharge procedure.

Additional difficulty results from the fact that performance in each of the above-listed dimensions depends on the involvement of many different actors responsible for the implementation of the EU budget at all levels. This variety increases the probability that obstacles to implementation of PB will arise (see section 4.2.). Although the Commission is ultimately responsible for the implementation of the EU budget, most of the time the actors involved in spending the EU budget are numerous, and include the 28 EU Member States (and their national, regional and local authorities); countries outside the EU; international organisations; EU institutions and bodies (e.g. the European Investment Bank, the European Investment Fund); and organisations in which the EU participates (e.g. the European Bank for Reconstruction and Development). They are all involved in achieving objectives and targets, and have to ensure that every euro is spent in accordance with the rules, efficiently, and effectively. Therefore, the potential impact of external factors on results is significant.

Another important challenge in the implementation of PB in the EU budget is financial planning, which is based strongly on a relatively rigid multiannual financial framework and the cycle of annually agreed budgets.⁹⁰ In addition, about 80 % of the financial resources are pre-allocated to the EU Member States (mostly for cohesion policy and common agricultural policy spending). As a result, the room for any changes in the seven-year financial period is limited. Another, possible negative consequence of the pre-allocation to Member States is, as noted by Alfredo De Feo, the perception of high

⁸⁸ P. Perchoc, [The European Neighbourhood policy](#), EPRS, 2016, pp. 22-26.

⁸⁹ For some reflection on these differences in the context of performance budgeting please see: A. De Feo, A performance-based budget to improve effectiveness, in: Effectiveness and added value of the EU budget, A. De Feo, B. Laffan (eds), European University Institute, 2017.

⁹⁰ Some progress in this respect has been achieved with the introduction of the flexibility provisions and obligatory mid-term review/revision in the current MFF.

absorption as an objective in itself and that low-performance spending is better than no spending.⁹¹

Furthermore, the process of implementation of some EU policies, in particular those with the largest financial envelopes, such as cohesion and agricultural policy (especially the rural development pillar), extends over many years, often beyond the seven-year MFF. This implies a time lag in visible and quantifiable results of EU-funded actions. It is difficult to correlate the cycle of policy/programme evaluation with the multiannual and annual budgetary decision-making cycles. Therefore, drawing a link between performance and resource allocation is not a simple task.⁹²

The current 2014-2020 MFF is a good illustration of the issue. Whereas the implementation of many programmes financed from the ESI funds gained momentum only in 2017, i.e. the fourth year of the MFF, negotiations on the next, post-2020, MFF are starting in 2018. At that time, only partial and preliminary evaluations of the programmes will be available to be taken into account in the decision-making process about future financing.

That issue leads us to yet another challenge in the EU shift towards performance budgeting, namely the quality and usefulness of PI produced across different EU policies, spending programmes and reporting structures. Measurement of the quantitative and qualitative results of EU spending has developed significantly. In some areas, however, there is an overload of available indicators and evaluations, and questions arise about their value and utility.⁹³

An example of the challenge posed by the information overload is provided in the ECA's special report on the partnership agreements signed between the Commission and the Member States in the framework of ESI funds programming. It reveals that, on the one hand, thanks to the new performance framework in funds management, the planned spending is more focused on the objectives of the Europe 2020 strategy; on the other, thousands of – often incoherent – performance indicators have been created by Member States to monitor achievements. This may result in an additional administrative burden and in difficulties in presenting meaningful, aggregated and useful PI.⁹⁴ This issue also concerns the research and innovation programme, Horizon 2020.⁹⁵

The problem was also highlighted in the ECA's report on the EU budget for 2016. A detailed analysis of the EU performance framework leads to the conclusion that the system of reporting documents is incoherent and lacks cross-referencing, there are a large number of objectives and indicators, which are not necessarily taken into account in budgetary decision-making nor are they followed by consequences, reporting is excessively focused on achievements and insufficiently presents failures and challenges,

⁹¹ A. De Feo, A performance-based budget to improve effectiveness, op. cit.

⁹² For more about the ESI funds' evaluation framework and its limitations see: M. Sapala, How the EU budget is spent: [European Regional Development Fund](#), EPRS, October 2016.

⁹³ More than 700 indicators are included in the legal framework of the 2014-2020 MFF to monitor the performance of the programmes; [Annual report](#) on the implementation of the budget concerning the financial year 2016, European Court of Auditors, 28 September 2017.

⁹⁴ The Commission's negotiation of 2014-2020 Partnership Agreements and programmes in Cohesion: spending more targeted on Europe 2020 priorities, but increasingly complex arrangements to measure performance, European Court of Auditors, [Special Report 02/2017](#).

⁹⁵ Annual report on the implementation of the budget concerning the financial year 2015, European Court of Auditors, [OJ EU C 375](#), 13 October 2016.

and the quality of performance data is not assessed systematically. The ECA points out that one important reason for these shortcomings is an overly developed and multichannel performance reporting structure.⁹⁶

Similarly, the recent OECD study described the EU budget system as 'suffused' with PI and noted 'the super-abundance' of performance indicators. According to the paper, three out of five main challenges to effectively implementing PB in the EU concern information, i.e. unclear role of PI, information overload and lack of accurate/timely data.⁹⁷

The European Commission has already put some effort into reducing the number of performance indicators, and improving their quality and presentation. Supporting decision-making with meaningful PI, and improving the communication of results are among the six workstreams of the BFOR initiative (see Table 2); important documents which include performance data have been streamlined in the financial reporting package; the number of objectives and indicators used in the strategic plans for the Commission departments has been reduced (general objectives from 84 to 11, and impact indicators from 187 to 37).⁹⁸ Moreover, the changes proposed in the framework of the revision of the Financial Regulation also go in this direction.

Countries that have been applying PB for many years faced a similar issue and started to decrease the number of performance indicators and objectives. For example, in France between 2014 and 2015, the number of objectives decreased by 17 % and the number of indicators by 19 %.⁹⁹ In the Netherlands, a 50 % decrease in the number of performance indicators was observed following a reform in 2013.¹⁰⁰

Last but not least, there is also scope for improvement as far as the EU budget's responsiveness to PI is concerned (direct/formula PB). This could be enhanced by the spending review processes (see section 2), both at the level of individual policies and programmes as well as for the whole MFF. Although most of the EU spending programmes undergo some kind of a mid-term review (in 2017 and 2018), the results of this exercise are not necessarily followed by any budgetary consequences. Therefore, tools such as conditionalities, the performance framework and performance reserve could be further developed, and be introduced in EU policies other than cohesion.

More generally, as recommended by the OECD, the EU could develop the existing mid-term review/revision exercise of the MFF into a regular and institutionalised EU spending review process. This could help 'to underpin the expectation that the results of performance and evaluations will be used to reassess budgetary allocations'. At the same time, the spending review could be helpful in counteracting the rigidity of expenditure and give space for political reassessment in response to PI.¹⁰¹

⁹⁶ [Annual report](#) on the implementation of the budget concerning the financial year 2016, p. 66.

⁹⁷ The other two are lack of capacity/training and too bureaucratic procedures, R. Downes, D. Moretti, S. Nicol, *Budgeting and performance in the European Union*, op. cit. p. 10-11.

⁹⁸ The Commission's replies (p. 3.23.) in the Annual Report on the Implementation of the budget concerning the financial year 2016, Op. cit.

⁹⁹ R. Downes, 'Performance budgeting: Current issues and ambitions', presentation at the European Commission, Joint Research Centre, Ispra, 15 October 2015.

¹⁰⁰ M. de Jong, presentation, 'Reforming the Reform: Lessons from 15 years of PB in the Netherlands', OECD, Warsaw, 22 May 2015.

¹⁰¹ R. Downes, D. Moretti, S. Nicol, *Budgeting and performance in the European Union*, op. cit.

Good opportunities to introduce changes enhancing the performance orientation of the EU budgeting system appear in the coming two to three years, with important events for the financial architecture of the EU, i.e. the adoption of the revised financial regulation applicable to the EU budget and consequent changes in spending programmes, the decisions concerning the next MFF and a reformed own resources system, as well as the adoption of a new generation legislative framework for EU policies and programmes.

7.5. Role of the other EU institutions

7.5.1. European Parliament

As explained in section 5, parliaments can play a prominent role in the successful implementation of PB. In the case of the EU, the Parliament can and does play a stimulating role. However, it acts within the complex interinstitutional framework of decision-making in the budgetary field, set out in the Treaties and interinstitutional agreements. Due to the differentiated competences depending on the issue at stake (MFF, annual budget or revenue system),¹⁰² the European Parliament's engagement in the promotion of PB so far has been focused on the procedures leading to the adoption of the annual budget and the annual decision on budgetary discharge.

The Parliament is an active supporter of the PB concept and has been engaged in its development and implementation in the EU budget. Many changes and initiatives introduced in this respect were triggered by the European Parliament. It supports the Commission's efforts and the BFOR initiative. It was at the request of the Parliament that the Interinstitutional Working Group on Performance-Based Budgeting was established. One of the main issues raised in relation to reporting documents has been the presentation of the achievements of the Europe 2020 strategy, and how they are linked to the current Commission's 10 political priorities. The stronger focus on performance in the budgetary discharge procedure is also the result of the European Parliament's involvement.

Moreover, on different occasions the European Parliament has expressed dissatisfaction with the slow progress in implementing a PB approach in the EU budget, and called for more concrete improvements. A number of resolutions adopted in relation to the annual budgets and the annual discharge procedures underline how much remains to be done to achieve an EU budget based on performance, especially in terms of the collection and presentation of PI.¹⁰³ In the resolution of 24 February 2014 on the evaluation of the Union's finances, the Parliament pointed out that, despite the Commission's effort to enhance the performance approach, activity-based budgeting is still the fundamental principle in drafting the EU' budget. Furthermore, the issue was emphasised in the context of the debate on the mid-term review/revision of the 2014-2020 MFF, including the revision of the Financial Regulation.

¹⁰² For a description of the competences of the European Parliament and the Council in the budgetary cycle, see: A. D'Alfonso, A. Delivorias, M. Sapala, A. Stuchlik, Economic and budgetary outlook for the EU 2017, op. cit., pp. 21-22.

¹⁰³ For an overview of the European Parliament resolutions issued adopted in the years 2012-2015 and referring to the topic see: [Performance-based budgeting](#), Policy Department for Budgetary Affairs, European Parliament, 2015. For recent examples see: [Resolution of the European Parliament of 28 April 2016](#) on discharge in respect of the implementation of the general budget of the European Union for the financial year 2014; [Resolution of the European Parliament of 26 October 2016](#) on the Council position on the draft general budget of the European Union for the financial year 2017 (especially points 86-88).

It is worth noting that, notwithstanding the Parliament's dedication to a PB-inspired reform of the EU budget, it is aware of the limitations of the method, and stresses that 'better spending alone will not solve the problem of the lack of financial means to address pressing and growing needs'.¹⁰⁴

7.5.2. Council

The Council appears to be supportive of – even impatient for – progress in performance budgeting. It also favours the Commission's BFOR initiative, and its representatives are part of the Interinstitutional Working Group on Performance-Based Budgeting.¹⁰⁵ The Council has expressed its views during the annual discharge procedures and, most recently, in the budget guidelines for 2018.

Since 2010, when the ECA began to include in its annual budgetary reports a chapter on the results of the EU budget, the Council has also referred to it in detail in its recommendations for discharge. In the document concerning discharge for the 2015 financial year, the Council considers the attainment of results and a focus on performance to be of 'paramount importance'. It calls for more progress in this regard and for establishing a proper performance framework within the EU (EU institutions and Member States). Furthermore, the Council advocates strengthening the link between PI and the decision-making process. It points out that, 'the collection of indicators should feed into an analytical process that leads to a better oriented policy formulation. Any performance-based framework not linked to a policy action will only lead to additional layers of bureaucracy.' In addition, the Council calls on the Commission to take into account the ECA's observations on the topic when preparing the next MFF.¹⁰⁶

In its presentations of the priorities for both the 2018 and 2019 budgets, the Council emphasised the need to include high-quality information on spending proposals in the Commission's programme statements. According to the Council, these documents should focus on PI and ways to improve it, including the results achieved; justifying the level of appropriations requested; and the added value of EU activities. Moreover, the Council expects there to be a clear link between this analysis and the relevant budget lines in order to support the budgetary decision-making process.¹⁰⁷

7.5.3. European Court of Auditors

Audit institutions play an integral role in supporting legislatures in performance budgeting. They provide an independent verification of PI presented by a government, complete this information and increase legitimacy and trust. Sometimes they are an important source of PI.¹⁰⁸ Therefore, as an independent auditor of the EU budget, the ECA has a special role to play in the process of strengthening performance culture.

¹⁰⁴ European Parliament resolution of 6 July 2016 on the preparation of the post-electoral revision of the MFF 2014-2020 (2015/2353(INI)).

¹⁰⁵ Council of the EU, 'I' Item Note on Commission's Performance-Based Budgeting initiative: a pragmatic approach, [5846/16](#), Brussels, 8 February 2016.

¹⁰⁶ Council of the EU, [5876/17](#), ADD 1, Brussels, 7 February 2017. This point of view was emphasised by the Netherlands (2015 and 2013), Sweden (2013, 2014, 2015) and the United Kingdom (2013, 2014) in their joint statements added to the recommendations.

¹⁰⁷ Council of the EU, Outcome of proceedings, Budget guidelines for 2018, [6522/17](#), Brussels, 21 February 2017; Council of the EU, Outcome of proceedings, Budget guidelines for 2019, [6315/18](#), Brussels, 20 February 2018.

¹⁰⁸ T. Shaw, Performance budgeting practices and procedures, op. cit., p. 4.

Alongside the European Parliament, the Court has been a very constructive and active supporter of reform. The results of the Court's audits are an essential source of PI and a basis for granting annual discharge for the budget. Similarly to the European Parliament, the Court has been critical of the slow progress towards performance-based budgeting. For example, in the landscape review of the risks to the financial management of the EU budget published in 2014, the ECA wrote that the 2014-2020 MFF 'remains fundamentally focused on expenditure rather than on the results achieved'. Furthermore, it pointed out that the quality of information necessary for proper performance management was unsatisfactory. In order to improve performance management in the EU budget, the Court recommended establishing 'a robust performance management and reporting system, with clearly defined performance indicators that are universally applied by the Commission, Member States, regions, and other actors'. In addition, the ECA was critical about the monitoring and reporting of the Europe 2020 strategy.¹⁰⁹ Finally, in the debate on the current revision of the Financial Regulation, the Court analysed the performance aspect of the Commission's proposal and recommended that payments based on conditions fulfilled or results achieved become the preferred option across the EU budget.¹¹⁰

Since 2010, the Court's annual report has included a chapter with observations on the results of the EU budget. The chapter summarises the conclusions of the ECA special reports and the performance audits,¹¹¹ and assesses different systems put in place by the Commission to improve the performance of EU spending and reporting it. Furthermore, recently, this part of the report has been focused on a particular aspect of EU spending, such as the Europe 2020 strategy in the report for 2014, the Horizon 2020 programme for research and innovation in the report for 2015 and the performance reporting framework applied by the Commission in the report for 2016. An important source of added value of the Court's considerations is that the reports provide definitions and clarification of certain concepts which are often confused in the debates on PB, and include recommendations for improvement of performance-related aspects.¹¹²

7.5.4. Committee of the Regions and the European Economic and Social Committee

Both Committees consider performance budgeting a valuable approach to EU spending and support more extensive use of the method in the EU budget. Nevertheless, they express some reservations about particular aspects of the approach. In particular, they seem to warn against applying a strict interpretation of PB and establishing a direct link between results and financial consequences.

The Committee of the Regions considers that, while assessing the results, account should be taken of the territorial differences and obstacles which can impede growth in certain regions, and their effect on spending should be analysed. Moreover, the Committee calls for a differentiated approach to the use of qualitative and quantitative results indicators,

¹⁰⁹ [Making the best use of EU money: a landscape review of the risks to the financial management of the EU budget](#), European Court of Auditors, 2014, p. 33. See: Annual report on the implementation of the budget concerning the financial year 2014, European Court of Auditors, 10 November 2015.

¹¹⁰ European Court of Auditors, [Opinion No 1/2017](#) concerning the proposal for a regulation on financial rules applicable to the general budget of the Union.

¹¹¹ Performance audits carried out by the ECA address the quality of EU revenue or spending and whether the principles of sound financial management (economy, efficiency, effectiveness) have been applied. See: [Audit Methodology](#), European Court of Auditors.

¹¹² European Court of Auditors, [Annual report](#) on the implementation of the budget concerning the financial year 2016, 28 September 2017.

and favours those that appropriately target long-term benefits. In the debate preceding the recent reform of cohesion policy, the Committee was against the idea of a performance reserve in the ESI funds. Instead, it proposed the establishment of a flexibility reserve financed from decommitted resources.¹¹³

The European Economic and Social Committee endorses the shift towards performance-based EU budgeting, but underlines that creating a performance culture will be a long and challenging process. It sees a prerequisite for boosting the budget's performance in 'clearly defined priority objectives for the benefit of EU citizens, corresponding aggregated indicators and a robust reporting system'.¹¹⁴ Like the Committee of the Regions, the European Economic and Social Committee warns that PB should not be used as an argument for cutting spending, 'because the benefits are visible only in the long term or because they are more difficult to quantify'.¹¹⁵

8. Looking ahead

The analysis shows that performance budgeting has a long history and a complex nature. Although the method is not easy to implement, the benefits it may bring to public budgeting have attracted many countries around the world, including most EU Member States. Based on their rich experience and on previously developed knowledge of the concept, the European Union has also consolidated its efforts to make the EU financial system more performance-oriented.

The commitment of the European Commission to the idea, as well as broad support expressed by the EU budgetary authority and discharge authorities, give grounds to believe that these efforts will continue. Although much has been done, and some aspects of the functioning of the EU performance budgeting model are already advanced, there is much room for improvement and many challenges remain. Such progress could be sought in the quality, quantity and usefulness of performance indicators that are required under different EU programmes, simplification of spending rules, more systematic use of PI in decision making, and, finally, in linking results achieved with decisions on allocation of funds.

Deciding on how tightly decisions on resources should mesh with evidence of results remains a crucial and the most challenging ingredient of successful PB. It should be underlined, however, that one of advantages of performance-based budgeting is its flexibility. The most advanced model – direct/formula PB – can be applied step-by-step and in selected sectors or programmes. Automatic linking of PI metrics to budgetary decisions should not be discarded if one takes PB seriously, but it should be introduced with caution in order to avoid negative effects.

It can be expected that some of these issues will be tackled in the coming years, and that there will be some progress in developing the EU approach to performance budgeting. In the management plan for 2018 the Commission announced the continuation of the

¹¹³ Opinion. Recommendations for better spending, Committee of the Regions, [COTER-V-040](#), 103rd plenary session, 7-9 October 2013.

¹¹⁴ European Economic and Social Committee, A performance-based EU budget and its focus on real results: The key to sound financial management, [Opinion ECO/399](#); [Appendix](#) to the minutes of the 158th meeting on 29 June 2016.

¹¹⁵ The European Economic and Social Committee, Opinion, Mid-term review of the Multiannual Financial Framework 2014-2020, [ECO/417](#).

implementation of the "BFOR initiative, including in the area of communication of results, streamlining of indicators and capacity-building.¹¹⁶ An exceptional opportunity to enhance performance budgeting appears with the revision of the Financial Regulation applicable to the EU budget, the negotiations over the post-2020 MFF and the reform of the own resources system.

These decisions will be crucial for the financial architecture of the EU and will trigger changes in legal frameworks of many EU spending policies and programmes. It is yet to be seen if more conditionality on EU spending will feature in these frameworks, including for example by further linking the EU budget to structural reforms undertaken by the Member States or to compliance with EU values such as the rule of law.

The changes, ensured by the Commission, will be guided by the BFOR initiative.¹¹⁷ Performance budgeting should thus be one of the key concepts feeding into the EU budgetary debates, and the coming years may have particular significance for the EU's progress in this regard.

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¹¹⁶ Management Plan 2018, DG Budget, [Ref. Ares\(2017\)6324786](#), 21 December 2017.

¹¹⁷ Commission Staff Working Document [SWD\(2016\) 299 final](#), Brussels, 14 September 2016.

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In 2015, the European Commission launched an initiative entitled 'The EU budget focused on results'. It is aimed at changing spending culture and making results a horizontal priority for the EU budget. The initiative is based on a popular contemporary budgeting method known as 'performance budgeting'.

This paper presents the method and its application to the EU budget. It explains why, although not easy to implement, performance budgeting is seen as an attractive way to increase value for money and enhance the transparency and democratic accountability of public finances. The paper also analyses how the performance budgeting approach has evolved within the EU budgetary system and what challenges and obstacles to its implementation remain.

The commitment of the European Commission to the principles of performance budgeting, as well as the broad support for the idea expressed by the European Parliament and the Council, give grounds to believe that these efforts will continue in the post-2020 Multiannual Financial Framework.

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