

Alexander Muha, Irina Migutskaya

Evaluation of budget system modernization options in Belarus at modern stage

Policy paper

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INTRODUCTION

At the modern stage there is an inefficient budgeting funds use in Belarus while generally having a relatively low quality of government services. Whereby the transactions of the public administration connected with the budget flow of funds are non-transparent which contributes to maintaining of a high corruption level in the government sector. In its turn, the excess number of the employed in the public sector is at least 20-25%.

Additionally, over the last years a differential characteristic of Belarusian budgeting system has been a significant concealed deficit financed by the means of quasi-fiscal operations performed by National Bank and state banks, that is, basically, by the means of money emission. As a result, not taking into account the Central Bank financial support, the consolidated budget of the state administration has been steadily deficient in 2008-2011, which was one of the reasons for the current economic crisis in the country.

Obviously, when it comes to the improvement of economic and social sustainable development in Belarus, it seems viable to elaborate a budget system modernization options aimed at optimization of the government expenditures structure (including certain budget items reduction). Bringing the volume and structure of the government expenses into line with the possibilities and needs of the national economy, in midterm will let to reduce the financial and economic risks connected among others with the necessity to carry out the payments of the external public debt.

The objective of this work is to assess specific options of the budget system modernization in Belarus at the modern stage. The research paper is structurally composed of the introduction, three chapters and conclusion.

In the first Chapter the issues and mechanisms of the transition to Performance Based Budgeting (PBB) will be looked upon. This type of budgeting is aimed at increasing the returns of the governmental expenditures. In the second Chapter the efficiency of the Program Budgeting in Belarus will be analyzed. In the third Chapter the possibilities of Deficit-Free Budgeting system will be assessed. In the fourth Chapter Priority Based Budgeting will be looked at. In the final part, main research conclusions are provided.

It is important to note that in 2009 the Belarusian Ministry of Finance started the transition to the Program Budgeting as a practical scheme of the budget politics realization in the country. At the same time, up to this moment the major part of the issues remain unresolved. There is no operations transparency in the frames of governmental programs financing; the access to the detailed statistical and analytical information about the factual budget performance is not available; there are no specific criteria and measurements to assess the efficiency of the governmental programs, neither there is a responsibility and accountability of the budget spending units etc.

Finally, the content, structure and sources of the governmental program financing do not comply with the international standards. As a result, today the activity of the state administration is neither connected with specific work results of this or that state agency nor the priorities of the government. All this, eventually, conditions the relevance and practical implications of the presented research work.

In our point of view, in the course of the nearest three years Belarus needs to have a comprehensive transition to the Performance Based Budgeting so that at least 90% of the state expenditures are financed in the frames of corresponding governmental program with appointing the responsibility for the work results to specific budget spending units. In this case, there have to be worked out the criteria and indexes to estimate the government programs efficiency as well as a penalty and bonus scheme for governmental workers.

In writing this research paper, the authors used national and international scientific publications, periodicals, normative and reference literature as well as statistical and analytical information of the Ministry of Finance and the National Bank of Belarus.



1. Transition to Performance Based Budgeting

In modern international practice there are several basic approaches to developing and implementing governmental budgets: Line Item Budgeting; Program Budgeting; Performance Based Budgeting; Deficit-free Budgeting; Priority Based Budgeting and other.

Line Item Budgeting is a traditional and the simplest budgeting option when the budget expenditures are tied up with the inflowing income. In this kind of budgeting, the accounting documents basically do not content the information about the aims that are to be reached in the course of various governmental expenditures financing.

Program Budgeting provides an interconnection between the financing of the governmental expenditures and the results from governmental programs implementation that are worked out according to the strategic objectives and priorities of the state. The main objective of the Program Budgeting is to increase the social and economic efficiency of governmental expenditures by concentrating certain expenditure items in the frames of specific governmental programs [1, 9].

Performance Based Budgeting is also aimed at improving the cost-effectiveness by reallocating resources to the projects (programs) that have the greatest returns in terms of social and economic priorities of the society. If the effectiveness of a certain program is reduced, the amount of financing may be reduced as well. The list and the content of the governmental programs are also regularly reviewed in order to maximize the final result.

Deficit-free Budgeting is an approach that is based on the idea of equality between the expenditure and revenue parts of the budget. In this case the budget that is to be enacted in the next coming year is, as a rule, largely based on the budget data from the previous year.

In the case of Priority Based Budgeting, an amount of governmental expenditure is determined from the very beginning. This amount is then distributed among the individual state programs in order of priority (public safety, healthcare, education). The effectiveness is evaluated by the results of individual programs. At the same time, the administration of the operations carried out in the frames of Priority Based Budgeting is quite challenging.

Priority Based Budgeting (PBB) was first introduced in New Zealand, South Korea and Great Britain in the 1980s. Currently, Priority Based Budgeting is usually used in economic systems with limited resources or in low-income countries. There are different PBB models that include specific mechanisms that colligate the amount of the governmental expenditure funding and its efficiency.

It should be noted that in the country context the abovementioned budgeting system has also its differential peculiarities. However, all in all the transition to Performance Based Budgeting implies for a shift in emphasis to the direction of performance based on the results for the state administration. This is done on the ground of the fiscal relations reform, optimizing the networking of budget organizations and generally improving the efficiency of budget expenditures.

In other words, in this case the budget resources are distributed among budget spending units and budget programs depending on their goals and according to the medium-term priorities of social and economic politics in terms of budget resources projected for long-term prospects.

Additionally, this approach implies efficiency monitoring of the budgetary funds expenditures by means of performance evaluation of quantitative and qualitative state programs indexes. The orientation on the final result means the possibility of reduction or complete cancellation of the state programs financing in case of their ineffective implementation. As a result, between ministries and departments emerge a sound competition for budget resources. This contributes to the quality improving of public services and achieving the set objectives.

On the one hand, in the frames of Performance Based Budgeting, the budget spending units are provided with certain financial autonomy and flexibility, that is, they have a possibility to redistribute available resources among different areas. For example, to finance a part of the ongoing expenses (including salaries) by means of funds allocated



to finance capital expenses, etc.

On the other hand, for the state programs authorities (e.g. ministers) there are limits of responsibility for the budget administration and low-cost results achievement through increased information transparency and accountability. In the latter case, budget spending units have to publish regularly research reports about their activities so that they are available for the media and general public.

However, it is important to keep in mind that the resistance or skepticism of government officials regarding the implementation of the Performance Based Budgeting can reduce to nothing all the attempts to modernize the budget system. This makes it necessary to develop an effective incentives and rewards system for the government workers based on the result of the work performed (for example, it can be annual bonuses, additional awards, etc.).

It is essential in transition to the Performance Based Budgeting to develop clear criteria and indicators of effective performance indexes for government programs realization as well as the activities of certain agencies. Moreover, these indicators should be simple, easy to understand and objectively reflect the overall social significance of the funded programs. For example, for the Ministry of Health, one of such indicators can be an increase in life expectancy of the population to average European indicators.

One of the key elements of the BBR system is developing of the program budgeting. In this case, the budget expenses should be distributed among certain governmental programs which are worked out by agencies and ministries. In other words, the program classification should cover almost all budget expenditures. At the same time, the program classification itself should not be unnecessarily detailed and complicated.

Additionally, it is crucial for the government to be able to reduce the employment of civil servants in low-priority or inefficient programs. At the same time, the released labor resources can be directed to the priority programs or economy's private sector. This will generally enhance the efficiency and competitiveness of the national economy.

Finally, it is necessary to realize that if the leadership of the government bodies is corrupt and not interested in improving the budget processes, then an attempt to introduce the Performance Based Budgeting will fail.

This is why it is a crucial prerequisite in terms of the BBR transition as a practical implementation scheme of budget policy to reduce the level of corruption in the governmental sector, unconditional support of budget reforms on the part of the top political leadership as well as ensuring information transparency and access to statistical data on the actual governmental programs performance for the media and the general public.

Talking about the time frames for the Program Budgeting transition, the most illustrative example in this case is Slovenia [8], where in just one year after the pilot work, the Minister of Finance decided to implement a program structure for the operations of public authorities, avoiding in this way a number of technical issues typical for a longer transition period.



2 Performance Analysis of Program Budgeting in Belarus

In 2009 The Belarusian Ministry of Finance started the introduction of the Program Budgeting as a practical scheme of the budget policy implementation in the country. This entailed an adoption of the necessary regulatory legal acts.

Thus, the Belarusian government ratified the Regulation on the formation, financing and control over the implementation of national, regional and sectorial programs (resolution of the Council of Ministers № 404 from 31 March, 2009) [3].

The document states that the implementation period of a certain program, as a rule, should correlate with the scheduled program of the country's social and economic development for five years.

The main stages of the program development include:

1) Project development of the program by the concept author, which should include:

- The purpose, objectives, indicators and timelines for the program implementation;
- Verification that the problem to be solved by the program is within the priority areas of Belarusian social and economic development in Belarus;
- Possible solutions to the problems, evaluation of the benefits and risks;
- Alternative suggestions on the amount and sources of the program financing, performance evaluation of the suggested options;
- Conclusions on the feasibility of the program issued by the Ministry of Economic Affairs, Ministry of Finance, Ministry of Natural Resources and Environmental Protection and the State Committee on Science and Technology.

2) Making a decision on the program project development. This decision is made taking into account the review results of the project concepts by

- The presidium of the Belarusian government – in relation to the governmental programs;
- The collegiate organ of public administration body and the board of another state organization subordinate to the government - in relation to sectoral programs;
- Local executive and administrative authorities - in relation to regional programs.

3) Development and reconciliation of the program's project. The project should contain the following sections:

- Feasibility study;
- Argumentation for using imported goods;
- Scientific support for the program (included in the program if necessary);
- The purpose and objectives of the program with indicators presented in actual or value scales;
- The expected outcomes from the implemented program, including the efficiency assessment of the used funds provided to fulfill the program. The assessment of efficiency is defined during the years the program is being



implemented and if it is necessary after the program implementation is finished.

- The resources provision and the program's events plan;
- The list of capital investment projects.

4) Preparation of the necessary conclusions for the program's project and approval of the program.

The sources of state programs financing can be the funds of the republican and local budgets; state extrabudgetary funds; private funds of the program executives; the funds provided by the sponsorship and charity; borrowed funds (including bank loans) and other sources.

At the present moment, The Ministry of Economic Affairs with the Ministry of Finance creates a list of state programs that are going to be funded in the next financial year. The Ministry submits it to the government along with budget projects and the forecast of the social and economic development of Belarus.

In 2011, 66 state programs and 83 subprograms are financed by the funds of the republican budget in Belarus (see Appendix 1). Eleven of these programs are special programs and their content is unknown, since they are implemented by the security agencies (Committee for State Security, Ministry of Defense, and the State Border Committee).

In 2011 it is expected that the total expenditures of the national budget for state programs financing will be at least 9.744 trillion rubles [2].

In 2011 the greatest amount of the funding is concentrated in the following state programs: the program of the agricultural economy improvement and rural areas development for 2011-2015 - 3.945 trillion rubles (or 40.5% of the total state budget funding), the program «Roads of Belarus» for 2006-2015 - 1.246 trillion rubles (12.8%), the program of overcoming the consequences of the Chernobyl disaster for 2011-2015 - 1.133 trillion rubles (11.6%), the program of Belarusian innovation development for 2011-2015 - 1.102 trillion rubles (11.3%).

In 2011 the amount of special programs funding is 389 billion rubles (4%).

In 2010, according to the Ministry of Finance data, the actual state programs funding in the frames of the consolidated budget (i.e. including local budgets) increased by 15.4% to 18.7 trillion rubles in comparison with 2009. Consequently, the share of program expenditures in the total government expenditure structure increased from 25.4% in 2009 to 35.4% in 2010.

Thus, the consolidated budget is not entirely program budget in Belarus. Moreover, the provided figures are conditional, since the content, structure, classification and funding sources of Belarusian government programs do not meet international standards.

What is more, at present the activity of the governmental authorities is not linked to the specific work results of a certain agency. As a result, up to this moment the major part of practical issues remain unresolved – the lack of operations transparency in terms of state programs financing; access to statistical and analytical information is closed; there is no specific criteria and indexes for assessing the effectiveness of the governmental programs; there is no responsibility and accountability for the budgetary spending units etc.

It should be noted that, violating the principles of program budgeting, the Belarusian state programs are not practically related to the available budgetary resources. As a result, many programs, among other things are financed by quasi-fiscal activities financed by the National Bank and state-owned banks (most of all, Belarusbank and Belagroprombank) that is, by money emission.

Thus the National Bank's amount of funds in the banks' liability structures increased at once to 34.110 trillion rubles (or in 21.1 times) in January 2008 - August 2011 and then to a record figure of 35.803 trillion rubles in September 1, 2011 [6].

In addition, the central bank directly funded local budgets spending: the local authorities' security papers in the portfolio of the National Bank reached 1.216 trillion rubles in September 1, 2011 (in January 1, 2008 municipal security papers in the portfolio of the National Bank were not present).

Whereby, in January 2008 - August 2011 the National Bank increased the amount of shares and other capital



subscription of companies and organizations to 9.509 trillion rubles (in 7.8 times) to a record of 10.904 trillion rubles in September 1, 2011.

Thus the extent of the National Bank's participation in the national economy grew during the analyzed period by least 44.835 trillion rubles, which contradicts the best practices of central banks around the world. According to our estimation, about 37.5 trillion rubles from the abovementioned figure are accounted for financing governmental programs.

However, it is important to realize that this model of state programs financing leads to distortions in the national economy since the ones that get the financial support in this case are not the most efficient companies and organizations the activity of which is not directly linked to specific results. In this case the money emission exacerbates inflation and devaluation risks. It turns out that all society members have to pay off for the inefficiency of certain budget spending units-

In the IMF published report № 11/99 «Republic of Belarus: Ex Post Evaluation of Exceptional Access Under the 2009 Stand-By Arrangement» [7] it is noted that in the first Belarusian stand by program, unfortunately, it was impossible to successfully restrict crediting in the frames of the state programs which, in fact, was a quasi-budget governmental expenditures kind of financing.

According to the IMF experts, crediting in the frames of the government programs helped to maintain the demand in less productive sectors of national economy, leading eventually to an increase of external imbalances. At the same time, IMF experts assume that it is necessary to consider the possibility of the net lending inclusion of government programs in the budget accounts above the line. That is, if the government considers it necessary to provide cheap loans to selected sectors and companies, this should be fully reflected in the state budget and the outcomes of its implementation.

On the whole, bank crediting in the frames of the state programs plays a key role in the economy of Belarus. Programs are typically implemented basing on the presidential decrees and government resolutions that contain recommendations on the loans granting to certain projects, industries or enterprises. Loan debtors pay a lower interest rate and the banks are compensated for it through budgetary subsidies. What is more, many of the granted on the recommendation loans are accompanied by guarantees issued by the central government and local authorities.

The main sources of the loans funding of the governmental programs are state deposits and the National Bank financing allowed on favorable terms (that is, low interest rates and long term). The bulk of these loans are directed to the agricultural sector and construction (mainly residential).

It should be noted as a positive aspect that since June 1, 2011 the government of Belarus has stopped the emission crediting of the economy in the frames of EurAsEC Anti-crisis Fund agreements. New crediting of the state programs is made within the repaid amounts of the previously granted loans.

However, in our opinion, the state banks should return to the central bank balance sheet the repaid amount of the previously issued loans within the state programs. This will allow reducing the number of new favorable-terms credits and thus increasing the probability of the second IMF standby program in Belarus.

Along with the reduction of state programs financing, it seems appropriate to optimize the public spending policy through the reallocation of the budgetary resources in favor of more efficient programs. This would help to achieve more significant results with the same amount of funds.

For audit and optimization purposes of the existing state programs, the government of Belarus has approved a regulation about the expert council on the state programs projects (Council of Ministers enactment № 660 of May 24, 2011) [4].

The main objectives of the expert council:

1) Examination of programs' projects with the review of how much the proposed measures are comprehensive and systematic, as well as how much they address the major social and economic problems, if the resources and activities are sufficient to achieve the program goals. This also includes a colligation of the planned activities as far as the timing, performers, implementation mechanisms, material, financial, labor and other resources;

2) Issuing to the customers – coordinators of the program the conclusions of the expert council that are based on the expertise results and contain the expert advice on the projects of these programs including:



- An unambiguous decision on whether the program is viable to be submitted to the government consideration or it is to be modified and be re-submitted to the expert council again;
- An assessment of the quality and compliance of the project with the priorities of social and economic development and national interests of Belarus.

The expert council is headed by First Vice Premier Vladimir Semashko. Representatives of the public authorities, state universities, research institutes and former officials are quite well- represented in the expert council. At the same time, the board is practically not represented by independent experts and private business representatives. This may have a negative impact on the examination quality of state programs. Therefore, it seems to be advisable while creating the expert council to increase the representation of the expert community and private sector.

In our opinion, in 2012-2014 Belarus should make a full transition to Performance Based Budgeting so that at least 90% of the government spending is financed by the relevant state programs. This should be done establishing accountability for specific departments and ministries for the work results. Additionally, there should be developed criteria and indicators for assessing the government programs efficiency, as well as a system of incentives and penalties for the budgetary funds spending units.



3. Possibilities of Deficit-Free Budgeting

Deficit-free Budgeting system implies direct colligation of the government expenditures financing with the volume of incoming revenues. An advantage of this budgeting form is an efficient resources allocation system since the budgetary funds spending units are constantly focused on reducing the costs to meet the deficit-free criterion. Accordingly, Deficit-free Budgeting helps to avoid the growth of budget expenditures that are not secured by an adequate increase of budget revenues.

In addition, deficit-free budget means that the budget spending units shall be granted autonomy and initiative in the decision-making process. At the same time, a system of responsibility for the work results is introduced for agencies and departments.

Deficit-free budgeting is the best option for countries with limited resources and/or a high level of the total external debt (governments, enterprises, banks).

Unfortunately, over the recent years the distinguishing feature of the Belarusian budget system has been a significant hidden deficit financed by the quasi-fiscal operations of the National Bank and the state banks. Without taking into the account the financial support from the central bank, the consolidated budget of public administration bodies was steadily deficit in 2008-2011.

Thus, in 2008 according to the Ministry of Finance, the consolidated budget surplus amounted to +1.852 trillion rubles. In 2009 a deficit of minus 0.958 trillion rubles was recorded, and in 2010 - minus 4.226 trillion rubles. In January and August 2011, the consolidated budget had a surplus of 3.349 trillion rubles.

As a result, in January 2008 - August 2011 the joint balance of the Belarusian consolidated budget was positive amounting to +17 billion rubles or symbolic +0.03% to the GDP.

At the same time, considering that during the analyzed period, the financing of the national economy by the central bank (funds in banks' liabilities, securities of the local state administration bodies, shares and other capital subscription) increased to 44.835 trillion rubles at once then, in fact, the adjusted amount of the consolidated budget deficit grows to the record minus 44.818 trillion rubles or minus 7.7% to the GDP.

These figures indicate that over the recent years, Belarus, figuratively speaking, «has lived beyond its means.» The presence of such a significant budget deficit contributed among other things to maintaining high demand for imported goods and services since many of the state programs are import or energy intensive. In its turn, the negative foreign trade balance was financed by taking new foreign loans.

That is said, a large-scale money emission has aggravated the inflation and devaluation risks in the economy. Thus in comparison with the beginning of this year, the exchange rate of the Belarusian ruble against the U.S. dollar fell at once by 2.9 times. In its turn, since the beginning of 2011 till October 11, the inflation at the consumer market has already reached 80.4%. It must be emphasized that in high inflation conditions and devaluation, the quality of the budget planning has notably deteriorated, which makes the transition to Performance Based Budgeting more difficult.

According to the Belarusian Ministry of Finance, in 2010 the financing sources of the consolidated budget deficit are as follows (see Table 1)



Table 1

Financing sources of the consolidated budget deficit in Belarus in 2010, billion rubles

Articles	January, February 2010
1. Total financing	4208,0
2. Internal financing	-427,4
Resources received from the Belarusian National Bank	-95,0
Resources received from commercial banks and other private and legal persons	2445,2
Resources received from other sectors of public administration	0,0
Sources from the operations with the state property	-949,9
from it:	
revenues from the consignment of the state-owned properties (including shares)	2179,0
expansion in the government ratio in the collective investment funds (including purchasing shares)	-3128,9
Change in the surplus of the budgetary funds	-584,1
Other sources	-2076,8
Operations with the funds in foreign currency	833,3
3. External financing	4635,4
Credits of international financial organizations	1983,9
Credits from the governments of foreign states	-1030,0
State securities that form the external national debt	3674,3
Other sources of external financing	7,2

Source: Belarusian National Bank [5]

An analysis of the table above proves that the main sources of the deficit financing of the consolidated budget are the banks' funds, sales proceeds from the state property selling and external loans of the Belarusian government (revenues of the final tranche IMF loan, the issue of eurobonds, etc.). Thus the imbalance in public finance sector in Belarus demanded a significant amount of external loans.

Going to the deficit-free (or surplus) type of budgeting is relevant for Belarus in connection with the reaching the top marginal level of the total external debt. Having such a significant external debt it becomes impossible to continue funding the government expenditures by attracting new foreign loans. Thus according to the National Bank, the total external debt of Belarus (government, enterprises, banks) increased to \$ 4.7 billion (16.5%) in the first half of 2011 and to a record of \$ 33.101 billion by July 1, 2011 which represents 56.3% to the GDP (see Figure 1).

Figure 1. The dynamics of the external joint debt in Belarus in 2000-2011, million dollars

(Fact sheet and polynomial trend)



However, in reality the latter figure is much worse since the National Bank counted the dollar equivalent of GDP according to the official undervalued rate. If to convert the dollar equivalent of GDP at the market rate then the ratio of the gross external debt to GDP exceeds 100%, which represents a serious threat to the economic security of the country.

In general, as a result of the Belarusian ruble devaluation, the external creditability indicators of the government and enterprises have dramatically deteriorated. This limits the possibility of Belarusian residents to attract new external financing (including for the refinancing purposes of the previous foreign credits and loans). In fact, the access to external borrowings on the market basis (at market rates) is not available for the Belarusian borrowers now.

By the way, in early October this year, the returns on the two issues of the sovereign Eurobonds reached its record high indexes (see Figure 2), which is very concerning. According to Bloomberg, in October 18, 2011 the first issue of Eurobonds of Belarus with the redemption August 3, 2015 were traded with the rate of return 16.826% (purchase) and 16.152% (sale), the second issue with the redemption January 26, 2018 - 14.814% (purchase) and 14.230% (sale).

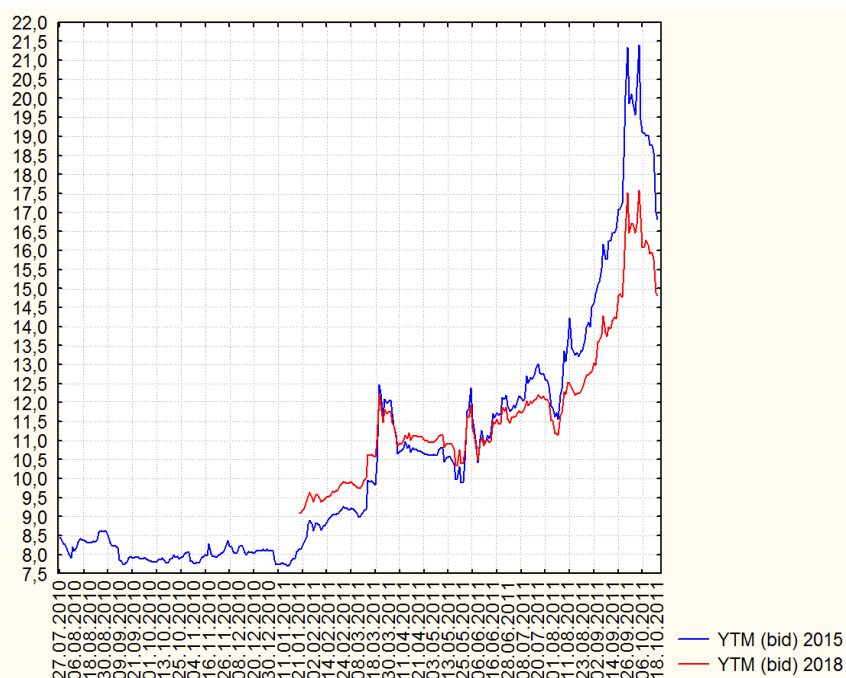


Figure 2 The revenue rate dynamics of the two Eurobond issues in Belarus in 2010-2011, %

Thus the current revenue level for the Belarusian securities is very high, making it virtually impossible to float new Eurobond issues by the residents of Belarus (including the central government).

As a result, for the government of Belarus it becomes crucial in the current situation to reduce and optimize the state expenditures and to stop using emission sources to finance the national economy.

In 2011, the surplus of the consolidated budget is achieved by cutting the funding of state programs by 50% (first of all, this means reducing the capital expenditures). In absolute terms, in 2011 the concessional financing of the state programs will decrease by about 14.5 trillion rubles (compared to the original scheme).

On the whole, the transition to a deficit-free or surplus budget will allow supporting the external governmental debt issues at a manageable level. It will also allow passing the peak values of the payments on the Belarusian external public debt as normal in the years ahead.

In our opinion, it will be advantageous for Belarus in this current situation to combine the Performance-Based Budgeting with the Deficit-free Budgeting. In other words, in this case it is about imposing the surplus conditions of the consolidated budget on the PBB system, which will not only increase the returns of the budget funds, but it will also reduce the related economic and financial risks in the medium term.

4. Priority-Based Budgeting

The Priority Based Budgeting is employed in case of limited resources or deteriorating economic situation in the country. In this approach, a certain amount of budgetary resources is fixed initially which is then distributed among the individual programs in order of priority (public safety, medical care, education). The social and economic efficiency is evaluated by the performance results of individual programs.

In this approach, a crucial element is the feedback from the community since in order to determine the social and economic priorities of the state it is necessary to have an open meaningful discussion with the representatives from the public sector, academic and expert communities, media, foreign experts, etc.

Ideally, anyone who wants should be able to put forward a suggestion to the Ministry of Finance or to the local government authorities. The suggestions can be related to the implementation of governmental programs and budget expenditures financing.

To do this, the Ministry of Finance official website should provide a convenient feedback form through which interested individual may submit their suggestions; this should include the possibility to do it anonymously. Currently, for the Ministry of Finance to consider appeals, they are to have the last, the first names or a full name of a legal person on them, the postal address with a zip code or an e-mail address, a contact phone number.

On the whole, in the frames of the Priority-Based Budgeting, the government, first of all, should be customer-centered. That is, the government in its activity should take into account the interests of all society members.

As a matter of fact, a change of the budget financing priorities seems to be relevant for Belarus at the current stage. It is obvious that at this moment the country's economic potential cannot afford the former number of the army forces, security agencies and the state apparatus, it cannot support loss-making state enterprises either, etc.

In our opinion, the emphasis shift in giving the budget priorities should be aimed at reducing the expenses of the following budget articles - «The Federal Activities», «National Defense», «Judiciary, Law Enforcement Activities and Security» and «National Economy».

By the way, in 2011 the planned expenditures of the Belarusian republican budget for the listed articles were as follows: "The Federal Activities" - 17.3 trillion rubles, «National Defense» - 2.098 trillion rubles, «The Judiciary, Law Enforcement Activities and Security Enforcement» - 3.817 trillion rubles and «National Economy» - 7.230 trillion rubles.

The released funds can be used to increase funding of the following articles: «Environmental Protection» (in 2011 the national budget expenditures are 307.7 billion rubles.), «Healthcare» (1.572 trillion rubles), «Education» (2.143 trillion rubles), «Physical Education» (88.3 billion rubles), etc. An increase in funding of the above-mentioned items would improve the quality of life, health and life expectancy of the population.

Talking about the governmental programs implementation, the priority should be given to those projects that are primarily focused on the export of goods and services and reducing the energy intensity of the production. The budget investments reorientation to the export-oriented enterprises would cover with the currency gains the costs for the imported raw products, materials and components, and to generally increase the export potential of the country.

At the same time, the state involvement in the national economy financing process should be limited. However, along with that, it is necessary to intensify the efforts to improve the business and investment climate in order to activate direct foreign investments to the economy which would allow replacing the state investments with them.

In addition, it is necessary to extend the privatization program in the country in order to attract new, more effective owners and managers to enterprises. Privatization of state enterprises and their transfer to the private sector will reduce the load on the budget; it will also increase the funds inflow that can be directed, for example, to repay foreign credits and loans previously borrowed by the government.

It should be added that the reduction and optimization of governmental expenditures will contribute to the



redistribution of resources (including labor resources) from the public sector to the private sector. This will help to achieve indispensable structural reforms in the country economy, as well as to improve labor capacity and production efficiency, to lower the tax burden, etc.



Conclusion

In our opinion, at the present stage the best budgeting option for Belarus is the combination of the Performance-Based and Deficit-free Budgeting. In the terms of making payments on external state debt in normal mode and ensuring the financial stability in the country in general, it is essential to have the budget surplus condition.

In this context it is also necessary to abandon completely all quasi-fiscal operations related to financing the national economy by money emission made by the central bank. The limitation of the money emission will allow achieving a low and predictable inflation rate which is an essential prerequisite for a quality budget planning.

In the next three years the main objective for the Ministry of Finance in Belarus should be to complete the transition to the Performance-Based Budgeting, so that at least 90% of governmental expenditures are financed by the relevant state programs. For these programs the criteria for evaluating the efficiency and results should be developed.

At the same time, for the budgetary funds spending units there should be accountability for the work results. In case of an inefficient program implementation (underperformance of the relevant indicators), the funding may be cut down or completely stopped. This will stimulate competition for the budget funds among agencies and departments, making them perform more efficiently.

Along with the accountability system, the Ministry of Finance should provide the budgetary funds spending units with a financial autonomy and flexibility in final expenditures financing. In addition, it is necessary to develop a reward system for the state employees (including bonuses) for a successful and timely program implementation.

An important condition for the PBB transition as a practical implementation scheme of the budget policy is to reduce the level of corruption in the public sector. If the government authorities are corrupted and not interested in improving the budget processes, then an attempt to introduce a Performance-Based Budgeting system may fail.

In this sense, it is critically important to have an unconditional support for the budget reforms from the top political leadership as well as to ensure information transparency and access to statistical data on the actual governmental programs performance for the media and general public.

In the final run, an introduction of the Performance-Based Budgeting will allow reducing and optimizing the public expenditures, also by concentrating the budgetary resources in the priority areas of the social and economic policy. Along with that, the redistribution of resources (including labor) will facilitate the implementation of indispensable structural reforms in the country's economy.

However, in this case it is important for the Belarusian government to be able to downsize the employment in low-priority or inefficient programs.

Along with that, in order to minimize the negative social impact (which may be the growth of unemployment) it is necessary to replace the budgetary appropriations with private investments, including direct foreign investments. Having limited internal sources of investment, the economic policy of the Belarusian government should be directed, first of all, at enhancing the inflow of foreign investments. This will modernize the national economy in the most efficient and fastest of ways.



Used Sources

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Appendix 1

The list of the budget programs, the funding of which is provided by the republican budget in 2011
(The funding of the state investment program is not included)

No. in sequence	Program/Subprogram Title	Amount of financing in 2011; billion rubles
	The total of the budget programs financing	9744,1
1	Government program on the agrarian economy growth and rural areas development for 2011-2015	3945,4
1.1	Events of the government program on the agrarian economy growth and rural areas development for 2011-2015	2751,6
1.2	Republican program "Preservation and Immersed Lands Use for 2011-2015 "	238,2
1.3	Government program on the fruit farming development for 2011-2015	44,2
1.4	Government program on the fisheries management development for 2011-2015	33,9
1.5	Development and support program for citizens' private farms for 2011-2015	49,3
1.6	Republican program on animal breeding development for 2011-2015	68,5
1.7	Government program on potato farming development for 2011-2015	50,0
1.8	Government program on veterinary products production for 2011-2015	9,6
1.9	Republican program on agricultural production retrofit with modern technologies for 2011-2015	610,0
1.10	Development program of sugar industry for 2011-2015	7,8
1.11	Development program on selective breeding and seed growing, grain crops, pulses, industrial and feeding crops for 2008-2013	82,3
2	Government program on innovation development in Belarus for 2011-2015	1102,2
2.1	Events of the government program of innovation development in Belarus for 2011-2015	504,1
2.2	National program of accelerated development of services in the field of information technologies for 2011-2015	16,0
2.3	Government program on high technologies use in the production process for 2011-2015	5,2
2.4	Government program "Innovative Biotechnologies" for 2010-2012 and for the period till 2015	46,1
2.5	Government program "Chemical Crop Protection Agents for 2008-2013"	1,1
2.6	Government program "Creation of the National Bank of Genetic Plant Resources for the Development of New Plant Species and Hybrids of Agricultural Plants, Preservation and Enrichment of Cultural and Natural Flora in Belarus"	3,0
2.7	Government program on developing of the Unified Information System of the state statistics in Belarus for 2007-2011	1,0
2.8	Government program "Scientific Support for the Atomic Energy Development in Belarus for 2009-2010 and for the Period Till 2020"	5,0
2.9	"Government Program on the Development of Import-Substituting Production of Pharmaceutical Substances, Finished Medical Products and Diagnostic Agents in Belarus for 2010-2014 and for the Period Till 2020 "	20,5
2.10	Interstate special-purpose program of the Eurasian Economic Community "Innovative Biotechnologies"	7,1
2.11	Scientific support for the processing sectors of the food industry for 2011-2015	1,8
2.12	Innovative technologies for the light industry for 2010-2011	0,7
2.13	Development and exploitation of medical machinery, devices and information technologies ("Medical Devices")	1,8
2.14	Development and improvement of the medical examination methods, technologies and methods of the medical, professional and labor rehabilitation of the patients (disabled people) ("Medical Examination and Rehabilitation")	3,5



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No. in sequence	Program/Subprogram Title	Amount of financing in 2011; billion rubles
2.15	Preventive actions against the influence of adverse factors of natural, industrial and social environment on the health of the population and the introduction of these actions into practices of the healthcare service ("Health and Environment")	4,7
2.16	Development and implementation of new high technology methods for health improvement of women and children aimed at resolving the demographic challenges in Belarus ("Health of the Woman and the Child – Welfare of the Family and the State")	3,0
2.17	Multifunctional unmanned aircraft complexes and the technologies of their production ("UAC and Technologies")	11,1
2.18	Development of the content, methods and resources of the educational process in the contemporary educational environment ("Contemporary Educational Environment")	1,8
2.19	Scientific support of the flax industry development for 2008-2012	2,2
2.20	Development and production of the radio facilities and navigation devices in Belarus ("Radio Communication and Navigation")	5,9
2.21	Electronic control of enterprise resources ("CALS-ERP-technologies")	3,8
2.22	Advanced technologies development and implementation at domestic import-substituting component base of competitive energy-efficient automobile, tractor, quarry and mining equipment production, means of municipal electric public transportation, diesel engines, self-propelled agricultural harvesting machines and special purpose vehicles that meet the latest environmental standards ("Machinery-Producing Industry ")	25,4
2.23	Machinery-producing technologies, casting techniques, optical machine-tool industry, optical-mechanical production technologies ("Machinery-Producing Technologies and Equipment")	21,0
2.24	Development and implementation of new generation radio-electronic and electro-optical devices and general purpose industrial, special and dual application systems, household and electronic equipment ("Radio-electronics – 2")	13,4
2.25	Development of microelectronic element base for industrial, household and special-purpose devices at the basis of efficient, science-based integrated technologies, new generation of special technical manufacturing equipment and serial production ("Micro-electronics")	22,2
2.26	Development and production of laser, optoelectronic systems, devices and technologies ("Optiel")	1,8
2.27	Development of secondary resources recycling technologies and resource-saving modernization of industrial technologies of multi-industry purposes ("Resource-saving – 2015")	3,5
2.28	Development and introduction of new technologies, devices and machines for municipal housing economy ("Municipal Housing Economy")	1,4
2.29	Development and production of Belarusian reference materials, unique instruments and machines for scientific research ("Reference Materials and Scientific Instruments»)	7,0
2.30	Development and production of advanced machinery and equipment for the implementation of resource- and energy-efficient technologies for competitive production of major agricultural crops ("Production Mechanization of Major Agricultural Crops")	13,5
2.31	Development and introduction of new energy saving technologies, modernization of the existing technologies that provide a wide variety of import-substituting and export-oriented chemical products ("Industrial Chemical Technologies and Production")	3,9
2.32	Development of new metal, ceramic, composition based materials including superhard materials with advanced operational parameters; development of welding machinery and techniques, cutting, soldering, surfacing and powder metallurgy; processing the materials into goods for various sectors of the national economy ("New Materials and Techniques – 2015")	5,0



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No. in sequence	Program/Subprogram Title	Amount of financing in 2011; billion rubles
2.33	Development and introduction of new design and technology systems and materials that provide energy-efficiency and resources-saving in the construction, reconstruction and upkeep of buildings and edifices; improvement of consumer qualities and competitiveness of the construction sector products and services in Belarus ("Building Structures, Materials and Technologies") Разработка и внедрение новых конструктивно-технологических систем, технологий и материалов, обеспечивающих энергоэффективность и ресурсосбережение в строительстве, реконструкции и эксплуатации зданий и сооружений, повышение потребительских свойств и конкурентоспособности продукции и услуг строительного комплекса Беларуси («Строительные конструкции, материалы и технологии»)	2,2
2.34	Development and production of competitive devices, equipment, machinery and technologies that improve efficiency of the energy production ("Power Industry – 2015")	1,7
2.35	Development and production of advanced pharmaceutical substance and medicinal products based on chemical and microbiological technologies ("Pharmaceutical Substance and Products")	7,2
2.36	Development and introduction of new methods of diagnosis, medical and preventive treatment of cardiovascular, therapeutic, surgical disorders, oncological diseases; development of new import-substituting medical products (implants, sets of diagnosis instruments, instrumentation) ("New Diagnosis and Medical Treatment Technologies")	23,4
2.37	Development and introduction into the healthcare practices of new methods of molecular epidemiology, microbiology and immunology aimed at early new cases infection and immune diseases detection, improvement of laboratory diagnostics efficiency, treatment and prevention ("Infections and Microbiological Nanotechnologies")	7,1
2.38	Development and introduction of the latest information and analytical, information and communication systems into the economy sectors. ("Information Technologies")	3,5
2.39	Safety methods and products development for complex information protection ("Information Protection – 2")	2,9
2.40	Development and introduction of mechanisms, methods, techniques and academic recommendations on innovative plant and farm industries development; production of high-quality and safe products, sustainable and effective farming with self-repaying, self-financing and competitive foundation of the industrial agricultural sector ("Industrial Agricultural Sector – Sustainable Development")	46,6
2.41	Development and introduction of new techniques, devices and technologies of the forest protection and reproduction; sustainable forest management and multipurpose forest use that increases forest productivity and sustainability; reinforcement of the forest resource role as well as its social and economic and environment-forming role. Rational multiple use of forest resources, increasing the efficiency of the Republic's forestry ("Forests of Belarus - Productivity, Sustainability, Effective Use")	2,5
2.42	Development and implementation of innovative technologies in environment conservancy and for environmental improvement ("Natural Resources and Environment")	3,2
2.43	Development and introduction of resources and technologies for improvement of the state emergency response system ("Protection in Emergency Situation")	1,5
2.44	New biotechnologies and biological product for agricultural industry, production sector, healthcare and environmental protection ("Industrial Biotechnologies")	4,1
2.45	Innovative Development of Brest Region for 2011-2015	0,9
2.46	Development and implementation of new competitive products, resource-saving technologies, devices and measures that provide performance improvement of Vitebsk region economic sectors ("Innovative Development of Vitebsk Region")	1,0
2.47	Scientific and technological support for social and economic development of Grodno region	1,2



Appendix Continuation 1

No. in sequence	Program/Subprogram Title	Amount of financing in 2011; billion rubles
2.48	Development of technologies and technical facilities that provide a sustainable innovative development of the industries including agricultural and social sphere of Grodno region ("Grodno Region Innovative Sustainable Development")	1,0
2.49	Development of technologies, technical facilities and mechanism of economic management that provide functional improvement of Minsk region industries including agricultural ("Minsk Region Development for 2011-2015")	1,0
2.50	Development of economic and social innovations and their introduction into Mogilev region economy sectors ("Innovation-Based Development of Mogilev Region")	1,0
2.51	Government programs of scientific research for 2011-2015	222,5
3	Republican energy saving program for 2011-2015	262,0
4	Government program "Peat" for 2008-2010 and for the period till 2020	170,2
5	Government program on overcoming the Chernobyl catastrophe effects for 2011-2015	1133,4
6	Presidential program "Children of Belarus" for 2011-2015	41,5
6.1	Subprogram "Children and Family"	38,0
6.2	Subprogram "Personality Formation and Development"	2,5
6.3	Subprogram "Baby Food"	1,0
7	Government Program on social and economic development and integrated utilization of the environmental assets of the Polesye forest area for 2011-2015	32,5
8	Republican program on the reconstruction and renovation of the melioration systems, maintenance of their hydrological regime in the area of the National Park "Bialowieza forest" and its protected zone for 2011-2015	22,1
9	National program of cosmic space research and use for peaceful purposes for 2008-2012	27,1
9.1	Subprogram "Scientific and Technical State Program "Space Systems and Technologies"	1,0
9.2	Subprogram "Development of Belarusian Aerospace System of Earth's Remote Sensing"	23,0
9.3	Subprogram "Environmental Monitoring, Meteorological Observations and Efficiency Assessment of the Natural Resources Management"	0,5
9.4	Subprogram "Aerospace Information for Geodesy and Cartography"	0,1
9.5	Subprogram "Monitoring of Industrial and Natural Emergency Situations with Aerospace Information"	0,5
9.6	Subprogram "Development of the Professional Aerospace Education System"	0,6
9.7	Subprogram "Ensuring System Safety of Aerospace Information Technologies"	0,1
9.8	Subprogram "Space Information for Forestry"	0,3
9.9	Subprogram "Agricultural Lands Evaluation with Aerospace Information"	1,1
10	Government program on HIV-prevention for 2011-2015	6,8
11	Government program "Tuberculosis" 2010-2014	31,2
12	Government complex program on cancer prevention, diagnosis and treatment for 2010-2014	154,1
13	Program on development of general secondary education for 2007-2016	21,2
14	Government program on development of technical and vocational education for 2011-2015	22,8
15	Government program on development of specialized secondary education for 2011-2015	396,2
16	Government program on personnel training in the nuclear power industry in Belarus for 2008-2020	25,7
17	Program on development of preschool education in Belarus for 2009-2014	2,2



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No. in sequence	Program/Subprogram Title	Amount of financing in 2011; billion rubles
18	Government program on development and modernization of the material and technical base of personnel training in the sphere of the national security in Belarus for 2011-2015	0,7
19	Government program on development of physical education and sports in Belarus for 2011-2015	78,5
19.1	Events of the government program on development of physical education and sports in Belarus for 2011-2015	4,2
19.2	Belarusian athletes training program for XXX summer Olympic Games in London in 2012	74,3
20	Complex program on development of the city of Polotsk for 2008-2012	0,01
21	Complex program on development of the state printed media in Belarus for 2005-2011	1,6
22	Program of cooperation with Belarusian national minority in Poland "Belarusians in Poland" for 2011-2015	0,5
23	Government program "Belarusian Culture for 2011-2015"	54,8
24	Complex program on social services for 2011-2015	1,4
24.1	Subprogram "Social Support for the Veterans, War Victims, Senior Citizens and Disabled People"	0,1
24.2	Subprogram "Disablement Prevention and Rehabilitation of Disabled People"	0,4
24.3	Subprogram "Development of Social Services Inpatient Facilities"	0,9
25	Government program on the barrier-free environment for physically handicapped people for 2011-2015	0,3
26	Republican program "Youth of Belarus" for 2011-2015	0,5
27	Government program on memorialization of the Fatherland defenders and war victims for 2010-2014	0,1
28	Government program on support of the operation and development of the National Environment Monitoring System in Belarus for 2011-2015	4,3
29	Government program on geological exploration for development of the mineral raw material base in Belarus for 2011-2015 and for the period till 2020	62,8
30	Government program on system development of the protected natural areas for 2008-2014	6,6
31	Government program on development of the State Hydro-meteorological Agency for 2011-2015	14,0
32	Government special program "Earth's Polar Territories Monitoring and Support for Arctic and Antarctic Expeditions for 2011-2015"	1,2
33	Program on reconstruction of the Central Botanic Garden of the National Academy of Sciences for 2007-2013	0,4
34	Plant introduction and the use of world's flora biodiversity in organizing the living environment of Belarusian cities and villages for 2011-2015 ("Introduction and Verdurization")	2,0
35	Government program on harvesting (procurement) and processing secondary raw products in Belarus for 2009-2015.	8,6
36	Government program on support of small businesses in Belarus for 2010-2012	0,9
37	Development program on production of vegetable and fruit preserves in Belarus for 2011-2015	3,8
38	Development program on Belarusian alcohol products producers and exporters for 2011-2015	3,5
39	Forestry development program in Belarus for 2007-2011	92,1



Appendix Continuation 1

No. in sequence	Program/Subprogram Title	Amount of financing in 2011; billion rubles
40	Government development program on metal powder industry and welding in Belarus for 2011-2015	0,8
41	Government program "Development and Improvement of State Agency of Time Synchronization and Reference Frequencies in Belarus for 2011-2015"	0,01
42	Government program "Belarus Archives" for 2011-2015	1,6
43	Construction industry development program for 2011-2015	205,8
44	Program "Belarus Roads" for 2006-2015	1245,8
45	Communications development program in Belarus for 2011-2015	109,9
45.1	Events for the communications development program in Belarus for 2011-2015	91,9
45.2	Government program on introduction of the digital television and radio broadcasting in Belarus till 2015	18,0
46	Government program on tourism development in Belarus for 2011-2015	2,3
46.1	Subprogram "Personnel Policy and Scientific Support for the Tourist Sphere"	0,3
46.2	Subprogram "Tourism Services Marketing"	2,0
47	Government program on development of Belarusian part of the Augustov Canal for 2009-2011	0,03
48	Government program on development of the Narochlake resort area for 2011-2015	5,3
49	Program on reequipment and consolidation of the technical and material foundation of the military healthcare organizations for 2011-2015	0,8
50	Governmental program on the alcohol consumption reduction and the alleviation of the alcohol negative effects on the society for 2011-2015	0,1
51	Program on creation of the common data base for the inspection (regulatory) authorities. The data base that includes information about the controlled subjects and refers them to corresponding risk groups basing on the criteria of the controlled subjects reference to the risk groups for scheduling routine inspections under the aegis of the Payers State Register (other partiesliable) for 2010-2011	1,9
52	Governmental program on development of the military communities that are in operational management of the Belarusian Ministry of Defense for 2011-2015	22,2
53	Governmental program on the development of Belarusian and Ukrainianland as well as modernization of Belarusian and Polishland of the State frontier for 2009-2013	16,3
54	Governmental program on development of the technical rate settings and defense products standardization for 2008-2015	0,03
55	Governmental program on the import substitution for 2011-2015	7,2
56	Special programme	346,4
57	Special programme	9,9
58	Special programme	4,9
59	Special programme	3,8
60	Special programme	7,4
61	Special programme	10,0
62	Special programme	0,4
63	Special programme	0,7
64	Special programme	0,8
65	Special programme	1,1
66	Special programme	3,6

