# Lessons learned from budget reforms in Slovakia

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**List of abbreviations:**

| | |
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| EU | European Union |
| FDI | Foreign direct investment |
| FIA | Fiscal impact assessment |
| FPI | Financial Policy Institute |
| GDP | Gross domestic product |
| ISUF | Information system for accounting of EU funds |
| IT | Information technology |
| ITMS | Information monitoring system (for managing EU funds) |
| LM | Line ministry/-ies |
| MOF | Ministry of finance |
| MTBF | Medium-term budget framework |
| OECD | Organization for Economic Cooperation and Development |
| PBB | Performance based budgeting |
| PFM | Public finance management |
| PIFC | Public internal financial control |

**Content:**

# 1. Executive summary

## 1.1. Key findings

Slovakia is a parliamentary republic. The PFM system is organized by MOF, responsible for managing the budget process, while the Cabinet, the Parliament and informal though influential Coalition Board take crucial decisions. Slovakia's **PFM reforms produced measurable results and improved macroeconomic performance**. Slovakia was close to economic collapse, but macroeconomic stabilization measures supported by PFM reform brought stability and significantly improved the financial credibility of the country. This resulted in:

- higher bond ratings,
- lower debt refinancing costs,
- massive FDI inflows, and
- brisk growth of GDP and employment.

The **Government felt strong ownership of the PFM reform** and implemented it through **internal MOF steering mechanisms**, with the support of external consultants. Slovak PFM reform was **supported by** several donors and projects, but most notably a **World Bank project**. It is critical that policy-makers sequence and control external consultant resources so that reforms can be made permanent and effective. MOF had a clear idea what it expected from the consultants and actively managed their involvement.

**High-level commitment and direction,** both within the MOF and LMs, was **crucial for success of PBB** implementation. However, Slovakia still **lacks a general performance management culture**, which would require a wider public administration reform. The reasons why **PBB was not widely accepted outside of the financial management community** include **insufficient IT system coverage to support also program managers** and **lack of understanding** of the PBB concept **among policy departments**.

MOF was reorganized substantially to support the PFM effort. PFM related areas were concentrated under one deputy minister. Budget section was reduced since some of the tasks were delegated to line ministries and more focus was given on policy analysis in order to create capacity to oppose line ministries during budget negotiations. Line ministries had to cope with growing complexity of the PFM system and the adaptation was **dependent** mostly **on top-management commitment and institutional capacity**. Linking policy formulation with budget management still remains a work in progress.

The reformed **budget framework is multi-annual and includes performance data**. Programs fully cover the government expenditures, and goals and indicators are defined for the whole program structure. Deficiencies remain in putting **more emphasis on programs as opposed to traditional line items**. Older requirements, such as wage and capital expenditure limits, have also continued. This makes reform harder to administer because it adds incrementally to bureaucratic burdens. Input-based, line item budget controls must be steadily **replaced by performance targets** in order to allow actual performance management to function.

The Slovak PFM system is regulated by a number of laws and methodological guidelines. This **fragmented approach proved to be very useful in swift and incremental implementation of changes**. IT support for PFM is spread across several integrated IT systems, allowing for

additional flexibility when incremental changes need to be reflected. **IT system support for budget departments contributed greatly to the success** of the PFM reform. Flexible IT approaches proved to be more adaptable than standardized, "off-the-shelf" solutions.

The **training / capacity building part** of the program **was insufficient,** resulting in slower adoption of new procedures or even mid-management resistance to changes. More extensive information sharing and interaction would have better facilitated reform. PFM reforms should ideally **include an ongoing, permanent learning component**, and this should **not depend on temporary, foreign resources**. It is more important to get this activity done correctly than to speed up the implementation of reforms. Organizations need to be prepared thoroughly to implement change.

**1.2. Technical factors**

**Slovak MTBF covers general government and is approved by the Cabinet for a 3-year period**, the Parliament only adopts Annual Budget Law for the central government and selected special funds. Limits for out-years are politically, but **not legally binding**. The **legal basis should be strengthened** for enhanced stability and predictability.

**MOF macroeconomic and revenue estimates** result in the setting of fiscal policy targets, including an aggregate expenditure cap. In parallel with **policy prioritization, expenditure ceilings** are developed for individual line ministries and approved by the Cabinet at the start of the budget process. Line ministries prepare their **detailed budget proposals**, including program structures, objectives and indicators.

Additional budget resources are disbursed to ministries from a **priority reserve fund** after an initial round of budget negotiations in the Cabinet and Coalition Board. Subsequently, the draft budget is sent to Parliament for final approval. Existence of the **priority reserve fund** does not allow a medium term approach to get properly rooted. This practice should be **slowly abolished** as it moves Cabinet attention away from multi-year program results and creates an annual competition for a relatively few marginal expenditures.

**MOF has the authorization to adjust approved budget allocations** during budget execution. Setting legal limits for maximum amounts transferred from one ministry/program to another could increase stability and performance of sector policies. Ministries are allowed to **automatically carry forward** unspent capital expenditures and EU resources for up to 3 years. Carry-forwards need to be limited by specific rules and some sort of **authorization** should be considered.

At the national level, a decentralized approach to PBB was chosen, where **line ministries prepare their own program structures, while MOF provides them with methodological guidance**. This gives the LMs greater ownership of their programs and the PBB concept. The program structure has 3 levels and goals/objectives need to be defined to each program component. Performance is measured by indicators through a regular monitoring process, but the evaluation system is still underdeveloped. A logical framework of programs allows the line ministries to develop their sector policies within the PBB concept, though only some of them are using this approach actively, due to **lack of institutional capacity**.

PBB was introduced gradually since 2000 and recently was expanded to regional and local government budgets. **PBB rollout to the local and regional government** level was supported by a separate project and piloted in 30 self-governments of different sizes. The presence of **economic and social development plans** made it easier to transform policy goals and

objectives into programs within the PBB framework. Administrative capacity resulting from **fiscal decentralization helped to accommodate PBB** on the local level. For small settlements though, PBB system still presents an **administrative burden**.

### 1.3. Final thoughts

There were mistakes made during the PFM reform implementation, but overall it proved to be a success. A good way to avoid reform overload is to opt for **gradual implementation of changes and adequate piloting**. Since the new PFM components were not replacing, but adding to the old budget practices, the PFM system became too complex.

Any **further reform initiatives need to start with reduction of current workload** for budget managers. The binding nature of MTBF needs to be strengthened and input controls can slowly start to be replaced by performance targets to allow for performance management. A strong **training component** should be considered as an integral part of any PFM reform program to ease its implementation and avoid unnecessary resistance.

Careful **timing and sequencing is key when introducing PBB** to the PFM system. Limiting the technical complexity of initial program structure would allow time to learn and use PBB concepts and to focus a small number of desired, achievable results, chosen by top organizational leaders. PBB is designed to focus on results; it should not get overwhelmed by technical considerations before it can be allowed to secure the high level support it will need to succeed.

## 2. General political, institutional and economic background

### 2.1. Political background

Slovakia is a parliamentary republic with a 4-year general election cycle. Members of Parliament are representing political parties and they are not tied to particular voting districts. The Cabinet is formed from 3 to 4 coalition parties constituting a majority of votes in the Parliament. A **Coalition Board** consisting of representatives from each party in the ruling coalition (an informal political body) is created to resolve all important or sensitive political disputes, before they are discussed in the Cabinet or the Parliament.

Minister of Finance has traditionally a strong position within the Cabinet, albeit this being only of an informal nature. He doesn't have a veto right in the Cabinet voting procedures, but since he usually comes from the same coalition party as the Prime Minister, he is effectively able to ensure consistency of Government strategic priorities with the fiscal framework and budget. There are no special budget related competences of the President or the Prime Minister.

### 2.2. Institutional background

The budget year is identical with the calendar year in Slovakia and MOF is the main budget process coordinator. The budget process starts with preparation of so called **Starting Points** for discussion in the Cabinet **in April, containing macroeconomic and revenue forecasts, multi-annual fiscal framework** including deficit and debt targets for general government budget, as well as expenditure **ceilings for individual line ministries**. After this document is adopted, line ministries and agencies prepare their detailed budgets and submit them through the IT system to MOF. After a series of budget hearings MOF compiles a comprehensive draft budget and submits it for consideration to the Cabinet by end August.

A **priority reserve fund, amounting to 1-3% of total expenditures**, is kept within the budget at this stage to be disbursed[1] during the discussions in Cabinet and Coalition Board in September. The budget is then discussed in several rounds also with the Coalition Board being involved in this process. After all the disputes are settled, **Cabinet approves the budget before 15th October and sends the final draft to the Parliament** for discussion and final endorsement. Parliament discusses the budget in committees and in plenum. Annual Budget Law is adopted by simple majority voting. Because most of the political agreements are already settled during previous discussion rounds, usually there are no major amendments done to the draft in Parliament. A more detailed diagram covering the budget calendar can be found in Annex 1.

The line **ministries are quite autonomous in allocating and executing public expenditures**. MOF, based on the Annual Budget Law, sets for them total expenditure ceiling and a handful of binding limits (wages, capital expenditures, EU resources, co-financing). Line ministries set up their own program structures and break down expenditures into individual budget items. Requests for payments are automatically executed through the Treasury on-line system, as long as they obey the overall ceiling and binding limits. **MOF can change allocations for line ministries without prior approval of Parliament** during budget execution, as long as the overall deficit limit is not exceeded.

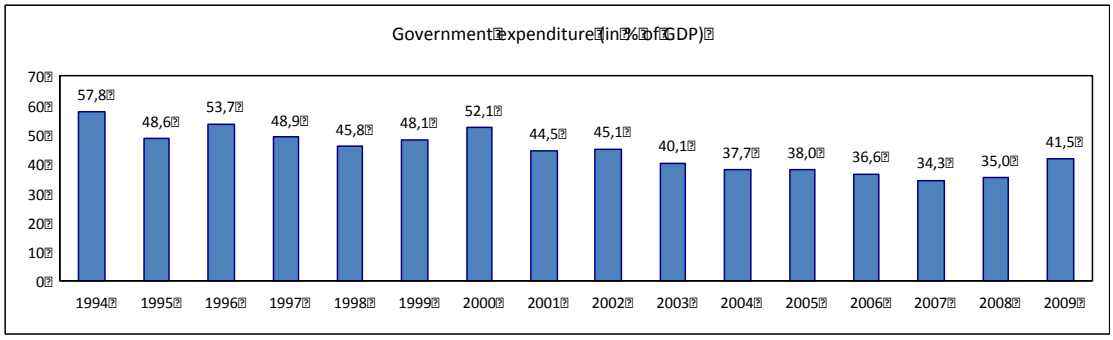
[1] All expenditures from this fund are allocated to programs before the budget is submitted to Parliament.

Budgetary Rules Law is the single piece of legislation regulating the budget system. It includes important definitions, financing rules and major deadlines within the budget process, while other practical issues are governed by Cabinet decrees (e.g. decree on Starting Points) or MOF guidelines (e.g. budget circular). It also reflects on medium-term and program budgeting, as it defines the budget as a 3-year economic policy instrument, and requires the budget to include expenditure ceilings for government programs and define their goals and objectives.

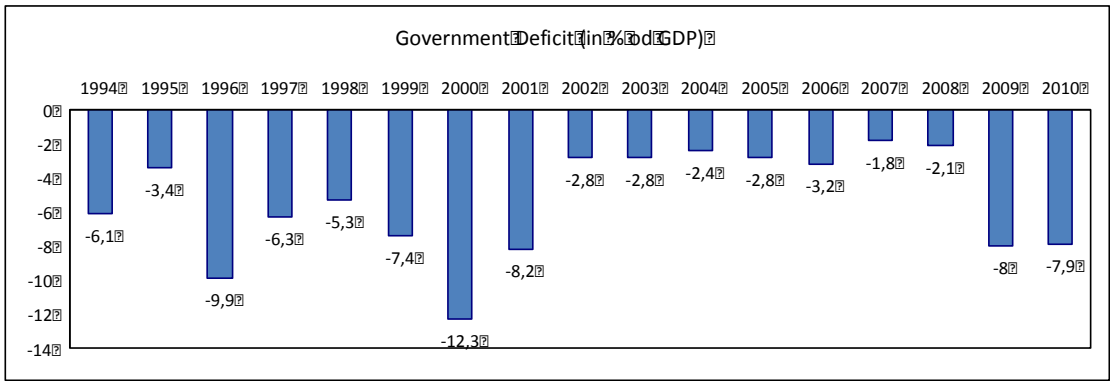
### 2.3. Economic background

After gaining independence in 1993, Slovakia went through a period of macroeconomic instability followed by two stages of reforms. The first stage during the period of 1998 to 2002 was aimed at ensuring economic stability and setting up standard rules for operations for the private sector (privatization, business environment), while the second stage in 2002 to 2006 was focused mainly on public sector/finance related issues. The second stage included for instance the tax reform, social assistance reform, labor market reform, pension system reform, judiciary reform, or substantial fiscal decentralization. Among them was also the reform of public finance management aiming at improving overall fiscal performance, prioritization of policies and operational efficiency of public spending. The following data should prove that it brought measurable results.

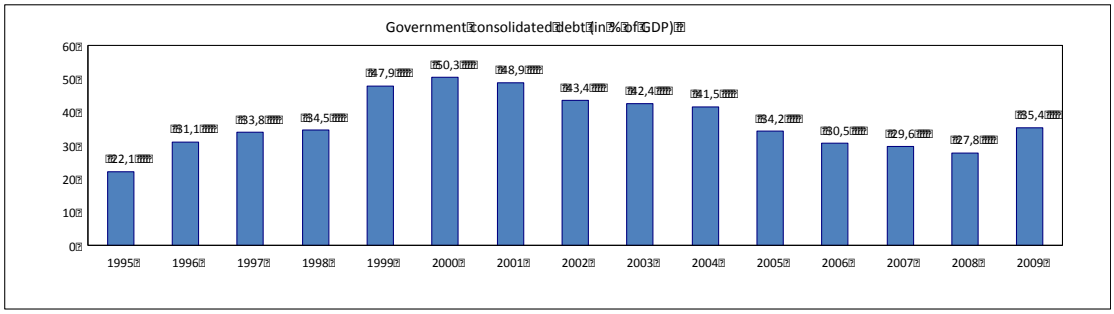
**Public expenditures** were oscillating around 50% of GDP until early 2000s and the Government didn't have clear priorities in fiscal policy. Since 2002 the ratio started to decrease steadily below 35%, and only the crisis brought it back to over 40%. Slovakia has one of the lowest public spending to GDP ratios among the EU countries.



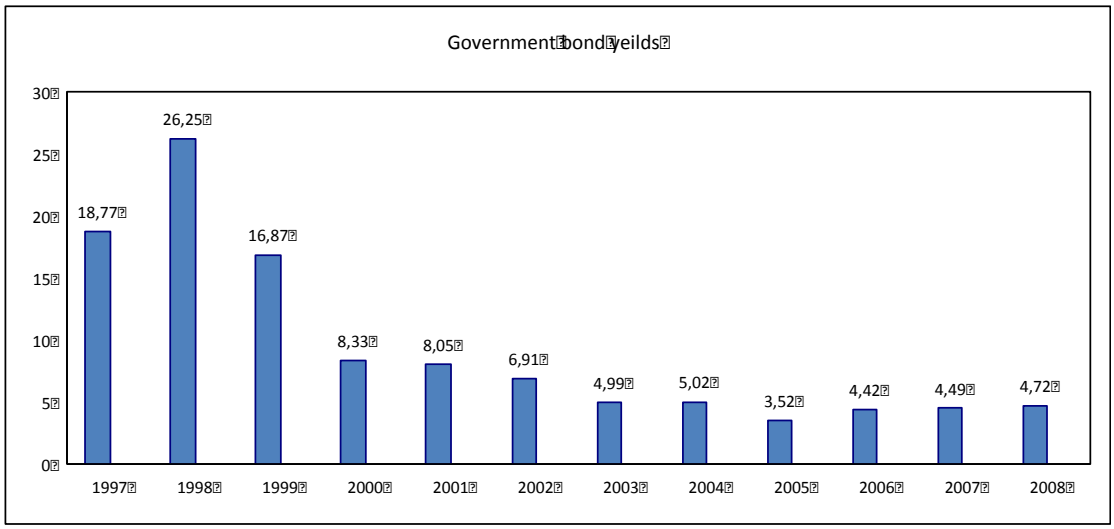

**Government deficit** was also not fully under control until 2002, the main reason being issuing of state guarantees, accumulating of arrears, and using privatization receipts for expenditure financing. Again, the deficit was kept at reasonably low levels until the global economic crisis hit Slovakia, and that despite the introduction of private funded pillar of the pension system with negative fiscal impact of more then 1% of GDP.



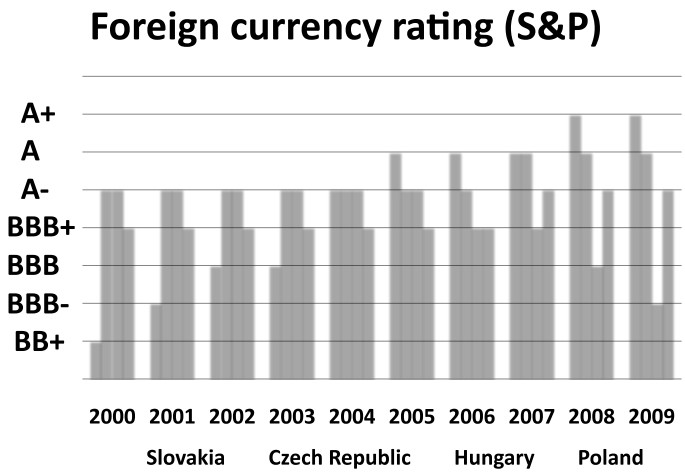

**Public debt** was at relatively low levels, but during the period of late 90-ties, characteristic for loose fiscal policy, it accumulated quite rapidly. Through consistent fiscal consolidation it was brought back to below 30% of GDP, though the crisis also affected this figure negatively.




**Interest rates** on government debt were extremely high during the late 90-ties due to fiscal policy supporting growth through excessive government spending. After the first macroeconomic stabilization package from 1998 and implementation of the Public Finance Management measures in early 2000s, also the interest rates dropped to reasonable levels.



**Sovereign rating** scores increased substantially since Slovakia started to implement fiscal reforms. Currently it has the highest rating score among the V4 countries (Czech Republic, Poland, Hungary and Slovakia), as shown in the chart below.



## 3. Starting point and the reform concept

### 3.1. Starting point and early PFM reforms

As already described in the previous section, public finance in Slovakia was managed quite poorly during the nineties. The deficit and debt levels were unsustainable and important control mechanisms for fiscal activities outside the state budget were missing. Eleven extra-budgetary funds were collecting earmarked revenues and had direct access to credit. Arrears in public sector were increasing due to insufficiently strict budget constraints. Privatization receipts were used for budget expenditure financing and issued state guarantees were distorting the true deficit figure. The **budget was prepared on a one-year basis, covering only central government** entities, and it was not embedded in a consistent and reliable macroeconomic framework. Public finance management procedures were only applied to the state budget, not including extra-budgetary and quasi-fiscal activities.

**MOF** was having a **dominant role in the budget formulation and execution process**, it's formal power was allowing it to adjust the budget completely after it has been passed by the Parliament, as long as the cash deficit was not exceeded and expenditures would not grow by more then 15 percent. Three sets of tax revenue predictions were prepared independently (by the FPI, MOF Tax Department and Academy of Sciences) and discussed in the Parliament, leading to overoptimistic estimates incorporated into the annual budget. Budget execution was strictly controlled by one of the MOF departments through a detailed set of cash spending limits based on budget line items (more detailed than what was approved by the Parliament), and budget allocations were frequently subject to reservations and/or cuts.

The Government started to address these issues in 2000 with the first reform steps in public finance management. Most of the **extra-budgetary funds were abolished**, financial control mechanisms were improved through adoption of Law on Financial Control and Internal Audit, medium-term focus of budgeting was strengthened through **introduction of Starting Points and Pre-Accession Economic Program** according to EU requirements, reporting methodology was revised to comply with European standards, and legislative changes included accountability framework and borrowing limitations for local governments and social- and health-insurance funds. Budget adjustments and expenditure management were partially addressed through the law on public debt and budgetary rules law, but the predominant position of MOF was still persisting. Despite their positive effect, these changes were done **without a comprehensive implementation plan, driven mainly by external factors** (IMF program, EU accession) and not government commitment, and insufficiently backed up by institutional capacity to be sustainable.

### 3.2. Public finance management reform program

Only in the period of 2003 to 2005 a comprehensive **Public Finance Management reform program** was developed and its implementation **supported by a World Bank loan**. It was addressing legislative, personal, organizational and technical aspects of budgeting, financial planning, debt and liquidity management, public accounting, payment systems, public expenditure management and financial control in order to create a compatible and modern public finance management framework based on best practices in the OECD and EU countries. The project was divided into the following components:

A. improvements in the budget process (enhancement of fiscal reporting transparency, improvement of multi-annual budgeting and introduction of performance based budgeting),
B. strengthening macro-analytical and fiscal forecasting capacity of the finance ministry,
C. support for integration of State Treasury into the PFM system and improvement of debt and liquidity management through new institutional set-up,
D. coordination of the reform and project management.

**A. Improvements in the budget process**

The **budget coverage has improved** substantially through implementation of the PFM reform. Fiscal reporting methodology was brought fully in line with ESA95 requirements, **mechanisms of internal audit and financial control** were strengthened and the sanctioning system was depleted of discretion. The National Control Office (equivalent of Supreme Audit Office) started to use more advanced methodology including performance audits. **Program budgeting**, implemented across the central government budget in 2004, brought more clarity to government spending, allowing Parliament and the public to hold the government accountable for outputs/results. A comprehensive and detailed **3-year budget** for the whole public sector was prepared one year later.

This project component was **assisting MOF and six selected line ministries** in accommodating all of these tasks, with a special focus on **linking the strategic policy making process with budgeting** through improvement of guidelines and internal procedures, and developing capacity to accommodate the **shift from a single year to medium-term focus**. **Development of program structures**, including definition of goals and objectives to be reached and monitoring mechanisms for assessing their performance, was the main role of the ministry advisors. Functional review of the budget process was conducted, covering bottom-up and top-down budgeting procedures on the level of the government, ministry of finance and the line ministries.

**MOF** was provided with targeted **capacity building activities** after the functional reorganization in 2003. These were focused mainly on conducting expenditure and underlying policy analysis by ministry staff to become equal counterparts for line ministry personnel during the budget negotiations. Assessment of intra-governmental fiscal relations and their implication for fiscal policy under the fiscal decentralization concept was added to this component, and fiscal decentralization was successfully launched in 2005.

**B. Strengthening macro-analytical and fiscal forecasting capacity**

Besides developing a macro-forecasting model for the Slovak economy and methodology for forecasting tax revenues, assistance within this component also included training in financial programming, impact and risk analysis, study tours and educational activities for MOF staff. It was designed to transform and **strengthen the capacity of the Financial Policy Institute** (FPI), the macroeconomic and fiscal forecasting unit at MOF. This unit became the sole source of forecasts for the whole government, and produces relevant, reliable and timely predictions used during the budget process.

**C. State Treasury and liquidity and debt management**

Rollout of **State Treasury** (IT infrastructure for introduction of centralized on-line payment system and Treasury Single Account, user trainings) and establishment of an independent

**Debt and Liquidity Management Agency** were supported by this component. Legislation and procedural guidelines defining split of roles and responsibilities between MOF and both these agencies were prepared. A system for monitoring potential government commitments and hidden debts was also put in place. Public accounting issues were touched also within this component, though full implementation of public accounting reform was supported later through a separate EU funded project.

**D. Coordination of the reform and project management**

This component covered technical assistance provided to MOF focusing on project implementation and institutional change within the ministry. A **high-level Steering Committee** (at the level of Deputy Ministers) was supervising project implementation and a Coordination Unit was carrying out day-to-day activities related to project management. Also other donor-funded (mainly EU financed) projects related to PFM were implemented using the same institutional setup in order to assure their mutual coordination. MOF position safeguarding sound financial management was strengthened significantly by the reform despite narrowing the focus of its activity. While MOF focuses on overall fiscal performance instead of micro-managing the budget, line ministries were given much **more discretion in resource utilization in return for increased accountability**.

# 4. Medium-Term Budget Framework

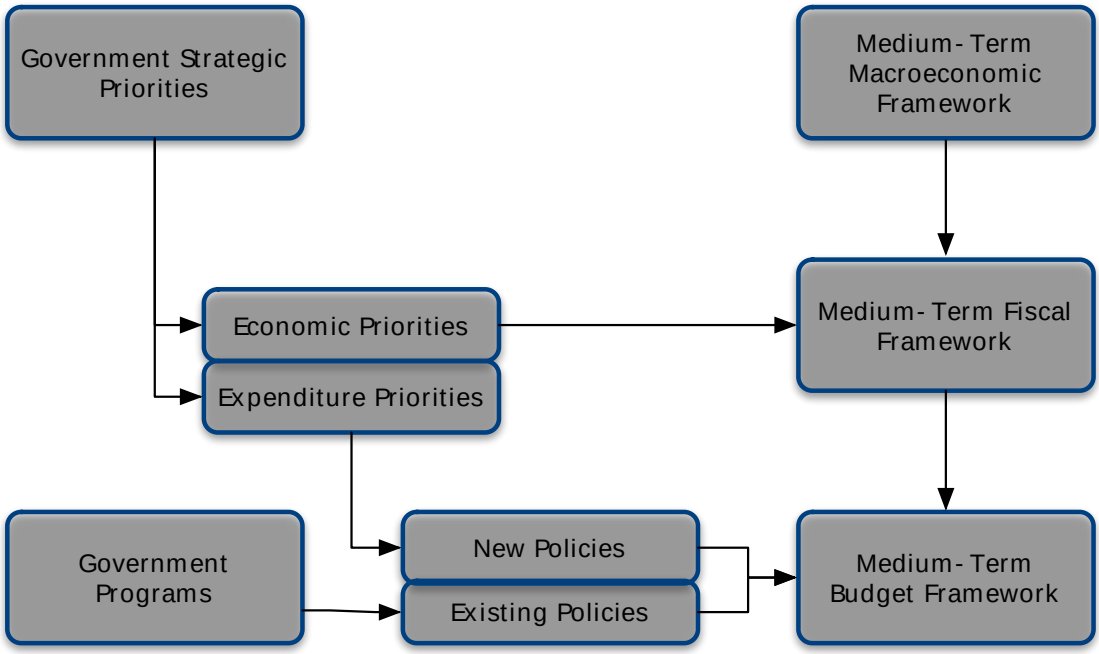
## 4.1. General approach

Before adopting a medium-term budget perspective, the budget was prepared on an annual basis. Ministers were annually fighting about the allocation of resources, and their demands were mostly met depending on their political influence. Structural expenditure patterns were quite unstable, political priorities reflected in the budget were changing from one year to the other significantly.

From the experience of MTBF introduction in Slovakia, advantages of having it in place could be summarized as follows:

- **less bargaining in the budget process**, as the ministers cannot count on short-term gains,
- Government policies (including the fiscal policy) gain on **credibility**, because they are more transparent and predictable,
- clear **link** is established **between Government priorities and the annual budget**,
- Government can **focus on program results**, as they take more years to achieve.

The MTBF should generally combine a top-down approach of setting fiscal targets with a bottom-up cost calculation of government policies. The following scheme gives an overview of how this process is structured:




## 4.2. Top-down targeting and prioritization

Financial Policy Institute – MOF macro and fiscal forecasting unit – is responsible for preparing macroeconomic and tax revenue predictions and for **setting the deficit and aggregate expenditure ceilings** for the budget in line with current economic development and policy targets. The **forecasts updated every four months to fit the budget cycle**, and before being published they are subject to discussion within the macroeconomic and tax

committees. Representatives of the central bank, statistical office, Slovak Academy of Sciences and commercial banks take part on these discussions.

Government reform priorities for a multi-annual period are defined parallel to this process within a government-wide programming document[2]. After the priorities are defined and the fiscal aggregates endorsed, MOF budget analysts prepare detailed revenue and expenditure ceilings for each line ministry. These are presented in the Starting Points and once approved by the Cabinet, line ministries are obliged to prepare their budget proposals respecting these limits.

### 4.3. Bottom-up cost estimates

Slovak authorities use mixed system of incremental line item budgeting and program expenditure allocations. Some of the more advanced line ministries developed **expenditure baselines** in order to estimate future budgetary impacts of their programs, while others are still budgeting for annual increases in input costs. Baselines don't necessarily match with expenditure ceilings of ministries. Baselines take into account change in cost drivers (e.g. amount, prices, workload) and are adjusted for one-off effects (e.g. expenditures for activities that come to an end during the next fiscal year) and newly adopted policies. Changes in policies on the other hand are not taken into account when baselines are determined. Baseline approach is not yet supported by the IT system, which only includes the workflow for breaking down expenditure limits.

**Fiscal Impact Assessment** for newly proposed policies is part of procedural guidelines for submission of materials to the Cabinet. It's mandatory for legislative documents and usually also for policy documents. Roles and responsibilities of involved parties are clearly defined by formal rules, and policy owners prepare the assessment while MOF checks its quality. The quality of FIA varies depending on the technical capacity of the institution preparing it, ranging from simple one-sentence statements to multi-page documents describing the impact of policy change in detail.

### 4.4. History and timeline of the MTBF

Experimenting with medium-term approach in budgeting started relatively early in the reform process. Starting Points, the strategic multi-annual fiscal policy paper, was first presented to Cabinet in 2000. It included a brief overview of the macroeconomic and fiscal forecasts (revenues, expenditure, and deficit) for a 3-year period, and at the time was decoupled from the main budget document and allocations for sector priorities, which were discussed later in the year. The Cabinet didn't adopt the Starting Points, hence it was not binding.

With support of the PFM reform project and simultaneous improvement in budgeting IT support, it was possible to complement the **Starting Points with a full 3-year budget framework starting from 2005**. Cabinet adopts the fiscal aggregates and decides on allocations for line ministries. MOF then announces the expenditure ceilings to line ministries and based on these limits ministries prepare their detailed budgets including program structures. Budget hearings are held with LMs and subsequently MOF submits the comprehensive draft budget, including a **priority reserve fund,** for discussion to Cabinet.

[2] E.g. Stability Program required for all Eurozone member countries in order to coordinate fiscal policies. It is usually approved by the Cabinet together with the Starting Points. Before Slovakia accessed the EU, it was preparing the Pre-accession Economic Program (PEP) and before adopting the Euro the Convergence Program.

After all resources from the priority reserve fund are disbursed during the discussions in Cabinet and Coalition Board, the budget is finalized and submitted to Parliament for approval (see part 2.2. above for more details).

**4.5. Coverage and binding nature, possibility to reallocate funds**

The **3-year budget framework covering general government is not legally binding**, despite being presented in its complexity to the Parliament. Parliament only adopts the Annual Budget Law consisting of main fiscal targets (aggregate revenues and expenditures, deficit, debt) and annual resource allocation to central government bodies. It also adopts annual budgets of Social Insurance Fund and other special funds separately, the only exception being private healthcare insurance companies, public universities and regional and local self-governments. For these, MOF uses its own projections of their budget revenues and expenditures for preparing consolidated budget figures, but cannot influence their budget decisions directly.

The out-years within MTBF are, however, **considered to be binding politically**, since the framework as such is adopted by the Cabinet. Changes to revenue forecasts and expenditure allocations are done practically only based on adjustment of underlying macroeconomic assumptions or resolution of binding nature made by the Cabinet or the Parliament. MOF is supervising these adjustments through introducing changes to limits included in the budget IT system centrally.

Except for the initial ceilings **MOF uses a set of binding indicators (limits) to limit the ability of line ministries to reallocate resources during the budget execution**. Aggregate spending limit for each budget user is expressed in organizational classification, and also each program total is a binding indicator. In economic classification, there is a limit on wages (which cannot be exceeded) and on capital expenditures (cannot be reallocated to recurrent). Limits are also set through the classification of sources of revenue (EU money and co-financing cannot be allocated to other types of spending). Even though the **number of binding indicators was reduced significantly**, they still present a relict from the old input driven budget system. They could possibly be replaced by binding outputs, given the role of monitoring and evaluation of programs is strengthened and accountability of program managers increased.

MOF has authorization in the Annual Budget Law to adjust legal binding limits during budget execution, as long as the deficit target is preserved and aggregate expenditure ceiling for all ministries and autonomous agencies is not exceeded by more than 1%. This in fact is a common practice and there are **thousands of adjustments throughout the budget year**, making the executed budget look very different from the one approved by the Parliament. All in-year adjustments have to be reported, though, in the final state budgetary account. Line ministries are also allowed to **carry forward to up to next 3 fiscal years** allocations for **capital expenditures and EU financing**, without the need to get authorization of Parliament or MOF. This practice is not common and introduction of some limitations or authorization should be considered.

**4.6. Lessons learned and further steps**

One of the major PFM reform achievements was **widening of the budget coverage** to accommodate the whole general government on a consolidated basis in line with ESA95 requirements. In **Parliament** though, the budget is still **approved only on an annual basis**

and for central government bodies, despite being embedded in a macro-fiscal framework and supported by MTBF. **Legally binding** general government deficit and debt targets, and also the approval of out years within MTBF by Parliament would **further increase the credibility of the PFM** in Slovakia (also recommended by OECD and EU).

The **methodology for establishing the MTBF is codified only partially** (covering mainly the procedures within the top-down approach); technical details are described in manuals that have not been formally adopted. Practice of **establishing baselines is not widely used** by LMs, since it is not required by legislation and also not supported by the IT system. At least the **FIA procedure** is **part of government administrative rules** and is adhered to. Further step forward would present establishment of a centralized register of commitments, which is missing at the moment (e.g. Government legal obligations, commitments from contracts).

The introduction of a **priority reserve fund**[3] into the MTBF process was intended to serve as a motivation for ministers to adhere to expenditure limits provided by MOF in the initial stage of the budget process. Ministers, who prepared good budget proposals and requested additional funds for meaningful development projects, should have been remunerated for their effort. In practice though the allocation of funds is rather based on political ground, distorting the consistence of MTBF with unsystematic short-term expenditure items, although from an **aggregate fiscal discipline** point of view it **served the purpose well**. The priority reserve fund was a good idea to support transition to hard budget constraints, but now it should slowly be abolished.

The PFM reform led to a significant **improvement in adherence to fiscal targets on the aggregate level**, but the structure of expenditures within overall ceiling remained shaky due to numerous budget adjustments performed during the budget execution by MOF. **Limitation of expenditure reallocations** (either on ministry or program level) would lead to improved stability and predictability of sector specific spending on the central government level, and would also increase Government accountability towards the Parliament.

OBJ

[3] The existence of the priority reserve fund is not formalized in legislation or methodology; it became part of the budget system based on common practice and acceptance of the rules of the game by political parties.

## 5. Performance-Based Budgeting

### 5.1. Timeline of PBB implementation

Performance-based budgeting (called program budgeting in Slovakia) was introduced gradually since 2000. It was triggered by the need to improve operational efficiency of public spending. Upon minister's request an U.S. Treasury adviser was placed at MOF and together with two dedicated MOF employees they prepared the initial concept of PBB. First four line ministries (Ministry of Education, Slovak Academy of Sciences, Supreme Court, and Constitutional Court) were piloting the newly prepared methodology in 2001, 6 others joined one year later. MOF provided mainly methodological consultancy but due to lack of capacity didn't focus much on the content of the programs.

In the **initial concept** programs were only **restricted to project oriented expenditures**, especially related to utilization of EU pre-accession funds. Since separate administrative structures (organization units) are responsible for EU fund implementation, the pilot phase didn't prove to be very effective. The PBB culture wasn't spreading fast enough in pilot ministries, so a decision on across the board implementation of PBB was taken at MOF. Several study tours to countries with developed PBB systems[4] (UK, Netherlands, Sweden) were organized for the MOF core staff, OECD and WB guidelines also served as an inspiration. Except methodological guidance, MOF also provided the line ministries with consultations on program composition reaching to policy level through the newly established budget analysis unit. No formal training program was designed or implemented, which led to increased consultancy demands from LMs and increased workload of MOF to assure unified understanding of PBB during the implementation phase.

The **pilot was rolled out to all central government bodies in 2004** based on amendment of the PFM legal framework and a major revision of PBB methodology establishing the logical framework for government programs. Budget and Treasury IT systems had to be adjusted to accommodate the introduction of program classification. During the first year a **major revision of program structures took place**, which led to significant reduction in number of programs[5] and duplications in public spending. Monitoring and evaluation methodology was prepared in 2007 and is now an integral part of the PBB system. Some public sector entities (e.g. Social Insurance Fund) are not required to use PBB, but respective line ministries set strategic objectives for the whole sector in their program structures.

**Since 2009 PBB was expanded also to regional (8) and local (almost 2,900) self-governments**. A separate pilot project implemented by a local consultancy company and covering 30 self-governments preceded the full rollout by 2 years. The methodology was adjusted to specific conditions of self-government and a set of practical guides was developed to assist with implementation through good and bad examples (see Annex 3 for suggested program structures for self-governments).

Currently the PBB framework is described in the following normative acts:

- Budgetary Rules Law,
- Methodological handbook on program budgeting,

[4] All of the visited countries have different approaches to PBB, example of Netherlands was chosen as most suitable for Slovakia due to political and administrative system similarities.
[5] The initial number of programs was more then double the actual

- Manual on formulating goals, objectives, and measurable indicators,
- Manual on monitoring and evaluation of programs,
- Manual on formulating program structures on the level of regional and local governments.

### 5.2. Architecture of the PBB system

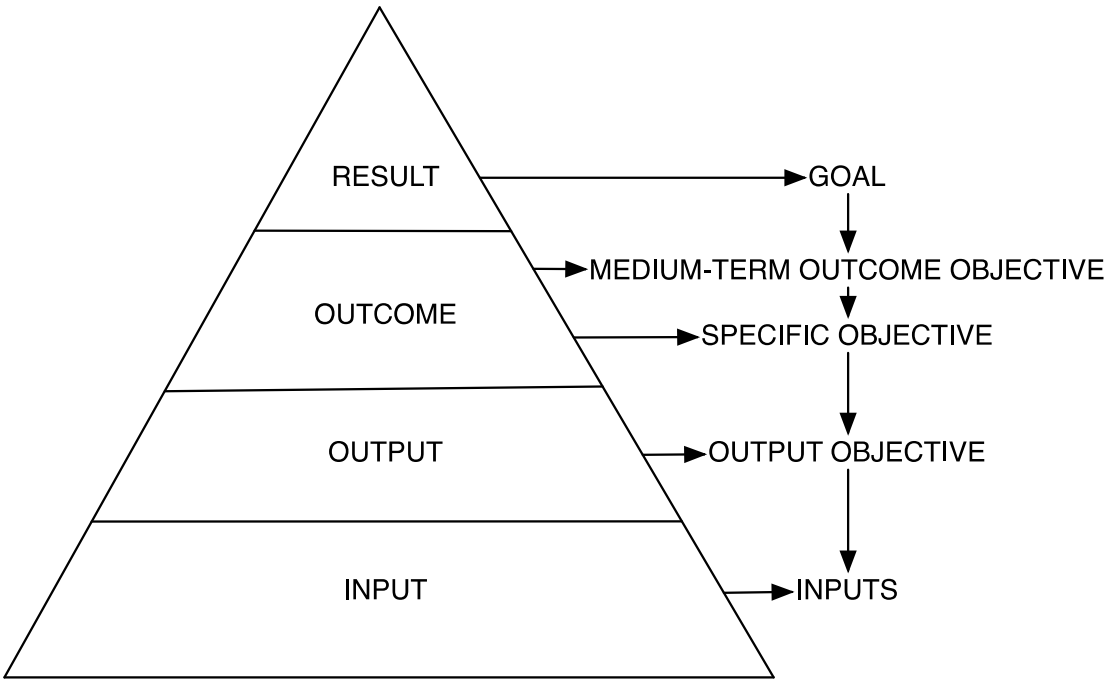
The **program budget is not replacing the traditional budget**, but supplementing it instead. It is a different way to present financial data together with non-financial indicators, offering additional value for decision-making. Program classification is integrated with all other budget classifications and supported by both the budget and Treasury IT systems. Slovak public authorities are still using both methodologies – line item budgeting and program budgeting – simultaneously. Decentralized approach to PBB was chosen in Slovakia where **line ministries are designing the Government programs and MOF provides them with methodological guidance**. After MOF sets binding expenditure limits for line ministries, they start to develop their program structures, including goals, objectives and measurable indicators, and allocate resources to those programs. All expenditures must be further broken down into detailed budget items in all applicable budget classifications.

There are **three levels of the program structure**: programs, sub-programs and elements/projects (distinction of time unlimited/limited duration of the program component). The budget has **around 70 programs** out of which 5 are multi-ministerial. Multi-ministerial programs are created to coordinate tasks between different ministries, one of them always being the lead ministry responsible for program performance and monitoring. Other ministries are considered program participants and create only sub-programs within their program structures; these however include objectives and indicator corresponding with the overall program goals.

At the lowest level of program structure formulation of specific objectives is required by the methodology, while higher levels usually have strategic objectives or goals. Goals just describe the desired result of program implementation, while objectives include a specific value, must be accompanied by a measurable indicator, and can be short- or long-term and output or outcome oriented. Since there were many mistakes deteriorating the quality of program structures, MOF prepared a **separate guideline on formulation of objectives and measurable indicators**, including good and bad examples. Currently there are around 1,300 indicators in the budget, half of them being output oriented and the rest outcome oriented. Valuable source of inspiration for setting up measurable indicators was OECD and other international organizations, but also domestic non-financial data sources were used.

The **logical framework of programs** allows ministries to develop their strategic policies, as it describes the intervention logic, desired socio-economic objectives, as well as resources needed to achieve them. Some ministries are actively using this tool for policy formulation, others are using the program structures in a very rigid and formal manner, just filling in the required information and handling the policy formulation process separately. MOF is encouraging line ministries to use their program structures to design and cost their policies, though the quality varies and generally depends on institutional capacity of the respective ministry. Consultations with line ministries are part of the annual budget process (adjustments in program structure, quality of goals and objectives) and outstanding issues are also discussed during formal budget negotiations at MOF at the level of ministers.

*Scheme: Logical framework of a program*




The **performance** (achieved compared to planned results) **varies significantly across ministries**. It is not the program management though that is deciding whether the performance is good or bad, but rather **wrong definition of targets** (under- or overestimating) in the first place. There are no mechanisms in place to punish poor or remunerate good performance. The intention to not include them into the framework was taken in order to limit opposition of program managers during the implementation period. **Monitoring of program performance is done by the program managers** through the budget IT system twice a year and must be included in the final account of the respective ministry. Program **evaluation is still underdeveloped** due to lack of institutional capacity. A dedicated project was implemented in 2006 to 2007 to address this shortcoming, which developed a training system for program evaluation and delivered trainings to responsible public officials in several line ministries. Also 19 pilot evaluations were produced within the project.

External audit is done by the National Control Office (equivalent of Supreme Audit Office), which started to catch up with the PBB methodology only recently. Its staff received trainings provided by MOF experts and several audits of program structures and performance data quality have been produced since then. **Methodology for performance audits still needs to be improved** though.

### 5.3. Lessons learned and further steps

The initial implementation of PBB in Slovakia was relatively smooth and **MOF didn't face major opposition during the rollout**. The speed of the rollout might have been the primary reason for that, since the extent and pace of implementing the changes proved to be problematic later on in the process. **Middle management of ministries** started to show **reluctance due to capacity reasons**. Especially the policy sections of line ministries didn't

adopt the PBB concept yet, pointing at a relatively **weak training component** of the PFM reform (especially relevant if a big bang approach to rollout is chosen).

Crucial for success proved to be **support for PBB at high political level** – especially within MOF and line ministries. Despite people changing at the position of minister of finance, the drive for reform remained unchanged. LMs, where the PBB implementation was supported directly by ministers and/or deputy ministers, developed better quality program structures more rapidly then others.

PBB has significantly **improved transparency of the budget** for non-specialists and led to an increase in accountability of ministers and program managers. Generally, the budget system with performance data should **enhance operational efficiency** of public spending, but this very much **depends on the political culture** in the country. **Monitoring and evaluation remains a weak point** of the PBB framework, since it doesn't give sufficient feedback for policy design. Allocation decisions in Slovakia are often done based on political agreements rather then on program performance assessment (additional funds allocated to ministries based on coalition agreement).

On **the local level**, experiments with PBB started before it was introduced as a requirement. Since self-governments already had to prepare and approve **economic and social development plans**, it was easier for them to transform the goals and objectives of these plans to programs within the PBB framework. Although the PBB implementation was completely **independent from fiscal decentralization** that took place in 2002-2005, improved administrative capacity resulting from the decentralization process **helped to accommodate PBB** easier on the local level. So far the regional governments and big cities adopted and are using the PBB methodology without much difficulty, though **mainly for small settlements** it presents an **administrative burden** rather then helpful tool to manage their budgets more efficiently.

Slovakia still **misses the general performance management culture**, which can be attributed among other things also to limitations in employment and remuneration system in the public sector. Civil service act allows for some extent of performance remuneration, though this possibility is relatively limited with position and age being most important factors in determining salary of public officials. **Accountability of program managers** could also start to be addressed in the context of a wider public administration reform.

Slovak PBB methodology **doesn't distinguish between various types of expenditures** (e.g. continuous entitlement programs vs. time limited projects), and the **IT system doesn't provide** program managers with **specific expenditure management tools**. This also might be one of the reasons, why PBB was not widely accepted by policy departments. The **PBB methodology is also not fully consistent with the methodology for managing projects financed by EU funds**, resulting in duplicate administrative structures and sometimes confusion in terminology and program structures.

Reform overload from the period of 2003 to 2005 slowed down further PBB improvements, with methodology for monitoring and evaluation of programs and the rollout to regions and municipalities being exceptions. **Lack of political commitment to continue with the reform** can be observed at the moment and there is a **risk of reform reversal** if the methodology won't be simplified and ministries won't be provided with further capacity building support.

## 6. Legislative, institutional and procedural adjustments

### 6.1. Regulatory environment

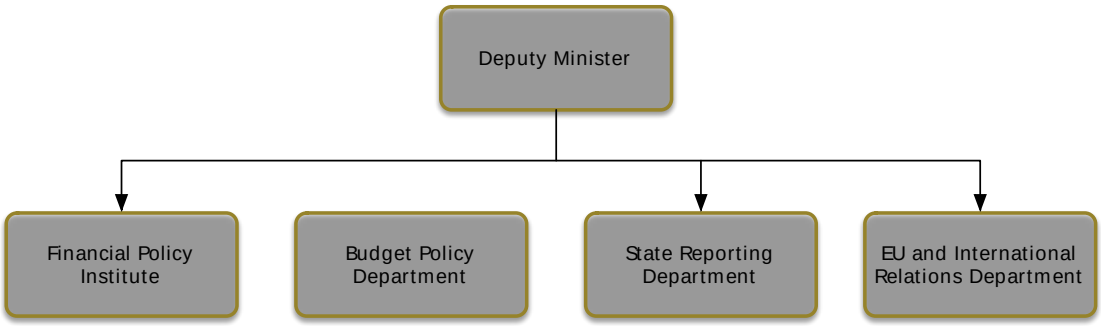
Slovak **PFM system was developing very rapidly** and there was a need for constant adjustment in legislation. This was caused partially by domestic political interest in PFM reform, but also by integration ambitions of the Government to EU. A relatively **complex legal framework and several methodological guidelines** issued by the Government or MOF thus regulate the PFM system rather then just one organic budget law. This setup proved to be very **efficient, since minor adjustments to legislation of a technical character were passed more easily** and methodological guidelines can be adjusted flexibly according to current needs and developments stemming from their practical application.

Below is the list of major norms regulating the PFM system in Slovakia. The biggest change was the incorporation of MTBF and PBB directly in the budgetary rules law, defining the budget as being prepared for a period of 3 years and consisting of programs and their parts, and leaving for further regulation through MOF methodological guidelines. Besides these norms there are practical manuals for ministries and agencies of non-binding nature further expanding on the PBB methodology. Most of these documents can be found under the link http://www.finance.gov.sk/Default.aspx?CatID=3514 (only main documents in English).

- EU Budgetary Procedures and Regulations,
- Budgetary Rules Law for Public Sector (general),
- Budgetary Rules Law for Local and Regional Self-Governments (specific),
- Law on the State Treasury,
- Law on Financial Control and Audit,
- Methodology on Medium-Term Budgeting,
- Methodology on Program Budgeting,
- Manual on Formulation of Goals and Objectives,
- Manual on Formulation of Programs (Logical Framework),
- Manual on Monitoring and Evaluation of Programs.

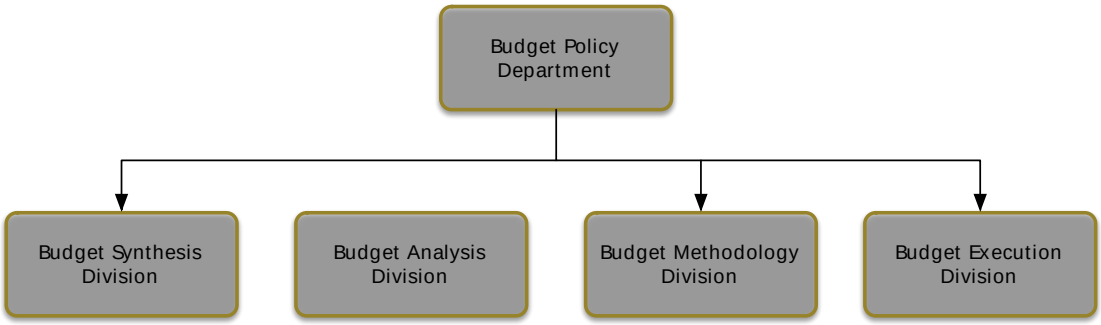
### 6.2. Ministry of finance organizational adjustments

In 2003 a major reorganization of MOF took place that helped to support the PFM reform. It was based on a comprehensive procedural and personal audit executed by a private consulting company and led to a reduction of employment at MOF by 30%. As a result of the reorganization, number of units dealing with PFM related agenda was significantly reduced on all levels of management. There are four sections dealing with PFM issues at the moment, all of them being supervised by one of the two deputy ministers.




**Financial Policy Institute** (around 20 employees) is the unit responsible for macroeconomic and fiscal forecasts and policy impact analyses if financial programming is involved. **Budget Policy Department** (around 80 employees) is responsible for budgeting methodology, annual budget preparation process, budget execution monitoring and policy analysis focused on line ministries. **State Reporting Department** (around 40 employees) is responsible for the accounting methodology, fiscal reporting and relations with State Treasury and Debt and Liquidity Management Agency. **EU and International Relations Department** (around 90 employees) is responsible for EU related agenda including budget estimates of revenues to and expenditures from EU budget.

Particularly interesting is the example of **Budget Policy Department** that has been strongly affected by the organizational change. It used to have eight divisions, four of them being sector specific line divisions, one state budget synthesis division, horizontally focused divisions for wage policy and capital investments, and budget regulation division responsible for legislation and methodology. In this setup the sector specific line divisions were opposing the budget synthesis division and serving as prolonged hands of line ministries within MOF when asking for additional resources to finance their policies. No capacity to analyze budget data and/or sector policies was present at the time. Reorganization decreased the number of divisions to four, merging all sector specific line divisions into one Budget Analysis Division. Division for capital investments was abolished and wage policy division was included into the Budget Synthesis Division.




The **Budget Analysis Division** is reviewing fiscal impacts of sector policies submitted by line ministries, checking their baseline estimates and setting their revenue and expenditure ceilings. **Budget Synthesis Division** is compiling sector specific budget data from the analysis department and preparing the budget framework, as well as taking care of horizontal budget

policies (e.g. public employment and wage bill). It is central in linking the top-down (FPI) and bottom-up (budget analysis department) approach within the budget process. **Budget Execution Division** is monitoring budget execution and granting reallocation permits to line ministries in accordance with legislation. **Budget Methodology Division** takes care of the legal framework and methodology for budgeting and also is responsible for intra-governmental fiscal relations with regional and local governments.

### 6.3. Capacity of line ministries

Line ministries were facing growing complexity of the PFM system during the reform years, and had to adapt to a significant transfer of responsibilities and accountability. The success in implementation varies significantly among them, the **distinctive factors being support by top-management and institutional capacity**. Even among the six line ministries directly supported by the PFM reform project there were substantial differences. The main **bottleneck of the reform was linking the policies with budget on the level of line ministries**. The whole reform effort stopped at financing sections, since the policy sections were not prepared to deal with the complexity of PBB methodology. Similar shift of responsibility and accountability as was done from MOF to line ministries now needs to happen within the line ministries, from the finance section to policy sections.

They are **lacking policy formulation, costing and management skills** and have no access to suitable IT system to support these tasks. Because of these reasons they are reluctant to take over responsibility for managing their programs fully, including resource planning and allocation. Until now **no capacity building component was addressing this issue**, with the exception of 6 line ministries supported by the PFM reform project. This problem seems to be blocking further progress in PFM reforms and it would need to be addressed systematically by a public sector reform.

### 6.4. IT system support

Similar to the development of legislation, also the IT environment has developed rapidly and incrementally. There is **no centralized IT system in place to support PFM**, instead there are **four independent but interconnected IT systems** supporting different functions in the budget process. Budget information system is supporting budget preparation and adjustments to the budget during the execution period, and it also contains all non-financial program data. Treasury IT system enables budget execution through an on-line payment interface, as well as centralizes accounting data for reporting purposes. EU fund management is covered by two systems: ITMS and ISUF. First of them is covering the programming and monitoring and evaluation part of financial management (also including non-financial data), while the second is supporting accounting.

**Budget information system** started in 1996 as the first one, supporting only MOF during the budget preparation period initially. Later on it was expanded to cover all line ministries and agencies, and also the coverage of budget process related functions widened significantly. Now it fully supports multi-annual and program budgeting in real time with the possibility of developing different budget scenarios and analyzing the data. A separate on-line module of the IT system was prepared in order to support the implementation of PBB in regional and local governments. The core database of the system runs on Oracle.

The **Treasury IT system** started to operate in 2004 and supports budget execution in real time. It started supporting the budget execution by programs with one-year time lag due to

difficulties with the program coding system. The core component of the system runs on SAP, so it is an implementation of a commercial off the shelf IT system. It is interconnected with the budget system and checks all payments against account balances and authorized allocations. The Treasury IT system also has an interface for collecting accounting data from individual accounting systems of agencies, as there is no unified accounting IT system in place.

The urgency in preparation for EU fund utilization was a reason for establishing separate **IT system infrastructure for EU funds management** comprising of two IT systems. ITMS serves as a programming tool for EU fund managers and includes allocation, as well as monitoring and evaluation functionality. ISUF is an accounting system for EU funds, the execution is done through the Treasury IT system. Both of them were custom made based on methodological requirements.

All of the mentioned IT systems are interconnected through an **integration platform** and exchange data in real time. They also use the same physical communication infrastructure that is developed and maintained by MOF for all government agencies predominantly for PFM purposes and administered by a separate MOF agency.

**IT support** proved to be **one of the key elements of success** in PFM reform implementation, as all of the changes in procedures were directly reflected in the day-to-day work with PFM IT systems. The **decentralized IT architecture allowed for faster and relatively cheaper** adjustments without the need to upgrade all systems, though all changes needed to be closely coordinated as they were affecting all of the IT systems. **Domestically developed custom-made solutions proved to be more adaptable** to rapidly changing methodological environment then standardized of-the-shelf solutions.

## 7. Challenges faced and politics behind the reforms

### 7.1. High-level commitment

PFM reform was initially triggered by the **necessity to consolidate public finance** in order to help macroeconomic stabilization of the country. Later on **external factors prevailed** and especially EU membership was a strong incentive for making significant improvements to the PFM system. Government decision about Eurozone entry from 2005 defined fiscal targets for years to come, and despite negative fiscal impact from pension reform, no relevant political party was questioning the direction of fiscal policy and relevance of PFM reform efforts. **MTBF and PBB were used as tools** enabling accomplishment of these political goals.

It was this **political commitment across the board** that made the implementation of PFM reform successful. Slovak **Government felt strong ownership** of the World Bank financed PFM reform project and was managing it autonomously with help from external consultants. **MOF was the center of all reform initiatives**, since minister of finance backed the reform strongly with his influence in the Cabinet (being also deputy Prime Minister for economy) and within his own political party (deputy chairman of the strongest coalition party). MOF was serving as an example for other ministries on how to implement the changes. **No significant opposition** to the reform was formed on the Cabinet or Parliament level and PFM related topics were too technical to be attractive for media and broader public.

In order to establish **hard budget constraints on the aggregate and sector level**, it was necessary to focus the attention of ministers to a relatively small though politically attractive pool of resources. This was the reason for establishing the **priority reserve fund** (see 4.4. and 4.6. for further details), envisaged to finance new initiatives of ministries that comply with the resource ceilings. The disbursement of funds was envisaged to be done on a competitive basis, but soon it proved to be a victim of political bias. Ministers started to ask for financing of obligatory expenditures, as this strategy proved to be more successful, keeping discretionary items hidden in their initial budget proposals. It proved to be a **good tool to support transition** to a credible MTBF with hard budget constraints, but after a while started to distort the medium-term focus of line ministries. With the increased awareness of ministers about the medium-term approach to planning and budgeting, and their willingness to observe binding expenditure ceilings allocated to them by MOF, the priority reserve fund **should be abolished**.

The reform brought positive and measurable **results on the aggregate level**, improving credibility and predictability of fiscal policy through meeting the medium-term targets. On the **sector level the results are less satisfactory**. Some ministries used the newly developed tools – namely medium-term and program budgeting – actively and improved their financial management[6], while others didn't. It is still too common that the composition of the executed budget differs from what was adopted by Parliament significantly, even though the aggregate limits were met. This has two explanations: poor budget planning of line ministries and loose reallocation rules. OECD in this context recommends **strengthening the**

[6] In the ministries of labor and social affairs, as well as education, programs and their objectives were aligned with the policies and program structures follow the main budget components (e.g. entitlement schemes). Measurable indicators help the management of these ministries to monitor program implementation continuously, since the reporting on these indicators is built in into the managerial system of these ministries.

**binding nature of MTBF and limiting the possibility of reallocations**. Some restrictions should also be applied to carry forwards of unspent budget allocations.

### 7.2. Overcoming the capacity constraints

**Resistance** against comprehensive reform implementation was formed at the **mid-management level of budget departments within MOF**. Some of the staff didn't accept ideas coming from outside the ministry and were postponing implementation of some decisions. **Reorganization** at MOF **addressed this resistance** through reshuffling of the budget section and replacement of several key managers. MOF staff did not accept this decision immediately, but due to commitment of top- and mid-management the reforms were pushed through and started to show tangible results already after the first budget cycle.

**Budget sections at line ministries** also didn't welcome the changes due to capacity constraints, but soon some of them realized the potential of MTBF and PBB and started to cooperate. A working group for discussing methodological issues was established and headed by the general director of budget section at MOF, though this discussion didn't prove to be very effective due to the large number and diversity of participants. **Gradual approach in reform steps implementation was chosen** instead with some line ministries, selected on basis of their willingness to participate, piloting the envisaged adjustments before they became part of the regulatory framework. This approach was generally **appreciated and also helped avoiding some of the mistakes** discovered early at the pilot stage.

Similar approach was chosen also when **rolling out the PBB to regional and local governments in 2009**. Thirty **pilots of various sizes were chosen** across Slovakia to test the prepared methodology and fine-tune indicators to specific conditions. There was no opposition against implementation of PBB, since the roof organizations[7] backed this process and MOF provided local governments with an IT tool based on the budget IT system to cope with new requirements in a comfortable manner. Until now majority of **local governments seem to use this tool in a formalized manner** and consider it an administrative burden rather then practical tool for policy formulation and execution. Improvement of PBB at the local level can only be achieved through **increasing the capacity** of municipalities to implement the principles of PBB into their internal planning and budgeting procedures. This is not to be expected in the small municipalities, so a waiver might be considered for them.

There are big **differences in adoption of PFM reforms between various ministries**, some of them using the new tools actively to their benefit, while others only formally complying with the legislative requirements. This distinctive approach seems to be dependent of several factors. **Commitment of top-management** of the particular ministry being the most important one, followed by **institutional capacity** and **character of the administered sector**. Complex sector-wide ministries, such as education or transport, seem to get along with the methodology better then administratively focused agencies, such as Office of the President. It is easier for ministries having a large portfolio of activities to properly define the intervention logic of programs and plan for the medium-term. Institutional capacity is problematic mainly in the **policy sections** of line ministries, since they **didn't receive any**

[7] Municipalities have two such organizations representing their collective interests – one of them is ZMOS advocating mainly for smaller settlements and second Union of Towns congregating larger towns. Regional governments formed a similar organization called SK8.

**formal training on PFM related issues during the reform project implementation**. Linking sector policy formulation more closely to budget and shifting responsibility for financial management of programs to policy sections thus seem to be remaining challenges on PFM reform agenda.

### 7.3. Further steps

It is important to mention that the reforms significantly **increased the complexity of the PFM system** in Slovakia, since most of the previous requirements and classifications were kept, while MTBF and PBB were implemented on top of the existing practices. This also might be an explanation for **workload complaints** from budget officials and sometimes **lacking accuracy and reliability of budget data** (mainly concerning program structures). Further reforms will need to start with identifying obsolete budget practices and simplifying the budget classification in order to **relieve current workload** and thus increase the absorption capacity for further changes.

Simplification of the PFM system should be accompanied also by **targeted training activities**, specifically aimed at policy sections of line ministries with poor program structures and/or expenditure planning procedures. A **permanent PFM education center/program** should be put in place and actively utilized to overcome these shortcomings of the PFM reform implementation period.

**Renewed political interest in PFM reform** is necessary to finalize the reforms that were started in the 2002-2005 period. The current debt crisis in EU should contribute to raising political awareness, and help to focus the attention of policy makers towards improvement of PFM practices. Despite the turbulence in the current macroeconomic environment, **MTBF is and effective tool for stabilizing public finance** through hard budget constraints and prioritization of expenditures. Moreover, as the Slovak evidence shows, it also can contribute to overall macroeconomic stability. **PBB** on the other hand should **help to improve the efficiency of public spending** through identifying duplicities in Government programs in the initial stage after implementation, and later on helping program managers to achieve goals and objectives in the most cost efficient way.

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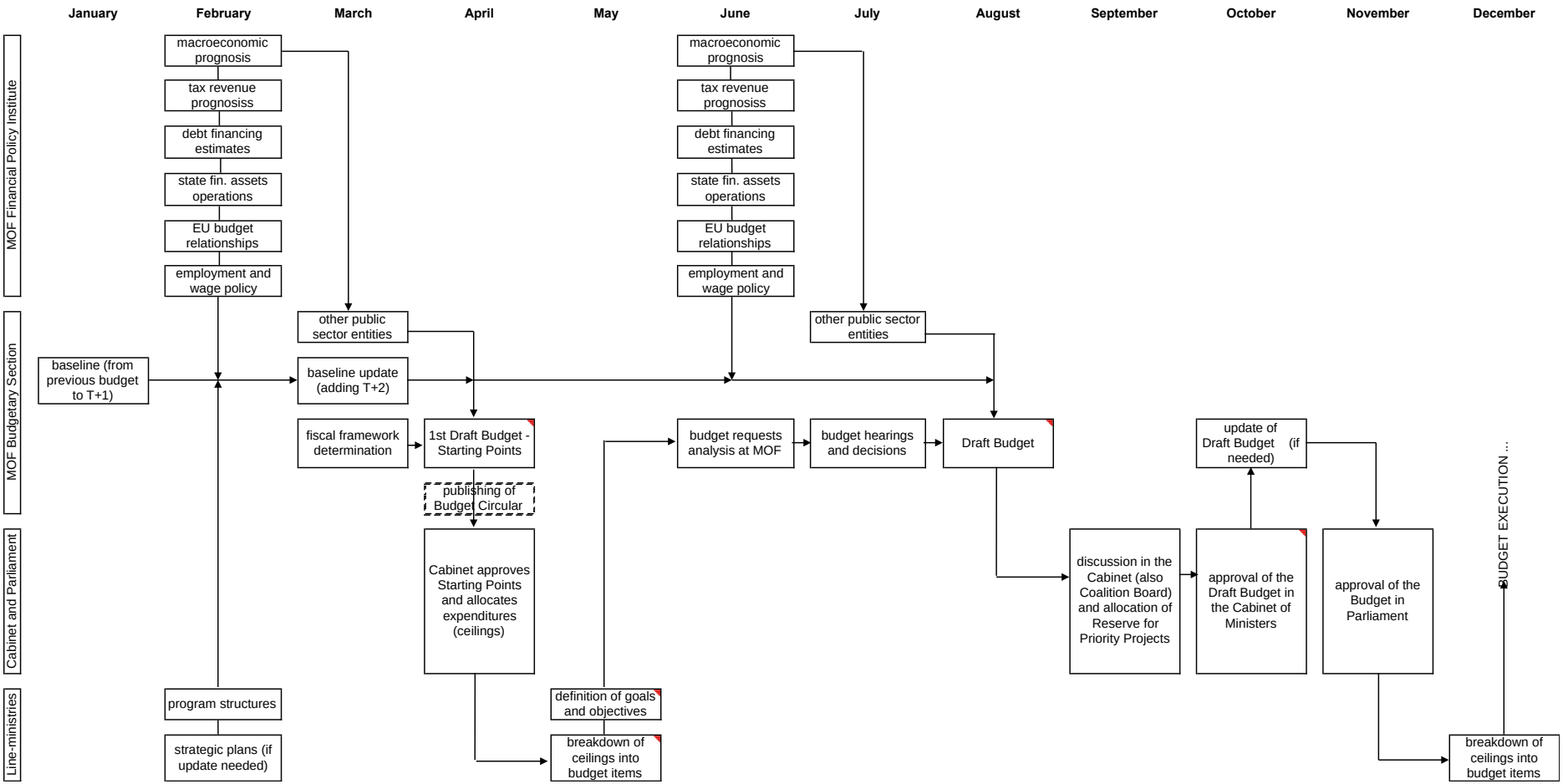
## Annex 1: Budget calendar



## Annex 2: Sample program structure (Ministry of transport)

**Program 053: Road Infrastructure**

**Goal:** To allow fast, efficient and safe transport on well maintained roads and highways.

**Sub-program 05301: Maintenance and repair of roads and highways**

Objective 1: Until 2010 ensure standard of maintenance[8] and repair of 1st class roads and highway feeders by 80%.

| Output in % | *Standard fulfillment* | | | | | |
|---|---|---|---|---|---|---|
| Year | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| Plan | 60 | 60 | 60 | 60 | 70 | 80 |
| Reality | 44,52 | 62,4 | | | | |

Objective 2: Until 2010 ensure standard of maintenance and repair of highways by 95%.

| Output in % | *Standard fulfillment* | | | | | |
|---|---|---|---|---|---|---|
| Year | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| Plan | 90 | 90 | 90 | 90 | 95 | 95 |
| Reality | 87,56 | 88,22 | | | | |

***Element 0530101: Maintenance and repair of 1st class roads and highway feeders***

*Objective 1: In 2008 fulfill the standard of maintenance and repair of 1st class roads and highway feeders by 60%.*

| Output in % | *Standard fulfillment* | | | | | |
|---|---|---|---|---|---|---|
| Year | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| Plan | 60 | 60 | 60 | 60 | 70 | 80 |
| Reality | 44,52 | 62,4 | | | | |

*Objective 2: In 2008 shift from category 5 and 4 (worst) 40kms of roads into category 1 (best).*

| Output in kms | *Lengths of roads shifted to a higher quality category* | | | | | |
|---|---|---|---|---|---|---|
| Year | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| Plan | 40 | 40 | 40 | 40 | 45 | 45 |
| Reality | 52,889 | 70,032 | | | | |

[8] There are strictly defined standards which classify the quality of roads according to their maintenance into 5 categories from excellent to terrible. Because of lack of money the overall quality of roads in Slovakia is below optimum.

***Element 0530102: Preparation and execution of highway repairs (National Highway Company)***

*Objective 1: In 2008 fulfill the standard of maintenance and repair of highways by 60%.*

| Output in % | *Standard fulfillment* | | | | | |
|---|---|---|---|---|---|---|
| Year | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| Plan | 90 | 90 | 90 | 90 | 95 | 95 |
| Reality | 87,56 | 88,22 | | | | |

*Objective 2: In 2008 shift from category 4 and 3 60kms of highways into category 1.*

| Output in kms | *Lengths of highways shifted to a higher quality category* | | | | | |
|---|---|---|---|---|---|---|
| Year | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| Plan | | 60 | 60 | 60 | 70 | 80 |
| Reality | 28,4 | 78,9 | | | | |

**Sub-program 05302: Construction of 1st class roads**

***Element 0530201: Construction of road network***

*Objective: In 2008 ensure public use of 20kms of new 1st class roads.*

| Output in kms | *Lengths of new roads* | | | | | |
|---|---|---|---|---|---|---|
| Year | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| Plan | | 15 | 6 | 20 | 20 | 20 |
| Reality | 25,673 | 14,642 | | | | |

***Project 0530203: Re-routing of state road II/520 Nová Bystrica-Oravská Lesná***

*Objective: In 2008 continue in building of 2 lane road to ensure road connection between Orava and Kysuce regions in the length of 9,6kms, with the aim to ensure its public use in 2009.*

| Output logical | *Continue in building* | | | | | |
|---|---|---|---|---|---|---|
| Year | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| Plan | | YES | YES | YES | | |
| Reality | | YES | | | | |

***Project 0530204: Northern bypass of town Trnava***

*Objective: In 2008 finish the first stage of building the northern bypass of town Trnava.*

| Output logical | *Finish of the first stage* | | | | | |
|---|---|---|---|---|---|---|
| Year | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| Plan | | | | YES | | |

Reality

**Sub-program 05303: Construction of highways (NHC)**

Objective 1: Until 2013 ensure a highway connection between the capital Bratislava and town Košice in the overall length of 427kms.

| Output in kms | *Lengths of new highways* | | | | | |
|---|---|---|---|---|---|---|
| Year | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| Plan | 11,3 | 14 | 12,9 | 23,48 | 25,76 | 48,59 |
| Reality | 11,3 | 18,6 | | | | |

Objective 2: Until 2011 ensure a highway connection between Trnava and Banská Bystrica in the overall length of 161kms.

| Output in kms | *Lengths of new highways* | | | | | |
|---|---|---|---|---|---|---|
| Year | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| Plan | | | | | | 18,05 |
| Reality | | 10 | | | | |

***Element 0530302: D1 Mengusovce-Jánovce (Cohesion fund project)***

*Objective: In 2008 execute 30% of planned works volume on the construction of highway section D1 Mengusovce – Jánovce in the overall length of 26,3kms with planed public use of the 2nd and 3rd part in 12/2008 and 1st part in 11/2009.*

| Output in % | *Planned works volume* | | | | | |
|---|---|---|---|---|---|---|
| Year | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| Plan | | 25 | 30 | 30 | 15 | |
| Reality | | | | | | |

***Element 0530305: Highways sponsored by national sources***

*Objective: In 2008 bring into public use 20,17kms of highways.*

| Output in kms | *Lengths of new highways* | | | | | |
|---|---|---|---|---|---|---|
| Year | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| Plan | | 14 | 19 | 20,17 | | 16,37 |
| Reality | 14,1 | 17,32 | | | | |

***Element 0530306: Modernization and development of road infrastructure – measure 1.2 Operational Program Basic Infrastructure (EU structural funds)***

*Objective 1: In 2008 execute 30% of planned works volume on the investments: R2 Figa bypass; R3 Trstená bypass.*

| Output in % | *Planned works volume* | | | | | |
|---|---|---|---|---|---|---|
| Year | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| Plan | | | 40 | 30 | 30 | |
| Reality | | | | | | |

*Objective 2: In 2008 execute 30% of planned works volume on the investments: I/75 Galanta bypass; I/51 Trnava northern bypass; I/64 Prievidza bypass; feeder I/18 Strážov – Žilina; feeder Košice - Prešovská – Secovská.*

| Output in % | *Planned works volume* | | | | | |
|---|---|---|---|---|---|---|
| Year | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| Plan | | | 30 | 30 | 40 | |
| Reality | | | | | | |

## Annex 3: Suggested program structures for self-governments

**Suggested program structure for municipalities**

Program 1: Planning, management and control

Program 2: Advertisement and marketing

Program 3: Internal services

Program 4: Citizen services

Program 5: Safety

Program 6: Waste management

Program 7: Local roads

Program 8: Transport

Program 9: Education

Program 10: Culture

Program 11: Environment

Program 12: Social services

Program 13: Administration

**Suggested program structure for higher territorial units**

Program 1: Planning, management and control

Program 2: Advertisement and marketing

Program 3: Internal services

Program 4: Citizen services

Program 5: Roads

Program 6: Transport

Program 7: Education

Program 8: Culture

Program 9: Social services

Program 10: Health care

Program 11: Administration

## Annex 4: Budget coverage

1. State Budget
    - 34 budget chapters ministries or agencies (top level budget users)
    - 916 budgetary and subsidized organizations (second level budget users)
2. Municipalities
3. Higher territorial units
4. Social Insurance Fund
5. Public healthcare insurance
6. National Nuclear Fund (waste disposal)
7. National Property Fund
8. Environmental Fund
9. State Housing Development Fund
10. Office for Health Care Supervision
11. Slovak Land Fund
12. Slovak Consolidation Agency (bank restructuring)
13. Public universities
14. Slovak Broadcasting and Television
15. Public Press Agency
16. Office for Supervision on Audit
17. Audiovisual Fund
18. State subsidiary organizations