

THE IMPLEMENTATION PRACTICES OF PERFORMANCE-BASED BUDGETING SYSTEMS IN FOREIGN COUNTRIES

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Abstract. This article presents the implementation and evolutionary development of the performance-based budgeting system in foreign countries, as well as the goals and objectives of introducing performance-based budgeting in Uzbekistan.

Keywords: budget, budgetary funds /budget funds, results-oriented budgeting, program budgeting, traditional budgeting.

Introduction

At present, more than ten countries have implemented or are in the process of implementing budget reforms similar to those underway in Uzbekistan. These countries are actively introducing mechanisms aimed at modernizing public financial and economic governance systems. Examining the experience of each country — particularly in relation to the implementation of performance-based budgeting practices — is highly beneficial, as it allows for the identification of advanced approaches as well as those aligned with national specificities.

Table 1 below presents the experience of various countries in introducing performance-based budgeting systems.

Table 1. Implementation Practices of Performance-Based Budgeting Across Countries¹

| Country | Name of Reform / Legislation | Years |
|----------------|--|------------|
| United States | Performance Budgeting | 1949–1962 |
| | Planning–Programming–Budgeting System (PPBS) | 1962–1971 |
| | Management by Objectives | 1972–1975 |
| | Zero-Based Budgeting | 1977–1981 |
| | Government Performance and Results Act (GPRA) | Since 1993 |
| Australia | Reform “Effects Measuring & Direct Results” | Since 1997 |
| Netherlands | Reform “From Political Budget to Critical Socio-Economic Governance” | 1999–2002 |
| | Government Accounts Act | Since 2002 |
| New Zealand | Public Finance Act | Since 1987 |
| United Kingdom | Next Steps Initiative | Since 1988 |

¹ Author development.

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|---------------------------|---|------------|
| France | Organic Law on Public Finances (LOLF) | Since 2001 |
| Sweden | The Budget Act | 1996–2010 |
| | Budgetlag (2011:203) | Since 2011 |
| Canada | Financial Administration Act | 1995–2005 |
| | Federal Accountability Act | Since 2006 |
| Norway | Appropriations Regulations, New Public Management Guidelines, Project Financing (Meld. St. 30, 2019–2020) | Since 1999 |
| Armenia | Law “On the Budget System” | Since 1997 |
| | Public Financial Management Strategy | 2010–2015 |
| | Full Introduction of the Program-Based Approach | Since 2019 |
| Bulgaria | Public Finance Act | Since 2013 |
| Russian Federation | Budget Code | 1998 |
| | Government Resolution No. 249 (22.05.2004) | Since 2004 |
| Kazakhstan | Concept for Introducing the State Planning System | 2007 |
| | Budget Code | 2008 |
| Kyrgyz Republic | Public Financial Management Development Strategy | Since 2016 |
| Tajikistan | EFSD Project (initial phase) | Since 2024 |
| Turkmenistan | World Bank Project (initial phase) | Since 2024 |

Literature review

Performance-based budgeting (PBB) has been widely analyzed in the public finance literature, particularly in relation to improving government efficiency, accountability, and strategic resource allocation. The earliest analytical foundations of PBB originate in the United States. Schick [1] argues that the post-war budget reforms initiated by the Hoover Commission in 1949 marked a fundamental shift from input-based budgeting toward an outcomes-oriented paradigm. This interpretation is supported by Wildavsky [2], who characterizes the U.S. reforms of the 1950s–1970s—such as the Performance Budget, PPBS, and Zero-Based Budgeting—as attempts to link expenditure decisions to measurable governmental objectives.

International comparative research also highlights the pioneering roles of the United Kingdom, Australia, New Zealand, and the Netherlands. According to Podger and de Jong [3], Australia and the Netherlands achieved some of the most advanced PBB frameworks by integrating program budgeting with comprehensive public management reforms. Likewise, New Zealand’s Public Finance Act of 1989 is viewed by Boston et al. [4] as a cornerstone of results-based financial

management, introducing accrual accounting and explicit performance contracts into the budgeting system.

Empirical studies further examine whether PBB improves governmental performance. Robinson and Last [5], in an IMF review, find that PBB can significantly improve allocative efficiency when accompanied by strong institutional capacity and reliable performance indicators. Currstine [6] concludes that OECD countries that adopted PBB—especially the UK, Australia, Sweden, and Canada—experienced measurable improvements in transparency and managerial flexibility. Meanwhile, Moynihan [7] stresses that PBB enhances performance only when bureaucratic incentives, political commitment, and analytical capacity align.

Recent empirical research continues to evaluate PBB's effectiveness. He et al. [8], studying Chinese public universities, demonstrate that PBB implementation strengthens institutional performance when combined with staff capacity building. Andrews [9] critiques unrealistic expectations of PBB, arguing that performance measures often suffer from methodological limitations and political distortions. Abbasov [10], analyzing public sector reforms across several OECD and post-Soviet countries, finds that PBB has a positive but heterogeneous impact depending on administrative culture and data infrastructure.

Collectively, the literature suggests that while PBB improves performance management, its success depends on broader governance reforms, data quality, managerial autonomy, and political support. These scholarly findings align with global reform trajectories, where many governments have transitioned from traditional line-item budgeting toward integrated, results-based public financial management systems.

Analysis and results

From a scholarly perspective, various modifications of the performance-based budgeting (PBB) concept were implemented in the United States over a fifty-year period beginning in 1949. Specifically, during 1962–1971 the “Planning–Programming–Budgeting System” (PPBS) was introduced; during 1972–1975 the “Management by Objectives” (MBO) approach was applied; during 1977–1981 the government adopted “Zero-Based Budgeting” (ZBB); and from the 1990s onward, a new generation of reforms known as “new performance budgeting” began to take shape.

One particularly relevant aspect for Uzbekistan is the U.S. practice of preparing reports on program objectives and expected results. Although similar reporting mechanisms exist in Uzbekistan in the form of activity reports submitted by budget-planning entities, these reports still require substantial refinement and greater precision across many parameters. Likewise, it would be advisable to develop multiple alternative options for achieving planned results within the approved expenditure ceilings—an approach that becomes especially important under conditions of economic or fiscal crisis.

In Sweden, efforts to shift toward performance-based budgeting began in the 1960s, inspired in part by the positive experience of the United States. The introduction of results-oriented public management was one of the most significant reforms undertaken in the Swedish public administration system during the second half of the twentieth century. This shift fundamentally transformed the entire budget system, including budget classification, accounting and reporting frameworks, personnel policy, remuneration structures, payment systems, and audit practices.

The core idea underlying Sweden's approach is the prioritization of expected outcomes rather than the traditional detailed allocation of resources across categories such as salaries, material supplies, and other inputs. Ministries were required to set measurable objectives to be achieved within the fiscal year. They received lump-sum allocations for these objectives and retained autonomy in distributing expenditures across specific categories. Heads of public institutions decided independently - within the legal framework - how to organize their operations and how to allocate financial resources.

The objective-setting process was formalized through documentation, with the main portion of each document devoted to the tasks and outcomes that the institution was expected to achieve. The document also specified the total allocation, borrowing limits, and the institution's right to retain revenue generated from services provided.

Since results-oriented management requires new forms of reporting, Sweden introduced an annual performance report as the primary accountability document. This report had to be submitted to the sectoral ministry by 22 February and was subject to independent audit. In addition to the annual report, each public institution's leadership and the respective minister were required to hold annual consultations to review the balance between objectives and results, and to discuss expectations for the upcoming year.

Sweden's model places strong emphasis on employing market-based mechanisms within the public sector and applying management principles that resemble those of the private sector. This experience is particularly valuable for Uzbekistan's ongoing reform agenda, especially in the area of defining clear and measurable objectives for ministries and agencies. In the Swedish model, such objectives are articulated with exceptional clarity and precision.

New Zealand transitioned to performance-based budgeting in the late 1980s. The essence of the New Zealand model is that ministries establish long-term socio-economic objectives and calculate the specific outputs required to achieve them. Expected results are agreed upon with service-providing organizations, which are then responsible for ensuring their delivery. These organizations—whether public or private—were granted full discretion over the use of allocated funds but were obligated to provide detailed performance reports. Reporting was based on quantitative indicators that described the outputs achieved.

This arrangement reflected the principle that the state need not maintain an extensive network of public institutions and a large civil service apparatus, as seen in Uzbekistan. Instead, the government may procure services from non-governmental organizations to fulfill its statutory responsibilities.

Ministry budgets in New Zealand were organized according to the direct outputs of budget-financed services. Budgets were submitted to Parliament on the basis of these outputs—rather than long-term socio-economic outcomes, which are inherently more difficult to measure and attribute. This challenge persists not only in New Zealand but also in all countries—including Uzbekistan—that have adopted performance-based budgeting systems.

Canada initiated budget reforms in 1995. Under the "Financial Administration Act," federal agencies were obligated to conduct objective and independent evaluations of the extent to which programs achieved their intended results. These evaluations were based on predefined and approved performance indicators. Unlike many other reforming countries, Canada developed some of the most advanced methods for assessing socio-economic effectiveness—an experience particularly relevant for Uzbekistan.

Canadian federal agencies are required to submit biannual reports to Parliament: in spring (detailing program goals, expected outcomes, and budget priorities) and at year-end (reporting actual results). The Ministry of Finance annually reviews these reports, evaluates program effectiveness, and decides whether the programs should continue.

In France, a contract-based framework for public services was introduced in 1996. Under this system, three-year contracts—with provisions for revision—were established between central government bodies and service-providing (or production) organizations. This required accurate valuation of service costs, assessment of service quality, and evaluation of the effectiveness of ministries and agencies. For Uzbekistan, France's model offers valuable insights into service-delivery contracts and results-based reporting mechanisms.

The United Kingdom, one of the most centralized public finance systems in the world, began its “Next Steps Initiative” in 1988 to improve public management efficiency. A comprehensive analysis of expenditure reports in 1998 revealed opportunities to enhance service quality. Performance indicators, service volumes, and quality standards were subsequently introduced. The implementation of PBB began with the development of “Public Service Agreements,” which outlined the specific objectives of each ministry and aligned them with allocated resources. These agreements included measurable target indicators that enabled evaluation of program performance.

For Uzbekistan, a careful examination of these performance indicators—and the structure of Britain’s multi-level strategic planning system—is highly relevant. Britain’s long-term (five-year), medium-term (two-year), and short-term (annual) planning frameworks allow for the effective integration of national, regional, and local priorities, thereby maximizing the advantages of performance-based budgeting.

Australia introduced guidelines for preparing and executing budgets based on outputs and outcomes in 1999. Ministry budgets consisted of two main components: “budget appropriations” (approximately 80 percent of total funding) and ministry-specific programs (around 20 percent). Appropriations were executed strictly according to legal mandates—for example, in education grants—while ministries were required to provide performance reports on execution. These reports analyzed outcomes based on indicators describing the socio-economic impact of programs and appropriations.

In Norway, a two-year reform program was launched in 1999 to improve public sector efficiency and optimize expenditure management. Sixteen ministries were required to submit semi-annual reports to the organizational committee and annual submissions to the Cabinet detailing objectives, required resources, expected performance indicators, and projected results. These submissions formed the basis of a consolidated annual performance report, which was made publicly available.

In the Netherlands, a comprehensive performance-based budgeting framework was adopted in 2002. Under the “Government Accounts Act,” budget expenditures were structured around three key questions—often referred to as the “three Ws”:

- What strategic objectives does the government seek to achieve?
- What actions or measures will be taken to achieve these results?
- What expenditures are required?

The Act established new requirements for budget structure, including policy proposals, strategic objectives, management of policy implementation, and annexes containing detailed information. Ministries were required to define up to twenty priority areas, each linked to specific expenditure items. When expenditures did not fit within these priorities, they were recorded as “non-program expenditures.” Recognizing the difficulty of transitioning to the new system immediately, the Netherlands adopted “growth paragraphs”—phased implementation plans extending over several years.

Conclusion and recommendations

A review of performance-based budgeting (PBB) practices in developed countries indicates that the most advanced and institutionally mature forms of this system are found in the Scandinavian states and the United Kingdom. Western experts note a key limitation of this model: because the evaluation of budget expenditure effectiveness requires extensive performance indicators and formalized reporting, the number of civil servants responsible for monitoring these indicators may need to increase, thereby expanding the size of the public administration apparatus.

Alongside established systems, a gradual, multi-year introduction of PBB elements—typically over a period of five to ten years—can also be observed in several developing countries, including Guinea, Mozambique, Benin, and others.

Among the post-Soviet states, Armenia, Kazakhstan, and the Russian Federation introduced performance-based budgeting earlier than Uzbekistan. Their experience served as an important reference for the Ministry of Economy and Finance of the Republic of Uzbekistan when preparing the draft “Concept for Implementing Performance-Based Budgeting.”

Over the past decade, many OECD countries have undertaken active efforts to enhance the socio-economic efficiency of public expenditures. These improvements have largely been achieved through the adoption of PBB principles within public sector management. In an increasingly competitive global environment, Uzbekistan must similarly develop a modern, performance-oriented national financial system that allows the country to secure a strong place among advanced economies.

From the global experience of implementing performance-based budgeting, several general conclusions may be drawn:

- Budget reforms aimed at strengthening PBB must be aligned with broader public administration reforms.
- Successful implementation requires coherence between financial management changes and overall governance modernization.
- A program-based, goal-oriented approach must be supported by appropriate institutional conditions.
- This includes adopting a credible budget framework, ensuring strict budget discipline, and designing targeted programs whose outcomes can be measured and evaluated.
- National, regional, and sector-specific characteristics must be taken into account.
- The structure of public administration and territorial development priorities influence the design of the PBB system.
- The transition to PBB should be recognized as a long-term, iterative process.

Throughout this process, national and local executive bodies, along with public institutions, must continually refine the methods used for socio-economic planning and performance measurement.

Overall, no country in the world has yet achieved a fully completed transition to performance-based budgeting; implementation remains an evolving process. Nevertheless, for Uzbekistan—currently undertaking rapid and comprehensive reforms of the budget system and public financial management—examining international PBB experience is essential for adapting and applying this model effectively in national practice.

Indeed, the transition to performance-based budgeting constitutes a key direction of the Uzbekistan–2030 Strategy, aimed at elevating public financial management to a new stage. This includes strengthening budget discipline, enhancing transparency in the tax-budget system, improving the efficiency and effectiveness of public expenditure, and introducing modern methods of medium-term budget planning. In short, PBB represents a central pillar of Uzbekistan’s long-term development agenda.

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