The Comprehensive Implementation of Performance-based Budgeting System

Ministry of Finance, PRC
Legal Basis and Policy Guidance

01 Budget Law

02 The 19th National Congress of the Communist Party of China

03 State Council Documents
Article 12  Budget at all levels shall follow the principle of taking all factors into consideration, thrift, performance and maintaining the balance between revenues and expenditures.

Article 16  The sound assessment and withdrawal mechanism of the special transfer payments shall be established.

Article 32  The budgets at all levels shall be compiled with reference to the requirements of the annual economic and social development goals, .... with reference to the actual implementation of the budget of the previous year, the results of the performance evaluation and the estimation of revenues and expenditures for the current year....

All departments and units shall compile the draft budgets in accordance with the items of government revenues and expenditures, the budget expenditure standards and requirements, the regulations of performance objects management......
Article 49   The examination report of the Financial and Economic Committee of the National People's Congress shall include the following contents: the opinions and suggestions to the implementation year, the improvement of budget management, the improvement of budget performance, and ....

Article 57    Governments, departments and units at all levels shall conduct performance evaluation on the budget expenditure.

Article 79    The examination priorities of the Standing Committee of the People 's Congresses at or above the county level and the Township and Township People' s Congress to the draft final accounts at the corresponding levels shall include the following contents: the implementation of expenditure policies and the use and performance of major investment projects and key expenses.
We will put in place a comprehensive, procedure-based, transparent budget system that uses well-conceived standards and imposes effective constraints; and we will implement performance-based management nationwide.

—— Report to the 19th National Congress of the Communist Party of China, October 18, 2017
XI JINPIN
July 6th, Decision on Comprehensive Implementation of Performance-based Budgeting Approved at the Third Meeting of the Central Comprehensively Deepening Reforms Commission.

On September 1, Resolution on Comprehensive Implementation of Performance-based Budgeting (“Decision”) was released by Central Committee of the Communist Party and The State Council of China.
Comprehensive Implementation of Performance-based Budgeting

- Pay more attention to results' orientation
- Emphasize cost-effectiveness
- Strengthen responsibility constraints
- Binding
Objective of Comprehensively Implementing Performance-based Budgeting

Implemented at the central and provincial levels by 2020

- Not only improve their respective fiscal budgets’ allocation efficiency and utilization benefit, but also strengthen performance management of transfers to lower levels to prevent losses and waste.

Overall Objective

Implemented at the municipal and county levels by 2022

- Implement efficacy-based accountability system, and significantly improve the budget management level and the effect of policy implementation.

Basically finish building a comprehensive, full-process, full-coverage performance-based budgeting system.
General Requirement —— Basic Principle

Overall Design
All-round Planning & Consideration

Comprehensive Coverage
Priorities Definition

Scientific & Standardized
Open & Transparent

Equal Authority & Responsibility
Binding Constraints
Build All-round Performance-based Budgeting Management Pattern

**Government Budget** (Budget for revenues and expenditures of governments of all levels included in performance management)

- Extend levels of performance management
- Grant more autonomy of management
- Improve overall performance level

**Departmental and Unit’s Budget** (All revenues and expenditures included in performance management)

- Policy and Project Budget (All included in performance management)
  - Comprehensively measure budget and utilization effects of policies and projects
  - Monitor and check major policies and projects throughout whole cycle
Build Full-process Performance-based Budgeting Management Chain

Necessity of project approval
Economical efficiency of input
Reasonability of performance objectives
Feasibility of implementation plans
Compliance of fundraising

Requirements of applying for budgets

Build pre-event performance evaluation mechanism

Strengthen performance objectives’ management

Do a good job in monitoring performance operation

Combination performance self-evaluation and external evaluation
Bring in third-party agencies when necessary
Improve feedback performance evaluation results and performance issues correction responsibility system, and strengthen application of results

Monitor the extent of realization of performance objectives and the progress of budget implementation
Halt or stop budget appropriations for policies/projects that have serious issues, and urge for prompt correction and implementation

Output, costs, economic benefits, social benefits, sociological benefits, sustainable effects and satisfaction of service objects

Pre-conditions of budget arrangement
Improve Full-coverage Performance-based Budgeting System

- General public budget
- Government fund budget
- State-owned capital operation budget
- Social insurance fund budget
- Government investment fund
- Public-Private Partnership (PPP)
- Government procurement
- Government’s purchase service
- Government debt programs

Full coverage of performance management
Improve Performance-based Budgeting System

1. Improve the process of performance-based budgeting
   - Systems at various links
   - Workflow and implementation details
   - Third-party management
   - Informationalization of performance-based budgeting management

2. Improve the performance-based budgeting standard system
   - Common indicator framework
   - Sub-industry, sub-area, and sub-level Core performance indicators and standards system
   - Connection with other standards

3. Innovation in performance evaluation methods
   - Big data analysis
   - Cost-benefit analysis
   - Factor analysis
   - Public judgement
   - Benchmarking
Performance-based Budgeting Has Achieved Certain Results

Ⅰ All local governments and departments have paid great attention to it, and the Ministry of Finance comprehensively pushes the implementation of the “Resolution” to the central departments and local governments. Twenty-nine provinces and 39 central departments have introduced their respective specific implementation plans, established organizations and increased staff for this purpose.

Ⅱ Improve the budgeting management system. The Ministry of Finance took the lead in establishing rules and regulations. All departments and local governments will improve relevant work processes and operational methods in light of actual conditions.

Ⅲ The linkage mechanism for performance-based budgeting management was initially established. The financial, auditing, and budgetary work committees of the National People’s Congress have established coordination mechanisms. The mechanism saw the extensive participation from NPC deputies, experts and third-party agencies.

Ⅳ The effectiveness of performance-based budgeting management has gradually emerged. The performance-based budgeting method has been continuously innovated, performance management expanded and upgraded, and various performance results used to reduce inefficient and ineffective expenditures. The intensity of performance information disclosure has increased significantly.
Reform Pace Accelerated since 2016

Performance objectives established for all project expenditures of central government departments;

Monitoring accomplishments of performance objectives;

Performance objectives for project expenditures self-evaluated;

Performance evaluation on projects concerning people’s well-being and those of national significance;

Performance objectives and evaluation results gradually publicized.
Performance Management Cycle

01 Objective

02 Execution and Monitoring

03 Performance Evaluation

04 The Use of Evaluation Results
Experience from Local Performance-based Budgeting Reform

**Beijing**
- Pre-event performance evaluation
- Full-cost budget

**Guangdong**
- Establish standardized performance indicators and standards systems
- Strengthen evaluation of key livelihood policies and reduce inefficient and ineffective funds
- Build a centralized financial system to handle major financial policy systems
- Implement departmental overall performance-based budgeting reforms

**Zhejiang**
- Improve the construction of the expenditure standards’ system

**Guangxi**
- Establish a mechanism of performance evaluation results: public face of agencies, positions of leading cadres, revenues of employees and measuring stick for reward and punishment
Major Results & Effects from Funding of Poverty Relief Programs Nationwide

- **Total Funding**: 8,999.48 billion yuan
- **Number of Projects**: 11,554,726
- **Completion Rate**: 91.87%
- **Total Beneficiary**: 370,645,585 people
- **Total Increase**: 421.12 billion yuan

**Top 10 Provinces by Project Completion**

- **Yunnan**: 203,500
- **Hebei**: 199,100
- **Hunan**: 194,500
- **Guangxi**: 191,500
- **Sichuan**: 190,500
- **Jiangsu**: 187,000
- **Anhui**: 177,000
- **Inner Mongolia**: 162,500
- **Shandong**: 160,000
- **Zhejiang**: 158,000

**Top 10 Provinces by Project Efficiency**

- **Yunnan**: Fictional number 203,500
- **Hebei**: Fictional number 199,100
- **Hunan**: Fictional number 194,500
- **Guangxi**: Fictional number 191,500
- **Sichuan**: Fictional number 190,500
- **Jiangsu**: Fictional number 187,000
- **Anhui**: Fictional number 177,000
- **Inner Mongolia**: Fictional number 162,500
- **Shandong**: Fictional number 160,000
- **Zhejiang**: Fictional number 158,000

**Top 10 Provinces by Project Impact**

- **Yunnan**: Fictional number 203,500
- **Hebei**: Fictional number 199,100
- **Hunan**: Fictional number 194,500
- **Guangxi**: Fictional number 191,500
- **Sichuan**: Fictional number 190,500
- **Jiangsu**: Fictional number 187,000
- **Anhui**: Fictional number 177,000
- **Inner Mongolia**: Fictional number 162,500
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The Issues to be Resolved

I. Some departments’ awareness of the significance of performance-based budgeting is low, thus giving inadequate attention to the performance.

II. The performance-based budgeting system and standards’ system are still under-developed, and the quality of performance evaluation needs to be improved.

III. The overall performance management of the department is still being explored. Performance management needs to be strengthened before and during the event, and performance management in some areas is weak.

IV. The linkage mechanism between performance evaluation results and budget arrangement and policy adjustment, and the performance accountability mechanism are still not perfect. More information should be publicized.
Improve Mechanism of Promoting Performance-based Budgeting Management

Comprehensively implement performance-based budgeting system

- Performance-based budgeting system is a long-term systematic project. Not only financial departments, but also governments of all levels, departments, and spenders should implement this system comprehensively.

Form a coordinated and multi-party linkage pattern

- Establish and improve the mechanism of promoting performance-based budgeting management, in which the financial departments should take a lead, the competent departments and relevant units should implement the system, the people's congresses and auditing departments should supervise it according to law, and experts, third parties as well as the fund spenders should participate and cooperate.
Intensify the **publicity and training**, and urge all departments and regions to **roll out implementation plans**, focusing on key points, improve weaknesses, and implement central policies without deviation.

Improve relevant **institutional measures**, organize the construction of performance **indicator systems** for sub-sectors, strengthen the close coordination of finances and businesses, and promote the **integration** of budgeting and performance management.

Strengthen the coordination and cooperation between the **people’s congress, supervision departments, auditing units** and other institutions to improve the working mechanism and form a joint force for reform.

Comprehensively implement the "**Resolution on the Comprehensive Implementation of Performance-based Budgeting**".
THANKS

BY Ministry of finance, PRC