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PBB SYSTEMS AT CENTRAL BANKS: A PBB MODEL ON STRATEGIC PLAN AND THE CASE OF THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

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ABSTRACT

This paper reviews the concept of performance-based budgeting and how it has been applied at the Central Bank of the Republic of Turkey. It briefly surveys the PBB literature covering both state activities and the duties of central bank. It places the development of PBB at central banks in the context of changing public expectations and growing demands for efficient provision of state services. Then, it explains the model used by the Central Bank of the Republic of Turkey and discusses that model as a case study.

Keywords: *Performance Based Budget, PBB, Strategic Planning, Central Bank*

INTRODUCTION

In public budgeting systems, the need for efficient and effective use of scarce public resources in the face of the widening functions of the State has shifted the focus to output-oriented models such as performance-based budgeting (PBB). Unlike the traditional input-oriented budgeting system, outputs are the focus in PBB, which is why this model is considered one of the primary tools of effective resource utilization.

Although it is emphasized that there is no standard definition of PBB, it does have one single basis: increasing efficiency by establishing a control mechanism to allow efficient use of scarce public resources in line with existing goals and objectives. In other words, from a more specific perspective, PBB can be described as a type of budgeting that establishes measurable results for the allocated funding.

Despite the fact that it is known under many and varied names, PBB is the allocation of funds to achieve predefined goals and objectives as well as some indication or measurement of work, efficiency, and/or effectiveness (Snell&Hayes, 1993; Garsombke&Schrad, 1999; Epstein, 1984).

Beyond this, central banks, one of the most powerful institutions of the countries, are primarily held accountable for meeting the objective of monetary stability, not for whether they do so efficiently. Since, the complex nature of the functions assumed by central banks and a great deal of external factors affecting the results of their activities make performance assessment a more challenging task. In this regard, it can be said that developing strategies and monitoring the results thereof are crucial for these institutions. Since there is not much research on this issue, with this research we are trying to fill this gap by studying the strategic planning and budgeting process implemented at the CBRT and make applicable to other central banks as a performance-based budgeting practice.

LITERATURE REVIEW

Performance-Based Budgeting

Joyce (1999) states that "PBB involves a sophisticated web of relations, from inputs to outputs, to outcomes… the connecting of resources to results for budgeting purposes" (Joyce, 1999, p.598).

John Mikesell (1999), for example, says that performance budgets are basically the linking of inputs or costs to program activities and goals (Young 2003: 12).

Similarly, Dawson (1995) describes performance measurement and budgeting as the general terms applied to systemic efforts to assess government activity and enhance accountability for progress and outcomes in achieving results (Young, 2003: 12).

Since the essence of PBB is based on the efficiency and effectiveness of the goods and the services provided, this system is not to be regarded as a goal but as a tool to establish whether the criteria of effectiveness and efficiency are satisfied. Additionally, it is important to note that many experts in public finance believe that the aim of PBB is accountability. In this regard, accountability means the obligation of a public institution to account for its activities, accept responsibility for them, and to disclose the results in a transparent manner.

PBB tends to have four primary characteristics (Young 2003: 12);

- PBB identifies a goal, or a set of goals, to which the funds are "connected," i.e. allocated. From these goals,specific objectives are defined and funds are then allocated among them.
- PBB provides information and data on past performance and in this way proceeds to allow for meaningful comparisons between "expected" and "actual" progress.
- Adjustments to programs are made either at this point or during a future budget preparation cycle to close any performance gaps that may exist.
- PBB provides an opportunity for regular or special (ad hoc) program evaluations. When utilized, these evaluations are valuable in that they give independent and verifiable information to budget decision-makers and program managers alike.

PBB is a comprehensive system that requires the use of performance assessment, strategic management and comparison methodologies collectively. Employing PBB makes it possible for the institutions to construct comprehensive performance indicators; establish connections between output parameters, activities and inputs; and assess performance and budget goals together (Poister, 2003, p.186-191).

Performance information and data used in budgeting holds public officials, especially program managers, accountable for service quality, cost-efficiency, and program effectiveness. The focus for PBB is, once again, on results, not simply inputs (Young, 2003).

PBB requires the establishment of a system to facilitate responsibility of accountability. Such a system would be expected to comprise performance goals; commitment from different units in order to facilitate collection of the information necessary for the assessment of performance; establishment of an effective bonus/penalty system in order to facilitate meeting the goals; existence of a performance assessment procedure that allows comparison of the goals with the actual results; and necessary delegation of authorities for the decision making units (Diamond, 2005, p.23-25).

The allocations of the resources, taking into account the outputs and results, forms PBB. In this context, performance assessment becomes a basis for resource allocation decisions with the information it provides during the preparation, implementation, reporting and auditing processes of the budget. Relating performance goals to the resources in a budget will allow the managers to question the activities in terms of their contribution to reaching the goals while allocating these resources to different activities. In addition, since PBB requires assessment of the relation between the inputs, outputs and results, it eliminates the risk of any impairment of the significance of performance indicators stemming from assessment of the results independent of the inputs used during performance assessment.

The last issue that needs to be discussed regarding performance assessment and budgeting is the fact that PBB comes with some difficulties in implementation even though its use has the merits listed above. First of all, budgeting is, more often than not, an annual process, where the results of public activities will become more apparent in the longer run. This necessitates establishment of medium term goals to be able to establish a relation between the performance assessment and the budget. In addition, since the management level, where the authority to approve the budget resides, will not be very well-versed on the internal dynamics and specific operational requirements of different units, its ability to establish the connection between budgeting and planning will be doubted. The management is not inclined to think in terms of the ultimate goals of the institution in general, naturally associating them with the units' performance indicators which are supposed to reflect the units' input/output relationship in the budgeting process. However, the difficulty with establishing such connection should be clear when the degree of units' involvement in such decisions in a centralized decision making structure is taken into account (Poister, 2003, p.186-191).

An activity-based cost accounting could offer a solution to this problem. With this method, costs are monitored based on activities; therefore it is possible to link them to the outputs and results. As a result, it becomes possible to use the information gathered by this method both for management of costs and for planning and control purposes. The PBB method is an efficient tool that can help establish the link between the activities and performance indicators (Brown et al, 1999).

Finally, PBB demands an overhaul of the units' resource requisitioning procedures. PBB efforts would require a causal link between the input and the results to be established. Traditional accounting systems, on the other hand, would not be fully able to provide the data for performance assessment even though they still would be able to provide the data on the inputs used. This can cause problems in linking the budgeting and performance assessment (Oyman, 2009; Oyman et al, 2015).

PBB in State Activities

Performance-based budgeting was initially proposed in the beginning of 1900s at some of the local levels of the United States government and was implemented during the 1950s and 1960s on a national scale. With the extensive expansion in government operations after World War II, and with questions being raised pertaining to abuses and misappropriations of government funds, the performance-based budgeting process was proposed as a method of budgeting that could directly correlate funding with activity in a way that line-item budgeting could not (Beresford, 2000).

The design of the early performance-based budgeting process was founded on the idea that government mysteriously transforms inputs from the environment into outputs for society. Thus, the PBB process focused on this mystery. Simply stated, inputs represented resources required for a program or agency objective, and outputs represented the products that were produced as a result of the operation of a program or specific activity of an agency. Budget proposals were structured around program results as government took steps to reorganize and to address the public's concerns about government overspending and fiscal abuse (Beresford, 2000).

After that, losing its popularity until the 1990s, with the effects of globalisation on the government, and introduction of alternatives to government services and products during the 1990s, PBB became popular again and endorsed the idea of a customer-oriented, entrepreneurial culture for government. During this time, PBB became framed as results-oriented budget reforms that sought to address public demands such as;

- Government must be driven by citizen desires and needs, not government rules and regulations,
- Taxpayers will pay for results, not efforts, and
- Government must better communicate progress toward goals and objectives (King, 1995, p. 8).

Accordingly, the PBB program of 1990s outlined requirements to measure "linkages" between public expenditures and the direct benefit to the people, rather than the simpler input and output measures of the earlier PBB programs. In other words, the effective process of government and the actual impact of governmental activities were the focus of PBB. It has provided a consistent, rational structure of justification for government (or at least an image of one) that is validated by quantitative evidence. Both the rational structure and the broad implementation of PBB have legitimized this movement and supplied government with a powerful tool (Beresford, 2000).

PBB system is a type of budgeting system that can be used in determining the main functions of an institution along with its goals and objectives that would arise from fulfillment of these functions; allocating and utilizing resources based on these goals and objectives; assessing whether the intended goals have been achieved or not by measuring performance; and in reporting the results in a performance-based perspective. Although there is substantial variation in the details of PBB policies among different countries and different institutions; the main idea behind the process is linkage of PBB to strategic planning methodologies which makes PBB a powerful and advantageous decision-making tool. In this way, strategic management is argued to be increasingly important for shaping the performance of public organizations.

As a result of the constant developments in communication and technology and the fact that accessing any kind of information is getting easier, PBB can be said to enable the public sector to question the efficiency of utilization of public resources and accelerate the efforts to ensure efficiency and effectiveness. In addition, the size of the economic activities of the state, its role in establishing and securing market operation principles and the effect of its policies on the investment and debt capacity of the private sector are apparent factors that add to the importance of ensuring effectiveness and efficiency.

By employing PBB, decision-makers can measure performance, assess “what” and “how well” a program is doing. For instance, what will be achieved by Program X? Is Program X achieving the intended results? Are Program X’s activities or operations cost-efficient? Asking and answering these and other similar questions will permit decision-makers to make more accurate and more intelligent program, project, policy and spending decisions (Young, 2003).

PBB is important to governments for a number of reasons, including the following (Harrison, 2003):

- Provides accountability to the public.
- Drives redesign of programs (focuses on improvements).
- Helps rationalize budget allocations (uses performance information as a basis of evidence).
- Improves understanding of crosscutting programs in government.
- Helps agencies link their daily activities to overall government outcomes and similar activities of other agencies.
- Compares cost effectiveness between programs.
- Helps align government spending with overall goals.

In 2000, Joyce and Sieg conducted analysis of state PBB efforts, focusing on the availability and use of performance information at all stages of the budget process. They suggest there are at least four prerequisites to successful implementation of PBB:

- Public entities need to know what they are supposed to accomplish.
- Valid measures of performance need to exist.
- Accurate measures of cost need to be developed.
- Cost and performance information need to be brought together for budgeting decisions.

PBB is not just for the government or institutions or decision makers. It can also be useful to the general public. As well as making budgetary decisions by allocating resources between programs and by choosing different levels of services to produce and provide, increasing efficiency and effectiveness in the production and provision of public services, PBB can also provide the information to the general public to challenge the government or agency or institution when the promised services are not delivered or are not delivered at the expected amount or quality.

The recommended practice for public institutions for ensuring efficiency and effectiveness in the public sector includes formulation of reliable, measurable, and easily understandable performance indicators. It is expected that the performance indicators formulated will be based on mission, goals and objectives of the institution; able to measure results of the programs carried out and the level of success in reaching the goals; able to allow for comparisons over a time period; and designed to comprise assessments for efficiency and effectiveness. By monitoring performance using these indicators and reporting internally and externally, and using the performance data acquired there in the decision-making process, it is expected that the effectiveness of the public institutions will increase.

In this context, the use of strategic management and performance assessment methods in public sector becomes very important since it necessitates the public institutions to monitor both their internal processes and the external conditions; clarify the goals and objectives and formulate strategies to reach these goals and objectives; and form a basis for the assessment of the activity results and accountability responsibility.

PBB at Central Banks

Central banks are primarily held accountable for meeting the objective of monetary stability, not for whether they do so efficiently. After all, central banks are granted a legislative monopoly in many of their operations, which naturally reduces the pressure to be efficient.

On the other hand, central banks' capacity to generate seigniorage income and their independence in terms of budgeting make them more inclined to ensure efficiency in their activities. One of the basic methods for central banks to ensure efficiency is to focus on the primary functions, where such focus is counted amongst the factors that also contribute to ensuring effectiveness. Therefore, it can be said for central banks that efficiency and effectiveness are parallel terms. When it is considered that in case the central banks cannot ensure efficiency and effectiveness in their activities, their independence could be in question and that their credibility in the eyes of the public would be shaken, the importance of the performance management efforts becomes doubly apparent (McKinley&Banaian, 2005, p.45-46).

Nonetheless, the complex nature of the functions assumed by central banks and a great deal of external factors affecting the results of their activities make performance assessment a more challenging task. Given the scale of the effects of central banks' activities on the economy and their independent nature, it can be said that developing strategies and monitoring the results thereof are crucial for these institutions. In this regard, it can be said that central banks need to adopt a performance assessment system based on their missions and to focus on strategy (Mendzela, 2008, p.60).

For example, as part of an effort to restructure the New Zealand Central Bank (the Reserve Bank of New Zealand) in the late 1990s, an assessment was conducted on goals, corporate governance structures and accountability mechanisms of the other central banks in the world. The assessment revealed that the performance assessment systems employed by central banks were far from being capable in the functions they were supposed to perform. It was discovered that the central banks whose performance assessment systems were scrutinized had made no effort in identification of the outputs, had no clear performance indicators, had a very limited number of performance goals, and since there were virtually no limitations to the resources the central banks could access, had no established mechanisms to increase efficiency in resource utilization (Mendzela, 2008, p.60).

Central banks are organisations housing private sector dynamics for their capital structures and their independence, and public sector dynamics for their legally outlined activities and the monopolistic power they hold. Incoherency in the legally outlined goals, variety in stakeholder expectancies and the fact that there is not an adequate number of control groups to compare efficiency, all these factors make performance assessment more difficult for central banks (Mendzela, 2008, p.60).

An independent central bank with clearly-set goals and with all the necessary power to actually implement those goals would have an increased credibility in the eyes of the public and the markets. In addition, the fact that an independent institution is shouldering the power and responsibility of decision-making in order to ensure price stability would positively affect the expectations of the public and the markets, hence contributing in turn to price stability itself.

The autonomy central banks enjoy brings about the necessity to share the decisions and results with the public in a timely manner. It also demands decision making levels with the responsibility for their decisions, control of the costs of activities carried out, sound accounting and reporting systems, and internal and external auditing; in other words, transparency (Lybek&Morris, 2004).

On the other hand, the autonomy of the central banks over their budgets as a reflection of their independence and the monopolistic power they enjoy are issues that increase the pressure from the stakeholders on the central banks to improve the efficiency and effectiveness in their activities. In this regard, it is observed that the central banks are focusing more and more on re-organisation and performance assessment work (Ize, 2007).

In order to ensure a continuous improvement of performance, The Federal Reserve Bank of Cleveland in the late 1990s provided some of its managers and officials with training in modeling work flows, process improvement and quality management. Activities developed after this training contributed to increasing alignment of the activities of the support units with those of the main units. While the bank uses a comparison method in a constant manner, balanced score card methods are used for monitoring of the corporate performance and success in implementation of the strategies.

Results of performance assessment and management indicate that efforts to improve the efficiency of central banks can yield very positive results and that it is quite possible for central banks to employ process improvement methodologies and tools such as balanced score cards utilized by market organizations. Major accomplishments under the Cleveland Fed analysis were changes implemented in its cash-related functions. One of the process improvements was moving two major cash functions to Cleveland and Ohio. This change resulted in lower labor cost in cash function (Mc Kinley&Banaian, 2009, p.39-40).

The Reserve Bank of New Zealand has worked on a management information system to form a basis for performance management as a priority aspect of the structure envisioned for the bank. In 1987 an internal report identified management information systems as a prerequisite for better resource management at the RBNZ. Acting on this idea, senior management recruited a specialist with a wide brief. The drive for improved management information systems soon became a catalyst for change. In this context, initial work consisted of detailed identification of the outputs of the bank and restructuring of the accounting system to be based on these outputs. In order to make it possible for the bank to identify these outputs, all personnel, including the governor of the bank, was required to fill in time sheets. Cost of services provided by the units to other units along with the overheads began to be reported to the related unit managers, and it was ensured that the annual reports comprised more detailed and comprehensive financial information. The bank ensured that resource allocation decisions were made by using a collaborative budgeting system; that all units of the bank develop measurable goals; that internal auditing procedures were put in place in order to gauge the effectiveness of the bank; and that continuous improvement work was carried out on budgeting and cost monitoring. At the same time, all units were required to generate strategic plans and develop performance indicators in line with the overall strategic plan of the bank. This restructuring resulted in a 43%-decrease in the number of personnel as well as operational expenses increasing the effectiveness of the bank (Mendzela, 1994, p.3-4).

METHODOLOGY

Research Goal

The study used the research framework shown in Figure 1. This initial framework hypothesised a PBB system for central banks based on the strategic planning, more specifically strategic goals and objectives, constructive and motivational and open to feedback and improvements.

The model, shown in Figure 1, aims to help central banks to feed strategic directions into the daily operations of the bank, to provide a focal point for major decisions, expenditures and initiatives, and to track progress using performance objectives and indicators. Feedback and improvements would provide opportunities for business improvement as well as increased transparency and accountability. This is because, after implementing the budget and programs, getting feedback, checking against the strategic plan and making improvements are intregral parts of the system.

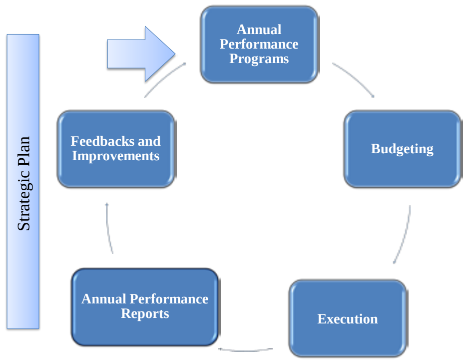

Figure 1: Conceptual framework for PBB.

The arguments supporting these hypothesised relationships are mentioned in the literature review section. To put this conceptual framework into practice, we utilised the case study methodology to understand the relationships among budget, programs, reports and the assessments.

THE CASE STUDY

The Central Bank of The Republic of Turkey

The Central Bank of the Republic of Turkey (CBRT) was established on 11 June 1930 by Law No. 1715 and it started to operate on 3 October 1931. As a manifestation of its independence and a peculiarity that distinguishes the Central Bank from other public institutions, the Bank was established as a joint stock company and was structured as a General Directorate. It still has the joint stock company structure today. Bank shares were divided into class A, B, C and D shares. During more than 80 years of operations its law has changed many times, with the last major changes happening in 2001 after a financial crisis resulted in the central bank's autonomy being debated. Parliament amended the Central Bank Law to define its primary purpose as achieving price stability. Since then, the CBRT has put more emphasis on transparency and accountability and acquired institutional independence (TCMB, 2012).

As an independent central bank, transparency and accountability became important considerations, so the bank made efforts to improve its corporate governance structure – meaning that improved planning and controls became a priority. The CBRT continues with its process of change and restructuring as called for by the needs of modern central banking and in accordance with its strategic plan. The aim of this restructuring is to enhance the Bank's efficiency and success in achieving its objectives.

Strategic planning and PBB model at CBRT

The Central Bank prepares strategic plans and executes its functions in line with these plans, in order to explain how and under what conditions it delivers its services in the public, institutional and global areas, what it seeks to achieve in the future, and to reveal its perspective on monetary policy and its other functions. The first step toward strategic planning was taken with the fact–finding conferences held in 1996 and the first strategic plan was prepared in 2002. In the decade between 2002 and 2011, strategic plans were prepared for three-year terms and revised annually.

In 2009, the executive board, emphasizing the importance of strategic planning, started a new project to prepare the strategic plan with a fresh and effective approach. The main purpose of the project was closing the gap between strategy and execution, maintaining harmony and conformity between the budget and programs in order to achieve efficiency, and effectiveness, transparency and accountability.

Starting from 2011, strategic plans started to be prepared for five-year terms and are subject to triennial revisions. As called for by the principles of transparency and accountability, the Central Bank announced its Strategic Plan for 2011-2015, in late 2010. The Plan is a dynamic component of the Bank's daily operations and a guideline for transactions, encompassing all activities of the Bank. The plan was prepared so as to be flexible and easily adaptable (TCMB, 2012).

The PBB system implemented by the CBRT is based on the strategic planning set out by Law No. 5018, "Public Financial Management and Control Law". Although the CBRT is not subject to Law No. 5018, it implements a PBB system based on strategic planning due to the importance it attaches to the services delivered and its accountability to the public. The strategic plan, approved by the board, is the main source for all activities and resource allocation decisions in the following years to prepare multi-year budgets and to apply PBB. State evaluation reports, strategic plan, performance programs, performance reports and the budget are the main tools of the system.

The initial step of the PBB system at the CBRT is drafting of a state evaluation report, which is then followed by preparation of a strategic plan that sets a foundation for the entire process. Afterwards, performance programs are prepared, which are individual sections to be implemented on a yearly basis within the context of the strategic plan. Budget allocation is made in line with the performance goals and performance indicators determined in the performance program. After the implementation phase, performance reports are prepared. These reports set a basis for identification of weaknesses, and once the management's feedback for further improvements is received, then the whole process restarts.

Performance programs and performance reports are presented to the Board, the top level authority at the Bank. Improvements to be made are based on such a control process and feedback from the Board. The whole process is shown in figure 2.

State Evaluation Report Process

The first step in the performance-based budgeting system at the CBRT is drafting of the State Evaluation Report (SER) of the Bank in collaboration with the departments and the branches. Both Head Office departments and branches prepare their individual SERs once every three years, to provide a basis for the Bank's corporate SER. This report includes studies on identifying opportunities and challenges from the external environment as well as strengths and weaknesses internal to the organization. While analyzing the external environment, opinions of external stakeholders are gathered via survey studies. Following the completion of external stakeholder analyses, a series of studies conducts to generate strategic goals and objectives, utilizing the results of the situation analysis. The SERs include;

- Detailed information about the resources,
- Legislation analysis,
- Description of business processes,
- SWOT, PEST and stakeholder analyses.

Figure 2: Performance-Based Budgeting System of CBRT.

SERs assist the departments and branches in identifying their internal and external factors such as current states, resources, as well as strengths, weaknesses, opportunities, threats, and also the political, economic, social and technological environment. It is used as a fundamental instrument for preparation of a sound strategic plan for the future.

The SWOT and PEST analyses are examined and then strategies for the future are developed. The analysis of controlled/uncontrolled and certain/uncertain factors is an important part of the process. The SER includes the analysis of the stakeholders of the plan and determination of the critical problems. Also the SER is a fundamental tool for other processes of strategic planning. While the SERs of the departments are based on business processes across divisions, the SER of the Bank itself is based on three strategic areas; i.e., public, global and corporate, in the strategic plan. The SERs of the departments and the Bank are submitted to the Executive Committee and the Board.

Strategic Planning Process

The Strategic Plan is a document that serves as an essential road map for the CBRT and a driving force for the whole system. It is important to ensure that the Strategic Plan guides all decisions to be made, that the Bank's units focus on their objectives in the conduct of their activities and projects in steadfast accordance with the plan, and that the employees align with the vision.

The backbone of the strategic plan becomes ready once the state evaluation stage is completed. After that, a mission statement, vision and principles, the core elements of the Bank's corporate identity are identified. The mission statement is about the responsibilities of the Bank; while vision is the objective that the Bank aims to achieve in the long run. Principles, on the other hand, constitute the baseline of the activities and processes of the Bank. Strategic goals and objectives are determined by taking into account the resources, strengths, weaknesses, opportunities and threats mentioned in the SERs. The strategic planning process is carried out by continuous communication during and after the meetings and workshops held with all departments.

The overall activities of the Bank are classified into three strategic areas: public, institutional, global. The public area includes the Bank's main operations, the Global area includes the Bank's essential functions on the international arena, and the Institutional area includes the organizational and administrative functions of the Bank. The main policies regarding each area as well as goals and objectives are determined by departments. Before presenting the strategic plan to the executive committee and the board, the strategic planning committee, consisting of all departments, is responsible for revising the "strategic planning draft", which includes all proposals for the following strategic planning term.

The goals and objectives are set for a period of five years and can be subject to an update in the third year. All departments are required to decide on their own performance objectives and indicators. These indicators serve as a basis for their performance evaluation presentations to the board. The strategic goals and objectives that need updating are indicated in annual performance programs. The whole strategic planning process is summarized in figure 3.

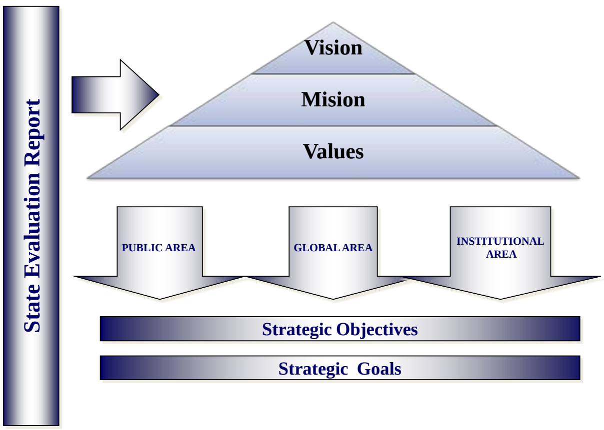

Figure 3: Strategic Planning Process of CBRT.

Performance Program and Budget

Annual performance programs include high-priority performance objectives for the year, activities and projects to be carried out to attain these objectives, as well as the resource requirements and performance indicators in order to achieve the goals and objectives set in the strategic plan for a five-year-term.

The departments determine performance objectives and make a commitment to implement them in the upcoming year by identifying which activities or improvements are needed for achievement. Meanwhile, performance indicators are defined to facilitate evaluation or monitoring of the activities by the senior management. Performance programs, prepared parallel to the budgeting process, include performance objectives and indicators specific to each department as well as related activities and projects to be carried out in the following year. Monitoring of the performance goals and indicators, technological and physical resources to be utilized along with the financial and human resources needed for the activities and projects are all described in performance programs. Eventually the budget is prepared based on the data compiled from performance programs.

All departments present their performance programs to the Board before presentation of the budget. During these presentations, the Board, within the framework of its control mechanism, could add new performance objectives or exclude some of the existing ones. In addition, the financial, technological, physical and human resource requirements of departments are evaluated by the Board; those deemed appropriate are approved, otherwise revised or disallowed.

As presentations regarding the performance program are made before budget negotiations of the Bank, the Board can be informed in detail about the activities and projects envisaged for the following year. As a result, resource allocation can be made on the basis of these detailed presentations. Moreover, resource allocation is made not only in financial terms, but also in organizational terms such as staffing needs, changes in staff positions. Last but not least, considerations of physical and technological resources are also evaluated during these meetings.

Performance objectives are determined based on the business processes of departments, thereby leaving flexibility for adaptation to unexpected situations that have not been predicted by strategic goals and objectives. When the need to revise the earlier strategic goals and objectives or add new ones emerges, these can be addressed during the revision period of the strategic plan and can easily be incorporated into the new plan. Thus, the process evolves dynamically without being strictly bound by strategic goals and objectives. The performance program, budgeting and the performance report process is summarized in figure 4.

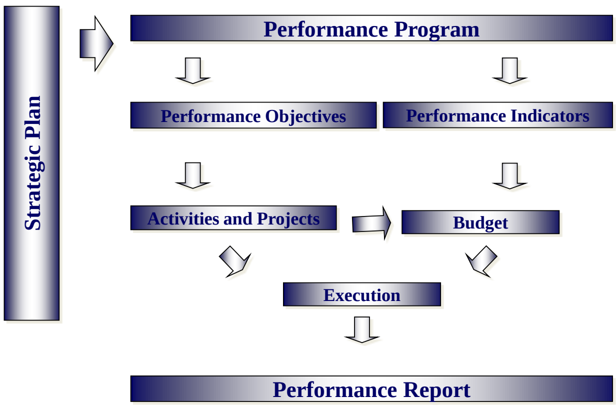

Figure 4: Performance Program and Budgeting process of CBRT.

Assessment and Control

The performance reports prepared in relation to performance programs address year-end achievements and evaluations with regard to the activities and projects that are carried out in line with each division's individual performance objectives. In this way, how effectively the resources allocated for the activities and projects were used can be scrutinized. As is the case with performance programs, performance reports are also presented to the Board and the Executive Committee; so that the highest authority at the Bank can scrutinize the previous year's performance. The Board and the Executive Committee examine whether all the envisaged activities and projects have been implemented fully or not and whether budget expenditures have been used effectively or not. If activities and projects have not been performed as envisaged in the performance programs, the related unit or units should provide the Board and the Executive Committee with convincing reasons. As the Board is the highest authority to approve the budget and use of all resources, direct control over and audit of the activities and projects as well as resources used for achievement of them becomes possible.

All departments present their annual performance programs to the Executive Committee and the Board, which then evaluate the content of the performance programs, primarily the activities, projects and all resource requirements.

Unlike other public institutions, all these reports are interactively presented to the Board, which is the highest authorized body of the Bank. Therefore, the control and evaluation functions of the Board maximize the effective functioning of the strategic planning process. Furthermore, the Board has direct control over divisions' activities and projects and financial requirements. This direct control and audit function of the Board is a unique characteristic of the Bank.

Departments' performance programs and performance reports are presented to the Board and the Executive Committee over a one-week period. During presentations, departments explain how their activities and projects contribute to strategic goals and objectives, as well as to the vision and mission of the Bank. Performance objectives and performance indicators are evaluated by Board and Executive Committee members together with relevant departments by way of interactive discussions and the necessary feedback is provided.

Performance programs and performance reports are accessible by all departments via an intranet web page specifically dedicated to the strategic plan. In this way, each department may have access to other departments' programs and reports, hence activities and projects. Thus, the strategic planning process contributes to internal communication in a positive way.

Corporate Reports

Performance programs and performance reports are prepared for each of the 16 departments and the Bank as a whole. Divisions constitute the core structure in performance programs and performance reports, as is the case with state evaluation reports.

Performance objectives and total resource requirements (human resources, physical, technological and financial resources) taken from all divisions constituting a department are consolidated by staff in charge of the strategic planning at that department. The consolidated report is called the performance program of that department. Each department determines performance objectives and performance indicators that either relate to the main functions of the Bank or are important for the Bank. Subsequently, the Budget and Planning Division draws up the performance program of the Bank by classifying the pre-determined performance targets and performance indicators according to the strategic themes, and produces the corporate performance program.

In the corporate performance program, human resource requirements, physical resource requirements, technological resource requirements and financial resource requirements indicated in individual performance programs of the departments are all consolidated to identify the total resource requirements for the upcoming year (Figure 5). Furthermore, recommendations for required revisions of the strategic plan are also included in the corporate performance program. During the revision period of the strategic plan, these proposals are taken into consideration and the strategic plan is updated in the light of the recommendations. The same process is performed for the corporate performance report. After all departments prepare the performance report, the Budget and Planning Division takes related parts from departments reports and compiles them to make the corporate performance report.

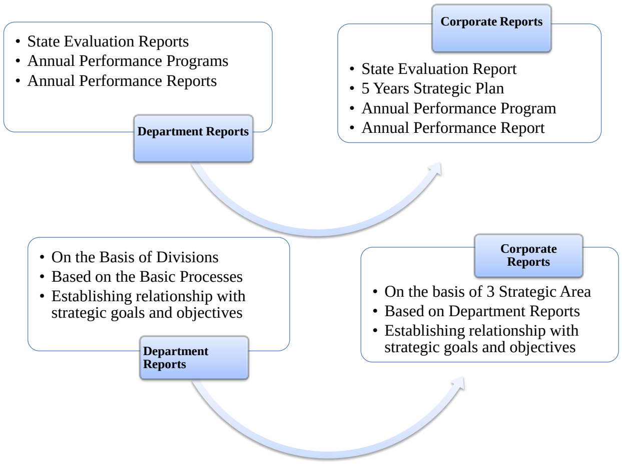

Figure 5: Corporate Reports Process of CBRT.

CONCLUSION

Transparency has become more of an issue for public institutions, publicly financed institutions and regulatory agencies. This has also required central banks, which are in charge of implementing monetary policies on behalf of the public, to be more transparent and accountable. Therefore, central banks are expected to attach importance to effective utilization of resources and share their activities and projects, along with the resources allocated to them, with the public. In this way, the reports that are made public as required by the principle of accountability will contribute a great deal to the effective utilization of resources.

There is no doubt about the efficiency of the PBB system implemented at the Central Bank of the Republic of Turkey. All activities and projects at the Bank are carried out in accordance with strategic goals and objectives. Besides, resources required for implementation of these activities and projects are evaluated by divisions in charge by way of presentations made to the Board and the Executive Committee. Thus, the Board and the Executive Committee have direct control over the activities as well as over the allocation of resources. All these factors ensure the utmost effectiveness of the budgeting system implemented at the Central Bank of the Republic of Turkey.

The CBRT's PBB system can set an example to other central banks. Due to their distinctive and peculiar structures, central banks' PBB systems may not be fully compatible with those implemented by other public entities. Although the organizational structures of monetary authorities differ from country to country, their similarities outweigh the differences. Therefore, the strategic planning and budgeting process implemented at the CBRT is considered applicable to other central banks as a performance-based budgeting practice.

It is strongly recommended that ERP systems be used in order to increase effectiveness of the system. The accounting system, strategic planning system and budgeting system of the CBRT are performed by software programs developed in-house. Although necessary and limited connections exist among these systems, software programs, which connect the accounting system, strategic planning system and budgeting system and allow instant reporting can be more effective in monitoring the performance of divisions. In addition, these programs contribute to the effectiveness of the control and audit function of the Board and the Executive Committee.

Furthermore, publishing brief summaries of performance programs and performance reports on the Bank's web-page will have a positive impact on the efficient use of resources.

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