

Chapter 8

Program Budgeting in Turkey



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8.1 Introduction

Program budgeting delivers information to decision-makers to aid in the identification of spending priorities among a diverse range of programs. Program budgeting comprises three main phases: program classification, program performance identification, and program evaluation. Program classification refers to the modification of the budget coding system so as to include a program budget classification. Program classification reforms should not only involve changes in the budget classification system, but should also serve as the basis for such budget decision-making processes as the creation of a medium-term expenditure framework, the determination of the spending authority in budget management, and the implementation of such budgetary procedures as appropriation transfers. The cornerstones of the program budget classification reforms in Turkey are discussed and evaluated, and a comparison is made with international practices.

Secondly, program aims, objectives, and indicators should be established in line with government-wide policy priorities. Public institutions in Turkey have accumulated experience in the implementation of performance-based budgeting since 2003, which in Turkey includes the preparation of strategic plans, performance plans, and annual accountability reports. Accordingly, the present study determines the problems encountered in performance management in Turkey, and discusses the issues to be taken into account when determining performance information in a program budget system.

Finally, the third component of program budgeting involves the evaluation of programs. While program monitoring refers to the regular and systematic collection and recording of performance data, program evaluation involves the analysis of programs in terms of their impact on society by comparing the situations before and

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after implementation. With this in mind, this article reports on an examination of program monitoring and evaluation processes, along with spending review issues.

The Presidency of Strategy and Budget (PSB) and line ministries prepare proposals for program classifications, and program aims, targets and performance indicators based on legislation related to organizational structures, as well as the national development plan, strategic plan and performance plan. A proposal is to be prepared for the Central Government Budget Law 2021 that takes into account the principles of program budgeting in Turkey. Performance plans of public institutions in year 2020 will be prepared in accordance with the principles in the program budget guide prepared by PSB (PSB 2019, 2020).

8.2 History of the Budgeting and Public Financial Management System in Turkey

The Turkish public financial management system was built mainly around General Accounting Law No. 1050, which was enacted in 1927 (Law No. 1050, 1927), and maintained its influence over budget and accounting management up until 2003. Although amendments were made, Law No. 1050 maintained its overall integrity and continued to play a key role in the management of public finances. Over time, however, the number, scope, and organizational structures of public administration institutions changed. As was the case in the widespread extrabudgetary fund implementations, many expenditures were taken out of the scope of the law, leading to deviations from the general budget principles and disciplines.

Law No. 1050 focused on the control and inspection of the expenditures of public institutions, and limited the initiatives and responsibilities of public institutions in budget expenditure decisions. In other words, all expenditures and procurement processes above a certain limit were subject to pre-expenditure control by the Ministry of Finance and the Court of Accounts. Most financial transactions were carried out by branches of the Ministry of Finance that, despite being located within the line ministries, were manned by personnel of the Ministry of Finance.

One of the most groundbreaking budget reforms in Turkish budgeting history took place in 1971 during the efforts to adopt the Program Budgeting approach. After the introduction of program budgeting that year, the approach developed in a very comprehensive manner in line with international practices. The transition to program budgeting was planned in three stages: the first stage involved the determination of the programs of each organization or administrative unit; the second stage involved the creation of a costing, accounting, and administrative structure that was appropriate to the program classification structure; and the final stage involved a program evaluation of each individual program. Although first stage of the reform was completed, the other reform stages could not be applied, and no program evaluations were made in the years following the adoption of the program budget classification. Since no regular review was made of whether or not the programs were being carried out

effectively, the program budgeting system could not be improved. Accordingly, budget resources were allocated to the same programs repetitiously, and this has led in time to distortions in applications, with programs becoming less based on results, and in time equivalent almost to intuitional units in their classification (Yenice 2006, p. 126).

An examination of international practices in this regard reveals that the rationale behind public financial management has changed in many countries, and that public institutions are now able to manage their own spending initiatives, but with increased accountability. Budgets have in time become a management tool, and a budgeting concept that associates institutional outputs and results with budgets has gained prominence. In recognition of this, Law No. 5018 was entered into force with the aim of introducing a new public financial management approach to Turkey and strengthening the principles of budget discipline.

The public financial management reforms started in 2003 with the enactment of Law No. 5018—the Public Financial Management and Control (PFMC) Law—in Turkey, which dramatically altered the basic understanding of public administration in Turkey in line with the principles of the “New Public Financial Management Reforms”. Accordingly, a strategic planning and performance budgeting approach was introduced in which, it is stated, strategic and performance plans should be taken as the basis in the preparation of budgets within the public sector.

The Ministry Finance carried out ex-ante control of all budget expenditures above certain limits made by the line ministries prior to 2003. With the enactment of the PFMC Law, Strategy Development Units (SDUs) were established within the line ministries to replace the dismantled budgeting units, and were made responsible for overseeing the preparation of strategic plans, performance plans, budget and accountability reports, and for the provision of internal control services (Regulation on Working Principles of Strategy Development Units 2006). As a result of these reforms, very important steps have been taken toward the decentralization of budget services and the delegation of budgeting authority to line ministries. Concurrently, the central budget authorities have organized regular training programs and conferences to empower the budgeting management and reform capacity of the SDUs within the line ministries. The basic intention behind these reforms was to transfer management responsibility to the line ministries by making them accountable for their actions. Furthermore, the financial management, performance-based budgeting, internal control, and internal auditing systems in the line ministries have been strengthened by the Central Harmonization Units of the Ministry of Finance.

At the beginning of the 2000s, international organizations were having trouble obtaining data for statistical purposes from the budgeting and accounting system, since the classification system was incompatible with the international classification system. In 2004, the Analytical Budget Classification (ABC) system was adopted in place of the then-current program budget classification approach, which had degenerated over time.

The ABC system makes government statistics more reliable and consistent, and incorporates institutional, functional, financial and economic classifications. The

Institutional	Functional	Financial Type	Economic
Administrative Hierarchy	Governmental Functions	Source of Expenditure	Types of Goods and Services used by the Government
Source: Budget Call and Budget Preparation Guide for 2019-2021 Period (MoTF, 2018b)			

Fig. 8.1 Budget preparation and implementation level

institutional classification is based on Turkey's administrative structure; the functional and economic classifications are based on Government Financial Standards (IMF 2001); and the financial classification is developed based on Turkey's financial legislation. The budget preparation and implementation level of the ABC is reflected in Fig. 8.1. With the transition to the ABC, some specific problems related to budget applications were resolved, and the budget automation system (e-budget) was improved substantially during the associated reforms.

As can be seen from Fig. 8.1, there is no program classification within the current ABC. Although in the design stage of the ABC, the last digit of the functional classification was assigned for program classification, it is not used for this purpose. When the functional classification, which has been designed for statistical purposes, is used instead of the program classification in budget classification, budgeting loses its strength as a management tool. The need for program classification became apparent when public institutions in Turkey started to apply performance-based budgeting in 2003.

At the time the performance-based budgeting implementation was being designed, there was no program classification on which the performance system could be built. For this reason, the strategic planning and performance-based budgeting systems were built around institutional and economic classifications. In the performance-based budgeting system, performance plans, which include objectives, targets, and performance indicators and activities, are separate documents with no links to the traditional budget structure. This situation has led the budget and performance systems to progress along completely different trajectories. Since there is no link between the budgeting and performance systems, performance-based budgeting has lost its purpose as a budget accountability tool. While the strategic plans and performance plans were established based on a result-based management and costing system, the budget documents—based on an Analytical Budget Classification approach—have followed a detailed line-item budget structure with strict input controls.

Within the budgeting process, the determination of appropriations in budget law, budget approval, the transfer of appropriations and budget accountability are all carried out based on an Analytic Budget Classification. That said, the performance-based budgeting system operates only for presentation purposes, with no link to the budgeting system. The strategic plans and performance plans function as detailed intuitional managerial documents, but are not directly utilized as decision-making tools at a governmental level.

With the increasing need to strengthen the link between the budgeting and performance systems, program budgeting studies were initiated in 2012 with the founding of a program budget working group within the Ministry of Treasury and Finance (MoTF). After an intensive review of international practices, a program budgeting model for Turkey was proposed entitled the “Program Structure and Justification Guide (draft version)”, published in 2017 by the MoTF and submitted to all public institutions for their opinions and contributions. In addition “The Program Budgeting Guide” was published by PSB to lead public institutions in the transition process to program budgeting (PSB 2020).

The two most important components contributing to the success of budget reforms are the solution to organizational fragmentation problem, and the structure of standard budget procedures in Turkey. The *organizationally fragmented* state of the authority leads to problems in coordination, which is necessary for the successful implementation of complex government policy (Grizzle and Pettijohn 2002, p. 58). In practice, there has been an ongoing problem of fragmentation in the central budgeting authorities in Turkey. While the general management of budget expenditures, including recurrent expenditures, were directed by the General Directorate of Budget and Fiscal Control under the Ministry of Finance, the management and monitoring of capital expenditures was carried out by the Ministry of Development, and all duties related to government cash and debt management were carried out by the Undersecretariat of the Treasury.

In the implementation of program budgeting, it is necessary to consider the coordination of activities and projects that serve the same program. Furthermore, expenditures should be evaluated based on their goals and objectives rather than on the expenditure type, such as recurrent or capital expenditures. Program budgeting and the performance-based budgeting reforms ran into problems of implementation in practice as a result of inconsistencies in the reform implementation approaches of the separate budgeting authorities. This fragmented organizational budget structure in Turkey and the associated coordination problems brought about a need for organizational structure reforms.

After the launch of the Presidential System in Turkey, the Ministry of the Treasury and Finance (MoTF) was established through a merger of the units of the Undersecretariat of the Treasury and the Ministry of Finance (Presidential Decree on the Organization of the Presidency No. 1 2018). The PSB was established under the Presidency, and was given the responsibility for the preparation and management of budgeting, including both recurrent and capital expenditures (Presidential Decree on the Organization of the Presidency of Strategy and Budget No. 13). As a result, one of the most important obstacles in the way of the implementation of the program budget—organizational fragmentation—was reduced in Turkey. These organizational structure reforms sought to resolve the problems of coordination arising out of the fragmented landscape in budget and economy management.

8.3 The Potential Benefits of Program Budgeting Reforms for Turkey's Budgeting System

The program budgeting reforms cleared the way for evidence-based budgeting, and served as a basis for other budget reforms. The advantages of the launch of program budgeting and how program budgeting can resolve budget application problems in Turkey will be set out below:

- *Determining expenditure priorities*: Program budgeting forms a solid basis for discussions geared toward evidence-based decision-making and the prioritization of expenditures at a government level. For example, instead of engaging in input-based discussions of such subjects as the necessary expenditures for cleaning services, equipment or security, budget discussions may involve policy debates; for example, whether or not to spend more on the area of curative or preventative health in the Ministry of Health, or whether regular high schools or vocational schools should be given more support.
- *Government-level performance management tool*: Strategic plans and performance plans are highly detailed institutional documents, although there is a need for macro-level performance monitoring instruments in Turkey. In practice, too much micro-scale performance information can prevent the use of performance indicators as decision-making tools. Programs are government-level decision-making tools and reflect government priorities, and so include key macro-level performance information.
- *The budget as an expenditure-analysis tool*: The absence of activities and programs in budget classification means that the budget is completely input-oriented, and that the cost of government programs is not seen in budget documents. Accordingly, the costs of activities and projects that serve specific purposes cannot be analyzed through the budget system and cannot be monitored throughout the year. The necessary tools in evidence-based budgeting, such as performance monitoring, and evaluation and spending reviews, are built on a program budgeting structure. It is thus possible to carry out program evaluations and other budget analyses through the use of program intervention logic, based on program goals, objectives and indicators.
- *Parliament's budgetary authority*: One of the most appropriate means of increasing Parliament's budgetary authority would be to engage in budgetary debates related to government policies involving an inspection of program expenditures. The current input-oriented budgets, which are highly detailed and technical, far from creating the necessary basis for parliamentary discussion.
- *Strengthening the Medium-Term Expenditure Framework*: The medium-term expenditure system works best when budgets are based on programs. In such cases it is possible to remain in line with long-term government policies through a program budgeting approach. In contrast, in input-oriented systems, budgets will only be increased incrementally in subsequent years in the medium term, and medium-term forecasts that fail to take into account future output levels will be

- unreliable, as they take into account only increases in input costs (Kraan 2008, p. 4).
- *The main service units of an organization come to the forefront:* In ABC (institutional classification), the main and supporting service units are reflected at the same level of importance. The main services, being those that directly serve the stakeholders, should be emphasized more in the budget structure. In the current budget classification and performance budgeting system in Turkey, all units are afforded equal status. For example, in application, human resources units have their own performance targets, such as in-service training times, while in-service training serves to improve the quality of the main services provided to the stakeholders, and should not be targeted by itself (Robinson 2013a).
 - *Increasing the effectiveness of the central budgeting authorities:* When program budgeting comes into effect, budget discussions and budget controls should focus on public policies rather than being input-based. Such a change in the budgeting approach would increase the role and effectiveness of the central budget authorities in policy-making.
 - *Providing transparency and accountability:* With the transition to program budgeting, the budget becomes more understandable by the public. With an output and result-oriented budget structure, the public is able to scrutinize how their taxes are being spent. Also, while determining the programs and the program objectives, targets and indicators, public institutions consider the target groups of their services and their specific expectations.

8.4 Program Budgeting Design

In the Program Structure and Justification Guide, “program” is defined as “a group of activities, products and services that are coherently/appropriately combined and allocated to contribute to a specific policy objective” (MoTF 2017, p. 14). Programs are determined based on public service outcomes. If the main service units of the institutions follow a result-oriented approach, meaning that the organizational units are determined based on the services provided to the stakeholders, the institutional and program structures will coincide. However, if the organization units are not result-oriented, the program structure will need to be defined separately from the organizational structure. In the long term, it is generally expected that the organizational structure will change in accordance with the program structure (Robinson 2013a, p. 35). The most significant exception to the result-oriented program structure is “the management and support services program,” which includes the expenditures of organizational units that do not directly serve the stakeholders, but rather contribute to the provision of the institution’s result-based services.

The program hierarchy is formed by the program, subprogram and activities. The determination of activities is largely in line with the principles set out in the performance plans, but since the programs and activities will be coded in the budgeting

system and monitored regularly throughout the year, the role of the central budget authorities will be of considerable importance. The central budget authorities play a key role in determining the program hierarchy of public institutions. Program implementation structure created by PSB in Turkey in cooperation with the public administration and approved by the President (Presidential authority approval No. 67 dated 07/08/2019 and No. 2 dated 16/01/2020).

Finally, how the program classification will be included within the existing coding structure, which is illustrated in Fig. 8.1, can be discussed. If the program classification code is located at the beginning of the classification structure, resources can be allocated to programs directly, and can be followed at the highest priority level. However, this structure is only practically applicable if the programs are defined at a macro-level, and when the program includes the participation of many organizations. If programs are defined only generally under ministries, it is more convenient to define the program classification after the institutional classification.

8.5 What Should Be the Level of Budget Flexibility in Program Budgeting Reform?

The traditional budget, which is referred to as a line-item budget, is very detailed, containing appropriation items based on various government expenditures. A traditional budget is input-based and enables tight budget controls in expenditure management. In a traditional budget, ex-ante controls are made, budget allocations are determined in detail and appropriation transfers are made in accordance with strict rules. With program budgets, since transition to an output- and result-oriented budget management is targeted, budget elasticity should be increased, and over time, budget control should be shifted from input to output and outcome (Kraan 2008, pp. 4–5). Budget flexibility is increased by reducing the number of line-items that are prepared and approved within the budget. The degree of budget elasticity depends on the country's budgeting traditions and the applied management structure.

There are both negative and positive consequences for increasing budget elasticity. Increasing budget flexibility generally leads to a growth in public spending, weakens spending controls and increases the risk of corruption (Dorotinsky 2004). On the other hand, the main advantages of budget flexibility are its focus on issues that need to be decided upon through the reduction of excessive detail, while a boost to efficiency is provided by increasing the authority of line ministries over their expenditures. For this reason, it is necessary to increase budget flexibility in the implementation of the program budget reforms. Full budget flexibility is provided through the application of a "block budget" approach that does not even include programs in budget law, and this has seen practical use in some developed countries. The implementation of "block budgets" threatens budget discipline. Since budget programs are a means of implementing public policies, the legislative body should be included in the program-level allocation process.

In the transition to a program budgeting process, how budget flexibility can be increased in Turkey has long been discussed. With the institutional classification in Turkey, budget appropriations are allocated to public institutions and their subordinate units at a very detailed level. For example, in each line ministry, the appropriations of each general directorate, provincial unit and foreign branch (such as foreign representative offices of the organizations) are indicated in the budget document. With Law No. 5018, the highest administrator of each expenditure unit to which the appropriation is allocated within the budget is defined as the spending authority. In the above example, each director general within the line ministry has their own budget and the authority to spend, and likewise, each spending authority is held accountable for their expenses through the annual accountability reports of the organization.

Budget accountability is provided at the highest level through the existing institutional budget coding system in Turkey, since it specifies the budget of each subunit separately. However, this system limits the authority of the topmost manager in public institutions. As the budget preparation and implementation process in this system is very detailed, the focus of the budget is on detailed line items rather than policy development and expenditure prioritization. The central budgeting authority and Parliament could focus more the possible impacts of public policies on the future of the country, rather than how much a subunit of an institution has spent on, for example, electricity or cleaning supplies. Another disadvantage of this spending system is that each spending unit has its own expenditure and procurement procedure, leading to higher prices and inefficiencies in the public procurement mechanism.

For these reasons, whether or not the institutional classification will be simplified with the transition to a program budget is an important field of discussion. In other words, if the budget appropriations of subunits is not covered by the budget law, the highest level manager of the organization will decide upon the budget appropriations of the subunits of the organization. Following the transition to the program budget, it will be important to link spending responsibility to the program manager if the program budgeting approach is to function well in practice. Thus, when designing program budgeting, all elements of the system, including the budgeting, spending, accounting, monitoring, and evaluation processes, should comply with the program structure.

Another issue under discussion is whether the functional classification will be included in the budget coding or not after the program classification has been added to the coding system. The functional classification approach serves as a budget accounting and reporting tool rather than as a budget management tool. The Classification of the Functions of the Government (COFOG) system, which permits international comparisons, is used in many countries, but is not required to be included in the budget classification. As stated by Robinson (2013a, p. 46), “COFOG is not a budget classification of expenditure, but purely a statistical classification for ex post reporting”. Accordingly, it is possible to report functional classification results via links to be formed; however, the program budget expenditures should be included in the coding system for day-to-day budget administration and accounting (Dorotinsky 2004).

Keeping all existing classification sections in the budget preparation and implementation process in the program budgeting reforms has the advantage of allowing the continued production of statistical data, allowing comparisons with the historical statistical values. However, simplifying the existing coding system after the transition to the program budget is generally preferred by countries, since statistical information can be produced through ex-post links.

8.6 Cross-Organizational Programs

Programs are generally determined in line with the organizational structure, as public institutions are usually organized on the basis of their services to stakeholders. For this reason, programs are defined under an organizational structure, although “cross-organizational programs” require the cooperation of various institutions. Such programs are defined as a group of products and services of similar nature that are produced by different administrations and submitted to the same target group (MoTF 2017, p. 25).

Program budgeting is based mainly on the classification of appropriations in terms of what the expenditures are trying to achieve, rather than how administrations use resources. For this reason, all activities that contribute to the same target should be included in the same program, regardless of which institution is carrying out the activities. For example, a program entitled “fighting against crime” would include such organizational units as the police department, courts and prisons, all of which are under the responsibility of different public institutions. A program determined in this way allows for the analysis of the various aspects of the targeted service. For example, increasing the appropriations provided to the police force could lead to a reduction in the crime rate, and thus a reduction in the budget allocations to prisons (Schick 2007, p. 115).

One example of a cross-organizational program could be a “coping with climate change program”. Climate change is a multidimensional concept that necessitates the collaboration of different parties in both the public and private sectors. Studies into coping with climate change in Turkey are conducted under the leadership of the Ministry of Environment and Urban Planning, but with the cooperation of the Ministry of Energy and Natural Resources, the Ministry of Agriculture and Forestry and the Ministry of Transport and Infrastructure, along with many other public and non-governmental organizations. All of these intuitions are engaged in activities serving the common goal of coping with climate change within the scope of their assigned duties, and so there is a need for a cross-organizational program for the management of climate change issues.

One of the struggles related to the cross-organizational program is to take an organizational unit responsible for reporting upon the success or failure of the program. Since cross-organizational programs fall under the area of responsibility of

many institutions, institutional program accountability may be defined at a subprogram level. Each ministry determines the activities that serve the cross-organizational program under an institutionally defined subprogram.

Turkey has adopted a similar approach to the cross-organizational programs applied in Korea, although program classification in Korea is linked with functional classification, different from Turkey's current program classification approach. Discussions in the literature on cross-organizational programs and details of the implementation of cross-organizational programs in Korea are presented in Box I.

Box I: Cross-organizational Programs in Korea

Public financial management reforms, involving medium-term spending frameworks, top-down budgeting, enhanced performance management systems and the establishment of a digital budget information system that includes a transition to a program budget, have been implemented in Korea. While the medium-term spending plan in Korea imposes tight spending limits on the spending ministries, it leaves lower-level budget spending decisions to the line ministries up to a specified spending ceiling. Thus, while more authority is given to public institutions through increased budget flexibility, accountability is provided through the developed performance management system. The performance management system was developed after analyzing the performance of expenditure programs and increasing the connections between budget and performance information. The new budget and accounting reform, including a transition to a program budget, was developed in 2005 and entered into full effect in 2007 (Kim and Park 2007).

In the Korean program budgeting case, as a general rule, programs remain within organizational boundaries and cross-organizational programs are avoided. However, in some exceptional cases, when more than one institution can serve the same goal, large cross-organizational programs are created. In cross-organizational programs, problems can arise in the generation of performance targets and indicators and in providing accountability.

It is therefore recommended that each organization's responsibility be specified with subprograms in larger programs in Korea (Korea Institute of Public Finance [Korea IPF] and The World Bank 2007). In this way, organizational accountability is reflected within the sub-programs, with program responsibility shared among the different institutions through subprograms. However, in some exceptional cases, sub-programs may be used by different organizations at the same time. For example, the sub-program including activities related to medical education under the higher education program will appear in the budgets of many universities in the same way, but in this case, administrative codes will define an institution's appropriation separately, and each university will be responsible for its own sub-program (Korea IPF and The World Bank 2007).

8.7 Program Performance Information

The second component of program budgeting relates to performance information. The implementation of performance-based budgeting reforms often fails in both developed and developing countries, with one of the main reasons for this being that performance-based budgeting assumes the rationality of the budgeting process. Budget decisions are made based on optimization behaviors, and on information gathered through scientific and rational methods, although performance-based budgeting ignores the fact that budgetary decisions are inherently political, and are made as a result of compromise rather than optimization (Hijal-Moghrabi 2018).

Furthermore, the implementation of performance budgeting requires not only technical information but also a cultural change. Political and bureaucratic authorities are generally reluctant to carry out such reforms since they limit their level of budget control. Line-item budgeting allows authorities to directly control the allocation of resources.

Performance results must systematically affect budget funding in performance-based budgeting, and a presentational approach that does not aim to influence budget funding cannot be classified in this way (Robinson 2013b, p. 238). The performance-based budgeting structure that was introduced in Turkey was applied mostly with a presentational goal, and has a highly complex and hierarchical structure that consists of strategic goals, strategic objectives, performance targets, and performance indicators and activities.

Studies of performance-based budgeting reforms first appeared in Turkey in 2003. While public intuitions now have experience in determining their organizational aims, objectives, and performance indicators, there is still a need for intensive efforts to link performance information and budgeting. The performance-based budgeting system entered into practice in Turkey with the preparation of strategic plans, performance plans, and annual accountability reports.

With the adoption of Law No. 5018, all public institutions are now obliged to prepare strategic plans, gradually, and with a predetermined agenda. Public institutions have determined their missions, visions, strategic goals and strategic targets through a strategic planning process and involving participatory methods, and strategic plans are expected to be compatible with such high-level policy documents as national plans and strategy papers. Strategic plans are drawn up for five years with the aim of deciding upon the main goals to be reached by the organization.

Performance Plans¹ are prepared on an annual basis, and in accordance with the strategic plans, and include strategic goals and objectives. Performance plans include annual performance targets, performance indicators, the activities to be achieved in order to fulfill these performance targets, and the costs of these activities. Furthermore, in order to ensure fiscal transparency and accountability, public administrations are mandated to prepare accountability reports that explain the levels of attainment of

¹The annual application period of strategic plans is referred to as the performance program in Law No 5018. In parallel with general international usage, the term “performance plan” is adopted in this article.

the performance targets, the resources used, the budget targets and realizations, and the reasons for any deviations from the performance targets. Accountability reports are shared publicly in order to inform the public of the kind of services provided by public administrations.

In Turkey, after a sound program structure has been created, selective performance information related to the programs should be determined, and a system should be designed that allows for the simple and effective setting of program targets for the budget. Performance indicators should be determined that include the most important issues related to the program, and the performance targets should be monitored and evaluated regularly. Information on the performance of the program should be formulated in such a way that the identified indicators can be used as a tool for prioritizing expenditures.

Information on the performance of the program is to be included in the program justification document in Turkey, detailing the progress, importance, performance and cost information of the program. The aim in program justification is to systematically produce, use and report performance information related to the program in order to support budget decisions. The performance information of the program details the goals, objectives, performance indicators, and costing information about the activities and programs.

The performance information contained within the program justification differs in scope and content from the strategic and performance plans. As strategic and performance plans are currently used as an organizational governance tools, they are prepared in a substantially detailed manner and include many performance indicators at different levels of the target hierarchy, such as strategic goals or yearly performance targets. The performance information contained within the program budget should be limited in number, making it easier for the government to determine the key spending priorities. Cooperation between the central budgeting authorities and line ministries when determining performance indicators is a key factor in the success of the implementation of performance-based budgeting.

8.8 Activity-Based Costing Approach in Turkey

To summarize the basic principles of the costing approach in Turkey and their reflection on the performance plans (MoTF 2009), first of all, the concept of the activity is defined in a broad sense as an umbrella term that includes similar sub-activities, different from activity-based costing literature. Furthermore, the concept of the activity includes both recurrent and capital expenditures that serve the same purpose.

Activity costs cover both operational and administrative activities, and so the total cost of activities is the entire budget of the institution. Where applicable, output-based costing is applied based on unit cost, but when this is not possible, the institutional and economic budget classifications are used to allocate costs directly to the related activities.

Indirect costs are not allocated, but are included as general administrative expenses. Management expenditures that serve the needs of the internal units are classified as support activities. In application, the expenses of support activities that are not directly related to performance goals and targets in Turkey account for some 70–80% of the total budget in some organizations. For example, in 2018, the general administrative expenses of the Ministry of National Education (MoNE) amounted to 79.36% of the total budget appropriations (MoNE 2018), while general administrative expenses accounted for only 16.25% of the total expenditures of the Ministry of Environment and Urbanization (MoEU) (MoEU 2018) compared to 1.11% for the Ministry of Transport and Infrastructure (MoTI) (MoTI 2018).

The difference in these ratios stems from the cost allocation methods used in the individual ministries. While some ministries determine performance targets and activities for internal services and allocate costs to these activities, others set these costs apart as administrative expenses. Factors such as in which field the ministry operates, the size of the provincial organizations of the institution, and the scale of the economic and social transfers made from their budgets to other organizations and stakeholders all affect the ratio of administrative expenses within the budget. The support programs of the core ministries are more stable, being generally less than 10% of the overall budget in countries applying program budgets (Kraan 2008, p. 9). These facts reveal the lack of standardization in the application of costing of activities related to performance plans in Turkey.

The most significant problem in activity costing is the manual calculation of activity costs by the institution, since it is not included in ABC as a budget figure. The absence of programs and activities in the budget codes prevents the use of activities as a management tool, and make it impossible to monitor and evaluate activity costs within the year. Furthermore, since activities are not coded, it is not possible to make transfers between the line items of the budget when based on programs and activities.

8.9 Evaluation of Programs

The final component of program budgeting is the evaluation of programs. Programs are determined taking into account the expectations of the target recipients of the public services. As social expectations change, the continuity of program in subsequent years and the resources allocated to the program should be assessed regularly. In countries that have been implementing a program budget for many decades, systems for the monitoring and evaluation of programs have been established.

The number of countries carrying out spending reviews increased after the global financial crisis. Spending reviews focus mainly on budget savings in times of crisis, and have turned progressively into a tool for the creation of fiscal space in public finance through the termination of ineffective and inefficient expenditure programs. The results of program evaluations and spending reviews provide information to decision-makers, allowing them to prioritize government spending based on the

analytical methods used for expenditure analyses. The program monitoring, evaluation and spending review approach is summarized below, including international experiences and the implementation in Turkey.

8.10 Program Monitoring and Evaluation

Program monitoring refers to the systematic collection and following of performance information related to ongoing programs. Programs are monitored regularly through the information management systems created by the spending units through a program evaluation, which is a systematic study of the effects of programs, activities, and projects on society and an analysis of the level of achievement of the program aims and objectives.

Program monitoring and evaluations are conducted primarily by line ministries, given their knowledge of the programs they apply. The central budget authority also evaluates public programs to determine spending priorities at a government level, and the programs are evaluated further by the Court of Accounts in order to inform Parliament and the public. Since program monitoring and evaluations are based on an intervention logic, it is important to create programs that are in line with the theoretical rules of program intervention logic, and to identify realistic and achievable goals and targets and to set key performance indicators beforehand to aid in the program evaluation.

A program evaluation, which is an evidence-based expenditure analysis tool, cannot be expected to directly determine the budget and the resource allocation, but does provide inputs for decision-making since government decisions are affected by various information sources (Lahey 2010). The results of the program evaluation also contribute to the accomplishment of the spending review process. Only limited time and resources can be allotted to a spending review of a specific program, in that a large number of programs are reviewed within a government-wide analysis. Program evaluations increase the success of spending reviews, since they provide the necessary detailed background information.

In Turkey, in the creation of a performance information and evaluation system, an online platform was established within budgeting system. The “Performance Budget Module” was developed within the e-budget system for the monitoring of the information in the performance plans, to aid in the creation of cost tables, to strengthen the connection between the budget and the performance plans, and to facilitate the collection of performance information on public institutions. In order to monitor, evaluate and report the performance plans of the Ministries and other public administrations, a “Performance Monitoring and Evaluation” module section was added in 2012.

The performance plans submitted by the public administrations to the Ministry of Finance were evaluated in 2012 and in subsequent years, and the results of the evaluations were shared with the public administrations. The evaluation results, however, did not include remarks related to specific program expenditures, but made rather

only general remarks regarding the overall performance of the budgeting system. Additional performance audits were carried out by both internal auditors and the Turkish Court of Accounts. In designing the program evaluation approach in Turkey, the lessons learned from international experience have been vital. The program evaluation approach applied in Canada, and the changes applied to the structure of the Canadian program in recent years, are discussed in Box II.

Program budgeting, costing, monitoring, and evaluation are the main instruments in ensuring the effective, economic, and efficient utilization of public resources, as defined in PFMC Law No: 5018. Accordingly, the MoTF launched a project² in which international practices were analyzed with a view to preparing a model for estimating and assessing program costs, and to establish program monitoring and evaluation systems in line with international practices. These studies have made important contributions to increasing the existing knowledge on public financial management reforms in Turkey.

Box II: Program Evaluation in Canada

In Canada, the monitoring and evaluation system has a long-established history that dates back to 1969 when the first formulated and centrally-led evaluation was introduced. In 1977, the government-wide implementation of the Evaluation Policy was initiated, and served as the basis for the current evaluation practices in Canada (Lahey 2010).

In Canada, the main responsibilities in the evaluation process are borne by Departments, the Treasury Board of Canada Secretariat (TBS) and the Auditor General of Canada (AGC). Departments prepare five-year rolling evaluation plans that are approved and released annually and submitted also to the TBS, and carry out program evaluations of their own organizations. Within its oversight function, the TBS leads the departments in the scope of performance management and evaluation and, when needed, conducts centrally-led evaluations of departmental expenditures. The AGC carries out annual systematic performance audits and provides information to Parliament related to the functioning of government programs (TBS 2016).

In Canada, the Strategic Outcomes and the Program Alignment Architecture (PAA) is a multi-layered and hierarchical program structure consisting of Strategic Results, Programs and Sub-programs. The programs, which comprise activities and input sources, form the basis of a budget unit. The “Policy on Result” approach launched by the TBS in 2016 changed the budgetary

²The Grant Agreement (Project No: TF019355) titled “Public Finance Management Reform Implementation Support Project” entered into force with its publication in the Official Gazette dated December 22, 2015 and numbered 29570. In line with the agreement, the Ministry of Finance received a grant from the International Bank for Reconstruction and Development (IBRD) with the purpose of enhancing transparency and accountability in the Turkish public sector through the provision of support to its administrations in addressing the challenges faced in the implementation of public financial management reforms.

framework from a PAA to a Departmental Result Framework (DRF) structure. A DRF structure, which focuses on the responsibilities of Departments, was adopted rather than a PAA structure which is hierarchical in nature and is hampered by vague responsibility allocation.

The DRF structure is simpler and more flexible, and provides a clearer picture of the differences made by Departments in society, as well as how they accomplish these core responsibilities through their applied programs. With the “Policy on Result” approach, the dispersed and unclear responsibilities related to performance management in the various Departments are clearly defined (Pagan 2016). The DRF structure identifies the core responsibilities of Departments and defines Program Inventories (PI) that describe how the departments’ core responsibilities are to be fulfilled. The “Policy on Results” also requires the development of the Performance Information Profiles (PIP) which identifies the performance information of the program.

8.11 Spending Review

Systematic spending reviews were made in only a limited number of countries prior to the global financial crisis, but were applied in many countries in which the balance of public finances deteriorated after the crisis. Spending reviews are defined as “the process of developing and adopting savings measures, based on the systematic scrutiny of baseline expenditures” (OECD 2013, p. 38), and permit the determination of savings options in budget expenditures. Budget appropriation cuts in traditional budget applications are made by reducing the allowances of certain expenditure items at a certain ratio, without taking into account the aims and objectives of the specific expenditures. Spending reviews examine government programs and activities to identify potential saving areas that do not serve the government’s priorities.

A spending review focuses mainly on baseline expenditures, as in most countries the budget preparation process takes into consideration almost exclusively new expenditure proposals, and fails to consider the rationale behind any ongoing financing of baseline expenditures. While the budget process traditionally focuses only on new budget offers, ongoing spending is preserved, and continues to be financed, even when unproductive. Maintaining current expenditures without analyzing or adding new programs and activities in line with the needs of the society each year will lead inevitably to a tendency for budget increases (Robinson 2018, p. 306).

Spending reviews can be applied either comprehensively or selectively. In a comprehensive review, all government programs and activities are reviewed within a certain period of time, while in a selective review, reviews are made only of predetermined policy areas. Comprehensive and selective reviews differ in terms of whether or not the review topics are determined before the review process. If spending review

areas are identified in the design stage of the assessment, then a selective review is applied, while in a comprehensive review, the review is not limited to ex-ante issues (Kennedy and Howlin 2017). These two assessments are applied simultaneously in some countries, which make it possible to conduct a comprehensive review while also determining policy areas at each review cycle. The implementation approach in Ireland can be put forward as an example in which both evaluations are carried at the same time. Box III provides a summary of the expenditure review process in Ireland.

In expenditure reviews, the analytical analysis techniques adopted in the evaluation include effectiveness, allocative efficiency, technical efficiency, and functional coherence analyses. An effectiveness analysis examines whether the program or activity is achieving the desired results; a technical efficiency analysis focuses on the costs of existing goods and services; an allocative efficiency analysis examines the level of compliance of programs or activities with government strategies and policies; and a functional coherence analysis scrutinizes whether duplications have occurred in the execution of programs, and identifies any inefficiencies in the sharing of duties and responsibilities among public organizations (Fallov et al. 2018).

The MoTF in Turkey has carried out studies into the establishment of a spending review system in Turkey in which countries with spending review experience have been examined and infrastructure works have been carried out with a view to creating a spending review model for Turkey. Subsequently, further spending review studies have been initiated in Turkey in line with the New Economic Program (2019–2021). The Public Finance Transformation Office has been established within the MoTF to ensure the efficient use of public resources, to reduce costs and expenditures, and to improve the quality of revenues. The Savings and Revenue Transformation Program, which will be prepared and followed by this office, aims to bring permanent improvements to public finance, targeting savings of approximately 76 billion TL for 2019 by means of increases in income and reductions in expenditures (MoTF 2018a).

Box III: Spending Review Practice: Ireland Case

Ireland's public finance balance deteriorated significantly in the aftermath of the global financial crisis, which led to a general government deficit that reached 13.8% of GDP in 2009 (OECD 2015). Spending reviews in Ireland aim to identify inefficiencies in the public sector and to improve the management of scarce public resources as part of the comprehensive reforms being implemented within the restructuring of the budgeting system.

At the beginning of the 2009 financial crisis, a Special Group on Public Service Numbers and Expenditure Programs (Special Group) was launched, and published an expenditure review report that contained an analysis of government expenditures. The subsequent Comprehensive Review of Expenditures (CRE11) and Comprehensive Review of Expenditures (CRE14) were conducted, and from 2017 onwards a yearly spending review has been made

covering a rolling three-year period, with selective spending reviews published covering government expenditures up to 2019.

The spending reviews were carried out by the staff of the Irish Government Economic and Evaluation Service (IGEES), and spending review studies of line ministries are also supported by IGEES. Almost all of the ministries have had IGEES units working to increase capacity in policy development and evaluation. The IGEES network that has been established in all line ministries aims to increase the evaluation capacity of these ministries (OECD 2015). In the review process, each ministry has reviewed its current programs and activities based on a predetermined principle, and has submitted its spending review results to the Ministry of Public Expenditure and Reform (PER) to provide input for the determination of expenditure ceilings.

Spending reviews are a relatively new process in the Irish budgeting system, with those carried out prior to 2008 being limited in number with a specific purpose, including policy reviews of such specific areas as industrial programs, and performance reviews and audits conducted for internal use in spending ministries (Kennedy and Howlin 2016). Ireland's spending review practices reveal that although the spending review working groups lacked adequate analytical support in the earliest years in which comprehensive reviews were made, in time they have gained experience in the development and analysis of public policy.

In the Ireland system, comprehensive and selective spending reviews were applied together. All programs and activities were fully evaluated, with thematic in depth evaluations made of selected ministries and programs. Thus, beside the comprehensive review, in-depth thematic evaluations covering multiple ministries and programs identified were conducted. Lastly, in Ireland, expenditure reviews were initially intended to lead to budget cuts under the fiscal discipline applied during the financial crisis, but have now become a tool for increasing the efficiency and effectiveness of public spending. The increased capacity for analysis and the improved fiscal conditions have allowed Irish administration to focus on efficiency and effectiveness through more complex analytical expenditure analysis tools.

8.12 Conclusion

Turkey has spent more than 15 years engaged in intensive efforts aimed at establishing a new approach to the management of public finance. In order to achieve this reform, the organizational structure of financial management has been changed, such that the branches of the Ministry of Finance in the line ministries have been closed and fiscal units specific to the individual line ministries have been created. The budget coding

system has been reclassified to be included in the detailed institutional classification, meaning that spending authority has been delegated to each subunit. Budget management has been automated, and budget preparation and implementation operations are now fulfilled through electronic budgeting systems.

Within this process, studies to change the budgeting system from being input-based to performance-based have been carried out. For more than 10 years, strategic plans and performance plans have been prepared by all public institutions and local administrations, leading public institutions to gain considerable experience in performance management. As a consequence, their strategic plans and annual performance plans have become important tools in their organizational governance approach. However, the failure to link performance budgeting with either planning or resource allocation in Turkey has led to a situation in which performance information is not the focus of the budgeting negotiations with the central budget authority, neither is it at the center of budget discussions in Parliament, being used mostly for presentational purposes at a governmental level in the country.

Program budget studies have sought to make active use of the garnered performance information to strengthen the link between planning and budgeting and to reflect the policy priorities of resources in budget documents. To this end, international practices have been examined, and the lessons learned in terms of best practices are being reflected in Turkey's program budgeting transition process. It is important to simplify the budgeting and performance information system while designing program budgeting so as to reflect the government priorities in the budget documents.

The program budget is not limited by a coding system, and so is not just a budgeting concept consisting of budget appropriations. The program budgeting reforms should include other accompanying reforms, along with a modification to budget classifications. During the design phase of the program budget, the link between planning and budgeting should be strengthened and the program objectives should be determined based on key performance indicators. The efficiency of the Medium-Term Expenditure Framework should be increased and a program costing framework should be developed that considers the diversified needs of public institutions. Moreover, the simultaneous implementation of the program budget with the spending review and program evaluation reforms will increase the chances of success of the new management reforms. In the design and implementation of the program monitoring approach, and the evaluation and spending review systems in Turkey, it is important to make use of the lessons learned in the countries that have been using these tools for decades.

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