



PEM PAL
Annual Meeting of Budget Community of Practice
Budva, Montenegro
September 22, 2010

Action planning exercise --- Drafting Budget CoP
action plan 2011 - 2012

[The Public Expenditure Management Peer Assisted Learning \(PEM PAL\)](#) creates a network of public expenditure management professionals in various governments in the Europe and Central Asia (ECA) region. These professionals benchmark their PEM systems against one another and pursue opportunities for 'peer' learning, increasingly understood to enhance knowledge transfer.

PEM PAL work is organized in three Communities of Practice (CoPs): Budget, Internal Audit and Treasury. Each CoP needs to submit an action plan of its activities for the next following years to be approved by the PEM PAL Steering Committee.

In the process of preparing for annual 2010 Budget CoP meeting to be held in Budva, Montenegro on September 22, 2010, the Center of Excellence in Finance in its role of PEM PAL Secretariat prepared a **survey** to understand PEM PAL member needs and training priorities.

The following PEM PAL member countries provided responses to the survey circulated among budget officials on August 18, 2010: Albania, Armenia, Azerbaijan, Kyrgyz Republic, Moldova, Tajikistan, and Ukraine.

Main topics identified by the budget officials to be discussed among peers in 2011 and 2012 are (in order of priorities):

1. Fiscal rules
2. Program/performance budgeting
3. Medium-term budgeting
4. Capital budgeting

During an annual meeting of Budget CoP in Budva¹ officials will need to draft an action plan of activities for 2011 and 2012. A list of priority topics and subtopics as well as formats of activities will be discussed in groups with knowledge brokers facilitating discussions.

¹ Main objectives of the meeting in Budva are: i) to re-introduce PEM PAL network, ii) to present PEM PAL Budget CoP achievements so far, iii) to prepare a draft action plan of activities for 2011 and 2012, iv) to come up with a topic for next PEM PAL plenary meeting in Zagreb, Croatia in January 2011.

Officials will be divided into two working groups, each discussing two topics. After 45 minutes, participants will switch groups to discuss another two topics. At the end of the exercise participants will report to the plenary and agree on the next steps for action plan to be delivered.

For each topic we prepared a list of possible questions to be addressed during Budva meeting. Any discussions outside the proposed framework will be warmly welcome.

Group	Topic	Expert/facilitator
Group 1	Fiscal rules	Gösta Ljungman, International Monetary Fund
	Medium-term budgeting	Elena Nikulina, The World Bank
Group 2	Program/performance budgeting	Brian Olden, International Monetary Fund
	Capital budgeting	Samuel Moon, Overseas Development Institute

Group 1

Moderated by **Gösta Ljungman**, International Monetary Fund and **Elena Nikulina**, the World Bank

TOPIC 1: FISCAL RULES

Background

The sharp increase in fiscal deficits and public debt in most advanced, and a number of emerging and developing economies has raised concerns about the sustainability of public finances and highlighted the need for significant adjustment over the medium term. To address this, a number of countries have decided to introduce fiscal rules as part of their medium-term fiscal consolidation strategy.

Fiscal rules have become more common in recent years. Until the early 1990s, rules were used only in a few countries: debts accumulated during the 1970s and 1980s, and the recognition that currency unions should be supported by rules based frameworks led more governments to subject their policies to numerical constraints. As a result, in 2008, 80 countries had in place national or supranational fiscal rules.

The use of fiscal rules is on average associated with improved fiscal performance, although it is not the only tool that can be considered with some countries opting instead for fiscal frameworks not involving formal rules but focused more on transparent and credible fiscal strategies backed by proper fiscal institutions to ensure fiscal discipline.

To be successful fiscal rules need credibility to help deliver the required adjustment and put debt on a sustainable path. But it should also have adequate flexibility to respond to shocks. Simulation analysis shows that cyclically adjusted balance rules are superior in dealing with output shocks, but cyclical adjustment requires care. There is also a need to examine the prerequisites needed prior to introduction of fiscal rules. This is especially important in countries with limited capacity and weak public financial management systems.

The recent crisis has strained the fiscal rules, with about a quarter of the countries with national rules modifying them or putting them into abeyance, and another quarter likely to experience a conflict between the rule and fiscal developments. Looking ahead, in a period of large consolidation needs and unusual uncertainty, an early introduction of a new rule or a rapid return to the fiscal targets implied by an existing rule may or may not be appropriate but, it may be helpful to design a credible rule-based framework, and a time table for its introduction or for a return to the existing rule-based path as a tool to help with the fiscal consolidation process.

Specific issues to be addressed

- Do fiscal rules have an important role to play in fiscal consolidation strategies for BCoP members?
- How many participating countries have fiscal rules already in place?
- Are there plans to introduce fiscal rules – if so will these rules be numerical or procedural?
- What forms of fiscal rules are appropriate for emerging market economies to assist in emerging from the current crises? What are the pros and cons?
- What prerequisites need to be put in place before fiscal rules can be considered?

- Are there any supporting institutional requirements needed (e.g. independent fiscal agencies, further strengthening of existing fiscal institutions)?

Good practice in this field

To be identified/discussed among budget officials.

Preferred format of activities

To be identified/discussed among budget officials.

Distance learning courses	Plenary meetings with other communities of practice	Workshops
Electronic media for communication (forum, blog, Facebook, ...)	Study visits	Others (<i>please specify</i>)
Peer-assisted events	Videoconferences	

Preferred dates of activities

To be identified/discussed among budget officials.

2011											
JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC

2012											
JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC

TOPIC 2: MEDIUM-TERM BUDGETING

Background

Most budget decisions have impacts well beyond the budget year. To make rational and efficient budgetary decisions, decision-makers must be aware of and consider the medium and long-term implications. In line with this, many countries around the world have taken steps to extend the time horizon of their budget systems.

The potential benefits of medium-term budgeting are well known. A well-designed and well-managed framework for medium-term budgeting will improve fiscal control, financial discipline, allocative efficiency and cost-effectiveness of service delivery; through greater clarity of policy objectives, more predictability in budget allocation, increased comprehensiveness and validity of budget information and enhanced accountability and transparency in the use of resources.

In practice, however, efforts to introduce medium-term budgeting have failed to realize the potential gains in many countries. Sometimes the medium-term budget process has ended up as a ritualistic, resource-consuming effort of little practical value. In some countries medium-term

spending proposals are not effectively reconciled with the resources available during the budget period. As a result, the spending plans become mere wish lists and have limited impact on annual budget preparation or on medium-term resource allocation. Inefficient coordination with national or sector strategies, for instance public investment programs, is another common problem, as is the failure to ensure that the basic requirements for effective annual budgeting is met before attempting to extend the budget period.

Specific issues to be addressed

- When and why was the medium-term expenditure framework (MTEF) introduced? What were the specific problems it was intended to address?
- What are the key features of the approach to implementing the MTEF?
- What are the key features of the MTEF process and calendar, including the points at which the MTEF and annual budget link?
- What is the timeframe covered by the MTEF?
- Are expenditure ceilings important in the MTEF preparation process? Who approves the ceilings and at what level of detail are the ceilings approved?
- How are the MTEF proposals prepared (eg. centrally within sector ministries, bottom up by agencies within sectors and (a) submitted to sector ministry or (b) submitted directly to MoF) Are budget proposals consistent with sector strategies?

Good practice in this field

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Group 2

Moderated by **Brian Olden**, International Monetary Fund and **Samuel Moon**, Overseas Development Institute

TOPIC 3: PROGRAM/PERFORMANCE BUDGETING

Background

As for medium-term budgeting, the potential benefits of a performance-oriented budgeting system are well established and well understood. Better information about outcomes and effectiveness helps allocate budget resources to the programs where the benefits are highest, and helps address equity concerns. Monitoring of cost-effectiveness helps reduce the costs of delivering specific government services and public goods. Some countries have also found that a performance-oriented budget helps achieve fiscal control in the long run, because the mechanism provides a well-founded basis for budget realignment and reduces pressures to allocate resources to less productive programs.

However, whereas the benefits are well understood, there is still considerable uncertainty about how to go about implementing a performance-oriented budget system. Most countries have encountered significant difficulties and have found that it can take many years to move through the different steps. Many OECD countries established program classification structures in the late 1960s or early 1970s. A few of them have recently reached advanced stages of the process, and many have not come this far. Not surprisingly, efforts to introduce performance-oriented budgeting in transition and developing countries have often met great difficulties.

For advanced performance oriented budgeting system to become effective, agencies must usually be given more freedom in determining how to meet their stated objectives and managing their budgets. For this, good reporting practices as well as appropriate internal control must be in place to prevent and detect fraud and error. In this system, the control over the agencies is not based primarily on the inputs it uses, but on review of the activities carried out and results achieved. It is important to emphasize that more freedom implies more responsibility and accountability. Agencies should not be given more authority if there are no appropriate controls and accountability mechanisms.

Specific issues to be addressed

- Is program/performance budgeting a reform priority? At what stage of development are reforms in this area?
- What are participating countries experiences in introducing program/performance budgeting?
- What are the main advantages of program/performance budgeting? What are the bottlenecks and capacity constraints?
- What is the relationship between ministries of finance and line ministries in preparing program/performance budgeting proposals?

Good practice in this field

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TOPIC 4: CAPITAL BUDGETING

Background

Effective processes for capital planning, capital budget formulation and capital budget execution are essential elements for ensuring a country's social and economic development and its financial stability. Without a systematic plan for acquisition, construction, and development of capital assets, countries will not be able to provide essential services to their citizens and business community.

A key challenge in government budgeting is to define an appropriate balance between current and capital expenditures. Budgeting for government investment also remains not well integrated into the formal budget preparation process in many countries. Experience shows that in the absence of properly organized capital budgets, governments resort to borrowing without due consideration of the sustainability aspects, assets are inadequately maintained, and major projects suffer from overall poor management and performance.

Specific issues to be addressed

- Are capital project proposals consistent with achieving national and sectoral development objectives?
- Does the capital planning process incorporate all government capital projects?
- How are project proposals evaluated and approved? Is this a transparent process? Is there a central body with responsibility for evaluating technical and financial aspects of project proposals?

- Are capital project proposals consistent with the aggregate budget envelope?
- How does the project monitoring and evaluation process work?

Good practice in this field

To be identified/discussed among budget officials.

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