**PEMPAL 2019 BCOP Annual Plenary meeting – March 18-21, 2019**

**Tashkent, Uzbekistan**

**EVENT REPORT**

[1. Background 1](#_Toc5194534)

[**Event Objectives and Participants** 2](#_Toc5194535)

[2. Opening Remarks, Introductory Update on BCOP, and Agenda Overview 3](#_Toc5194536)

[3. BLTWG Agenda: Recent Good Practices in Public Participation Mechanisms 4](#_Toc5194537)

[**Update on BLTWG Activities** 4](#_Toc5194538)

[**What Are Examples and Lessons from Recent Good Practices of Public Engagement at the National Level?** 5](#_Toc5194539)

[**Status and Reform Plans in Fiscal Transparency and Public Participation in Uzbekistan** 6](#_Toc5194540)

[**Participatory Budgeting Practices in Sakhalin, Russian Federation** 7](#_Toc5194541)

[**Workshop on Participatory Budgeting Experience of Russian Federation and Outcomes of Group Work of Participants in Designing Public Engagement Models** 8](#_Toc5194542)

[4. PPBWG Agenda: Newest Trends in Performance Budgeting and Spending Reviews 11](#_Toc5194543)

[**Update on PPBWG Activities** 11](#_Toc5194544)

[**What is the Current Status of Performance Budgeting in PEMPAL Countries?** 12](#_Toc5194545)

[**What are Current Trends and Best Practices in Spending Reviews in OECD Countries?** 13](#_Toc5194546)

[**What is the Current Status of Spending Reviews in PEMPAL Countries?** 14](#_Toc5194547)

[**Outcomes of Participants’ Group Discussions on Spending Reviews** 15](#_Toc5194548)

[5. Capital Budgeting/Public Investment 16](#_Toc5194549)

[**Key Concepts and Trends in Capital Budgeting and Results of the Pre-event Survey of PEMPAL Countries** 17](#_Toc5194550)

[**New Methodology for Public Investment Planning Approach: Infrastructure Prioritization Framework** 18](#_Toc5194551)

[**Messages from OECD’s Network of Senior Infrastructure Officials** 19](#_Toc5194552)

[**Capital Budgeting in Bulgaria** 20](#_Toc5194553)

[**Capital Budgeting in Croatia** 21](#_Toc5194554)

[**Issues in Capital Budgeting in Bosnia and Herzegovina** 21](#_Toc5194555)

[**Issues in Capital Budgeting in Russian Federation** 22](#_Toc5194556)

[**Summary on Brief Concluding Presentations on Main Developments and Challenges in Capital Budgeting in Other PEMPAL countries** 23](#_Toc5194557)

[Annex: Event Agenda 24](#_Toc5194558)

# **Background**

**This event report captures the key discussions and outcomes of the 2019 Budget Community of Practice’s (BCOP) annual plenary meeting held on March 18-21 in Tashkent, Uzbekistan. The meeting focused on three topics: i) capital budgeting and public investment; ii) mechanisms for public participation in budget process; and iii) performance budgeting and spending reviews.**

### **Event Objectives and Participants**

**The meeting gathered BCOP representatives from Ministries of Finance (MOFs) from 17 BCOP member Governments from the Europe and Central Asia (ECA) region**: Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kyrgyz Republic, Republic of North Macedonia, Moldova, Montenegro, Russian Federation, Serbia, Tajikistan, Ukraine, and Uzbekistan. Iryna Shcherbyna, World Bank Senior Public Specialist and the BCOP Resource Team Coordinator, and Naida Čaršimamović Vukotić, consultant and member of the BCOP Resource Team, provided technical support in preparing the agenda and facilitating the workshop, while logical and administrative support was provided by Ksenia Galantova and Kristina Zaituna, members of the PEMPAL Secretariat. Elena Nikulina, PEMPAL Task Team Leader, also attended the event and provided both technical support and thematic advice throughout the event and moderated one of the group discussions. Patrick Piker Umah Tete, World Bank Senior Financial Management Specialist delivered a presentation on results of 2019 Public Expenditure and Financial Accountability Assessment recently delivered in Uzbekistan.

**The key objectives of the plenary meeting** were to:

* provide the opportunity for BCOP member countries ***to review approaches and trends in capital budgeting/public investment planning (including the developments in OECD countries), familiarize themselves with new assessment tools used by the World Bank, and discuss possible approaches and options for PEMPAL countries;***
* provide the opportunity for BCOP member countries ***to* *review the most recent work and advance discussions within the topics of the two BCOP working groups***, including:
  + the newest status and trends in performance budgeting and the newest developments in the area of spending reviews
  + mechanisms of engagement of stakeholder groups in budget discussion at the national level and implementation of participatory budgeting approach at a sub-national level.
* update members on overall BCOP progress since the last plenary meeting and to report back on countries’ priorities gathered in the pre-meeting survey to inform the development of the BCOP Action Plan 2020-21.

**The format comprised three full days of agenda (**in addition to BCOP Executive Committee and BCOP Resource Team meetings that took prior to the plenary meeting)**, one on each of the three topics listed above. The topic of capital budgeting and public investment was a new topic introduced in this event, while the other two topics were the subject of two days being hosted by the two working groups operating under BCOP. The first one is** Program and Performance Budgeting Working Group (PPBWG), which comprises of members from 15 BCOP member countries and is led by Nikolay Begchin from the Ministry of Finance of the Russian Federation. The Budget Literacy and Transparency Working Group (BLTWG) comprises of members from 16 BCOP member countries and is led by Anna Belenchuk from the Ministry of Finance of the Russian Federation.

# **Opening Remarks, Introductory Update on BCOP, and Agenda Overview**

**The event was opened by Djamshid Kuchkarov, Deputy Prime Minister and Minister of Finance of Uzbekistan and Mr. Hideki Mori, the Country Manager, World Bank.** Mr. Kuchkarov welcomed the participants and praised the importance of BCOP in contributing to and promoting for the professional development of budget practitioners in 21 member countries, who share their knowledge and experience among themselves and with international experts as well. He stressed the important role of an efficient public finance management (PFM) system and noted that all three topics of the plenary meeting are important and timely for Uzbekistan in light of ongoing and planned reforms. Mr. Kuchkarov thanked the World Bank team and PEMPAL Secretariat, as well as BCOP Executive Committee and Resource Team for organization of the event, which he assessed as being of the highest level possible. Mr. Mori also welcomed the participants and noted that the event is dedicated to an important issue of strengthening tools for efficient public finance management and citizens engagement. He stressed that budget constraints remain significant for most countries, therefore a stronger focus on better performance of public expenditures, transparency of budget policy, and strengthening citizen participation are needed. The Budget Community of Practice has been established to facilitate knowledge exchange on the key budget policy and methodology areas and its participants represent the budget-related units within Ministries of Finance who lead on PFM reforms. Their role is crucial in addressing the current development challenges related to PFM performance in their countries. Mr. Mori concluded by thanking the PEMPAL donor, SECO, and the host of this event, Ministry of Finance of Uzbekistan.

**The Chair of BCOP, Anna Belenchuk from the Ministry of Finance of Russian Federation, also welcomed the participants on behalf of BCOP and thanked the Ministry of Finance of Uzbekistan** for their contribution to the plenary meeting in assisting with the organization, as well as for sharing their expertise and information on current reforms. Ms. Belenchuk next gave an overview of the event agenda, stressing that, the BCOP Executive Committee took into account the priorities and interest expressed by all member countries to the maximum extent possible while developing the agenda. Thus, in addition to the topics of program and performance budgeting, budget literacy and transparency that are consistently ranked as top priorities by BCOP member countries; this event will include one day on the topic of capital budgeting/public investment, as this topic was the most common priority identified by BCOP countries in 2018.

Ms. Belenchuk next presented an update of BCOP recent activities and plans. She stressed that main features of work have included: formalized collection of country priorities through online surveys (an online survey conducted in February 2019 prior to this plenary meeting. It collected country priorities, as was the case in previous two years); working groups driving most of BCOP activities; increased focus in developing knowledge products; and strengthening BCOP’s relationship with other development partners, including OECD, IBP, and GIFT in particular. She also gave an overview of BCOP events held in the last year and their results. Ms. Belenchuk concluded her presentation on BCOP update by outlining the approach for upcoming period and budgeting reform topics listed as the priorities for the BCOP countries in the BCOP pre-event survey, which showed that the most common priorities remain to be related to topics of the two BCOP working groups.

**An overview of the agenda was also given, and participants welcomed, including the BCOP Executive Committee, speakers, experts, and newcomers**. BLTWG part of the agenda included half of day (Day 1) of discussion on most recent good practices of engaging stakeholder groups at the national level and reviewing public participation mechanisms recently implemented in PEMPAL countries; and half of day (Day 4) in which the World Bank Russia Local Initiatives Support Project held a workshop on implementing participatory budgeting in countries with multi-level budget structure. PPBWG part of the agenda (Day 3) included half of day of presentations and discussions on results of PEMPAL countries on 2018 OECD Performance Budgeting Survey and on spending reviews; and half of day devoted to group discussions on spending reviews. Finally, one day (Day 2) was devoted to the new topic of capital budgeting/public investment, including presentations delivered by the World Bank, OECD and four PEMPAL countries.

# **BLTWG Agenda: Recent Good Practices in Public Participation Mechanisms**

During the program devoted to BLTWG topics, participants were given an update on the BLTWG work and familiarized with the recent examples of engaging stakeholder groups in budgeting discussions at the national level in a presentation provided by GIFT; as well as with the innovative public participation practices recently implemented in Russia and Croatia. Participants learned about fiscal transparency and public participation reforms in Uzbekistan. The Russia Local Initiatives Support Project team delivered a workshop on implementing participatory budgeting in Russia that now spans over 50 regions of the Russian Federation with support of the Ministry of Finance of the Russian Federation and the World Bank.

**Presentations were delivered by BLTWG Lead** (Anna Belenchuk) **GIFT** (Murray Petrie), **Ministry of Finance of Uzbekistan** (Dilshod Sultanov), **World Bank** (Patric Uma Tete), **Ministry of Finance of Croatia** (Mladenka Karačić), **Ministry of Finance of Sakhalin region in Russian Federation** (Anna Kharchenko), **Ministry of Finance of Russian Federation** (Anna Belenchuk), and **the World Bank Russia Local Initiatives Support Project** (Ivan Shulga).Selected key discussions and conclusions from these presentations are outlined below.

### **Update on BLTWG Activities**

**BLTWG, formed in 2015 and comprising 16 BCOP member countries, aims to study international experience in improving budget literacy of the public, budget openness and accessibility, and citizen engagement.** Its tasks include: reviewing advanced international practices in budget literacy and transparency and public participation; experience sharing between budget experts from BLTWG member countries for the purpose of designing standard approaches to implementation of similar initiatives/reforms; and creating new BCOP knowledge products on the basis of results of group’s work, including specific recommendations on how to carry out initiatives/reforms in PEMPAL countries. This group has worked in partnerships with the Global Initiative for Fiscal Transparency (GIFT) (joint thematic workshops with GIFT on public participation), World Bank (on budget literacy and implemented initiatives of public participation); International Budget Partnership (IBP) (on success factors in the Open Budget Index); OECD (inputs to the preliminary version of the Budget Transparency Toolkit and thematic discussions related to BLTWG topics within OECD SBO CESEE network meetings, as well as dissemination of BLWTG knowledge products).

**As the work of BLTWG progressed, the focus of BLTWG activities gradually shifted from general issues of budget openness and its measurement in 2015-2016, to the best practices in budget literacy in 2016–2017, and ultimately to public participation in the budget process.** The group’s work in 2017 and 2018 included development of a background paper on public participation; review and discussion with the IBP of findings on public participation in the IBP 2017 Open Budget Survey; review and discussion with GIFT of new best practices included in the GIFT Guide on Principles and Mechanisms of Public Participation in Fiscal Policy; review and discussion of citizen participation practices in PEMPAL countries (Georgia, Kyrgyz Republic, and Croatia); review and discussion of digital tools, information technologies, and citizens’ engagement during the GIFT workshop and OECD SBO CESEE network meeting; and co-designed and co-organized workshop with GIFT and learning visit on public participation in Portugal.

### **What Are Examples and Lessons from Recent Good Practices of Public Engagement at the National Level?**

**BLTWG invited GIFT to gather and present at this event practical experience in citizens engagement at national level. A** presentation included the general overview of public engagement mechanisms across the budget and fiscal policy cycles; specific examples of the range of public engagements conducted by the New Zealand Treasury; examples of pre-budget consultations in selected countries (including Canada and Ireland); examples of other approaches used by Ministries of Finance in UK, South Africa, Mexico, and Philippines; and concluding observations. Detailed list of references and resources were also provided to the participants.

**There are multiple important reasons for central governments to engage directly with the public. From the perspective of national Ministries of Finance, public participation mechanisms can help to get the support of NGOs, academics, experts, and overall citizens to put more pressure on line ministries and agencies to get better value for money and achieve results.** The most important principles in designing and implementing public participation mechanisms include government being clear on objectives it wants to achieve with its public participation mechanisms; publishing easily understood information to support each specific engagement; actively engaging not just “normal and usual voices” but also marginalised ones to increase legitimacy and get a broader and more representative public perspective; and providing feedback on how public inputs were used. Multiple fiscal policy engagement mechanisms can be implemented in all budget stages including budget preparation (consultation on strategic policy planning, consultation on annual budget, tax policy and expenditure policy reviews, and public engagement on public service needs, the public’s views on the quality of specific public services, and investment project appraisals) and budget implementation (slide 6).

**Global results on public participation pillar of IBP’s 2017 Open Budget Index remain disappointing. New Zealand is a leader with score of 58, followed by the UK and the Philippines, while among PEMPAL countries, Kyrgyz Republic and Ukraine are highest scorers.** Seven specific mechanisms currently being implemented by the New Zealand Treasury were presented in detail, including Social Investment Panel, Capital Investment Panel, New Infrastructure Agency, Open Budget, Earthquake Commission Review, Tax Reform, and Independent Fiscal Institutions examples (together with some brief references to engaging with universities and schools). Based on New Zealand examples, key observations include: a wide variety of engagement mechanisms can be implemented, including one-off exercises or regular and institutionalized mechanisms, single stage or multiple-stage mechanisms, informal or legally required processes, and expert-based or general public consultation mechanisms (these different approaches can also be combined in multi-mechanism exercises for large consultations). Policy areas conducive to public participation are wide, including macro-fiscal framework, tax, expenditure, and investment, most of which are outside of the annual budget process and therefore not measured by the Open Budget Survey; it is important to distinguish the role of Treasury (i.e. Ministry of Finance) officials from that of elected officals who at times may have a clearer mandate to counsult the public; there is limited centralized guidance available for Treasury staff; there are well-established non-government actors and interaction patterns; specific efforts are invested in mechanisms to engage minorities/marginalized groups; most work is done by Treasury staff within existing budgets, although sometimes specialised or urgent work is contracted out; clear processes to manage privacy issues and avoid potential conflicts of interest are in place; political support is essential; and Key Performance Indicators (KPIs) based on regular and independent published surveys of citizens’ perceptions and users’ satisfaction with public services can be an important lever.

### **Status and Reform Plans in Fiscal Transparency and Public Participation in Uzbekistan**

**The World Bank recently completed a PEFA assessment for Uzbekistan and Ministry of Finance of Uzbekistan invited the World Bank to present the findings of the assessment in the pillar on transparency of public finances at this event.** Overall, on 61% of all 31 PEFA indicators, Uzbekistan scores above C+, showing improvement since the 2012 PEFA assessment. However, although improvement on public access to key fiscal information has been recorded, within the pillar on transparency of public finances, only 2 out of 6 indicators have a score above C+. These six indicators refer to budget classification, budget documentation, government operations outside of national accounts, transfers to subnational governments, performance information for service delivery, and public access to fiscal information. The first two of these indicators have scores that qualify them above good practice, while the lowest score is in indicators on transfers to subnational governments and performance information for service delivery. PEFA results on transparency of public finances will, *inter alia*, inform the update of Uzbekistan’s PFM Strategy to ensure that identified weaknesses are addressed.

**Deputy Minister of Finance of Uzbekistan, Mr. Dilshod Sultanov, explained that Uzbekistan is undergoing its first open budget reform, as per Decree of the President of the Republic of Uzbekistan from August 2018 *On Measures to Promote Budget Transparency and Citizen Engagement in the Budget Process*.** As of 2019, an arrangement is put in place enabling citizens to engage in allocation of at least 10% of additional (above planned) budget resources of districts (towns) for community-driven projects; while in 2020, the government budget and earmarked budgets shall be adopted by a law (currently, the parameters are set by presidential decree) and must be subjected to public discussions prior to submission to the legislature. Citizens’ budgets are published at both draft stage and budget execution stage. A fiscal transparency evaluation was also conducted for Uzbekistan by the International Monetary Fund (IMF) in June 2018, which acknowledged that Uzbekistan is embarking on a comprehensive PFM reform to enhance fiscal transparency and praised the formation of a new division in the Ministry of Finance tasked with improving PFM and promoting transparency. Uzbekistan will also participate in the Open Budget Index in 2022, for the first time. To increase budget openings and public participation, the Ministry of Finance with the Ministry of Information Technologies and Communications of Uzbekistan launched an Open Budget portal. This portal will promote public oversight over expenditure, inform the public on community-driven projects to be designed within the public participation mechanism, and to gather citizens’ feedback on any violations of budget legislation and proposals for budget process improvement. As budget literacy is quite low, The Ministry of Finance is also planning to work on this in the upcoming period.

**Public Participation Innovations in Croatia**

**Participatory budgeting mechanisms in Croatia are implemented at the subnational (regional/county and city/municipal) level, as at the national level the largest part of the budget is predetermined and not discretionary.** Thus, at the national level, emphasis is on enhancing transparency, literacy, and citizens' particication through the right of access to information, public consultations prior to the adoption of new regulation/legislation, as well as through public access to national budget funds through public calls for financing citizens' associations. ​While the organic budget legislation at the national level does not prescribe special public participation in the budgetary decision-making process (aside from general public consultation requirement that applies to all laws as described above), at the local level, Act on Local and Regional Self-Governance provide for the possibility of “direct citizen participation in the decision making process concerning local affairs by way of a referendum and local citizen assemblies”, as well as the right to propose the adoption of acts.

**Association of counties in Croatia has implemented an Open Budget Project, which focused on opening and visualizing country budgets in a uniform and comparable way. A manual on Local Budgets and Engaging the Public in Budget Process was also prepared.** Eleven specific examples of public participation mechanisms in local governance units in Croatia (counties and cities) were presented in detail with references and links provided for participants. Some of the presented mechanisms include, for example: i) implementing both indirect and direct communications with the citizens through online budget public consultations and on-site consultations held by the mayor in city districts in Karlovac; ii) designing a comprehensive three-step participatory budgeting introduction by first holding extensive consultations to develop exact model of participatory budgeting adjusted to the context of the city, followed by developing methodology and forming and traiing implementation team, and finally fully implementing the participatory budgeting in Dubrovnik; iii) formulating a working group of ten representatives of youth associations, Youth Council, and city administration, a Youth Program was developed in Pregrada based on a survey of youth which defined five main thematic objectives. City of Rijeka remains one of the leaders in public participation initiatives in Croatia, with four different mechanisms implemented: small community projects, local partnership program, educational online budget game, and online form of participation in budget planning and execution.

### **Participatory Budgeting Practices in Sakhalin, Russian Federation**

**Sakhalin region is one of the leaders in public participation initiatives in the Russian Federation and wider, despite having started implementing these initiatives very recently, since 2018**. Around 100 settlements, 52,000 beneficiaries, 10,000 high school students from 125 schools, and 14,492 voters (around 4% of adult population) took part in these initiatives in Sakhalin. Main objective in introducing these mechanisms was to increase trust of citizens. More than 100 meetings were held with the public, as well as many learning events, in large part through World Bank LISP project. Three types of public participation mechanisms are employed: i) LISP initiative for planning small development projects in small rural areas conjunction with the municipalities and financed through regional budgets; ii) Youth Budget initiative for high school students proposing solutions and ideas to improve communal infrastructure (Sakhalin is the first region in Russia to implement initiatives specifically targeting youth); and iii) Public Space Development imitative to get strong community engagement in resource-intensive construction and reconstruction of urban social infrastructure.

**Some of the lessons learned and success factors shared during the presentation** include: i) taking time to carefully listen to citizens and not pre-determining what they can propose, especially for youth initiatives; ii) political will is essential, as gained trust of citizens can also be lost in changes in mechanisms or in implementation stages occur; iii) direct involvement of mayor is crucial; iv) managing and supervising the subcontractors chosen to implement projects resulting from public participation mechanisms carefully to ensure proper implementation, otherwise trust of citizens that participated can be affected negatively, v) for youth projects in particular provide for possibilities for active engagement and leadership of students in all stages; vi) having clear and transparent selection criteria and processes and multiple-stage selection process; vii) conducting media campaigns, viii) giving out awards in a celebratory settings helps the promotion of such initiatives; and ix) designing special initiatives for marginalized groups, such as disabled.

### **Workshop on Participatory Budgeting Experience of Russian Federation and Outcomes of Group Work of Participants in Designing Public Engagement Models**

**Ms. Belenchuk presented key outcomes and avenues for further development of participatory budgeting in Russia, where 52 out of 85 regions have implemented participatory budgeting initiatives so far.** There are 112 different specific practices related to participatory budgeting in Russia, most of which rely on LISP project. These practices are broadly grouped by the Ministry of Finance of Russian Federation into five models: i) LISP initiatives in which citizens select projects at community meetings, projects are competitively selected based on formalized criteria, these initiatives are integrated into administrative, budget and legal systems, and financing comes from regional budgets with mandatory co-financing from local communities, businesses and municipalities; ii) People’s Initiative and People’s Budget in which there are regional variations of practices, representing a synthesis of various approaches; iii) EUSPPb Participatory Budgeting, which is based on model developed by the EU University in Saint Petersburg in which earmarked municipal funds or borrowed funds are allocated based on decisions of a commission comprising randomly selected members from among project applicants and municipal representatives; iv) Youth Budget in which funds from the regional budget are allocated on an annual basis with the participation of high school seniors; and v) Community-led Areas Development Program (PORT) in which construction and rehabilitation of social infrastructure facilities in urban regions are funded based on project proposed at community meeting that are later voted on through the public services website.

**Involvement of the Ministry of Finance of the Russian Federation in public participation initiatives started in 2015, with the establishment of Center for Initiative Budgeting within Ministry’s Financial Research Institute, to conduct training on regular basis and disseminate best practices.** In 2016, the World Bank’s project to promote participatory budgeting in the Russian Federation was launched and in 2017, a medium-term participatory budgeting development program in the Russian Federation was drafted. In 2018, participatory budgeting was incorporated in main strategic government documents. Ministry of Finance’s program approved by the Government within the Public Finance and Financial Program that covers the period up to 2024 includes specific objective relevant for public participation. Specifically, it targets that 50% of regions have approved public participation activities within their government programs; that openness of the budgetary planning process and involvement of civil society institutions in the budget process is ensured; and that citizens’ engagement in state and municipal governance is expanded. Moreover, Concept for Improving the Effectiveness of Budget Spending in 2019-2014 includes the following objectives relevant to public participation: improve a system of public discussions, make sure that the published information is understandable; enhance a system of public hearings; define a legal framework for public participation; incorporate public participation in possible implementation arrangements for various activities: develop methodological recommendations on public participation project development and implementation; summarize and disseminate best regional (municipal) practices; make sure that citizens have free access to learning and information materials; disseminate budget knowledge and instruments enabling participation; and improve presentation format of citizens’ budgets. Ministry of Finance will carry out most work in this area within its Citizens’ Budget project, which does not include only citizens’ budgets, but also budget literacy and public participation initiatives, as well as activities related to open and meaningful data.

**The presentation concluded with several examples of what the Ministry of Finance considers as the best practices in public participation**, including Yaroslavi region where public participation initiative is implemented as a Governor’s priority project, portion of fund comes from national Ministry of Construction, and media is involved heavily; Kirov region where over 65% of total population are beneficiaries of public participation initiatives and in which social target groups are identified and financial, statistical, and social criteria used for selection; and the Republic of Sakha where effective tools for engaging citizens through the media, social networks, and messengers is used.

**Ivan Shulga, World Bank Senior Social Protection Specialist, presented models, mechanism, and results of public participation activities under LISP project.** An overview of general facts about participatory budgeting were given first, followed with details of models implemented in Russia, and concluding with the effects of the implemented initiatives.Participatory budgeting initiatives as they currently exist in Russia would not be possible without the support of the Ministry of Finance of the Russian Federation. While there is no one clear definition of participatory budgeting, it can be broadly considered as engaging the pubic in distribution of part of the budgetary funds by mechanisms related to discussing, proposing, or selecting projects/initiatives. There are many forms, options, and modalities of participatory budgeting. Participatory budgeting exists in variety of environments across the world, showing that these mechanisms are applicable in different systems, such as in the USA, China, Portugal, Indonesia, South Korea, and Russia.

**Initiative budgeting is the Russian version of participatory budgeting and it has features that are unique to Russia.** Models mostly share the following common features: competitive selection of projects (based on voting and criteria), community and business co-financing, regional level financing and management, and community engagement not being limited to project selection and including follow-up implementation and oversight. Initiative budgeting began being implemented in Russia in 2007 in Stavropol region under LISP, while the national level Ministry of Finance’s active involvement started in 2016 as previously presented. Out of 52 regions that have implemented participatory budgeting initiatives sin Russia, at least 30 can be considered to have very good and successful programs. LISP provides methodological knowledge, trainings, and exchange of practical experiences, at a very detailed technical level, as well as more general online training.

**Four different participatory budgeting models implemented in Russian Federation** (LISP initiatives, PORT initiatives, School initiatives, and EUSPPb Participatory Budgeting) **were presented in detail.** LISP initiatives were set up with the objective to address local community needs mostly in rural settings in the way to ensure that citizens see quick results of their engagement. The design of program was based on municipal set-up, in order to ensure integration. Ensuring that citizens are involved in designing selection criteria is important, as well as ensuring proper documentation of all processes, including photographic evidence. Another lesson learned from LISP initiatives is to limit the co-financing share included in selection criteria, to avoid competition based on large shares of co-financing. Positive effects on development of settlements are reported. One of the success factors is that competition motivates municipalities to engage communities. While at the beginning everyone is skeptical in terms of whether citizens will get involved, he involvement in all cases was much higher than anticipated. This is general experience not only in Russia, but in other countries as well – citizens get involved more than anticipated. It is also important to conduct awareness building campaigns to inform the wider public and to engage local businesses. Overall, around 10,000 LISP projects have been implemented, funded in 60% from regional budgets, 20% municipal budgets, 12% from citizens’ contribution, and 8% from local business contribution. More than a quarter of projects are in road sector, 20% in water-supply, 11% are community centers and libraries, 9% playgrounds and recreational facilities, and 9% in territorial improvements. PORT initiatives are designed for larger capital investment projects urban areas, based on best experiences from Cascais, Portugal and best experiences from LISP. In such initiatives, conducting meetings in different settlements is important, to cover larger geographical area. After initial face to face meetings, e-voting is next employed, to ensure larger participation. Another important factor to take into account is that co-financing criteria is not appropriate for such initiatives given the large size of projects. After voting by delegates from projects (each delegate casting two votes, so that in addition to their own project they vote for another project), face to face statutory and mobile voting stations were employed and in the end more people voted for these projects than in elections. Working with NGOs is also helpful in such initiatives. School initiatives were designed for small projects to promote local social infrastructure and territorial improvements. Multiple additional objectives can be achieved when working with youth – preparing the youth for adult participatory budgeting and in particular developing soft skills in youth, such as communication, presentation, team work, and presentation skills. General lessons learned are that working with youth is easier than working with adults; their ideas are very fresh and new, if they are not constrained with what they can propose; and they are also eager to get involved as volunteers in all stages. Engagement rates are also very high, up to 80% per school. Finally, EUSPPb Participatory Budgeting differ from other initiatives in that they include intensive capacity building for the budget commission members, which are randomly assigned.

**Impact evaluation of participatory budgeting in Russia was conducted and the results indicate that participatory budgeting initiatives have multiple positive effects where implemented.** For example, citizens’ perception of the state of local roads and streets, water supply, cultural institutions, and recreational facilities are more positive in areas where such initiatives are implemented compared to similar control areas in which no initiatives were implemented. Moreover, a general perception on the quality of life is more positive in areas where initiatives were implemented and in those areas more citizens consider themselves responsible for what is happening in their locality. Similarly, in the areas where participatory budgetinginitiatives were implemented are more likely to believe that administration takes residents’ views into consideration in addressing local needs and are more likely to express confidence in the head of their settlement.

**The second part of the workshop was devoted to a practical exercise in which participants were divided into five groups and worked on designing a public participation model.** Each group had to define all relevant specific elements of their proposed model, includingobjectives; coverage in terms of national versus local initiatives; targeted population groups; thematic/sectoral focus; institutions/bodies responsible for implementation; other stakeholder bodies; financing sources; co-financing requirements; regulatory/legislative basis; and mode of voting. In addition, groups were asked to identify perceived challenges and ways to mitigate them. Groups presented various models, ranging from specific youth initiative in specific sectors to broader initiatives covering any sector with the goal of starting to develop public participation awareness in citizens. After each group’s presentation, facilitators provided feedback and additional advice on what would need to be taken into account when implementing such potential initiatives.

# **PPBWG Agenda: Newest Trends in Performance Budgeting and Spending Reviews**

During the program devoted to PPBWG topics, participants were given an update on the PPBWG work and familiarized with the current status and trends in PEMPAL countries in performance budgeting based on results of 2018 OECD Performance Budgeting Survey. In addition, two presentations were delivered on spending reviews, to familiarize the participants with the current trends and best practices in spending reviews in OECD countries and PEMPAL countries’ practices, challenges, and plans in spending reviews. Finally, participants held parallel group discussions on the topic of spending reviews.

**Presentations were delivered by PPBWG Lead** (Nicolay Begchin), **OECD** (Jungmin Park), **and World Bank/BCOP Resource Team** (Naida Čaršimamović Vukotić) **and representatives of three participant groups from group discussions** (Miroslav Bunčić from Ministry of Finance of Serbia, Ivan Rakovskiy from Ministry of Finance of Russia, and Nataliia Tolopylo from Ministry of Finance of Ukraine). Selected key discussions and conclusions from these presentations are outlined below.

### **Update on PPBWG Activities**

**PPBWG, formed in 2016 and comprising 15 BCOP member countries, aims to identify main trends observed in program and performance budgeting and spending reviews in developed and PEMPAL countries so that effective approaches to such practices can be subsequently developed and spending effectiveness improved in PEMPAL countries.** BCOP members continuously identify program and performance budgeting as a priority area in their countries’ budgeting reforms, including in the 2019 pre-event plenary meeting survey. PPBWG has an extensive partnership with the OECD, with OECD being an important content source for PPBWG, through participation in the OECD’s Performance Budgeting Survey (2016 and 2018 iterations) and participation and contribution to the meetings of the OECD Senior Budget Officials’ Network on Performance and Results and meetings of the OECD Senior Budget Official's for CESEE region, which also often discusses program and performance budgeting topics. Overview of key PPBWG activities in 2016-2018 were presented, followed by more detailed review of activities and results of the PPBWG over the last year.

**Main PPBWG activities since 2018 included** the workshop to examine performance budgeting in Austria with the Austrian Ministry of Finance and the Federal Chancellery of Austria; completion and dissemination of the knowledge product on Performance Indicators in PEMPAL Countries: Trends and Challenges; review of two PEMPAL country cases on performance indicators; discussion on OECD’s Draft Best Practices in Performance Budgeting; and taking part in the 2018 OECD Performance Budgeting Survey and subsequent data analysis. A small delegation of PPBWG also participated at the meeting of the OECD’s Network for Performance and Results in November 2018 and presented PPBWG’s work and preliminary aggregate results of PEMPAL countries on 2018 OECD Performance Budgeting Survey. In preparation for this plenary meeting, PPBWG also conducted an additional survey on spending reviews in PEMPAL countries within the pre-event survey and subsequently analyzed the results to present in this meeting.

**Topics related to program and performance budgeting remain clear priorities of more than two thirds of BCOP countries, based on data collected from country members prior to this meeting.** Most frequently mentioned subtopic is monitoring and evaluations of expenditure including spending reviews. Consequently, PPBWG focus for the next year is expected to be on spending reviews, with an event to review in detail spending review practices in one of the advanced countries and possible work on a knowledge product on spending reviews (these are activities that were originally planned to be initiated in this year, but due to PEMPAL’s financial constraints are now planned for FY20). Several potential options for the content of the future knowledge product on spending reviews were presented (for example, identifying challenges for PEMPAL countries and providing options to address each of the challenges with examples or alternatively taking one example of a spending review that was conducted in an advanced country and walking through all steps). Within extensive discussion that followed the presentation, additional suggestions for work of the PPBWG were proposed, including collecting and distributing specific methodological documents and reports on spending reviews from the countries that conducted them; as well as collecting additional data on program scope and definitions and coverage of government expenditures within programs and within performance indicators in PEMPAL countries, with additional focus on cross-cutting programs and indicators.

### **What is the Current Status of Performance Budgeting in PEMPAL Countries?**

**The results on 2018 OECD Performance Budgeting Survey for PEMPAL countries were presented, focusing on the characteristics of national performance frameworks, performance indicators, usage of performance information, and challenged in performance budgeting.** Fourteen PEMPAL countries took part in the Performance Budgeting Survey in 2018 (Armenia, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Moldova, Russia, Serbia, Ukraine, and Uzbekistan). Thirteen of these countries also took part of the 2016 Performance Budgeting Survey. Taking part in this Survey, which was simultaneously in the same format being taken by all OECD countries, contributes to one of the three BCOP priorities in this PEMPAL Strategy period – expanding internationally available data on PEMPAL countries. Specifically, results of this Survey allow for regional and international benchmarking, as well as identification of innovations and good practices in performance and program informed budgeting. Moreover, for PEMPAL countries that took part in the previous iteration of this Survey in 2016, it is possible to track the recent progress and trends.

**The presentation highlighted the key trends and differences in OECD and PEMPAL countries, as well as the key trends in PEMPAL countries in 2018 compared to 2016.** Among the findings of the 2018 Survey, it was noted that almost all PEMPAL countries now have compulsory performance budgeting frameworks, which represents a wider and more uniform coverage of frameworks in PEMPAL countries compared to OECD countries, in which a trend towards the compulsory comprehensive frameworks have also been recorded. However, PEMPAL countries most frequently describe their performance budgeting practices as a presentational approach, compared to performance-informed approach in OECD countries. Responsibility for setting performance targets in both PEMPAL and OECD countries is mostly with the line ministries/agencies, however a more frequent and stronger role of the Chief Executive and Ministry of Economy/Planning is noted in PEMPAL countries. There are mixed trends in number of programs and indicators in both OECD and PEMPAL countries, with a more frequent trend of a decrease in number of indicators in PEMPAL countries. Similarly, there are mixed trends in usage of performance information, with somewhat more frequent trend of increased usage by program managers, ministers/senior civil servants, and especially parliament in OECD compared to PEMPAL countries. Transparency of program objectives is the most improved aspect of budgetary management resulting from performance budgeting practices in both PEMPAL and OECD countries.

**Challenges to performance budgeting implementation are perceived higher in PEMPAL countries compared to OECD countries, in particular those associated with the earlier stages of performance budgeting implementation**. Compared to 2016, PEMPAL countries are more aware of challenges related to leadership/commitment and formulation of indicators/targets. Top five challenges identified in PEMPAL countries include: lack of culture of performance, lack of leadership/commitment, poorly formulated indicators and targets, lack of adequate and timely data, and lack of resources.

### **What are Current Trends and Best Practices in Spending Reviews in OECD Countries?**

**The 2018 OECD Performance Budgeting Survey was the fifth round of performance budgeting survey for OECD countries and 33 out of 35 OECD countries responded the survey in 2018.** One of the three sections in the survey is devoted to spending reviews. Spending reviews in essence operationalize principles of performance, evaluation, and value for money for public spending. Continued increase in number of OECD countries conducting spending reviews is reported, from 16 countries in 2011 to 23 in 2016, and 27 in 2018, with additional 3 countries in which spending reviews are currently under consideration. Spending reviews are increasingly informing budget negotiations in OECD countries and are now the second most important type of information used during budget negotiations after operational data and performance reports, surpassing program evaluations and statistical information for the first time.

**Objectives of the spending reviews in OECD countries have shifted from short-term budget cut needs to a mid-term view on efficiency and effectiveness and the** **key result of spending reviews has been shifted towards reallocation of spending to match government priorities.** For OECD countries, the main challenges for implementation of spending reviews are: availability of performance information; quality of performance information/data; inattention to implementation of spending review recommendations; and time constraints for implementation. Another exhibited trend in OECD countries is towards narrowed coverage of spending reviews versus comprehensive reviews.

**Examples of recent best practices of spending reviews were presented, including Canada and the UK cases**.In Canada, focus is in thematic areas of spending, such as innovation and asset management, that span across all of the government. In the UK, a concept of Public Value Framework was introduced in 2017, focusing on assessing the likelihood of maximum value in different spending areas and improving the process of inputs being turned into outcomes. The approach aims to promote sound planning, citizen engagement, and strengthen performance culture and value for money driven behavior within government. Overall success factors for spending reviews in OECD countries include: linking spending review processes to MTEF and/or annual budget targets; providing guidance on policy and fiscal objectives and assessment criteria; securing common agreement among key stakeholders on rules, process, objectives; and ensuring apolitical analysis, even if the final decision process is political, which cannot be avoided in most cases. In concluding part of the presentation, based on request of PPBWG members, OECD representative provided additional examples on methodology and process of spending reviews in several OECD countries, including Estonia, the Netherlands, and Germany. It was also noted that the processes of performance budgeting and spending reviews mutually reinforce each other.

### **What is the Current Status of Spending Reviews in PEMPAL Countries?**

**Monitoring and evaluation of expenditure effectiveness including spending reviews have recently been the most common subtopic identified as a priority by PPBWG member countries. To take stock of current practices, challenges, and plans in PEMPAL countries in the area of spending review, PPBWG made efforts to collect information from PEMPAL countries.** The results from the 2018 OECD PB Survey for PEMPAL countries in the part of the survey devoted to spending reviews indicated that different interpretations of spending reviews remain for some of the PEMPAL countries. To double check the data and collect additional data, BCOP Resource Team thus included a section on spending reviews in pre-event survey for this plenary meeting. In the survey, the definition and general characteristics of spending review were stressed to ensure same understanding of all respondents. It was in particular stressed that spending reviews assess baseline expenditures and can be either broad based covering all government expenditures (in rare cases) or limited to certain spending programs/sectors, ministries/institutions, or processes (e.g. IT systems and process, procurement processes, or human resources management processes). It was further stressed that spending reviews differ from regular or more detailed analyses conducted by the Ministry of Finance in the process of drafting budget in that spending review are much more in-depth, take longer time to be conducted, and they are conducted by a designated team/body that in addition to Ministry of Finance staff also includes other experts – typically from the line ministries/agencies responsible/relevant for spending that is being reviewed, as well as external experts. Final, important characteristics of spending reviews are that they are typically requested and in the end decided on by the Executive (the Government or the Chief Executive), rather than the Ministry of Finance alone, and that an integral part of spending reviews in most cases is examination of performance of the programs that are being reviewed, including performance information.

**Seven PEMPAL countries reported that they have conducted spending reviews: Croatia, Bulgaria, Russia, Belarus, Serbia, Moldova, and Bosnia and Herzegovina**. Montenegro, Kazakhstan and Georgia report that there are plans to introduce spending reviews. Analyses have been conducted by international organizations in several countries, such as World Bank, and IMF work in Belarus, Bosnia and Herzegovina, Serbia, Kazakhstan, and Georgia, as well some World Bank assistance in spending reviews in Croatia.

**The main characteristic of spending reviews in PEMPAL countries is that they are much less prevalent than in OECD countries and where exist, have weaker regulatory and methodological basis compared to OECD countries.** Topics and objectives of spending reviews conducted so far in PEMPAL countries vary, including for example pension system, social assistance, energy and agriculture subsidies, intergovernmental fiscal relations, and education and health in Bulgaria; wage bill and material costs in Bosnia and Herzegovina; waste management, policing and firefighting, judiciary, and agriculture and rural development in Bulgaria; wage bill, subsidies, healthcare, operation of agencies, institutes, funds and other legal persons with public authority, and tax expenditures in Croatia; education in Moldova; international obligations and events and communication services by government agencies in Russia; and wage bill and pensions in Serbia.

**In specific roles related to spending reviews, roles are mixed among PEMPAL countries and differ to some extent than role division in OECD countries - although in both PEMPAL and OECD countries spending review systems are MoF-centric, this seems to be more so for PEMPAL countries, with weaker role of line ministries and somewhat weaker roles of the Executive**. Performance indicators used in budgetary process are less frequently used in PEMPAL countries compared to OECD countries and spending review reports are not always published in all PEMPAL countries (Belarus, Croatia, Moldova, and Russia publish reports). Teams conducting spending reviews in PEMPAL countries are mostly mixed, with MoFs having primary role, similarly to OECD countries; however, role of line ministries is somewhat weaker, as well as the role external expertise. PEMPAL countries report that all of the 12 challenges related to spending reviews are greater in comparison to reporting of OECD countries. Top challenges in PEMPAL countries are clearly associated with the earlier stages of introduction of spending reviews – lack of capacity, lack of capability and technical expertise, time constraints, and framework/methodological challenges.

**After the presentation of information on spending reviews collected from PEMPAL countries, specific experiences of Russian Federation were discussed in more details**. In April 2019, a list of topics of spending reviews until 2024 will be defined and there are plans to work on methodology improvement and integrating results of spending reviews in budget process on a regular basis as well. Six spending reviews will be conducted each year, topics of which 2 at institution level, 2 at program/sector level, and 2 at cross-cutting level. During the discussion that followed, Ukrainian representatives noted that they have spending reviews but were unable to fill out BCOP’s survey before now and it was agreed that the BCOP Resource Team would send them questionnaire to fill out, so that their data can also be included in the report. It was also agreed that some of the other countries that reported having spending reviews will be additionally contacted by the Resource Team to clarify/expand on some specific questions where information from the survey is unclear/incomplete.

### **Outcomes of Participants’ Group Discussions on Spending Reviews**

**Three discussion groups were organized for the participants to discuss two questions on spending reviews, which were formulated based on countries’ suggestions in the pre-event survey and taking into account different stages of advancement of different countries in spending reviews**. Two questions were discussed: i) what would be an ideally designed methodological and organizational system for spending reviews and ii) how it should be ensured that spending reviews are well integrated and used in the budget process.

**Groups mostly concluded that it is advisable to combine both efficiency and strategic analyses within the scope of spending reviews**, in particular because strategic analyses in which reduction of services/payments is considered in addition to improved efficiency are important as expenditures in many of the PEMPAL countries are largely non-discretionary. In terms of frequency of conducting spending reviews, some of the outcomes of group discussions included noting that comprehensive reviews, if carried out, should not be conducted too frequently (not more than once every 5 years), while narrow spending reviews for specific spending areas should ideally be performed on an annual basis, but in different areas. Another recommendation noted was to review same spending areas once every 6 years at most. Finally, a proposal to align spending review frequency with government strategic planning period was also noted, either by conducting a comprehensive spending review at the beginning of strategic period followed by further more narrow spending reviews, or by conducting several narrow spending reviews each year with a view to cover as much as total expenditure as possible over the entire strategic planning period. When selecting the spending area to be reviewed within the spending reviews, overall share in total expenditure should be taken into account and both MoFs and line ministries should participate in proposing spending areas to be reviewed, but the decision should ideally be made at the Executive level/Government level to ensure overall remain at the level of the government. Mechanisms of public participation in proposal preparation should also be considered, but in more advanced stages. Supreme Audit Institutions and Parliaments can also be involved.

**Groups broadly concurred that the teams conducting spending reviews should include both MoF and line ministry staff** and that approaches should ideally include joint review in which savings options are developed jointly by MoF and line ministry; however it is crucial that MoF keeps the “challenge role” and be able to propose alternative saving options in the cases of weak options proposed by line ministries. Final decisions on what options will be recommended should be made by the Executive/Government. Involvement of external experts in conducting spending reviews is recommended, but in a limited number, and provided they have adequate practical expertise. In terms of process of spending reviews, some observations made by the groups included a recommendation to allow around 9-12 months to facilitate detailed analysis and enable the appropriate civil servants to be involved, while also being able to do most of their regular job duties. Another suggestion was to form a dedicated unit for spending reviews in MoF. Building trust among spending review team members is important for ensuring quality of the spending review recommendations. In terms of methodologies, it was noted that general standard principles for all spending reviews should ideally be developed, while for each specific spending review more detailed terms of references with specified methodology should be developed, having in mind differences in data availability for different spending areas and differences in overall nature and institutional mechanisms for different spending areas. It is important to use performance indicators used in budgeting processes where available and applicable in spending review processes. Interim reports of spending review teams should be required; and final reports should ideally be published and available to the public.

**Integration of spending review processes and recommendations into budgetary cycle is an imperative.** Some outcomes of group discussions included noting that a pre-requirement for this is to carefully plan the timeline of spending review process completion to coincide with the appropriate stage in process of planning of the budget for next year, i.e. ensuring the consistency with the fiscal calendar. It is also advisable to adopt longer term plan for spending reviews. Political will at the governmental level and active participation of line ministries and budget analysts from MoFs are also crucial. It is also advisable to legislate/regulate spending reviews at the level of general principles to increase legitimacy and increase likelihood of spending reviews being integrated into budget cycle. One specific suggestion was to defining concepts and authority of stakeholders in the spending review process within the organic PFM law or presidential/Executive decree. Finally, caution and gradual approach is advisable to avoid the burden of having several reforms running at the same time in countries which are implementing different reforms simultaneously. Other key challenges identified included human resource and time constraints and the need to ensure alignment of spending reviews with program budgeting. Key success factors include both political and social acceptance of spending review recommendations and adequate monitoring of implementation of adopted recommendations of spending reviews.

# **Capital Budgeting/Public Investment**

During the program devoted to the topic of capital budgeting/public investments, participants were first familiarized with the key concepts in capital budgeting and public investment and current status in PEMPAL countries based on results of the pre-event PEMPAL survey. A new methodology developed by the World Bank for prioritizing infrastructure projects was also presented. Moreover, current trends and best practices in in OECD countries were presented, as well as four PEMPAL country cases. Finally, participants from remaining PEMPAL countries (those that did not deliver country case presentations) delivered brief updates on main developments and challenges related to capital budgeting/public investment in their countries.

**Presentations were delivered by the World Bank/BCOP Resource Team** (Iryna Shcherbyna), **OECD** (Jungmin Park), **Infrastructure, PPPs and Guarantees Group of the World Bank** (Darwin Marcelo), **OECD** (Jungmin Park), **Ministry of Finance of Bulgaria** (Emil Nurgaliev), **Ministry of Finance of Croatia** (Nevenka Brkić), **Federal Ministry of Finance in Bosnia and Herzegovina** (Edvin Granić), and **Ministry of Finance of Russian Federation** (Andrei Panin).Selected key discussions and conclusions from these presentations are outlined below.

### **Key Concepts and Trends in Capital Budgeting and Results of the Pre-event Survey of PEMPAL Countries**

**The presentation was delivered in three parts: discussion on why effective public investment management (PIM) is needed, overview of investment trends and challenges in PEMPAL countries, and recommendations for achieving effective and efficient PIM based on best global practices.** Although the role of budget departments in Ministries of Finance of most PEMPAL countries in capital budgeting is limited, this topic is still relevant and important given its direct implications on budget planning.Advanced countries achieve higher value for money compared to developing countries, by minimizing the cost and tine overruns more effectively. Reasons partly lay in innate complexities and nature of capital projects in developing countries, including frequent delays in project design and completion, cost overruns, incomplete projects, poor quality of completed infrastructure, failure to effectively operate and maintain assets, as well as being susceptible to political influence and corrupt procurement practices.

**If well managed, each of stages in PIM can lower costs and speed up project implementation; as well as have a higher contribution to GDP relative to costs**. World Bank’s recommendation on PIM system’s linkages is divided into 19 interlinked stages grouped into three overall processes of PIM, budgeting, and procurement. The budget planning process has a key role, as it sets the prerequisites and generate needs for proper analyses of public investment projects.

**Results from the internal BCOP survey conducted prior to this event provided information on current practices in public investment in PEMPAL countries**. Not all countries distinguish clearly between the definitions of capital budgeting and public investment; however, everything is mostly captured in economic classifications and in some countries sub-codes for investment expenditure include all needed details. Good practice is to group everything in one segment and identify capital expenditure meant for investment projects. Overall, legislation does not sufficiently address PIM in PEMPAL countries, while international experience suggests creating a unified piece of legislation, whereby one part specifies rules and procedures of PIM as part of capital budget expenditure at a minimum. Investment volume on average did not change much in PEMPAL countries in 2012-2016, while other expenditures saw a greater increase. Structure of central budget capital expenditure per sectors and shares of capital expenditure at different government levels vary in PEMPAL countries.

**Sustainable investment strategy is essential for effective public investment within limited funds**. In most PEMPAL countries, there is no clear statement of public investment priorities and requirements for public investments to reflect national priorities.Public investments should be taken into account in a country strategic policy document and mid-term expenditure ceilings should be taken into account. Properly identified key performance indicators (KPIs) can support to the interlinkage between strategic planning and PIM.In most PEMPAL countries, there is no clear rules for inter-budgetary capital transfers, while the best global practice suggests having a formula or at least a clear set of criteria. Quality of public investment improves with improved transparency. Thus, it is recommended that MoFs defined some norms for making public investment information publicly available at all stages of a project cycle.

**Most frequently mentioned challenges in planning and executing capital expenditure in PEMPAL countries are related to preparation, evaluation, selection criteria, and prioritization of public investment projects.** Other mentioned challenges include IT support; methodological support; lack of clear definition of the public investments (capital investments versus capital expenditures); lack of capacity of institutions; ad-hoc decisions on investment projects; and need for full scale training for large number of stakeholders. Recommended key decisions for good PIM are related to ensuring interagency coordination processes; minimizing political considerations; ensuring good management of annual and mid-term budget processes and consistency of the PIM with these budget process; and considering acquisition and resettlement issues, environmental safeguards, and complex procurement challenges.

**Must-have features of an efficient public investment system recommended by the World Bank span over eight stages: guidance, appraisal, independent review, selection, implementation, adjustment, operation, and evaluation.** Consistency among these parameters is essential and they in essence reflect a budget cycle. There is a need to carefully select investment projects and do effective due diligence prior to final decision. Full cost estimate should also include estimate of cost of further operations and maintenance. If this is not properly done, the result (often seen in some of PEMPAL countries, especially at a local level) is assets that are put in operation but end up being underutilized due to shortage of financing to properly maintain it and/or lack of demand which was misestimated at the selection stage.

**World Bank’ Public Investment Management Assessment (PIMA) provides a framework for assessing countries’ PIM systems compared to best practice benchmarks** (similarly to PEFA tool). It is recommended that PIMAs are conducted every 3-4 years.

### **New Methodology for Public Investment Planning Approach: Infrastructure Prioritization Framework**

**Infrastructure, PPPs, and Guarantees Group of the World Bank developed a tool to support the infrastructure planning process.** Infrastructure Prioritization Framework (IPF) was developed as a response to infrastructure prioritization being a challenge for many countries, in particular in context of large infrastructure gaps and investment needs in all sectors combined with limited public resources and fiscal restrictions. Moreover, another set of challenges is related to technical capacities and measurement issues, given that full social cost-benefit analyses (SCBAs), recommended as the best practice for assessing infrastructure projects, has high costs and requires high technical and institutional capacities, detail data, and monetization of different effects which is not always possible.

**IPF assists countries to move from ad-hoc project selection to a systematic and objective selection that recognizes limited capacities at government level and assumes less information than SCBA, but still requires minimum information on social-environmental and financial-economic information**. Thus, IPF results in improved data collection processes. It provides an objective system for prioritization that is adaptable to account for policy goals, accommodates data and resource limitations, and includes sector budget constraints. In essence, IPF allows for prioritization decision to be made in an objective way based on minimum relevant information. The IPF process includes five steps: defining criteria, preparing data, calculating composite indicators, filling out IPF matrix, and selecting projects. The first step pod defining criteria is the most important because it requires a consensus between decision-makers, experts, and key stakeholders. Criteria must be adjusted to what is realistically possible, based on which composite indicators are developed in the third step – Financial Economic Index and Social Environment Index. Indicators within each of the two indices depend on the context of each specific country and the sector being analyzed. The candidate projects are ranked based on scores on the indices and selection is made based on cut-off score determined by the budget constraint. IPF is based on an Excel Add-in, thus it is very user friendly.

**The IPF was developed based on the request of Vietnam and has by now been implemented in six countries: Vietnam, Panama, Argentina, Sri Lanka, Chile, and piloted in Belarus**. The tool can be adjusted to take into account different policy priorities, e.g. in Sri Lanka extra weight for the criteria on job creation and poverty reduction was included in the criteria to match national strategic priorities. Key lessons from IPF implementation so far include: IPF being able to improve project data availability and comparability; the need for methods and safeguards for managing potential bias; effective IPF implementation includes building technical capacity, including om specification and calculation of indicator and composite indices, policy knowledge, and CBA basics; and IPF working best when fully integrated into the infrastructure planning process.

### **Messages from OECD’s Network of Senior Infrastructure Officials**

**OECD Network of Senior Budget Officials in recent years focused on infrastructure governance, recognizing that poor governance is the main reason for project delays and failure to achieve service delivery performance outcomes.** Infrastructure governance includes processes, tools, norms of interaction, decision-making, and monitoring stages.Good governance is necessary for planning, selecting and delivering the right infrastructure, on time, and on budget.End objective is making the right projects happen, in a way that is cost effective, affordable and trusted by investors, users and citizens.

**Ten dimensions or success factors for good infrastructure governance have been identified based on the OECD 2016 Infrastructure Governance Survey.** These were entail: i) developing a strategic vision for infrastructure that requires horizontal view and balancing multiple objectives, ii) managing threats to integrity to avoid conflicts of interest and install a system of internal control, iii) choosing how to deliver infrastructure in the efficient delivery mode ensuring value-for-money and affordability, iv) ensuring good regulatory design, v) integrating a consultation process to meet users’ needs and enhance the legitimacy among all stakeholders, vi) coordinating infrastructure policy across all levels of governments; vii) guarding affordability and value for money for the user and the public, viii) generating, analysing, and disclosing useful data through; ix) ensuring that the asset preforms throughout its life; and x) ensuring that public infrastructure is resilient including through socio-economic and environmental impacts.

**Strong political backing remains the most important determinant for infrastructure project funding even in OECD countries; however, requirement to be included in the long-term strategic plan is also required.** Moreover, a strong CBA results is also an important determinant, as well as functional fit with other infrastructure assets and importance for development of a particular sector. Around half of the surveyed OECD countries have an integrated strategic infrastructure plan, but many countries still rely only on sector-based plans.Robust coordination mechanisms across levels of government are still lacking in many OECD countries.Ensuring absolute value for money from infrastructure projects has not yet been formalized in all countries. This is always the case for all projects in Australia, Germany, Italy, and the UK, while in another nine countries it is done for all cases above a certain value. Seven OECD countries have a centralized, systematic collection of information on the financial and non-financial performance of infrastructure, while around half of surveyed countries have a policy ensuring that the relevant line ministry or agency conducts performance assessment of each project.

### **Capital Budgeting in Bulgaria**

**Main characteristics of capital expenditures in Bulgaria is that they are relatively high at around 6% of GDP and that almost half is financed from EU funds.** The Public Finance Act does not contain provisions on the application of capital budgeting, but specific rules and procedures on the processes for selection and management of investment projects are legislated within the Public Procurement Act, the Concessions Act, and the Act on Management of Resources from the European Structural and Investment Funds. According to definitions used in Bulgaria, subnational governments and extra-budgetary funds are included in the capital expenditure, but state-owned enterprises are not. All budget organizations plan their capital expenditures within the budget procedure according to the MoF guidelines**.** MoF does not prioritize investment projects, this is done by the line ministries. MoF roles related to capital budgeting and public investment include: collection and analyses of information on capital expenditures at central and local level; assessing requests of the first-level spending units against government priorities and resource availability; and monitoring of the execution of the consolidated fiscal program that includes capital investments. The most important capital projects to be approved by the Parliament, to provide a guarantee of sustainability of financing for such a project. Line ministries submit their budget requests to the MoF within which capital investment projects are included, and MoF decides on what to include in MTBF ceilings.

**The Fiscal Council in Bulgaria is an independent fiscal institution which *inter alia*, gives an opinion and recommendations relevant to capital expenditures within the annual Statement on the Draft State Budget Law and the Medium-term Budgetary Forecast**. This includes the assessment of adherence to fiscal rules. The recent opinion specifically cited that failure to meet capital expenditure plans due to delays in the realization of investment projects co-financed under the EU Operational Program indicates a serious delay in the absorption of EU funds and the possible risk of losing such funds.

### **Capital Budgeting in Croatia**

**The Budget Act of Croatia defines investments or capital expenditure** as investments made to increase and preserve asset value, investments in land, buildings, equipment and other long-term tangible and non-tangible assets, including investments in education and training, new technology development, improvements to quality of life and other investments generating benefits. Capital expenditure is defined to include expenditure for the procurement of non-financial assets, expenditure for the maintenance of non-financial assets, and capital grants to subnational governments and state-owned enterprises. All budget classifications (organizational, program, functional, economic, and funding course) cover all capital expenditure. Main categories within economic classification are procurement of buildings and construction facilities, additional investment in buildings and construction facilities; capital donations; and capital grants and transfers.

**Selection of public investment projects is based on mid-term Regional Development Strategy, which includes specific projects, financing schemes, and performance indicators**. The Strategy includes three strategic goals, each with priorities and measures. Each measure includes specific actions, financial framework and financial framework. In addition, Act on the Strategic Investment Projects of the Republic of Croatia prescribes that the Government, at the proposal of the Commission for Evaluating and Determining Strategic Project Proposals, adopts strategic investment projects, for central, as well as subnational level.

### **Capital Budgeting in Bosnia and Herzegovina**

**The Government of Federation of Bosnia and Herzegovina (FBiH) within the budget adopts a special part with the review of capital projects from all financing sources in mid-term period, at the proposal of Federal Ministry of Finance (FMF)**. Moreover, each of the central government levels in Bosnia and Herzegovina (BiH), as well as cantonal governments in FBiH adopt three-year Public Investment Programs (PIPs). PIPs are aligned with budget cycle. The purpose of adopting the PIPs is to provide a tool for better planning and management of development resources, with the long-term goal of linking the PIPs with the strategic planning and budgeting process. The Decree on the Method and Criteria for the Preparation, Development, and Monitoring the Implementation of the Public Investment Program regulates PIP process at the FBiH level in more detail and prescribes appointment of PIP Commission, led by the senior civil servant from FMF. The Commission draws up a list of proposed projects by priority, bases on the number of points awarded according to a prioritization model. PIP includes ongoing projects and programs that have secured funding for their implementation, new priority projects and programs for which there is certainty of funding, as well as priority projects and programs that do not have ensured funding during the PIP development stage. FMF is the key actor in PIP preparation and it hosts public investment management information system (PIMIS). FMF also monitors investments into project implementation and reports to Government on this, but the key responsibility for monitoring and evaluation of PIP lies with the body that proposed the project (often the line ministry), implementer (often a Federal SOE), and financier (often an international financing institution).

**Main challenges include: i) limited available financial funds for infrastructure and capital projects compared to large needs; ii) the need to update methodology for selecting projects for financing; iii) ensuring that "underprepared" projects/projects that are not in a mature stage ready for implementation are adopted; and iv) dilemmas related to potential formation of “rainy day fund” which would, inter alia, be used to secure financing of public investment projects**. In terms of potential “rainy day fund”, having in mind in particular the recent recovery of revenues, FBiH is considering the possibility of introducing a fiscal rule by which each government level in FBiH (FBiH Government, 10 cantons, and 80 municipalities/towns) would need to set aside a part of their funds into separate accounts within the Treasury Single Account. The dilemmas currently being considered include finding the most appropriate method of allocation of revenues to this fund (e.g. a share of total revenues or share of revenues that exceed the planned revenues or share of growth of revenues over last year’s revenues); the most appropriate trigger for start of use of these funds (e.g. for urgent expenses it could be a decline in revenues or a deficit, while for capital investment projects specific shares and dynamics should be established); and the most appropriate ways to place these funds in the capital market in order to achieve yields in periods when they are not used.

### **Capital Budgeting in Russian Federation**

**A special Federal Law On investments in the Russian Federation in the Form of Capital Expenditures defines investment very broadly as cash and other assets invested in businesses or other entities with a view to generating income or other useful effects, regardless of whether it is conducted by public or private sector**. Capital investment is defined more narrowly as investment in fixed capital (capital stock), including new construction, reconstruction, purchase of machines, equipment, instruments, supplies, survey and design work and other expenditures.

**The Budget Act defined budget investments as investments that increase the value of public property and there is no specific definition for public capital expenditures, however, there is a special policy on budget expenditures for capital construction.** The Ministry of Economy has the main role in capital budgeting, but the MoF is also heavily involved. Within planning stages, the MoF review draft regulatory acts on capital construction and participates in evaluation of capital expenditures, regulation of capital appropriations, and project appraisal. Currently work in undergoing to legislate project evaluation criteria and improve it to include considerations for optimizing among different financing mechanism options.

**Main challenges include the need to minimize unfinished constructions; overestimated technical expense and cost of capital construction projects and lack of procedures for setting expenditure ceilings; excessive maintenance costs; shortage of resources for public capital investments in short run: and lack of uniform approaches and selection criteria for Government engagement in investments**. An important consideration is being given to leveraging private investment for capital investment projects. Work is underway on contracting out of public service at local level to private suppliers. Challenges include determining financing schemes for the costs of services that must be provided for free and determining approaches for underdeveloped territories with no attractive investment opportunities for private sector, for which subsidies will have to be in place.

### **Summary on Brief Concluding Presentations on Main Developments and Challenges in Capital Budgeting in Other PEMPAL countries**

**To conclude the day of discussions on the topic of capital budgeting/public investment, all remaining participating PEMPAL countries briefly presented their main current challenges related to this topic.** Most countries share similar challenges related to securing funding for large public investment needs and in most cases, steps have been taken to improve institutional settings and improve planning process. Most countries rely on funding from donors and international financial institutions for public investment projects. Moreover, legislation/bylaws governing public investment has been improved or put in place in most countries recently, however implementation is still an issue for most. Countries also mostly share challenges related to unfinished capital projects and to political influence, including hidden interest groups. Some progress in prioritization and criteria definition is reported in several countries. However, challenges remain and there is ample space to improve this process and make it more objective with a longer span planning using best global practices that were presented in this event by the World Bank and OECD. For many of PEMPAL countries, there are additional challenges associated with coordination between Ministries of Economy and Ministries of Finance in the integration of public investment planning processes and budget processes and even for the countries in which MoFs are in charge in both processes, this is usually entrusted to different sectors/divisions. Moreover, coordination of investments at subnational level are challenging, exacerbated by lower staff capacities at a subnational level. Other common challenges include lack of skilled stuff, integrated IT system challenges, volatile political will in some cases including at times ad hoc decisions by the parliaments on approving financing additional projects, and challenges related to implementation stages and in particular maintenance. Finally, there is a need in most case to ensure better integration of performance-based approach to all aspects of budgeting, including the capital investment projects.

***This Event Report can be accessed on the PEMPAL public website together with all materials******from the plenary meeting in the network languages of English, Russian and Bosnian-Croatian-Serbian****:* <https://www.pempal.org/events/2019-annual-bcop-plenary-meeting>.

# **Annex: Event Agenda**

**AGENDA**

**PEMPAL 2019 Annual BCOP Plenary Meeting**

**March 18-21, 2019**

**Tashkent, Uzbekistan**

**Day Zero, Sunday, March 17**

*Arrivals for Executive Committee and Resource Team members and for other participants for whom flight schedule does not permit arrival on the morning of next day*

**Day One – Monday, March 18 – Preparations and Half-Day Hosted by the BCOP Budget Literacy and Transparency Working Group**

*Arrivals for participants for whom flight schedule permits*

09.00-11.00 **Meeting of BCOP Executive Committee**

11.00-12.00 **Meeting of technical** **Resource Team**

12.00-13.00 **Lunch in Hotel**

13.00-17.45 **Half-Day Hosted by the BCOP Budget Literacy and Transparency Working Group**

Moderators: Anna Belenchuk (BCOP Chair, Ministry of Finance, Russian Federation), Iryna Shcherbyna (Lead Coordinator of BCOP Resource Team, Senior Public Sector Specialist, World Bank)

|  |  |
| --- | --- |
| Time | Activity |
| 12.30-13.00 | **Registrations** |
| 13.00-13.30 | **Welcome** and opening:   * Djamshid Kuchkarov, Deputy Prime Minister and Minister of Finance of Uzbekistan * Hideki Mori, Country Manager, World Bank * Anna Belenchuk, BCOP Executive Committee Chair, Ministry of Finance, Russian Federation and BCOP Chair * Brief introductions of all participants |
| 13.30-14.15 | **Presentation 1: BCOP Executive Committee - Update on BCOP Activities (Including Development of BCOP Action Plan 2019-20) and Introduction of the BLTWG Plenary Agenda, and Brief Report on BTLWG Activities -** Anna Belenchuk, BCOP Executive Committee Chair, Ministry of Finance, Russian Federation |
| 14.15-14.45 | **Presentation 2: Public Engagement at the National Level: Specific Features, Examples and Lessons from Working with Stakeholder Groups,** Murray Petrie, GIFT |
| 14.45-15.15 | **Presentation 3: Progress in Fiscal Transparency and Public Participation Reforms and Recent PEFA Results on Pillar on Transparency of Public Finance in Uzbekistan,** Dilshod Sultanov**,** Deputy Minister of Finance, Ministry of Finance of Uzbekistan and Patric Uma Tete, Senior Financial Management Specialist, World Bank |
| 15.15-15.45 | Group Photo and Coffee Break |
| 15.45-16.15 | **Questions to the Panel of Speakers** |
| 16.15-16.45 | **Presentation 4: Public Participation Innovations in Croatia,** Mladenka Karačić, Croatia Ministry of Finance |
| 16.45-17.15 | **Presentation 5: Participatory Budgeting Practices in Sakhalin, Russian Federation,** Anna Kharchenko, Minister of Finance of Sakhalin oblast, Russian Federation |
| 17:15-17.45 | **Questions to the Panel of Speakers** |
| 19.00 | **Welcome** **Dinner with guests from the Ministry of Finance of Uzbekistan** |

**Day Two, Tuesday, March 19 – Capital Budgeting**

Moderators: Kanat Asangulov (BCOP Executive Committee Deputy Chair, Head of Directorate for Budget Policy, Ministry of Finance of Kyrgz Republic), Iryna Shcherbyna (Lead Coordinator of BCOP Resource Team, Senior Public Sector Specialist, World Bank)

|  |  |
| --- | --- |
| Time | Activity |
| 09.00-09.30 | **Introduction to Day’s Agenda**  **Presentation 6: World Bank – Key Concepts and Trends in Capital Budgeting and Results of the Pre-event Survey of PEMPAL Countries -** Iryna Shcherbyna, Senior Public Sector Specialist, World Bank |
| 09.30-10.15 | **Presentation 7: World Bank – New Methodology for Public Investment Planning approach: Infrastructure Prioritization Framework (IPF) –** Darwin Marcelo, Senior Infrastructure Economist, World Bank |
| 10.15-10.45 | Coffee Break |
| 10.45-11.15 | **Presentation 8: OECD – Trends in Public Investment Governance and Prioritization in OECD Countries -** Jungmin Park, Senior Policy Analyst, Budgeting and Public Expenditure Division, OECD |
| 11.15-12.30 | **Questions to the Panel of Speakers** |
| 12.30-14.00 | Lunch |
| 14.00-15.30 | **Mini PEMPAL Country Case Studies (15 minutes each) on Issues in Capital Budgeting/Public Investment by Specific Subtopics**   * **Presentation 9: CROATIA – Issues Related to Assessing Effectiveness and Prioritizing Capital Expenditure,** Nevenka Brkić and Mladenka Karačić, Ministry of Finance of Croatia * **Presentation 10: BULGARIA – Issues Related to Role of Independent Fiscal Institutions in Capital Budgeting Context**, Emil Nurgaliev, Ministry of Finance of Bulgaria * **Presentation 11: BOSNIA AND HERZEGOVINA – Role of Rainy Funds/Sovereign Funds in Capital Budgeting**, Edvin Granić, Federal Ministry of Finance in Bosnia and Herzegovina * **Presentation 12: RUSSIAN FEDERATION – Role of Private Sector in Capital Budgeting**, Andrei Panin, Ministry of Finance of Russian Federation |
| 15.30-16.15 | **Questions to the Panel of Speakers** |
| 16.15-17.00 | **Brief Concluding Presentation on Main Developments and Challenges in PEMPAL Countries** – 2-3 minute per country |
| 19.00 | Dinner in Hotel |

**Day Three – Wednesday, March 20 – Hosted by the BCOP Program and Performance Budgeting Working Group**

Moderators: Nicolay Begchin (BCOP Executive Committee, Ministry of Finance, Russian Federation), Naida Čaršimamović Vukotić (Public Finance Management Consultant, BCOP Resource Team, World Bank).

|  |  |
| --- | --- |
| Time | Activity |
| 8.30-9.15 | **Introduction to Day’s Agenda**  **Presentation 13 PPBWG - Update on Progress of the Program and Performance Budgeting Working Group and Future Plans,** Nicolay Begchin, BCOP Executive Committee, Deputy Director, Department of Budget Methodology and Financial Reporting. Ministry of Finance, Russian Federation |
| 9.15-10.00 | **Presentation 14: PPBWG - Presentation on Results of the PEMPAL Countries on 2018 OECD Performance Budgeting Survey and Comparison to OECD Countries**–Naida Čaršimamović Vukotić, Public Finance Management Consultant, BCOP Resource Team, World Bank |
| 10.00-10.45 | **Questions to the Panel of speakers** |
| 10.45-11.15 | Coffee Break |
| 11.15-12.00 | **Presentation 15: OECD – Trends and Best Practices in Spending Reviews in OECD Countries -** Jungmin Park, Senior Policy Analyst, Budgeting and Public Expenditure Division, OECD |
| 12.00-12.30 | **Presentation 16: PPBWG** – **Presentation on PEMPAL Countries’ Practices, Challenges, and Plans Related to Spending Review,** Naida Čaršimamović Vukotić, Public Finance Management Consultant, BCOP Resource Team, World Bank |
| 12.30-13.00 | **Questions to the panel of speakers** |
| 13.00-14.30 | Lunch |
| 14.30-16.30 | **Reform Issues and Challenges Discussion on Spending Reviews** (parallel discussions on topics as proposed by the participants, in language-based groups where possible)   * **Two questions to be addressed**: Participants will break into language-based groups to discuss 2 questions (to be circulated by email a few days before the meeting based on member feedback from pre-meeting survey). A scribe and presenter should be appointed at the beginning of the discussions.   **Coffee served from 15.30 (in or near discussion rooms)** |
| 16.30-17.00 | **PEMPAL member group presentations** from Groups 1, 2, and 3 (5-8 minutes each) |
| 19.00 | Dinner in the hotel |

**Day Four – Thursday, March 21 – Half-Day Hosted by the BCOP Budget Literacy and Transparency Working Group and Cultural Program Hosted by the Ministry of Finance of Uzbekistan**

|  |  |
| --- | --- |
| 9.00-10.30 | **Workshop on Participatory Budgeting**, facilitated by the Ivan Shulga, Task Team Leader for Russia Local Initiatives Support Project (LISP) |
| 10.30-11.00 | Coffee Break |
| 11.00-12.30 | **Workshop on Participatory Budgeting**, facilitated by the Ivan Shulga, Task Team Leader for Russia Local Initiatives Support Project (LISP) - continued |
| 12:30-13:30 | Lunch in Hotel |

14.00-17.00 **Cultural program organized by the hosts**

18.00 **Dinner organized by the Ministry of Finance of the Republic of Uzbekistan**

**Departures – Evening of March 21/Morning of March 22**