

## **Report from the PEM-PAL Study Tour for Budget Analysts of the Ministries of Finance to the Centre for Excellence in Finance, Ljubljana, Slovenia**



**JULY 2010**

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## INTRODUCTION

United Kingdom Government Department for International Development (DFID) provides assistance to government institutions on BiH, entity, cantonal and Brčko District levels in their efforts to develop and implement processes of medium term budget planning and preparation, based on government priority policies. Strengthening Public Expenditure Management in BiH III (SPEM III) is the third project focusing on the public finance sector in BiH financed by the DFID since 2002.

During the previous period, BiH governments, with technical assistance provided by the DIFD, accomplished substantial progress in developing and implementing new procedures aimed at strengthening public expenditure management in BiH. This includes introducing medium term budget planning through preparing Preliminary Budget Documents (setting expenditure ceilings for budget beneficiaries for a three-year period) and basic elements of program budgeting based on performance measurement.

Key component of the SPEM III Project is the Comprehensive Training and Development Program. This training program encompasses a series of training initiatives aimed at building capacities and improving skills of the staff of ministries of finance of BiH, particularly:

- Formal workshops, seminars and conferences;
- Direct training and technical assistance to budget sectors of ministries of finance;
- Train-the-Trainer programs for ministry of finance budget analysts;
- Training programs tailored for each ministry of finance based on their specific needs;
- Training initiatives through experience sharing, including the Task Force of the SPEM Project at the ministries of finance level, comprised of deputy ministers in charge of the budget (BiH, entities and Brčko District) and the Forums of Budget Analysts, comprised of budget analysts (BiH, entities and Brčko District levels);
- International study tours, aimed at familiarizing BiH ministries of finance staff with international budget planning and preparation practice.

In accordance with the aforementioned Comprehensive Training and Development Program, this report provides an overview of the goals of the study tour for budget analysts organized in July 2010, as well as of the study tour structure, list of participants, detailed study tour program, and information on host country institutions and participants' reports on presentations.

The study tour for budget analysts employed at ministries of finance to the Slovenian Centre for Excellence in Finance was organized as a joint initiative of the DFID-funded SPEM III Project and the Public Expenditure Management Peer Assisted Learning (PEM-PAL) network, financed by the World Bank and other donors.

## GOALS OF THE STUDY TOUR TO SLOVENIA

The study tour took place in the period of July 6 – 9, 2010, as part of the comprehensive training strategy within the SPEM Project.

The goal of the study tour to Slovenia was to continue building capacities and improving skills of budget analysts.

Study tours previously organized by the SPEM Project (including those to the United Kingdom, the Netherlands, Ireland and Spain) proved to be very successful with regard to learning about best international budget practices, as well as with regard to asserting the efficiency of budget planning processes and techniques implemented in BiH within the SPEM Project. The study tours were designed so as to allow BiH ministries of finance to become familiarized with experiences of countries that developed and implemented a modern budget planning system with elements of performance-based budgeting. Given that all previous study tours organized by the SPEM Project (with the exception of the visit to the Institute of Economy and Public Finance in the Hague in 2007, when a number of budget analysts participated together with other government officials) were intended for budget sector managers (assistant ministers), the study tour to Slovenia in July 2010 was the first study tour intended exclusively for budget analysts.

The Government of Slovenia successfully introduced multiannual budget planning and program budgeting, supported by an efficient organizational structure at the Ministry of Finance and a comprehensive information system. Slovenian Government also formed the Centre for Excellence in Finance (CEF), which was one of the initiatives of the Slovenian Ministry of Finance, aimed at promoting awareness of international standards and best practices in the field of public finance management and central banking by providing specialized training and technical assistance and by promoting knowledge exchange and research. Bosnia and Herzegovina is a member of CEF. CEF is also supported by international donors, including the International Monetary Fund.

The goal of the study tour to Slovenia was to give budget analysts an opportunity to learn about budget planning processes and procedures applied in one of the EU countries, as well as to identify lessons learned from the Slovenian system and reforms undergone that could potentially be implemented in BiH, with particular focus on the following areas:

- Overview of the budget calendar and budget-related legal framework;
- Institutions and staff crucial in the budget planning and preparing processes, their mutual coordination and their coordination with the Ministry of Finance and the Government;
- Organizational structure of the Ministry of Finance;
- Macroeconomic and fiscal policy;
- Setting government priorities and strategic plans and their coordination with decisions on budget allocations;
- Preparation, utilization and importance of budget documentation;
- Analysis of budget beneficiaries' requests;

- Significance of public expenditure management reform in the context of EU accession;
- Measuring and evaluating government programs;
- Information systems as support to budget preparation processes;
- Financial reporting.

## STUDY TOUR STRUCTURE

A series of presentations and discussions with Slovenian Ministry of Finance officials were organized by CEF based on instructions and draft program prepared by the SPEM Project. A copy of the program is included in Annex A.

## STUDY TOUR PARTICIPANTS

Participants of the study tour to Slovenia were budget analysts from the Ministry of Finance and Treasury of BiH, Ministry of Finance of RS and Directorate for Finance of the Brčko District. A total of ten participants from BiH visited Slovenia. Participants were accompanied by local consultants and interpreters working with the SPEM Project.

Complete list of participants:

### **Ministry of Finance and Treasury of BiH budget analysts:**

1. Halida Pašić
2. Vlatka Lovrić
3. Milan Bašević
4. Adnan Škapur
5. Snežana Vujadin

### **Brčko District Directorate for Finance:**

6. Velida Mrkaljević
7. Danijela Ristić
8. Ivana Vuković

### **Ministry of Finance of RS budget analysts:**

9. Jasmina Tešanović
10. Svetlana Stanivuk

Project team in charge of support:

1. Naida Čaršimamović Vukotić, Project economist, BiH
2. Biljana Bogičević, Project economist, RS
3. Merima Avdagić, Project economist, FBiH
4. Dženita Hrelja-Hasečić, interpreter
5. Larisa Lisica, interpreter

## KEY EXPERIENCES FROM THE STUDY TOUR

Summarized knowledge and experience acquired during the study tour to Slovenia, which can provide comparison between budget planning process in Slovenia with that in BiH and/or can be considered for possible implementation in BiH include:

1. Budget planning procedure in Slovenia is rather similar to the one defined in the «10-Step Approach» in BiH (the difference is that budgets in Slovenia are adopted for the following two years, in order to prevent interim financing due to failure to adopt budgets and particularly in order to prevent adopting budgets during election years). However, a key element of this process in Slovenia is defining government policies and measures to accomplish policy goals, which is set by a special decree covering strategic development documents and bases and procedures for preparation of state budget and local government budgets in Slovenia. Slovenian Government adopts the Memorandum on Draft Budget, which includes defined state development priorities, target deficits or surplus levels for the forthcoming four-year period and target national debt levels for the same period. The Memorandum is updated before the budget is presented to the Parliament, and a special session is scheduled, dedicated exclusively to the Memorandum. The Memorandum is also submitted to the European Union, as one of the documents defining development policies of the Government of Slovenia.
2. Unlike BiH, Slovenian Ministry of Finance only considers and reviews financial plans of line ministries and defines sector-level ceilings (one ministry is in charge of each sector), instead those of all agencies and institutions. This means that each ministry is in charge of its entire sector, as well as for allocating funds to agencies and institutions within its sector, given that development priorities were adopted on sector levels.
3. Slovenia features different development documents that are clearly set within a hierarchy:
  - a. Development Strategy of Slovenia (2006-2013) defines long term goals and includes target development scenario and comprehensive basic operative policies for each of the government sectors.
  - b. Government Development Program is prepared based on the Development Strategy, covers a shorter period and helps realize planning documents and instrumentalize – in terms of preliminary financial programs – strategic orientation and Development Strategy priorities, as well as other relevant planning and international obligations. It is based of program classification.
  - c. Other development planning documents that elaborate on specific areas, nevertheless clearly tied to the Development Strategy, are:
    - i. Decree on National Development Programs (long term investment programs to be realized within the DSS time frame);
    - ii. National Strategic Reference Framework (connecting EU and national priorities financed by the EU Cohesion Fund);
    - iii. Sector strategies, which include different coverage of the country;

## iv. EU documents and documents of other international institutions.

All these documents are clearly relevant to budget planning, and the Development Strategy is the main strategic framework for the preparation of draft budgets, so that all budget funding requests need to contain an explanation of the connection between requested allocation and the Development Strategy. Thus, it is ensured that national development Programs and Program Projects, as well as other planning documents are consistent with financing capacities and included in the budgeting process. Consistency of development policies of all planning documents should be ensured by the special Development Office of the Government of Slovenia, whose officials decide on specific policies depending on their consistency with strategic documents and financial implications provided by the Ministry of Finance. There are also Task Forces (headed by ministries) for setting intersectoral priorities and goals, and dividing policies into programs.

4. For the purposes of reporting to the European Union, Slovenia uses the ESA 95 methodology, which is going to be required from Bosnia and Herzegovina on its further progression towards EU integrations. The European Commission will require BiH authorities to provide more and more information on fiscal strategies and consolidated fiscal data. This will include structural deficit calculations (as well as calculations of other types of fiscal goals, such as «*fiscal stability criterion*» and «*fiscal security criterion*» within goals of «*convergence criteria*») and «*output gap*» calculations.
5. Slovenia has undergone a lengthy process of defining all organizations belonging to the public sector, which is also one of the EU requirements. Based on the Registry of Legal Entities (maintained by the Slovenian Statistics Agency) all public sector organizations were identified according to strictly defined international criteria, stipulating that the public sector is comprised not only of typical budget beneficiaries, but also of organizations that have within their scopes of activities governmental functions and functions related to distributing national income, which are mostly financed by revenue generated by obligatory payments made by organizations belonging to other institutional sectors, even if they are not budgetary beneficiaries, majority of which are non-market oriented and do not sell their products within the market economy process.
6. Slovenia adopts its budget in a program format (beside the program format, both economic and institutional classifications are provided, but the program structure is the one submitted for adoption, which means that budget users can restructure within programs). There are 24 program areas (political system; economic and fiscal affairs; foreign policy and international help; general administration; science and technological development; local government; defense and emergency situation service; public order and safety; judicial system; employment; agriculture, forestry and fishing industry; energy, fuel and mining; transport and communication; general economic services; environmental protection; spatial and housing planning; healthcare; culture, sport and non-profit organizations; education; social security; retirement insurance; public debt; intervention programs and obligations; contributions to

EU budget), followed by 94 main programs within the aforementioned 24 budget groups, as well as 303 subprograms within main programs. Unlike the BiH system, programs are adopted by the Government (meaning that users cannot form program themselves) and multiple users can belong to one program. The 303 programs are defined in accordance with Government priorities determined for each governmental institution.

7. As for performance measurement, this area is defined in a fashion similar to the one in BiH (inputs, outputs and end results). Slovenia, as BiH, needs further improvement of performance measurement system (even though performance measurement was introduced in 2000, respectively in 2006 for local governments), which is substantially underdeveloped in comparison to the programs, but the emphasis has increasingly shifted towards performance. Some of the problems Slovenia has faced in the process of introducing performance measurement are similar to the ones encountered in BiH:
  - i. Performance information are not monitored and analyzed systematically;
  - ii. Program budget is not harmonized with performance management;
  - iii. Budgeting process is still focused on expenditure control;
  - iv. Lack of support “from the top”;
  - v. Line ministries are not ready to cooperate closely with the Ministry of Finance (it is also necessary to review their internal processes and organizational structures);
  - vi. Capacity limitations in terms of professional staff and IT system.

Given that in the light of the global economic crisis the emphasis has shifted towards performance, efforts are made in Slovenia to improve this system. Top government officials have now accepted the concept based on strategic goals and performance indicators. Task Forces are formed (headed by line ministries) in charge of setting multiple sector priorities and defining goals and results to help divide policies into specific programs. In addition, the process of budget preparation in Slovenia is supported by a high-quality and comprehensive IT system that requires inputs on goals and indicators. Recommendations of Slovenian colleagues that should be adopted in order to successfully implement performance based budgeting include: introducing the reward and penalty system that would help create an environment encourages performance; setting up an efficient performance review; and implementing a reliable accounting system prior to setting up an integrated financial management system.

8. General conclusion would be that introducing budgeting based on performance measurement is a highly complex reform that took years even in the most developed countries. Slovenia started this reform ten years ago, and still needs to take many steps before it reaches full scale budgeting based on performance measurement.
9. As for functional classification, the methodology adopted by the Public Finance Statistical Office stipulates an international classification that is in accordance with the COFOG classification of the United Nations. In Slovenia, program classification defines 303 subprograms within 94 main programs, which are in turn consolidated into subgroups for the 10 basic functional categories in



accordance to the COFOG classification (general public services, defense, public order and safety, economic affairs, environment, housing and utility affairs, healthcare, culture, recreation and religion, education and social security).

10. With regard to economic classification, Slovenia uses a classification system that is entirely harmonized with the Government Financial Statistics (GFS 2001). In BiH, this reporting methodology is only used for reports published by the Central Bank of BiH, and that only applies to historical data on fiscal execution. Not only did the BiH ministries of finance choose not to use the GFS 2001 methodology, but the methodologies used by different tiers of government are also far from harmonized. It is necessary to consider harmonizing accounting methodologies applied in BiH, and it is also recommended to adopt a uniform GFS 2001 methodology.
11. Information system used in Slovenia was created by the Slovenian Ministry of Finance itself (so, it was not a ready-made *off-the-shelf* product) that enables using institutional, program and economic classifications simultaneously (each item is marked with a code that, apart from the general program area, defines main programs and subprograms). In BiH, different tiers of government use different information systems that are not interconnected. At the moment, a uniform information system is being designed that should include budgets and execution reports from all government tiers. Given that the existence of an efficient information system is key to budget planning and execution control, it is necessary for the budget information system in BiH to be improved. While Slovenia developed a system of its own, BiH is still working on expanding the Oracle information system, so as to add a budget planning module to the existing Oracle module. In the process of introducing this module, Slovenian experience can be used and specific elements of the Slovenian system can be added when defining specifications for the model to be used in BiH.
12. Budget beneficiaries in Slovenia must include reviews of their performances and goals achieved by spending public funds in their reports submitted to the Government. In their final statements, Slovenian budget beneficiaries must elaborate on the following items:
  - Broad program area
    - Description of the area the beneficiary belongs to (a total of 24 areas);
    - List of corresponding development documents adopted;
  - Main program
    - Description of the main program (a total of 94 main programs);
    - Description of the long term goal within the main program;
    - List of subprograms within the main program;
  - Subprogram
    - Description of the subprogram;
    - List of laws and other legal grounds;
    - Description of long term goals of the subprogram with indicators to measure achieving those long term goals;
    - List of annual goals of the subprogram with indicators to measure achieving annual goals within long term goals;

- Budget item
    - Description of the way funds within the item will be used;
    - Basis for expenditure calculation;
    - Establish connection between the item and capital investments of the beneficiary listed in the third section of the budget;
  - Project
    - Name and goal of the project;
    - What will be done within the project in 2008 and 2009 in order to accomplish project goals and corresponding subprogram goals.
13. Slovenian Ministry of Finance and its Budget Department have substantially larger staff than BiH budget sectors (it should be added that, similarly to the Ministry of Finance and Treasury of BiH and the Ministry of Finance of RS, budget analysts in Slovenia have their specific group of budget users they are in charge of). Apart from that, Slovenian Ministry of Finance allocates substantial resources to professional improvement and motivation of employees in charge of budget preparation and analysis.
  14. Slovenia regularly analyzes and improves public finance transparency, based on criteria provided in the «Code of Transparency» of the International Monetary Fund.
  15. The processes of planning the budget and public investments are entirely integrated in Slovenia, and a special part of the budget is dedicated to the Development Program Plan, which includes investments, national aid funds and EU funds.

**In order to provide information on the results of the study tours, this report will be forwarded to the national and entity ministries of finance, Brčko District Directorate for Finance, as well as the DFID.**

## STUDY TOUR PROGRAM

### STUDY TOUR TITLE:

**PEM-PAL study tour for ministries of finance budget analysts to the Center for Excellence in Finance in Slovenia**

**Time:** July 6 – 9, 2010

**Place:** Ljubljana, Slovenia

### Study tour program

STUDY TOUR PROGRAM		
Time	Topic	Contact / Presenter
<b>Tuesday, July 6, 2010.</b>		
1230	<b>Gathering at the “Grand” hotel before departing</b>	Naida Čaršimamović Vukotić Nerma Zećirović
1520	<b>Arrival at Sarajevo airport</b>	Naida Čaršimamović Vukotić
1625	<b>Take off</b>	Naida Čaršimamović Vukotić
1720	<b>Arrival at Ljubljana airport</b>	Naida Čaršimamović Vukotić
1830	<b>Arrival at the “Slon” hotel</b>	Naida Čaršimamović Vukotić
<b>Day one – Wednesday, July 7, 2010</b>		
0900	<b>Welcome and introductory speech</b>	
0930	<b>Budget preparation process in Slovenia</b> <ul style="list-style-type: none"> <li>• Budget system in Slovenia</li> <li>• Role of the Parliament</li> <li>• Budget execution bases</li> <li>• Budget information system</li> </ul>	180 minutes  <b>Mojca Voljč</b>
1230	<b>Lunch</b>	60 minutes
1330	<b>Overview of budget planning cycle in Slovenia – Law on Public Finance</b> <ul style="list-style-type: none"> <li>• Legal framework</li> <li>• Budget planning and preparation procedure</li> <li>• Stakeholders in the budgeting process, including: <ul style="list-style-type: none"> <li>○ Government and ministers;</li> </ul> </li> </ul>	90 minutes  <b>Alenka Bratušek</b>

	<ul style="list-style-type: none"> <li>○ Ministry of Finance;</li> <li>○ Budget beneficiaries;</li> <li>○ Parliament;</li> <li>○ Department in charge of development policies;</li> <li>○ Cooperation between stakeholders (e.g. budget beneficiaries and the Ministry of Finance)</li> </ul>	
1500	<b>Coffee break</b>	15 minutes
1515	<b>Organizational structure of the Ministry of Finance and the staff in charge of budget preparation, including:</b> <ul style="list-style-type: none"> <li>● Budget Directorate structure (positions and responsibilities)</li> <li>● Relations and cooperation between the Budget Directorate and other Ministry of Finance sectors</li> <li>● Relations and cooperation between the Budget Directorate and budget beneficiaries</li> </ul>	45 minutes  <b>Alenka Bratušek</b>
1600	<b>Budget documentation</b> <ul style="list-style-type: none"> <li>● Structure and contents of annual budget documents submitted to the Parliament;</li> <li>● Using additional information and elaborates;</li> <li>● Role of the Parliament – supervision and review</li> </ul>	45 minutes  <b>Alenka Bratušek</b>
1645	<b>End of day one</b>	
1700	<b>Sightseeing</b>	
<b>Day two – Thursday, July 8, 2010</b>		
0900	<b>Macroeconomic and fiscal policy</b> <i>Fiscal strategy</i> <ul style="list-style-type: none"> <li>● Macroeconomic indicators</li> <li>● Medium term financial framework</li> <li>● Setting fiscal goals (total revenue and total fiscal balance)</li> <li>● Maintaining fiscal discipline</li> </ul>	90 minutes  <b>Gonzalo Capriolo</b>
1030	<b>Coffee break</b>	15 min
1045	<b>Setting Government expenditure priorities</b> <ul style="list-style-type: none"> <li>● National development plan</li> <li>● Sector strategies and plans</li> <li>● Correlating priority policies with budget resource allocations</li> <li>● Setting priorities and approving budget resource allocations (including proposals for new priority expenditures)</li> <li>● Identifying possible budget resource savings (low priority programs and programs generating unsatisfactory results)</li> <li>● Adjusting expenditure priorities to Government policies</li> <li>● Submitting, analyzing and approving budget requests</li> </ul>	90 minutes  <b>Gonzalo Capriolo</b>
1215	<b>Lunch</b>	60 minutes
1315	<b>Performance based budgeting</b> <ul style="list-style-type: none"> <li>● Program budgeting or performance based budgeting in Slovenia</li> <li>● Producing performance indicators and target results</li> <li>● Program performance measurement and evaluation</li> <li>● Using information on performance and goals:                             <ul style="list-style-type: none"> <li>○ Improving budget end results</li> <li>○ Strengthening program management</li> </ul> </li> </ul>	90 minutes  <b>Franc Radman</b>

1445	<b>End of day two</b>	15 minutes
2030	<b>Study tour dinner, financed by DFID (PFK Project)</b>	
<b>Day three – Friday, July 9, 2010</b>		
<b>0900</b>	<b>Budget accounting system of the Republic of Slovenia</b> , Public Accounting Directorate	45 minutes <b>Mateja Oman</b>
<b>1000</b>	<b>Financial reports</b>	60 minutes <b>Stane Vencelj</b>
<b>1100</b>	<b>Coffee break</b>	
<b>1115</b>	<b>Consolidated budget preparation</b> <ul style="list-style-type: none"> <li>• Managing other revenue sources and expenditures</li> <li>• Using and allocating resources to extra-budgetary funds</li> <li>• Using beneficiaries' own revenues and the corresponding process</li> <li>• Managing donor financial resources (including EU funds)</li> <li>• Preparing consolidated fiscal tables</li> <li>• Consolidating budget revenues and expenditures at lower government tiers</li> </ul>	45 minutes <b>Stane Vencelj</b>
<b>1200</b>	<b>Lunch</b>	
<b>1430</b>	<b>Arrival at Ljubljana airport</b>	