**PEMPAL BCOP Annual Plenary meeting – April 12-14, 2017: Tools for Fiscal Management, Bishkek, Kyrgyz Republic**

**EVENT REPORT**

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# **Background**

**This event report captures the key discussions and decisions made at the 2017 Budget Community of Practice (BCOP) annual plenary meeting held on April 12-14 in Bishkek, Kyrgyz Republic on tools for fiscal management.** The report was prepared by Deanna Aubrey and reviewed by the PEMPAL BCOP Resource Team, speakers, and BCOP Executive Committee before being shared with all event participants and posted on the PEMPAL public website.

## **Event Objectives and Participants**

**BCOP representatives attended the meeting from Ministries of Finance (MOFs) from 14 BCOP member Governments from the Europe and Central Asia (ECA) region**: Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kyrgyz Republic, Moldova, Montenegro, Romania, Russian Federation, Serbia, and Ukraine. The BCOP Resource Team members Maya Gusarova, Deanna Aubrey, and Naida Čaršimamović Vukotić provided technical support in preparing the agenda and facilitating the workshop, while logical and administrative support was provided by Ksenia Galantova and Kristina Zaituna of the PEMPAL Secretariat.

**The key objectives of the meeting** on ‘*tools for fiscal management*’ were to:

* **Share PEMPAL and international good practice in the use of fiscal management tools** with a focus on fiscal risks management; program and performance budgeting; and budget literacy and transparency.
* **Provide the opportunity for BCOP member countries to exchange experiences** and discuss possible approaches and options to using some of these tools in the context of discussion groups and questions to panels of speakers. Other sub-objectives included to provide an update to members on the work of PEMPAL and BCOP since the last annual plenary meeting; and to report back on priorities gathered in the pre-meeting survey to inform the development of the BCOP Action Plan 2017-19.

**The format comprised a half day on fiscal risks, with subsequent days being hosted by the two working groups operating under BCOP** (each with a membership of 15 countries)**:** the Budget Literacy and Transparency Working Group led by Anna Belenchuk and the Program and Performance Budgeting Working Group led by Nicolay Begchin, both from the Ministry of Finance of the Russian Federation.

# **Agenda Overview**

**The Agenda of the BCOP plenary meeting is provided at *Annex 1***.

**The event was opened by the Minister of Finance of the Kyrgyz Republic, Mr Adylbek A. Kasymaliev.** The Minister noted that effective public financial management (PFM) is essential for sustainable development and effective allocation of resources to public services, which has become even more critical with governments facing many fiscal challenges. Within this context, the Minister emphasized how important it was for countries to learn from each other, and that PEMPAL provides that platform whereby PFM reforms can be examined and benchmarked between countries. The Minister welcomed participants to Kyrgyz Republic and thanked PEMPAL and its financial supporters the Ministry of Finance of the Russian Federation and SECO for the resource support that enabled the network to function.

**The World Bank Kyrgyz Republic Country Office Manager, Jean-Michel Happi, noted that tools for fiscal management are important to governments to assist them to face fiscal challenges**. He noted that some countries in the ECA region had large budget deficits, which required stronger focus on long-term budget sustainability and many governments have to implement fiscal consolidation policies to improve fiscal balances, control debt, and ensure fiscal sustainability. State Owned Enterprises (SOEs) also presented significant fiscal risks for some. Shrinking economies and the need to consolidate budget expenditures also required improvements in budget efficiency, while the pressure from citizens and businesses to improve quality of public services was also increasing. He noted that PEMPAL meetings such as this one provide a good opportunity to discuss together how to confront these common challenges. Mr Happi also congratulated the Kyrgyz Republic on their progress with PFM reforms, noting their significant improvement in the International Budget Partnership’s Open Budget Index, and their willingness to share their reform progress with other countries.

**The Chair of BCOP, Anna Belenchuk, expressed appreciation to the Kyrgyz Republic MoF for their hospitality and assistance in arranging the meeting** and to PEMPAL for providing the platform for countries to share their knowledge on fiscal management tools.An overview of the agenda was also shared andparticipants welcomed, including the BCOP Executive Committee, speakers, experts and newcomers.

**BCOP Executive Committee member Kanat Asangulov from Kyrgyz Republic provided an overview of the progress of BCOP,** noting that seven meetings were held in 2016 and the BCOP Executive Committee had met four times including participating in a meeting with other COP Executive Committees to discuss and develop the new PEMPAL Strategy 2017-22, which will be released in July. Results from the pre-meeting survey were also shared which provided a snapshot of the impact of BCOP on PFM reforms of member countries. The top areas of impact reported were in program and performance budgeting (16 countries), budget literacy (14 countries), and fiscal and budget transparency (14 countries). Countries also reported that the opportunities provided by PEMPAL enabled creation of knowledge from the PEMPAL region to inform other countries (11 countries) which was having a high impact, and opportunities provided by PEMPAL to discuss budget reform issues and challenges with MoF peers was having a significant impact (10 countries).

**Ten of the 18 countries who completed the pre-meeting survey indicated that BCOP has had a ‘high impact’ on their PFM reforms while a further four indicated a ‘significant impact.’** Another four countries indicated a moderate impact, with no countries indicating no impact. The survey will be released again during the mid-point of the strategy after December 2019 and again at the end of the strategy after June 2022. In the pre-meeting survey, the 21 member countries of BCOP were also asked to document their priorities to be addressed in future plenary and working group meetings. The BCOP Executive Committee discussed these results which will be included in the updated BCOP Action Plan for 2017-19 which is due for submission to the PEMPAL Steering Committee by June 2017. It was agreed that the next annual plenary meeting will follow the same format, with one day dedicated to each of the working groups, given their topics remain a key priority for members, and a half day will be dedicated to a new topic: intergovernmental fiscal relations. The hosting country was not decided but offers from Belarus and Albania were noted. Austria will also be investigated, given several other COP meetings had been effectively held there and the MOF of Austria has expressed an interest in collaboration with PEMPAL.

**Day One – Fiscal Risks Management**

**Presentations on fiscal risks were provided by IMF (**John Zohrab)**, World Bank (**Andrei Busuioc) **and a representative from the Latvia government (**Nils Sakss)**, as the international country case study.** The key discussions and conclusions from these presentations are outlined below.

**IMF’s definition of fiscal risks was shared: the possibility of fiscal outcomes deviating from expectations (budget forecasts)**. Risks can arise from: macroeconomic shocks (general fiscal risks), realization of contingent liabilities (specific fiscal risks); explicit contingent liabilities (e.g. calls on guarantees, legal claims); implicit contingent liabilities (e.g. banking crisis); and institutional weaknesses that can constrain the effectiveness of fiscal risk management.

**Fiscal risk management requires a fundamental change in MoF core business**. Empirical and stress test data shows how important this issue is for Governments as fiscal risks have been large and surprisingly frequent. Internationally, their disclosure remains largely qualitative, and analysis of fiscal risks limited. A more integrated approach to fiscal risk analysis is needed. Fiscal stress testing can be used to test the resilience of public balance sheets. Stress tests focus on more extreme events rather than year-to-year volatility and explore a range of correlated shocks in an integrated way. They combine macroeconomic shocks with contingent liability realization, with an analysis undertaken on the impact on future flows, assets and liabilities. (For example, a 30 percent change on average in the exchange rate was experienced in the region during the financial crisis which should be modelled in any debt sustainability analysis).

**There is no substitute for a strong legal and institutional framework for assessing and managing fiscal risks**. One option is establishing a Fiscal Risks Committee with a formal mandate that is responsible for coordinating all relevant parts (e.g. debt, macro areas). Key tasks for this committee include identifying key areas of risk and requesting information to monitor them; analyzing aggregate risks and assessing and prioritizing them; and providing advice to Ministers. Analytical tools that can be used are macroeconomic sensitivity analysis, balance sheet analysis, quantification of guarantees and other contingent liabilities, and net present value calculations.

**IMF has a toolkitwhich provides detailed guidance on how fiscal risks should be assessed.** This includes four steps: 1) identify and quantify risks 2) mitigate 3) provide provisions (eg buffer funds, budget contingencies) 4) accommodate residual (i.e. account for risks in setting fiscal objectives). IMF also presented a Risk Matrix which identifies the types of fiscal risks (e.g. financial sector, natural disasters, SOEs, PPPs, subnational governments) including measures to undertake within each of the four steps.

**Although fiscal risk management in the region is still in the early stages, IMF identified some good practices from Russia, Georgia and Albania**, including publishing macro fiscal analyses, and identifying risks to the baseline in the medium-term budget, quantifying the impact of any shocks, and modelling scenarios and different fiscal outcomes.

**International Country Case Study - Latvia**

**Latvia has a strong institutional and legislative framework that supports fiscal risks management.** A Fiscal Council is responsible for macroeconomic forecasts and risks, and the MOF has the overall responsibility for managing fiscal risks. A Law on Fiscal Discipline is in place that requires a Fiscal Risks Declaration whereby all fiscal risks must be declared and provided as an annex to the medium-term budget law. As soon as any risks materialize, money from the fiscal (contingency) reserve is redirected (for example, if the deficit is not within the target fiscal rule). The minimum amount that must be in this reserve is 0.1% of GDP. A regulation is also in place on the management of fiscal risks, which identifies specific risks from groups (e.g. PPPs) and individuals (specific partnerships between government and the private sector); and types of risk events, and their sources (who or what was the source of that risk).

**The Latvian MoF advises line ministries on how to manage their risks including providing templates which line ministries must use to submit reports once a year**. The MoF then uses these reports to update the registry of risks. This registry, which is contained within an EXCEL spreadsheet, numbers the risks, and includes their source, description, quantifies their impact on the deficit if they materialize, and provides a probability rating. Based on this assessment, the MoF provides an opinion on what needs to be done to improve risk management.

**It was acknowledged during discussions that some countries do not have large resources for reserves so any buffer may need to be small, but its existence is important to external investors** and lending institutions and to gain good credit ratings (e.g. from Standard and Poors). Reserves can also be sourced from liquidizing assets, making more economic use of public capital through PPPs, and managing debt better.

**Case Study – Fiscal Risk Management for State-Owned Enterprises (SOEs)**

**The World Bank is also responding to client demand and working with several countries on reforming SOEs**, including areas of governance and accountability as well as creating a level playing field when it comes to competition with the private sector. Financial position and indebtedness of SOEs is a significant issue in the ECA region and SOEs are also significant contributors to GDP and among the largest employers. They exist in the sectors such as energy, transport, telecommunications, financial and manufacturing. According to a 2016 IMF study, government bailouts of troubled SOEs cost 3 percent of GDP on average and 15 percent of GDP in the most extreme cases. Thus, SOEs can present significant fiscal risks, and should form part of an overall fiscal risk management strategy of Governments.

**Legislation and government regulations need to define the primary data sources and specific indicators to be used for monitoring contingent liabilities originating from SOEs**. Coordination mechanisms and information flows need to be transparent and streamlined to ensure efficiency and confidentiality of information, as appropriate. Care should be taken to avoid duplicate lines of reporting to reduce the overall administrative burden for SOEs and government agencies. The quality of information used in the analysis is also critical and this can only be ensured by strong financial management and auditing practices in SOEs, as well as adequate accountability mechanisms in place. Further, laws and regulations should stipulate which government agency is responsible for primary data collection and analysis of SOE debt. One unit (for example, within the MOF) can be responsible for such data collection, consolidation, and analysis.

**Where the oversight of SOEs within the Government is placed is also important**. Good practices call for either a consolidated ownership function or at least a well-coordinated one. It could be a unit/agency within the government or a holding company (one example is Kazakhstan’s holding companies) which has an ownership role of SOEs. This can also help mitigate conflict of interest between the state as the owner and the line ministry as the policy setter.

**Governance arrangements of SOEs should also be strengthened**, **for example through appointing independent board members** based on transparent and merit-based nomination processes and holding them accountable for financial performance and high standards of financial reporting. Subjecting annual accounts to external audit is critical, and scrutiny of audits by the function of an audit committee (that normally should consist of independent board members) is essential. Such an arrangement is also important for limiting undue influence of management over auditor’s appointment and dismissal, thus enhancing independence of auditors. A strong governance framework should aim to give SOEs autonomy, while ensuring their accountability to the Government and general public. The interests of citizens should also be safeguarded, as the ultimate owners of SOEs, through appropriate mechanisms at the entity, government, and institutional levels.

**It is essential for Governments to aim to fix the basics first such as ensuring meaningful disclosure and financial statements** **that are compliant with international good standards and practices. For economically significant SOEs, financial reporting should be based on International Financial Reporting Standards (IFRS).** Key sources of revenues, expenditures and debt should be examined through scrutinizing balance sheets and notes that may contain additional information on provisions or contingent liabilities. Such monitoring should examine financial and non-financial data. If the underlying quality of information received by SOEs is poor, a risk assessment will also lead to poor results conducted, so ensuring quality information is available is critical. This may require strong financial controls, audits and reporting frameworks to be put in place first.

**Governments need to limit their exposure to contingent liabilities** **of SOEs** by clearly defining a set of criteria to govern the provision of any explicit government guarantees, and prohibiting or controlling the issuance of guarantees by SOEs to third parties. Also, where appropriate, the sale or use of their assets as collateral in financing transactions should be restricted. Further, SOEs should be legally established as limited liability companies to ensure Governments are not exposed to any unsustainable debt (good practices suggest that SOEs should have a legal form similar to private sector practices, and by doing so the Governments will limit exposure to debt or poor financial position of such SOEs). It is also important that Governments report on consolidated basis on SOEs as a whole, including both financial and non-financial information. Lithuania and Estonia were cited as good examples of consolidated reports on SOEs as a whole.

**A view on what to do about fiscal risks also needs to be formed.** For example, options, could include privatization, guarantee and debt disclaimers, debt instruments, and PPPs (which should be structured to ensure significant risks are transferred to the private sector). Markets can also play a role through, for example, listing some debt or equity instruments on capital markets that would result in an increase pressure for transparency (although this strategy requires a well-functioning stock market to be in place). Large economically significant SOEs should be targeted for demanding financial reporting and auditing requirements, as reforms can be costly and burdensome. There are no clear-cut thresholds for what these are, although the EU through the Accounting directive (as revised in 2013) defines small, large and medium SOEs. These size thresholds could be used, and Governments could include those which have a significant national impact. SOEs that are not economically significant can apply simplified and less-demanding financial reporting standards, but strong practices are also important for them. Adopting private sector standards for SOEs is better, but issues exist with IPSAS on consolidation of SOEs, and it is very difficult to align accounting policies which can be a time-consuming and challenging exercise. Financial reporting can be aligned to International Financial Reporting Standards (IFRS), but no such global standards exist for non-financial reporting. Thus, entities can be required and apply one of the existing frameworks, but it is important that social, environmental and other non-financial matters are properly reported by SOEs.

**Resources to assist Governments to identify, manage and mitigate fiscal risks were identified by the speakers:**

* A 2016 IMF report on fiscal riskswhich provides practical guidance and new analytical tools to assist countries in their risk mitigation strategies;[[1]](#footnote-1)
* The World Bank’s Corporate Governance of State-Owned Enterprises: A Toolkit which can assist with facilitating disclosure and control of guarantees held by SOEs;[[2]](#footnote-2) and
* OECD Guidelines for Corporate Governance of SOEs (revised edition, 2015) was also cited as a useful source for good practices.[[3]](#footnote-3)

**Day Two – Budget Literacy and Transparency – Citizens’ Budgets and Public Participation**

**The head of the Working Group on Budget Literacy and Transparency, Anna Belenchuk, provided an overview of the progress of the group,** including an outline of the draft knowledge product that the group had produced that identifies 10 challenges being experienced in developing and distributing Citizens’ Budgets. The document provided a menu of options to address them drawn from available peer and international advice, including detailed information on approaches used by Russia, Croatia and Kyrgyz Republic. Final comments on the draft document, including any additional country case studies to include, were requested. The document is currently out for external consultation and will be finalized after April 2017. Key lessons from the work of the group included:

* **Maintaining good performance in budget transparency requires ongoing focus and attention**.
* **Good practice is still evolving in some areas i.e. public consultation and participation** in the budget process. The ongoing work of the International Budget Partnership (IBP) and the Global Initiative for Fiscal Transparency (GIFT) is important here.
* **Survey instruments such as those conducted by the IBP have provided incentives** and motivated many countries to improve performance.
* **There is developing knowledge and norms on public participation**: GIFT’s Principles on Public Participation in Fiscal Policy (approved end of 2015 and adjusted September 2016), OECD’s Toolkit on Budget Transparency (draft January 2017), OECD IMF’s 2014 Fiscal Transparency Code, and proposed changes to the PEFA framework.

**The work of the group has improved the availability of Citizens’ Budgets in the region as evidenced by IBP’s Open Budget Survey results between 2015 and 2017.** In 2015, Citizens’ Budgets were rare in the region, with preliminary results from the 2017 survey indicating that working group members Moldova, Turkey, Albania and Ukraine now have Citizens’ Budgets. With the work on Citizens’ Budgets coming to a close, available results from IBP on public participation in the budget process were examined, which will be the basis of the work of the group over the following year.

**Presentations were given by Juan Pablo Guerrero of the GIFT and Elena Mondo of the IBP**. **Public participation in government fiscal policy and budget making has been established as a right by the United Nations General Assembly** under Principle 10 of GIFT’s *High-Level Principles on Fiscal Transparency*.[[4]](#footnote-4) To provide more guidance on principle 10, a work program was conducted which resulted in the 2016, ‘*Principles of Public Participation in Fiscal Policy*,’ to reflect recent knowledge about country practices and innovations in citizen engagement including how to present budget information in a more accessible and engaging way.The principles aim at facilitating a structured and effective process of engagement between the Government and Civil Society, which GIFT has also illustrated through a collation of country case studies. These guidelines were translated into the network’s languages Russian and Bosnian-Croatian-Serbian and distributed in the materials for participants and GIFT encouraged PEMPAL member countries to submit their country case studies to the on-line guide. [[5]](#footnote-5)

**GIFT advised that public participation is key for Sustainable Development Goal 16**,[[6]](#footnote-6) and building inclusive institutions is critical. GIFT presented research from a 2015 Working Paper produced by de Renzio (IBP) & Wehmer (LSE) which found that public participation led to better resource allocation and provision of public services and improved response to the preferences of beneficiaries of services and constituencies.[[7]](#footnote-7) GIFT also advised that good examples of public participation can be taken from Brazil (participatory), India, Mexico, Peru, Uganda and South Africa.

**GIFT also advised that it is important to get a better idea of the demand for information (rather than governments just focusing on disclosure of all information),** given disclosure of information on its own is not sufficient for accountability. Fiscal transparency portals are increasingly becoming a very useful tool, with changes in scope and content as a result of consultation with citizens. GIFT advised governments to focus first on those sectors that citizens usually have a greater interest i.e. health, security, education, infrastructure, procurement and then give citizens a voice in the design of policies, but with a specific, clear role in that engagement. It is also important to ensure feedback is given on what happens to any input from citizens, even if their proposals are rejected.

**GIFT complimented BCOP on its Citizens’ Budget knowledge product, noting it was the most systematic analyses of international advice** **available** which should assist countries to overcome the challenges in producing Citizens’ Budgets. GIFT has also provided online budget education courses to increase budget literacy of citizens (e.g. Mexico and Brazil) and can connect PEMPAL member countries with these projects if countries are wanting to do something similar. Further cooperation between PEMPAL and GIFT is planned, including GIFT providing input to the new knowledge product planned by the Working Group on public participation in the budget process.

**The IBP advised that the next Open Budget Survey is currently underway and results are expected either December 2017 or January 2018**. These results are based on documents published by Governments up until 31 December 2016. IBP advised that the survey takes over 18 months to produce, given it involves independent assessment across 115 indicators by a non-government organization or individual researcher, and the preliminary results are also sent to the Government for comment. The survey instrument has also been strengthened with more focus on the role and effectiveness of oversight institutions such as Parliament and Supreme Audit Institutions. International Fiscal Institutions such as Fiscal Councils have also now been included. The IBP noted that the inclusion of new countries in the survey is limited due to funding constraints but the survey had been recently expanded to several African countries, due to the financial support of UNICEF.

**Scores in the IBP’s Open Budget Survey in ‘public participation’ are low across the region and around the world, and research in this area is still evolving**. IBP has revised its public participation assessment criteria (evolving since its inclusion in the 2012 Open Budget Survey), to ensure it included the new work from GIFT. Thus, the IBP advised that comparisons between the 2012 and 2015 results with the new results due in 2017-18 should not be done due to significant methodological changes. It was also noted that the scores related to ‘public participation’ are different from scores for the ‘Open Budget Index’ (OBI) as they pertain to different sections and questions in the Open Budget Survey. Thus, comparison between years was still possible for the OBI.

**Country case studies of Kyrgyz Republic** (by Kanat Asangulov) **and Brazil** (byDaniel Pitangueira de Avelino) **were presented**. These countries scored well in the IBP’s 2015 assessment of ‘public participation’ with Kyrgyz Republic scoring highest in the PEMPAL region with 52/100 (compared to the international average of 25/100), and Brazil scoring 71/100 (third overall behind South Korea and Norway), as shared in Anna Belenchuk’s presentation at the beginning of the session**.**

**PEMPAL Country Case Study – Kyrgyz Republic**

**Kyrgyz Republic increased its OBI score from 20 to 54 from 2012 to 2015, rising from 76th to 33rd in the ranking of countries participating in the survey**. Further, it ranked third in the former Soviet Union behind Russia and Georgia. All key budget documents are now made publically available, including a Citizens Budget which is distributed annually in both Russian and Kyrgyz languages. Citizens participate in the budget process through Public Sector Councils established under Line Ministries and other agencies, which are comprised of NGOs, sector experts, lawyers and economists relevant to the respective sector. Close engagement with citizens has also been established at the local government level (with municipalities). These Councils promote and discuss civil initiatives relating to the work of the government agency and they assist public authorities in formulating and adopting quality decisions, which enhance public service delivery.

**Kyrgyz Republic noted that PEMPAL played a significant role in supporting the PFM reforms being driven by the Government.** Reforms since 2012-13 have including developing an information sharing strategy, engaging closely with the CSO sector, developing a methodology for citizen engagement, and conducting public hearings in parliament. Budget transparency was also embedded in the Budget Code which was approved last year. The Open Budget Portal has also proved very effective to ensuring citizens have access to information on revenues and expenditures. Citizens also have real time access to public procurement, and public hearings are now conducted on the executive budget proposal and across the regions, during parliamentary discussions on the draft budget, on medium-term sectoral budget spending strategies, and on selected draft regulatory acts pertaining to the budget. Currently the budget hearing process is being examined to ensure feedback to citizens is part of the process, and citizens’ budgets are to be developed for different stages of the budget process. Future reforms to improve budget transparency include the launch of a municipal Open Budget Index; improving budget literacy to promote public engagement in the budget process; and conducting public budget hearings across three stages of the budget process (planning, enactment and execution).

**International Country Case Study - Brazil**

**Despite the current period of political instability, Brazil has performed well in the IBP’s Open Budget Survey and it still has a strong legal framework aimed to citizen participation**. Based on the 21st article of the Universal Declaration of the Human Rights, the Brazilian Constitution (1988) recognizes that political power emerges from the people and that enables channels of participation (similar to provisions in the Constitution of Kyrgyz Republic). The Fiscal Responsibility Law (2000) also makes it mandatory for public participation in all levels of Government, in the budgetary area. Brazil uses public policy Councils, but it is a challenge to monitor them as there are more than 5,000 municipal councils discussing health issues, for example, and there are somewhere between 60-100 national councils. Cross-sector public policies are also a major challenge which is being addressed through a general assembly of councils (Inter-council Forum) which coordinates inputs and presents a unified reaction from the Government. This mechanism also allows policy-driven monitoring of public actions, through specific thematic agendas (e.g. gender, elderly, indigenous people etc). Key lessons from public participation expansion in Brazil include:

* **Public consultation is a cumulative process**. As people understand the Government’s role and the need to prioritize expenditures within limited revenues, they start to submit better quality proposals.
* **Coordination of multiple consultation mechanisms at different government levels and monitoring and documenting outcomes has been a major challenge.** Documenting processes and outcomes is particularly important given what is in the law, does not necessarily occur in practice. Considering the multitude of levels and mechanisms, there also tends to be important new innovations and approaches that should be shared.
* **Trust-building is crucial**. Even if hearings are used by citizens merely as a kind of “therapy”, such venting is a valuable process, as it builds up trust if citizens perceive that Governments are listening to their concerns. To build more sustainable trust over time, however, it is important to manage expectations through transparent and formal dialogue procedures. Thus, promoters of public hearing should, for example, inform a deadline for any government response, acknowledge the feedback provided by citizens, and give official reasons and rationale if any proposals are rejected.
* **Reforms require ongoing political will,** and acknowledgement that Governments have a right to say no to proposals put forward by citizens, but not to ignore them.

**Resources to assist Governments to introduce and manage public participation in the budget process were identified by the speakers**:

* World Bank’s Public Sector Governance and Accountability Series on *Participatory Budgeting* edited by Anwar Shah;**[[8]](#footnote-8)**
* GIFT *2016 Principles of Public Participation in Fiscal Policy* and on-line guide of country case studies.

**Day Three – Program and Performance Budgeting**

**An overview of the Working Group on Program and Performance Budgeting was provided by the group’s leader Nicolay Begchin.** The group recently met towards the end of last year back-to-back with the OECD Senior Budget Officer’s meeting on Performance and Results. From these discussions, there is a clear international trend in simplifying performance based budgeting systems, in order to provide clearer, more manageable, and more meaningful performance information to better support policy decision-making. Several participating PEMPAL countries have already started with the simplification of their program budgeting approaches, including the program structure, the amount of information provided for each program, and number of performance indicators. It was acknowledged that the reform approach should have an element of flexibility, in order to allow continuous improvement of the system based on evidence from implementation. Performance indicators important for government and the public should also be treated differently than those needed for internal management. Customized approaches should be designed which should take into account country specificities, capacities, and objectives, as opposed to simply applying a best practice from another country. Countries should also not rush into program budgeting before essential parts of PFM reforms have been undertaken. These reforms include but are not limited to introducing government-level strategic planning; addressing citizens’ demand for performance information and higher accountability; implementing public administration reform; introducing ministry strategic plans and medium-term planning; and reforming internal control systems.In addition to the essential pre-condition of having political will (since program budgeting cannot be done successfully at the technical and bureaucratic level only), the importance of staff capacity building and supporting IT systems should also not be underestimated.

**An overview of progress on spending reviews, which are rare in the region, was also provided.** It was noted that spending reviews are not a one-off exercise, but need to be regular and integrated with the budget process. PEMPAL countries acknowledge they are a powerful tool, but they are not used widely as yet. Two PEMPAL countries, Croatia and Bulgaria, have started undertaking spending reviews and the work of the group has provided valuable ideas for improvement of their approaches, including the need for a longer period of time to conduct a high-quality review. Lessons learnt from the Irish and the Netherlands experiences in previous meetings have also been useful as PEMPAL countries plan to consider implementing elements of spending reviews. In particular, lessons learnt included the importance of mid-term approaches and clearly defined expectations.

**To support its work, the group is currently collecting member country program structures, regulations, methodologies and key performance indicators**. A knowledge product will be developed by the group over the coming year to assist member countries with their reforms.

**Preliminary results of PEMPAL’s participation in the OECD Performance Budgeting Survey**

**The results of PEMPAL’s participation in the OECD Performance Budgeting Survey** **were shared** by Naida Čaršimamović Vukotić (World Bank). Thirteen BCOP member countries completed the comprehensive survey over the last year, with results then benchmarked against those received from OECD countries. The key results included:

* **Performance frameworks are a norm in both OECD and PEMPAL countries**. Coverage of frameworks is wider and more uniform in PEMPAL countries, with 11 out of 13 countries having compulsory frameworks that apply to both line ministries and agencies.
* **Targets are most frequently set by the line ministries and agencies** in both OECD and PEMPAL countries. Central Budget Authorities (CBA) establish the framework/guidelines, while line ministries generate performance information.
* **Perceptions of the benefits of program budgeting are mixed in both OECD and PEMPAL countries** (with unrealistic expectations held at the beginning of reforms).Accountability and transparency have been the key motivation factors and seen as the key benefits of reforms.
* **Management responses to poor performance are much more likely than budgetary consequences** in both OECD and PEMPAL countries.
* **Challenges are very similar** i.e. **lack of resources and unclear policy/program objectives** in both OECD and PEMPAL countries**.**
* **OECD countries increasingly use spending reviews but they are not widely used in the PEMPAL region**. In PEMPAL countries, Croatia, Uzbekistan and Armenia reported having conducted spending reviews, but only Croatia answered all subsequent questions on the details of spending reviews. Croatia implemented broad spending reviews in 2015. However, all other PEMPAL countries noted that spending reviews are under consideration.
* **Evaluations are a norm in OECD countries but rare in PEMPAL countries.**

**PEMPAL Country Case Studies**

**An update of progress from several PEMPAL countries was shared: Kyrgyz Republic** (Nurida Baisakova) and **Ukraine (**Volodymyr Martynenko) on progress with program budgeting implementation; **Bulgaria** (Emil Nurgaliev) and **Croatia (**Mladenka Karacic) on spending reviews; and **Moldova** (Vasile Botica) on information systems. Working Group members agreed these country case studies at the November 2016 OECD SBO network meeting, and each of these countries selected the focus of their presentations. The key lessons from these presentations included:

* **Political will is essential for spending review reforms and such reforms should be introduced at the start of a government’s mandate** (Croatia)
* **Establishing a strong regulatory framework and good instruction materials for program budgeting is important**, along with building capacity of ministerial and agency staff. (Kyrgyz Republic)
* **Performance indicators should be realistic, relevant and meaningful to the public**. New performance enhancement tools such as spending reviews and gender-based budgeting can also be utilized (Ukraine)
* **Spending reviews should be conducted systematically and continuously**, taking into account all state expenditures which should be analyzed together. The final report should be published (Croatia)
* **It is important when conducting spending reviews to ensure a Committee/Commission is established** with representation of key stakeholders (Bulgaria, Croatia).
* **When introducing FMIS reforms, start with a pilot or sector approach first**. Good description of business processes is a precondition for successful development of the system functionalities and communication with the developing company, and ensuring time and resources for training is crucial. (Moldova).

**Small group discussions were held, with member countries providing responses to questions that were developed based on challenges identified by participants** in the pre-meeting survey. The questions were: *Briefly explain how performance indicators for government programs are selected in your country, what is their quality, and to what extent is performance information used in budget decisions? What can be done to use performance information in budget decision making more effectively?*

**The discussion groups identified and agreed on the following key issues**:

* **Political will is a key success factor** **and MoF power and authority is also important**. The role of budget users is also strong in program budgeting, as they know their programs well, with MoF having a key role in establishing methodological guidelines. As a pre-condition for effective reforms, good strategic plans need to be in place.
* **MoF and budget users need to agree on a set of indicators that will be used to measure performance,** including both qualitative and quantitative measures. The quality of indicators can be improved through input from external oversight institutions, NGOs, experts and citizens, and benchmarking indicators with those from other countries. For example, Supreme Audit Institutions and Fiscal Councils can play a key role in ensuring the indicators are meaningful, of high quality, evidenced based, and aligned with strategic priorities.
* **Performance indicators provide result information that is useful for MoF** **in budget negotiations** and they should inform the decision-making process. Information from indicators can also assist with communicating results of programs to the public, and support accountability and transparency to citizens.
* **However, performance indicators are only one source of information to inform decision-making**. To ensure they are a cost-effective tool, they need to be SMART (Specific, Measurable, Achievable, Relevant and Timely).
* **MoF needs to ensure there are capacities within line ministries** **through joint workshops** to assist line ministries to define indicators and ensure they are realistic.Ensure the management of line ministries is involved (and it is not outsourced to the finance area of the line ministry).
* **There can be too much information provided**, and it is important that line ministries know what (strategic) information should be provided to MoF and what they should collect and monitor internally for management purposes. Government can consult with citizens to see what is worth monitoring at the national level.
* **Reforms are a gradual process, never ending and long term**. Governments need to be flexible and constantly improving.

**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/bcop-plenary-meeting>

# **Annex 1: Event Agenda**

**PEMPAL PLENARY MEETING OF BCOP: TOOLS FOR FISCAL MANAGEMENT**

**APRIL 12-14, 2017, BISHKEK, KYRGYZ REPUBLIC**

**Objectives**

**The key objectives of the meeting** on ‘*tools for fiscal management*’ are to:

**Share PEMPAL and international good practice in the use of fiscal management tools** with a focus on fiscal risks management; program and performance budgeting; and budget literacy and transparency.

**Provide the opportunity for BCOP member countries to exchange experiences** and discuss possible approaches and options to using some of these tools in the context of discussion groups and questions to speakers.

Other sub-objectives include to provide an update to members on the work of PEMPAL and BCOP since the last plenary meeting; and to report back on feedback on priorities collected from members in the pre-meeting survey to inform the development of the BCOP Action Plan 2017-18, and collection of baseline data on BCOP’s impact for the PEMPAL Strategy 2017-22.

**Day Zero, Tuesday 11 April**

Arrivals BCOP Executive Committee and Resource Team

12.30-14.00 **Lunch in Hotel**

16.00 **Meeting of** **BCOP Executive Committee**

18.00 **Meeting of technical** **Resource Team**

19.00 **Dinner for BCOP Executive Committee hosted by MoF Kyrgyz Republic**

**Day One –Wednesday 12 April - Fiscal Risk Management**

Moderators: Kanat Asangulov (BCOP Executive Committee, Kyrgyz Republic Ministry of Finance), Maya Gusarova (Lead Coordinator of BCOP Resource Team, Senior Public Sector Specialist, World Bank)

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| Time | Activity |
|  | **Arrivals BCOP members** |
| 12.00-13.00 | **Lunch**  |
| 13.00-13.30 | **Registrations** |
| 13.30-14.15 | **Welcome** and opening:Adylbek Aleshowich Kasymaliev, Minister of Finance of Kyrgyz Republic Jean-Michel Happi, Country Manager, World Bank Kyrgyz Republic Office Introductions and welcome by the BCOP Executive Committee Introductions of World Bank team, speakers and external expertsTable introductions (10-15 minutes) including introductions of any newcomers |
| 14.15-14.30 | **Presentation 1: BCOP Executive Committee - Update on BCOP activities including overview of new PEMPAL Strategy 2017-22, Success Story Booklet, and development of BCOP Action Plan 2017-18** Kanat Asangulov, BCOP Executive Committee, Head of Budget Policy Department, Kyrgyz Republic, Ministry of Finance |
| 14.30-15.00 | **Presentation 2: IMF – Fiscal Risk Management** – John Zohrab, Fiscal Affairs Department, Regional Advisor, Public Financial Management Division, Central Asia, Caucasus, Kazakhstan and Iran  |
| 15.00-15.30 | **Presentation 3: World Bank – Fiscal Risks and Performance Monitoring of State Owned Enterprises (SOEs**) Andrei Busuioc, Senior Financial Management Specialist, Centre for Financial Reporting Reform, Governance |
| 15.30-16.00 | **Questions to the Panel of speakers** |
| 16.00-16.30 | Group Photo then coffee break |
| 16.30-17.00 | **Presentation 4: PEMPAL County Case study – Management of Fiscal Risks by Albania –** Gelardina Prodani, Secretary General, Ministry of Finance |
| 17.00-17.30 | **Presentation 5: International Country Case study – Management of Fiscal Risks by Latvia -** Nils Sakss, Director of Fiscal Policy Department, Ministry of Finance |
| 17.30-18.00 | **Questions to the Panel of speakers**  |
| 19.30- | Welcome Dinner in hotel  |

**Day Two – Thursday, 13 April – Budget Literacy and Transparency - Hosted by the Budget Literacy and Transparency Working Group**

Moderators: Anna Belenchuk (BCOP Chair, Ministry of Finance, Russian Federation), Deanna Aubrey (PEMPAL Strategic Advisor/BCOP Resource Team, World Bank)

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| Time | Activity |
| 8.30-9.00 | **Introduction to Day’s Agenda** **Presentation 6: Update on Progress of the Budget Literacy and Transparency Working Group** including overview of Knowledge Product on Breaking Challenges in Citizens Budget –Anna Belenchuk, BCOP Executive Committee, Head of Unit of Budget Analysis and Development, Department of Budget Methodology and Financial Reporting, Ministry of Finance, Russian Federation |
| 9.00-9.30 | **Presentation 7: Global Initiative for Fiscal Transparency (GIFT) Network – Applying the new GIFT’ ‘Principles of Public Participation in Fiscal Policy’**– Juan Pablo Guerrero, GIFT Network Director  |
| 9.30-10.00 | **Presentation 8: International Budget Partnership (IBP) – The Open Budget Survey – what has changed and how will public participation be assessed? –** Elena Mondo, Senior Technical Adviser, International Budget Partnership |
| 10.00-10.30 | **Questions to the panel of speakers** |
| 10.30-11.00 |  Coffee Break |
| 11.00-12.00 | **Presentations 9 and 10: PEMPAL and International Country Case Studies: (**30 minute presentations each**) Kyrgyz Republic and Brazil****Kyrgyz Republic**: Kanat Asangulov, BCOP Executive Committee, Head of Budget Policy Department, Ministry of Finance **Brazil**: Daniel Pitangueira de Avelino, Institute for Applied Economic Research (IPEA), Ministry of Planning, Development and Management, Federal Government |
| 12.00-12.30 | **Questions to the panel of speakers** |
| 12.30-14.00 | Lunch at Hotel |
| 14.00- | **Cultural Program hosted by Ministry of Finance, Kyrgyz Republic**  |
| 19.00 | Dinner outside hotel  |

**Day Three – Friday, 14 April - Program and Performance Budgeting - Hosted by 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).

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| Time | Activity |
| 9.00-9.15 | **Presentation 11: Introduction to Day’s Agenda and overview of Working Group on Program and Performance Budgeting** –Nicolay Begchin, BCOP Executive Committee, Deputy Director, Department of Budget Methodology and Financial Reporting. Ministry of Finance, Russian Federation  |
| 9.15-9.45 | **Presentation 12: Results of OECD PEMPAL Performance Budgeting Survey –** Naida Čaršimamović Vukotić, Public Finance Management Consultant, BCOP Resource Team, World Bank |
| 9.45-10.25 | **Presentations 13 and 14: PEMPAL Country Case Studies:** (20 minute presentations each): Progress and Developments in Reforms in Kyrgyz Republic and Croatia**Kyrgyz Republic**: Nurida Baisakova, Head of Program Budgeting Sector, Budget Policy Department, Ministry of Finance **Croatia:** Mladenka Karacic, Head of Accounting Department, State Treasury  |
| 10.25-11.00 | **Coffee Break** |
| 11.00-12.00 | **Presentation 15, 16 and 17: PEMPAL Country Case Studies** (20 minute presentations each): Progress and Developments in Reforms in Bulgaria, Ukraine and Moldova**Bulgaria**: Emil Nurgaliev, Senior Expert, Budget Methodology Division of Budget Directorate, Ministry of Finance **Ukraine**: Volodymyr Martynenko, Chief Specialist, Department of State Budget, Ministry of Finance **Moldova:** Vasile Botica, Deputy Head, General Budget Synthesis Department, Ministry of Finance  |
| 12.00-12.45 | **Questions to the panel of speakers** |
| 12.45-14.00 | Lunch at Hotel |
| 14.00-16.30 | **Reform Issues and Challenges discussion** (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 break served from 15**.**00 (in or near discussion rooms)** |
| 16.30-17.00 | **PEMPAL member group presentations** from Groups 1, 2, and 3 (5-8 minutes each) |
| 17.00-18.00 | **Community Building.** Moderated and led by the BCOP Executive Committee. **- Learnings related to content of meeting**: Tables to be given 10 minutes to provide their learnings and to give feedback on how we can improve PEMPAL BCOP meetings**- Social report on meeting and certificate/picture distribution**, PEMPAL Secretariat |
| 19.00 | Dinner in the hotel  |

**Saturday 15 April Departures**

1. Source: IMF (2016), *Analyzing and Managing Fiscal Risks*, June 2016, available at <http://www.imf.org/external/np/pp/eng/2016/050416.pdf> [↑](#footnote-ref-1)
2. Source: World Bank Group (2014) *Corporate Governance of State-Owned Enterprises: A Toolkit*. Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/20390> License: CC BY 3.0 IGO [↑](#footnote-ref-2)
3. Source: *OECD Guidelines for Corporate Governance of SOEs (revised edition, 2015)* <https://www.oecd.org/daf/ca/OECD-Guidelines-Corporate-Governance-SOEs-2015.pdf> [↑](#footnote-ref-3)
4. High-Level Principle 10: ‘Citizens should have the right and they, and all non-state actors, should have effective opportunities to participate directly in public debate and discussion over the design and implementation of fiscal policies.’ [↑](#footnote-ref-4)
5. Translations of the Guide are available at <https://www.pempal.org/events/bcop-plenary-meeting> sourced from <http://www.fiscaltransparency.net/giftprinciples/> [↑](#footnote-ref-5)
6. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels https://sustainabledevelopment.un.org/partnerships/goal16/ [↑](#footnote-ref-6)
7. Refer <http://www.fiscaltransparency.net/eng/resource_open_public.php?IdToOpen=20150704112> GIFT also shared positive results from [Democracy](https://www.cambridge.org/core/journals/american-political-science-review/latest-issue) at Work: Moving beyond elections to improve well-being by B.Wampler, M. Touchton, N. Borgues, AmPolScRew. # 111, 2017 which studied 5,550 Brazilian municipalities, and found strong and positive relations between participatory institutions and wellbeing, including improvements in infant mortality. [↑](#footnote-ref-7)
8. Source: World Bank <http://siteresources.worldbank.org/PSGLP/Resources/ParticipatoryBudgeting.pdf> [↑](#footnote-ref-8)