



Concept Note

PEM PAL 2011 Plenary Meeting CHALLENGES IN PUBLIC FINANCIAL MANAGEMENT REFORMS: Management accountability in budget execution

January 26-28, 2011
Zagreb, Croatia

Background

PEM PAL, the Public Expenditure Management Peer-Assisted Learning network, launched in 2006 with the help of the World Bank, aims to support reforms in public expenditure and financial management in eighteen countries in Central Asia and Central and Eastern Europe by promoting capacity building and exchange of information.

PEM PAL is organized around three Communities of Practice (CoPs), for budgeting, treasury, and internal audit, which bring together high level practitioners. They meet from time to time to share experiences among themselves and seek practical solutions for most pressing issues related to reform implementation. After meeting together for the first time in Istanbul, Turkey, in February 2008, the three COPs will gather again in the last week of January 2011 in Zagreb, Croatia.

Rationale

PEM PAL member countries are facing tough choices in designing their public finance strategies, and the global economic crisis has severely affected their fiscal adjustment plans. A long list of themes identified for discussion within the PEM PAL network reflects their concerns. The 2011 PEM PAL Plenary meeting will focus on implementation of public finance reforms, in particular those related to budget execution.

Improvements in budget execution arrangements depend very heavily upon the quality of the management responsible for the organization and delivery of public services, and upon management's accountability for the exercise of its responsibilities. The quality of management and the accountability arrangements can be significantly affected by the budget formulation policies adopted by the Ministry of Finance, the control and accounting policies adopted by the Treasury and by the contribution internal audit makes to assist managers in delivering public services.

The challenges to Treasuries, to Ministries of Finance and to internal auditors that are linked to improving the quality of management and managerial accountability represent the overarching theme of this plenary meeting of PEMPAL.

The overarching theme is:

“Management accountability in budget execution”

Two topics related to this theme will be discussed plenary and in each COP. The topics are

- Arrangements which inhibit or undermine managerial accountability.

Question here is: do the present arrangements for budget formulation, budgetary control (either by the Ministry of Finance or by the Treasury, or both in some countries), accounting and reporting actually inhibit or even undermine improvements in the quality of management and in turn managerial accountability? If so, what reforms are needed to change this and hence create the opportunity for managers to deliver better quality services and to take responsibility for the quality of public service delivery? What should be the preferable sequence of those reforms?

- The quality of budget formats and reporting, and how they contribute to decision making.

Question here is: How can the quality of managerial decision making be enhanced through improved budget presentation from the point of view of classification used and degree of details included in the format of the annual budget law approved by Parliament? What are the best practices in this field? What particular role can or should internal audit have in ensuring that appropriate management arrangements are in place, that managers have the information they require and that the accountability arrangements, not least to the Treasury and the Ministry of Finance, are effective? What are the types and formats of reporting on budget execution and approaches to their adjustment to the needs of various users? What should be the preferable sequence of the reforms?

Running through both these topics there is a need to improve the capacity of the civil service, in particular that of managers and those responsible for giving financial advice within line ministries. Moreover, it is also essential to improve the understanding of Treasuries and Ministries of Finance of the needs of line ministries.

The overriding concern of this PEM PAL plenary meeting is how can its activities contribute to the need to improve the quality of public spending and its responsiveness to changing public needs, transparency, and, ultimately, public support for change. The aim is to secure long-term sustainability of public finances as well as macro-economic stability and economic growth. The problems of how to manage complex and inter-linked elements in public finance, often in the context of changing political objectives, exist in most countries. Different countries are likely to adopt different solutions depending upon their individual circumstances and some may not even recognize that they do actually have a problem. A forum encouraging analysis and exchange of experiences and ideas, which PEM PAL provides, will help to avoid costly mistakes and misjudgments.

Examples of questions which each COP might discuss are listed in the Annex to this Concept Note.

Objectives

The 2011 Plenary Meeting will provide a platform for:

- Raising awareness of the need to improve the quality of management and managerial accountability, the consequential capacity building requirements, and the ideal sequencing of reforms;
- Examining inter-linkages in budgeting, treasury and financial management in the budget execution process to steer the budget formulation and execution process in an orderly

and integrated way, and with internal audit to ensure that arrangements for risk management and the systems of internal financial control are robust;

- Assessing and disseminating good practice with ideas on how to increase political commitment and public support for PFM reforms at all levels;
- Identifying gaps in training and, where appropriate, the need for certification using the experience of some other countries; and, providing practical guidance for setting up regional training schemes.

Outputs

The 2011 PEM PAL Plenary meeting is expected to result in several concrete outputs which will benefit participants/practitioners in a number of countries in the region:

- Ahead of the 2011 PEM PAL Plenary meeting, brief notes and presentations for COP specific discussions will be developed, including examples of best practices.
- A “Zagreb Resolution” will be drafted and adopted at the end of the 2011 PEM PAL Plenary meeting. The Resolution will highlight observations and recommendations of each COP sessions and will be directed to all stakeholders in charge of and supporting the reform processes in the PEM PAL member countries.
- 2011 PEM PAL Plenary meeting proceedings will be developed and distributed, including documents in discussion at the plenary and COPs sessions and the “Zagreb Resolution”.

Participants

The 2011 PEM PAL Plenary meeting will bring together around 150 participants, including COP members and external experts.

Format

The 2011 PEM PAL Plenary meeting will be a participant-driven event taking place over three days, with a reception taking place in the evening before the start of day one, and a group tour on the late afternoon of day two. Simultaneous interpretation in English/Russian/Bosnian will be provided at all sessions. All sessions will be moderated.

The 2011 PEM PAL Plenary meeting will be preceded by a two days workshop on moderation/facilitation for around 25 participants of the 2011 PEM PAL Plenary meeting.

This plenary meeting of all three CoPs will be organized with joint plenary sessions to discuss overarching themes. Each CoP will individually address the impacts of these themes upon their own areas of interest. In addition, each CoP has particular issues that it wishes to discuss and individual sessions will be devoted to their own particular interests.

Joint sessions

The 2011 PEM PAL Plenary meeting will start with a *Joint opening session*, which will be designed to highlight the main challenges in budget execution and their impact on the budget formulation and treasury processes, and on the development of internal audit as defined in the two themes set out above. The impact upon training will also be addressed.

During the first two days of the meeting two sets of topic *discussions* will take these challenges and explore what reforms might be needed from their points of view and how far they are

practical in different country contexts as well as how training arrangements might be developed to accommodate these challenges.

The meeting will end with a *Joint wrap-up session* in the early afternoon of the third day (see a draft program below) meant to draft the conclusions of the meeting and plan next steps.

Parallel sessions and COP specific sessions

In addition, each of the three COPs will meet in two Parallel sessions to discuss the specific topics set out above for each CoP. Each of the three COPs takes responsibility for these topics and arranging speakers for the Parallel sessions.

On the last day, each COP will discuss a subject of its own specific interest. Also, one session on that day will be devoted to COP visioning exercise.

Any participant will be free to attend any of the Parallel sessions.

COPs Executive committee meetings

After the conclusion of the Joint wrap-up session, Executive Committees of individual COPs will meet to discuss future activities and evaluate the work done.

Partners

The 2011 PEM PAL Plenary meeting is being organized in collaboration with a number of key partners, including the World Bank, Croatian Ministry of Finance, Ministry of Finance of the Russian Federation, SIGMA/OECD, InWent, SECO and the Center of Excellence in Finance acting as a PEM PAL Secretariat.

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2011 PEM PAL PLENARY MEETING: PROGRAM				
DAY 1	DAY 2	Alternative: DAY 2	DAY 3	
Joint opening session	Joint discussion 2 Topic 2	Parallel session 2 To cover each CoP topic	COP theme discussions	
Joint discussion Topic 1	Parallel session 2 To cover each CoP topic		COP visioning exercise	Resolution drafting session
LUNCH				
Parallel session 1 To cover each COP topic	Continuation Parallel session 2	Joint discussion 2 Topic 2	Joint wrap-up session	
	Group tour	Group tour	Individual COP EX COM meetings	

THE FOLLOWING QUESTIONS ARE EXAMPLES OF QUESTIONS WHICH EACH COP MIGHT CHOOSE FOR THEIR PARALLEL SESSIONS

The individual CoP sessions might address the topics relevant to the main themes of the joint plenary sessions and will cover:

For *Budget CoP*:

- How line ministry management needs (which are different from those of the Ministry of Finance and the Treasury) can be recognized in budget formulation arrangements including techniques such as program and performance budgeting. However, is it necessary to recognize these needs?
- The extent to which present budget rules for budget implementation actually inhibit the development of management and managerial accountability by excessively limiting managerial discretion and what reforms are needed before greater discretion to managers can be permitted?
- Should the Ministry of Finance in preparing the budget take into account the quality of budget execution by managers in terms of delivering value for money and if so how can this be done?
- Roles of MoF and line ministries in capital budgeting processes?

For *Treasury CoP*:

- In developing Treasury accounting systems how far should managerial requirements be taken into account, or should the Treasury accounting system only be concerned with budgetary control and cash flow management?
- Should Treasury control for cash flow management purposes be at the same level of detail as that for budgetary control purposes?
- How far can/should Treasuries be able to rely on line ministry controls and what is necessary to achieve this given a need to establish managerial accountability?
- How to achieve a balance between desirable flexibility in budget execution achieved through aggregate budget presentation and greater transparency perceived to be assured through a more detailed budget presentation?
- How to reconcile existing classifications and information systems that generate very detailed reporting information, which does not seem to be in demand by decision-makers, and the need and demands for aggregate reports and analytical types of reports, which are not always supported by FM systems?
- How to combine program based approach, which is more and more often used for budget presentation, and the budget execution reporting, which is frequently not program based?

For *Internal Audit CoP*:

- Should internal audit have any role in advising top management on the appropriateness of managerial structures and the arrangements for the delegation of budgets?
- How far can or should internal audit advise management on the appropriateness and the reliability of accounting and reporting systems both in terms of providing information to senior managers and to others such as the Treasury and Ministry of Finance?

- Are the present training arrangements for internal auditors appropriate to allow them to advise on the development of managerial structures and managerial accountability?
- How can IA and other audit institutions cooperate in auditing budget execution processes?