MINUTES TO PEMPAL PEER REVIEW WORKSHOP ON OECD BUDGETING PRACTICES AND PROCEDURES SURVEY

BACKGROUND

These minutes record the discussions during the OECD peer review workshop held on June 26, 2013 in Riga Latvia. Representatives from 10 member countries of the PEMPAL Budget Community of Practice (BCoP) attended this one-day workshop, to facilitate participation in the OECD Budget Practices and Procedures Survey.[1]

Although Bosnia and Herzegovina and Montenegro were unable to attend the workshop due to budget process demands, the BCOP Resource Team[2] raised possible questions on their behalf, based on the comments/questions in the preliminary questionnaires filled out by these countries. Members from the BCOP Executive Committee (ie Russian Federation, Albania and Turkey) participated in the workshop as peer experts, as they had already completed the survey, and could assist countries yet to do so.

The cooperation between PEMPAL and OECD will expand the OECD Budget Database to additional countries in Eastern Europe and Central Asia. The PEMPAL Secretariat and BCOP Resource Team liaised closely with OECD to prepare the survey for release including providing translation into the official languages of the network (Russian and Serbo-Croatian), providing the appropriate contacts in the Ministries of Finance of PEMPAL countries (based on BCoP membership), and promoting the value of the survey to members. OECD's 'Glossary of Key Terms for completing the 2012 OECD Budgeting Practices and Procedures Survey' was also translated by PEMPAL to assist its members in the survey's completion. All costs of the workshop (except for the costs of the OECD experts) were met by PEMPAL.

The workshop enabled countries to share their experiences, issues and questions in completing the survey before the survey data entry process was to be finalised at the end of July 2013. Following the finalization of the data entry process, OECD plan to undertake a process of 'data cleaning' to ensure the consistency and quality of the information. This includes comparing responses to previous surveys (if available), comparing with the IMF fiscal rules database, and ensuring internal consistency of responses.

Analyses and results will be prepared over the coming months by OECD and the BCOP Resource Team and will be presented to BCOP at its next full plenary meeting in the first quarter of 2014. This will provide an important knowledge resource for BCoP members, as it will enable participating PEMPAL countries to benchmark information on government budget institutions and processes against a total of around 100 countries already in the Database. The presentation of the results at BCOP's next plenary may also encourage other member countries to participate in the survey in the future.

The workshop agenda and list of participants are provided in Attachments A and B, respectively.

The workshop was opened by Elena Nikulina, PEMPAL Team Leader from the World Bank and

[1] Currently 15 members out of a total of 21 PEM PAL BCoP member countries are participating in the survey.
[2] The BCOP Resource Team provides technical content support to the BCOP Executive Committee and the community as a whole. The team is led by Maya Gusarova (World Bank, Russia office) who is the key contact for Russian speaking members. The team also includes Naida Čaršmamović Vukotić (World Bank), key contact for Serbian-Croatian-Bosnian speaking members, and Deanna Aubrey (World Bank), key contact for English speakers. Ms Aubrey also facilitated the workshop and will be the contact for the proposed analyses.

Knut Klepsvik, a senior policy adviser from the OECD[3] who both thanked the PEMPAL country members for the significant time invested in participating in the survey. Ms Nikulina noted that the workshop represents successful collaboration between PEMPAL and OECD and the expansion of the database to cover more countries in the Europe and Central Asia region will be of benefit to both. PEMPAL is also more actively contributing and participating in the OECD Central, Eastern and South-Eastern Europe (CESEE) annual Senior Budget Officials (SBO) meeting, which was being held in the same venue following the meeting on June 27-28, 2013.[4]

Mr Klepsvik outlined the objectives of the survey, which are to create an international and comparative database that allows budget practices to be analysed over time; for countries to be compared; and best practices to be identified in the budget cycle (covering key stages of formulation, approval and execution). The survey results also provide input for reports to OECD's annual SBO meetings.

RESULTS OF OECD BUDGET PRACTICES AND PROCEDURES SURVEY – OECD COUNTRIES

In accordance with the agenda, Mr Klepsvik presented the preliminary results of the Survey on Budget Practices and Procedures as recently completed for OECD member countries. The survey was previously done in 2003 and again in 2007 before the financial crisis, so the update of the information was timely to determine the impact of the crisis. It is planned to implement the survey in all 34-member countries every 4-5 years. The analysis presented covered all OECD member countries except three, which may be included in the final results. These preliminary results were outlined in the PowerPoint presentation 'The OECD Budgeting Survey 2012' accompanying these minutes.[5]

The impact of the crisis was evident in the changes in survey responses between 2007 and 2012. The common reform drivers were a requirement for strong top-down discipline; a reprioritisation of scarce resources; need for credibility with peers and markets; and changing EU fiscal governance requirements.

These reforms were reflected in changes to fiscal rules to promote fiscal sustainability; initiatives to promote budget transparency; increased use of top-down budgeting and Medium Term Expenditure Frameworks (MTEFs); and a renewed focus on performance budgeting. Mr Klepsvik summarized the results of the survey under each of these key categories.

Fiscal sustainability and fiscal rules

As noted by Mr Klepsvik, fiscal sustainability and fiscal rules has increasingly become important for many OECD countries. Socio-economic factors such as the aging population and increased longevity have put growing demands on health services and pensions, which have impacted negatively on long-term fiscal sustainability. Along with debt servicing costs, there is increased pressure for public finances to be maintained at a credible and serviceable position. Fiscal rules serve to promote such fiscal sustainability by constraining political decisions by the legislature and by the executive. Further, long term fiscal projections can play a useful role, including factoring in uncertainties through the assessment of risk and sensitivity analysis of the key parameters.

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3 Mr Klepsvik is currently seconded from the Norwegian Ministry of Finance until the end of July 2013.

4 Refer to the following link for the SBO workshop materials: http://www.oecd.org/gov/budgeting/9thannualmeetingofoecd-ceseeseniorbudgetofficials.htm

5 The survey has also been expanded to cover some Latin American, African, and MENA countries, although the analysis presented covered OECD member countries only.

Mr Klepsvik advised that between 2007 and 2012, the preliminary survey results indicated that:

- There was a small fall in the number of countries that produce long-term fiscal. projections, although the total of OECD countries that does so remains below 30%.
- More countries take risk into account (particularly related to entitlement spending) with a rise of around 10% to over 30%.
- More countries are using an increasing number of fiscal rules (with the budget balance and debt rules the most used).
- Fewer countries base their fiscal rules on internal policy, preferring to enshrine these rules in law, with some having more than one legal basis.

Budget Transparency

Mr Klepsvik defined budget transparency as being open about policy intentions, formulation and implementation. He referred to the OECD Best Practices for Budget Transparency, which are guidelines that describe the principal budget reports that governments should produce and their general content. The guidelines also include specific disclosures to be contained in these reports and practices that should be followed to ensure the quality, integrity and usefulness of the reports (including an effective role for the legislature and civil society). It was noted that these guidelines are currently under review, and a revised version should be available in the second quarter of next year.

Workshop participants were very interested in these best practice guidelines and Ms Aubrey (World Bank) advised that the guidelines were translated and distributed as background to the BCOP plenary meeting in Tirana earlier in the year. Given the key reports produced during the budget process were defined in the guidelines, and were often referred to within the survey, participants requested to be emailed the link to assist them during the workshop. Ms Maisuradze (PEMPAL Secretariat) distributed the links during the workshop which are provided below:

ENG: http://www.pempal.org/data/upload/files/2013/03/oecd-best-practices-for-budget-transparency_eng.pdf

RUS: http://www.pempal.org/data/upload/files/2013/03/oecd-best-practices-for-budget-transparency_rus.pdf

BOS: http://www.pempal.org/data/upload/files/2013/03/oecd-best-practices-for-budget-transparency_bos.pdf

Regarding the preliminary survey results related to budget transparency for OECD countries, Mr Klepsvik advised that between 2007 and 2012, it was found that:

- Three quarters of all countries now publish the macroeconomic assumptions and the methodology used to establish them, compared to less than 65% previously.
- Nearly all elements disclosed in the budget have increased.
- Only just under 60% of OECD countries adopt best practice of providing the budget to the legislature three months before the end of the fiscal year (although this has improved from just over 40% in 2007).
- The number of specialised legislative budget research units has more than doubled.
- More countries have established or are establishing independent fiscal institutions.

Top down budgeting and MTEFs

Mr Klepsvik defined top down budgeting as the executive firstly determining aggregate targets given medium-term fiscal objectives and prevailing economic conditions. Within this aggregate, sectoral ceilings are set reflecting existing commitments, political priorities in general and key new policy initiatives, with detailed allocation decisions typically delegated to individual line ministries. He noted that top down budgeting and MTEFs were increasingly relevant where the implications of certain policies need to be more clearly presented (such as multi-annual capital projects and the impact of delayed implementation for example).

Regarding the preliminary survey results related to top down budgeting and MTEFs in OECD countries, Mr Klepsvik advised that between 2007 and 2012, it was found that:

- Central Budget Authorities (CBA, as defined for the purpose of the OECD Survey) are mostly located in MoF and headed by a civil servant.
- Developing the Executive Budget Proposal; negotiating with line ministries, and drafting budget circulars (or methodologies for budget assignments distribution) are usually the sole responsibility of the CBA whereas the methodology for macro forecasts and monitoring of performance is a shared responsibility.
- There has been a small rise in the use of ceilings on line ministries' initial budget requests with over 80% of OECD countries now setting such ceilings (with just over 40% on total expenditure and just under 40% on other aggregates such as program or sector spending). Those countries that have no such limits have decreased from just under 20% to just over 10%.
- A more collaborative approach to resolution of budget disputes is evident, with more disputes being resolved by cabinet and less by the finance minister.
- More countries use an MTEF, with sub-aggregate ceilings. Of these, half have put the MTEF requirement in law and half also monitor compliance.
- There was a 15% increase from 2007 of the number of countries that have MTEFs in place with only 4 countries (Belgium, Hungary, Israel, and Luxembourg) in the OECD now without one.
- Ceilings in the MTEF often cover 3-4 years but are revised annually with more countries moving to 4 years (from about 35% in 2007 to almost 50% in 2012). Countries using a five and three year ceiling reduced between the survey periods with only a slight reduction for those using 3 years (down to about 38%) and a bigger reduction from those using 5 years (from under 30% to under 10%).
- More countries do not permit carry-overs and more require pre-approval.

Performance Budgeting

Mr Klepsvik noted that there was no consensus on the optimal way of using performance information within budgeting although performance frameworks are generally decentralised, flexible and not linked to allocation decisions.

Mr Klepsvik advised that between 2007 and 2012-13, it was found that in OECD countries:

- Most countries have a standard performance budgeting framework.
- In negotiations between line ministries and budget offices, performance information is generally used less for strategic planning and to a growing extent, not used at all.
- There is 'confined' reactions to non-compliance of targets (ie non-compliance measures are not frequently used).

- Overall, the countries which had very complex and detailed performance budgeting systems are simplifying them (such as the USA and the UK), while countries which are now introducing performance budgeting are opting for a focused set of performance data (such as Austria).

OECD gave country case examples under each of the result areas covered above which can be found in the presentation. In summary, OECD countries have tested their budgetary frameworks during the crisis with some abandoning elements of their practices during the crisis and most reforming their budgetary institutional framework. More OECD countries use an increasing number of fiscal rules and apply top down techniques. More also use a MTEF most with more detailed ceilings than just total expenditure. Transparency has also increased to some degree, and the legislature has increased analytical capacity and more countries have established independent fiscal institutions. Finally it is evident that different trends are evolving with regards to performance budgeting.

Ms Aubrey thanked OECD for their analysis noting that it was interesting to see the changes between 2007 and 2012, which highlighted the on-going reform program in many OECD countries. She also noted that the presentation illustrated the power of the survey instrument in tracking reforms and comparing them between countries.

OECD BUDGET PRACTICES AND PROCEDURES SURVEY – COMPLETION BY PEMPAL COUNTRIES

Knut Klepsvik and Joung Jin Jang[6] went through OECD's second presentation that covered key sections of the survey to facilitate explanations and clarifications. The presentation accompanies these minutes (refer to the PowerPoint presentation 'Survey on Budget Institutions) and key discussion points, questions and responses are summarized below. Mr Klepsvik firstly outlined the structure of the survey that is reproduced below:

Part I - ***General information***
This part covers questions 1-11 and asks general information about the Central Budget Authority and the budget process.

Part II - ***Budget formulation***
This part covers questions 12-57 and asks information about the following:
II.1 - Macroeconomics estimates and fiscal projections
II.2 - Fiscal rules
II.3 - Medium-term expenditures framework
II.4 - Executive budget negotiation
II.5 - Off-Budget expenditures (excluding PPPs)
II.6 - Public-Private Partnerships
II.7 - Budget transparency and participation
II.8 - Performance budgeting

Part III - ***Budget approval***
This part covers questions 58-69 and asks information about the legislature, its research offices, and its power to approve and amend the budget.

Part IV - ***Budget execution***
This part covers questions 70-90 and asks information about:

[6] Mr Jang has been seconded to OECD from the Ministry of Finance of South Korea.

IV.1 - Expenditure flexibility
IV.2 - Supplementary budgets
IV.3 - Reserve funds

Part V – <u>Parliamentary Budget Offices</u>

This part covers questions 91-96 and asks additional questions related to the support available to the legislature for specialized information and advice and what type of reports and analysis is produced. Mr Klepsvik advised that this part of the survey was added to the generic budget survey, and is part of a separate survey being issued to OECD countries, the results of which will be published later this year. Mr Klepsvik also advised that in earlier emails provided to PEMPAL countries, the incorrect link was provided which excluded this part, but OECD has now provided the updated link and will merge the data already provided.

Mr Klepsvik emphasised that more than one person could fill out the electronic survey, by sharing the password. Given the survey was translated and distributed by PEMPAL in Word format, sections could also be distributed to areas of the Ministry who were responsible. However, the final entry would have to be inserted into OECD's online electronic survey (questions presented in English only) to ensure the information was captured. Participants should respond in the relevant official languages of PEMPAL and the PEMPAL Secretariat and the Resource Team will arrange translation of the responses. Mr Klepsvik also noted that if the situation in the country was not covered by the survey, or that the country was going through significant reforms, additional comments should be provided to explain the situation.

Questions related to Part I - <u>General Information</u>

There were several questions related to the distribution of responsibilities of a Central Budget Agency (CBA) and other stakeholders (questions 1 and 2). Mr Klepsvik and Mr Jang (referred to in the remaining minutes as OECD) referred to the definition of a CBA provided within the Glossary of Key Terms. OECD advised that most of their member countries have the level below the Minister as the head of the CBA, and civil servants held these positions.

- However, it was noted in several PEMPAL member countries, that traditional CBA functions were shared amongst a number of institutions and the head of these were political appointees. Also, in some PEMPAL member countries, the traditional CBA functions are divided among different sectors/departments within the Ministry of Finance – in this case, where the overarching head of all this sectors/departments is either a Deputy Minister (if all sectors are under his/her authority) or Minister of Finance. OECD advised that such a situation should be explained in the survey's comment fields.

- For questions 3d and 3f, it was explained that the CBA has sole responsibility for determining final budget ceilings and for Executive Budget Proposal preparation if it technically produces these documents to be adopted by the Cabinet and the Parliament, even though the final responsibility for adoption and thus the authority to change them is at the Cabinet and/or Parliament.

- Question 3l, requested information on who was responsible for producing end of year reports and some participants queried the scope of this question. OECD advised that this question relates to the role of the Executive in producing these reports (and excludes the role of the Supreme Audit Institution). Thus if the CBA produces this report by itself, it should be listed as sole responsibility of the CBA. However, if the report is produced by the treasury function, and this function is located outside of the CBA, it should be listed as not a responsibility of the CBA (unless there is some shared responsibility in its preparation).

- For Question 3j, which asked who had the responsibility for supplementary budgets, clarification was requested about the definition of a supplementary budget and how to treat cases where the MoF is allowed to change the budget within a fixed percentage before reallocations had to approved by the legislature. OECD clarified the definition of the Supplementary Budgets in the survey as “the proposed amendments to the main annual budget, which are given legal force through adjustment or supplemental appropriation” (thus, supplemental budgets are essentially budget rebalances sent to Parliament for adoption, not to be confused with budget reallocation which can be done by the Executive, within some limits). In the case outlined, the OECD advised that the CBA has the sole responsibility of producing the supplementary budget but it should be listed under question 3n Other, that a supplementary budget is only triggered once a certain percentage is reached (eg 10% in the case of Uzbekistan).

- For Question 6, which covered the timeframe of the budget cycle, several countries queried the definition of a ‘pre-budget statement’. Some countries have a political statement issued by the President to Parliament and were unsure if this was classified as such a statement. OECD referred to its Glossary of Key Terms which states that a pre-budget report serves to encourage debate on the budget aggregates and how they interact with the economy. As such, it also serves to create expectations for the budget itself. This definition should be used to determine if the political statement met these criteria. On the other hand, some countries questioned whether an MTEF could be classified as a pre-budget statement in the cases when the MTEF serves as a draft annual budget, which includes aggregate and sub aggregate (e.g. ministry) ceilings. OECD advised that the definition includes reports that state the government’s long-term economic and fiscal policy objectives and the government’s economic and fiscal policy intentions for the forthcoming budget year(s). Thus, OECD advised that if the MTEF was published, covers the medium term and serves to create appropriations for the budget itself, then it could be classified as a pre-budget report.

Questions related to Part II - <u>Budget formulation</u>

- For Question 15a, to what extent does the budget take into account risks/shocks to entitlement spending, several questions were asked related to the definition of entitlement spending and types of risks to be included. Entitlement spending was not defined in the OECD’s Glossary of Key Terms but OECD provided a definition within the workshop. Entitlement spending is anchored in law, and gives rights to specific groups. Examples provided by OECD included social welfare, unemployment benefits, war veteran benefits, and pensions. Further questions related to what sort of risks or shocks to these groups could occur. OECD outlined whether key risks were identified such as changes to unemployment levels; changes in economic growth; recession and global shocks. Some countries included a 2-3% global reserve and questioned whether this could be classified as taking appropriate measures to take into account risks/shocks. In response, OECD advise that the global reserve may be more appropriate in comments for Q15b as such a reserve is generally not set aside for unplanned increases in entitlement spending only. Participants noted that it was difficult to plan for shocks in advance such as the recent global financial crisis.

- **II.2 Fiscal Rules**

This topic was the subject of extensive discussion among workshop participants and in response, OECD provided additional information within and after the workshop.

For purposes of this survey, the OECD utilises a similar definition as the European Commission. A numerical fiscal rule refers to a ***permanent constraint*** on fiscal policy (e.g. in-year rules are excluded).

A fiscal rule is by definition numerical and permanent, meaning it will apply as a constraint on fiscal policy as long as the basis for the rule exists [either a legal basis (stronger) or a political agreement (weaker)]. Examples of fiscal rules are the EU fiscal balance rule of a maximum deficit of 3% of GDP and the EU medium-term objective of a structural balance of maximum 0.5% of GDP. These are objectives that direct the fiscal policy and the budget negotiations. The different types of fiscal rules are captured in the survey; questions 19a, 20a, 21a and 22a.

OECD advised that the survey includes four types of fiscal rules, the Expenditure rule, the Revenue rule, the Budget Balance Rule and Debt rules. EU countries are supposed to respect fiscal rules that were established by the EU, under the Stability and Growth Pact. If the country is participating in the survey and is an EU country (or in accession and applies these EU rules), the OECD provides guidance on how to fill out the questions related to these required fiscal rules (refer to slide 13 'Standard for EU Budget Balance Rules' and slide 14 'Standard for EU Debt Rules').

- The Expenditure rule includes those related to nominal and real expenditure ceilings, nominal and real expenditure growth rates and specific expenditure to GDP ratios. When it comes to the expenditure, it refers to Government spending made to fulfill a government obligation, through a payment or promise of a future payment.

- The Revenue rule may be "the constraints on the allocation of higher-than-expected revenues in good times" or "constraints on the increase or decrease in the tax-to-GDP ratio" or "an upper limit on the tax-to-GDP ratio".

- The Budget balance rule, which is adopted in most of the EU countries, refers to "specific nominal budget balance" or "specific budget balance as a % of GDP in both nominal and structural terms" or "a given improvement of structural budget balance".

- Lastly, debt rules include "a specific amount of nominal debt" and "a specific debt ceiling as a % of GDP" and "a given reduction of debt-to-GDP ratio. A debt rule was adopted for the EU countries of 60% of GDP as a ceiling for the government debt level as a permanent target.

OECD advised that the survey also tries to find out the features of the rules. For example, the participating countries are supposed to answer
- Legal basis of the rules,
- If the rules are applied permanently or temporarily,
- What kind of non-compliance and enforcement procedures the rules have,
- If the target means a particular level or minimum condition (which is described in the slide as a character of the target).

Several questions were asked about the definition of fiscal rules.

- Based on a question whether some of the conditions imposed by the IMF Stand-By Arrangement (SBA) should be considered as fiscal rules, the OECD advised that this can qualify as fiscal rule as long as it meets the definition of the fiscal rule in the survey and the countries observe it. Thus, the quantitative conditions, such as targets on government deficit, in the SBA may be quoted as a fiscal rule if it satisfies the definition of the fiscal rule in the survey and the countries respect it as a fiscal rule.

- Based on question whether legal limit for percentage of debt servicing (expressed as % of revenues) qualified as a fiscal rule, the OECD advised that this was not a debt rule per se, but it should be mentioned in the comment field.

- Several countries asked if the fiscal goals set within the MTEF qualify as a type of fiscal rule. OECD advised that the MTEF is a procedural tool, which normally will establish a framework for implementing fiscal policy – whether or not that policy is constrained by fiscal rules – by allocating budget estimates of current policies and ceilings to programmes and/or government organisations over a multi-year time horizon. If the MTEF includes expenditure ceilings that are fixed (no revision allowed) over the medium term it can have a similar constraining role on fiscal policy as a fiscal rule, but it is not a fiscal rule as such. Normally the MTEF will be subject to revisions and amendment taking into account fluctuations in the economic cycle, one-off policy initiatives and other events that affect the budget. Thus, the fiscal rules set within the MTEFs do not qualify as fiscal rules.

- **II.4 Executive Budget Negotiation**

- For question 34 relating to whether the CBA requires that line ministries separate their capital from operating budget request, participants inquired whether the survey answer should be positive in the case where within each budget request, capital and operating are separated in detail (i.e. in economic category format, including capital expenditure totals and subcategories). OECD advised that in the context of the survey, the answer should be 'No, capital and operating budget requests are integrated' as the survey question applies to situations where the processes, instructions and information are separated.

- Based on requested clarification on the difference between gross and net values to assist in responding to Question 36 (are appropriations for operating expenditures presented in gross or in net values?), OECD advised that this refers to the cases whereby some agencies collect additional own revenues so their actual gross expenditure is larger then their net value appropriation.

- **II.5 Off-Budget Expenditure (excluding PPPs)**

OECD advised that off-budget funds are special funds owned by the government that are not part of the budget and which receive revenues from earmarked levies, possibly next to other sources such as fees and contributions from the general tax fund. Earmarked levies are different from fees in that they do not reflect the market value of the services that are financed from the revenues.

The survey starts with asking what types of off-budget expenditure exist in the countries, such as social security funds, off-budget loans and loan guarantees. And then, the following questions are whether they require legislative authorization and whether they are included in the budget documentation.

- Several countries requested clarification on the meaning of off-budget expenditures (or extra-budgetary funds) given terminology and government administrative structures differed between countries and regions. Further the Glossary of Terms referred to such expenditure as off-budget or special funds, which caused some confusion.
  - In the case of Russia, for example, there are separate funds, which are outside of general government but included in the consolidated budget. OECD advised that it is important to understand if normal budget procedures apply to planning these expenditures or not. If they are included in the normal budget processes of Government, these are not off-budget expenditures. The participants of the workshop delegated by the Russian Ministry of Finance clarified, in the case of Russia, these funds are possible to be classified as off-budget because in comparison with federal or sub-national government budgets, these expenditures are budgeted not by the participant of the normal budget process (CBA and budget holders / users) but by special bodies, with mandate for state off-budget funds management. These special bodies submit their budget proposals to the Ministry of Health, and it introduces these budgets to the Government. The approval procedures are similar to other budget expenditures, but budget planning follow a special procedure.
  - Serbia has extra-budgetary environmental funds that collect revenue and are included as supplementary material to Parliament. OECD advised that these are off-budget expenditures as they are only provided for information and are not subject to the normal budget formulation and approval process of Government. Serbia also asked about the case of its development bank that provides subsidies and loans for small and medium term enterprises which is funded by the State. OECD found this an interesting case and advised that if it was not subject to the normal budget formulation and approval process, it should be classified as off-budget.
  - Uzbekistan has a retirement fund, which receives subsidies from the government and is consolidated into the state budget. Russia Federation has a similar retirement fund and any fund deficits are supplemented from the budget. The Russian Federation categorized its retirement fund as off-budget.
  - Kyrgyz Republic has a social security fund which has a third of its budget subsidized from the State budget. OECD advised that it should also be classified as off-budget, if they collect revenues and do not go through the normal budget formulation and approval processes of Government.
  - OECD was requested to give further clarification on examples of types of off-budget expenditures provided under question 38a. In response, it provided the following additional explanations:
    - Social security funds include pension and health funds for example that should be classified as off budget if they are not subject to the government's budget formulation and approval process.
    - Off-budget loans and guarantees are any loans or loan guarantees provided by government not included in the budget. After the meeting, further questions were asked on this: If a loan is not recorded in the budget, but is recorded within debt stock and explanation, is it still off-budget? If a loan is for a public enterprise and the public enterprise pays it off, is it an off-budget loan if it is still shown in debt stock and explanation since state is guarantee? In response, OECD advise that the first one

could be regarded as off-budget as it is not still recorded in the budget itself. The second one could be considered as off-budget loan as it may affect the budget indirectly if the government guarantees the debt of the public enterprise.

- Donor funds are those not included in the government budget formulation and approval process. This includes Official Development Assistance (ODA) grants and loans if they are not included in the budget.
- Infrastructure/capital funds provided for infrastructure or capital projects that are not included in the budget.
- Quasi-fiscal activities of state-owned enterprises include loans made to SOEs that are not included in the budget.
- Stabilization funds include any emergency and contingency funds that are kept aside and not included in the budget formulation and approval process.
- Expenditures financed by public subsidies are those subsidies to businesses and NGOs not included in the budget formulation and approval process.

In addition, OECD advised that separate questions were included in the survey on contingent liabilities. The contingent liabilities are defined in the survey as the liabilities whose budgetary impact is dependent on future events, which may or may not occur. Common examples include government loan guarantees, government insurance programmes, and legal claims against the government.

Like the questions on the other extra-budgetary funds, the survey also asks

- What types of contingent liabilities the country has,
- Whether they require legislative authorization, and
- Whether they are included in the budget documentation.

II.6 Public-private partnerships

- In relation to question 40 (Does the Executive have a dedicated unit for public-private partnerships?), a clarification was requested for a case where there is a company that belongs to the Government that helps the private sector to build infrastructure. The Government heads the Board of Directors of this company and its focus is on road construction and other infrastructure. OECD advised that in this case the response should be no, the Government does not have a dedicated unit for PPPs, but an explanation should be provided in the comments field.

II.7 Budget transparency and participation

For question 48 and 49 (in the annual budget documentation presented to the Legislature, are expenditures under current commitments in law and policy distinguished from new policies and are new revenue-raising measures distinguished?), a clarification was requested for a case where the budget tables are not provided separately for new policies, but textual explanation within the budget documentation discusses these new policies and new revenue-raising measures. OECD advised that this does not qualify as fully meeting the requirements of the question.

- Several countries asked for clarification on Question 50a: How many line item appropriations are contained in the Executive Budget Proposal? OECD advised that its member countries had difficulties with this concept and currently there were approximately 40,000 items in total across all member countries. OECD referred to the definition in its Glossary of Terms ie it is the most detailed appropriation that is itemised and provided to the legislature for approval (eg program, economic classification including all line items for all budget holders/users). The lower the level the more constrained the executive is regarding the reallocation of expenditure.

- Turkey advised that it has around 4,000 line items but only about a third are appropriated by Parliament (ie 4th level economic classification with 2nd level sent for approval). OECD advised that countries should only count those line items presented to the legislature for approval. There was a general discussion about this with countries sharing the number of line items.

Questions related to Part III - <u>Budget Approval</u>

There were no questions related to this part of the survey.

Questions related to Part IV - <u>Budget Execution</u>

OECD explained that the term ‘lump sum’ is not defined in its Glossary of Key Terms but it refers to the cases where a ministry receives an appropriation that is not disaggregated into economic categories (refers to Question 70a Do agencies receive lump sum appropriations for their operating expenditures?)

- Several countries requested clarification for Question 71a: Is there a charge imposed on agencies for using capital assets (eg use of a government-owned building)? OECD gave the example of the case of line ministries being charged rent for using a government owned building. However, if the line ministry is renting from a private provider, it is not considered a charge in the context of this question as it is private asset and charge, and not a public one.

  For question 72a (Can line ministers re-allocate funds within their own budget envelope?), a clarification was requested. OECD gave the example that some countries allow reallocation of funds between eg programs or certain line items up to a specific threshold before approval is required. OECD advised the participants to clearly explain their rules and procedures in the comment section to this question.

- For questions 73-84b (on procedures for increasing/cutting/cancelling/rescinding carrying over different types of expenditures classified as operating, investment, mandatory and discretionary), OECD advised the participants to use specific narrow definitions of different type of expenditures from the Glossary and to clearly explain their rules and procedures in the comments to the questions.

Questions related to Part V – <u>Parliamentary Budget Offices</u>

OECD advised that this part of the survey focuses on support for specialised information and advice on budget and related issues (such as the permanent research staff within the USA Congressional Budget Office for example). It includes independent fiscal institutions, which may report to the executive or the legislature, be funded by public resources but must be an independent body. Some countries have established Fiscal Councils, which is a requirement in the new procedures of the EU.

- Based on discussion during the workshop, the following was noted. In the cases where all members of Fiscal Council are political appointees by function (e.g. prime minister, minister of finance), this does not qualify as an independent institution. Explanation of such set-up can be given in the comments. In the cases where the Fiscal Council is an independent council, but its President is elected by Parliament, OECD advised that the set up should also be explained in the comments.

- After the meeting, a question was asked about the case where there was a fiscal council established but the Parliament cannot or does not ask for any analyses from it – should it still be included in the survey? In response, OECD advise that this case may not qualify to be included in response to questions related to this section, as the Fiscal Council does not support the Legislature to conduct analyses of the budget. However it should be explained in the comments section.

CONCLUSIONS AND NEXT STEPS

Ms Aubrey (World Bank) closed the workshop by thanking the OECD experts, participating PEMPAL countries, the BCOP Resource Team, the PEMPAL Secretariat, and the translators. PEMPAL countries were advised that minutes to the meeting would be prepared by the BCOP Resource Team (and reviewed by OECD) to further assist them and other countries to finalize the survey. It was also suggested that in the future the Glossary of Key Terms be expanded to include specific examples relevant to different geographic regions, given the administrative set up and budget processes in many countries are significantly different. Ms Nikulina (World Bank) advised that further consultations between PEMPAL and OECD would also occur over the coming days, to agree on tasks and timeframes required to complete the survey analysis and to prepare the results.

Prepared by the BCOP Resource Team and reviewed by OECD, July 2013

ATTACHMENT A

AGENDA

Workshop on the OECD Budgeting Practices and Procedures Survey

Date: Wednesday, June 26, 2013
Time: 10:00-16:30
Place: Riga, Latvia
Venue: Tallink Hotel

You are also invited to a city tour of Riga on Tuesday June 25 from 17.30. Dinner will be provided outside the hotel at the end of the city tour.

Time	Activity
10:00-10:20	Opening by • OECD • PEMPAL
10:20-11:00	Presentation of preliminary results of the survey in OECD countries
11:00-11:15	Coffee
11:15-11:45	Presentation of the survey structure and sections with an overview of each theme. • **General information on Central Budget Authorities** Staffing levels and legislation • **Budget formulation** ◦ Macroeconomic estimates ◦ Long-term fiscal projections ◦ Fiscal rules ◦ MTEF
11:45-12:15	Questions and Answers Tour de table with practice exercises led by Russia and Turkey • Participants should come prepared with any questions and issues they have experienced from entering their preliminary responses to the online survey
12:30-13:30	Lunch
13:30-14:00	• **Specific subjects** ◦ Executive budget negotiation ◦ Off budget expenditures ◦ PPP ◦ Budget transparency and participation
14:00-14:30	Questions and Answers Tour de table with practice exercises led by Russia and Turkey • Participants should come prepared with any questions and issues they have experienced from entering their preliminary responses

	to the online survey
14:30-14:50	Coffee break
14:50-15:20	• **Budget approval** o Fiscal councils and parliamentary budget offices • **Budget execution** • Expenditure flexibility • Supplementary budgets • Reserve funds
15:20-15:50	Questions and Answers Tour de table with practice exercises led by Russia and Turkey • Participants should come prepared with any questions and issues they have experienced from entering their preliminary responses to the online survey
15:50-16:15	Presentation of the Checkbox tool to fill in the survey and information required to answer the survey (user name, password, etc.)
16:15-16:30	Closing

Departures or Dinner in hotel.

ATTACHMENT B

No.	Title	Name	Last Name	PEM PAL Member	Institution	Job Title	e-mail	Role
PARTICIPANTS								
1	Ms.	Gelardina	Prodani	Albania	Ministry of Finance	Director of Budget Management and Monitoring	gprodani@yahoo.com	Participant
2	Mr.	Fuad	Ganjaliyev	Azerbaijan	Ministry of Finance	Head of Division of Budget Department	f.ganjaliyev@maliyye.gov.az	Participant
3	Mr.	Yury	Seliverstov	Belarus	Ministry of Finance	Director of the Budget Department	budget@minfin.gov.by	Participant
4	Ms.	Mladenka	Karačić	Croatia	Ministry of Finance	Head of State Accounting Division	mladenka.karacic@mfin.hr	Participant
5	Ms.	Nurida	Baizakova	Kyrgyz Republic	Ministry of Finance	Head of Sector	n.baizakova@minfin.kg	Participant
6	Ms.	Asiia	Tynybekova	Kyrgyz Republic	Ministry of Finance	Head of Department	a.tynybekova@minfin.kg	Participant
7	Ms.	Anna	Belenchuk	Russia	Ministry of Finance of Russian Federation	Chief of Division of Analysis and Development of the Budgetary System	1407@minfin.ru	Participant
8	Ms	Nada	Mirković	Serbia	Ministry of Finance and Economy	Head of Budget Department	nada.mirkovic@mfp.gov.rs	Participant
9	Mr.	Abubakr	Nazarov	Tajikistan	Ministry of Finance	Specialist of Macroeconomic and financial statistics division	minfinm@mail.ru	Participant
10	Mr.	Hakan	Ay	Turkey	Ministry of Finance	Head of Department	hakanay@bumko.gov.tr	Participant
11	Mr.	Muzaffar	Rasulov	Uzbekistan	Ministry of Finance of the Republic of Uzbekistan	Deputy Head of Department	mrasulov@mf.uz	Participant
RESOURCE TEAM								
12	Ms.	Elena	Nikulina	-	The World Bank	Senior Public Sector Specialist, Team Leader for PEMPAL program	enikulina@worldbank.org	Resource person
13	Ms.	Deanna	Aubrey	-	The World Bank	PEM PAL BCoP Resoure Team member	deanna_aubrey@hotmail.com	Resource person
14	Ms.	Naida	Čaršimamović Vukotić	-	The World Bank	PEM PAL BCoP Resource Team member	naidacar@gmail.com	Resource person
15	Ms.	Maya	Gusarova	-	The World Bank	PEMPAL BCOP Resource Team leader and World Bank Public Sector Specialist	mgusarova@worldbank.org	Resource person
16	Mr.	Brian	Finn	-	OECD SIGMA	Senior Policy Adviser	brian.finn@oecd.org	Resource person
17	Mr.	Knut	Klepsvik	-	OECD	Senior Policy Analyst	knut.klepsvik@oecd.org	Resource person
18	Mr.	Joung Jin	Jang	-	OECD	Policy Analyst	joungjin.jang@oecd.org	Resource person
PEM PAL SECRETARIAT								
19	Ms.	Tamara	Maisuradze-Simic	-	Center of Excellence in Finance	Project Assistant, PEMPAL Secretariat	tamara.maisuradze-simic@cef-see.org	Coordinator
INTERPRETERS								
20	Ms.	Nataša	Ristić	-	-	Interpreter	-	Interpreter BOS
21	Ms.	Dragica	Todorović	-	-	Interpreter	-	Interpreter BOS
22	Ms.	Marija	Lapaine	-	-	Interpreter	-	Interpreter RUS
23	Ms.	Irina	Peremota	-	-	Interpreter	-	Interpreter RUS