



- R E P O R T -

**Back-to-Back Meetings of B COP Executive Committee and OECD Senior Budget Officials (SBO)
from Central, Eastern and South-Eastern Europe (CESEE)
June 28-30, 2012**

1. B COP Executive Committee meeting (June 30) organized back-to-back with the 8th Annual OECD/SBO meeting (June 28-29)

The Budget Community of Practice (B COP) Executive Committee members and their deputies attended the 8th OECD Annual Meeting of Senior Budget Officials (OECD/SBO) from Central, Eastern and South-Eastern Europe (CESEE) on June 28-29 2012, and held their meeting on June 30, 2012. Altogether seven B COP Executive Committee members from four PEM PAL member countries (Albania, Armenia, Bosnia and Herzegovina and Russia) were joined by the four members of the resource team (World Bank and OECD/SIGMA) and two PEM PAL Secretariat representatives.

2. The 8th OECD/SBO Annual Meeting

The 8th OECD/SBO Annual Meeting was hosted by the Estonian Ministry of Finance. The meeting was chaired by Ms Ivana Jakir Bajo, Director of the State Budget Execution, Ministry of Finance Croatia. The meeting was designed as a forum for SBOs of the countries in the CESEE region to meet with their colleagues and with officials of OECD countries to discuss major budgetary issues.

The meeting agenda included sessions focusing **on budgeting in times of fiscal crisis** and on **institutional budgetary frameworks** that can strengthen fiscal policy in such times. There was also a session on the **new OECD recommendations for use of Public-Private Partnerships (PPPs)**. In addition, two breakout sessions were organized on the **role of political commitment to fiscal discipline** and on the **role of international organizations** that are providing support for financial management in the region.

Besides the PEM PAL member countries representatives of Austria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Netherlands, Poland, Romania, Slovak Republic, Slovenia and Turkey attended the meeting. Representatives of Chartered Institute of Public Finance (CIPFA), Center of Excellence in Finance (CEF), European Bank for Reconstruction and Development (EBRD), European Commission (EC), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), International Monetary Fund (IMF), World Bank, World Health Organization (WHO) and OECD also attended the meeting.

Opening and introductory remarks by Ivana Jakir-Bajo, Chair, Jürgen Ligi, Finance Minister of Estonia, and Jon Blondal, Head of the Budgeting and Public Expenditures Division, Public Governance and Territorial Development Directorate, OECD were followed by delegates' presentations and brief descriptions of essential recent developments in the country's institutional budgetary frameworks.

Keynote discussion about lessons learned from the fiscal crisis and the recovery endeavors was opened by Alexander Lehmann, Office of the Chief Economist; EBRD who gave a presentation about *the Transition region in the shadow of the Eurozone crisis: regional prospects and fiscal implications*. He pointed out that Eurozone developments have already contributed to a marked slowdown in emerging Europe. Healthy growth of the transition region recorded in 2011 is projected to slow down this year and next, mainly due to weaker exports as well as capital outflows. Fiscal tightening last year was on a similar

magnitude as in the Euro area despite significantly lower levels of debt. The transition region is exposed to the Eurozone through exports, financing, and investment linkages with concentrated bank ownership now being the key risk. Further deterioration of the Eurozone crisis is clearly the key risk to the region. The presentation was followed by reactions of Veiko Tali, the Secretary General of the Ministry of Finance of Estonia and other participants.

Two breakout sessions were organized on the role of international organizations that are providing support for financial management in the region and that of political commitment to fiscal discipline.

Session about the **role of international organizations in the region** focused on bilateral, regional, and international organizations that provide advice on public financial management to the national governments of CESEE countries, such as the IMF, the World Bank, the CEF, the European Commission, the EBRD, and GIZ. The purpose of the session was to discuss the activities of different actors, understand their current efforts to coordinate activities and discuss mechanisms for achieving better coordination of their activities. Presentations were given by the representative of Romania who presented Romanian external financing program from IMF, EC and WB and its impact on implementation on structural reforms. Representatives of the IMF, OECD SIGMA, the EBRD, GIZ and CEF gave presentations about their role and work in the region. In the discussion participants stressed the importance of coordinating donor activities in the region to best support public financial management reforms.

At the session on the **role of political commitment to fiscal discipline** discussants tried to answer a question whether political commitment to fiscal discipline is more important than legal provisions. Fiscal outcomes are essentially influenced by three factors. The first and major one is economic performance. Economic growth influences budget parameters more than any other variable for fiscal performance. The second factor is the institutional framework supporting fiscal discipline. The third, probably a core factor and the focus of the workshop, is the political commitment to fiscal discipline. The session focused on mechanisms for promoting the political will for fiscal consolidation, the role of the executives, and tools for reinforcing communication between politicians and managers. The session also touched on whether adopting a law is conducive to fiscal discipline if political commitment is lacking.

One of the sessions was dedicated to the **OECD recommendations for use of PPPs**. PPPs are long term agreements between the government and a private partner whereby the latter delivers and funds public services using a capital asset, sharing the associated risks. PPPs may deliver public services both with regards to infrastructure assets (such as bridges, roads) and social assets (such as hospitals, utilities, prisons). The interest in PPPs has been growing in recent years and the need for fiscal restraint in many countries is expected to further increase their usage. This presents policy makers with particular challenges that need to be met with prudent institutional answers. Building on lessons learnt, OECD countries have created a *Recommendation on Principles on Public Governance of Public Private Partnerships* to help guide policy makers when using PPPs. The Recommendation covers the governance pre-conditions for successful use of PPPs with regard to the institutional framework and the skills and competence of the relevant authorities; how to ground the selection and management of PPPs in a value for money; the use of the regular budget process to minimize fiscal risks and ensure sustainability and integrity.

Introductory presentation of Ian Hawkesworth, coordinator at the OECD PPP Network was followed by comments of country delegates. In Hungary PPP projects are mainly at central government level in the area of toll roads, Budapest concert hall, student halls and other university buildings, sport facilities and prisons. One of the main challenges of the Hungarian PPP system is that there is still no widely accepted methodology to calculate the public sector comparator in the case of special assets. Besides, the politicians continue to interpret PPPs as an enlargement of the fiscal space. For comparison, in the Czech Republic implementation of municipal projects is more efficient than implementation of projects at the state level. Currently there are several tens of municipal projects but no 'alive' project at the state level.

Session on **recent developments in strengthening fiscal governance in the EU** highlighted the new set of rules and procedures that is intended to fundamentally strengthen economic and fiscal governance in the EU and the euro area, including the consequences on national law and national institutional frameworks. Against the background of the global economic crisis and its effects upon the public finances of Member States, European Union authorities have announced their intention to reinforce economic governance. The new set of rules includes the “six pack” which entered into force on 13 December 2011, encompassing both preventive and corrective measures. Adding to this, the “fiscal compact”, which will enter into force following ratification by at least twelve "euro-area Member States", introduces rules to be implemented in national law, preferably constitutional.

The EU measures against the crisis were presented by Hans Feddersen from the European Commission. The presentation was followed by reactions of country delegates from Lithuania and Slovak Republic. Lithuanian delegate presented impact of EU initiatives on Lithuania. Lithuania is subject to all the provisions of package of six legal acts; however the difference is between the financial sanctions imposed on euro and non-euro area Member States. Treaty on Stability, Coordination and Governance would be binding only after Lithuania’s accession to the euro area; however, Lithuania may voluntarily indicate the accession to all or some provisions of the Treaty prior to the euro-area accession date.

Slovak delegate presented the reform of the national fiscal framework. Constitutional Law of budgetary responsibility was adopted in December 2011 by National Council and came into force in March 2012. The main weaknesses of the current fiscal institutes and instruments (e.g., information asymmetry, some room for "creative" accounting) will be addressed by the new legislation on expenditure ceilings, also aimed at achieving long-term economic sustainability.

Session on **budgeting in the circumstances of austerity measures and slower economic growth** discussed institutional fiscal frameworks and budgetary measures conducive to short-term fiscal consolidation and long-term economic growth, drawing on recent developments and country experience. In the short-term, the pace of consolidation needs to take into account the effects of fiscal retrenchment on aggregate demand. In this context, instruments that are friendly to long-term growth should be used. The session also discussed the challenges and provisional solutions for consolidation in the slow economic growth environment. Ivar Sikk, Deputy Secretary-General of Fiscal Policy, Ministry of Finance of Estonia presented Estonia’s response to the crisis and its consolidation measures. Consolidation had many positive effects and it paid off even in a relatively short term.

The Economic Policy Committee peer review exercise as a toll for reinforcing economic governance in the EU was presented by Valentina Kostyleva, OECD policy analyst. Representatives of the OECD Secretariat presented findings of the *Draft Report Restoring Public Finances 2012 and the Budget Procedures and Practices Survey* focusing on recent developments of budgetary institutional frameworks. Panel discussion with Ivana Jakir-Bajo, Ivar Sikk, Jon Blondal, Hans Feddersen and Dirk-Jan Kraan followed the presentations.

At the plenary session with participants that attended **joint OECD/WHO/WB meeting on Financial Sustainability of Health Systems in CESEE**, participants of SBO meeting shared findings and discussed the role of the Budget Office in maintaining the financial sustainability of health systems. The issue of sustainability of health spending in Eastern Europe is pressing. Eastern European health expenditures are rising rapidly whilst the revenue base for sustaining health spending is declining due to decrease of the working population. Health systems in CESEE countries share many common institutional characteristics. Almost all of the countries in the region have some type of social insurance system, for example, where responsibility is split between Ministries of Health and Health Insurance Funds. This presents a complex challenge of co-ordination in order to achieve sustainability, but also an opportunity for countries with similar challenges and systems to compare experiences and to learn from one another.

Leveraging the work of a new SBO Network on the Financial Sustainability of Health Systems (conducted jointly with the OECD Health Committee), the OECD has partnered with the World Health Organization

and the World Bank to launch a regional dialogue on the sustainability of health financing, bringing together health and finance officials from the CESEE region, as well as key international organizations.

In discussion about the budget office in **maintaining the financial sustainability of health systems** Hanno Pevkur, Minister of Social Affairs, Estonia presented sustainability of health financing in Estonia. Tamás Evetovits, Senior Health Financing Specialist, WHO Regional Office for Europe in his presentation on *financial sustainability in the context of economic crisis: sustaining equity and solidarity* pointed out that the crisis calls for agreement on reforms that may not have been politically feasible in the past. It is important to implement budget cuts wisely; seek efficiency gains through wiser use of medicines and technologies, and through rationalizing service delivery structures; and, implement counter cyclical spending. Edwin Lau from the OECD Secretariat presented the role of the budget office for managing the financial sustainability of health systems.

Presentation from the 8th OECD Annual Meeting of Senior Budget Officials from Central, Eastern and South-Eastern Europe (CESEE) are available here: <http://www.pempal.org/event/eventitem/read/66/146>.

3. B COP Executive Committee meeting

The B COP Executive Committee members spoke about the issues that are important for B COP future work. Four topics were on the agenda. The first one was about the **leadership and management, knowledge products and quality of membership**, and about the activities that will contribute to strengthened exchange of experience and information, as well as improved governance function. **Roles and responsibilities** of the resource team, the Secretariat and the B COP participants were also addressed. **B COP Action Plan for 2012 – 2014 and budget** was reviewed, so were the recent **initiatives** (virtual library, success stories, Strategy 2012 – 2014, Annual and progress reports, website, wiki).

More details about the meeting are available here: <http://www.pempal.org/about/governance/ex-com-bcop/?&lang=en>.

Prepared by: Polona Sirnik