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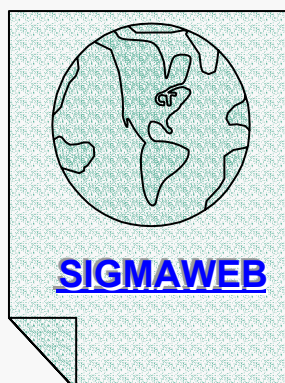
CEE/SEE NETWORK OF SENIOR BUDGET OFFICIALS

(Issue No. 6)

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Next Update
February 2005
will focus on
Judiciary Reform



- First Meeting of Senior Budget Officials from Central, Eastern and South-eastern European Countries

Background and Purpose of the Meeting

On 10 and 11 November 2004 senior budget officials from countries of Central, Eastern and South-eastern Europe met for the first time in The Hague. The meeting was organised as part of the "Budget Project" of the OECD Working Party of Senior Budget Officials, an outreach project that envisages the establishment of regional networks of senior budget officials from outside the OECD membership. So far regional networks have been set up in Asia (meetings in 2001 and 2003) and in South America (meetings in 2003 and 2004). Central, Eastern and South-eastern Europe constitutes the third regional network to be set up under the project. Two more networks are envisaged – in Africa and in the Middle East.

Dirk Jan Kraan
Project Manager
Budgeting & Management Division
Public Governance & Territorial
Development Directorate
 OECD



The aid given by the OECD Secretariat to these regional networks differs and depends on the willingness of OECD countries to offer financial support. In the case of the Central, Eastern and South-eastern European network, support has been provided by the Dutch Government and by the German development organisation GTZ (*Deutsche Gesellschaft für Technische Zusammenarbeit*). The Dutch Government hosted the first meeting of the network, and GTZ supported financially the work of the OECD Secretariat, in particular the budget reviews of Romania and Slovenia.

The purpose of the establishment of regional networks of senior budget officials is identical to the purpose of the OECD Working Party of Senior Budget Officials: to stimulate and foster a common learning process through exchange of information and peer review. Exchange of information takes place through comparative research, the results of which can be discussed during an annual meeting. Peer review is carried out mainly through budget reviews.

Participation

The first meeting of the regional network in The Hague was very well attended — of the 25 countries of Central, Eastern and South-eastern Europe, 24 were represented (with only Malta absent). Nine new EU Member States (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia) were joined by four countries of former Yugoslavia (Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, and Serbia and Montenegro), seven CIS countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Russia and Ukraine), as well as Albania, Bulgaria, Romania and Turkey.

Each participating country introduced itself during the meeting by means of a video describing particular features of its geography, cities or population, accompanied by the national hymn. The film included a short interview of the participating senior budget official, who not only addressed budgetary matters but also various other subjects, such as the performance of the national football club or the peculiarities of the national food.

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Several (other) OECD countries attended the meeting — France, Germany, Greece, Italy, the Netherlands, Spain and Sweden. The World Bank and IMF also sent delegates. Richard Emery, Assistant Director of the US Office of Management and Budget — who is also chairman of the OECD Working Party of Senior Budget Officials — chaired the meeting.

Budget Reviews

The budget review process, developed by the OECD Working Party of Senior Budget Officials, provides a periodical examination of the budget institutions of a particular country by other countries, supported by the OECD Secretariat. For the meeting in The Hague, budget reviews were prepared for Romania and Slovenia.

As a first step in the budget review process, a delegation from the OECD Secretariat visits the country under review and meets with its main budgetary authorities. Talks are typically held with those divisions in the Ministry of Finance responsible for (a) macroeconomic assumptions; (b) estimation of tax revenues; (c) design and enforcement of fiscal rules; (d) expenditures (relations with spending departments); (e) cash management and short-term borrowing; and (e) debt management. Further meetings are held with the Court of Accounts or Audit Office; parliamentary committees on public expenditure or budgetary affairs and on auditing; the financial division of one or two spending ministries; the macroeconomic forecasting institute (if it exists); associations of states, regions or provinces and municipalities; and, finally, one or two non-governmental organisations involved in budgetary affairs and/or the financial press.

On the basis of these talks and of written material provided by the country under review, the OECD Secretariat drafts a report. The report typically contains chapters on the executive budget formulation process, the legislative budget approval process, the budget execution process (reallocation, cash management, service delivery), and the audit process. The authorities of the country concerned are then given an opportunity to comment on the draft report.

At the annual meeting of senior budget officials, the representatives of two countries examine the country under review by asking questions based on the findings of the draft review report. At the November meeting in The Hague, the representatives of Bulgaria and Germany served as examiners for the Slovenian review, and the representatives of France and Lithuania were examiners for the Romanian review. Not only do representatives of the country under review respond to the examiners, but representatives of other countries may join in the discussion. In the last instance the chairman puts forward conclusions, which may lead to alterations in the draft review report.

Working Parties

During the meeting in The Hague, a substantial portion of the time available was spent in meetings of small working parties. The working party sessions focused on financial reporting, cash management, multi-year expenditure estimates, agencies, and programme budgeting. Participating experts — from countries in the region and from (other) OECD countries — gave presentations on these themes.

It transpired from the evaluation forms completed at the end of the meeting that many participants found the working party sessions particularly helpful. Since each working party group was much smaller than the group in the plenary session, the opportunity for participation in discussions was much greater.



Capacity-Building

The last afternoon session of the meeting was devoted to a panel on capacity-building. The consultancy firm Ecorys had prepared a document on this theme based on field work carried out in Bulgaria, the Czech Republic and Latvia. The paper argued that capacity-building had to be based on efforts at three levels of management: (1) at the level of politicians and top civil servants, to meet the need for leadership and commitment; (2) at the intermediate level, so as to adjust organisational structures, for instance to reorganise financial divisions in spending ministries; and (3) at the individual level, to meet the need for increased skills, for instance through training, seminars and peer review.

The panel consisted of Milen Veltchev (Minister of Finance of Bulgaria), Dusan Mramor (Minister of Finance of Slovenia), Ahmet Kesik (Director General of the Budget of Turkey), Barry Anderson (IMF), and Bob Bonwitt (OECD/Sigma), and was chaired by Steven van Eyck, former State Secretary of Finance of the Netherlands. The panel discussed, among other topics, the use of performance pay in transition countries. Minister Veltchev saw great opportunities for performance pay, while Minister Mramor was more sceptical. Another topic was whether transition countries should focus first on unification of the budget, better input control and budgetary discipline before moving on to reforms that are currently being tried in western OECD countries, such as accrual budgeting and performance budgeting. An intriguing comment was made by Bob Bonwitt, who indicated that some OECD countries are in the process of exporting to transition countries some ideas for reform that have failed in their own countries.

Future Programme of Work of the Network

In the last session of the meeting, participants discussed the network's future programme of work. Alex Matheson, Head of the Budgeting and Management Division of OECD's Public Governance and Territorial Development Directorate, proposed that the network continue in the same way as it had started, with an annual meeting focusing on budget reviews and emphasizing discussions in small working parties. The OECD Secretariat could support the network, provided that OECD countries were willing to contribute financially to its continuation.

Slovenia offered to host the next (2005) meeting of the network in Ljubljana.

Evaluation

Participants clearly indicated in the evaluation forms that the meeting had been interesting and useful. They especially appreciated the budget reviews and working party discussions

Nearly all of the participants expressed the wish to continue the network with the same group of countries. Only four participants (including one from an EU Member State) preferred to continue without the EU Member States of Central and Eastern Europe. Four participants preferred a network without the OECD countries of Central and Eastern Europe. These comments notwithstanding, the overall consensus was in favour of the continuation of the network with the same participating countries (all 25 countries of the region).

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► Exchanging Experiences and Ideas to Improve Budget Systems

The OECD organisers of the meeting in The Hague recognized the need for senior budget officials to exchange their knowledge and experience of budget processes. The meeting gave budget officials from Central, Eastern and South-eastern Europe the opportunity to inform colleagues from the region of budget reforms, and especially of the main trends in their implementation (both advances and limitations). Senior budget officials often ask themselves whether they are on the right track, if there is an easier way of proceeding, and how other countries have tried to improve budget processes and implement reforms. The best answers to those types of questions are obtained from colleagues in other countries facing the same problems in planning and implementing budget reforms. Such a meeting is therefore an ideal place for exchanging experiences and ideas about how to improve budget systems.

*Ivana Jakir
Advisor
Ministry of Finance
Croatia*

The main themes of the meeting — multi-year expenditure estimation, programme budgeting, cash management, and capacity-building — reflect in fact the actual reforms and trends in the participating countries. Participants related their experiences in implementing reforms in these areas. We could therefore say that the meeting resulted from this brainstorming of budget officials from Central, Eastern and South-eastern Europe. All of the participants agreed that no single type of reform could be successfully applied in all countries. However, this kind of meeting helps generate ideas that are necessary for further advancement in the implementation of reforms.

All of the meeting's themes were especially interesting to Croatia, as its public finance system has undergone significant reform in recent years. The main areas of reform were the introduction of the State Treasury, major improvements in the budgeting process, improved accounting standards, and implementation of a financial information system to support new processes and procedures. Programme budgeting was introduced in the budget process in 2002, and further improvements were made in 2003 and 2004. Steps are now being taken to introduce performance indicators in the budget process and to make budget-users accountable for results. In view of these reforms, a special area of interest for Croatia was programme budgeting and its implementation in other countries. The approaches and experiences of other countries in this area are very useful for us, and the meeting gave us the opportunity to establish contacts and arrange for further mutual cooperation.

All participants agreed that motivated and educated employees constitute a main prerequisite for successful budget reform. Countries in transition have recognized the problem of capacity-building. They are aware that without significant investment in human capital, any improvement of the budget process would be quite difficult. Countries in the region face this problem of capacity-building within the limitations of often severe budget constraints. We know that capacity-building is more than just a question of salaries, but also of how to keep employees highly motivated given such low income levels. The problem of motivation is very present in Croatia, and it would be very interesting to learn how other countries have dealt with this issue.

We found the presentation of the various surveys of the country budget processes especially useful, in particular the experience of Slovenia. The Slovenian approach to the budget process is very similar to that of Croatia, and constructive remarks made by OECD specialists were applicable to our country as well. We have therefore proposed that a budget review of Croatia be presented to the next meeting of the network of Senior Budget Officials of Central, Eastern and South-eastern Europe.

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► Reflections on the Development of Budget Officials' Networks

In 2002 the OECD launched its budget project, with the aim of establishing regional networks of senior budget officials who would come together annually to discuss common problems in budget systems and processes. These networks are based on the successful working methods of the OECD Working Party of Senior Budget Officials (SBOs). This idea originated from two fundamental bases. First, countries learn from each other, and experts learn best from their peers. While budgeting is a technology that is common to all governments, few international forums have been set up to facilitate this international learning process. Moreover, much of the world is engaged to various degrees in similar reforms, and the lessons learned are current and evolve from year to year. Second, the OECD has both a wealth of knowledge in budget systems and access to practitioners who could help transition countries as they reform their budget systems. The OECD budget project uses the comparative advantage of access to OECD Member country practitioners coupled with the successful technology of peer network-building.

Michael Ruffner
Administrator
Budget & Management Division
Public Governance & Territorial
Development Directorate
 OECD



To date, the OECD has been involved in the establishment of four networks of senior budget officials, and a fifth network is in the planning stage. In Asia and Latin America, the groups have held, respectively, their fourth and third meetings. An African network is currently growing as a result of a budget seminar of a few like-minded countries. A Middle East/North Africa group will commence in early 2005. While the OECD originally planned to set up an identical model for all of the networks, each region has in fact taken off in its own direction, with each group maturing into a true peer network. Thus the lessons we have learned about the growth of networks place in context and shape the future of the senior budget officials' network in Central, Eastern and South-eastern Europe.

The Asian group, launched in 2001, served as the example on which the project was based. It has proved so popular that the Government of Thailand has offered to permanently host the group and is looking toward the establishment of a regional budgeting centre. In the first few years, the centre would be more virtual than actual — the staff of the Thai Ministry of Finance would be the principal analysts, but the OECD, academics and other researchers would support the network by focusing their work on common themes. The “centre” would produce original research, coordinate and perform country reviews, and serve as a home base for expert groups and satellite groups (such as controllers and parliamentary staff).

The major lesson of the Asian group has been that it takes time to develop a common language. We found that the same words were often used, but had vastly different meanings for each country. We have also found that it takes time for countries to develop trust and to be honest about the depth of reforms and the problems encountered.

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In Latin America, the OECD works in partnership with the UN Latin American and Caribbean Commission (ECLAC) for the development of the senior budget officials' network. As ECLAC has organised an annual seminar on fiscal policy for over 20 years, it was only natural to make the SBO meeting an allied event. ECLAC and the Inter-American Development Bank are now taking steps to create a secretariat from among their staff, which would supply the network with country reviews and comparative research.

The lesson learned from Latin America is that it is important to have the support of regional organisations or other bodies with local knowledge and the capability of producing high-quality reports. More importantly, however, the Latin America network quickly set up related working groups for specific issues, such as financial management and parliamentary budgeting. It is important for the ongoing health of the main SBO network to have available high-quality, in-depth and practical analysis. A regional group with local expertise is crucial to the development of relevant material.

Finally, the African SBO network will start in earnest in 2005. Several countries came together on their own in 2004 to discuss budget reform and were so enthused that they created a pan-African SBO-like group. The group has developed its own proposal for a network as well as a work programme. Delegates to the first full network meeting will be greeted by an energetic core of supporters, who will then enlist new members. The lesson from Africa is that local support and ownership of the group are very important.

What does this mean for the future of the central, eastern and south-eastern European SBO network? It means that it will take time for real fruit to bear from the network, but this time can be shortened by commitment of member countries, involvement of partners, and their willingness to engage in open dialogue.

The OECD thanks the Slovenians for their leadership and for their offer to host the next meeting of the network. We are looking forward to the second annual meeting in Ljubljana.

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► **BUDGETARY REFORMS IN TRANSITION COUNTRIES:
THE ROLE OF CAPACITY-BUILDING**

Working Party of Senior Budget Officials

**FIRST MEETING OF SENIOR BUDGET OFFICIALS FROM CENTRAL,
EASTERN AND SOUTH-EASTERN EUROPEAN COUNTRIES**

The Hague, 10-11 November 2004

The attached document was prepared by the consultancy firm ECORYS on the basis of field work carried out in Bulgaria, the Czech Republic and Latvia.

The document served as a basis for the panel session on capacity-building at the 1st meeting of the network.

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Budgetary Reforms in Transition Countries: The Role of Capacity Building

Summary and Main Conclusions

ECORYS-NEI
John Zevenbergen

Rotterdam, 14 October 2004

Area of the study

Budgetary reforms in transition countries have been driven by three major developments. First, the transition from central planning to a market economy has pressured countries to engage in fundamental restructuring of the budget system. The major challenge lies in transforming the budget process from essentially a pure accounting mechanism to a real fiscal management tool. Second, many transition countries already have or will in the nearby future join the European Union (EU). The prospects of accession to the EU and the corresponding adoption and implementation of the *acquis communautaire* have increasingly shaped monetary and fiscal policies in these transition countries. Further impetus to budgetary reform has come from lessons of OECD countries that have experienced better expenditure outcomes as a result of fiscal consolidation and improvements of resource allocation and public sector performance.

The process of budgetary reform in transition countries has centered around three generally accepted basic objectives for sound fiscal management:

- *To instill aggregate budget discipline:* refers to the effective control of budget totals, by setting ceilings on expenditures that are binding both at the aggregate level and on individual spending entities. An effective budget system is one that has disciplined budget totals that are the result of explicit and enforced decisions. Budget totals should not merely accommodate spending demands.
- *To facilitate strategic prioritization and the reallocation of expenditures:* Allocative efficiency is the capacity to establish priorities within the budget and to distribute resources on the basis of government priorities and program's effectiveness. It is concerned with shifting resources from old priorities to new ones in correspondence with government objectives and from less effective to more effective programs.
- *To improve the performance of the public sector:* by encouraging operational efficiency in the use of budgeted resources. This refers to the capacity to implement programs and deliver services at the lowest costs, i.e. achieve outputs at the lowest possible cost.

For successful and sustainable implementation of budgetary reforms, the institutions that play a key role in the budget process need to be strengthened. The reform not only requires different rules and procedures, but also a change of the behavior of public officials and often the development of new skills. Therefore, capacity building is a crucial element for many aspects of budgetary reform in transition countries. Sufficient attention should be given to the knowledge and skills of civil servants in order to make the new rules, procedures and working methods also work in practice. Following the definition of UNDP, we define capacity building as "the process by which individuals, organizations, institutions and societies develop abilities (individually and collectively) to perform functions, solve problems and set and achieve objectives".

This study is based on the present literature with regard to budgetary reform in transition countries and capacity building as well as three field visits to the Czech Republic, Latvia and Bulgaria. It describes the experiences with capacity building in these countries and formulates lessons that can be learned from practice. The key questions of this study are:

1. What role has capacity building played in implementing the reforms in transition countries?
2. How can capacity building be organized in the most effective way to contribute to successful and sustainable implementation of budgetary reforms?

The role of capacity building in budgetary reform

In the Czech Republic, Latvia and Bulgaria the emphasis of budgetary reform started with the first objective of public expenditure management: achieving aggregate fiscal discipline. The fiscal framework in Latvia has been strongly governed by its agreement with the IMF to maintain fiscal discipline. This objective has received strong political commitment from all governments irrespective its composition. As a result of Latvia's restrictive fiscal policy, the government debt is very low and is even one of the lowest among the new EU member states. Bulgaria has reached fiscal discipline through the exceptional measure of a Currency Board Arrangement, which still serves as strong safeguard. The CBA has been extremely useful and necessary to gain and maintain fiscal discipline in Bulgaria. The priority of budgetary reform in the Czech Republic is also on achieving aggregate fiscal discipline. Important measures need to be implemented in the pension and health care sectors to reduce the budget deficit. In order to meet the fiscal targets, they will be set in a binding medium-term framework that will enforce the aggregate level of expenditures within a three-year horizon.

Important areas for capacity building in the Czech Republic, Latvia and Bulgaria that have contributed to achieving and maintaining fiscal discipline include:

- *Macroeconomic and fiscal forecasting*: to have the budget based on realistic macroeconomic assumptions. For instance, capacity building interventions took place in the Economic Analysis and Fiscal Policy Department of the Latvian Ministry of Finance. The activities were focused on trainings abroad, development of new models by foreign experts in close cooperation with the departmental staff and a twinning project with the German Ministry of Finance.
- *Treasury*: to control cash management during budget execution. For instance, capacity building at the organizational level in Latvia implied the establishment of a new structure for the State Treasury that is organized along classic treasury lines with a clear separation of functions between the front office (responsible for foreign and domestic financial resources as well as budget execution), the middle office (in charge of risk management and government accounting) and the back office (responsible for operations).
- *Financial control and internal audit*: to assure compliance with the budget. For instance, in the Czech Republic, an EU PHARE twinning project is being implemented to develop capacity in the area of financial control and internal audit according to the EU regulations, involving day-to-day financial management and control systems, systems verification (internal audits) and expenditure verification (checking expenditure on a risk analysis basis).
- *External audit*: to have a well-functioning independent Supreme Audit Office to critically assess government spending. For instance, the National Audit Office in Bulgaria has seen a boost in its human resource capacity in terms of numbers of staff, it has had several twinning relationships with Supreme Audit Institutions of different EU-countries to learn about new instruments for audit and it has developed its own system of train-the-trainers to cope with the large demands for training.

In the Czech Republic, Latvia and Bulgaria further improvements in the second and third objective of public expenditure management — allocative and operational efficiency — are needed. Capacity building is of crucial importance for improving allocative and operational efficiency of public expenditure in transition countries. An important area for reform in this respect is the introduction of program budgeting to improve the link between policy and budget. Program budgeting could be defined as a (re)classification of expenditures according to policy areas and with reporting on results. Capacity building in this area is not limited to the staff of the Ministry of Finance, but also involves program managers and financial staff of spending ministries that need to change their working methods and, even more important but also more difficult, adopt a different result-oriented attitude towards public expenditure.

In the 1990s Latvia embarked on a swift introduction of program budgeting without really overseeing the implications of introducing such radical reforms. As a result, the program structure of the budget was in name only and in 2002 it was believed that improvements had to be made. A stronger link had to be established between policies and budgets and also the “management of programs” had to be strengthened. Improvement of program budgeting was addressed by strengthening the performance measurement guidelines and strengthening the link with policies by strategic planning.

In Bulgaria the introduction of program budgeting has followed a gradual pace so far. A start was made back in the year 2000 with an experiment to create a program budget for the Ministry of Environment supported by external assistance. Based on this initial experience a decision was made to implement program budgeting as a new budget methodology for the whole government. In the past years much time and effort has been spent on improving the methodology on formulation of objectives, programs and consolidation and allocation of resources. In this process two more pilot ministries were selected. According to plan the rollout of the new methodology is to be completed in 2006. Although the rollout of the methodology for budget preparation has received much attention, the current challenges are to adapt also accounting and reporting to the new methodology.

In recent years, also in the Czech Republic increasing attention has been given to allocative and operational efficiency. The government has set its first steps towards program budgeting in 2001 with the introduction of a program classification for capital expenditure. In 2003 the possibility of including programs in the budget has been extended to all expenditures, although it is still on a voluntary basis. Spending ministries are requested to link their budgets to programs. As a result, they put in more efforts now to think about objectives, activities, efficiency and effectiveness of their budget proposals. However, the introduction of program budgeting in the Czech Republic is still in an early stage and will need time to be implemented successfully.

Organization of capacity building

Capacity building requires a comprehensive approach, involving efforts at three levels of budgetary management: commitment and leadership from the top management, capacity building at the organizational level and capacity building at the individual level (the use of human resources).

Capacity building: the need for leadership and commitment

First, capacity building requires strong commitment and leadership from the top management. For as far as budgetary reforms are concerned, the Ministry of Finance, and most specifically the budget department, should be the key agent of change, which is going to recognize the need for reform, design the reform, and monitor and implement the reform. In Bulgaria the MoF has large powers to decide on budgetary issues and budget allocations. It is for instance the sole presenter and defender of the full budget in Parliament and up to now has the discretionary power to decide on disbursements during budget execution without the need for prior approval of Parliament. The reforms in and by the MoF in the past decade in

Bulgaria have been very diverse and far-reaching. However, other organizations can play a lead role as well. For instance, in Latvia reform in the sphere of budget planning and budget preparation has primarily been promoted by a new department in the State Chancellery, i.e. the Policy Coordination Department that was created in the fall of 2000, in response to the recommendations in an influential report on Public Administration Reform. The Policy Coordination Department is formally responsible for leading the government's priority setting process, and coordinating all products for Cabinet's review and approval.

Capacity building at the organizational level

Second, capacity building requires reforms at the organizational level. At the organizational level the focus is on organizational structures, processes, resources and management styles that affect how individual talents and skills are used to accomplish particular tasks. It involves both the structure and culture of organizations as well as instruments that managers have to perform their tasks successfully.

For the implementation of budgetary reforms changes in the organizational structures can be important. In the Czech Republic, a reorganization of the Ministry of Finance is necessary to solve coordination problems that at present exist between different departments. An organizational audit will be conducted to see how the MoF can be reorganized and how its staff can be reduced. However, restructuring of an organization does not automatically solve all problems and may create new problems. In Bulgaria, the Ministry of Finance was restructured in order to accommodate a new role for the ministry and facilitate a longer-term approach towards budgeting, but there is still a lack of horizontal coordination structures.

Another important factor for capacity building is the culture of organizations. Moreover, the broader culture of the society itself may play a role in implementing budgetary reforms. There may be a need to change the organizational culture, for instance to create an open culture in which professionals are stimulated to discuss issues with their superiors and take initiatives themselves. Many officials of line ministries in transition countries have spent most of their working lives in a centralized compliance-oriented environment with little emphasis placed on performance. With the budget focused on inputs and detailed line-item controls on expenditures, agencies focused on obtaining spending approvals and utilizing them within the year. Often officials see their role as administrators, distributing limited cash to keep basic services functioning. In a new budget system in which financial autonomy will be devolved to spending agencies, the staff will no longer be administrators, but are expected to accept increased managerial responsibilities.

Other relevant issues to look at include the responsibilities that are given to the various organizations at different levels and the instruments that managers have to perform their tasks successfully. Often, information systems need to be developed in order to provide the new information requirements for budgetary management. The systems at the State Treasury in Latvia were considered to be ad-hoc and in danger of not being able to cope with changes to the budgetary and treasury processes. Much effort has been made to resolve this, but the development of the required information technology has been considered as difficult. Also in Bulgaria, the development a Financial Management Information System has been difficult. Preparations for it started already in 1998, but no complete rollout to spending agencies has taken place yet. It is considered one of the 'headaches' in budgetary reform in Bulgaria and the system as well as the implementation process is currently subject of reflection in the MoF.

Capacity building at the individual level

The third level of capacity building is the use of human resources. Capacity building at the individual level relates to the recruitment, training, utilization, and retention of managerial, professional, and technical talent that contribute to task performance at the organizational level.

Individual capacities, such as the knowledge and skills to perform new functions, can be acquired through training. Various training programs have been organized on public expenditure management for officials of the Czech state administration. The training of staff of both the MoF and line ministries was of considerable benefit. The participants have improved their skills how to analyze the budget and how to make a good assessment of budget proposals. The lecturers combined presentations with discussion, case studies and simulations. The participants worked in groups while conducting analyses, finding solutions for practical problems and presenting the results. For senior officials of the central government separate seminars were organized to create a platform for discussion on necessity and direction of further budget reform steps.

A major initiative in terms of capacity building in Bulgaria has been the establishment of the Public Finance School of the MoF. It has become an important milestone in the reform process and is a valuable asset in the future process of capacity building in the government. The PFS was created as a practical tool directed to the needs of the administration, and instrumental to harmonization of budget principles and procedures in line with the EU requirements. The PFS puts a lot of effort into defining the training needs of different target groups, developing training programs and conducting training courses and seminars. It makes use of staff of the MoF under the leading principle of 'practitioners train practitioners'. The PFS uses knowledge and experience from international experts and links were established with several institutions, including the Public Finance School in the Netherlands and the Centre of Excellence on Public Finance in Slovenia.

Various other instruments besides trainings have been used in transition countries to develop the competences of public officials. There have been many twinning projects with financial support of the EU. They provide useful input as the organizations can learn from the experiences of their counterparts in other countries. Also study tours have in many cases been an effective instrument to develop knowledge and skills. In particular it has been very useful when the study tour included side-by-side working on an ordinary job. Also workshops in which real-life situations are simulated have been very effective.

Training can be considered as necessary but not sufficient for capacity building within government organizations. It is important that trained staff is also able to use their new knowledge and skills when they go back to their day-to-day work practice. New functions need to be created and competences need to be developed to determine the requirements for the new functions. What qualities should people have to perform successfully, given their new roles and responsibilities? How well can positions and responsibilities be matched with the skills people have and made best use of the talents within organizations? A major improvement in Bulgaria in this respect was to make the role of human resources more prominent in the organization and the internal structures and responsibilities more explicitly defined in functional descriptions for divisions as well as job descriptions at staff levels. The existing Human Resources Division was made into a Directorate and allocated additional staff. The Directorate has been put in a position to significantly alter its previously administrative role and provide proactive services, for example in the areas of performance management, compensation and benefits, and training and development.

Attention should also be given to other elements of human resource management, such as recruitment of qualified staff, reward systems and career development opportunities to prevent that good people leave the organization. Recruitment of qualified staff is a general capacity constraint for the state administration in transition countries, given that the salaries are relatively low compared to the private sector. However, there are big differences with regard to attractiveness of jobs. In general, the MoF has less difficulty in attracting good and motivated people than most other ministries, in particular departments that have working relationships with international organizations (like EU, IMF and OECD). Retention of good staff is another problem; for instance, the best people are now recruited by the European Commission to come to Brussels. However, there are exceptions. For instance, in

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the State Treasury of Latvia turnover of staff has been relatively low. This could be related to open-minded senior management able to make changes, senior management capable of knowing ways to motivate staff, the possibility to follow training and even study abroad when senior management sees potential and young staff being coached by senior staff.

Technical assistance

Furthermore, technical assistance has been important for the strengthening of budgetary institutions in transition countries. In particular in the early 1990s the influence of IMF and World Bank was strong. Later attention shifted to technical assistance from the EU. The EU accession process has significantly contributed to the implementation of reforms in the Czech Republic, Latvia and Bulgaria. Moreover, it seems that the exchange of ideas with colleagues in international meetings and reading international literature has been of crucial importance for the direction of reform. The exchange of ideas has clearly contributed to the harmonization of public expenditure management with international best practices.

Conclusions

The first question of this study is what role has capacity building played in implementing the reforms in transition countries. On the basis of the experiences in the Czech Republic, Latvia and Bulgaria, it can be concluded that capacity building is of crucial importance for achieving the three objectives of public expenditure management: aggregate fiscal discipline, allocative efficiency and operational efficiency. We have observed large variations in size, focus, approach and methods of capacity building activities, but our general impression is that they have been of enormous significance for the improvements in public expenditure management in the selected countries. Capacity building is relevant in all phases of the budget cycle: budget preparation, budget execution, accounting and reporting, and internal and external audit. Attention should not only be given to the Ministry of Finance, but also to other participants in the budget process, for instance strengthening the financial management capacity of line ministries, improve the abilities of the Supreme Audit Office to critically assess government spending and make Members of Parliament better understand and evaluate budgetary documents and financial reports.

The second question of this study is how capacity building can be organized in the most effective way to contribute to successful and sustainable implementation of budgetary reforms, based on the experiences of the Czech Republic, Latvia and Bulgaria. In the selected transition countries capacity building activities have taken place at all three levels, although the emphasis that has been given on particular levels of capacity building has differed across countries as well as the approaches and methods that have been used. In order to address capacity constraints in budgetary management in transition countries, our main conclusion is that a comprehensive approach towards capacity building is needed. It is important that capacity building activities take place at all three levels: having commitment and leadership for budgetary reform from the top management, improving the capacity at the organizational level and improving the use of human resources at the individual level.

Moreover, the following lessons in particular can be drawn from the experiences in the selected transition countries:

1. It is important to have first a budgetary reform strategy to guide capacity building. This will allow also managing the activities of various donors better, which will increase the effective use of the resources.
2. For developing a coherent approach towards budgetary reform and capacity building it is necessary to have a commonly agreed agenda by involving all main reform drivers instead of having separate plans. Foremost, there should be enough reform managers to keep the pace of reform.

3. It is vital for maintaining the momentum to involve a critical mass of line ministries. Particularly line ministries and other spending agencies that resist should be supported to see new budgetary processes as useful and as an opportunity rather than as a centrally imposed burden or a way to introduce budgetary cuts.
4. Improved communication structures, both formal and informal, between all institutions involved should receive more attention. Most technical assistance and other capacity building interventions are focused on one institution only.
5. Finally, it is important for transition countries to build on their own foundations and not to copy automatically everything from abroad. One should realize that budgetary reform is a process that takes time. First look at what are the consequences of changes, since they can have a negative impact on other things. The challenge is how to develop a new system without losing the good things of the old system at the same time.

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