



Modernization of Budgeting: Current Directions and Tips

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PREFACE AND ACKNOWLEDGEMENTS

This paper is based on materials and discussions at the meeting of the OECD Senior Budget Officials from Central, Eastern, and Southeastern Europe (OECD SBO CESEE) and the follow-up PEMPAL Budget Community of Practice (BCOP) meeting held on October 27-28, 2022 in Bucharest, Romania. These events in Bucharest provided the opportunity for BCOP members to:

- i. reflect on the challenges and achievements of the past three years,
- ii. learn about countries' budgeting reforms in Romania and 18 other participating countries,
- iii. discuss BCOP's knowledge product on budget clarity and understandability,
- iv. learn about the newest research and good practices in gender budgeting, and
- v. get familiarized with and provide feedback on the OECD's Draft Spending Better Framework, which connects the dots between various budget reform initiatives.

Cooperation with OECD provides an important opportunity for PEMPAL BCOP countries to share and benchmark their progress and challenges in budgeting reforms with countries from other networks on a regular basis. These were the first face-to-face BCOP events since November 2019. The events were successful, with BCOP members contributing significantly to the OECE SBO CESEE meeting while having an opportunity to exchange experiences and learn from their counterparts from the OECD network.

More information, including the agenda and presentation materials, is available on the PEMPAL website.

www.pempal.org/events/bcop-participation-meeting-oecd-senior-budget-officials-central-eastern-and-southeastern-1

This paper summarizes the key discussions to provide an outline of the common global developments and trends in budgeting, offering advice or food for thought for PEMPAL BCOP member countries. The paper was drafted by the BCOP Resource Team (Naida Carsimamovic Vukotic, PEMPAL BCOP Resource Team, World Bank and Iryna Shcherbyna, World Bank Senior Public Sector Specialist, PEMPAL BCOP Resource Team Coordinator), with guidance from Ms. Aynura Bakaybaeva (BCOP Chair, Ministry of Finance of Uzbekistan) and Emil Nurgaliev (BCOP Executive Committee member, Ministry of Finance of Bulgaria).

BCOP would like to thank members and experts for their contributions to the preparation of the paper, especially Mr. Jon Blondal, Head of the OECD Budgeting and Public Management Division, and Mr. Brian Finn, Senior Policy Analyst in the OECD Public Management and Budgeting Division, as well as the members from 13 BCOP countries who attended and contributed to the Bucharest meetings, as invited by the OECD. This included members from Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, Kazakhstan, Kosovo, Moldova, Montenegro, North Macedonia, Romania (hosting country), Turkey, and Uzbekistan.



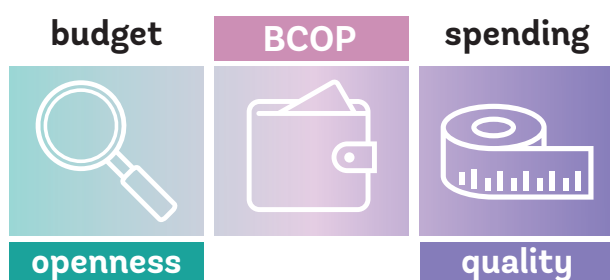
WHAT ARE PEMPAL AND BCOP?

Public Expenditure Management Peer Assisted Learning (PEMPAL) is a network that facilitates the exchange of professional experience and knowledge transfer among public finance management (PFM) practitioners across Europe and Central Asia (ECA) countries. The network, launched in 2006 and currently operating under the 2017-2025 PEMPAL Strategy, aims to contribute to strengthening PFM practices in the member countries through developing and disseminating information on good PFM practices and their application.

The network is organized around three thematic communities of practice:

- Budget Community of Practice (BCOP),
- Treasury Community of Practice (TCOP), and
- Internal Audit Community of Practice (IACOP).

The main overall objective of BCOP is to strengthen budget methodology, planning, and transparency in member countries.



Peer-to-peer learning is the main instrument used. Participants work together face-to-face and online to share knowledge and develop approaches to addressing common PFM problems. In contrast with traditional training approaches, participants formulate their own activity plans and play the role of

experts within the peer groups, so they are not only receivers but also providers of technical assistance. BCOP activity plans include sharing and creating of knowledge through face-to-face learning events, virtual meetings, and study visits, and through the development of knowledge products. BCOP activities are driven by member-led action plans that address key budgeting reform priorities of the Ministries of Finance of member countries. BCOP conducts an annual survey of its members to gather countries' priorities.

BCOP members are typically mid- to high-level officials in budget planning or budget methodology/policy units in the budget departments/sectors in Ministries of Finance/central budget authorities. BCOP is led by the BCOP Executive Committee consisting of representatives from the Ministries of Finance of member countries, who elect a Chair on an annual basis. Technical expertise, coordination, and support are provided by the World Bank BCOP Resource Team, and administrative support is provided by the PEMPAL Secretariat.

BCOP's main mid-term thematic priority objectives within the current PEMPAL Strategy are:

1. **Sharpening tools for effective fiscal management** with a primary focus on performance and program budgeting (through work of the BCOP Program and Performance Budgeting Working Group - PPBWG), while identifying member countries' challenges and priorities in other relevant areas (examples of topics examined include baseline expenditures, capital budgeting/public investment management, intergovernmental fiscal relations, fiscal risks, fiscal consolidation, wage bill management, etc.);

2. **Strengthening fiscal transparency and accountability** with a focus on budget literacy, transparency, and public participation (through work of BCOP Budget Literacy and Transparency Working Group -BLTWG) initiatives; and
3. **Expanding internationally available data on budgeting in PEMPAL countries** through identification and sharing of budget-related good practices and benchmarking within and outside of the PEMPAL region.

Please refer to the **BCOP Fact Sheet**¹ for additional information about BCOP.

¹ The full link for accessing the Fact Sheet is:
https://www.pempal.org/sites/pempal/files/knowledge_product/2023-01-24/bcop_6february.pdf



EXECUTIVE SUMMARY

The budgeting function is undergoing significant modernization in many countries globally. This was evident from the discussions and presentations in the meeting of the OECD SBO CESEE and the follow-up work-planning BCOP meeting (both held on October 27-28, 2022 in Bucharest, Romania).

There is an increased awareness of the need to improve and revamp several budgeting areas, and efforts in that direction are undergoing or in the plans of most governments. This includes focused improvements such as improving IT systems for budgeting automatization and introducing priority objectives such as gender budgeting. More broadly and significantly, it includes systemic and structural changes - strengthening the overall top-down budgeting function and reshaping the budget documentation to use it as a communication tool.

The draft OECD Spending Better Framework presented in the meeting describes the elements of a modern budgeting function, with a comprehensive and integrated analysis of the key elements and features of successful budget institutions, interlinking various budget reform initiatives. It is centered around budget institutions of high quality, approached as not a specific entity, process, or tool, but rather as a whole conglomeration of items that put together constitute budget institutions of high quality. The Spending Better Framework comprises ten principles:

- Principle 1: High-level political commitment and clear objectives
- Principle 2: Unbiased Economic assumptions
- Principle 3: Multi-year expenditure baselines
- Principle 4: Top-down expenditure ceilings
- Principle 5: Spending Reviews

- Principle 6: Informed spending decisions
- Principle 7: Integrate all expenditures into budgeting, including, inter alia, loans, and guarantees
- Principle 8: Line ministries as partners
- Principle 9: Budget Transparency
- Principle 10: Ensure effective oversight

One of the meeting sessions was devoted to the OECD's presentation of the benefits of gender budgeting and the OECD's draft paper on Best Practices for Gender Budgeting. It was underlined that gender budgeting (as well as other priority budgeting initiatives, such as green budgeting) should be integrated within performance budgeting, rather than being a parallel process. The evidence on gender gaps and the benefits of gender budgeting shows that to advance gender equality, especially in the current context of limited fiscal space, gender perspectives need to be reflected in public spending decisions. Hard data available from Nordic countries shows that closing gender gaps can bring social, macroeconomic, and fiscal benefits. Increasing female employment brings additional tax revenue and social security contributions. It can also reduce demand for public finance transfers and welfare benefits. Together, these factors help improve the outlook for fiscal sustainability. Gender budgeting is now a norm in OECD countries, with around two-thirds of the countries using it.

There is a significant space for improving the way in which the Ministries of Finances and the chief executive are communicating with the public through the budget. BCOP Resource Team presented the recently published knowledge product on *Improving Clarity and accessibility of*

Budget Documentation, developed by the BCOP Budget Literacy and Transparency Working Group and published on PEMPAL website.² The Knowledge Product is structured around the five defined key budgetary pillars that should contain essential features for achieving full and meaningful accessibility and understandability: budget clarity, availability of budget information, budget visibility and communications, budget literacy, and public engagement. For these pillars, the principles, good practices (including examples from South Africa, the United Kingdom, Ukraine, and Uzbekistan), and proposed steps are laid out.

It was stressed that budget transparency is often misunderstood as only referring to the availability of budget information, while true transparency in its full meaning is related to understandability.

In that sense, BCOP's knowledge product defines that budget clarity is about budget documentation being easy to interpret and understand by i) providing a clear narrative needed for a full understanding of budget policy and intended results, ii) providing concise but adequate context and explanations to ensure that budget documentation is easy to understand and follow logically, iii) ensuring that all tables and charts are accompanied by adequate narrative explanations, and iv) balancing between the volume of information and clarity. In the discussion, the participants agreed that budget clarity improvement will be an important objective for many governments in the upcoming period and that this topic should continue to be examined, given its complexities.

Modernization of the IT systems for automatization of budget planning is or will be the focus of most countries. Especially given the fast progress in IT and the ever-increasing demands on budget documentation to include both financial and non-financial information (including performance

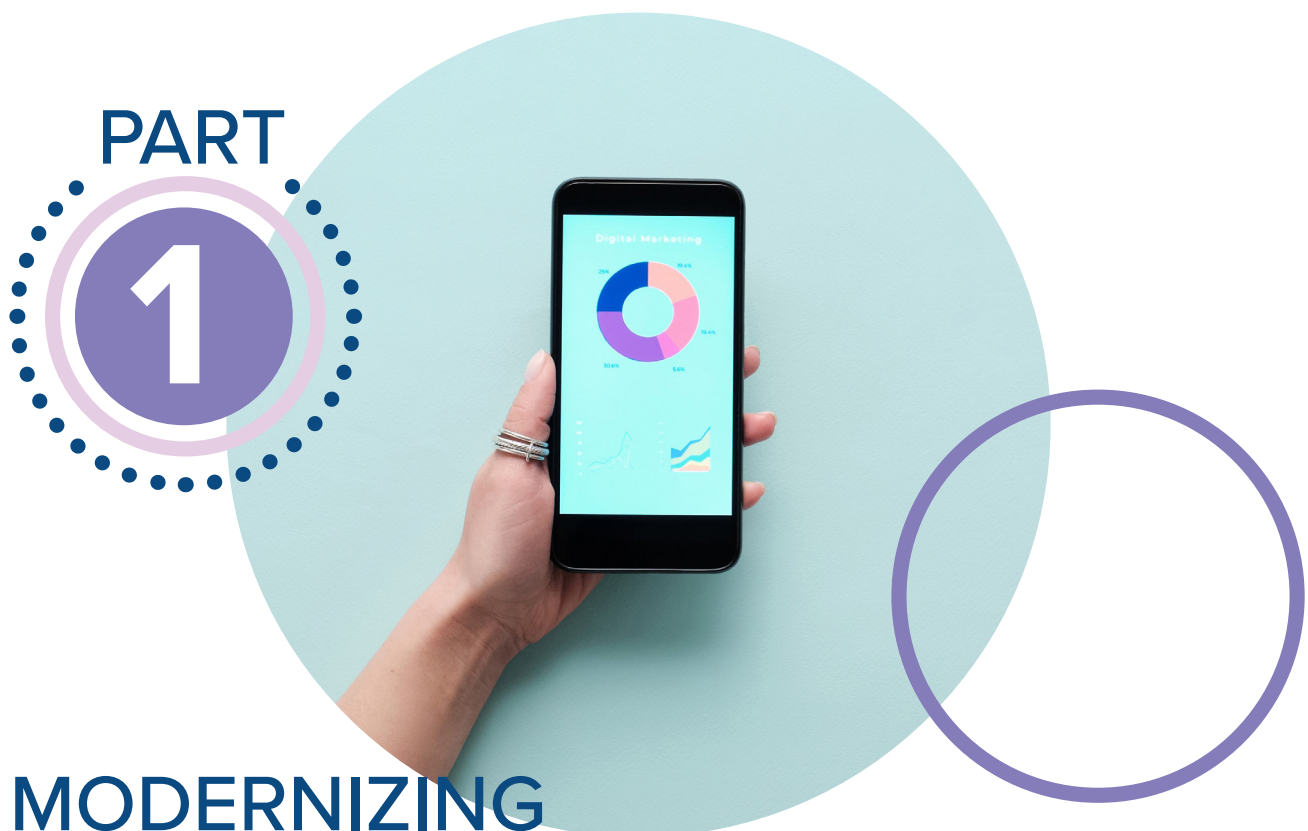
information/indicators) and to produce user-friendly reporting formats, countries are looking into either upgrading their previous IT systems or developing new ones.

In addition to the above-mentioned key budget modernization trends discussed in more detail in the meeting, the Bucharest OECD event also included a session in which participating country representatives presented general updates on their activities – a common feature for most countries is a renewed focus on expenditure control.

This stems from the need for governments to counter the global cost-of-living crisis through different measures to support households and the private sector (for example, for energy bills). Other common areas on which governments are working include regulation on contingency reserve budgeting for crisis support measures; sharpening program and performance budgeting, including green/environmentally responsive budgeting, as well as spending reviews; and capital budgeting. For Romania, the recommendations of the OECD's review of budgetary governance and the subsequent reflections by the Ministry of Public Finance of Romania were presented.

During the follow-up internal BCOP meeting, members held an extensive discussion and agreed on the common priority budgeting topics to be examined by the BCOP in the remaining of FY23 and onwards. The focus of BCOP's work will remain within the broad areas of BCOP's two working groups – program and performance budgeting and budget literacy and transparency. These two areas remain top priorities for all BCOP member countries. The specific sub-topics to be examined in BCOP's plenary meeting in Spring 2023 within these two areas were agreed upon. Additional topics that will be examined include modern digitalization/IT systems for budgeting and green/environmentally responsive budgeting.

² The full link for accessing the knowledge product is: <https://www.pempal.org/knowledge-product/improving-clarity-and-accessibility-budget-documentation>



MODERNIZING THE APPROACH TO BUDGETING FUNCTIONS AND SPENDING EFFECTIVENESS

A. OECD Spending Better Framework

Coming out of the period of budget pressures caused by the pandemic and amidst the budget pressures for countering the global cost-of-living crisis coupled with growing debt and fragilities (including climate change, aging population, and shrinking labor supply), there is a renewed focus on fiscal governance. The fiscal governance frameworks and quality of budget institutions have been the focus of the European Commission and the main OECD SBO network (comprising senior budget officials from the OECD member countries) tasked the

OECD Secretariat with identifying key principles for quality budget institutions. The draft OECD Spending Better Framework draws on OECD member countries' practices and OECD's extensive work in this area and it will serve as a companion toolkit to the OECD Recommendation on Budgetary Governance. The document is currently in a draft version.

The draft OECD Spending Better Framework describes the elements of a modern budgeting function, with a comprehensive and integrated analysis of the key elements and features of successful budget institutions, interlinking various budget reform initiatives. The Framework recognizes that budgets are about more than money;

they are a statement of a nation's priorities. It also highlights that the engagement and oversight of the budget process by parliaments and the public is fundamental to democratic governance and trust in government. Budget institutions are key to spending better, which in turn is about ensuring adequate expenditure prioritization, safeguarding fiscal sustainability, and effective citizens and parliamentary engagement and oversight.

The Spending Better Framework comprises ten principles. The principles are shown in **Exhibit 1**. For each of the principles, an example of best practices in OECD countries was presented in the Bucharest meeting.

Principle 1: High-level political commitment and clear objectives. All budget processes should be working towards the same fiscal objectives. The key is to have clearly stated objectives based on political agreement and will, regardless of whether these objectives are formally adopted or informally set (e.g.,

in a coalition agreement). Clear high-level objectives provide a benchmark to hold the government accountable and act as an anchor for subsequent principles.

In New Zealand, fiscal strategy is published with each budget, setting short- and long-term objectives with key variables.

Principle 2: Unbiased Economic assumptions. The highest risks for every budget are wrong economic assumptions. Unbiased economic assumptions are thus fundamental, and should be disclosed and include a sensitivity analysis. Independent fiscal institutions are crucial in this aspect to ensure objectivity.

The United Kingdom's Office for Budget Responsibility produces the official economic and fiscal forecasts for the budget and the springs statements, assesses the likelihood of achievement of the government's fiscal targets, and examines fiscal sustainability.

EXHIBIT 1. The Ten Principles in the Draft OECD Spending Better Framework



Source: Presentation by Mr. Jon Blondal, Head of Budgeting and Public Management Directorate for Public Governance in OECD, at the OECD SBO CESEE meeting held in Bucharest on October 27-28, 2022

Principle 3: Multi-year expenditure baselines.

Adequate 3-5 year baselines that include all budget expenditures serve to illuminate the multi-year implications of spending decisions, act as an early warning of emerging expenditure trends, and facilitate decisions to reallocate resources.

Australia's forward estimates include a 3+year baseline projection, are updated throughout the year to reflect all policy decision-making, and are prepared at the same level of detail as the annual budget.

Principle 4: Top-down expenditure ceilings.

They are a bedrock of the budget process and they operationalize high-level fiscal objectives. The ceilings should be set before the spending requests from the budget users/line ministries are received, at the start of the year. They should not be flexible for very limited spending areas, but within the ceilings, reallocation should be permitted, with permission from the Ministry of Finance/central budget authority.

In Finland, ceilings are established for a four-year period for 80% of expenditure, with variable spending, such as unemployment security and housing allowances being excluded. Budget users/line ministries need to reallocate spending to finance new policy priorities within the ceiling. Only essential price and cost level adjustments and required structural corrections are made to the ceilings annually.

Principle 5: Spending Reviews. The usefulness of the spending reviews is limited if they are not aligned with the budget process, regardless of the quality of the spending reviews. The importance of spending reviews is increasing given the momentous challenges for government finances and immense expenditure pressures - increased debt associated with the pandemic, aging populations, labor supply issues, green agenda, defense and geopolitical event-related expenses, and cost-of-living challenges. Performance, results, and evaluation should be key inputs for spending reviews and all expenditures should be reviewed.

Mandates for spending reviews are discussed at a budget strategy conference in Norway every year, along with the results of the previous spending reviews.

Principle 6: Informed spending decisions.

This principle is about using the information on performance and results budget impact analysis, and public policy evaluation to inform spending decisions and improve expenditure performance. Program and performance budgeting is essential in changing the culture and the way of thinking from inputs to results, even though they may not always be directly linked to all government expenditures. Performance indicators should be in the budget. Specific priority objective budgeting initiatives, such as gender and green budgeting, can be powerful tools for affecting change; however, they should be integrated into program and performance budgeting, rather than being separate parallel processes.

An example of green budgeting in France was discussed, where the budget provides an assessment of the green impact of all state budget expenditure and tax measures, including both positive and negative impacts on the environment. It is published as an annex to the budget. Their approach looks at six different environmental aspects: climate change adaptation, mitigation, biodiversity, the circular economy, water, and air quality.

Principle 7: Integrate all expenditures into budgeting, including, inter alia, loans, and guarantees.

Governments carry out significant activity through loans, guarantees, and other contingent liabilities, including tax expenditures and right-based expenditures that will or may have future budgetary implications.

For example, the United States Federal Credit Reform Act measures the cost of credit programs by assessing the upfront costs of the liability created through the extension of credit, taking into account the risk of default.

Principle 8: Line ministries as partners. The relationship between the Ministry of Finance/central budget authority and the finance function in the line ministries is crucial. The shift towards top-down budgeting and ceilings highlights shifts in the dynamics towards more engagement of the line ministries. This is exacerbated by the need for budgetary responses amidst unanticipated policy developments.

Greece underwent budget reforms, in which a strong General Directorate for Financial Services was created in all line ministries, with a clear and active flow of information with the Ministry of Finance.

Principle 9: Budget Transparency. The Ministry of Finance should promote understanding of the budget amongst the public and key stakeholders. All revenues, expenditures, assets, and liabilities should be reported and presented in an accessible and digestible format.

The Federal Government of Canada has made government financial data accessible to the public through its Open Data Portal.

Principle 10: Ensure effective oversight. Both parliament and the public should provide oversight. Parliament should debate budgetary choices, at all stages of the budget cycle and should have access to all the budget information. Citizens should be actively engaged in budgetary decision processes. Independent fiscal institutions can play a unique role in enhancing parliamentary oversight and enriching debate.

Austrian Parliamentary Budget Office provides independent budgetary expertise to parliament. Also, in many OECD countries, a good practice is that the parliamentary budget committee examines the aggregate fiscal stance and strategy, but that detailed scrutiny of the budget at a sectoral level is the responsibility of the respective sectoral parliamentary committee (e.g., on defense). This ensures the top-down system in the parliamentary, as is employed at the executive level too (i.e., top-down budgeting).

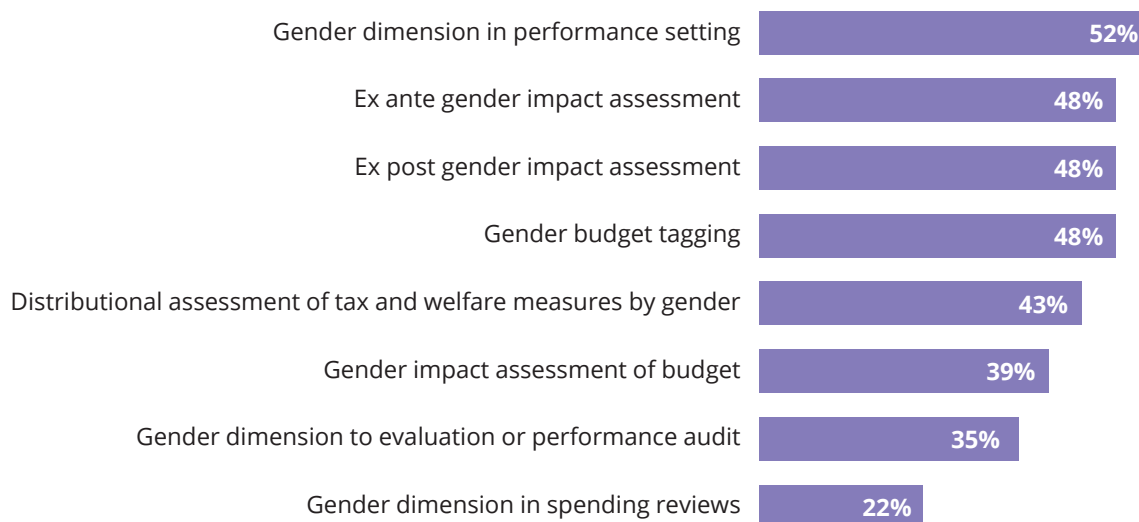
B. Gender Budgeting

The evidence on gender gaps and the benefits of gender budgeting shows that to advance gender equality, especially in the current context of limited fiscal space, gender perspectives need to be reflected in public spending decisions. The OECD Secretariat drafted a paper on the macroeconomic and fiscal benefits of gender equality and how gender budgeting can support their achievement and presented the key findings at the OECD SBO CESEE Bucharest meeting, along with the trends on gender budgeting in the OECD countries, and the draft OECD Best Practices for Gender Budgeting.

OECD's findings clearly show gender gaps in employment, entrepreneurship, education, and public life opportunities. While the gap in labor force participation of men and women in the OECD countries has shrunk since the 1970s, the female labor force participation rate remains significantly lower than the male labor force participation rate (59% versus 72%). Hard data is now available from Nordic countries showing that closing gender gaps can bring social, macroeconomic, and fiscal benefits. For example, increasing female employment brings additional tax revenue and social security contributions. It can also reduce demand for public finance transfers and welfare benefits. Together, these factors help improve the outlook for fiscal sustainability. This is especially important under the circumstances of the aging population and declining fertility and the associated budget pressures.

It is particularly important to note that gender budgeting (and other priority objective budgeting objectives, such as green/climate change budgeting, SDG budgeting, well-being budgeting, etc.) should be integrated with the regular budgeting process and program and performance budgeting, rather than being a separate parallel process. This is reflected in the OECD definition of gender budgeting as the use of analytical tools, as a routine part of the budgeting process, so that the budget can be more effective in helping to meet gender equality goals. In the discussion during the Bucharest meeting, it was stressed that adequate gender assessments at the sectoral or program level should be conducted to be used to define well-targeted measures and budget performance indicators.

Gender budgeting is now a norm in OECD countries, with around two-thirds of the countries using it. The number of OECD countries with gender budgeting almost doubled since 2016, from 12 to 23, with Australia, Colombia, France, Lithuania, New Zealand, and Turkey having introduced gender budgeting since 2018. There is no one dominant tool that countries use for gender budgeting, as shown in **Exhibit 2**. The tools used in the later stages of the budget cycle are still used less commonly.

EXHIBIT 2. Tools Used by OECD Countries Practicing Gender Budgeting

Source: Presentation by Mr. Brian Fin, Senior Policy Analyst in the Public Management and Budgeting Division of the Public Governance Directorate in OECD, at the OECD SBO CESEE meeting held in Bucharest on October 27-28, 2022

The draft paper of OECD Best Practices for Gender Budgeting was also presented in the meeting. They aim to set out ways in which gender budgeting can be designed and implemented to ensure sustainability

and impact and are based on the work of the OECD Network on Gender Budgeting and previous OECD publications. They comprise 7 best practices, as shown in **Exhibit 3**.

EXHIBIT 3. The 7 Practices in the Draft OECD Paper on Best Gender Budgeting Practices

Source: Presentation by Mr. Brian Finn, Senior Policy Analyst in the Public Management and Budgeting Division of the Public Governance Directorate in OECD, at the OECD SBO CESEE meeting held in Bucharest on October 27-28, 2022



MODERNIZING BUDGET COMMUNICATIONS AND BUDGETING AUTOMATIZATION

A. Budget Clarity and Understandability

Among their priority budgeting topics, BCOP member countries in 2021 chose the ways for Ministries of Finance to improve transparency and budget literacy/understanding within the budget planning process. BCOP held a virtual workshop in late 2021³ in which a view from the journalistic community on the importance of clarity

of budget documentation and communications was discussed. In that workshop, Mr. Greg Rosenberg, Managing Director of Clarity Global, a global strategic communications adviser specializing in public financial communications, presented the ways to increase budget understanding and transparency. Based on that workshop, BCOP decided on the content of the knowledge paper on *Improving Clarity and Accessibility of Budget Documentation*,⁴ which was subsequently developed and recently published on PEMPAL website.

³ The full link for accessing the event materials is: <https://www.pempal.org/events/ways-ministries-finance-improve-transparency-and-budget-literacyunderstanding-within-budget>

⁴ As noted previously, the full link for accessing the knowledge product is: <https://www.pempal.org/knowledge-product/improving-clarity-and-accessibility-budget-documentation>

The objective of this BCOP knowledge product is to define good practices and a broad road map for Ministries of Finance to improve budget documentation content to achieve full and meaningful budget accessibility and understandability. The paper is structured around the five defined key budgetary pillars that should contain essential features for achieving full and

meaningful accessibility and understandability. For each of these five pillars, the knowledge product then discusses principles, good practices (inc. examples from South Africa, the UK, Ukraine, and Uzbekistan), and proposed steps for improvement. The pillars and 12 steps in the broad roadmap developed in this BCOP knowledge product are shown in **Exhibit 4**.

EXHIBIT 4. Broad Roadmap to Improve Budget Clarity and Accessibility Defined in BCOP's Knowledge Product

Practical steps to advance

1. BUDGET CLARITY

STEP 1 Put the budget documentation into clear and understandable language, explain it in clear narrative form, and provide a user-friendly logical structure and context.

STEP 2 Prepare a concise executive summary of the main budget documents.

Practical steps to advance

2. AVAILABILITY OF BUDGET INFORMATION

STEP 3 Provide full online access to comprehensive and timely budget information free of charge, including in open data formats.

STEP 4 Expand access to key budget documents for all users.

STEP 5 Visualize budget information by using convenient formats for various users.

Practical steps to advance

3. BUDGET VISIBILITY AND COMMUNICATIONS

STEP 6 Use modern mass communications channels to transmit budget information to journalists and bloggers.

STEP 7 Supply citizens, journalists and other users with the budget information they need.

STEP 8 Make efficient use of MoFs staff to disseminate budget information to the public.

Practical steps to advance

4. BUDGET LITERACY

STEP 9 Raise the level of budget literacy of citizens, non-state actors, journalists, and bloggers, who want to participate in the budget process.

STEP 10 Introduce training programs to increase awareness of the budget process and create a culture of openness through the education system.

Practical steps to advance

5. PUBLIC ENGAGEMENT

STEP 11 Develop effective opportunities for public participation in the budget process.

STEP 12 Design interactive open budget portals for public engagement in the budget process, and to provide feedback to citizens and other users of budget information.

BCOP's presentation at the OECD meeting in Bucharest provided additional details on the first three pillars, essential for communicating with the public: budget clarity, availability of budget information, and budget visibility and communications. It was stressed that budget transparency is often misunderstood as only referring to the availability of budget information, while true transparency in its full meaning is related to understandability. In that sense, budget clarity is about budget documentation being easy to interpret and understand by:

- i. providing a clear narrative needed for a full understanding of budget policy and intended results,
- ii. providing concise but adequate context and explanations to ensure that budget documentation is easy to understand and follow logically,
- iii. ensuring that all tables and charts are accompanied by adequate narrative explanations, and
- iv. balancing between the volume of information and clarity.

In practice, budget documentation is in most cases driven by compliance in its budget function, published in thousands of pages of data without adequate narrative, and lacking a policy focus. A clear narrative should be provided to give the context information needed for a full understanding of budget policy and intended results. Providing a huge amount of detailed data may be comprehensive, but it does not support public policy, decision-making, and the democratic process, because very few can get a full understanding based on what is provided. Budget documentation should be clear, credible, comparable, analytical, and relevant. Additional points made by Mr. Rosenberg were reiterated in the Bucharest meeting:

- ⦿ printing or posting ≠ transparency
- ⦿ comprehensiveness ≠ clarity
- ⦿ compliance ≠ equality
- ⦿ data ≠ direction

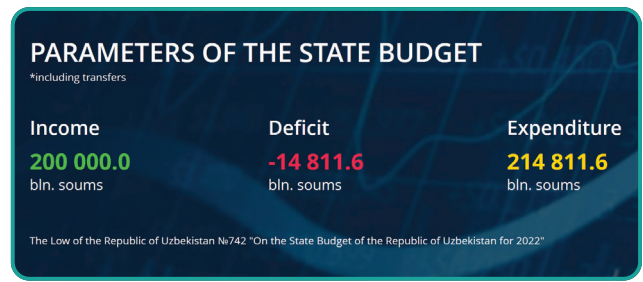
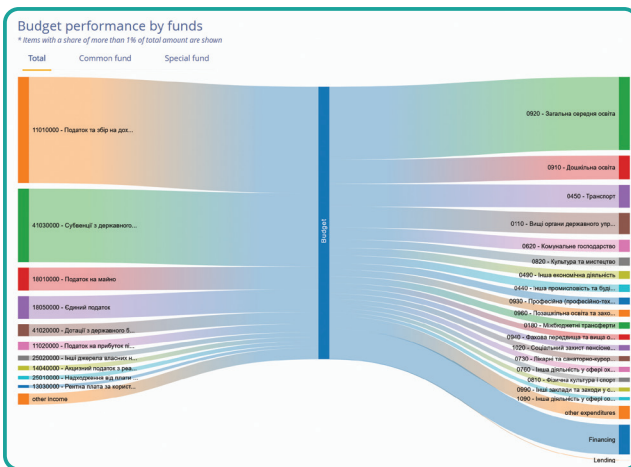
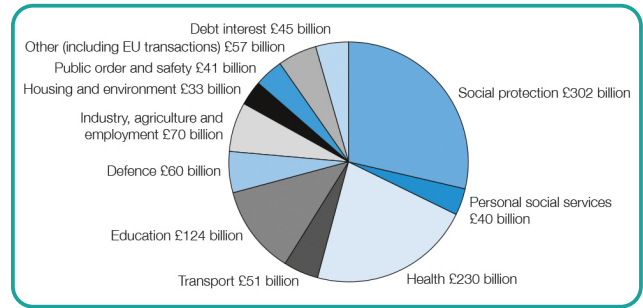
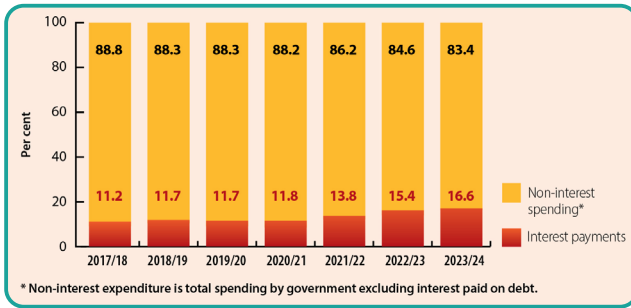
The ten principles of clear budget communications are:

1. Think about your reader.
2. Write clearly and to the point.
3. Structure documents logically.
4. Ensure main policy documents are concise.
5. Omit unnecessary detail.
6. Prefer concreteness to abstraction.
7. Reduce density.
8. Use visual elements effectively.
9. Provide sufficient analysis.
10. Tell a story.

Among steps to advance the availability of budget information, the importance of visualizing budget information by using user-friendly formats for different users was highlighted. Data visualization, analysis, and open data are specialist tools so engaging adequate experts is often necessary. Some of the available tools that can be explored for budget portals include widgets, infographics, dashboards, scatter plots, TreeMaps, and other interactive maps and graphs. **Exhibit 5** shows some examples.

In the discussion, the participants agreed that budget clarity improvement will be an important objective for many governments in the upcoming period and that this topic should continue to be examined, given its importance and complexities. It was also noted that this fits nicely into the OECD Spending Better Framework principles, which highlight the importance of clear fiscal objectives, top-down budgeting, and the need to promote understanding of the budget amongst the public and key stakeholders.

EXHIBIT 5. Examples of Budget Data Visualization



Source: BCOP knowledge product on Improving Clarity and Accessibility of Budget Documentation, presented by the BCOP Resource Team at the OECD SBO CESEE meeting held in Bucharest on October 27-28, 2022

B. IT systems for Budgeting

Modernization of the IT systems for automatization of budget planning is in many countries. This was the most commonly mentioned area in the country updates presented in the Bucharest meetings. Especially given the fast progress in IT and the ever-increasing demands on budget documentation to include not only financial but also non-financial information (including performance information/indicators) and to also produce user-friendly reporting formats, countries are looking into either upgrading their previous IT systems or developing new IT systems.

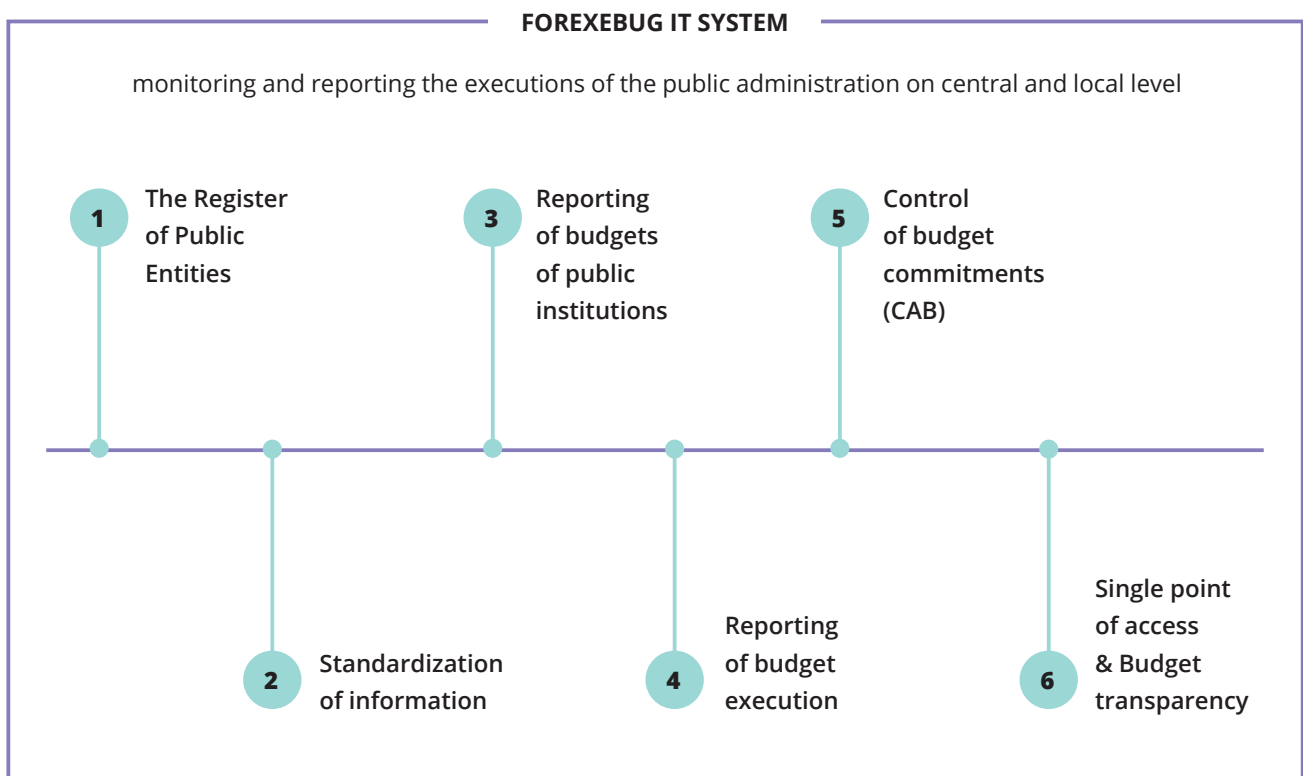
Further atomization of the budgeting process is also essential to reduce the operating burden on the Ministries of Finance’s staff to refocus on more strategic tasks. These tasks include structural improvements, modernization, and budget communications as discussed above. There is an increased awareness that off-the-shelf options need to be highly customized to meet the specific needs which differ in every country and that the alternative approach of in-house IT system development could be preferable, however, it necessitates strong in-house capacities, which are not always available, especially in PEMPAL countries.

Most of the 19 participating countries mentioned their current or planned efforts to improve budgeting automatization within their short country updates in the Bucharest meetings.

This includes PEMPAL countries Armenia, North Macedonia, Bulgaria, Uzbekistan, Romania, Moldova, Bosnia and Herzegovina, Croatia, and Montenegro. Romania, in particular, has been developing an IT management system for budget planning, execution, and reporting at all government levels. That system's core features are shown in **Exhibit 6**.

In the follow-up internal BCOP meeting held in Bucharest, BCOP members selected the topic of modern digitalization/IT systems for budgeting as one of the priority topics to be examined by BCOP in the next years. Representatives from the Ministry of Public Finance of Romania offered to share their experiences and their new IT system demonstration in more detail at a future BCOP event. Representatives from Moldova and Uzbekistan also agreed to share their experiences.

EXHIBIT 6. Reform of the Budgeting IT System in Romania



Source: Presentation by Ms. Ioana Burla, General Director of the Budget Department in the Ministry of Finance of Romania, at the OECD SBO CESEE meeting held in Bucharest on October 27-28, 2022



COUNTRY UPDATES ON RECENT BUDGETARY DEVELOPMENTS AND REFORMS

The Bucharest OECD event included a session in which participating country representatives presented general updates on their activities, while a separate session on budgetary governance in Romania was held. It is evident that most countries are or will be prioritizing expenditure control, as a result of the global cost-of-living crisis. Other common areas on which governments are working include regulation on contingency reserve budgeting for crisis support measures; sharpening program and performance budgeting, including green/ environmentally responsive budgeting, as well as spending reviews; and capital budgeting. Within the country updates, participants also gave an overview of the measures implemented to alleviate the impact of Covid. The following section summarizes the key current and planned reforms presented within country updates.

The findings of the OECD's review of budgetary governance were presented for the hosting country of Romania; highlighting that there is a good basis for the implementation of budgetary reforms and budgeting capacity building in Romania. The review was conducted by the OECD and assessed against ten principles of the OECD Council Recommendation on Budgetary Governance. The review's conclusion, presented by Mr. Brian Finn, Senior Policy Analyst from the OECD, is that the government's budgetary reforms have resulted in a measurable step toward the OECD Recommendation of the Council on Budgetary Governance (for example, by introducing medium-term planning and performance metrics); however, improvements from implementing the reforms have lagged behind the adoption of new frameworks. Some of the areas highlighted for further improvement included

better reconciliation of top-down and bottom-up budgeting, linking mid-term expenditure framework and institutional strategic plans, improving budget openness by improving budget information and reducing excessive detail; reinforcing the roles of parliaments and Fiscal Council; and better use of performance budgeting and spending reviews.

The Ministry of Public Finance of Romania presented the reflections on the OECD's review and the planned measures for addressing the OECD's recommendations. Ms. Ioana Burla, General Director of the Budget Department in the Ministry of Public Finance of Romania presented the following current and planned areas on which the Ministry is focusing: quality standards for macroeconomic forecasts used in budget planning, budget transparency, the creation of an IT system for budget planning, execution, and reposting at all government levels (as shown above in Exhibit 5), improving the linkage between budget planning and strategic planning and upgrading the performance budgeting, and introducing regular and integrated spending reviews.

In their brief country update, the Ministry of Finance of Armenia noted their work on budget transparency, IT improvements, gender budgeting, and assessing the impact of the Covid measure. The country recently joined the Open Budget Survey assessment and the first results were moderately satisfactory given the early stages of the reform. It was noted that the knowledge gained through PEMPAL BCOP in the area of budget openness has been helpful for the Ministry of Finance of Armenia in this reform. Software for budget planning is being developed. Initial parts of gender budgeting have been introduced and an expenditure review on the measures implemented to alleviate the pandemic effects is underway in order to provide lessons learned on contingency planning for the future.

The Ministry of Finance of Azerbaijan gave an overview of their current reforms in four areas: adjusting fiscal rules, piloting mid-term budgeting and program budgeting; linking PFM reforms with strategic planning, and improving fiscal transparency and reporting. The new fiscal rule includes limits on two budgetary aggregates: the ratio of the nonoil primary deficit of the consolidated

budget to non-oil GDP; and the public debt to GDP ratio. Implementation of mid-term budgeting and program and performance budgeting started in a pilot mode in three sectors: education, agriculture, and environmental protection. Efforts have been invested in aligning PFM reforms with the 2030 National Priorities, the 2022-2026 Socio-economic Development Strategy of the Republic of Azerbaijan, and SDGs. Azerbaijan is one of the most improving countries in the Open Budget Survey, increasing its ranking from 81st to 44th. There are plans for further improvement in this area.

The Ministry of Finance and Treasury of Bosnia and Herzegovina discussed the new PFM Strategy, which is now also set as one of the key pillars for the overall public administration reform. The comprehensive PFM Strategy for all government levels has been adopted for the first time, with ambitious objectives. Goals include further improvements to budget transparency, improvement in planning and absorbing EU funding and aligning the PFM practices with the EU requirements, as well as a full move to program and performance budgeting. Work on improving the design and quality of the program and performance budgeting is underway, including the plans for a new IT system for budget planning.

The Ministry of Finance of Bulgaria presented the work on several reform areas, including green budgeting, public investments, linkages between strategic planning and program budgeting, spending reviews, and self-assessment of adherence to OECD Principles of Budgetary Governance. Bulgaria participated in the European Commission's (EC) survey on the level of application of green budgeting. The survey results indicated that Bulgaria is among the countries in which green budgeting is at the basic level, thus a technical assistance project is currently being implemented in this area, with experts from France working with the pilot ministry in the energy sector. There is also work being conducted with the EC and the OECD on increasing the effectiveness of public investment, which was the area previously indicated as weak in the OECD Budget Review of Bulgaria. Work on strengthening the program and performance budgeting continues. The Supreme Audit Institution reviewed program and performance budgeting and provided recommendations for further improvement,

some of which aligned with the recommendations provided in the OECD's Budget Review. The priority in this area is to improve the link between strategic planning and program budgeting and to improve the performance indicators and reporting on them. Other areas of work include improving spending reviews and coordination with the line ministries for better spending reviews and further work on budget transparency. The Ministry of Finance is also currently finalizing the self-assessment of alignment with the OECD budgeting principles.

The Ministry of Finance of Croatia noted the improvements prescribed by the recently adopted new Budget Law. This includes improvements in program and performance budgeting (which has been enforced in Croatia since 2003), alignment of the budget calendar with the EC calendar, rising the lines in the adopted budget to a more aggregate level, extending the mid-term planning to 5 year period, procedures for contingency planning and execution in periods of crisis, clearer definition of jurisdictions and authorities of central versus subcentral government levels, and clearer procedures for sub-central level debt.

The Ministry of Finance of Hungary presented recent public expenditure developments in Hungary, highlighting the efforts for decreasing the deficit, while also planning the measures to alleviate utility price increases. The Covid crisis led to the deterioration of the fiscal balance, with a recorded fiscal deficit of 7.5% of GDP in 2020, 7.1% in 2021, and a projected 6.1% in 2022. The current account balance also deteriorated due to the energy and gas crisis. Measures on both the revenue side (such as special taxes on windfall profits and duties and taxes on company cars and public health taxes) and expenditure side (such as efficiency measures for line ministries and budget users, rescheduling of public investment projects) have been announced in mid-2022 to improve the fiscal position and enhance budgetary resilience. Utility price reduction schemes for households and energy saving and security measures have also been introduced.

The Ministry of Finance of the Republic of Kazakhstan is implementing the improvements as per the new budget code that will be in force from 2024. This includes improving and simplifying budget practices and expanding digital use. Other priorities included increasing budget transparency and improving financial statements to include reporting on an accrual basis, as well as planning for long-term risks, as recommended by the IMF.

The Ministry of Finance of Kosovo highlighted the efforts in the areas of capital investments, gender budgeting, and program and performance budgeting. New instructions for planning and reporting capital investment projects have been adopted. This, inter alia, addresses the recent issues with capital investment being negatively affected by inflation, resulting in lower-than-planned execution. The work on gender budgeting has started, as well as the early stages of discussions on the introduction of program and performance budgeting.

The Ministry of Finance of Latvia gave an overview of significant crisis support packages implemented since 2020, and the results of the recently completed spending review. The crisis package amounted to 4.4% of GDP in 2020, 7% in 2021, 6.1% in 2022, and planned 2.3% in 2023. The 2022 and 2023 packages include compensation for energy prices for companies and households and through social benefits). The recommendations from the spending review conducted in 2022 will be implemented in the 2023 budget, amounting to savings of 168 million EUR redirected to other priorities. Measures include, inter alia, optimizing workspace in ministries, and moving to part remote work.

The Ministry of Finance of Montenegro presented several simultaneous recent and ongoing reforms that affect budget planning. This includes a recently introduced program and performance budgeting, for which further improvements are planned, the introduction of e-procurement, a centralized wage bill payment system, an increase in minimum salary, and an increase in salaries in the health sector. Looking forward, the increased importance of digitalization will come into play. Formation of an Independent fiscal institution is also planned, as well as extending program and performance budgeting to the local government level.

The Ministry of Finance of Poland discussed mechanisms for crisis support measures and the ongoing activities on improving budget classifications and on improving pending performance. During Covid, the budget code was amended to establish an extra-budgetary fund that was used to channel support measures. The same fund is also used for energy crisis support measures. The Ministry is working with the IMF on designing a multidimensional standardized chart of accounts, to modernize budget classifications. Work is also ongoing with the EOCED on improving spending reviews and performance audits.

The Ministry of Finance of Moldova presented the key reforms planned within the PFM Strategy that is currently being developed. The Strategy will take into account the results of the 2021 PEFA assessment. Special attention will be devoted to public investment management, including regulatory improvement and public procurement system improvement. Other areas will include strengthening spending reviews and improving the cooperation with the line ministries in the process of developing and implementing spending reviews. Emergency budgeting mechanisms will also be in focus.

The Ministry of Finance of North Macedonia presented the Government's current three priorities. They include support measures for vulnerable groups of the population, fiscal sustainability, and an improved overall PFM system. The budgeting reforms include the introduction of five-year mid-term budgeting, program and performance budgeting, fiscal rules, and independent fiscal institution. To support the implementation of these reforms, the development of a new IT system will be essential. The adoption of a budget in the new format is expected in 2025.

The Ministry of Finance of the Slovak Republic presented the current focus of work of the Ministry's Value for Money Unit. The Unit conducts spending reviews, which include reviews of both efficiency and effectiveness. The reviews are conducted in close cooperation with the line ministries and they define reprioritization needs. So far, 60% of all public expenditure has been reviewed and savings of around 10% have been proposed. Increased focus is on monitoring the implementation of spending review recommendations and their integration into the budget. The Unit is currently reviewing state subsidies and public investment management.

The Strategy and Budget Office of the Presidency of the Republic of Türkiye (which performs the central budget authority role for the Government) gave an overview of the reforms related to spending effectiveness. Program and performance budgeting has been implemented since 2021. A monitoring and evaluation system is being established, as well as the expansion of program and performance budgeting to the local government level. Gender budgeting has also been introduced.

The Ministry of Finance of the Republic of Uzbekistan presented numerous reform areas. The reforms were designed taking into account the recommendations of the PEFA conducted in 2018 and the IMF's Fiscal Transparency Evaluation conducted in 2019. They include, inter alia, improvements to public finance statistics, fiscal rules, and budgeting instructions. Moreover, the legislative basis for the introduction of the program and performance budgeting is currently being developed. In the first stage, targeted performance indicators were approved for 40 ministries and agencies. Activities related to budgeting for SDGs and green budgeting have also been implemented. Based on an assessment conducted by the UNDP, a green budgeting methodology is being developed.

