



## Twinning project “Strengthening the medium term budgeting for effective public financial management”

### Improving the Fiscal Strategy



*Workshop - Improving the Fiscal Strategy*

Expert mission was performed in the period 14 – 18 March 2016 by Mr. Sami Yläoutinen from Finland. The discussions and presentations during the mission focused, in particular, on:

- Prerequisites and elements for effective Medium Term Budget Framework (MTBF): what MTBF prerequisites and elements the authorities should address.
- Fiscal risks: how fiscal risks should be discussed and presented in e.g. Fiscal Strategy document;
- Content for Fiscal Strategy and medium term budgeting timetable: what should be the content for Fiscal Strategy document, so that it would best support the MTBF and what changes to the budget calendar should be made.



*Workshop by Mr. Sami Yläoutinen*

14 representatives from several departments of the Ministry of Finance participated at a workshop focusing on building medium term budget framework (MTBF) held on 16 March 2016. During the workshop expert presented why MTBF is needed and how to build it. Also Mr. Yläoutinen provided practical examples from other countries and some EU requirements for numerical fiscal rules, annual timetables and national medium term fiscal plan.

Another workshop took place on 17 March 2016 with focus on giving ideas how to improve the Fiscal Strategy contents. 15 representatives from various departments that are involved in creating the Fiscal Strategy participated in this practical workshop. Template for Fiscal Strategy (document with examples of chapters and tables to be included) was presented. Idea is to improve the accessibility and transparency of the

medium term data. Recommendations on how the budget calendar should be revised to better support the MTBF process were given.

### First Steering Committee meeting held !

The 1<sup>st</sup> Steering Committee meeting was held on 14 March 2016. During the meeting, members had the possibility to discuss the Quarterly report and the activities that were implemented in the period 01.12.2015 – 29.02.2016.

Good start of the project, efficient cooperation with all stakeholders, constructive discussions, and commitment from were highlighted. In addition the overall plan for the next 6 months was discussed. It was pointed that the following period will be challenging time due to Easter and summer holidays, elections and busy budget preparation season.



*First Steering Committee meeting, 14 March 2016*



## **Focus on program classification...**

Activity 1.1 “Identifying the strategic programs, legal documents, and defining programs” continued with implementation and focus was put on drafting program classification in the pilot areas.



*Meeting with State Audit Office*

In the period 11-14 April 2016, Ms. Irena Rostan and Ms. Katja Lautar from Slovenia worked on program classification for the pilot area of environment and spatial planning and started agriculture and forestry as new pilot area. During the mission experts worked closely with budget analysts of Budget and Funds Department. Reflection meeting was held with Ministry of Environment explaining the ideas behind classification proposal made. Based on input from the Ministry, program classification and indicators were further developed.

In the area of agriculture first draft of the program structure with 4 programs and 10 sub-programs was defined and main activities were grouped into policy (highest level), programs (middle level) and sub/programs (lowest level). Experts checked all institutions, budget users in field of agriculture (their strategic plans, budget programmes) as well as indicators of statistical data. A reflection meeting with Ministry of Agriculture was held, where the first created drafts were presented.

## **Connecting strategic planning and program classification !**

In the period 18 - 21 April 2016, expert missions were performed by Ms. Monika Geppl from Austria together with Mr. Mitja Gaspari and Mr. Franci Kluzer from Slovenia.

The overall aim of the missions was to review and analyze relevant existing legal documentation, budget planning documentation and strategic documentation in order to support the defining of new performance oriented budget program structure and planning its better connection to strategic planning, public finance reform, medium term budget planning and development planning. The missions worked on how to manage harmonization of definitions and frameworks and existing documents related to strategic planning and program budget classification.

During the missions, meetings with Government Strategic Planning Unit, State Audit Office and Internal Financial Control Department within Ministry of Finance were organized. In this area the experts as well recommended, how connection of the new program structure to strategic planning can be done so that the link between them is stronger. During the mission it was concluded that the work method to define program classification worked well in the pilot sectors started (environment, transport, agriculture).

Meeting with the Head of Budget and Funds Department and other representatives from the department was organized with the aim to exchange best practice and experiences between Macedonia and Slovenia.



## Finalizing transport sector...

In the period 16 – 19 May 2016 Mr. Gregor Ficko from Slovenia worked on finalizing program budget draft for the policy area of transport together with budget analyst from Budget and Funds Department.

The main aim of the expert mission was to check the selected objectives and indicators with budget user Ministry of Transport and to define the missing objectives and indicators at sub-program level. During the mission the selected activities under sub-programs were reviewed.



*Finalizing transport sector*

## Achieving Benchmark 4: Report on analysis of the existing strategic and legal documents within the key areas of budget users with recommendations for programme

Final outcome of the Activity 1.1 is the Report on analysis of the existing strategic and legal documents within the key areas of budget users with recommendations for programme classification. The report analyses the current situation in country as comes to program budgeting, performance oriented budgeting and strategic planning. It also explains in short the theoretical background of program budgeting. In the second part of the report it is also explained, what kind of approach is suggested for the further work of defining the program budget structure for the beneficiary – so the report acts as very practical manual in future work of the project.

As a starting point is a classification of some 10 policy areas with three levels (policy, program, subprogram) incl. objective and indicators. Policy area classification does not follow the organizational classification - there can be several budget users supporting one policy area or program. On the other hand, one budget user can contribute to more than one policy area or program. However, it is recommended that all subprograms, and parts of programs need to have clear ownership and clear budget per budget user. The new budget program classification with goals and indicators should be stable over a certain period of time in order to make comparison, but it should also allow for some flexibility in case there is a shift in priorities.

More about the report can be found on the following link:

<http://finance.gov.mk/files/u6/Summary%20of%20the%20Report%201.1.pdf>

## Prepare and define a coherent programme budgeting structure for the state budget

The activity 1.2 started with its implementation. First mission with pragmatic approach to draft program classification was performed by Ms. Katja Lautar, Ms. Irena Rostan and Mr. Franci Kluzer from Slovenia in the period 25 – 27 May 2016. The mission focus was on preparation and implementation of a training for the budget analysts of the Budget and Funds Department, finalization of the pilot sectors in the area of agriculture and environment, and to start the new sectors of labour and social policy and internal and external safety and justice (just the first meetings ).

Training for budget analysts was organized on 26 May 2016 and 15 participants took part in it. The training highlighted the approach and the working methods chosen for the planning of new program budget structure and practical experience from the pilot areas of agriculture, environment and transport. Explanation of the three level approach and connection to strategic planning was presented. This training objective was to help the process of preparing and defining a coherent program budgeting structure for the state budget and to allow participants to get familiar with the work done in the pilot sectors, to share practical examples of problems encountered when defining program, subprograms, objectives, indicators. The training was guided by the Slovenian experts, but implemented by the budget analysis that worked with pilot sectors.



*Training for budget analysts*





## Building up medium term budget planning

In the period 18 – 21 April 2016, Mr. Benedict Gamillscheg from Austria implemented a mission that focused on continuing the practical work with building up medium term budget planning and Medium Term Expenditure Framework (MTEF) step by step to meet the EU requirements. Also independent monitoring of fiscal rules was on the agenda.

The direction of the mission work was guided by the answers received from Ministry of Finance to previous mission “homework questions”. During this mission special focus was put on following questions concerning MTEF: what should be the timeframe; how binding or indicative can the approach be; what could be recommended for classification presented in Fiscal Strategy incl. connection to program budgeting. Also, bottom up practices to create reliable “no-policy change” scenario were discussed.



Mr. Benedict Gamillscheg

Main recommendations from the mission were delivered to BC.

Ms. Annika Klimenko and Ms. Taina Eckstein from Finland implemented a mission in the period 09 – 14 May 2016. The work of also this mission was guided by the “homework” answers received from the Ministry of Finance. The mission scope focused on the coverage of MTEF by sectors and by expenditure items such as cyclical expenditure and interest expenditure; flexibility items; and how to deal with inflation in MTEF. Meetings with Budget and Funds Department were organized. Main recommendations and outcomes were delivered to Ministry of Finance.

Experts also worked on writing work and supporting the final outcome of this Activity B 13: Assessment report on the current budget process and practices and the capacity of the BFD and other designated budget institutions on central level for medium term budget planning.

## Continuing the work in Component 2 activities



Working meeting held 10.05.2016

Mr. Lauri Taro from Finland performed a mission under Activity 2.3. “Assessment and recommendations to develop the estimates for medium term revenues, and to improve the process for estimating the medium term budget balance and dept”.

Scope of the mission was the assessment of the current situation in medium term revenue estimations (e.g. process and cooperation between departments and other institutions). Workshop was organized where the Finnish experience with organization of a revenue working group was shared. Expert also developed templates for revenue estimation. Excel-templates were produced for listing new tax criteria changes with budgetary effects on different governmental levels (sub sheets for annual basis and cash basis estimates); and for Revenue Working Group’s table where all tax and other revenue estimations are shown.

During the mission also follow up of the first activity 2.3 mission homework and assessment of non-tax revenue estimations was done. The manual that was given as homework from the previous mission in February is almost finished and will soon be provided for project team for translation. In the following missions (when it’s translated in English) experts can deliver more recommendations for it.



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