Co-operation with Non-Members on Budgeting Issues

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This paper highlights the strategic issues concerning the Working Party’s future cooperation with non-Members on budgeting issues. It also provides an overview of recent activities.

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Co-operation with non-members is necessary in order to ensure the continuing relevance of the Organisation’s work to its Members, contribute to global economic development and respond to the desire for interaction expressed by an increasing number of non-Member economies.

Donald J. Johnston
OECD Secretary-General

The budget is at the core of the good governance agenda. It is the major policy document of governments, where policy objectives are reconciled and implemented in concrete terms, thus giving effect to countries’ economic and social priorities. At the end of the day, good budgeting is the sine qua non of good governance in practice.

Budget offices occupy a very special place in governments. Their role has been broadening in recent years. They work very closely with ministers and are ‘hard-wired’ into all government ministries and agencies. As such, they are integrally related to the decision-making process in governments, playing a pivotal role in fostering policy coherence, transparency and accountability.

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CO-OPERATION WITH NON-MEMBERS ON BUDGETING ISSUES

Introduction

1. The purpose of this paper is two-fold: an overview of the PUMA’s co-operation on the governance of public expenditure with non-members and to discuss strategies for the future development of the Working Party’s involvement in this area.

2. SBO-related co-operation with non-member countries has expanded rapidly in recent years and there is increasing demand for this work. This is a function of several factors.

3. First, the role of good governance in fostering economic and social development is increasingly recognised and the importance that sound budgeting practice has in fostering good governance is now generally accepted, both in the development community and in the countries themselves. This has created strong demand for the sharing of Member countries’ policy experiences.

4. Second, the willingness of individual members of the Working Party to participate in dialogue with their colleagues in non-member countries is a unique feature of the OECD’s co-operation programs in this field. No other body in the world that has our capacity to bring together very senior practitioners from Member countries in this field. This is OECD’s comparative advantage.

5. Third, the OECD’s work in this area enjoys a very strong reputation for its quality. The established format of having senior officials from several different Member countries offering comparative perspectives on the same theme is especially valuable, and diminishes any notions that the OECD is promoting a specific model of budgeting reform. The increased demand for the OECD’s services is generally the result of “word-of-mouth” marketing.

6. Fourth, the excellent relationships that have been fostered with other organisations, especially the World Bank, allow the organisations to work hand-in-hand and to gain leverage from each other’s activities.

7. Fifth, the activities with non-members countries are financed separately from the Working Party’s core work. The current programme benefits from generous financial support from Japan and from the Netherlands, and increasingly from funding from the OECD’s Committee for Co-operation with Non Members (CCNM). There are often synergies in working with non-members that benefit the core work of the Working Party.

8. All of these factors have contributed to the expansion of the Working Party’s co-operation with non-members in recent years. It can be fairly said that there is endless demand for these services, so it is necessary to be clear on the overall direction of this co-operation when individual decisions are being made. The remainder of this paper discussed current activities and future strategic directions.

9. The Working Party’s activities in this area take place under the auspices of the OECD’s CCNM, which ensures that the OECD’s overall relations with non-members remain focussed, relevant, forward-looking and mutually beneficial while monitoring and analysing developments in non-member economies.
Forms of possible co-operation

10. A range of possible forms of co-operation exist between the Working Party and individual non-member economies. These can be summarised as follows:

- observer-status in the Working Party;
- regional meetings or seminars with non-members;
- country-specific programs with individual non-members;
- global meetings or seminars with non-members.

Observers to the Working Party

11. Observer-status is the highest level of associating non-members to the Working Party. Although the word “observer” implies a passive role in the Working Party, observers are expected to be fully active participants in the Working Party. They do not, however, have a role in the decision-making mechanisms of the Working Party.

12. Brazil and Chile have both been observers on the Working Party of Senior Budget Officials since 1999. In 2001, both Israel and Slovenia applied for observer status on the Working Party. Slovenia’s application was approved by the Council in 2001 and Israel’s application in 2002. The World Bank and the International Monetary Fund are also observers on the Working Party. There is every likelihood that there will be increased demand for observer status in the Working Party in the future.

13. The granting of observer status is governed by a Resolution of the Council. The Council makes the final decisions on such applications based on recommendations from the Committee for Co-operation with Non-Members. Prior to that, a technical opinion is sought from the Working Party. The criteria applied for granting observer-status is subjective; whether the respective non-member is a “major player” in the relevant field and whether the granting of observer-status would be “mutually beneficial.”

14. The current system is essentially a reactive one. The Working Party has not approached any non-member to invite them to apply for observer status. It simply reacts to applications as they come in. The non-member’s initiative has been seen as prima facie evidence of their commitment to participate actively in the Working Party. The question arises whether the Working Party should take a more proactive stance.

15. The OECD Council has designated certain countries, notably Brazil, China and Russia, as priorities for country-specific co-operation. On his recent visit to Beijing, the Secretary-General, Mr. Donald Johnston, invited the Chinese to apply for observer status in the Working Party. A similar initiative may be appropriate for the case of Russia.

16. Although the experience with observers on the Working Party has been overwhelmingly positive in the past, it is simple matter of arithmetic that with increasing numbers of observers, the Working Party will soon reach a limit for its capacity for informal dialogue among delegates at meetings. The successful launch of the Asian Senior Budget Officials network (see below) shows that the establishment of such regional networks may be a more optimal response to the general desire of non-member countries to participate in OECD activities.

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Regional meetings with non-members

17. Last year we launched a programme of annual regional meeting of budget directors and other senior budget officials in the Asian region. The idea is in effect to have “satellite” meetings as the substantive work that is conducted for the Working Party’s regular meetings can often be used in these meetings, for example background papers. This also gives the opportunity to tailor parts of the agenda of the meetings to region-specific issues. This allows individual countries to be associated with OECD work; this is especially important for countries that would not warrant observer-status or a country-specific programme (see below). It reduces the required travel time and costs for officials from the relevant countries. The establishment of such on-going regional meetings is of special value in regions where no pre-existing formal associations are in place.

18. The Asian Senior Budget Officials network was launched with the first meeting taking place in Singapore on 19-20 November last year. The meeting was attended by over 40 budget directors and other senior budget officials from the Asian region and from Member countries. The objective was to share policy experiences and discuss common budgetary issues. The organisational costs of the meeting were financed by the Government of Japan.

19. The two-day meeting focused on five themes: new approaches to budget formulation, long-term budget issues, budget transparency, accrual accounting and budgeting, and performance measures. Lead-in speakers from OECD Member countries and the Asian region opened each session. The background papers issued for each session were the same as those issued for discussion of these issues at the regular meetings of the Working Party itself.

20. Participants included Australia, China, Chinese Taipei, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Thailand, Vietnam and the United States. The World Bank also participated in the meeting. The meeting was judged a success as evidenced by the feedback from participants (including responses to evaluation forms). This is the only forum for such senior officials to meet in that region.

21. The Asian Senior Budget Officials meeting will take place on an annual basis. It is envisaged that it will rotate between different cities in the Asia region and be hosted by the relevant Finance Ministry/budget office. In order to achieve increased buy-in from non-members in the region, their input on the future development of this network is being sought as well as their priorities for the agenda of the next meeting.

22. In future, the possibility exists to launch regional Senior Budget Officials networks in other areas. Central/Eastern Europe and South America would appear to be the natural choices. Both of these regions are areas where the OECD is very active when it comes to co-operation with non-members.

23. Work on budgeting issues in Central/Eastern Europe was carried out by the SIGMA programme in the past. The SIGMA programme is a separate entity within the OECD, but was nonetheless associated with the Working Party when it came to work on budgeting issues. The SIGMA programme is principally financed by the European Union. A major re-orientation of the SIGMA programme was recently conducted. This had a major effect on its work on public finance. This work now focuses exclusively on improving the financial control and management systems for EU pre-accession funds in the “candidate” countries. As part of this re-orientation, the SIGMA programme’s work on budgeting issues was terminated. This has created the situation that the OECD at present conducts no co-operation on budgeting issues with the countries of Central/Eastern Europe. There are no pre-existing formal associations in place there in this field.
24. In South America, the OECD has been approached by the Inter-American Development Bank and the United Nations Economic Commission for Latin America to co-operate further with them on budgeting issues in the region. OECD staff has also attended meetings of the Ibero-America Public Finance Association. Any regional work would be conducted in association with these bodies.

Country-specific programs with individual non-members

25. Country-specific programs are the most intensive form of co-operation and are generally reserved for the largest non-OECD economies. Three countries have been designated by the Council for intensive co-operation: Brazil, China and Russia. The OECD does of course maintain bilateral co-operation relations with other countries, but they are on a much smaller scale.

26. The advantages of the country-specific programs lie in their intensive nature. The OECD establishes ongoing and substantial professional relations with senior officials in the respective countries. As a result of its accumulated knowledge of the local circumstances in the country and its relations with senior officials, the OECD is able to design programs that fit perfectly with the needs of the respective countries. This also makes it more likely that the programs will have a greater impact on the reform process in the respective countries. The disadvantages of the country-specific programs also lie in their intensive nature. They are expensive requiring significant resources.

27. The country-specific programs centre on a series of events in the respective country where senior officials from Member countries share their policy experiences and best practices with their counterparts in the country. The Working Party’s events always involve senior officials from several Member countries taking part. This is in order for the respective country to be able to compare the different strategies that Member countries have adopted and for them to be able to design their own reform program drawing on the lessons from several Member countries.

28. The Working Party co-operates closely with other international organisations, principally the World Bank and the International Monetary Fund, in order to reinforce each other’s activities and avoid any duplication of work. For example, the World Bank may have resident experts advising a government on an on-going basis on budgeting reforms. The OECD would co-ordinate its activities with those of the World Bank so that OECD meetings, where senior officials from Member countries attend, would take place at major milestones during the on-going reform effort.


People’s Republic of China

30. Launched in 1999, the People’s Republic of China represents the largest country-specific programme on budgeting issues. Six events are typically held each year. Their focus has included the role and scope of the budget, budget classification, multi-year budget frameworks, economic assumptions, the role of the legislature, budget transparency, organisation and functions of central budget offices, budget implementation (treasury management and in-year controls), fiscal relations with provincial governments, and accrual accounting and budgeting practices.

31. The OECD’s main partner institutions in China are the Ministry of Finance, the National People’s Congress and the State Council Office of Public Sector Reform. The OECD is regularly received at the highest policy-making levels in China for these activities -- including vice-ministers from the
Ministry of Finance and the State Council, the vice-speaker of the National People’s Congress and the chairmen and members of its economic and budget committees.

32. The Secretariat also contributed a chapter on budgeting issues to the major OECD study of the Chinese economy: *China in the World Economy: The Domestic Policy Challenges*.

33. It has been decided to focus the OECD-wide China programme on governance issues from 2003. This will likely have a significant expansionary impact on the budgeting work in China as it is the largest OECD program in China concerned with good governance.

34. The China programme is financed by a generous grant from the Government of Japan. The Chinese authorities have contributed significant financing as well, which clearly shows the value they attach to the OECD’s work in this area.

**Indonesia**

35. The Indonesia programme, financed by the Government of the Netherlands, was inaugurated in the summer of 2001. In its first year of operation, five events are scheduled under this program. Their focus includes: design of budget institutions, role of Parliament in the budget process, co-ordination of budget policy across levels of government, organic budget laws (legal framework for budgeting), and transparency and role of non-governmental organisations in the budget process.

36. The OECD’s main partner institutions in Indonesia are the Ministry of Finance and the Indonesian Parliament. The OECD’s activities in Indonesia are implemented in partnership with the World Bank.

37. The current grant for the Indonesian programme expired in May this year and an oral up-date on the future of the programme will be provided at the meeting.

**Other**

38. PUMA has had public finance related relations with South Africa in the past. In 2001-2002, a member of the Secretariat lectured in a training program for civil servants on budgeting and financial management and the OECD organised a seminar with the Ministry of Finance and the National Audit Office on the implementation of constitutional requirements to increase accountability and transparency in financial reporting. In addition, a global forum on governance was held in South Africa in November 2001 (see below). At present there is no on-going activity in South Africa, but there is growing interest amongst OECD Member countries in supporting the pan-African initiative, NEPAD, (in which South Africa is a strong driving force) and there may well be a demand for activities related to the strengthening of fiscal governance in that region. Discussions to this effect are currently being undertaken with CCNM and with the South African government.

39. As noted above, the Council has designated Brazil, China and Russia for intensive country-specific co-operation. The Working Party’s future directions in this area will necessarily be based on that OECD-wide policy. Brazil has requested increased co-operation with the OECD on budgeting issues; the Secretariat will provide an oral report on any new developments at the meeting of the Working Party. At present, the Working Party has no relations with Russia. Exploratory talks took place last year with India and Vietnam, but those initiatives were integrated with the launch of the Asian Senior Budget Officials network.
Global meetings of the Working Party with non-members

40. In 2000, the OECD Center for Co-operation with Non-Members, which has overall responsibility for the OECD’s relations with non-members, launched a new model for co-operation in the form of ten “Global Forums,” including one on Governance. The Global Forum model is an umbrella for a number of different international activities taking place under a common theme.

41. Two Global Forums took place last year drawing on the resources of the Working Party.

42. On 22-23 November 2001, a Global Forum on Devolving and Delegating Power to More Autonomous Public Bodies and Controlling Them: The Governance of Public Agencies and Authorities took place in Bratislava, Slovak Republic. The Forum discussed measures to strengthen the governance arrangements of public bodies which have been given a certain level of autonomy to carry out public tasks, including service delivery, regulatory functions, or advisory activities. The Forum was jointly organised by the Government of the Slovak Republic and the OECD.

43. On 23-24 November 2001, a Global Forum on Social Equity, Economic Growth and Good Governance took place in Johannesburg, South Africa. This Forum discussed different national approaches to strengthening the triangulation of good public governance, economic growth and social equity. The Forum brought together senior representatives from governments, industry, labour and civil society in OECD and African countries as well as participants from other parts of the world. The Forum was jointly organised by the South African Government and the OECD with local costs met by the South African private sector. This event significantly raised the OECD’s profile in that part of the world.

44. The Secretariat also contributed to budget-specific sessions in other Global Forums on Governance that were organised during the year.

45. In the light of the growing demand in this area, we have under consideration the possibility of launching an OECD/Global Forum on Budgeting. Such a vehicle could serve to focus and attract resources for our budgeting and financial management related activities with non-member countries. It could also provide a pool of resources and contacts to enable closer co-operation between the SBO related work and those budgeting related activities that SBO members get involved in on a bilateral basis. Nevertheless, we could consider setting up a program in which the Secretariat would partner with another directorate – for example the Development Co-operation Directorate – that has ties to the development community. OECD Member countries are in the midst of an effort to forgive large amounts of developing countries’ debt. To receive debt forgiveness, must first reform the budget processes to make them more transparent and accountable. The OECD, with its networks of practitioners is uniquely situated to provide guidance to developing countries on how to create a modern and transparent budget system.

Conclusion

46. This paper has reviewed the Working Party’s present co-operation activities with non-members and taken a strategic outlook on the future development of these activities. It should be emphasised that the future directions that have been identified in this paper refer to a multi-year horizon. It is certainly not expected that the co-operation activities will expand immediately as foreshadowed above.

47. The challenges in going down this road are manifold. The overriding objective is to preserve the integrity of the Working Party. This may necessitate a focus on various co-operation vehicles that do not increase the number of observers to the regular meetings of the Working Party significantly. The successful launch of the Asian Senior Budget Officials network offers an attractive vehicle for associating non-members with the OECD’s work in this area. Such a model may be appropriate for other regions as
well. The intensive country-specific programs are only feasible for the largest non-members due to the resource commitment involved. In most cases, it is only realistic to associate non-members with regional meetings. The suggested OECD Global Forum on Budgeting may be a way of giving critical mass and coherence to what is obviously going to be an expanding part of the Secretariat’s work.

48. Finally, the success of the Working Party’s co-operation with non-members in this area depends to a very large degree on the continued willingness of senior officials from Member countries to participate in the various co-operation events. Furthermore, the generous financial support that individual Member countries have offered for the various initiatives is an absolute prerequisite for work in this area. It should also be emphasised that the expansion of capacity which the Secretariat derives from this externally funded work, has become important to the maintenance of our core work programme on OECD countries. Without that support our funding is insufficient for us to commission the external papers which are an important component of our service to SBO. Also it has been clear that in many instances SBO network members have themselves benefited from their involvement in co-operation activities with non-members – it is not a one-way street.