



# OECD Journal on Budgeting

## Special features

- 1) Budgeting in Kazakhstan
- 2) Financial Management in Government
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OECD Journal

# OECD Journal on Budgeting

Volume 2018/3

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## *Foreword*

The OECD Journal on Budgeting is a unique resource for policy makers, officials and researchers in public sector budgeting. Drawing on the best of the recent work of the OECD Working Party of Senior Budget Officials (SBO), as well as special contributions from finance ministries of member countries and from other practitioners, the Journal provides insights on leading-edge institutional arrangements, systems and instruments for the effective and efficient allocation and management of resources in the public sector.

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## Budgeting in Kazakhstan

### A roadmap for continued for continued budgetary governance reform

by

Ivor Beazley, Ronnie Downes and Scherie Nicol

*The Republic of Kazakhstan is the largest economy in central Asia, and one of the fastest growing in the region. Having benefited from oil wealth as well as a diversifying and liberalised economy, Kazakhstan envisages a progressive modernisation of the political, administrative and juridical culture within the country. While strong progress has already been made on several fronts, other aspects of these envisaged reforms are at early stages.*

*This OECD review takes stock of these reform efforts, and is designed to assist the national authorities in charting a course for future reforms and innovations.*

*JEL Codes: H500, H610, H830*

*Keywords: Nurly Zhol, National Fund, budget transparency, citizen engagement, gender budgeting, Budgetary oversight, Budgetary governance*

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## Foreword

Kazakhstan is central Asia's largest and most dynamic economy, with a leadership that is ambitious for the country to take its place among the most developed nations of the world. To achieve this objective, the authorities in Kazakhstan have embarked upon a multi-faceted course of reform and modernisation embracing many dimensions of public policy, including by reference to OECD standards and principles.

As stated in the OECD Recommendation on Budgetary Governance (OECD, 2015<sup>[1]</sup>), the budget is “a central policy document of government, showing how annual and multi-annual objectives will be prioritised and achieved... The experience of recent years has underlined how good budgeting is supported by, and in turn supports, the various pillars of modern public governance: transparency, integrity, openness, participation, accountability and a strategic approach to planning and achieving national objectives. Budgeting is thus an essential keystone in the architecture of trust between states and their citizens.”

This understanding of the role of modern budgeting is shared by the authorities in Kazakhstan, who have undertaken a series of major reforms over recent years aimed at bringing national systems in line with good international practice. This OECD review takes stock of these reform efforts, and is designed to assist the national authorities in charting a course for future reforms and innovations. Indeed, the OECD perspective is that sound budgetary governance is a prerequisite for success in other fields of public policy, and therefore this review is intended to provide a timely and helpful underpinning for Kazakhstan's broader strategic agenda.

This OECD Budget Review reflects the state of budgetary governance in Kazakhstan as of early 2018, and is authored by Ivor Beazley (Senior Policy Analyst), Ronnie Downes (Deputy Head of Division) and Scherie Nicol (Policy Analyst), all of the Budgeting & Public Expenditures Division, Public Governance Directorate of the OECD. The review was broadly co-ordinated with a parallel review conducted independently by the PEFA Secretariat, in order to provide the Kazakh authorities with a range of qualitative and diagnostic perspectives to inform their future plans.

## Acronyms

|       |                                                                            |
|-------|----------------------------------------------------------------------------|
| CEDAW | Convention on the Elimination of All Forms of Discrimination Against Women |
| ERI   | Economic Research Institute                                                |
| FSED  | Forecast of Social and Economic Development                                |
| KZT   | Kazakh <i>Tenge</i>                                                        |
| OECD  | Organisation for Economic Cooperation and Development                      |
| MNE   | Ministry of National Economy                                               |
| MoF   | Ministry of Finance                                                        |
| NF    | National Fund of Kazakhstan                                                |
| NBK   | National Bank of Kazakhstan                                                |
| PPP   | Public Private Partnerships                                                |
| SMEs  | Small and Medium-sized Enterprises                                         |

## Executive Summary

The Republic of Kazakhstan has been pursuing a series of economic and administrative reforms since independence from the former Soviet Union in 1991. It is now the **largest economy in central Asia, and one of the fastest growing**, benefiting from oil wealth as well as a diversifying and liberalised economy. Traditionally the institutional environment has been strongly centralised; the country's strategic development plans (see below) envisage a progressive modernisation of the political, administrative and juridical culture within Kazakhstan. While strong progress has already been made on several fronts, other aspects of these envisaged reforms are at early stages.

The system of public financial management in particular has been the subject of wide-ranging reforms over recent years, aimed at strengthening the capacity to support the country's strategic development. The institutional architecture, including a strategically-oriented Ministry of National Economy (MNE), an implementation-focused Ministry of Finance (MoF) and a highly developed Budget Code, provides a professional and efficient basis for budgeting. Many aspects of Kazakhstan's framework already **conform well to the principles set out in the OECD Recommendation on Budgetary Governance**, to which the authorities have committed to adhere.

An over-arching goal of budgetary governance in Kazakhstan is to forge **clear links between strategic plans and budgetary processes**. At the highest strategic level, the country is guided by the "Kazakhstan 2050 Strategy", announced by the President in 2012, which aims to position Kazakhstan among the world's 30 most developed economies by 2050. The *Nurly Zhol* ("bright path") programme, announced in 2014, focuses on ambitious infrastructure development; while the "100 Concrete Steps" announced in 2015 specifies a series of measures in various institutional spheres aimed at achieving a "modern state for all".

Against this strategic and developmental backdrop, the **results orientation of budgeting** has been notably well developed over recent years. Priorities for the country's "social and economic development model" are agreed by the government and advanced by the MNE, and are duly reflected in the annual strategic plan of each ministry. Arising from recent reforms, the programmes set out in each strategic plan are generally aligned with the budget programmes of each ministry; and managerial responsibility has been clarified in each area. Further refinements should include a stronger enforcement of the "one-to-one" principles of aligning planning and budgetary programmes; a more normative medium-term expenditure framework that links resources and key goals while respecting the fiscal rules; a broader selection of indicators (to encompass service-delivery objectives, customer experiences and gauges of programme efficiency); and accountability mechanisms for cross-cutting objectives in areas such as gender equality, environment and other Sustainable Development Goals.

The Kazakh system employs a limited number of tools to provide a critical assessment of budget programme expenditure. The strategic plan is subject to an annual evaluation by the MNE. This process is supported by formal programme evaluations which use a range of criteria, including disbursement of approved funds and achievement of specified indicators: performance deemed insufficient against these criteria generally has implications for budgetary allocations. Compressing all such evaluative information within the budget calendar inevitably poses administrative strains. It is recommended that Kazakhstan develop a **richer multi-year continuum of evaluative and performance information**, using distinct but complementary processes of monitoring, evaluation, performance-

budgeting indicators and spending review, and to draw upon results of these exercises across the annual and multi-annual budgetary cycles. Developing this approach should build upon existing institutional and procedural strengths: in particular, evaluative exercises should in future be conducted *ex ante* as well as *ex post*, and explicit synergies should be fostered with established Regulatory Impact Assessment models and with the expertise of the Economic Research Institute (ERI). Infrastructure evaluation is a case in point, requiring systematic appraisal across the project cycle, and making no unnecessary distinctions (at appraisal stage) between different financing modalities – traditional infrastructure procurement, public-private partnership (PPP) or other. More generally, there is scope for establishing tracker systems for major projects – whether capital or current expenditure – and for using visual tools (e.g. “value maps”) to highlight the depth of evaluation that has been conducted in different areas.

The country’s oil wealth is stewarded via a **National Fund**, which operates according to clear legislative criteria: the intention to move toward the “Santiago Principles” of good practice for managing sovereign wealth funds should yield further benefits including enhanced transparency and sustainability. In the medium term, **prudent fiscal management** will require clearer rules for managing the non-oil budget, and significant progress has already been made in this area. In this context, there is scope to strengthen the **independent character of the professional advice and oversight** regarding adherence to fiscal rules, economic forecasting and fiscal management, leveraging the pre-existing role of the ERI.

The budget is conducted within a **clear and well-observed annual calendar**, and framed within a three-year rolling cycle. Up to recent times, the focus in Kazakhstan has been weighted more towards responsiveness and agility, than towards stability and fixity in both budgeting and planning. Thus, the annual budget has been subject to multiple revisions during the course of the implementation year, matched with adjustments and updates to each strategic plan. On foot of reforms initiated by the parliament, from 2018 the major budget revisions are limited to once per year. It would be advisable for revisions to the strategic plans to move towards a similar degree of stability. Likewise, the three-year rolling forecasts should **develop a more stable and normative character** to guide the evolution of the public finances and to support planning within ministries, taking account of the clarified fiscal rules outlined above. The annual budget cycle should more clearly distinguish between the fiscal policy phase (spring) and the traditional resource-allocation phase (autumn), building on good practice from various OECD countries, while also ensuring closer alignment and sequencing with the national planning cycle.

The progressive introduction of **accrual accounting** methodologies is positive, provided that the role and intended uses of this additional information is specified in advance, such that the new approach helps to clarify, rather than obscure, policy-relevant signals within the budgetary documentation. Emerging good practice from OECD countries suggests a dual approach, using both cash- and accrual-based approaches in a consistent and complementary fashion, while supporting parliamentarians with concise interpretative notes. Kazakhstan could take further steps to improve comprehensiveness and transparency through disclosure of guarantees and contingent liabilities and the presentation of a balance sheet showing the government’s net worth.

The **parliament itself has a high level of engagement** with the annual budget, in international terms. The lower house (the Majilis) is the initial forum for detailed budget scrutiny, and there is a strong role for the budget committee with a structure for sector-specific committees to feed into the overall scrutiny task in line with OECD best practice.

The senate also conducts its own independent budget scrutiny, and may submit amendments of its own, which – subject to an agreed position with the Majilis – are incorporated into the budget proposal. At present the parliament has no oversight role in relation to the Forecast of Social and Economic Development. However, the principle of *ex ante* engagement of parliament could usefully be brought to bear upon this process as part of a new Spring Fiscal Policy phase. Members of parliament have access to support staff, and the Budget Committees of both chambers also have small support units. However, parliamentarians do not have access to an independent research service or specialist budget analysis office as is common across OECD countries. The introduction of an independent research service for the Kazakh parliament could serve to further strengthen parliamentary budget oversight.

The **Accounts Committee** – the national audit institution – supervises and quality-assures the work of independent public audit, and is composed of members appointed by the President and both houses of parliament. It conducts its work by reference to international INTOSAI standards. The findings of the Accounts Committee are afforded a high degree of respect: its recommendations on the annual Budget Execution Report, once adopted by the parliament, have a binding status. Since 2017, the Accounts Committee also supplies an independent evaluation report on the draft budget submitted to parliament, to assist and inform the parliament’s scrutiny work. To ensure the impact of this latter innovation, the Accounts Committee should continue to focus on a narrow theme each. In general, the impact of the Accounts Committee’s work could also be made more transparent by publicly tracking the executive response to audit recommendations. Its independence could also be underpinned through passage of a specific law bringing Kazakhstan in line with the principles of the Lima Declaration on independence of supreme audit institutions.

Kazakhstan has made improvements in **budget transparency**, in line with recommendations of the *2016 OECD Integrity Scan*. In particular, there have been important developments in recent years in relation to access to information, the development of an online “Open Budgets” portal, and the introduction of Citizens Budgets and central guidelines for their compilation. These represent steps forward for budget transparency in Kazakhstan. In common with the experience of other countries, these new initiatives need to evolve so that they are designed to anticipate and support the needs of users and function effectively as tools which improve budget transparency, engagement and accountability. These developments should be complemented by further developments to budget documentation in Kazakhstan which improves its comprehensiveness, in line with international standards.

In terms of **citizen engagement**, the introduction of multi-stakeholder “public councils” within each ministry is an innovative development with significant positive potential. At this early stage of implementation, the successes of public councils have been uneven: government bodies, including the MNE, should actively disseminate the lessons of the success stories (such as Almaty city) to other areas through developing guidelines for public councils that ensure their political independence. Effective public councils, together with Ministerial meetings and blogs, provide ideal tools for soliciting civil society views on budget priorities as part of an elaborated *ex ante* budget phase (see earlier recommendation).

The introduction of **gender budgeting** is at early, explorative stages in Kazakhstan. Some elements of the public governance framework – including the existence of a central institution to lead on its implementation – provide strong foundations for the introduction of gender budgeting. Initial efforts are focussing on incorporating a gender dimension into

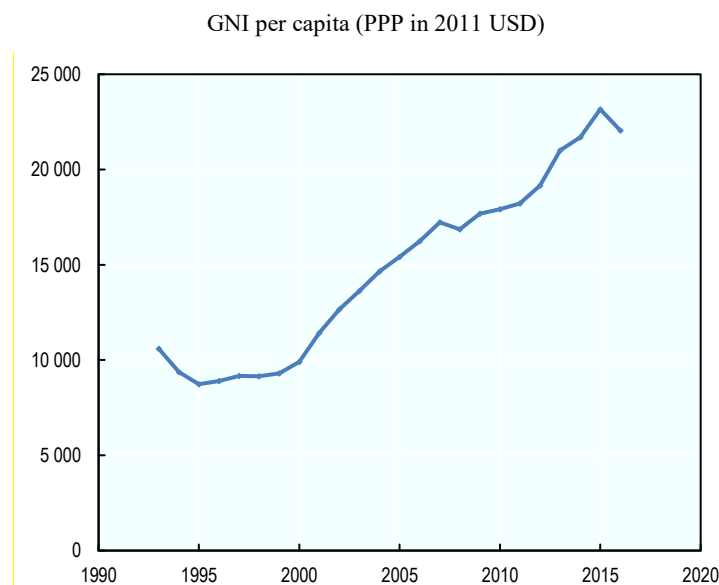
the planning and performance framework. Kazakhstan has taken positive steps since 2016 to advance this agenda. For example, the Decree of the President of the Republic of Kazakhstan dated December 6, 2016 No. 384 approved an overarching Gender Equality Strategy (“the Concept of Family and Gender Policy in the Republic of Kazakhstan until 2030”). Suggested areas of focus would include clearer, more systematic mainstreaming of the national gender equality strategy within ministry strategic plans, going beyond obvious “gender-related” programmes to include all major programmes. Beyond this, Kazakhstan could further strengthen its application of gender budgeting practices across the budget cycle, in particular through the introduction of *ex ante* gender impact assessment; and a Gender Budget Statement illustrating how the annual budget supports national gender equality goals.

## 1. Policy and Institutional Context for Budgetary Governance

### 1.1. Economic and developmental context

There has been profound transformation in Kazakhstan, both economically and socially, since the country declared independence in 1991. The transition years were turbulent and tough on Kazakhstan, with a 31% contraction of real gross domestic product (GDP) in the first four years, hyperinflation, and the loss of 1.6 million jobs throughout the 1990s. However, the economic recovery since the 1990s has been remarkable, with real GDP growth averaging almost 8% per annum and the creation of 2.3 million jobs. At the same time, income has grown dramatically, with gross national income (GNI) per capita more than doubling between 2000 and 2016 in purchasing power parity (PPP) terms and two Kazakhs out of three are now satisfied with their standard of living.

**Figure 1. Income has grown dramatically in Kazakhstan since the year 2000**



Source: (World Bank, 2018<sup>[2]</sup>)

In 2012, the President of Kazakhstan set the overarching objective of Kazakhstan becoming one of the 30 most developed countries in the world by 2050. Under this overarching

objective, the Kazakhstan 2050 Strategy sets priorities for economic, social and political development (see Box 1).

#### **Box 1. Kazakhstan's vision for 2050**

In December 2012, President Nursultan Nazarbayev presented the vision of Kazakhstan for 2050 and the strategy which is to serve as the foundation of Kazakhstan's development over the coming decades. The vision for 2050 calls for widespread economic, social and political reforms. The "main goal is to join the group of 30 most developed countries" by 2050.

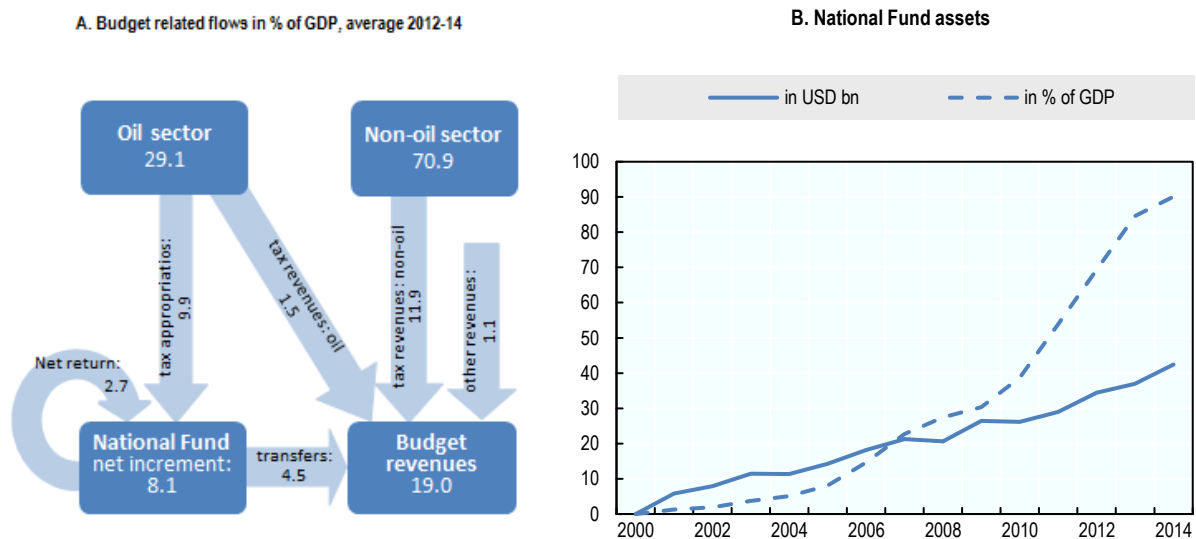
This was followed, in January 2014, by the presentation of a plan to achieve the vision in a speech entitled "Kazakhstan's way – 2050: Common Aim, Common Interests, Common Future". In this State of the Nation address, President Nazarbayev outlined two stages of the 2050 strategy. The first stage covers the period until 2030, during which Kazakhstan aims to make a modernisation leap. The second stage covers the period from 2030 to 2050, when the focus will be on sustainable development through growth of the knowledge economy. During this address, President Nazarbayev also outlined 10 key projects to be implemented, to help deliver the 2050 strategy.

In May 2015, President Nazarbayev announced "100 Concrete Steps to Implement Five Institutional Reforms". The concrete steps are grouped under the following five institutional reforms: 1) formation of a professional state apparatus; 2) the rule of law; 3) industrialisation and economic growth; 4) identity and unity; and 5) formation of an accountable government.

Economic growth since the 1990s has been fuelled by growth in the oil and gas sector. This sector remains important for Kazakhstan's economy, accounting for a sixth of GDP. Taking related activities into account, the oil and gas sector contributes as much as 30% of GDP, almost a third of budget revenues and close to two-thirds of exports.

Managing Kazakhstan's significant oil wealth is one of the authorities' main policy challenges. A National Fund (NF) was established in 2000 as both a stabilisation fund and a savings fund (International Monetary Fund, 2017<sup>[3]</sup>). This reduces the government's dependence on oil and gas revenues and helps avoid unintended economic consequences, such as "Dutch disease"<sup>1</sup>. The NF is managed by the National Bank of Kazakhstan (NBK).

The value of the NF has increased substantially since its creation, as a result of high transfers and investment returns (See Figure 2). Most of the fund is denominated in foreign currencies, and the portfolio is managed by foreign companies (OECD, 2016<sup>[4]</sup>). The intention is to move toward international principles of good management which should yield further benefits including enhanced transparency and sustainability.

**Figure 2. Oil revenues fuel the National Fund and the government budget**

*Note:* Assets of the National Fund as share of GDP increased by 4.5 percentage points per annum during 2012-14, reflecting annual increments of 8.1% of GDP and the mathematical impact of GDP growth on the stock of assets.

*Source:* (OECD, 2016<sup>[4]</sup>) and (International Monetary Fund, 2017<sup>[3]</sup>)

As noted in the *OECD Multi-dimensional Review of Kazakhstan* (2016), “Annual guaranteed transfers from the NF to the budget of the central government amount to USD 8 billion plus or minus 15% depending on the phase of the economic cycle. In addition, targeted transfers can be made by presidential decree for socially significant projects if alternative funding sources are insufficient. For example, during 2014-15, targeted transfers of USD 5.4 billion were made mainly to support the recovery of the banking sector, to provide bank lending to small and medium-sized enterprises (SMEs) and to finance infrastructure projects. For the period 2015-17, annual transfers of USD 3 billion supported sustainable economic growth and employment within the new State Programme of Infrastructure Development (*Nurly Zhol*). Transfers from the NF are possible as long as its assets remain above 30% of GDP at the end of each financial year and annual expenditures on public debt service do not exceed 4.5% of assets managed. The overall framework ensures steady budget support, while providing sufficient flexibility to deal with transitory shocks to the economy, and the USD 8 billion rule governing transfers from the oil fund to the budget is consistent with the permanent income approach (World Bank, 2013<sup>[5]</sup>).”

Kazakhstan’s reliance on natural resources and its geographic position both expose it to potential external shocks. Indeed, large oil-related flows have challenged macroeconomic and financial stability in the past, mainly through large exchange rate devaluations and instability in the banking sector. Fluctuations in raw material prices, the economic performance of its main trade partners (in order of importance, the European Union, the People’s Republic of China and the Russian Federation) and geopolitical tensions have important effects on economic performance. Kazakhstan is landlocked, which makes it dependent on its neighbours for the efficiency of logistics networks. Ties with the Russian

Federation are strong and further sustained by the creation of the Eurasian Economic Union in January 2015.

Sources of growth beyond natural resource sectors remain under-developed. With labour force participation at almost 80% and unemployment at 4%, there is little scope for further activation of workers. However, employment is concentrated in the least productive sectors, especially agriculture, which employs 24% of the workforce but produces only 5% of GDP. Shifting labour to more productive sectors has the scope to boost GDP per capita (OECD, 2016<sup>[4]</sup>).

The dominance of the public sector constrains investment and dynamism. Public and state-owned entities still account for around a third of GDP. Strong price controls in a number of markets, discretionary intervention by state actors and limited competition constrain opportunities for new entry and innovation. A privatisation programme is being implemented and legislation adopted in 2015 limits the extent to which state-owned enterprises can intervene in certain sectors.

Diversification has progressed modestly but faces multiple obstacles. Manufacturing and knowledge-intensive services have experienced growth in employment and productivity since 2011 but remain small. The market structure still limits competition and contestability, and there is ample room to lower regulatory burdens and improve the business climate (OECD, 2016<sup>[4]</sup>).

## ***1.2. Legal and Constitutional Framework and the direction of recent reforms***

The legal framework for budgeting and public financial management emerged following the declaration of independence in 1991. It comprises relevant laws in the areas of budgeting, regional governance, state auditing, anti-corruption and disclosure of public information.

Under the 1995 Constitution the Parliament of Kazakhstan, comprising an upper house (Senate) and a lower house (Majilis), has the power to approve or amend the national or “republican” budget. The annual law “On the Republican Budget” is submitted to parliament no later than 1 September. Consideration of the Republican Budget takes place in separate meetings of the two Chambers, with sequential consideration first in the Majilis and then in the Senate, and the budget approved by 1 December. In addition to consideration by the two chambers, the annual budget, financial statements and audit reports are scrutinised by the Committee on Finance and Budget and by sectoral committees (see Section 4.1 for further information).

The government exercises executive power in respect of the budget, developing fiscal and economic policies, preparing and submitting the budget to Parliament, executing the budget and reporting back to parliament on its execution. Macro-economic policy and strategic planning are the responsibility of the Ministry of National Economy (MNE), while budget formulation, execution and financial reporting are the responsibility of the Ministry of Finance (MoF). The budget package presented to parliament includes a Forecast of Social and Economic Development (FSED) including the main fiscal parameters of the budget; strategic plans of the ministries and the main budget document. An additional explanatory note provides a narrative description of the fiscal outlook and explains the allocations to, and objectives of, the budget programmes (see Section 3.1 for more details).

### 1.2.1. Budget Code

The Budget Code (2008) is the main legal document governing the budget process. It regulates the budget process across all levels of government and has reference standards for sub-legal regulatory acts governing functions such as, public procurement, and state audit and financial control, which are subject to separate laws. However, neither extra-budgetary funds nor tax expenditures are included within the scope of Budget Code. The coverage of the Budget Code is outlined in Figure 3.

**Figure 3. Coverage of the Kazakhstan Budget Code**

| BUDGET SYSTEM                                                                                                                                                                                                                                                                                                                                                                                                                                                               | BUDGET PLANNING                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | BUDGET EXECUTION                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>Principles of the budgetary system</li> <li>Types and levels of budgets</li> <li>Budget structure</li> <li>Central and local governments reserves</li> <li>Formation and use of the National Fund</li> <li>Types of budget programs</li> <li>Interbudgetary relations between the levels of budgets</li> <li>Distribution of revenue and expenditures between the levels of budgets</li> <li>Issues of Budget Commissions</li> </ul> | <ul style="list-style-type: none"> <li>Development of the Forecast of Social and Economic Development</li> <li>Development of strategic plans, approaches to the budget programs formation</li> <li>Contents of budget requests</li> <li>Procedure for reviewing draft strategic plans, budget programs and budget requests</li> <li>Issues of budget investments planning</li> <li>The process of forming the draft budget, its consideration in Parliament (and local representative bodies)</li> <li>Process for approving budgets</li> </ul> | <ul style="list-style-type: none"> <li>Budget execution issues</li> <li>Updating and adjusting budgets</li> <li>Budget sequester</li> <li>Budget monitoring</li> <li>Evaluation of results</li> <li>Financial and budget reports</li> <li>Preparation and approval of annual reports on budget execution</li> <li>Preparation of the report on the formation and use of the National Fund</li> <li>Issues of public debt and borrowing</li> </ul> |

Source: (Government of Kazakhstan, 2018<sup>[6]</sup>).

The Budget Code sets out 14 budgeting principles (see Box 2) and is a comprehensive and detailed document describing the mechanisms for the preparation and execution of the republican budget, and for the financing and uses of the NF.

#### Box 2. 14 Budgeting principles set out in Kazakhstan's Budget Code

1. Unity, unified budget classification and budget procedures
2. Completeness - inclusion of all receipts and expenditures and the prevention of netting off
3. Realism - budget indicators are consistent with the approved (adjusted) fiscal parameters
4. Transparency - mandatory publication of strategic plans, budgets and reports on their implementation, including the revenues and expenditures of the National Fund
5. Consistency - observance of previously adopted budgetary decisions
6. Effectiveness i.e. a budget aimed at achieving results set out in strategic plans, territorial development programmes and budget programmes;

7. Independence - operational autonomy of sub-national government to retain their own revenues and to be adequately funded for devolved responsibilities
8. Continuity - in respect of multi-annual commitments;
9. Reasonableness - budget basis in law;
10. Timeliness - prompt crediting of revenues, transfer of funds to sub-national governments, processing of payments and recognition of commitments;
11. Cash Unity - all receipts and payments are made through the single treasury account;
12. Efficiency - achievement of results at least cost;
13. Responsibility - of responsible officials to comply with relevant legislation;
14. Targeting and purposive character - the use of budget funds to achieve performance goals.

### *1.2.2. Fiscal Rules and the National Fund (NF)*

Clear fiscal objectives, including legally-grounded fiscal rules, are helpful to governments seeking to pursue a sound and sustainable fiscal policy. Well formulated rules, and the government's adherence to them, strengthen the government's credibility. In resource-rich countries such as Kazakhstan, such rules can also help to ensure that natural resource endowments are used prudently.

Kazakhstan includes a limited set of fiscal objectives in the Budget Code. In addition, the rules governing the operation of the NF, and the amounts that can be transferred to the budget, effectively constitute additional fiscal rules. Until 2016 the key fiscal indicator that guided the development of the budget was the budget deficit. This was 3.1% in 2017, forecast to decline to 1% of GDP by 2020. However, excluding transfers from the NF, the deficit was much larger, exceeding 10% of the budget in 2017. The balance of funding came from drawing down resources from the NF; over the medium and longer term, such an approach would run the risk of being unsustainable.

In 2017, the Budget Code was amended to include specific targets to reduce the non-oil deficit as a percentage of GDP (from 12% in 2017 to 7% by 2020 and 6% by 2025). The MNE is responsible for monitoring and reporting on this.

In parallel a new "Concept for the Formation and Use of the National Fund" was adopted in 2016, with the aim of stabilising the NF and reducing budgetary dependence on oil revenues, which have in the past accounted for more than 40% of total budget revenues. It establishes a number of rules regarding maintenance of the NF and the size of transfers to the budget as follows:

- Upper monetary limit on the amount that can be transferred from the National Fund to the republican budget (KZT 2 000 billion per annum by 2020).
- The total value of the NF should not drop below 30% of GDP.
- Total public debt, including the debt of SOEs, should not exceed the assets of the NF.

These rules concerning the maintenance and operation of the NF effectively introduce a new discipline to fiscal policy. To be effective, such rules would need to be complemented with additional mechanisms to ensure the value-for-money of existing allocations and to help identify areas for reallocation of existing resources. This latter topic is addressed in Section 2.3.

### 1.2.3. Sub-national government budgets

In Kazakhstan there are three levels of sub-national government each with budgetary powers. The regions (*oblasts*) and major cities (cities of republican significance) plus the capital form the first layer, the second layer is made up of districts (*rayons*) and major municipalities, while the third layer is made up of villages and rural settlements (*auls*).

Decentralisation is an important priority within Kazakhstan's national institutional transformation agenda. According to the Constitution (clauses 85, 86 and 87) sub-national budgets are independently developed by local governments (*akimats*) and approved by local representative bodies (*maslikhats*). The 100 Steps programme also included one step to make local governments of villages, *auls*<sup>2</sup>, and towns responsible for their own budgets.

The recent election of local executives (*akims*) at the village and rural community (*aul*) level, was an important step towards fulfilment of the government's commitment to increase local decision-making and create self-governing entities at village and rural community level. However, the election process was indirect and with certain limitations with the result that *akims* are seen as part of the overall executive system, representing the President and Government in their administrative units.

The taxation powers of local governments are very limited, since taxation is governed by the Tax Code and tax administration is centralised, and sub-national governments remain highly dependent on central government which finances approximately 60% of sub-national government spending. This is provided by central government in the form of revenue assignments, targeted transfers and equalisation grants. The system of equalisation grants is based on the principle that there should be equal provision of common services across the country.

In more general terms, the budgeting principles that are set out in the Budget Code are applied with necessary changes at regional and local levels, as indicated in the relevant sections throughout this report. Across OECD countries and further afield, ensuring the effective decentralisation of budgeting and service-delivery, while retaining fiscal discipline, control and integrity, is a major challenge. Ensuring sound multi-level budgetary governance is a complex and multi-faceted subject, which goes beyond the specific focus of this report, although specific points are indicated where they arise.

## 1.3. Institutional roles and responsibilities

### 1.3.1. Main institutions and their responsibilities

The Republic of Kazakhstan is a unitary state with a presidential form of rule. The Constitution of the Republic, together with Constitutional Law, set out the status and powers of the President of Kazakhstan. The President determines priorities for Kazakhstan's development in an annual address. These priorities are taken into account when the Republican Budget is being prepared.

The **Ministry of National Economy (MNE)** is the central authorised body for state planning. It exercises leadership and inter-sectoral co-ordination in the field of strategic and economic planning, elaboration and formation of budgetary policy, and formation and implementation of state policy relating to regional development. The MNE also has responsibility for producing the Forecast of Social and Economic Development (FSED).

The **Ministry of Finance (MoF)** is the central authorised body for budget planning, budget execution, accounting, budget reporting and, within its competence, local budgets, and the

National Fund of the Republic Kazakhstan on the basis of the report of the National Bank of the Republic of Kazakhstan. According to Article 71 of the Budget Code, the Ministry of Finance prepares the Republican Draft Budget and submits it to the Republican Budget Commission.

Further information on the differential roles of the MNE and MoF in budgeting is provided in Figure 1.4.

**Figure 4. The different roles of the MNE and the MoF in budgeting**

| MINISTRY OF NATIONAL ECONOMY                                                                                                                                                                            | MINISTRY OF FINANCE                                                                                                                                  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Forms fiscal policy and the policy of interbudgetary relations</b>                                                                                                                                   | <b>Executes budget planning and execution</b>                                                                                                        |
| Develops the Forecast of Social and Economic Development of the country for 5 years,<br>Projects budget parameters for 3 years (income, expenditure, deficit),<br>Projects the National Fund parameters | Provides spending limits for ministries for 3 years                                                                                                  |
| Prepares a conclusion to the drafts of strategic plans and budget programmes of ministries                                                                                                              | Prepares the conclusion to the budget requests of ministries                                                                                         |
| Introduces proposals for the use of the National Fund                                                                                                                                                   | The working body of Republican Budget Commission<br>Provides for the submission to RBC of budget requests, draft strategic plans and budget programs |
| Develops the draft Law on Guaranteed Transfer from the National Fund                                                                                                                                    | Forms the draft of the republican budget<br>Develops the draft Law on the Republican Budget                                                          |

Source: (Government of Kazakhstan, 2018<sup>[6]</sup>)

The **Republican Budget Commission (RBC)** is chaired by the Prime-Minister of the Republic of Kazakhstan. The Prime-Minister of the Republic of Kazakhstan also appoints its members. According to the Decree of the Government #10 (dated 15 January 2018) “On the Republican Budget Committee” the members of the Republican Budget Commission are:

- The Chair of the Committee on Finance and Budget of the Senate of the Parliament of the Republic of Kazakhstan;
- The Chair of the Committee on Economic Development and Entrepreneurship of the Senate of the Parliament of the Republic of Kazakhstan;
- The Chair of the Committee on Finance and Budget of the Majilis of the Parliament of the Republic of Kazakhstan; and
- The Chair of the Committee on Economic Reform and Regional Development of the Majilis of the Parliament of the Republic of Kazakhstan.

Members consider budget applications, draft strategic plans, budget programmes of budget programme administrators and the draft Republican Budget, before it is tabled to the Parliament of the Republic of Kazakhstan. The draft law on the Republican Budget is submitted to the parliament no later than 1 September each financial year.

The **Parliament of the Republic of Kazakhstan** has two houses; the upper house (Senate) and the lower house (Majilis). The approval of the Republican Budget, and any modifications to it, takes place in a separate meeting of the Chambers by a sequential consideration first in the Majilis and then in the Senate no later than 1 December of each financial year – see Section 4.

The **authorised body for internal state audit** is an agency of the Ministry of Finance of the Republic of Kazakhstan that exercises, within the competence of the central executive body, realising and controlling functions in the sphere of internal state audit and financial control, state purchases, state property, audit activities, accounting and financial reporting. It also reviews the reasons for violations of legislation on the performance of the republican and local budgets and performs control over the execution of decisions that follow from control activities.

The **Accounts Committee** for Control over Execution of the Republican Budget (Accounts Committee) is the supreme authority of state audit and financial control, executing external audit and financial control over the execution of the republican budget. It is directly subordinate and accountable to the President of the Republic of Kazakhstan. The Accounts Committee assesses and verifies the effective and lawful management of national resources.

A summary of the main institutions involved in the budget process and their role is provided in Figure 5 below.

### *1.3.2. Oversight of public finances*

Independent oversight of financial management is provided by the Accounts Committee of the Republic of Kazakhstan, which is the country's supreme audit institution (supreme authority of state audit and financial control). Its mandate is set out the Law on State Audit and Financial Control, which establishes that the work of the Accounts Committee is independent, understood as the interdiction of any interference in the performance of state audit and financial control (article 6). At the same time the President of the Republic, based on the Constitution, appoints head of the Accounts Committee and two of its members for a period of five years, while three additional members are named by each of the chambers of the Parliament (making a total of nine members), and the President approves the Committee's general method of work, the size of its staff and other aspects of its activity, and can request specific audits. The fact that the head of the supreme audit institution can be removed without legislative or judicial approval may be perceived as limiting its *de facto* independence – see Section 4.2.

With regard to independent scrutiny of macro-fiscal policy, Kazakhstan does not currently have an independent fiscal council, such as exists in an increasing number of OECD countries. The OECD Recommendation on Budgetary Governance calls on governments to “consider how the credibility of national budgeting – including the professional objectivity of budget forecasting, adherence to fiscal rules, longer-term sustainability and handling of fiscal risks – may also be supported through independent fiscal institutions (IFIs) or other structured, institutional processes for allowing impartial scrutiny of, and input to, government budgeting” (principle number 10). The Economic Research Institute (ERI) is an agency under the aegis of the MNE, which is assigned specialist functions including in the area of economic analysis in support of the country's macroeconomic development. Should Kazakhstan decide to strengthen capacity to carry out independent assessment of adherence to fiscal rules and macro-economic scrutiny one possible approach

would be to expand the existing functions and independence of the ERI consistent with international good practice with regard to IFIs.

**Figure 5. Major institutions involved in the budget process**

|                              |                                                                                                                                    |
|------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| The President                | <ul style="list-style-type: none"> <li>• Determines priorities for Kazakhstan</li> </ul>                                           |
| Ministry of National Economy | <ul style="list-style-type: none"> <li>• Leads state planning</li> <li>• Produces economic forecast for budget planning</li> </ul> |
| Ministry of Finance          | <ul style="list-style-type: none"> <li>• Leads budget planning and execution</li> </ul>                                            |
| Republican Budget Commission | <ul style="list-style-type: none"> <li>• Finalisation of draft Republican Budget proposal</li> </ul>                               |
| Parliament                   | <ul style="list-style-type: none"> <li>• Modifies and approves Republican Budget</li> </ul>                                        |
| Internal control             | <ul style="list-style-type: none"> <li>• Conducts internal audit</li> </ul>                                                        |
| Accounts Committee           | <ul style="list-style-type: none"> <li>• Supreme audit authority</li> </ul>                                                        |

## 1.4. Recent Reforms and Future Directions

### 1.4.1. Progress to date

Kazakhstan has been active in reforming and modernising its budget systems over the past decade, with the objective of meeting OECD norms and international standards, consistent with Kazakhstan's goal to become one of the top 30 developed states of the world by 2050. As indicated above, a flagship “100 Concrete Steps” programme was adopted in 2015 to improve the transparency, accountability, and efficiency of public administration as well as to support economic diversification and competitiveness. The main reform initiatives and achievements of the past decade, including continuing reform initiatives, are outlined below.

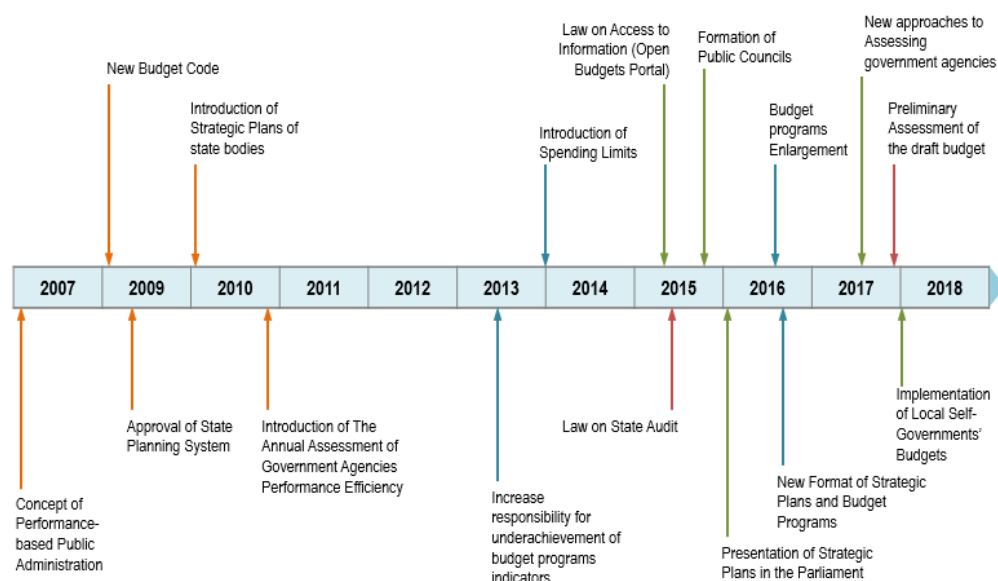
- Kazakhstan adopted **accruals-based accounting** in 2009 using International Public Sector Accounting Standards (IPSAS), and by 2013 all government entities were using the accruals basis (see Section 3.3 for more information). In parallel with the implementation of budget management on an accrual basis, the cash approach remains, which is still of great importance for financing state operations. In 2017, norms were introduced into the Budget Code of the Republic of Kazakhstan (which will take effect from 01/01/2020 for the republican budget, and from 01/01/2023 for local budgets) to supplement the draft budget with accruals information by compiling consolidated financial forecasts. This reform is currently being implemented.
- Kazakhstan has introduced **results-based budgeting**. The approach was developed over several years and has been fully implemented at national level since 2016. The

approach is applied across all line ministries and covers all expenditures. Results-based budgeting is in the process of being extended to agencies and sub-national government, including agreements between national and local executive bodies on the performance of fiscal transfers (see Section 2.2 for more information).

- A general law on **access to information** requires government departments to put all regulatory acts on publicly accessible official websites. From 2012, budget execution reports have been available on the Ministry of Finance websites and from 2017 the Ministry of Finance is required to disclose additional information on the budget formulation, execution and audit (see Section 4.3 for more details).
- Under the “100 Concrete Steps” programme the government is increasing **devolution** of decision making to the local level, with the objective of improving accountability and strengthening citizen’s voices. A new lower tier of local government has been established in rural areas, *auls*, villages, and cities with regional significance, alongside mechanisms to allow citizens to participate in discussions around budget priorities in regional centres and cities of republican significance.
- Changes have been made to the operation of the **National Fund** in order to safeguard its assets and prevent further depletion, as explained in Section 1.2.
- A new system for **auditing and public spending** has been introduced, promoting the risk-based audit practices similar to those of leading international audit companies and moving away from the traditional system of pre-audit and detailed operational control. A new Law on State Audit and Financial Control was enacted in 2015 and under the new system the Accounts Committee carries out three types of audit:
  1. Financial statement audits - assessments of the reliability and validity of financial statements, as well as the financial condition of the object being audited;
  2. Efficiency audits - evaluation and analysis of the activities of the object being audited in terms of efficiency, economy, productivity and effectiveness.
  3. Compliance audits - verification of the extent to which the object being audited complies with the laws of the Republic of Kazakhstan, as well as relevant acts of the quasi-state sector.
- Kazakhstan is in the process of implementing reforms designed to improve the **accessibility of budget documents** and to promote **greater consultation** with the public and civil society organisations. The Civil Budget is being developed as a tool to make the budget more understandable and accessible to the public, including budgets at local and regional level. These will include charts, diagrams and explanations designed to elucidate the budget. Kazakhstan is also in the process of establishing public councils to enable civil society organisations and individual citizens increased voice in the budget process (see Section 4.4 for more information).

Figure 6 summarises the budget reforms which have been implemented over the last decade.

Figure 6. Budget reforms in Kazakhstan since 2007



Source: (Government of Kazakhstan, 2018<sup>[6]</sup>)

#### 1.4.2. Assessment and future orientations for reform

Kazakhstan has made impressive progress in solidifying the legal and institutional basis for budget reform, in line with good practice internationally. In particular the Budget Code is a firm anchor for the budget process and the institutions involved have clear and well-defined roles. Some elements of the reform agenda are still undergoing evolution, in line with the international experience that reform in one area of budgetary governance – e.g. fiscal rules and a stronger fiscal constraint – necessitates reforms in other areas – e.g. programme evaluation and performance-based re-prioritisation.

To move further in the direction of the OECD Recommendation on Budgetary Governance, the following lines of future reform seem the most relevant for Kazakhstan:

- consideration of how the credibility of adherence to fiscal rules, which target the underlying non-oil budgetary balance, and fiscal planning could be enhanced through independent and professional perspectives being brought to bear upon the process; for example through building upon the established role and independence of the ERI.
- assessment of the potential for an expenditure growth rule, which is increasingly used in OECD countries, and also has the benefit of providing incentives for a reform of the tax base, which would be in line with Kazakhstan's broader reform agenda;
- a careful review of multi-level fiscal governance arrangements, to ensure that the benefits of more localised, responsive service delivery are matched with budgetary discipline, central co-ordination and financial control, in the interests of integrity and transparency;

## 2. Strategic Planning and Budgeting

### 2.1. Medium-term budgetary management

#### 2.1.1. Strategic context for medium-term budgeting

Developing a strong medium-term perspective within the budget process has considerable value in maintaining aggregate fiscal discipline, aligning spending with national objectives, setting boundaries for the main categories of expenditure, and providing a stable framework within which ministries can plan activities.

In Kazakhstan the “Development Strategy of Kazakhstan until 2050” provides a long-term planning perspective. Supporting this, the 10 year Strategic Development Plan (SDP), currently to 2020, sets out in more detail the goals, priorities, strategy and expected results with their indicators and targets.

The initial phase of budget development in Kazakhstan is the preparation of the annual Forecast of Social and Economic Development (FSED), prepared by the MNE. The FSED is a rolling five-year forecast that takes its direction from the Development Strategy of Kazakhstan until 2050, and the Strategic Development Plan until 2025 and the President’s annual message. Macroeconomic assumptions combine forecasts of internal factors such as population, labour participation and inflation rates, and external factors such as the growth of the world economy and trade, commodity prices and exchange rates. GDP is forecast using the production method and carried out in accordance with the System of National Accounts (2008). Projections for different sectors of the economy are prepared by line ministries and agencies, and reflect the main directions of economic policy and sector priorities for new spending.

In recent years the FSED, strategic plans and the budget itself have been subject to multiple revisions during the year as economic and fiscal conditions have been subject to rapid changes. For example the FSED for 2016-20 was revised 3 times due to changing global economic conditions. Under normal circumstances, the FSED is revised just twice a year.

Kazakhstan has a system of three-year rolling budgets, with the outer two years representing indicative rather than binding commitments. However this medium term budget is not currently a main focus of discussions around strategic resource allocation. The Medium Term Expenditure Framework (MTEF) has the potential to be developed into a more significant tool for strategic resource allocation, complementing the FSED by providing a more detailed rationale for decisions to shift resources between sectors and within sectors on the basis of alignment with policy priorities.

The strategic planning process at the sector level was overhauled and simplified in 2012-13. One of the main objectives of the overhaul was to improve the alignment of strategic plans both with the Strategic Development Plan and with the budget. Ministry strategic plans now include descriptions of budget programmes, together with key performance indicators and targets. While this represents a significant achievement, the quality of the strategic plans and the design of budget programmes is uneven and the strategic plans do not manage to fully reconcile strategic objectives with hard budget constraints.

#### 2.1.2. Strategic planning and budgeting at sub-national level

Efforts are currently underway to improve the strategic alignment of the budget at local government level. The process of preparing a Forecast of Social and Economic

Development (FSED) exists at the second tier of government, i.e. the *oblast*, the city of republican significance and the capital Astana. At this level of government the FSED contains:

- trends, priorities, target indicators and indicators of social and economic development
- a forecast of social and economic development
- budget parameters, including forecast revenues and expenditures, new expenditure initiatives and a list of priority budgetary investments.

The forecasts are developed by the local authorised body on state planning and approved by the local executive. The FSED of the Republic of Kazakhstan, having been approved by the Republican Budget Commission at the first stage of the project, and approved by the Government at the second stage<sup>3</sup>, is used as a basis for the FSED for the regions, the city of republican significance, and the capital Astana.

### *2.1.3. Summary assessment and recommendations*

Frequent updates to an economic forecast help improve its accuracy, but can compromise the ability of stakeholders to track actual performance against original expectations, and thus transparency and accountability. In the case of Kazakhstan, limiting revisions to once a year at the mid-year point would facilitate greater transparency and accountability. It would also align the frequency of the forecast with many OECD countries that produce an initial forecast to inform the budget, and a mid-year forecast update.

As part of the proposed new spring phase of the budget preparation process, the three-year rolling forecasts should provide a normative framework to guide the evolution of the public finances and to support planning within ministries, and taking account of clarified fiscal rules.

## **2.2. Results based budgeting in Kazakhstan**

After several years of preparatory design work, Kazakhstan introduced “results based budgeting” in 2016, based on a 2013 amendment to the Budget Code (2008). The principal components of the new system are as follows;

- A 5-year FSED incorporating fiscal projections is developed on a rolling basis annually,
- Streamlined strategic and operational plans for ministries and other state bodies,
- Three-year medium term budget plans, prepared by ministries and agencies on a rolling basis, including performance indicators and targets,
- An explanatory note, forming part of the budget package presented to parliament, explaining past and planned programme performance, issues and proposed actions to achieve performance goals,
- Organisation of the budget on the basis of programmes,
- Programme managers with increased budgetary autonomy and accountability for achieving performance goals, and
- Memorandums committing to the achievement of programme objectives.

The Budget Code (Art. 32) requires that all government ministries and agencies develop budget programmes, including their total expenditures, and including indicators of programme effectiveness, efficiency and quality.

The development of budget programmes is closely linked to the development of the 3 year budget plan and to ministry level strategic plans. Budget programmes in Kazakhstan are based on major state functions and reflect the organisational structure of the government and the public services that they provide. Several types of programme are defined in the Budget Code. These include programmes for the provision of public services, transfers between levels of government, capital investments, credits etc.

Programmes are divided into “current” and “development” programmes, corresponding to the distinction in the unified budget classification. Budget programmes may be further broken down into sub-programmes and activities, subject to the performance measures and results being consistent with those of the main budgetary programmes.

While the MNE provides some central guidance and oversight of the development of strategic plans and budget programmes, in practice responsibility for the definition of programmes, performance indicators and targets is largely devolved to line ministries and agencies. As a result, there is wide variation across ministries both in the number of programmes and in the quality of performance indicators and targets. For example, the MNE is responsible for more than 15 programmes while some smaller agencies have only one programme with no sub-programmes.

Information about budget programmes and performance information is included in the strategic plans of ministries and in an additional “Explanatory Note” that accompanies the main budget document. The explanatory note contains a brief description of the proposed budget programmes, the rationale for changes to the base cost, analysis of results achieved and the reasons for significant changes to budget programmes as compared to the previous year. The FSED, the strategic plans, budget and the explanatory note together form the main elements of the budget package, which is discussed and debated in parliament by the relevant finance and sectoral committees.

Results-based budgeting is in the process of being extended to local government. The regions (*oblasts*) and important cities are already required to develop budget programmes, approved by the relevant local elected bodies. For targeted transfers to sub-national governments, the performance indicators and targets are reflected in local budget programmes.

### *2.2.1. Numbers and types of budget programmes*

The 2016 budget was broken down into 270 programmes, spread across 33 government bodies, giving an average of around 8 to 9 programmes per ministry. This was a substantial reduction in number compared to the previous year when there were more than 500 programmes. However, the number of programmes within each ministry or agency varies widely; with some ministries like MNE and the Ministry of Industry and Trade having a large number of programmes (more than 30) while other entities, such as the Constitutional Council and the Accounts Committee, have just one or two programmes each.

### *2.2.2. Performance indicators*

The quality of indicators and targets varies considerably across ministries and agencies. Ministries with fewer programmes generally seem to have better quality KPIs, while a number of policy ministries (e.g. innovation, energy, education and science) have found it challenging to come up with good quality, relevant indicators. The MNE plays the main co-ordinating role within government, including alignment of programmes that together

contribute to the achievement of cross cutting goals. The MNE itself has a number of high level, cross-cutting indicators, such as the achievement of budget balance and GDP growth.

The performance-based budgeting reforms are supported by ongoing performance-oriented reforms of the civil service, parliamentary budget oversight and changes in audit practices. Under the 2015 “100 Concrete Steps” programme the government is committed to strengthening accountability and creating a modern, meritocratic civil service, including a transition to salary increases based on performance and results and sanctions for non-performance. The performance of civil servants will be assessed on the basis of achievement of annual objectives; the performance of state agencies will be assessed based on achievement of strategic plan objectives; and the performance of ministers and *Akims* will be assessed based on indicators of the quality of public services. An additional measure to strengthen accountability is the introduction of annual public statements by heads of state agencies on the achievement of key objectives, and publication of these reports on official websites.

### *2.2.3. Performance reporting and accountability*

The annual report on budget execution includes detailed reports on the achievement of performance targets. Following the year end, based on reports from line ministries, the MNE prepares an opinion on each programme and the extent to which it has met its objectives and this report goes to the President for review. Results reported by line ministries are also subject to review by internal auditors.

Accountability for delivering results is further strengthened by a provision (set out in the Budget Code) that each budget programme should have a designated official administrator who is responsible for planning and execution of the budget programme, and who is liable in the event of failure to achieve the results of the budget. In addition state agency managers sign a memorandum committing the manager to deliver the programme objectives.

In spite of a strong accountability framework however, the consequences of under (or over) performance are unclear and mostly consist of closer scrutiny rather than budget cuts or the dismissal of the programme manager.

In OECD countries there has been extensive experimentation with systems and procedures to strengthen accountability for performance, both financial rewards and sanctions for individuals, and budget increases or cuts for spending programmes, based on whether or not performance targets have been achieved. A few experiments with automatic budget cuts for poorly performing programmes have been scaled back or discontinued (e.g. Korea). The number of exogenous factors affecting performance explains one reason why automatic budget cuts are rarely an effective response to under-performance, which may be due to many reasons including poor programme and policy design, poor specification of performance indicators, unrealistic targets, unforeseen risks etc. OECD countries' experience suggests that in-depth analysis is needed to understand the reasons for good and bad performance and identify good solutions.

Similarly, experiments in using bonuses to improve performance have been largely unsuccessful. The results of performance-related pay policies in OECD countries have been surprising in many ways. Staff are less motivated than might have been expected by the prospect of more money for working better. But performance-related pay can help improve performance when it is applied properly in the right managerial context, if not because of the financial rewards then indirectly through the changes in work and management organisation needed to implement it. While there is little evidence that individual rewards

and sanction are effective in delivering improved organisational performance there are many examples where a system of strong rewards and sanction has worked against the public interest, by incentivising agencies either to set easily achievable targets, or to manipulate or even falsify performance data. Cases of fraud, while rare, generally results in substantial damage to the reputations of political leaders and erodes public trust in government. Approaches that appear to have been more successful include performance contracts between line ministries and agencies. This works best for more routine service delivery functions with clear outputs and performance measures. Individual performance agreements for very senior officials may also be effective when senior executive reputations and career progress is linked to good performance. At lower levels in the administration, individual performance objectives should be aligned to higher level programme objectives through the process of annual objective setting and appraisal for individual staff. Publication of performance information enabling comparison, for example between schools or hospitals in different regions or cities, can act as strong motivators to improve performance, especially when supported by dissemination of best practices and regular routines of performance monitoring within agencies designed to identify and respond to problems in programme execution.

#### *2.2.4. Assessment and future orientations for reform*

The performance orientation of the budget has been notably well developed over recent years. In particular there are strong links between the government's strategic goals and budget programmes at the sectoral level. Managerial responsibility for programme delivery has been clearly identified although accountability for performance is limited in practice. The quality of the design of budget programmes, indicators and targets remains uneven however, and there are wide variations in the number of programmes across different parts of government. Performance budgeting is not yet well supported by other tools of performance, specifically programme monitoring and evaluation is limited. Additionally, the practice of carrying out spending reviews, widely used in OECD countries, has not yet been adopted by Kazakhstan.

Government bodies, including the MNE, should play a stronger role in managing performance budgeting, in particular keeping data volumes manageable and ensuring effective use of data. This could include setting an upper limit on the number of programmes and identifying a small number of performance measures for closer scrutiny and attention by management. Successful approaches instituted by other countries include regular in-year performance discussions and identification of a limited set of "priority goals" that become the focus for regular attention from senior management.

Government bodies should also work to improve the quality and relevance of performance measures. The government could differentiate, for example, between service delivery programmes and policy programmes. For service delivery, there could be increased use of measures of service delivery quality and efficiency. These should also incorporate measures of citizen satisfaction. To support this process the government may also need to establish standards for service delivery, focused on the citizen experience. For policy functions, the focus could be more on milestones, outputs and economical use of resources.

### Box 3. Development of quality performance indicators

The quality of performance indicators can be summarised by the acronym SMART, standing for:

- Specific
- Measurable
- Achievable
- Realistic
- Time bound

In practice, the selection of the best performance indicators also depends on good sector knowledge and judgement, and indicators may be refined improve over time through a process of trial and error. This process can be sped up through the provision of central guidance and training. A number of governments have developed detailed guidance on the development of performance indicators.

One of the most comprehensive sets of guidance is provided by the Government of the Commonwealth of Australia ([www.finance.gov.au/resource-management/performance/](http://www.finance.gov.au/resource-management/performance/)). Other governments have developed similar guidance on the development of performance indicators in the context of evaluation, for example the Canadian Government's Treasury Board Secretariat ([www.canada.ca/en/treasury-board-secretariat/services/audit-evaluation/centre-excellence-evaluation/guide-developing-performance-measurement-strategies.html](http://www.canada.ca/en/treasury-board-secretariat/services/audit-evaluation/centre-excellence-evaluation/guide-developing-performance-measurement-strategies.html)). Another source of useful guidance in English is the US Performance Improvement Council, which supports the US administration in implementing the Government Performance and Results Modernization Act (<https://pic.gov/>).

Ministries could develop a stronger performance culture through regular use of performance information for internal management purposes. The practices, seen in a number of OECD countries of identifying a subset of priority goals for senior management attention and the development of “dashboards” to help senior managers track progress could usefully be emulated by individual ministries. A good example from OECD countries experience is the USA's practice of identifying Agency Priority Goals, supported by action plans and quarterly performance management meetings and reports.

## 2.3. Performance monitoring, evaluation and the role of spending reviews

### 2.3.1. Programme performance monitoring and evaluation

*Ex-ante* evaluation of programmes is carried out mainly through the process of budget preparation and scrutiny of strategic plans and budget proposals by the MNE. Such evaluation is focused on the development budget (capital spending) rather than on the recurrent budget. In addition there is a formal requirement for *ex-ante* evaluation of the impact of all new laws. A multi-disciplinary approach is followed to regulatory impact analysis, with external input from academic institutions as well as analysis by the MNE of the economic and budgetary impact of all proposed new laws.

A new system of *ex-post* evaluation of spending was introduced in 2017. This shifted the focus from the exercise of financial discipline to the achievement of results, with budget programmes as the unit of analysis. Each year the budget results of 15 ministries and every

*akimat* are evaluated by the MNE. Ministries that are considered sensitive for security reasons are excluded from the evaluation exercise.

These evaluations are broad in scope but limited in the depth of their analysis. There is a strong focus on the achievement of output and outcome targets. Programmes are measured and compared based on meta-indicators such as the percentage of targets achieved, the percentage of budget spending achieved and the level of adherence to budget discipline. The methodology is being developed progressively to address some of the continuing challenges in respect of the quality of performance indicators and targets. From 2018, the evaluation process will also look at the appropriateness and relevance of the targets and the extent to which performance information is used by the ministries. One major limitation of the approach is that the evaluation only looks at the development part of the budget, not the administrative expenditures.

While the attention to evaluation is a welcome development, international experience indicates that in order to be effective, the evaluation framework should extend across the budget cycle, with varied and nuanced approaches at different stages. Such a systematic approach – e.g. as in the case of Chile (see Box 4) – involves, in first instance, a systematic process of *ex-ante* evaluation of proposals for new policy initiatives or programmes, including the identification of performance indicators and targets that provide an important baseline for future monitoring and evaluation. Other relevant examples include the UK practice of developing “single departmental plans” which is a more holistic approach incorporating the discipline that performance targets can only be included if supported by sufficient resources.

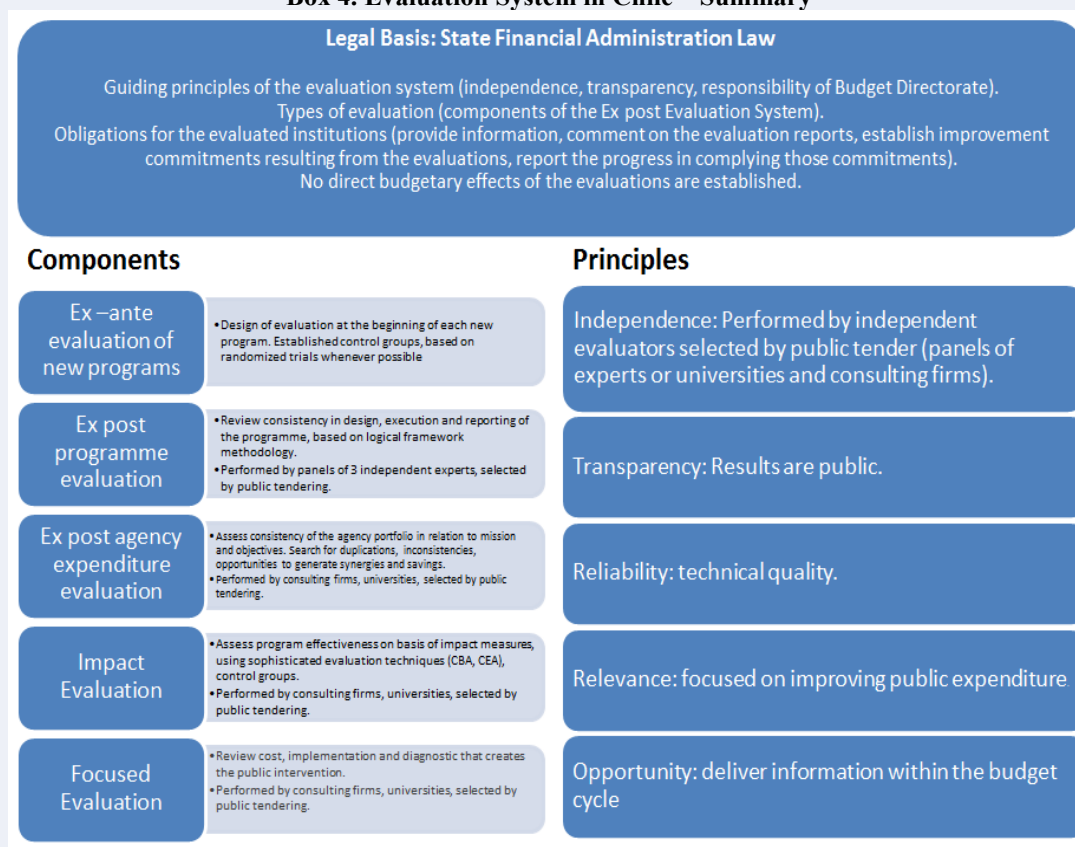
During programme implementation, good practice in OECD countries is to put in place management routines within line ministries and agencies to encourage regular monitoring and review of programme performance during the year. In this way problems may be identified early in the implementation of a programme and course corrections made in a timely manner. For example, the use of tools such as regular performance meetings, management, identification on a limited set of “agency priority goals” for senior management attention, and performance dashboards, are all features of the US Government Performance and Results Modernization Act of 2010. Implementation of this approach at the agency level is overseen by the White House Office of Management and Budget and additional technical support and advice is provided by the Performance Improvement Council.

Monitoring and evaluation is further supported by good quality annual reporting on the budget outturn. Line ministries and agencies annual budget execution reports should contain information about performance and results together with narrative explanations (evaluation) of the main reason for under/over-achievement that feed back into budget decision making. The UK’s annual reports and accounts provide a good example of integration of performance data into financial reports, incorporating analysis of performance. In Australia, wide variation in the quality of reports and the information contained in them led the Department of Finance, and the Australian National Audit Office, to jointly publish a [better practice guide](#) for performance information in annual reports (ANAO and Department of Finance and Administration, 2004). The guide contains practical advice on the main areas for improvement, including the performance reporting framework, data management and measurement, and explanation of results. The guide also contained a large number of good practice examples for agencies to consider and emulate where appropriate.

Classic programme evaluation is the process of *ex-post* evaluation, usually carried out at or near the completion of a programme or even later. This typically considers a broad range of issues, including the effectiveness, efficiency and relevance of a policy or programme as well as considering the quality programme management. Typically such evaluations are carried out by teams of independent experts with both technical and financial expertise. For cost reasons, a limited proportion of programmes is normally selected for evaluation each year.

In Chile the performance evaluation system is a core element of the countries performance budgeting system and the need for evaluation is embedded in the organic budget law. The Budget Department of the MoF oversees the process and has developed a number of different evaluation instruments to cover the full range of programmes while adhering to a consistent set of principles that are designed to ensure quality and impact. The main elements of the system are summarised in Box 4.

#### Box 4. Evaluation System in Chile – Summary



In Korea the programme evaluation process seeks to measure the relevance, efficiency, and effectiveness of a programme. The In-depth Evaluation of Budgetary Programmes institutionalised the in-depth evaluation process as part of the performance budgeting system. Every year, an evaluation panel is created for each of the group of cross-cutting programmes selected for evaluation. Panel members mostly come from public research

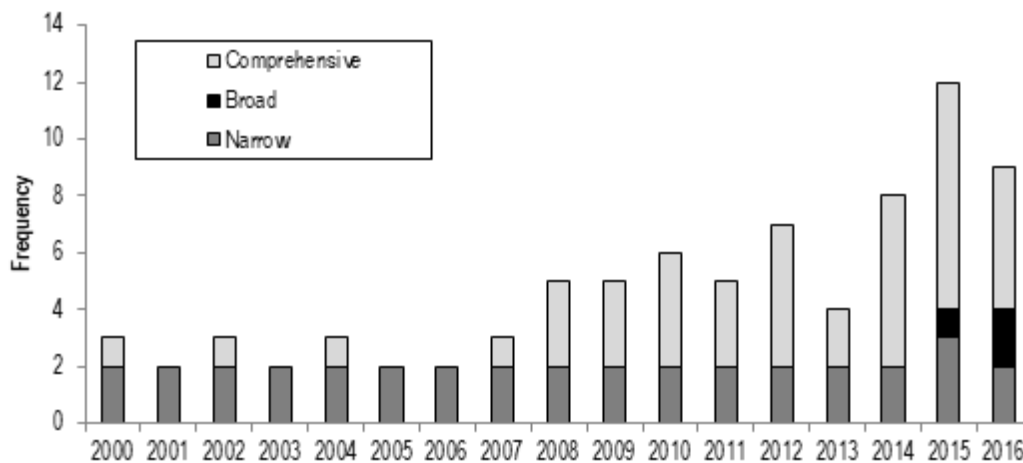
institutes and universities and since many stakeholders are involved in any given programme, the evaluation panel holds frequent meetings to collect inputs and feedback. The completed evaluation reports are considered by the central budget office, which decides whether to reflect these results in resource allocation changes or programme consolidation. Line ministries are required to report back with their follow-ups.

### 2.3.2. Spending reviews

An additional tool for evaluating and re-prioritising expenditure is the practice of conducting “spending reviews”. Such reviews differ from the normal process of evaluating new spending by looking critically at the justification for existing spending, which typically constitutes 80% to 90% of overall spending. Apart from identifying the scope for efficiency savings, to release funds for reallocation elsewhere (or to maintain macro-fiscal discipline), such reviews can also play a role in testing the alignment of existing spending with the government’s strategic priorities and goals.

**Figure 7. Spending Reviews in OECD Countries**

Analysis of the type and frequency of spending reviews 2000-2016.



Source: (OECD, 2016<sup>[7]</sup>),

As shown in Figure 7, spending reviews are widely used across OECD countries, but vary considerably in their scope and objectives. One type is a “comprehensive” spending review. This is normally carried out infrequently, for example when there is a need for a large cut in overall expenditure, or for a strategic realignment of spending to match the policy objectives of a new government. Good examples of the “comprehensive” approach are provided by the UK and Ireland, both of which used this approach to help make overall cuts during times of austerity. A more routine approach, followed in countries such as Canada, Denmark and the Netherlands, is to conduct more limited spending reviews of sector or a programme. There are also examples (such as Canada) where the government carries out horizontal reviews in areas such as spending on innovation or management of government’s fixed assets. These are driven more by performance than by fiscal objectives.

### 2.3.3. Assessment and future orientations for reform

Evidence-based decision making is as important in the budget sphere as in any other sphere of government policy. In the field of budgeting, evidence-based analysis should ideally be

used in the development, implementation and evaluation of spending programmes. In Kazakhstan, the evaluative part of budget analysis is limited to a broad-ranging, but somewhat shallow or one-dimensional, *ex-post* annual assessment of programme performance by the MNE, plus an external review by the Accounts Committee that includes an assessment of whether or not performance targets have been met.

In seeking to increase the use of evidence in policy making, the government should develop a richer, multi-year continuum of evaluative and performance information, using distinct but complementary processes of monitoring, evaluation, performance-budgeting indicators and spending review, and to draw upon results of these exercises across the annual and multi-annual budgetary cycles. The main elements of such an approach could include:

- *Ex-ante* evaluation or appraisal of spending programmes to include a performance-linked justification of expenditure and baseline performance measures/values that can be used for subsequent programme monitoring and evaluation.
- In-depth evaluations of a limited number of programmes each year that would include inputs from independent experts and consider a broad factors affecting programme performance, including programme design, management, funding, and the relevance of performance measures and targets.
- Spending reviews, either broad based or narrower in focus, the main objectives of which would be to identify scope for savings and to reallocate resources to match new government policy priorities.
- The Accounts Committee could also play a constructive role in improving the quality and use of performance data, developing a more evaluative perspective, focusing on such aspects as the relevance of performance indicators and targets, and the reliability of the reported data.

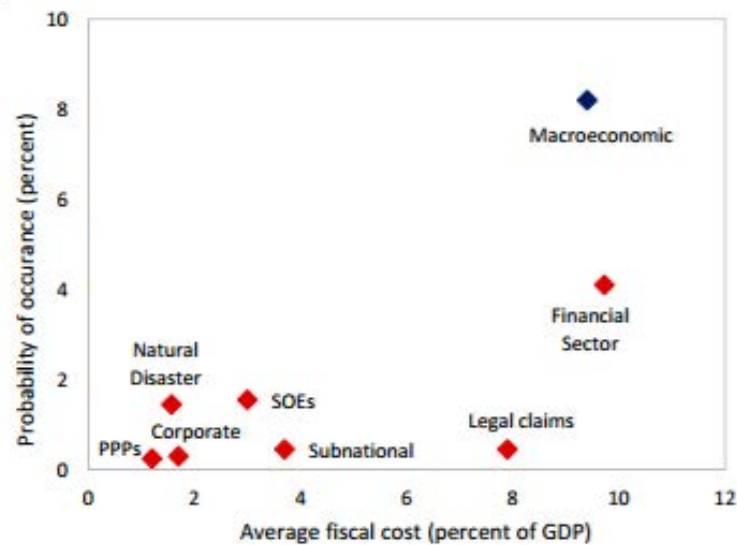
#### ***2.4. Management of fiscal risks and long-term sustainability of public finances***

Kazakhstan is vulnerable to external macro-economic shocks as a result of its dependency on natural resources and its geographic position. This ties its economic performance to that of its main trade partners, the European Union, China and Russia and its exposure is further increased by its landlocked position which makes it relatively dependent on neighbouring countries' logistics networks.

Over recent years Kazakhstan has experienced a series of economic shocks that have put serious strains on the budget and depleted the reserves of the National Fund. Prudent management of public finances and strong balance sheets have been critical in enabling the government to use fiscal policy to stabilise economic activity in the short-run, for example through increased expenditure on social welfare programmes, and promoting economic growth over the longer term, for example through spending on public infrastructure and education. In the longer term Kazakhstan faces fiscal sustainability challenges arising from its dependence on natural resource revenues and demographic changes that mean the elderly population will increase from approximately 11% of the population to 15% by 2050.

Figure 8 illustrates the range of fiscal risks faced by governments and their relative probability and impact. Amongst the risks faced by Kazakhstan, macro-economic risks have been predominant, but Kazakhstan also faces rather high levels of potential exposure to other important types of risk, notably from the financial sector and from state-owned enterprises. Contingent liabilities, such as guarantees provided by the government to state-owned enterprises or to bank depositors are also significant and need careful monitoring.

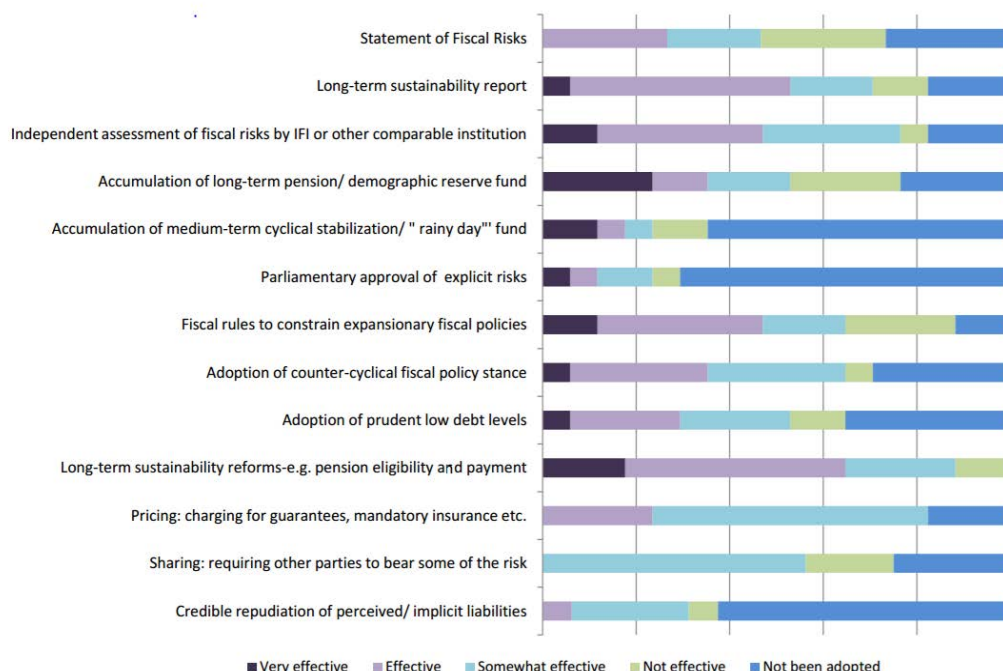
**Figure 8. Fiscal Risks: Their likelihood and impact**



Source: (International Monetary Fund, 2016<sup>[8]</sup>)

The long-term sustainability of government finances may be affected by decisions that have little immediate impact, but have a long-term cumulative effect. Such factors include the depletion of natural resources that provide the basis for future government revenues, and changes in state pensions and other entitlements that will increase or decrease long-term liabilities. The impact of exogenous factors such as demographic change, points to value of modelling and analysis to improve understanding of the long-term sustainability of public finances and inform policy making.

OECD countries follow a number of broad strategies for managing fiscal risks and ensuring long-term sustainability of public finances. Figure 9 lists the range of strategies that OECD countries have adopted for the management of fiscal risks and long-term sustainability, together with countries' own assessment of their effectiveness.

**Figure 9. Effectiveness of Fiscal Risk Management Tools**

Source: Authors

Kazakhstan has already adopted a number of the strategies outlined in the preceding figure, notably the accumulation of a strategic reserve in the form of the National Fund, pursuit of low debt levels and fiscal rules that prevent expansionary fiscal policies. Kazakhstan also operates a small contingency reserve fund to cover emergencies and other unforeseen costs such as court decisions. These measures have proved their worth in recent years, enabling Kazakhstan to mitigate the effects of recent economic shocks. However, potential fiscal risks such as those associated with the financial sector, and state owned enterprises, have not been addressed so comprehensively.

Many OECD countries have adopted the practice of providing parliament and the public with analyses of fiscal risks and long-term sustainability and have further strengthened this by ensuring that this is backed up by an independent assessment. For example, Finland produces an annual “Overview of Government Risks and Liabilities” that categorises and rates risks, including risks from the financial sector, and provides information about long-term sustainability.

Other OECD countries have created special purpose reserves to deal with specific fiscal risks that they have identified such as Turkey’s Catastrophe Insurance Pool, financed by mandatory insurance payments, aimed at mitigating the fiscal risks from major earthquakes and Ireland’s long-term pension reserve, for which the government sets aside 1% of GDP annually.

#### *2.4.1. Assessment and future orientations for reform*

Kazakhstan’s prudent management of natural resource revenues provided a crucial balance sheet reserve in the period after 2014 that enabled it to prevent a severe economic downturn.

The introduction of new fiscal rules, linked to the National Fund, has helped to promote fiscal sustainability and should strengthen Kazakhstan's ability to withstand shocks in the longer term. Elements of long-term fiscal sustainability analysis, incorporating such factors as demographic change, are incorporated into strategic planning and policy development, but mostly at the level of line ministries. However, some important areas of fiscal risk remain largely out of sight, and additional steps could be taken by the government to align itself with OECD principles of budgetary governance, international public sector accounting standards and the IMF Code on Fiscal Transparency. Specifically, Kazakhstan could:

- Prepare an annual analysis of fiscal risks, classifying these by type and explaining and quantifying them (to the extent possible) to inform the budget preparation process, ideally published as part of the annual budget presented to parliament.
- Publish a report on long-term fiscal sustainability as part of the annual budget package.
- In this context, progressively include an analysis of longer-term impacts of factors beyond demographics, e.g. the Paris Agreement on climate change, decarbonisation goals and other environmental commitments.
- Maintain a central register of state guarantees and disclose state guarantees and contingent liabilities in the annual financial statements of the government, following IPSAS 19 (contingent liabilities) and the IMF Code on Fiscal Transparency.

### 3. Budgetary management and control

#### *3.1. Developing and preparing the republican budget*

##### *31.1. Preparation of the draft republican budget*

###### *March-April: the Forecast of Social and Economic Development (FSED)*

The starting point for the annual budget cycle is the preparation of the FSED draft by the MNE in April. This important document presents the government's updated economic forecasts and assumptions for the following five-year period. The FSED also contains an indication of the corresponding resourcing implications, based on latest economic projections (see Section 2.1). The FSED is presented and discussed by parliament in September, although in its final rather than draft form.

###### *April: Determination of spending limits for budget programme administrators*

Taking into account the FSED draft, the MoF prepares its initial assessment of expenditure allocations for each ministry and agency, taking account of fixed expenditures (administration and salaries), maintaining the existing level of public service activities and the scope for new policy initiatives, as well as the overall budget limitations arising from the National Fund Concept (see Section 1.2). As regards new policy initiatives, the FSED already contains an indication of the available scope, and so the prior discussions and agreements in parliament and government on this matter are reflected. In general, new measures must be aimed at (a) giving effect to new policy directions arising from the strategic and programme documents, as well as (b) accommodating cost increases and expanded policy mandates within existing programmes.

On this basis, the initial proposed allocations are disseminated to line ministries, not later than 1 May, as a basis for them to develop their formal budget requests. To this point in the cycle, the budget formation phase conforms well with OECD budget principle no. 1 which advocates “top-down” budgetary management, matching policies with available resources.

*May 15 to end-July: Processing initial budget requests from line ministries*

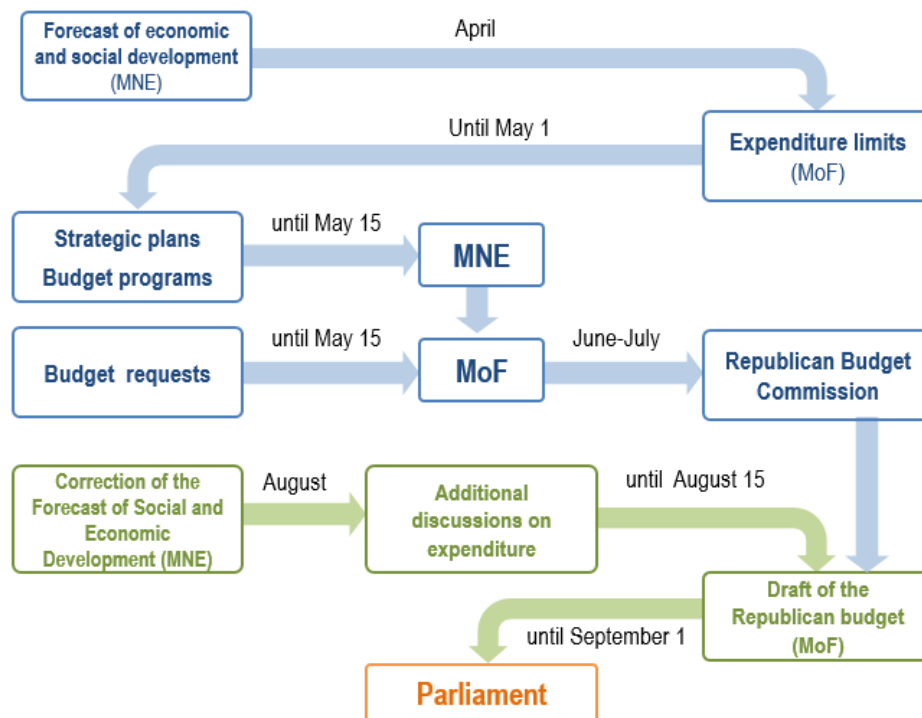
Formally, the initial draft expenditure limits are presented by the MoF to the senior administrators of the budget programmes within the various line ministries, along with a budget application pack – i.e. a set of forms for the upcoming planning period to justify the volume of expenditures and to submit additional requests. This process, which takes place in parallel with the development of draft strategic plans by the line ministries, must be completed by 15 May. It should be noted that, at this point, the “top down” nature of the budget process gives way to a strong “bottom up” phase, whereby the MoF must contend with a potentially very large volume of requests for additional resources. The analytical efforts involved in analysing and weighing the relative merits of these applications is considerable, and also makes it more difficult to adhere to the originally stated fiscal objectives.

*August: High-level political consideration and approval of the draft budget*

Following its analysis of budget proposals, the MoF prepares the initial draft budget and submits it to the Republican Budget Commission, no later than 1 August, for its consideration. As outlined in Section 1.3, the Republican Budget Commission is a senior political forum chaired by the Prime-Minister, alongside the chairpersons of important committees of parliament. Such top-level political oversight lends extra authority to development of the draft budget, although it should be noted that the involvement of parliament chairpersons directly during the preparation of the draft budget is not standard international practice; and may indeed involve some tension with the parliament’s subsequent role in scrutinising the draft budget (see Section 4.1).

After consideration by the Republican Budget Commission, the draft budget is submitted to the government by 15 August. The official draft budget is finally submitted to the parliament for its consideration by 1 September (see Section 4).

A summary of the budget development process is provided in Figure 10 below.

**Figure 10. The process for preparing and developing the Draft Republican Budget**

Source: (Government of Kazakhstan, 2018<sup>[6]</sup>)

### 3.1.2. Structure of the draft budget

Formally, the Republican budget consists of the revenues and budgetary allocations for a three-year period including the budget year. However, only the first year is legally binding and must be executed; the figures for the second and third years are indicative and are routinely adjusted and updated by the time the following budget cycle comes around.

The republican budget is formed according to the structure established by the Budget Code, and consists of the following sections:

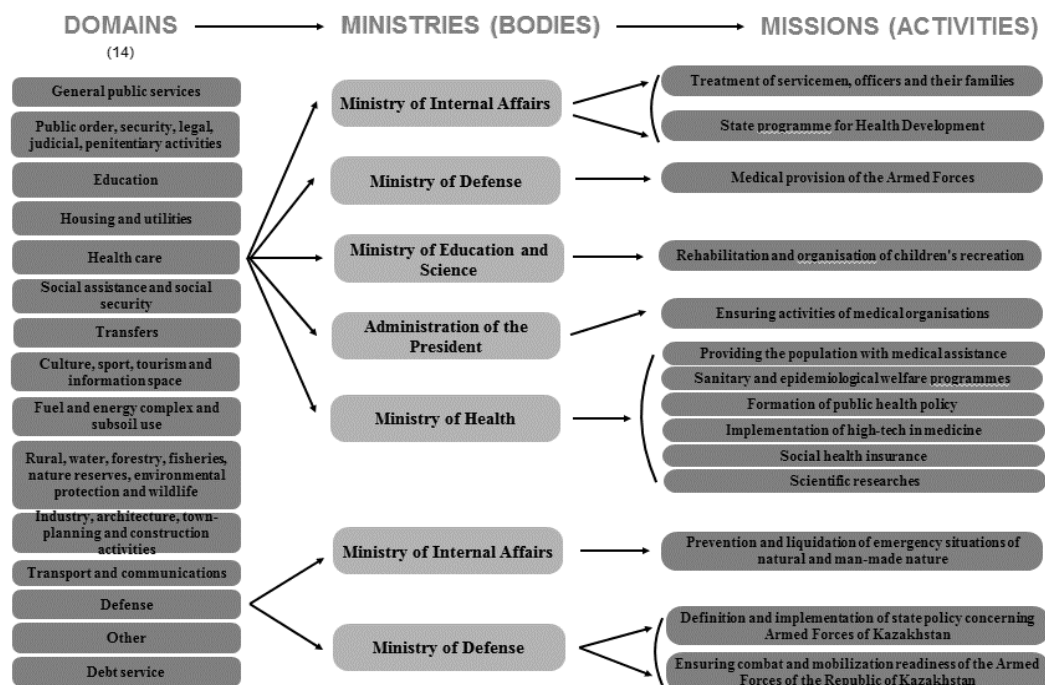
1. income: tax revenues; non-tax revenues; proceeds from the sale of fixed capital; receipt of official transfers;
2. expenditures;
3. net budget lending: budgetary credits; repayment of budget loans;
4. balance of operations with financial assets: acquisition of financial assets; proceeds from the sale of financial assets of the state;
5. budget deficit (or surplus); and
6. financing the deficit (or using a surplus) of the budget: receipt of loans; repayment of loans; movement of budget funds.

While the format of the budgetary information is consistent from year to year, there is no “official summary for decision-makers” to provide a digest of key policy-relevant points within this comprehensive corpus of information.

It is notable that the budgetary allocations are grouped in a thematic and programmatic manner which facilitates their linkages with the strategic planning documents. Figure 11

below gives an indication of how the budgetary information is structured into policy domains, responsible agencies and specific missions (or programmes).

**Figure 11. Structure of the budget of Kazakhstan**



### 3.1.3. Assessment and future orientations for reform

The annual budget preparation process is based upon the need for a close synergy with the annual planning process, which is good practice and in line with OECD budget principle Number 2 (“closely align budgets with the medium-term strategic priorities of government”). In addition, the budget formation phase attempts to conform to fiscal limitations, in line with OECD budget principle Number 1 (“applying top-down budgetary management, within these clear fiscal objectives, to align policies with resources over each year of a medium-term fiscal horizon”). However, the future reform agenda should address some immaturities within these areas, based upon the following priorities:

- a closer articulation and sequencing of the planning and budgeting elements, so that the synergy between these elements is more fully realised;
- a stronger role for top-down budgeting and fiscal discipline throughout the various phases of policy formation, while retaining a balanced role for policy flexibility in response to emerging issues; and
- a more mature and balanced engagement of parliament across the stages of the budget cycle.

Each of these elements are also linked to the strengthening and clarification of the medium-term expenditure framework, as outlined in Section 2.1.

In similar vein, it is becoming common practice in OECD countries for the budget cycle to be more clearly segmented or “semesterised”, with a strategic and macro-fiscal policy semester taking place before a budgetary allocation semester. Under this scenario, the early

part of the year is dedicated to setting the high level parameters of fiscal policy, with an indication of the “fiscal space” available to policy makers; and to deciding on key strategic priorities for the period ahead. The latter part of the year is then dedicated to settling the detail of budgetary allocations within these agreed high-level parameters. The advantage of such an approach is that it allows the government to manage the overall public finances in an effective “top down” manner, while also allowing for a vigorous debate on the details of tax and expenditure policy. In circumstances where all of these important questions are continually raised and adjusted during the budget formation cycle, and indeed during budget execution (see next section), there is a danger of the public finance targets being disrupted owing to an excessively “bottom up” momentum in resource allocation policy. In addition, the central ministries – the MoF and the MNE – risk being overwhelmed by a deluge of requests from line ministries, pre-empting the policy space for critical analysis and evaluation.

### ***3.2. Quality and oversight in budget execution***

#### ***3.2.1. Processes of budget execution and monitoring***

##### ***Cash management and the Single Treasury Account***

With regard to cash management, Kazakhstan operates a single treasury account via the National Bank of the Republic of Kazakhstan for the purposes of cash management, monitoring and control. This account is operated by the MoF.

After the budget has been approved in parliament, administrators of budget programmes must prepare an Individual Plan for Obligations and an Individual Payment Plan. In addition, the MoF has available to it a consolidated plan for funding commitments, a consolidated revenue plan and financing for payments. Based upon these documents, the Treasury Committee of the MoF effects cash transfers to authorised beneficiaries.

Line ministries and other bodies carry out expenditures on the basis of an individual financing plan approved by the administrator of budget programmes. The MoF prepares, approves and maintains a consolidated financing plan for obligations, a consolidated plan for payments on the republican budget on the basis of individual plans of administrators of budget programmes. The government has the right to redistribute the expenditures of the republican budget in certain circumstances during the implementation of the budget (see the next section).

In executing their budget plans, the bodies concerned use cash flow forecasts. While these are available to the MoF, the forecasts are not published and so there is no public “profile” of expenditure and revenues to assist public oversight in regard to efficient budget execution.

##### ***Budget execution reports***

Budget execution is monitored at federal level on the basis of monthly reports on revenues and expenditures, made to the MoF. In the event of inappropriate or inefficient use, the ministry may bring proposals to the Republican Budget Commission so that appropriate actions may be considered. Potential responses may include suspension or withdrawal of funding.

At regional and local level, budget execution is carried out on the basis of a monthly breakdown of the revenues and expenditures. As at national level, inefficiencies in

spending are the subject of consideration via the Republican Budget Commission as to the appropriate response.

The Budget Code specifies the requirements for the annual report on execution of the republican budget. In addition to standard details regarding financial execution, the annual report includes specific indicators of programme implementation and performance on the basis of evaluations and results achieved. In principle, this approach lends the annual execution report additional weight and policy relevance; and in particular the report forms a natural end-point, and focus of accountability, for Kazakhstan's system of performance budgeting. In turn, the Accounts Committee (the national audit institution -see Section 4.2) and the parliament (see Section 4.1) make use of the detailed information contained in the execution report.

A challenge for such an all-encompassing report is to ensure that key points of information are clearly communicated, and indeed that policy messages can be drawn from the extensive information. This challenge is particularly acute where different types of information – financial, performance-related and evaluative – are set alongside each other.

At both national and regional / local levels, pressures for additional funds can usually be accommodated in some fashion, within the budget year, rather than require the agency concerned to cut back on other expenditures: see the next section.

### *3.2.2. Budgetary flexibility and agility*

#### *Flexibility in execution*

The Budget Code allows for some flexibility in the reallocation of funds within specific programmes and sub-programmes, if budgetary savings arise in the course of budget execution. However this flexibility does not apply for funds sourced from the National Fund. Similar provisions apply at regional and local levels.

In line with Article 111 of the Budget Code, reallocations of up to 5% may be authorised by the programme administrator within one programme area; reallocations of between 5% and 10% require consideration at the Republican Budget Commission.

#### *Long-term commitments and budgetary “carry-over”*

As regards the authority to enter into long-term commitments, the Budget Code specifies the types of expenditure for which this is permitted, including budget development programmes and procurement service contracts with a duration of more than one year. Interestingly, if there is a budget shortfall in the current year for such expenses, the government or local executive body can decide to finance them from balances at the beginning of the next financial year – effectively borrowing from the following year's allocation.

Unspent funds may, in general, be carried over into the following year for their original purpose. At the regional level, there is also flexibility to carry unused funds forward to the following year, for use in district budgets, again provided that the original purpose is observed.

In case of repeated underutilisation, in principle these specified development transfers should be returned to the higher budget that allocated these funds, before the end of the current fiscal year.

### *Supplementary budgets*

Until recently, it was the practice in Kazakhstan that expenditure pressures, or indeed new and emerging priorities for spending, could be accommodated relatively easily by bringing forward amendments to the original budget. Significant reallocations within expenditure domains could be handled primarily by the executive branch of government, whereas reallocations across expenditure domains could be handled with approval from the parliament.

In 2016, the parliament expressed its reservations that this practice was occurring too frequently, in such a manner as to undermine the integrity of the original approved budget. As a result, these parliamentary adjustments have been limited to once per year. This brings additional stability and predictability to Kazakhstan's budget system, more closely in line with the OECD Budget Principles.

### *3.2.3. Assessment and future orientations for reform*

In general terms, the budget execution procedures are well developed and well regulated, broadly in line with OECD budget principle Number 7 ("actively plan, manage and monitor the execution of the budget"). In particular the use and management of the single treasury fund reflects good practice, and the annual budget execution report carries an importance and policy relevance that is unusually strong in international terms. Future reform priorities should usefully focus on incorporating the broader range of international good practices as set out in the OECD Recommendation, including some relatively advanced elements, including the following:

- publication, at or near the start of the budget year, of a monthly profile of both expected expenditures and revenues, to form a basis for public transparency and parliamentary oversight regarding the faithful, disciplined execution of the budget, while also giving insights regarding its *de facto* financing
- clarification of the limitations and disciplines that should apply in the case of annual carryover of unused funds, to ensure that incentives to effective in-year execution are positive, and to avoid undue macroeconomic risks from accumulation of unspent reserves
- ensuring a correct balance is maintained between the flexibility of the executive branch of government to reallocate resources, on the one hand, and the authority of the parliament to approve and authorise major deviations from the original budget plan, on the other hand; and
- providing that the analysis of performance, evaluation and results, as contained in the annual budget execution report, is supplemented and enhanced through the use of additional reporting and oversight tools, to ensure that the execution report does not become over-burdened in this regard.

### *3.3. Accrual based budgeting and reporting*

Accrual based budgeting and accounting has the advantage of providing a fuller, objective and undistorted picture of the financial position of the government and the true cost of budget decisions (Box 5). Accrual accounting is also a prerequisite for accurate cost accounting, which can yield useful insights on relative efficiencies across different administrative areas.

In OECD countries accrual accounting is far more accepted than accrual budgeting. While 73% of OECD countries use the accruals basis for preparing financial statements (and

another 9% are in the process of transitioning to accruals) only 29% have adopted accruals for budget preparation. The majority continue to prepare their budgets on a cash basis, while providing some limited accruals type information on debt, commitments and guarantees.

With advice from the ADB, IMF and OECD, the government has been moving steadily to implement accruals-based accounting and budgeting since the accrual basis (IPSAS) was adopted as the national standard in 2008. Implementation started in 2009 and accrual was extended to all public entities from 2013. Accounting policies have been developed on the practical application of the standards and the objective of providing a “true and fair view” is met by reporting on both the cash and accrual bases.

Reforms are underway to meet a new objective (Budget Code Art. 61-1) to produce consolidated, accruals based government financial statements. Rules are being developed that cover all relevant areas of accounting policy. The current goal is that for fiscal years 2021–23, all republican budget programme administrators will have to compile a forecast report on the financial position, a forecast report on financial activities, a forecast report on cash flows and a forecast report on capital flows, as well as explanatory notes to these reports.

Gaps remain in the application of the accrual concept in respect of revenue recognition, and the valuation of public assets and liabilities, including employee benefits. Some additional work will also be required to rationalise accounting systems to generate IPSAS compliant reports and to carry out independent financial audit of accruals-based reports.

Kazakhstan is rapidly expanding the use public-private partnerships and concessions to provide public goods and services. This expansion is taking place mostly at sub-national level. Although this is subject to budgetary controls intended to limit the effect on future cash flows an important priority will be to improve disclosure of related financial commitments and contingent liabilities in local government accounts.

#### **Box 5. Accrual budgeting and reporting in OECD countries**

While “cash accounting” focuses upon transactions which move cash into and out of the public treasury, “accruals accounting” is based upon economic events, i.e. transactions that involve an exchange of value (including obligations or commitments), irrespective of when cash changes hands. Cash accounting has the benefit of simplicity, which is valuable in public financial management because many users of public financial documents – including parliamentarians, officials and the general public – would not be expected to have training in professional accounting techniques. However, cash accounting on its own can be manipulated more easily than accruals accounting, e.g. by deferring payments into another period to hide the costs associated with a decision, or bringing receipts forward in order to make the public finances look healthier than they really are. Accrual accounting also entails the maintenance of a balance sheet, showing the value of assets and liabilities and thus the entity’s “net worth”; as well as a cash flow statement reflecting the liquidity of the entity’s financial position.

Because of these advantages, accrual accounting has long been the norm among private companies, In the public sector, and especially in the central government sector, cash accounting has been more traditionally applied. However in recent decades, there has been a steady movement towards the adoption of accruals approaches in various aspects

of government budgeting and reporting. By 2016, 82% of OECD countries prepared their financial reports on the accrual basis, while 32% also prepared accrual budgets (incorporating either accrual, or cash, or both accrual and cash appropriations and related budget execution reports)<sup>1</sup>. Where an accrual basis is used, the type of approach can vary widely, as countries opt to implement some or other parts of the generally recognised international standards (such as International Public Sector Accounting Standards (IPSAS) or the Government Finance Statistics Manual (GFSM)) in their nationally-defined accounting framework.

A number of factors have driven the trend towards accrual accounting, including (a) the development and refinement of the international standards mentioned above, (b) the increasing professionalisation of public financial management and (c) greater capabilities of financial management information systems (FMISs). However, the trend is also driven by a fuller appreciation of the benefits that can be obtained from using accrual as well as cash accounting. Among the key benefits are the following:

- **Quality and transparency:** Accounts prepared on a standard accrual basis include comprehensive information, which allows for the analysis of key features of public financial performance. Moreover, through correct matching of revenues and expenses, the full financial implications of policy initiatives are clearly visible from the outset.
- **Reliability and integrity:** Accrual accounts are less vulnerable to distortion through the manipulation of cash payments, and thus give a more reliable picture of the underlying financial position. Users of the financial reports – both domestically and internationally – can thus focus upon policy content and more readily appraise the true financial position.
- **Efficiency and productivity in government:** Accrual accounting is a prerequisite for effective cost accounting, encompassing the full level of resources consumed in delivering programmes, maintaining assets and servicing liabilities. This in turn underpins an agenda of administrative efficiency and productivity in the use and impacts of public funds.
- **Consolidated approach to public financial management:** The accrual basis, uniformly applied, allows for (and indeed requires) a consolidated approach to managing and/or reporting on the financial position of the public sector as a whole, or broad elements of the public sector, as distinct from the “budgetary central government” sector alone (ministries and agencies).
- **Quality in business processes:** In general terms, the disciplines of accrual accounting are associated with enhanced professionalism in business processes such as internal control; identification, monitoring and costing of liabilities, including contingent liabilities; and fiscal risk management as a whole.
- **Accountability:** a standardised, consistent approach to accruals reporting and budgeting forms a sound basis for planning, implementation, reporting and accountability across the budget cycle; and thus for supporting the functions of key institutional stakeholders such as parliament and the supreme audit institution.

*Note:* <sup>1</sup> Australia, Austria, Canada, Chile, Denmark, UK, Island, Mexico, New Zealand, Switzerland

*Sources:* OECD/IFAC (2017), *Accrual Practices and Reform Experiences in OECD Countries*, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264270572-en>; IMF (2016), *Implementing Accrual Accounting in the Public Sector*. Washington, DC: International Monetary Fund, 2016.

### 3.3.1. Assessment and future orientations for reform

Measured against the OECD principle that government should ‘present a comprehensive, accurate and reliable account of public finances’ Kazakhstan performs well, and provides a quality of information comparable with many OECD countries. From 2018, Kazakhstan will produce an extensive set of financial reports and disclosures. In its further efforts to produce consolidated financial statements, and to introduce accrual-based budgeting, Kazakhstan is setting ambitious goals that, if achieved, would make it comparable to higher performing OECD countries. Suggested steps towards further improving the quality of financial reporting are as follows:

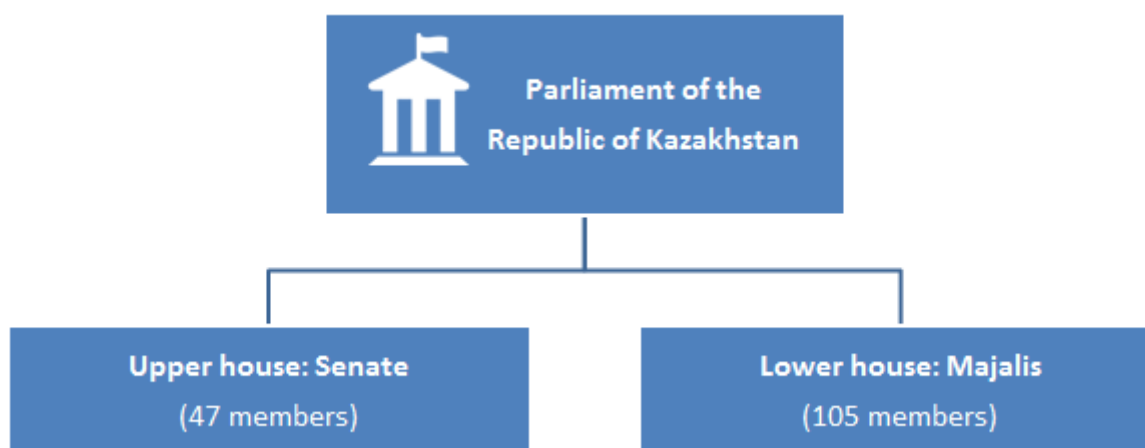
- In the context of the planned introduction of accrual-based budgeting, ensure that cash management issues receive due attention through active monitoring and use of the cash-flow statement.
- Present a more complete picture of government liabilities, including disclosure of PPPs and concessions in the balance sheets of local governments, (IPSAS 32).
- Move towards presentation of a full national overview of the public finances, including government’s net worth, in the form of consolidated financial statements, incorporating sub-national governments, the National Fund and the government’s investments in state-owned enterprises.

## 4. Budgetary Oversight and Accountability

### 4.1. Parliamentary engagement in the budget process

The Parliament of the Republic of Kazakhstan is bicameral with an upper house (Senate) and a lower house (Majilis).

**Figure 12. The Parliament of the Republic of Kazakhstan and its houses**



The Senate has 47 members. These are composed of two members from each region, the city of republican importance (Almaty) and the capital city (Astana), elected at joint sessions of the members of all representative bodies in each region or city. The remaining 15 members are appointed directly by the President of Kazakhstan. The term of office is six years, with half of elected members up for election every three years.

The Majilis has 105 members. These are composed of 98 members elected on the basis of party lists on a system of proportional representation and nine members chosen by the Assembly of Peoples of Kazakhstan. In the current parliamentary session, the National Democratic Party (“*Nur Otan*”) holds 82% of the elected seats.

The parliament plays an important role in the budget process at a number of stages, specifically:

1. **Budget approval:** The parliament is responsible for amending and approving the budget law of Kazakhstan, through consecutive consideration of issues first in the Majilis and then in the Senate.
2. **Financial audit:** Joint sessions of the Senate and Majilis approve the reports of the Government and the Accounts Committee on the implementation of the budget.

The following sections outline the role of the parliament across the different stages of the budget cycle in more detail.

#### *4.1.1. Role of the parliament in budget approval*

The Parliament commences its involvement in the budget process when the draft budget bill is submitted, no later than 1 September. The bill is first considered by the Majilis and then by the Senate.

In the Majilis, the Committee for Finance and Budgeting is the main committee which deals with approval of the budget. In addition, there are six sectoral committees, each of which is responsible for budget oversight in its own area. Upon completion of budget scrutiny, the sectoral committee conclusions are reported back to the Committee for Finance and Budgeting.

As soon as the draft budget bill is received, the Committee for Finance and Budgeting sends a letter to the sectoral committees to establish a working group with responsibility for reviewing the draft budget and the materials that accompany it, such as the socio-economic forecast, strategic plans and performance information relating to budget programmes, and reports from the Accounts Committee (see Box 6).

Upon completion of the working group review, the draft budget is considered at an extended meeting of the Committee for Budget and Financing. Subsequent to approval from the Committee, the draft budget is submitted to the Majilis plenary for debate and approval, before being passed to the Senate.

### **Box 6. Parliamentary Working Group on the Budget**

The working group on the budget is responsible for reviewing the draft budget on behalf of Majilis members (a similar working group is also formed for reviewing budget execution). It comprises a member of the Committee for Finance and Budgeting and one member from each of the sectoral committees. The Committee for Finance and Budgeting is also able to invite initiators of the draft law, representatives of state bodies, consultative-advisory bodies, public associations, scientific institutions, experts and specialists to join the working group.

One member is appointed leader of the working group and the group forms a plan for its work, organising a series of meetings at which it reviews a small number (1-3) of budget programmes. During meetings of the working group, members can propose budget amendments.

The Senate also scrutinises the draft budget with the help of a working group. The working group holds roundtables and hearings involving stakeholders from the public, private and third sector, to inform its consideration of the draft budget. The findings of the working group are considered at a meeting of the Committee for Finance and Budgeting that all members of the working group and Senate can attend. The Senate then formally decides if it is amending and/or approving the budget at a plenary meeting, before sending it back to the Majilis. If the Majilis agree with the proposed changes from the Senate, then it is recommended for approval at the Senate. If the houses disagree then they can set up a Joint Committee with members from both houses to reach agreement.

For up to three months, the Majilis and the Senate can work together and scrutinise the draft budget. Each house tends to review the bill from its unique perspective; the Majilis principally from a political perspective and the Senate principally – although not exclusively - from a regional perspective. At the end of the process, the Senate has final responsibility for adopting the draft budget. This must occur no later than 1 December. Within two weeks of the budget being passed, the enacted Budget is made available to the public.

### **Box 7. Parliament's budget timetable**

#### **1 September**

The Draft Republican Budget must be submitted to the parliament by this date.

#### **1 December**

Republican Budget Bill must be passed by parliament no later than this date.

#### **1 January**

Start of fiscal year.

To date, the budget has always received approval prior to the December deadline. There has never been an occasion when the budget has fallen. However, Article 74 of the Budget Code sets out provisions for this situation. Should the budget fall, the President has the

right to issue a decree on the republican financial plan for the first quarter of the next fiscal year, which will be in force until the parliament passes the budget law. The republican financial plan for the first quarter of the next fiscal year must be issued no later than 25 December and sets out a budget which is one fourth of the forecast republican budget for that year.

### *Amendment powers*

The Kazakh Parliament has the power to amend the draft budget. The parliament can reallocate spending from one area of the budget to another, but all amendments must respect the budget limits set by the social economic development forecast.

In accordance with Article 76 of the Budget Code, when proposing amendments, members should adhere to the following principles:

1. **The principle of validity:** this means that proposed amendments should be accompanied by a written statement of the need to introduce these amendments, their compliance with the priorities of social and economic development, with appropriate calculations to them and proposals for adjusting indicators of territories development programmes, provided for in the budget programmes.
2. **The principle of compliance with the budget balance:** this means that when members make any changes or additions to the draft budget, additional sources of revenue or reduced costs should be identified to maintain the size of the budget deficit no more than the budget, set by the project.

Amendments put forward at working group meetings are subject to a vote, and accepted if the majority of parliament members on the working group vote in favour of the proposal. Amendments can also be put forward during Committee discussions so long as they are substantiated, signed by their initiators and contain relevant legal text.

Over the course of reviewing the draft budget in 2017, parliament members proposed 100 amendments amounting to KZT 260 billion (EUR 645 million). In the end, amendments to the value of KZT 22 billion (EUR 55 million) were agreed. For the most part, these amendments were funded by transferring spending from the Reserve Budget line to other areas of expenditure.

### *Supplementary budgets*

Once the fiscal year has started, both the government and the parliament have the right to adjust the government budget once per year (as well as in emergency situations listed in the Budget Code). Budget amendments which change the overall spending total must be approved by parliament.

#### *4.1.2. Role of parliament in oversight of financial audit*

After the end of the fiscal year, the parliament must receive the Budget Execution Report from the government by 15 April. In addition, the Accounts Committee must submit its Report on the Execution of the Republican Budget, no later than 15 May.

These execution reports are considered sequentially by the Majilis and the Senate. Each house sets up a working group, in the same way they do for the draft budget, to review these execution reports. As part of its consideration, the working groups review reports from budget managers and also seek clarifications and explanations from public servants. The execution reports must be approved at Committee level before being submitted to a

debate in plenary meetings of the Majilis and the Senate where the Minister of Finance and the Chairman of the Accounts Committee make speeches.

After discussions in the Majilis and Senate, the execution reports of the government and the Accounts Committee are approved at a joint session of both chambers of parliament. The vote on budget execution is considered a vote of confidence, but to date the vote has always passed. The execution reports for 2016 were approved at a joint session of the chambers of parliament on 19 June 2017.

#### *4.1.3. Budget documentation*

The information that the parliament should, and usually does, receive as part of the draft budget package is set out in law. Parliamentary stakeholders report that the Explanatory Note accompanying the budget is particularly helpful in supporting parliamentary oversight of the budget. If parliament requires additional information, it also has the right to seek this from the government. In general, parliamentary stakeholders report that they are provided with the information they request.

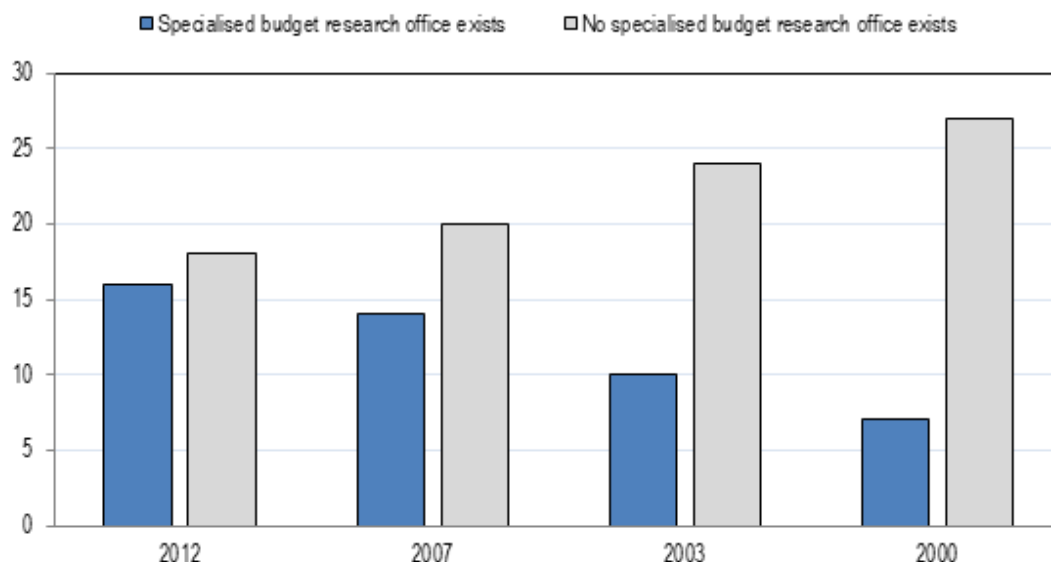
In recent years there has been a reduction in the number of budget programmes and parliamentarians report that, while there is less detail, the quality of information is better and the budget as a whole is easier to scrutinise. Where necessary, members can still request more detailed information on aspects within the enlarged programmes.

#### *4.1.4. Analytical support*

Members at both the Majilis and the Senate have assistants and volunteers who provide analytical support in relation to the budget. In addition, committees have a support staff of 3-4 experts who help collect budget information and draft budget amendments.

The Kazakh Parliament does not have an independent research service at parliament. This contrasts with the situation in most parliaments in OECD countries. The Kazakh Parliament may wish to consider setting up an independent research service. A research service would help provide specialist analytical budgetary support currently unavailable to parliamentarians and facilitate effective scrutiny throughout all stages of the budget cycle.

Not only do OECD legislatures tend to have access to several sources of technical capacity for budget analysis, but there is also a trend in OECD countries to establish specialised units that assist legislatures with budget-related research and analysis (see Figure 13). In some cases, these units are located within parliament, often as part of parliament's research services. In others, they are independent. In the past decade, the number of specialised budgetary research units has more than doubled, and in some cases their size has increased.

**Figure 13. Existence of a specialised budget research office attached to parliament**

Source: (OECD, 2012<sup>[9]</sup>)

### *Transparency and citizen engagement*

The Kazakh Parliament posts information on its meetings and their focus on its website. Meetings of the Majilis and the Senate are also broadcast online. In addition, each Member of Parliament has their own webpage where they can post information on the topics they are looking at in detail.

Parliamentary committees often invite external stakeholders to roundtables or hearings on matters being considered. Stakeholders can also apply to the admissions office to watch committee meetings.

#### *4.1.5. Assessment and future orientations*

Overall, the parliament itself has a high level of engagement with the annual budget. The lower house (the Majilis) is the initial forum for detailed budget scrutiny, and there is a strong role for the budget committee and a structure through which sector-specific committees can feed into the overall scrutiny task, in line with OECD best practice. The senate also conducts its own independent budget scrutiny, and may submit amendments of its own, which – subject to an agreed position with the Majilis – are incorporated into the budget proposal.

At present the parliament has no oversight role in relation to the Forecast of Social and Economic Development and the setting of the fiscal ceiling. However, the principle of *ex ante* engagement of parliament could usefully be brought to bear upon this process. An option would be to submit the medium-term fiscal plan to the parliament for its formal approval as part of a new Spring Fiscal Policy phase (see Section 3). An example of how this is undertaken in Sweden is provided in Box 8.

**Box 8. The role of the Swedish Parliament in fiscal policy setting**

Sweden has a unicameral parliament (the Riksdag) elected by a system of proportional representation. The Spring Fiscal Policy Bill is presented by the government to the parliament on 15 April. It includes comprehensive information on the fiscal policy outlook, perspectives on fiscal risks and long term sustainability, and extensive baseline information on all areas of public spending. This provides for parliamentary debate on fiscal policy, in general terms. The Bill is voted upon in a single vote by Parliament in early June.

A functional benefit of the Spring Bill for parliament is providing a channel for parliamentary engagement in matters of fiscal policy prior to the drafting of the detailed budget. It also serves to introduce greater transparency to the budget process to the benefit of the Riksdag and the public in general.

*Source:* OECD Budget Review of Sweden 2016

While it is common OECD practice for parliaments to have and use budget amendment powers, the use of the Reserve Budget line in Kazakhstan to fund these amendments means that members are in effect not having to trade off budget proposals in one area for another. This does not equip members with the fiscal discipline that may be required if in the event of the Reserve Budget not being available to them.

Recent reforms have reduced the number of budget programmes, and improved the quality of budget information, although the volume of information presented to parliamentarians has not decreased significantly. These changes have been well received by parliamentarians, as have the changes which limit the number of supplementary budgets that can be tabled at the parliament each year.

Members of parliament have access to support staff, and the Budget Committees of both chambers also have small support units. However members do not have access to an independent research service or a specialist budget research office and this contrasts with the situation in most OECD parliaments. The Kazakh Parliament may wish to set up an independent research service, scrutiny unit or budget office to help provide specialist analytical budgetary support to parliamentarians and further promote effective budget scrutiny, particularly at the Majilis. This would help support parliamentarians effectively exercise their new right to call programme managers to parliament to explain performance, and support a heightened level of parliamentary engagement upon the introduction of a Spring Fiscal Policy phase (see Section 3). Examples from OECD parliaments are provided in Box 9.

### Box 9. Resources to support budget oversight in OECD parliaments

#### The House of Commons Scrutiny Unit at the UK Parliament

The House of Commons Scrutiny Unit supports Select Committees in examining the expenditure and performance of government and the relationships between spending and delivery of outcomes. It does this by promoting the value of linking examination of spending with examination of outcomes, by helping committees analyse spending patterns alongside the performance and by pressing the government to improve the information available and promoting Parliament's interests of holding the executive to account. This includes contributing financial and performance material to committee inquiries, including briefings, questions, reports and analysis of impact assessments.

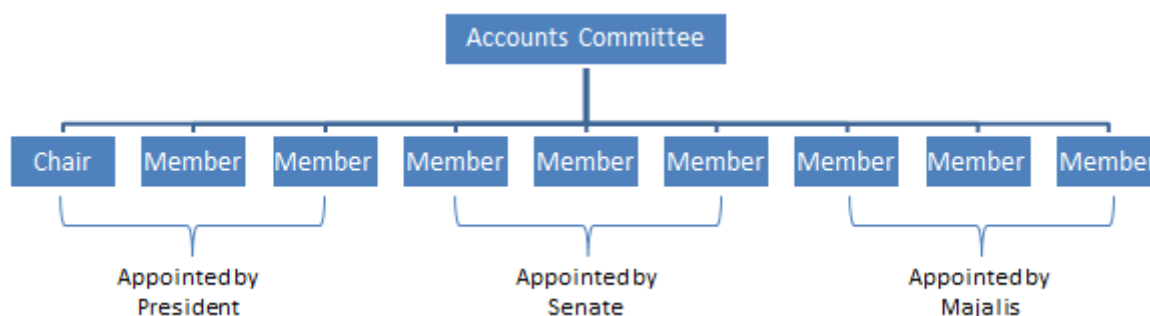
#### The Parliamentary Budget Office at the Austrian Parliament

The Austrian Parliamentary Budget Office has a mandate to support Parliament in the budgetary process, in consulting and enacting budget laws and exercising its oversight role. As part of this, it provides Parliament with information on the performance budgeting framework, maps all outcome objectives, advises how to read documents efficiently and provides analysis on each budget chapter, including performance goals/tasks/indicators. It also makes recommendations to the Government on how budget documents (including performance information) can be improved from a parliament user's perspective and pushes for better and earlier access to information.

### 4.2. Role of the Supreme Audit Institution (SAI)

The Accounts Committee for Control over the Execution of the Republican Budget (known as the Accounts Committee) is the supreme state audit institution in Kazakhstan. The Committee is composed of nine people (a Chairperson and eight Committee members) and is directly subordinate and accountable to the President. The Committee Chair is appointed by the President, who also appoints a further two members. In addition, three members are appointed by the Senate and three by the Majilis. The Accounts Committee has a staff of more than 130.

Figure 14. Composition of the Accounts Committee



The Law on State Audit and Financial Control, adopted on 12 November 2015, provides a legal basis for the activities of the Accounts Committee, and sets out the powers and status of its officials as well as the basis for interaction with other government bodies, taking into

account the provisions of the Lima Declaration and other international standards. The law sets out the three types of audit that the Accounts Committee can carry out:

1. **Financial statement audits:** these assess the reliability and reasonableness of financial statements, and the accounting and financial condition of the subject being audited. In particular, the Accounts Committee submits its conclusion in the report of the Government of the Republic of Kazakhstan on execution of the republican budget to the parliament no later than May 15 after the end of the fiscal year. After approval by parliament, the report and its recommendations become binding for the government bodies.
2. **Efficiency audits, including a review of effectiveness and results:** these evaluate activities of the subject being audited for effectiveness, efficiency, productivity and results. In 2016, the Accounts Commission conducted 19 performance audits.
3. **Compliance audits:** these assess the extent to which subjects being audited comply with legislation.

The Accounts Committee conducts its work by reference to international INTOSAI standards. It provides the President of the Republic of Kazakhstan and the Parliament of the Republic of Kazakhstan with information about its work at least once a quarter.

#### *4.2.1. Audit coverage*

The accounts of state bodies, state institutions, quasi-public sector bodies, and recipients of budgetary funds, are all subject to audit by the Accounts Committee. There are different procedures for the audit of special state bodies (those carrying out intelligence and counter-intelligence activities or operational-search measures aimed at ensuring the security of protected individuals and objects) in order to protect national security. These procedures are determined by the heads of these bodies in agreement with the Accounts Chamber committee and the authorised body on internal state audit.

In terms of coverage, preliminary assessment of state programmes is carried out once every three years and assessment of state agencies' efficiency is conducted annually. This work is undertaken as part of the Accounts Committee's performance audit role, as well as its budget analysis role (see Section 4.2.2), in accordance with the list of objects subject to state audit and financial control in each relevant year. Subsequent to each audit, each audited entity should make a plan of action to address recommendations. According to Article 25 of the Law on State Audit, each audited entity must provide a response to recommendations (instructions) and their implementation to the appropriate state audit and financial control authority within the time frames specified in the documents adopted as a result of state audit (order/decreed).

Despite this, state bodies do not always report on steps taken to address audit recommendations or findings. Nevertheless, the Accounts Committee tracks actions taken by the executive in response to its audit recommendations and publishes a report tracking some of these. More comprehensive publication of information on actions state bodies are taking in response to recommendations contained in each audit would help bring Kazakhstan in line with international standards on audit transparency.

If recommendations are not being implemented, there can be penalties and sanctions, or the Accounts Committee can issue a further recommendation. In practice around 97% of Accounts Committee audit recommendations are implemented.

#### 4.2.2. *Links between the Accounts Commission and the parliament*

The 2015 Law on State Audit and Financial Control strengthened the links between the work of the Accounts Committee and the Parliament. It mandates the Accounts Committee to report to the parliament annually on the execution of the state budget, and quarterly on its own work programme. It also enables Accounts Committee members to participate in parliamentary sessions and members of both the Accounts Committee and the parliament can participate in government hearings on the implementation of state programmes.

The 2015 Law also introduced the new analytical roles for the Accounts Committee in relation to the draft budget. The Accounts Commission is now responsible for undertaking a preliminary evaluation of the draft budget in response to concerns expressed by parliament that by the time violations were identified it was too late to do anything about them. This Preliminary Evaluation aims to prevent financial violations before they occur. The Accounts Commission now also has a role in generating operational information on the implementation of the budget for stakeholders including; the President, the Parliament, the Government, *maslikhats* and *akims*.

#### *Accounts Committee Preliminary Evaluation of the Draft Budget*

The Accounts Committee published its first Preliminary Evaluation of the Draft Budget in 2017. The Evaluation assesses the budget against two criteria - reliability of expenditures and justification of expenditures – and presents related recommendations. The assessment is based on provisional figures for the Draft Budget and is presented to parliament at the same time as the Draft Budget to assist it in its scrutiny.

The focus of each Evaluation is expected to change on an annual basis. The main focus of the first Evaluation was on the regulation of the budget process. The Accounts Committee considered the socio-economic forecast to the extent to which it determines budget parameters and looked at compliance with fiscal rules. In undertaking its assessment, the Committee consulted with civil society stakeholders to take into account their views. A key recommendation of this Evaluation was to introduce the concept of long-term fiscal sustainability in Kazakhstan. This recommendation, and others accompanying it, was discussed by parliament and the Budget Code has subsequently been amended so that the government must now publish a Long-Term Fiscal Sustainability Report.

It is anticipated that the second Evaluation will look in detail at seven or eight priority areas of spend, identified through a risk assessment.

Parliamentary stakeholders gave a mixed response to the new Evaluation role of the Accounts Committee. While members from the Senate found it to be a good initiative that supports budget oversight, members from the Majilis found that the misalignment between the figures in the Draft Budget and those in the Preliminary Evaluation (based on provisional figures for the Draft Budget) hindered its usefulness.

#### 4.2.3. *Transparency and independence in the work of the Accounts Committee*

To facilitate transparency and openness, the Accounts Committee publishes quarterly bulletins on its website which detail the audits it is working on. Upon completion of each audit, the results are published in the Accounts Committee bulletin and in its Report on the Execution of the Republican Budget. A summary report for each audit is also published online by the subject being audited. However, full audit reports are not always published in order to prevent any confidential and/or commercial information that they might contain from being unlawfully disclosed<sup>4</sup>.

Some concerns have been raised about the completeness of the analysis produced by the Accounts Committee<sup>5,6</sup>. In particular, in line with the Law “On State Audit”, the annual audit report does not contain information on the percentage of extra-budgetary funds covered by the audit<sup>7</sup>. From 2020, it is planned that the Accounts Commission will audit the consolidated financial statements of the republican budget, financial statements of administrators of budget programmes and government agencies, with the exception of the National Bank of the Republic of Kazakhstan. Continued improvement in audit coverage would be a welcome development.

In a 2014 OECD report on Anti-corruption Reforms in Kazakhstan, the heavy dependence of the Accounts Committee on the Presidency was noted. In particular, the head of the supreme audit institution can be removed without legislative or judicial approval, and the budget of the Accounts Committee is reviewed by the Ministry of Finance, both of which undermine its independence. Now that the Accounts Committee’s institutional role is well-established, there would be merit in strengthening its operational independence through passage of a specific law bringing Kazakhstan in line with the principles of the Lima Declaration on independence of supreme audit institutions.

#### **Box 10. Protections on the removal of Supreme Audit Institution leaders across the OECD**

##### **Australia**

The Auditor General is appointed by the Governor General on the recommendation of the Prime Minister. However, the Prime Minister must not make a recommendation to the Governor General unless the Prime Minister has referred the proposed recommendation to the Joint Committee of Public Accounts and Audit at parliament, and it has approved the recommendation.

The Executive cannot revoke the appointment of an Auditor General. The Auditor General can be removed from office in the following circumstances:

- The Governor General may remove the Auditor General from office if each house of the Parliament, in the same session of the Parliament, presents an address to the Governor General praying for the removal of the Auditor General on the ground of misbehaviour or physical or mental incapacity, and
- The Governor-General must remove the Auditor-General from office if the Auditor-General becomes bankrupt.

##### **Sweden**

The National Audit Office is under the direction of three Auditors General, who are elected by the Parliament.

The Parliament may remove an Auditor General from office only provided the Auditor General no longer fulfils the requirements for the office or has been guilty of gross negligence.

##### **United Kingdom**

The Comptroller and Auditor General (C&AG) is the head of the National Audit Office and is appointed by HM The Queen, the Head of State, on an address from the House of

Commons moved by the Prime Minister after agreement with the Chairman of the Public Accounts Committee.

The C&AG can only be removed from office by HM The Queen on an address from both Houses of Parliament.

#### 4.2.4. *Assessment and future areas for reform*

The Accounts Committee supervises and quality-assures the work of independent public audit, and is composed of members appointed by the President and both houses of parliament. It conducts its work by reference to international INTOSAI standards. The findings of the Accounts Committee are afforded a high degree of respect: its recommendations on the annual Budget Execution Report, once adopted by the parliament, have a binding status.

The Accounts Committee has a modern mandate covering both financial and performance audits, in line with OECD best practice. Since 2017, the Accounts Committee also supplies an independent Evaluation report on the draft budget submitted to parliament, to assist and inform the parliament's scrutiny work. It is unusual for a supreme audit institution to produce this type of *ex ante* report assessing the budget. Across the OECD, this role is normally performed by an independent fiscal institution, such as a specialised budget research office at parliament or a fiscal council. In the medium or longer term, it would be advisable for Kazakhstan to move towards this type of approach which is an international standard. Pending such reforms, the special role of the Accounts Committee should continue to focus on a narrow theme each year to ensure an impactful and proportionate contribution within the budgetary development cycle. To facilitate use of the analysis during the budgetary oversight by parliament, steps should be taken to ensure that any differences between the budget figures presented in the Accounts Commission analysis, and those presented in the draft budget, are minimised or fully explained.

The Accounts Committee effectively tracks government actions in response to its recommendations, but could improve the transparency of its operations by making a full account of this available to the public. It could also improve the completeness of its audit reports, for example, by publishing information in its annual audit report on the percentage of extra-budgetary funds that have been covered.

Finally, as indicated in the previous section, it would be timely for the Accounts Committee's independence to be underpinned through passage of a specific law bringing Kazakhstan in line with the principles of the Lima Declaration on independence of supreme audit institutions, in particular, requiring legislative or judicial approval for the removal from office of the head of the main control body.

#### 4.3. *Budget transparency*

OECD countries place a high value of the transparency and openness of budget information. Standards regarding open, transparent and inclusive budgetary practices are laid down in the OECD *Best Practices for Budget Transparency* (2001) and the OECD *Budget Transparency Toolkit* (2017), as well as in the OECD *Recommendation on Budgetary Governance* (2015).

The Government of Kazakhstan has taken several measures in recent years to increase the openness and transparency of the budget process in line with international standards.

Further information on the current situation on open and transparent budgeting is provided in the following section.

#### *4.3.1. Access to information*

The Law on Access to Information was passed in November 2015 and sets out individual's rights to access government information. This legal change represents progress in terms of the increased potential for openness and transparency in relation to budget information.

In practice, however, citizen stakeholders report difficulties in accessing information on government spending, particularly in politically sensitive areas. In a small number of instances citizens report that they have had to take the government to court in order to access the information they have requested. This suggests that the government may still be adjusting to the level of openness required by law.

There are a number of actions the government could take to reinforce its commitment to opening budget information to the public and foster greater trust with citizens:

- Improve the effectiveness of training to public servants so that their obligations to disclose information in relation to the Law on Access to Information are more clearly understood.
- Consult with citizens to identify key areas of interest in terms of information disclosure, and improve proactive disclosure in these areas. The forthcoming government research project on “Providing citizens and the professional media with access to information in Kazakhstan: regions and centres”, which will survey citizens, the media and NGOs on this topic, provides a useful starting point.
- Ensure that all budget data shared by the government is provided in machine-readable format (such as Excel), to facilitate citizen analysis.<sup>8</sup>
- Roll out budget literacy education programmes within schools to spark interest in public finance and so that, in the longer-term, citizens have the capacity to engage in discussions. Budget Literacy programmes such as this have had considerable success in countries such as Canada (see Box 11). This type of programme has already been proposed for development by the Ministry for Information and Communication and the Ministry of Education and Science.

### Box 11. Budget Literacy Programme in Canada's Classrooms

Of Canada's 13 provinces and territories, seven (British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Prince Edward Island, and Saskatchewan) have introduced aspects of budget literacy into their school curricula, usually as part of the social studies courses.

For example, Newfoundland and Labrador's 2004 social studies curriculum for eleventh-grade students (ages 17–18), included a Canadian economy module highly relevant to budget-literacy education. Expected learning outcomes regarding knowledge of government budgets include the ability to describe major revenue categories of municipal, provincial, and federal budgets; to define progressive, proportional, and regressive taxes; to determine whether different types of taxes—including income and sales—are progressive, proportional, or regressive; to assess government budgetary decisions and their impact on government debt; and to describe major expenditure categories in local, provincial, and federal budgets.

Source: (World Bank, 2017<sup>[10]</sup>)

#### 4.3.2. “Open Budgets” portal

The Open Budgets portal was created by the Government of Kazakhstan as a vehicle to improve budget transparency and promote civil society engagement in the budget process. The Law “On the Access to Information” stipulates that budget reporting, consolidated financial reporting, and the results of state audits should be published on the Open Budget portal. Public discussions on budget programmes and reports on the implementation budget programmes for the last financial year should also appear on the portal. Changes brought in through internal order (April 20, 2017 No. 261) developed by the MoF also state that that monthly reports on the implementation of consolidated, state, national and local budgets (in the aggregated form), as well as on income and use of the STOs of the National Fund of the Republic of Kazakhstan should also be placed online on the Open Budgets portal. All the reports that should be published on the portal are set out in the Order of the Minister for Investment and Development.

The aim of the initiative is to develop a single portal with access to budget information from across government, in line with OECD best practice. However, citizen use of the portal is limited and there are several ways in which the organisation of the portal could be improved in order to fulfil its purpose more effectively. Specifically:

- As part of the ongoing activities envisaged to improve the portal<sup>9</sup>, budget information should be named and categorised more clearly, and search tools should be improved, so that citizens can sort through the large amount of files on the portal and find the information they need more easily.
- All budget data should be uploaded to the portal in machine readable format (i.e. Excel tables instead of PDF) so that citizens can readily analyse the information<sup>10</sup>.

#### 4.3.3 Budget documentation

The information that must be placed on the MoF website across the budget cycle (formation, approval, execution and audit) is set out in internal order (April 20, 2017 No.

261) developed by the MoF. Documentation includes a pre-budget report, draft budget, enacted budget, in-year reports, mid-year report, year-end report and audit report.

The presentation of the draft budget proposal in September is the focal point of the budget cycle in Kazakhstan. For this event, the government presents the following information to parliament<sup>11</sup> alongside the draft budget proposal:

- Forecast of Social and Economic Development
- Draft strategic plans of central government bodies
- Draft budget programmes
- Data on state and publicly guaranteed debt
- An Explanatory Note disclosing the decisions incorporated in the Draft Republican budget, and information on budget programmes, comprising:
  - Performance information for the previous year;
  - A brief description of the current situation and existing problems;
  - A description of the ways to improve the situation and achieve planned target indicators defined in draft strategic plans; and
  - A description of the objectives of budget programmes and planned outcomes of budget programmes.

The government could build on the wide range of budget documentation currently provided through further refinements to improve its completeness. This would ensure that Kazakhstan aligns more closely with international standards in budget transparency<sup>12</sup>. In particular:

- The draft budget proposal is just six pages in Kazakhstan and found to be lacking detail that would make it comparable to those produced in OECD countries. It would be expected to contain information on planned spend by Ministry and budget programme for the forthcoming three years and information on expenditures for the previous year. In addition, it should contain information on key financial indicators such as the composition of total debt and long-term liabilities.
- The mid-year report should provide key information such as an updated estimate of government debt and borrowing.
- The government should publish information on assets of state bodies and national companies.
- The Forecast for Social and Economic Development and the Republican Draft budget Explanatory Note should be made available to the public.

Improvements in the comprehensiveness of budget documentation which address these omissions, among others, would enable the Government of Kazakhstan to improve its international standing in relation to budget transparency.

#### 4.2.4. *Citizens budget*

Citizens Budgets were introduced at both the central and local government levels in Kazakhstan through Legislation on the Methodology of Development and Dissemination of the Citizens Budget, signed into law in June 2011. It provided for Citizens Budgets to be published not only when the government publishes the Republican Draft budget, but also after the formulation, approval, implementation, and evaluation stages of the budget process.

In May 2011, the MoF formally established a working group to develop procedures and a methodology for the production and publication of Citizens Budget information. The

working group included CSO representatives and members of National Budget Network of Kazakhstan (NBSK). According to the Law "On Access to Information", Citizens Budgets must be placed on the MoF website

The publication of citizens budgets marks an important step forward in terms of budget transparency in Kazakhstan. Publication is now obligatory, based on article 67-1 of the Budget Code and the Law on Access to Information. Nevertheless, public response to these publications in the initial years has been muted. A number of stakeholders would like to see a more consistent format and would like to see information presented in a way that is easier to understand. In response to these concerns, the MoF introduced guidelines in 2017 on the content of citizens budgets, how information should be presented, and when they should be published. Article 67-1 of the Budget Code of the Republic of Kazakhstan, the Order of the Minister of Finance of the Republic of Kazakhstan of January 22, 2018 No. 15 went on to set out rules for drawing up and presenting citizens budgets at budget planning and budget execution stages.

In particular, the guidelines and rules encourage government bodies to publish citizens budgets in an accessible and understandable format (using infographics, charts, drawings, and providing data in tables). These guidelines and rules were developed in consultation with civil society stakeholders and apply to citizens' budgets produced at all levels of government.

The broad application of these guidelines and rules should ensure that the citizens' budgets published by the Kazakh Government get closer to meeting the needs of the public. In pursuing these improvements, government bodies should continue to engage with citizens to improve the content and information contained in citizens' budgets so that they are informative and useful and help engage more citizens in the future. A best practice example is provided by the Citizens version of the Mid-Year Report published by the MoF (see Box 12).

#### **Box 12. Ministry of Finance Citizens Version of the Mid-Year Report**

The MoF produces a citizens' version of the Mid-Year Budget Implementation Report. In order to understand the information citizens would like to see in such a document, the Ministry consulted with its Public Council. The recommendations were taken on board by the Ministry. Among other things, the document contains:

- An update on the main macroeconomic indicators
- A report on the implementation of the republic budget for half of 2017
- An update on state debt
- A report on the implementation of the fiscal policy objectives
- A report on the implementation of labor market and social policy objectives

Citizen stakeholders have commended this publication as helpful and a very good initiative.

All state bodies must publish citizens' budgets on their webpages. Citizens' budgets at the district level (the level of the city of regional importance) are also published in the print media within each territory. The Ministry of Information and Communications is working to amend the rules for posting information on the Open Budgets portal so that they are also available on this platform.

#### *4.3.4. Assessment and future areas for reform*

Kazakhstan has made significant improvements in budget transparency, in line with recommendations of the *2016 OECD Integrity Scan*. In particular, there have been important developments in recent years in relation to access to information, the development of an online “Open Budgets” portal, and the introduction of Citizens Budgets and central guidelines for their compilation. These represent steps forward for budget transparency in Kazakhstan. In common with the experience of other countries, these new initiatives need to evolve so that they are designed to anticipate and support the needs of users and function effectively as tools which improve budget transparency, inclusiveness and accountability. These developments should be complemented by further developments to budget documentation in Kazakhstan which improves its comprehensiveness, in line with international standards.

#### *4.4. Civil society engagement*

Strengthening the involvement and participation of citizens and civil society can increase responsiveness, efficiency, impact and trust. The Kazakhstan Law on Access to Information sets out that the government must ensure citizen access to the budget process. In addition, “The 100 concrete steps” set out by the President foresees the introduction of independent budgets for local government and mechanisms allowing for citizens to participate in the discussions about prioritising budgetary spending. To support the implementation of these commitments, the government passed the Law on Public Councils in December 2015.

##### *4.4.1. Public Councils*

Public councils are consultative and advisory bodies formed by the government. They are made up of representatives from civil society and have been largely used by governments of transition or developing countries, including amongst the Former Soviet Union, sub-Saharan Africa, South Asia and Latin America, as a mechanism for citizen engagement. Generally, public councils gather different sectors of civil society, such as academia, civil or community-based organisations and the private sector and local political authorities into a single body. They contribute to the development and implementation of public policies or programmes at the local level. Stakeholders share the common goal of strengthening democracy and the quality and responsiveness of public policies. A Public Council will usually communicate the results of its work to the broader public.

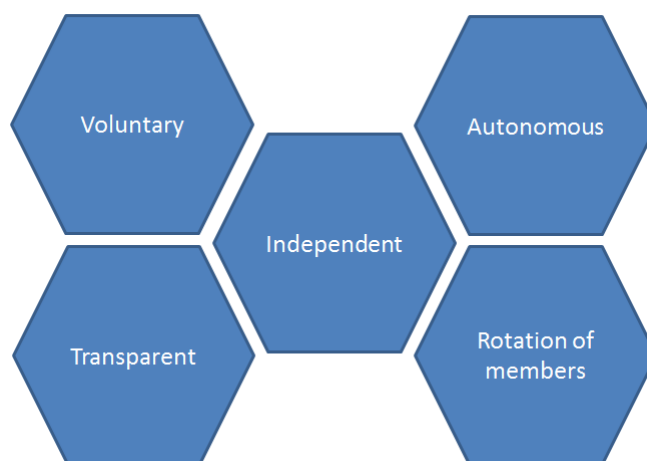
In Kazakhstan, the creation of public councils is fundamental for developing and strengthening government and citizen co-operation. The role and importance of public councils is spelled out in the fifth institutional reform of the Head of State “Transparent accountable state” and are identified in the 99th step of the Plan of the Nation “100 concrete steps”.<sup>13</sup>

The Law on Public Councils, adopted in 2015, determines their legal status, the procedure for electing members and requirements for the organisation of their activities. Public councils must be established and maintained by all ministries, public bodies accountable to the President<sup>14</sup>, and local authorities, with at least 2/3 of its membership coming from civil society. The remaining 1/3 of the representatives on the public councils are government officials.<sup>15</sup> Public councils are intended to be autonomous and independence. They have three tasks:

1. To represent the interests of civil society during public council discussions
2. To improve the level of interaction between civil society and the relevant public body
3. To improve transparency in relation to the activities of the relevant public body

The principles to which public councils adhere are set out in Figure 15. During their meetings, public councils have powers to discuss issues such as the implementation of strategic plans and regional development programmes, budgets, reports, achieving stated objectives, draft legal acts concerning rights and freedoms of citizens or draft programme documents. Public council recommendations must be considered by state bodies.

**Figure 15. Principles of public council activities**



The composition and size of each public council is decided by a working group, set up and led by the head of the relevant public body. The working group publishes a call for members (either online or in local media) and candidates can put themselves forward for membership, or can be nominated by non-profit organisations or citizens. Once the working group has appointed the members of the council, the decision must be approved by a decision of the public body, and the membership of the council is made public. Members are appointed for three years. The first meeting of the public council is opened by the head of the working group and a Chairperson is elected – from among its members - by open vote.

The MoF set up its public council in 2016 with members drawn from NGOs, civil society and academia. It holds quarterly meetings to discuss issues such as guidelines for citizens budgets, draft amendments to the budget code and how changes to the budget code will be enforced in practice. Within the framework of the MoF public council there are also five individually themed committees, each with different members. For example, one committee focuses on the draft budget and strategic plans while another focuses on the execution of the budget and reporting. The minutes of the meetings are published online.

While the public councils are a step forward for citizen engagement in Kazakhstan, civil society stakeholders report concerns about their independence, the extent to which members provide representation for society as a whole and the extent to which the views expressed by members at public council meetings are actually taken into account in government decision-making. The Public Council in Almaty city was cited as an example

of a best practice Public Council in Kazakhstan, demonstrating that when they are run well they can be viable and effective bodies (see Box 13).

### Box 13. Almaty City Public Council

Almaty City Public Council was set up in 2016. A working group to select council members was set up in March 2016 and 31 people from civil society were elected to the council through an open vote in April 2016. The public council meets every month and has 8 separate committees that focus on specialist topics, including a Committee on Economy and Budget.

The views of the public council are regularly taken into account in decision making by the government of Almaty. The public council is not funded by the Akimat, but instead by membership fees. These are used to pay for the rent of an office. This serves to bolster the independence of the council.

The work of the council is published through its website. It contains information on its structure, members, its work plan, the composition of committees, field visits and public hearings. The council also publishes a report on its work every six months.

Source: [Almaty City Public Council](#) 2018

Government bodies, including the MNE, may wish consider developing guidelines for Public Councils, which draw on lessons from successful examples, to help improve their independence and functioning more broadly. It is likely to be beneficial if these guidelines include criteria for selecting public council members that prevents the selection of members that are in favour of government policy (leading to “rubber-stamping” of government decisions) and ensures that a broad range of interests are represented.

In addition to Public Councils, the Government of Kazakhstan also proactively engages with citizens through annual Ministerial meetings and online blogs.

#### *Ministerial meetings and online blogs*

Citizens are invited to attend the annual meeting when each Minister reports on the results and main directions of the Ministry. These meetings are announced on the website of the Ministry and anyone who wants can participate and ask questions of the government. All Ministers are encouraged to have these meetings with the public and they are broadcast live online<sup>16</sup>.

Government Ministers also have certain days allocated for appointments with the population (“reception days”) where any citizen can make an appointment and meet with the Minister. Furthermore, the Law on Access to Information states that all government bodies must have an online blog, and respond to public comments within three days. Accordingly, the MoF uses a blog to solicit discussion on budget planning and execution issues, including priority areas for budget expenditures

#### *4.4.2. Public Councils and participative budgeting*

Participative budgeting involves providing citizens with opportunities to input their views into the budget process so that the budget adequately reflects citizen priorities (see section J of the [OECD Toolkit for Budget Transparency](#) on “Making the budget more inclusive and

*participative*”). It is important that participative budgeting processes are compatible with national legal frameworks and should complement, and not undermine, well-functioning processes of citizen engagement already in place.

Starting from 2012, within the framework of the “Development of the Regions” programme, a mechanism of the financial support for the regions is being allocated towards issues of local importance. An important element of the mechanism is the participation of the population in the selection of activities and the allocation of funding. The introduction of participative budgeting at local (village) levels of government is a good initiative, but has proven challenging to implement. Formal procedures for the participation of citizens in the discussion of how public money should be spent have not yet been established.

Effective and independent public councils could be a useful vehicle for participative budgeting at the local level. More so, the introduction of participatory budgeting at local (village) levels of government provides opportunities to test the efficacy of this approach at higher levels, including potentially the national (Republican) level in the future. More focused and structured Ministerial meetings could also be used as a platform for participative budgeting at the Republican level.

#### *4.4.3. Assessment and future orientations for reform*

In terms of citizen engagement, the introduction of multi-stakeholder “public councils” within each ministry is an innovative development with significant positive potential. At this early stage of implementation, the successes of public councils have been uneven: government bodies, including the MNE, should actively disseminate the lessons of the success stories (such as Almaty city) to other areas through developing guidelines for public councils that ensure their political independence.

Effective public councils, together with Ministerial meetings and blogs, provide ideal tools for soliciting civil society views on budget priorities as part of an elaborated *ex ante* budget phase (see recommendations in Section 3). A more clearly-defined, semesterised approach to the annual budget cycle (as proposed in Section 3) would have the advantage of allowing additional windows of opportunity for structured engagement by civil society and by parliament in the *ex ante* phase of budget formation.

### **4.5. Special focus: Gender budgeting**

#### *4.5.1. Gender equality in Kazakhstan*

Men and women enjoy equal rights by law in Kazakhstan. In the past decade, Kazakhstan made important gains in gender equality with the enactment of the Law on State Guarantees of Equal Rights and Equal Opportunities for Men and Women and the Law on the Prevention of Domestic Violence. As noted in the OECD study on Gender Policy Delivery in Kazakhstan, “There have been also important advances in women’s participation in public life in Kazakhstan, with the current share of women in the House of Representatives at 27.1%. Other areas of achievement include women’s integration in the labour market and entrepreneurial activity and significant drop of maternal death rates. Kazakhstan is close to gender parity in access to primary and secondary education with 98.7% net enrolment of girls in primary education in 2015 and ranks among the top countries in this area. Notwithstanding these gains, significant gaps still remain in terms of delivering gender-responsive policies and services at all levels of government. Women still make up for only 8.4% of political-level civil servants; wide gender gaps persist in earnings; and violence against women is still a major problem across the country” (OECD, 2017<sup>[11]</sup>). At the

international level, the Kazakh Government recently made the pledge to uphold the Beijing Platform of Action at the UN Global Leaders' Meeting on Gender Equality and Women's Empowerment and the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW). At the national level, the government developed and implemented a national Gender Equality Strategy 2006-16 that has laid the foundations for the improvements of women's participation in public life in Kazakhstan.

#### *4.5.2. Public governance in relation to gender in Kazakhstan*

All central and local state executive bodies are responsible for ensuring equal rights and opportunities for men and women. In addition, Kazakhstan has a central gender institution called the National Commission on Women's Affairs, Family and Demographic Policy. It is an advisory body to the President and its secretariat is located under the administration of the presidency. It was tasked with the implementation and monitoring of the Gender Equality Strategy 2006-16.

The Strategy for Gender Equality 2006-2016 identified seven priority areas in view of realising the state gender policy including:

1. Gender equality in the public and political spheres
2. Gender equality in the economic sphere
3. Gender education
4. Improving reproductive health of men and women
5. Prevention of gender-based violence
6. Strengthening of the family
7. Raising public awareness on gender equality

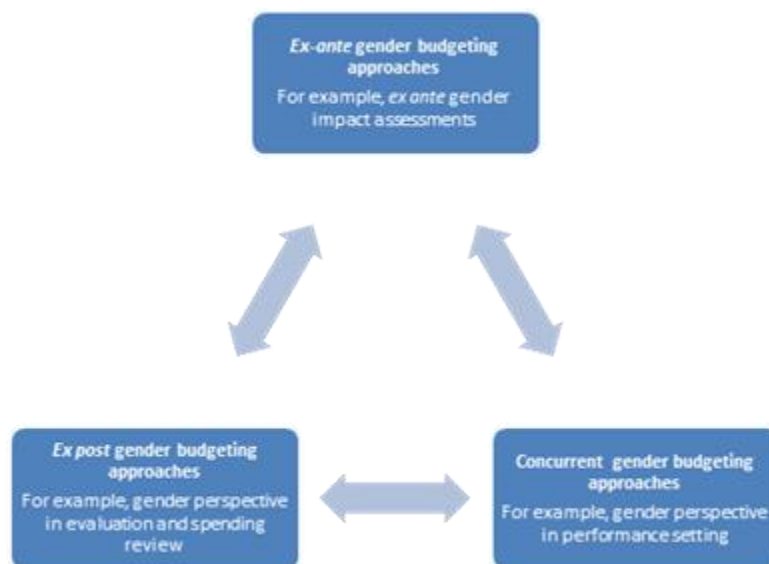
In addition, one of the strategic objectives set out in the Gender Strategy was to "introduce gender approaches into the development, realisation and control over implementation of the national legislation, national and local budgets, and state, social and economic programmes", thus providing the basis for gender mainstreaming and gender budgeting.

Furthermore, the 2016 Concept for Family and Gender Policy of Kazakhstan until 2030 (known hereafter as "the Concept") highlights the key issues that the efforts of the state, businesses and civil society should focus on helping to achieve gender equality. The Concept provides for a set of measures to improve legislation and implement international standards and recommendations in relation to gender equality. It also states that gender budgeting needs to be introduced through implementation of gender impact assessment in the system of state and budget planning, and that training and capacity building need to be implemented in order to support this reform.

#### *4.5.3. Gender budgeting*

Gender budgeting is a tool used to promote equality through the budget process. As the budget process is an annual (or indeed multiannual) event, there are several opportunities across the cycle in which the gender perspective can be brought to bear (see Figure 16).

Figure 16. Gender budgeting across the budget cycle



Source: (Downes, 2017<sup>[12]</sup>)

Almost half of OECD countries have some form of gender budgeting in place, although practices are diverse. In Austria for example, gender budgeting is implemented through the performance framework. Federal ministries set targets and determine gender equality outcomes for their activities. In turn, concrete measures and indicators are assigned to these outcomes in order to monitor the progress in achieving gender equality. By contrast, in Spain gender budgeting is implemented through a gender statement which accompanies the budget setting out how the budget contributes to the implementation of the Strategic Plan of Equal Opportunities. It presents the gender impact analysis of each expenditure programme in the budget proposal.

### *Gender budgeting in Kazakhstan*

In Kazakhstan, gender budgeting is still in the very early stages of development. Paragraph 43 of the Action Plan for the Concept sets out the draft plan for introducing gender budgeting into the current system of state and budget planning until June 2019. While it is too early to observe systematic use of gender budgeting tools, some elements of gender budgeting are visible. For example:

- The government conducts *ex ante* gender impact assessments (GIAs) on primary legislation in some cases.
- The Ministry of Justice is trialling the gender assessment of draft laws and regulations as a pilot to see if it is feasible for broader application.
- Some public bodies incorporate elements of gender budgeting in their budgetary planning. The State Programme of Health of the Republic of Kazakhstan "*Salamatty Kazakhstan*" contains output and outcome indicators to address specific health issues faced by women and there are budget appropriations assigned to achieve these goals.
- Spending earmarked for gender-related budget programmes is tracked. For example, the amount allocated to women's health and women and children in social programmes is measured.

- Specific programmes are being developed to help women go back into employment.

The National Commission of Women's Affairs, Family and Demographic Policy has a leadership role in facilitating transition to gender budgeting throughout the government. Given the recent introduction of results-based budgeting, Kazakhstan favours the implementation of gender budgeting through the planning and performance framework, similar to Austria. In doing this, it recommends that government bodies include/develop gender focused indicators within their strategic plans.

In 2016 the National Commission began working with UN Women to implement a two-year project on integrating a gender dimension into the planning and performance system. The project, called "Promoting the achievement of the goals of sustainable development and implementation of commitments in the field of equality promotion in Kazakhstan", will run in 2017 and 2018.

In the first year of the project, gender impact analysis was carried out in relation to documents of the state planning system and corresponding budget programmes in a pilot ministry: the Ministry of Agriculture. This involved the use of national and international experts, the development of training modules, and the delivery of training to staff in the Ministry on how to undertake gender impact analysis of government planning documents and budget programmes.

In 2018, government officials undertook a study visit to Austria to learn about best practices in the field of gender budgeting. In forthcoming months, UN Women are expected to provide specific guidelines and recommendations for Kazakhstan, based on examples of how it is being implemented in other countries.

The project plans to pilot the integration of a gender dimension into the planning and performance framework for one central ministry (the Ministry of Agriculture) and two regional governments. These pilots will provide for the development of wider recommendations in relation to the integration of gender goals and indicators in the strategic plans of all government agencies.

#### *4.5.4. Assessment and future areas for reform*

The introduction of gender budgeting is at early, explorative stages in Kazakhstan. Some elements of the public governance framework for gender equality – including the existence of an overarching gender strategy (the Concept) and a government agency devoted to progressing gender equality – provide strong foundations for the introduction of gender budgeting. In addition, the application of results-based budgeting lends itself well to the gender budgeting approach which is implemented through incorporating a gender dimension into the planning and performance framework, as is the case in Austria (see Box 14).

#### Box 14. The integration of gender into the performance framework in Austria

Austria's distinctive system of gender budgeting is well integrated within the performance budgeting framework. According to the Federal Budget Law 2013, the outcome objectives specified for each Budget Chapter must include at least one objective related to gender equality; and in turn, each of the "global budgets" and "detailed budgets" must include at least one gender-related output target. In this way, each line ministry is obliged to consider how its activities relate to gender equality, and to design objectives and indicators to promote gender equality in the context of the budget. Moreover, gender equality is one of the dimensions of analysis that must routinely be included in Impact Assessments of new policies. Reporting on the gender-related objectives is covered in the Performance Reports prepared by the Federal Chancellery.

Taken as a whole, therefore, the Austrian system of policy-making is designed to (a) require all ministries to consider gender equality both in their high-level goal-setting and in more detailed specification of outputs and objectives, (b) assess impacts on gender equality in the design of policies, using a standardised assessment template, and apply this assessment both *ex ante* and *ex post*, and (c) account for their achievements in gender equality goals and objectives via the annual performance reports.

For a single overview of how ministries are achieving their gender-related objectives, it is necessary to look to the performance reports prepared by the Federal Chancellery. The October "Annual Report on Budget Orientation" not only collates the individual reports from line ministries, but also reconfigures them in order to present a single Gender Statement.

Source: (Downes, von Trapp and Jansen, 2018<sup>[13]</sup>)

Kazakhstan has taken positive steps in since 2016 to progress this agenda, although there is still considerable work to be done before a gender dimension is fully integrated into the planning and performance framework. Suggested areas of focus would include clearer, more systematic mainstreaming of the national gender equality strategy (the Concept) within ministry strategic plans, going beyond obvious "gender-related" programmes to include all major programmes. It is also suggested that the MNE – as guardians of strategic planning - should be closely involved in taking this work forward.

Building on this, Kazakhstan could further strengthen its application of gender budgeting and through implementing gender budgeting practices across the budget cycle. In particular, the government should consider:

- Introducing a requirement for *ex ante* gender impact assessments to be undertaken during the development of all policies, programmes, regulations and legislation. This helps raise awareness of gender bias in policies and, if they are undertaken early enough in the policy development process, can ensure that policies are better-designed to help achieve gender goals. Canada provides a useful example in this respect (see Box 15).
- Publishing a Gender Statement to accompany the budget illustrating how the annual budget supports national gender equality goals. The initiative would also facilitate external audit and enhanced parliamentary scrutiny in this area.

- Applying a gender perspective to programme evaluations. This would allow consideration of the extent to which programmes achieved any gender goals, and an assessment of how programmes and policies can be improved in order to deliver greater results in this area.

Together, these developments would ensure a gender budgeting approach that is consistent with OECD good practices. They should be supported by further strengthening of the public governance framework for gender budgeting. Firstly, efforts to implement gender budgeting should involve the MoF - responsible for preparing the budget proposal. The MoF is not currently involved in the implementation of gender budgeting in any way. However, for there to be any chance of budget decisions being responsive to gender needs, the MoF needs to be involved. Secondly, good gender budgeting relies on the availability of gender disaggregated data. While there is good data collection in Kazakhstan and some gender-disaggregated data is available, line ministries are not using gender disaggregate data and the administration faces various challenges, including limited capacity in line ministries to determine the need for gender-disaggregated data; limited co-ordination mechanisms to determine the kind of data that need to be collected; and poor quality and accuracy of existing data. Furthermore, data is collected for social concerns, but not in gender sectors viewed as gender neutral.

#### **Box 15. Requirement for *ex ante* gender based assessment in Canada**

Gender-based analysis (GBA) is an analytical tool used by the Canadian Government whose objective is to examine the differential impacts on both women and men of government policies, programmes, and legislation. GBA can help in integrating social, economic, and other gender differences into policy analysis. It can also contribute to efforts toward the overarching goal of gender equality. For example, a GBA might show that a programme is not implemented properly to meet some of women's unique socio-economic circumstances or it might show that a programme has a negative impact on men because of a poorly designed policy initiative.

The Canadian Government committed to applying GBA to its policy decisions in 1995 so as to inform decisions on policies, legislation, and programmes throughout its departments and agencies. All policy proposals being submitted for consideration to the Treasury Board, Cabinet and the Minister of Finance are required to be accompanied by a GBA.

*Source:* (Office of the Auditor General Of Canada, 2009<sup>[14]</sup>)

## **5. Towards a Roadmap of Continuing Budgetary Governance reform in Kazakhstan**

### ***5.1. Summary of progress and remaining reform priorities***

#### ***5.1.1. Key strengths of the Kazakhstan budgetary system***

Kazakhstan has undergone a major series of inter-connected and well-considered reforms over recent years. As a result, the PFM and related systems in Kazakhstan have moved in the direction of compliance with good international practice, as set out in the OECD Principles of Budgetary Governance, in particular in the following areas:

- There is strong alignment between the government's strategic plans and budget expenditure programmes.
- There is a clear set of fiscal rules in place that should ensure long-term budget sustainability and provide a buffer in case of future economic shocks.
- The parliament has a high level of engagement in the annual budget. There is a strong role for the budget committee with a structure for sector-specific committees to feed into the overall scrutiny task, in line with OECD best practice.
- Kazakhstan has made improvements in budget transparency and citizen engagement in recent years, for example, through the introduction of the "Open Budgets" online portal and the introduction of public councils.
- Kazakhstan has adopted accruals accounting, following international standards, which improves the quality and transparency of public finances.

### 5.1.2. Key reform priorities and objectives

As with any country that is undergoing major, multi-dimensional budget reform, it is necessary to take stock of overall progress, to fine-tune certain elements and to change course where appropriate, to ensure that the various elements of budgetary governance are operating in a mutually supportive and effective manner. On the basis of the analysis set out in this report, the OECD identifies the following key areas of focus for future reform:

- Improve the quality of performance budgeting by managing the number of programmes, the volume of data and improving the quality and relevance of performance indicators used in different sectors.
- Strengthen the role of evidence-based analysis and performance evaluation in the budget process. Make use of a broader range of tools to inform budget decision making; from spending reviews and *ex-ante* justification of spending proposals, through in-year monitoring, to in-depth programme evaluation.
- Improve the analysis and disclosure of fiscal risks, including both quantifiable risks such as state guarantees and contingent liabilities, and more general risks such as government exposure to the financial sector and commodity price fluctuations
- Development of *ex ante* budget oversight at the parliament. In view of this heightened engagement, an independent research service could serve to further strengthen budget oversight by parliament.
- Improved transparency and independence of the Accounts Committee, in line with the principles of the Lima Declaration on independence of supreme audit institutions.
- Improvements to the design and implementation of recent initiatives such as the "Open Budgets" online portal and public councils will help them function more effectively as tools of budget transparency and citizen engagement.
- Further strengthen the application of a gender lens to the planning and performance framework so that gender objectives help guide policy developments and resource allocation.
- In parallel with the introduction of accrual based budgeting, retain the cash basis, which remains highly relevant for the funding of government operations.
- Present a more complete picture of government liabilities, including disclosure of guarantees, contingent liabilities, PPPs and concessions.
- Move towards presentation of a full national overview of the public finances, including government's net worth, in the form of consolidated financial statements.

## ***5.2. A Roadmap of Budgetary Governance Reforms relevant to Kazakhstan***

In order to make progress in moving Kazakhstan's budgetary governance system into line with best international practices, it is advisable for Kazakhstan to develop a multi-year implementation road-map so that key reforms can be adequately sequenced and put into effect. To implement many of these suggested reforms, Kazakhstan will be able to draw upon its own national resources of skilled and committed public servants and dedicated research agencies. For certain of these recommendations, Kazakhstan may wish to consider making use of international expertise and advice, including from bodies such as the International Monetary Fund, the World Bank Group, the PEFA Secretariat as well as the OECD.

Set out below is an indicative road-map timeframe, for consideration and refinement by the authorities of Kazakhstan.

### ***5.2.1 Priorities suggested for 2018-19***

#### ***(a) Further strengthening the links between budgeting and planning systems***

There is scope to strengthen the alignment between planning priorities and budget programmes, and also to better align the annual calendar so that budgeting decisions are made in line with the corresponding results-based information. The good practice of restricting major adjustments of the annual budget to once per year, should also apply in principle to adjustments to strategic plans. With a clear will and mandate, the authorities should seek to progress these improvements in the near term.

#### ***(b) Gender budgeting – implementation of international good practices***

The initial steps towards gender budgeting in Kazakhstan should be built upon in light of developing international practice. This should include integrating gender dimensions systematically within Kazakhstan's well-developed planning and performance framework, while also assessing how the "gender lens" can be applied throughout the budget policy cycle.

#### ***(c) Improved implementation of the "Open Budgets" online portal and public councils***

Based on the analysis set out in this report, there are a series of measures that can be undertaken to improve the implementation and impact of the Open Budgets portal, and to bring the operation of the public councils closer into line with the principles outlined in the OECD Budget Transparency Toolkit.

#### ***(d) Modernisation of the role and mandate of the Accounts Committee***

In light of progress achieved over recent years and the level of institutional maturity that has already been attained by the Accounts Committee, it would now be timely to undertake a review of this body to modernise and regularise its role and mandate, by reference to international SAI standards and principles. Such a review would also provide an opportunity to assess how the Accounts Committee's relatively advanced functions, including with regard to performance auditing, conform with those of other SAIs around the world. The OECD report *Supreme Audit Institutions and Good Governance: Oversight, Insight and Foresight* (2016) is a useful point of reference in this regard.

*(e) Monitoring and review of multi-level fiscal governance*

With an ambitious agenda for decentralising budgetary decision-making to regional and local levels, it is important that Kazakhstan considers carefully how the potential advantages of this approach can be balanced with assurance as to matters of integrity and financial control, and alignment of results. One option in this regard would be to participate in the work of the OECD Network on Fiscal Relations across Levels of Government (the OECD Fiscal Network), which specialises in helping countries to manage such issues.

*5.2.2. Priorities suggested for 2020-21**(f) Accrual accounting and budgeting*

To solidify the progress made in recent years, it may be advisable to undertake an international review to assess compliance with international standards and global good practice, and to ensure that the rich data that emerges from accrual accounting techniques can be understood and used by policy-makers at various levels, by parliamentarians and by the public.

*(g) Fiscal risk analysis*

Additional steps could be taken by the government to incorporate analysis of fiscal risks into its overall fiscal strategy. This could include an assessment of fiscal risks, including government's exposure to macro-economic risk and financial sector risk, information about long-term fiscal sustainability. Transparency could be further improved through disclosure of state guarantees and contingent liabilities in the annual financial statements of the government.

*(h) National Code for Programme Evaluation and Review*

To increase the use of evidence in budgetary decision making, and increase focus on programme effectiveness government should develop a more diverse toolkit for monitoring and evaluation, and strengthen the feedback loop into the annual and multi-annual budgetary cycles. The main elements of such an approach, which could be codified in a National Code for programme Evaluation and Review, would include ex-ante evaluation of spending programmes, improvements in annual monitoring and reporting, in-depth evaluations of a limited number of programmes each year, and an enhanced role for the Accounts Committee focusing on the relevance of performance indicators and targets, and the reliability of the reported data. Amendments to the Budget Code could also support such a reform. In addition, the expertise that is already applied in Regulatory Impact Assessment should be integrated within this overall codified framework.

*(i) Review of budget transparency and participation*

After the existing series of reforms have been allowed to operate (subject to refinements outlined at (c) above, it would be advisable for Kazakhstan to undertake a review of how effectively these initiatives are (i) supporting trust in the quality and integrity of public financial management and (ii) promoting quality and responsiveness in public policy making. One option would be to undertake a review by reference to various dimensions of the OECD Budget Transparency Toolkit, which would allow for interactive dialogue with policy makers and societal stakeholders.

*(j) Spending reviews*

Spending reviews are widely used in OECD countries to examine the existing stock of spending commitments, rather than just new spending proposals. The introduction of such a process in Kazakhstan would help government to increase the scope for savings and/or reallocation of resources to match new spending priorities. Depending on the objectives of government, i.e. a major realignment of spending across government, or greater budget efficiency and re-alignment within a particular sector, the introduction of the spending review tool could be designed either as a broad based exercise or more sector-specific in focus.

*5.2.3. Priorities for consideration beyond 2021**(l) Environmental aspects of budgeting*

Increasingly across OECD countries, it is acknowledged that the challenges of meeting international climate and other environmental goals cannot be met, unless the budgetary and fiscal implications are analysed and understood. With its ambitious national and international goals in these areas, Kazakhstan should consider factoring this analysis more directly into its medium and longer term budgetary planning. One option would be to consider active participation in the “Paris Collaborative on Green Budgeting”, led by the OECD, and which involves informal cooperation among countries to develop and “workshop” new budgeting techniques relevant to environmental goals.

*(m) Infrastructure governance review*

Building on the results of the OECD PPP Review (which was conducted in parallel with this review), it may be useful for Kazakhstan to consider a more broad-based approach which looks at the management of public, as well as private, funding of infrastructure. Recent OECD research highlights the various dimensions of successful infrastructure governance, including strategic planning; knowing when to select PPP versus other options; ensuring evaluation and value-for-money throughout the infrastructure development cycle (*ex ante*, mid-project and *ex post*) on a uniform basis for all funding modalities; and ensuring resilience and sustainability of infrastructure.

*(n) Fiscal rules*

After the recent innovations in fiscal management have been allowed to operate, it would be useful to undertake a re-assessment of how the credibility of the fiscal rules could be enhanced through independent assessment of adherence (see point (o) below), as well as the appropriate fiscal rules that should apply in Kazakhstan. In particular, there would appear to be a strong case for introducing fiscal rules that target the underlying, non-oil budget; whereas an expenditure growth rule, along the model introduced in many European countries, could have the advantage of providing positive incentives for necessary revenue-side reform.

*(o) Development of independent fiscal institutions*

With the increased focus on fiscal discipline, and the importance of credible fiscal rules, as well as accurate and reliable economic forecasting as a basis for policy planning, there is an increasing premium to be attached to the independence and professionalism of the economic advice and analysis available to the government. The Kazakhstan authorities

should consider which models of independent fiscal institution may be appropriate for national circumstances, noting also that the Economic Research Institute provides a valued and respected starting point for such a review.

*(p) Review of parliamentary engagement in budgeting*

Both houses of the Parliament of Kazakhstan are actively engaged in the budget process, to a level that is advanced by OECD standards, albeit with some scope for strengthening of the level of engagement at the *ex ante* phase. There is scope for a future review of the overall processes of parliamentary engagement in budgeting in Kazakhstan, to take account of modern practices for engagement throughout the budget cycle; and to consider the most appropriate form of enhanced institutional support for parliamentary scrutiny and accountability.

## Notes

1. Dutch disease is the apparent causal relationship between the increase in the economic development of a specific sector (for example natural resources) and a decline in other sectors (like the manufacturing sector or agriculture). Exports in the growth sector bring about currency inflows, which increase the value of a country's currency and make exports in other sectors less competitive.
2. Auls are communities recognised as local self-governments.
3. As set out in Chapter 4 of the Rules and terms of development of the FSED approved by the Order of the Minister of National Economy of the Republic of Kazakhstan from 8.01.2015 #9.
4. There are exceptions, for example, in 2018 the conclusion of the Accounts Committee in relation to the Government's report on the execution of the republican budget for 2017 was published on the Accounts Committee's webpage in full.
5. OECD Multi-dimensional Review of Kazakhstan 2017
6. The International Budget Partnership gave the Report of the Accounts Committee just 52 out of a possible 100 when scoring it in terms of timeliness and completeness in 2017.
7. The term extra-budgetary funds generally refers to public resources and government transactions that are not included in the annual budget or are not subject to the same general level of reporting, regulation, or audit as other public finance items.
8. Note, this is already done in a number of cases.
9. As part of the modifications to the "Open Government" portals in 2018, the following activities are envisaged for the "Open Budgets" portal to provide users with improved convenience and functionality:
  1. Development of a version for the visually impaired
  2. Finalisation of the dispatch system
  3. Development of functionality to accommodate the civil budget in a tabular form, as well as the provision of infographics

4. Development of additional options for using the portal through social networks: Facebook, Google Plus, VKontakte, Twitter, Mail.ru, Instagram.

10. Note, this is already done in a number of cases.

11. Note, although this information is presented to parliament, it is not all made available to the public.

12. Kazakhstan scored 53 out of 100 in the 2017 Open Budget Index, which assesses reporting across 8 key budget documents.

13. It states: "Strengthening the role of Public Councils under state bodies and akims in discussing the implementation of strategic plans and development programmes; budgets, reports, achievement of target indicators, draft normative legal acts affecting the rights and freedoms of citizens; projects of programme documents. The consolidation of the status and powers of the Public Councils by law will increase the transparency of the adoption of state decisions. "

14. With the exception of the Supreme Court of the Republic of Kazakhstan, the Constitutional Council of the Republic of Kazakhstan, the prosecutor's office, the Administration of the President of the Republic of Kazakhstan, the National Bank of the Republic of Kazakhstan, the Ministry of Defence of the Republic of Kazakhstan, the Office of the President of the Republic of Kazakhstan, the Office of the Prime Minister of the Republic of Kazakhstan, the National Centre for Human Rights of the Republic of Kazakhstan, the Accounts Committee for Control over the Execution the Central Election Commission of the Republic of Kazakhstan, the Higher Judicial Council of the Republic of Kazakhstan, and special state bodies of the Republic of Kazakhstan.

15. The OECD Integrity Scan of Kazakhstan (2016) notes that the inclusion of public officials significantly weakens the independence and capacity of the public council to play an oversight role.

16. The Ministry of Finance held its meeting on 27 June 2017 in "Kazmedia Center". There were 2 105 participants in the meeting, including 760 people in the city of Astana.

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## Financial Management in Government: Insights on Skills Development

by  
Ivor Beazley

*Financial management is a critical capability for governments, enabling them to deliver on their priorities and fulfil promises made to parliament and citizens. Skilled human resources are the foundation of these capabilities. The Organisation for Economic Co-operation and Development's (OECD) "Skills for a high performing civil service" framework identifies professional expertise as one of the three core skill areas that drive public value, together with strategic orientation and innovation. The task of providing the civil service with the right skills to carry out financial management functions has however become more challenging.*

*This study was prepared in response to interest from the central budget authorities of countries in Eastern Europe and Central Asia in learning about approaches to strengthening financial management skills that result in sustainable improvements in capacity. This report aims to provide insights into how governments can strengthen financial management skills in the public sector on a sustainable basis.*

*JEL codes: H10, H11, H83*

*Keywords: Public financial management, competency frameworks, Professional development, HRM process*

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## Executive Summary

Financial management is a critical capability for governments, enabling them to deliver on their priorities and fulfil promises made to parliament and citizens. Key financial management capabilities include the ability to generate revenues, to direct funds to productive uses, to control spending, to obtain value for money from suppliers and to manage the government's assets and liabilities. Beyond this, governments need to demonstrate, through the processes of financial reporting and auditing, that they are using public money for the purposes voted by parliament, complying with the law, and delivering value for money.

Skilled human resources are the foundation of these capabilities, and a broad range of academic and professional disciplines are used by civil servants responsible for managing public finances. These include economics, finance, procurement, project management, accounting and auditing. Some professions such as economics, accounting and auditing are well established and supported by a range of academic and professional institutions, standards, etc. Other disciplines such as procurement and contract management are newer, less well-supported, and may require government attention and support.

The task of providing the civil service with the right skills to carry out financial management functions is more challenging due to the pressures that are reshaping government and, in the process, changing the duties and responsibilities of financial managers in government. Long-term trends in government, the economy and society are changing the job of financial managers and creating demand for an expanded range of financial management skills and higher levels of professionalism. Key trends affecting financial management in government include:

- Continuing fiscal pressures, resulting in the need for financial managers to pay close attention to economy and value for money
- Increased reliance on outsourcing, both to deliver basic services and to construct and manage public infrastructure, requiring skills in economic analysis, costing, commissioning and contract management
- The move from cash to accruals-based budgeting and accounting, and the introduction of “whole of government” reporting, requiring advanced accounting skills and knowledge of international accounting standards
- Initiatives to improve public participation and consultation in the budget process, (e.g. citizen's budget), requiring soft skills in public engagement, presentation and communication
- Increased automation of financial controls and accounting functions, reducing the need for clerical and bookkeeping functions and creating new opportunities for analysis, evaluation and more evidence-based decision making

The same pressures, together with broader trends in society and the economy, are driving changes in the skills and competencies expected of the wider civil service. The Organisation for Economic Co-operation and Development's (OECD) “Skills for a high performing civil service” framework identifies professional expertise as one of the three core skill areas that drive public value, together with strategic orientation and innovation. The OECD also identifies professional expertise as key to effectiveness in each of four main areas of civil service responsibility: advice and analysis; commissioning and contracting; work with citizens; and collaboration in networks. Actions to strengthen

financial management skills therefore need to be aligned closely with broader civil service reform initiatives.

Despite the apparent need for higher-level financial management skills, most governments have been slow to take specific measures. Civil services have sometimes been reluctant to accept that special provisions need to be made for technical specialists. Accommodating the needs of technical professionals, within a career management system designed primarily for generalist civil servants, has proved to be a particular challenge for some countries with an elite generalist civil service. For example, in South Korea and the UK there has been reluctance to allow senior management roles to be reserved for technical specialists, thereby reducing the opportunities for elite generalist civil servants. In several of the countries reviewed for this study, supreme audit institutions played an important role in motivating governments to take action on this issue, by drawing attention to weaknesses in their financial management capability, and linking this directly to examples of waste, fraud and abuse of public funds.

Responding to these pressures, governments in several countries including the Netherlands, South Africa and the United Kingdom have made concerted efforts to strengthen professionalism in financial management in the public sector. These efforts involve changes to recruitment processes, reorganisation of training, closer collaboration with professional finance bodies and universities, introducing competencies for key finance positions, improving career management for financial management professionals and providing better support for in-service professional development. Two other countries reviewed in this study, Russia and Korea, have made more piecemeal approaches to reform, while France, the final country covered by this study, has given a high priority to financial management skills historically and continues to do so without any major reform of existing arrangements.

Administrative traditions have been an important factor influencing how countries have gone about the task of strengthening financial management skills. For example, in continental Europe institutions closely linked to the state play a more important role in skills development than in Anglo-Saxon countries, which have relied more on independent professional bodies. Similarly, in countries that operate a cadre or corps type system whereby civil servants may remain for their whole career in a department or service specialised in financial management, this plays an important role in career development, and could be contrasted with countries where finance specialists are part of the general civil service.

Despite these differences some generalisable trends, principles and good practices can be identified from these experiences that may be useful to governments that want to strengthen financial management capacity.

**Table 1. Seven principles for developing professional financial management skills**

|    |                                                                                                                                                                                                     |
|----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Government develops a rationale and strategy for strengthening financial management skills, based on needs analysis and co-ordinated with any plans for public finance and/or civil service reform. |
| 2. | Technical competencies and qualification requirements are set out in job descriptions for all positions that carry financial management responsibility                                              |
| 3. | Internal staff selection processes ensure that competent/qualified staff are appointed to positions requiring significant financial management capabilities                                         |
| 4. | External recruitment processes enable recruitment of staff who already have specialised financial management skills and experience                                                                  |
| 5. | In-service training systems enable staff to acquire and develop financial skills to match the needs of government                                                                                   |
| 6. | Career management paths allow finance professionals to develop rewarding careers in public service                                                                                                  |
| 7. | Compensation can be adjusted to attract and retain financial management professionals.                                                                                                              |

This study reviews the experiences of six countries in strengthening financial management skills- France, the Netherlands, the Russian Federation, South Africa, Korea and the United Kingdom. These countries were selected based partly on their reform experience and partly to ensure representation of a variety of administrative traditions. Owing to the potentially very large scope of the study, it was decided to focus on the needs of line ministries and the central budget authority, rather than those of specialised finance agencies (e.g. debt management, tax administration and audit) as these agencies are normally staffed by qualified finance professionals.

The case studies demonstrate that there is no single "cut and paste" model that fits every context. Each country in the study chose a different "mix" of reform measures, reflecting different perceptions of the issue and adaptation to the existing institutional structures and administrative traditions. A summary of the findings of the six case studies is presented in Annex 1A. Due to these differences other countries looking to strengthen professionalism in public finance should consider a range of options (see Table 2), choosing those that are the best fit and adapting them, as necessary, to local circumstances.

**Table 2. Good Practices: A Menu of Options**

| <b>Leadership and direction</b>                                                                                                                                                                        | <b>Country Examples</b>               |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| A minister, or very senior official, in the Central Budget Authority presents the business case and leads the development of a reform strategy                                                         | Netherlands, S. Africa, UK            |
| A strategy for strengthening financial management skills supports, or forms part of, a broader public financial management reform programme                                                            | Netherlands                           |
| The strategy for strengthening financial management skills is aligned with initiatives for modernisation of the general civil service                                                                  | UK                                    |
| <b>Recruitment</b>                                                                                                                                                                                     |                                       |
| Create entry-level civil service recruitment schemes devoted to financial management.                                                                                                                  | UK, S. Africa                         |
| Create mid-career pathways for finance professionals to enter the civil service                                                                                                                        | S. Korea                              |
| Establish or strengthen links to universities and research institutes, to create a recruitment pipeline and provide external capacity for research, policy support etc. on financial management issues | France, Netherlands, Russia, S. Korea |
| Outsource selected financial management tasks, as an alternative to recruitment                                                                                                                        | S. Korea, UK                          |
| <b>Training and professional development</b>                                                                                                                                                           |                                       |
| Invest in training provided by specialised Ministry of Finance training institutes                                                                                                                     | France, Netherlands                   |
| Collaborate with professional bodies to create training options oriented to the public sector                                                                                                          | Russia, S. Africa, UK                 |
| Sponsor civil servants to acquire independent professional qualifications                                                                                                                              | S. Africa, UK                         |
| Establish professional networks or cadres within the civil service                                                                                                                                     | UK, France                            |
| <b>Career development</b>                                                                                                                                                                              |                                       |
| A centralised finance cadre offers wide ranging career opportunities across government                                                                                                                 | France                                |
| Define finance competencies required for certain posts                                                                                                                                                 | UK, Russia                            |
| Require professional accreditation/certification for designated finance posts                                                                                                                          | Russia, UK, S. Africa                 |

|                                                                    |            |
|--------------------------------------------------------------------|------------|
| Set up finance “professions” within the public sector              | UK         |
| <b>Pay</b>                                                         |            |
| Pay flexibility                                                    | UK, Russia |
| Higher pay scales within specialized financial management agencies | France     |

## 1. Background and introduction

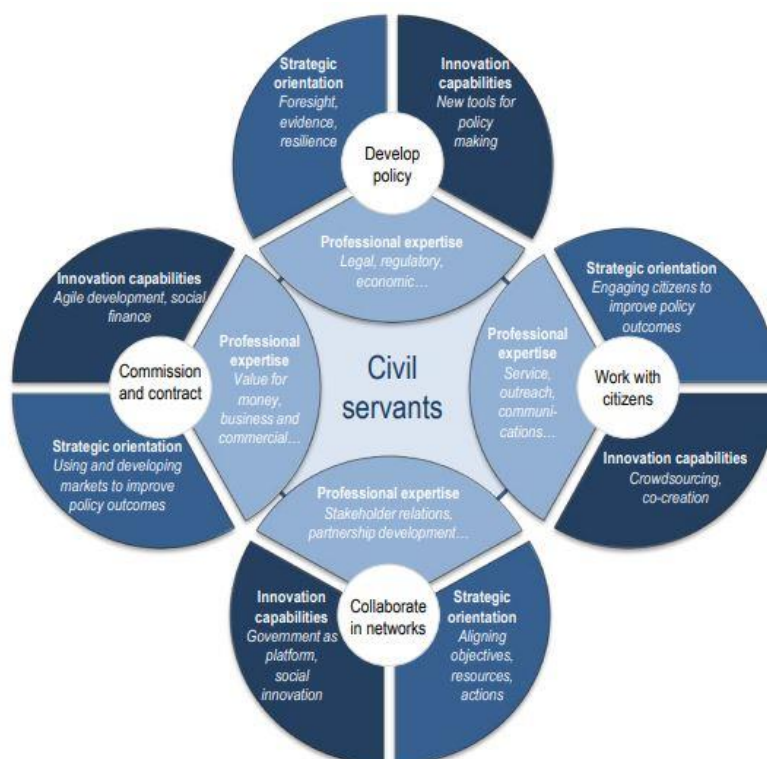
This study was prepared in response to interest from the central budget authorities of countries in Eastern Europe and Central Asia in learning about approaches to strengthening financial management skills that result in sustainable improvements in capacity. Through its involvement in financial management and public sector reform programmes across the world, focusing on all aspects of financial management (e.g. World Bank, 2012; PEFA 2016) and civil service reform, the World Bank was able to collate, review and synthesise experience across a range of countries.

For development agencies, the question of how governments can strengthen financial management skills on a sustainable basis is also relevant, given the substantial sums invested in financial management capacity development. In some cases these have generated little or no lasting improvement in skills levels (see World Bank, 2008 on public sector reform; Prichett et al 2010 for a more general discussion of the enduring nature of capacity gaps). Investments in this area by development agencies focus on changes in financial management technology, processes, and procedures. The capacity-building component is often limited to training to help implement the new processes although some projects have included initiatives to strengthen financial management training within government training institutions. Projects do not include changes in human resource management practices, such as recruitment, career development, and in-service training etc... that would maintain and develop capacity.

For governments in many high-income countries this study will also be relevant. Gaps in financial management skills and capabilities are not limited to low and middle-income countries. Indeed, building a more effective and professional civil service is a challenge for all high-income countries. The 2017 OECD report “Skills for a High Performing Civil Service” identifies professional expertise as one of the key building blocks of a civil service that provides public value (see Figure 1).

The OECD recommendations on budgetary governance advise ‘investing continually in the skills and capacity of staff to perform their roles effectively – whether in the CBA, line ministries or other institutions – taking into account national and international experiences, practices and standards’. An enduring challenge is how to meet the needs of groups of professional technical staff within a human resource management system designed for the civil service as a whole.

Figure 17. Civil Service Skills for Public Value: A Framework



Source: OECD (2017), Skills for a High Performing Civil Service, <http://dx.doi.org/10.1787/9789264280724-en> Purpose of the study.

The study aims to provide insights into how governments can strengthen financial management skills in the public sector on a sustainable basis. Financial management skills are critical in enabling governments to meet their basic objectives of delivering services to citizens and achieving policy objectives. They are also critical to address current concerns around fiscal sustainability, securing value for money for taxpayers and ensuring transparency and accountability for the use of public funds. The issue of sustainability is closely linked to how technical professionals are managed within the civil service. The study therefore looks in detail at how human resource management policies and practices can be adapted to support the development of strong financial management capabilities.

### 1.1. Study Scope and Methodology

The study focuses on the "core" financial management skill areas that are common across central budget authorities, line ministries and agencies, namely budget preparation, public procurement and contract management, asset management, financial control, accounts preparation and financial reporting and internal audit. As tasks, job descriptions and skills are classified differently in different countries and some case studies range more broadly in their discussion.

The study excludes specialised agencies that deal with purely financial matters, such as the central bank, tax administration, public debt administration and external audit agencies. These agencies tend to be staffed by finance professionals and have high degrees of autonomy in matters of recruitment and remuneration of staff. Some of their approaches to

recruit and develop financial management specialists can provide useful reference points for other parts of government.

In terms of jobs, the main focus of the study is on financial analysts and financial managers, up to the level of the chief financial officer. These staff members undertake financial analysis, make strategic decisions, put forward options and convince colleagues (and ultimately ministers) as to the best way to proceed in management of public funds. The studies therefore do not cover the work of more junior financial staff, for example accounting clerks, who carry out routine operations.

This study uses a comparative case study approach. It is based on six in-depth country studies of France, the Netherlands, Russia, South Africa, South Korea and the United Kingdom. These countries were chosen because of a combination of factors: their experience in strengthening finance skills and professionalism; strong performance in financial management. They were also chosen to represent different administrative traditions (Continental European, Anglo-Saxon and Asian) so that those interested in implementing similar reforms could see how different solutions have been developed in these different contexts.

The case studies used a common analytical framework, or questionnaire, covering a number of issues relevant to the development of financial management skills. This framework and the common core questions are summarised in Box 1. The detailed framework is in Annex 1.B.

#### Box 16. Summary of the analytical framework

The analytical framework used for the case studies covers four areas:

1. **The external environment:** What is the external political, economic and institutional context of the country, and how might this have affected plans for financial management skills development? What kind of political commitment (if any) has been expressed with regard to financial management skills development? Does the civil service explicitly recognise ‘financial management skills’ in career development or job postings, or is the ‘finance function’ not particularly highlighted? What are drivers and obstacles to change and/or development of the finance function?
2. **The organisational framework:** What is the framework by which finance professional skills are managed? Which institutions matter for this? How is training designed and delivered for finance professionals? Is this accredited externally, or by government itself?
3. **Human resource management processes:** Are there specific HR systems, rules and procedures for finance professionals or do such staff follow the standard rules? Are there recognised ‘cadres’ of public finance professionals or are finance staff managed in the same manner as the rest of the civil service? Are pay and grading structures the same? Are finance staff recruited in the same manner as other staff or are there specific routes into government for these kinds of staff?
4. **Professional development:** Is career planning and professional development handled differently for finance staff? Does progression depend on simple

availability of vacancies and self-motivated applications, or is the profession more actively managed? Are there specific qualifications or competency frameworks for professional finance staff?

The case studies were completed between 2015 and 2016. In most cases independent expert consultants undertook these studies, supported by the relevant World Bank country office where available. Consultants used several research techniques, including qualitative key informant interviews, document reviews and focus group discussions. In many cases primary data from interviews and document reviews have been combined with the personal experience and knowledge of the expert consultants and World Bank country staff. The case studies have each been externally reviewed and moderated by World Bank staff to ensure consistency.

### *1.2. Study challenges and limitations*

The process of preparing this study presented several challenges. First, the interdisciplinary nature of the topic, combining aspects of financial management and human resource management, created a practical challenge to find government counterparts and experts (to develop the case studies) with a sufficient understanding and overview of both areas.

Second, the number of countries that have made systematic efforts to strengthen financial management was limited. The original intention was to include more countries in Eastern Europe and Central Asia but studies initiated in several countries yielded too little material to justify their inclusion in the report. As a result, OECD countries are strongly represented in the case studies, with Russia and South Africa providing useful examples of middle-income countries that have been active in this field.

Third, among the case study countries there were wide variations in how governments understood and addressed the issues. The Netherlands, South Africa and the UK were similar in important respects, having made systematic attempts to improve financial management skills, linked to broader public finance reforms. In contrast, the Russian Federation and Korea carried out piecemeal reforms reflecting their perspective of the problem. In Russia the main story was about strengthening skills in government contracting, responding to a perceived need for reform and new legislation, while in Korea efforts were concentrated on creating a specialized agency to advise government on strategic financial management issues and creating opportunities for finance professionals to enter the civil service at mid-career level. France is a unique and interesting case of a country which, in response to a history of crisis, developed a professional financial management function in government more than a century ago, and which has continued to adapt it in response to a new wave of budgetary reforms.

Finally, the lack of available data on the numbers of financial management posts, qualified personnel, career paths, training etc... was a significant factor limiting the possibilities of quantitative analysis or direct cross-country comparisons. Few ministries of finance or civil service departments collect or maintain such information, at least not in a central location or in a standardised format. Similarly, with a few exceptions, independent professional bodies do not maintain data on membership within the public sector. For these reasons the assessment and judgements made are mostly qualitative rather than quantitative in nature.

## 2. Why Change? Pressures to strengthen financial management capabilities

Long-term trends in government, the economy and society are changing the job of financial managers and creating demand for an expanded range of financial management skills and higher levels of professionalism. This section discusses main drivers of changes in skills requirements, and indicative government responses.

### *2.1. Continuing fiscal pressure and the need for economy*

The need to improve financial management skills is driven in part by continuing fiscal pressures and the need for increased economy and efficiency in spending. In the years since the 2008 financial crisis, as budgets have been cut or remained flat in many countries, civil servants have been challenged to cut costs and boost efficiency while maintaining, or even improving, the quality of services.

While the impact of the crisis on public finances has abated in recent years, many developed and developing countries have accumulated large debt burdens. At the same time, an ageing population is creating upward pressure on entitlement spending and growth in spending on health and long-term care. The revenue base on the other hand, is threatened by a smaller working-age population, international tax competition and resistance to tax increases. These trends mean that pressure to improve efficiency and value for money in government seems likely to persist.

#### **Box 17. Fiscal pressures in the Netherlands and the United Kingdom as drivers of financial management capacity building**

In the Netherlands and the United Kingdom, for example, serious fiscal crises played a significant role in persuading the governments to initiate programmes to improve finance skills.

At the beginning of the 1980s, the national finances of the Netherlands were in crisis. Two oil crises, combined with high labour costs and over-optimistic growth projections led to unsustainable levels of government spending (60% of GDP in 1983) and rising budget deficits (6% of GDP in 1983). The government's response in part was to initiate a major reform of the public financial management system to improve the manner in which public finances were handled to support delivery of a fiscal consolidation. One important goal of the reform was to create a strong human resource basis for professional development of the financial management function: developing and recruiting experts; increasing training capacity; and improving the culture and ways of working to ensure there were more and better-qualified professional financial personnel working across government.

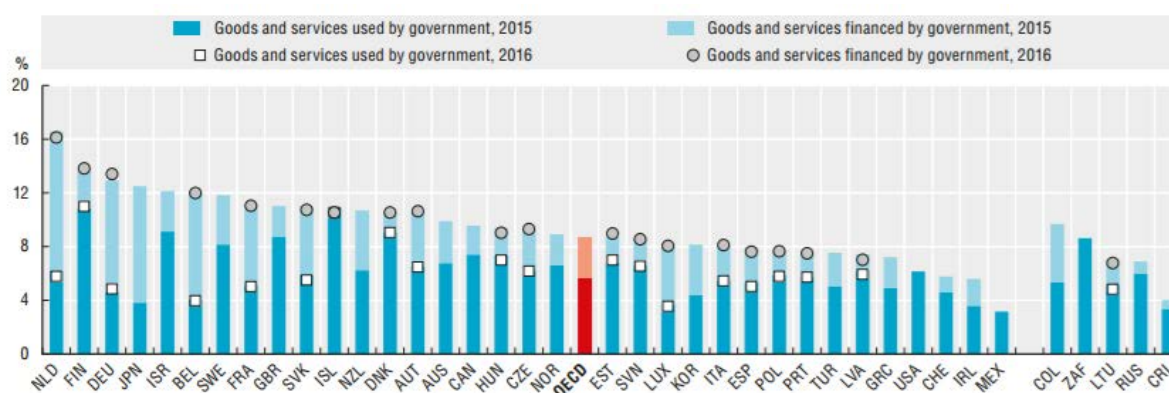
Similarly, in the United Kingdom, the 2008 financial crisis led to a fiscal crisis, with the government deficit rising to over 10% of GDP alongside a structural imbalance between income and expenditure. In response, successive governments have embarked on long-term fiscal consolidation with unprecedentedly large expenditure reductions in certain areas. With public expectations of service delivery remaining high, this has put a premium on making sure government resources are used as effectively as possible. To improve the effectiveness of how financial issues are incorporated into decision-making, HM Treasury launched a 'Financial Management Review' (HM Treasury, 2013) with a view to strengthening the role of finance in policy and decision-making.

*Source:* Case studies

## 2.2. Commissioning and contracting out

The service delivery role of government is changing. The straightforward picture of a government raising taxes and channelling the proceeds to various public sector entities, which then deliver a standard range of public services to homogenous populations is no longer necessarily the main way in which a government seeks to deliver its outcomes. In the case study countries governments' role is moving from a direct provider of services to include being a contract negotiator (see Figure 2), service financier, process regulator and risk manager in a system where services are provided by other entities (Kettle D.F. (2010)).

**Figure 18. Expenditures on General Government Outsourcing as a Percentage of GDP**



Source: OECD National Accounts Statistics (database). Data for Australia are based on a combination of National Accounts and Government finance statistics data provided by the Australian Bureau of Statistics.

Governments are also making use of complicated financing methodologies, such as Public Private Partnerships (PPPs) and social impact bonds, to deliver public services and tackle complex societal problems. The extent to which public servants can achieve value for money through these processes has become a key factor affecting quality and access to public services. To do their job effectively civil servants need not just to be experts in the technical field (e.g. infrastructure or social services) but also to have professional skills in financial analysis, procurement, contract management, financial management, accounting and audit. The UK has identified the commercial capabilities required in the UK civil service as part of its plans for obtaining better value for money from the GBP 45 billion spent each year on goods and services.

### Box 18. Commercial capabilities in the UK civil service

The UK Capabilities plan recognised that value is obtained during three phases of commercial engagement and argues that civil servants overly focus on the procurement phase. It calls for all civil servants involved in policy development and delivery (not only procurement specialists) to do the following:

- Pre- procurement: develop better skills to specify needs confidently, clearly and concisely, while not being over-prescriptive, in advance of commencing a formal procurement. This will allow for meaningful, planned and competitive engagement with the whole market.

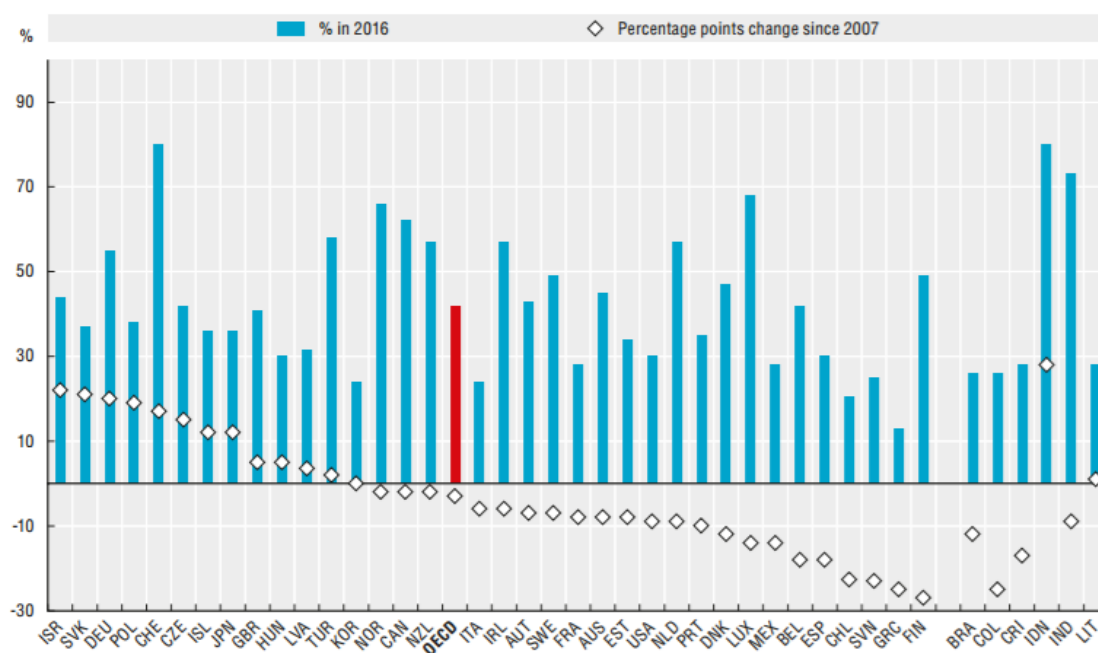
- **Procurement:** Understand the underlying economics and contracting aspects of suppliers' tenders, including pricing techniques, margins and open book arrangements, as well as basic contracting terms such as contract changes, intellectual property rights and termination. Knowing how to negotiate a good deal and applying commercial judgement is as important as understanding the procurement process.
- **Post contract:** Understand and apply commercial techniques to ensure that suppliers deliver to meet contractual expectations in order to maintain best value and be able to negotiate with suppliers when they do not deliver, including competently and confidently handling disputes.

Source: UK Cabinet Office (2013), Meeting the Challenge: A Capabilities Plan for the Civil Service.

### 2.3. Restoring trust in government through improved accountability and transparency

While the task of managing public finances has become more complex, governments are suffering from declining levels of public trust (see Figure 3). Strategies to restore public trust typically rely heavily on measures to boost accountability and transparency, not least regarding the use of public money.

Figure 19. Confidence in national governments and its change since 2007



Source: Gallup World Poll

New tools, including public consultations around the budget, presenting the budget and accounts in user-friendly formats (i.e. citizen's budget), as well as technical changes designed to improve transparency such as accruals accounting, international accounting standards and performance budgeting are being introduced to improve transparency.

The past 20 years has also seen a revolution in accounting standards for the public sector, with the objective of improving transparency and supporting better management of public funds. The development and widespread adoption of International Public Sector Accounting Standards (IPSAS), and related sets of standards customised towards particular countries or groups of countries<sup>1</sup> has involved a transition from the cash basis of accounting to the accruals basis. Because cash did not account for assets, liabilities, or contingent liabilities, accounts presented a partial and sometimes misleading picture of the state of public finances and governments lacked the information necessary to manage effectively their assets, liabilities and risks.

This process has been supported and encouraged by international bodies including the International Federation of Accountants (IFAC), the World Bank, the IMF and the European Union, as well as by civil society organisations such as the Open Budget Project. This in turn has led to a step change in the level of expertise required to carry out the accounting functions within government.

**Box 19. Improving standards of Governance and Accountability in France, Russia and the United Kingdom**

In Russia major changes have taken place in accounting and financial reporting with the introduction of accrual principles in public sector accounting. Work is also underway to develop national public sector accounting standards aligned with IPSAS. These reforms were accompanied by the introduction of modern financial management information systems and use of web-based technologies that allow for disclosure of budget information to the public. Important changes have also taken place in government contracting which now permit new mechanisms of public procurement, requiring higher-level skills.

In the case of the UK, the government's commitment to improve public sector governance and accountability has led to numerous accounting, reporting and public transparency reforms. This was exemplified by introduction of HM Treasury's 2011 "Corporate Governance Code" for all departments and the replacement of the original 1915 'Government Accounting Manual' with a revised version called "Managing Public Money" that updates government financial management practice in line with modern requirements.

In France the adoption of the organic finance law (LOLF) in 2001 led to the introduction of performance-based budgeting and the adoption of accrual-based accounting and financial reporting from 2006.

## ***2.4. Digital transformation of government***

Digital government is transforming access to financial data, enabling civil servants to monitor and control public finances more easily and opening new possibilities in terms of policy analysis and designing better service solutions. The use of computerised financial management systems is also transforming the public availability of financial data, allowing greater scrutiny and oversight of government financial activity. While increased use of Information and Communication Technology (ICT) in financial management brings undoubted improvements in timeliness, comprehensiveness and usability of data, it also increases the requirement for technical capability among accounting staff as well the need

for finance staff to develop more generic skills in policy analysis, innovation and citizen engagement.

#### **Box 20. Computerisation and use of ICT in France**

The French “*loi organique relative aux lois de finances*” (LOLF) of 2001 required significant changes to financial accounting and reporting across the public sector in order to implement the legally-mandated reforms. These changes were implemented in part by the introduction of a new ‘CHORUS’ computerised financial management system. While the financial management improvements delivered through CHORUS are significant, they have also required a large amount of training, re-training and upskilling of financial managers at different grades throughout the public sector. This naturally comes with a cost, which must be considered when governments decide whether to substantially change their financial management systems.

### **2.5. Failures in financial management**

In sharp contrast to the picture of increasing demand for sophisticated financial management skills, there is ample evidence from audit reports that there are serious gaps in governments’ capacities in financial management, resulting in lack of accountability, waste, fraud and abuse of public funds. Indeed, in the countries reviewed for this study, critical reports by the supreme audit institutions (SAIs) have been an important factor motivating governments to pay more serious attention to the issue of financial management capability (see Box 6).

#### **Box 21. Pressure from accountability institutions in the Netherlands, the United Kingdom, and South Africa**

In many countries, sustained pressure from parliaments and/or the supreme audit institution have played a role in spurring improvement in financial management practices within government.

In South Africa numerous reports from the Auditor General have drawn attention to serious failures of financial control, lack of accountability in handing public funds and the lack of skilled personnel. The Auditor General has reported that more than 50% of those institutions audited had an adverse grade (“Concerning” or “Intervention Required”) with respect to financial record-keeping, controls and/or review and monitoring of controls. This was especially severe at the municipal and local government level. Over time, and partly in response to the skills gaps highlighted by the Auditor General, momentum developed to improve financial management skills within the public sector. An important step was taken in 2008 with the establishment of a Directorate for Capacity Development within the office of the Accountant General.

Prior to the mid-1980s reforms, the Netherlands Court of Audit had for years been critical of the quality of information provided to Parliament. Its 1984 annual report led to a political debate in Parliament that ultimately agreed with the critique presented by the external auditor. Partly in response to this pressure, the Dutch government began a long-term programme of budgeting and accounting reform to respond to the challenges

identified and improve the quality and usefulness of information provided to Parliament and the public.

In the UK, independent reports commissioned by the government going back to the 1960s remarked on the need to employ more-qualified accountants and other technical professionals in management of public sector finances. Reform efforts have taken place at sporadic intervals as a result. Notably, in the 1980s the National Audit Office (NAO) – the UK supreme audit institution – increased the capability of its own auditors and sought to raise the public profile of its audit findings. As a result of increased media interest in NAO findings regarding the use of public funds, government began to show a greater concern for how it manages public finances.

*Source:* Case studies

In Russia, the government's current efforts to professionalise the public procurement function are part of a broader response to problems identified in that area. A somewhat rigid public procurement system based on electronic auctions resulted in a low level of competition for many contracts. In 2012, the President estimated that these failures were costing in excess of RUB 1 trillion per annum. In an effort to improve effectiveness and value for money in public procurement, in 2014 the government implemented a new law on federal contracting (FZ44) that allows for a much wider range of procurement methods to be used. However, to operate the new procurement system the government identified that civil servants responsible for procurement needed upgraded skills, and mandated that officials responsible for managing procurement should be professionally qualified procurement experts.

### 3. How to Strengthen Public Financial Management Skills

#### 3.1. Reform Context, Direction and Leadership

Public sector reforms are widely recognised to be hard to implement. Fundamental changes to institutional features (staff capacity, organisational culture) can take decades to implement<sup>2</sup> and reforms have to deal with complex political and social contexts including corruption, patronage, and political capture<sup>3</sup>. Reforms are especially challenging when they require co-ordinated action by more than one government agency and collaboration with outside bodies. It is therefore not surprising that the more successful efforts to strengthen financial management capacity reviewed for this study were built on foundations of clear strategic direction, collaboration and leadership.

##### 3.1.1. Context

Successful initiatives to strengthen financial management capacity have taken place within the context of broader efforts to strengthen the quality of financial management in government. In France for example, recent changes in financial management training were linked to the implementation of the 2001 LOLF law, which enacted major changes in budgeting and accounting. In the United Kingdom, the starting point for recent capacity building reforms was the 2013 Review of Financial Management in Government. This set out the case for strengthening skills as part of more comprehensive reforms of financial management, covering finance leadership, improved use of management information, modernisation of spending controls and strengthening of internal audit.

In Russia, more limited capacity-building reforms followed major reforms of the laws governing federal contracting process and government accounting. This prompted efforts to train and professionalise the procurement and accounting functions.

Cause and effect is hard to prove, but in the cases of the UK, the Netherlands and France the impetus for capacity-building reforms can be linked to earlier fiscal crises that focused attention on the need for financial management reforms with capacity building a part of this. In France, the crisis was historical and the major reforms that created a strong finance function within the French administration were enacted in the 19<sup>th</sup> century. In the UK and the Netherlands, more recent fiscal crises acted as a spur to reforms, and this was helpful in getting senior-level attention and support.

Civil Service reforms can both provide either an authorising environment or an obstacle to efforts to build financial management capacity. For this reason alignment and co-ordination of human resources management and financial management reforms is desirable. There is a clear overlap in the objectives of creating a more effective and “professional civil service”, but efforts to carve out separate terms and conditions for a professional group are likely to meet resistance.

### *3.1.2. Strategic direction*

An important starting point for a capacity-building reform is to articulate the problem, supported by independent evidence, and to present a way forward. South Africa PFM Capacity Building Strategy<sup>4</sup> includes an example of a clear problem statement supported by research evidence. The PFM Capacity Building Strategy<sup>5</sup> forms the basis for the government’s current reform initiative, which is also linked to the achievement of Presidential goals to address gaps in co-ordination, planning, and monitoring and evaluation.

### *3.1.3. Collaboration*

Strong partnerships are a significant feature of successful capacity-building initiatives. Key partners include the central budget authority as the lead agency, the ministry responsible for the civil service and training providers, both inside and outside government. For example, South Africa’s PFM Capacity Building strategy was developed by the National Treasury in co-operation in partnership with the Department for Public Service and Administration (DPSA), the Department of Cooperative Governance (DCoG), and the National School of Government (NSG).

France, the Netherlands and Russia all offer examples of collaboration with institutes of higher education to strengthen the pipeline of potential recruits with financial management expertise as well as exchanging information and personnel and providing additional capacity to carry out policy analysis.

In the United Kingdom, the capacity-building reforms involved close collaboration with professional bodies, to develop training suitable for the public sector, and with the department for the Civil Service to introduce specialised financial management entry schemes to the civil service, including the finance fast stream and the finance apprenticeship programme.

### Box 22. South Africa: PFM Challenge and Strategic Objectives

#### Extract from PFM Capacity Development Strategy

Extensive research has informed four problem statements:

- The environment does not support the development of high-performance organisations. South Africa has a shortage of skills in financial management, internal audit and enterprise risk management, resulting in competition for a limited pool of resources between the public and private sectors. The institutional environment does not promote a culture to attract, select, develop and retain talent, nor does it offer appropriate job standardisation, or education and training solutions.
- Inadequate organisational capacity hampers good PFM and service delivery. Most national and provincial departments have low levels of PFM maturity, as measured by the model discussed in earlier. This reflects a lack of effective financial management systems and practices. Vacancy rates are high (averaging 34%) in financial management, supply chain management, internal audit and enterprise risk management. Staff turnover averages 14.6 months. The continuous change in the senior management staff after the new executive or municipal council results in the depletion of the institutional memory and critical skills set required for sustainable financial management practises.
- Staff competence levels are inadequate to comply with standards and requirements. According to the Auditor-General, provincial department audits for 2012/13 resulted in 11 disclaimers, 39 qualified findings, 93 financially unqualified findings (with findings), 41 financially unqualified findings (with no findings) and 5 audits not finalised at the legislated date. National department audits for 2012/13 resulted in 7 qualified audits, 30 financially unqualified audits (with findings), and 3 financially unqualified audits (with no findings). Municipalities audits for 2012/13 resulted in 84 qualified audits with findings, 138 financially unqualified audits (with findings), 30 financially unqualified audits (with no findings) and 83 adverse or disclaimer with findings,
- An absence of effective partnerships and leadership on the legislated mandates, leads to unsustainable efforts to meet capacity development requirements. For example, Partnerships between government and education, training and development (ETD) stakeholders are inadequate.

Source: Case studies

Russia and Korea have undertaken more piecemeal approaches to reform. France, the final country covered by this study on the other hand, first implemented major reforms to strengthen its financial management function in the 19<sup>th</sup> century and has continued to maintain and strengthen its capabilities.

### Box 23. Strategy and Leadership of United Kingdom Reforms

In 2013 the Chancellor and the former Chief Secretary to the Treasury announced a Review of Financial Management in Government. The review was conducted with input from the private sector. It concluded whilst financial management and public spending control have been improving, more needed to be done to improve financial management to develop better public services and support public sector reform.

To respond to the review's recommendations, the Financial Management Reform programme was developed with the aim of "putting finance at the heart of decision making". The programme focused on the following themes:

- developing a talent pipeline to fill senior roles
- creating a strong development offer for all in Finance, building financial capability and driving continuous improvement
- sharing expertise across government by creating four new Centres of Excellence, taking action to stabilise shared services, and developing more standardized processes
- enhancing the way we use data and management information across government to improve decision making, resource allocation, value for money and ensuring Ministers and senior officials have access to relevant, high quality and timely management information establishing a costing unit, which will carry out new projects on specific areas of government spend to develop a more detailed understanding of inputs, outputs and outcomes

In the United Kingdom, senior Treasury officials played an important advocacy role and overcame obstacles that had impeded similar reform efforts in the past. Particular mention should be made of Sir Andrew Likierman, an academic who "approached his job at the Treasury with an infectious zeal."<sup>6</sup> Two fundamental changes happened at this time: the first was the decision to introduce accrual accounting; the second, in 1996, turned department finance heads (Principal Finance Officers) from generalists to specialist finance directors, modelled on the private sector. At that time, no finance head at the Treasury was an accountant. By the time Sir Andrew Likierman left his position in 2004, he had persuaded Permanent Secretaries that all departments should have a professional finance director with a seat on the departmental board. By the end of 2006, all Principal Finance Officers had to be qualified accountants, a reflection of the need for enhanced skills to prepare accruals accounts. In less than three years departmental spending moved from being 20% to 91% under the control of a trained accountant.

*Source:* UK Case Study

### 3.2. Financial management training systems and learning cultures

Building strong capabilities in financial management depends on the availability of good quality training and a commitment by government to invest in in-service education and training. For those considering a career in the civil service, learning opportunities are an important element of the employer's value proposition. Developing a culture of continued learning is important for the employer too, given rapid technological advances and changes in the ways that governments do business. How have the case study countries approached training delivery and the creation of a learning culture?

The case studies countries illustrate two distinct models of training. The first model, represented by the UK and South Africa, relies heavily on external professional finance institutes to provide training and professional accreditation. Both countries benefit from a

tradition of having strong and respected professional institutes in the field of accounting, audit, procurement and contract/project management. In each case government has established partnerships with professional institutes to offer specialised modules that cater to the specific needs of the public sector as part of their general training. An additional strength of this approach is that the professional training offered by accounting and auditing bodies matches a number of the generic skills requirements for a modern civil service, such as use of evidence, analytical capability, and civil service values of integrity, impartiality and professional independence.

#### **Box 24. Role of Professional Bodies in Providing Training- United Kingdom**

The United Kingdom has a long-standing structure of independent and non-government ‘chartered’ accountancy bodies that deliver professional training, offer certification as a professional accountant or auditor, and regulate their members’ conduct, operating in the private sector. One of these bodies, the Chartered Institute of Public Finance and Accounting, specialised in training accountants to work in the public sector, including in local government,

As part of its efforts to strengthen financial management capability the United Kingdom, government had created partnerships with a larger number of professional finance bodies to offer targeted training to civil servants. In the process, these bodies have adapted their training to include modules designed to address the specific needs of the public sector. A strength of the new system is that civil servants now require professional accreditation to fill certain finance roles such as Chief Accounting Officer or to work in the internal audit department. Professional training is also offered to new recruits to the civil service under the Financial Apprenticeship Scheme. These reforms have raised the profile of financial management in government, which provides an additional incentive for capable people to pursue a career in financial management in government.

*Source:* UK Case Study

From the employer’s perspective an advantage of this approach is that the standards of knowledge and skills are well established and independent, government does not have to invest in a separate training function, and the professional institutes take care of professional updates and address other topics such as ethics and professional conduct. From the employee’s perspective the prospect of obtaining a professional qualification that is marketable outside government, with support from the employer, makes the civil service a more attractive employer.

The alternative approach to training, in which government is the main provider, is exemplified by France and the Netherlands, each of which maintains a strong training institution under the control of the Ministry of Finance. These provide intensive training to those joining the government to perform finance roles as well as regular updates. The main advantage of this model is that training is very specific and relevant to the needs of the public sector. Since training is generally provided by serving public officials, the content can be kept fully up-to-date as laws and procedures change. Depending on the scope of their activities they can also provide additional support for policy analysis. Other examples of such institutes are the Korea Institute of Public Finance and the Ministry of Finance Financial University (NiFi) in Russia.

Good practice in OECD countries emphasises the importance of continuing in-service training and the need for training to be applied quickly for it to have an impact in performance. The case study countries all had systems in place for training updates. More advanced systems, for example in France, Russia and Korea, offer opportunities for finance specialists to spend periods of time in academic research institutes and had an active engagement with academics working on public finance issues. In the UK the Government Finance Function provides updates on important financial management issues.

#### **Box 25. Links to Academic Research institutes: France, Russia and South Korea**

Korea offers an example of "contracting out" of particular types of financial management training. Most civil servant training and development is provided by designated civil service providers. However, the civil service training system has a long-standing association with the Korea Institute of Public Finance that can deliver specific financial management related training where this is not available through the regular range of training products.

Similarly, in Russia training is offered by a number of specialised universities that compete for business. One of these, the Financial University absorbed the Budget Academy and the Treasury Academy, both formerly under Ministry of Finance, while another competing provider (RANHIGS) absorbed the former civil service academy. Specialised training in procurement is similarly offered by a range of competing institutions.

In addition to the its own training institute the French Ministry of Economy and Finance works closely with public sector academic and training bodies that have been established for this purpose. While not a formal relationship or requirement, many elite level civil servants working in finance-related institutions and posts will have attended "*Grandes Ecoles*" which effectively provide some "pre-service" training on financial management.

*Source:* Case studies

## **4. Human resource management aspects**

How capable individuals are attracted to work in government, whether they stay and whether they are motivated to acquire and develop financial management skills, will depend to a large extent on human resource management (HRM) practices and the extent to which these take account of the needs of both the institution and individuals. A key challenge for government HRM systems is to balance the need for a unified approach with the need to cater to the needs of technical professionals in financial management and other fields.

The case studies indicate different approaches to human resource policies in terms of recruitment, retention and deployment of professional finance skills. Whatever the precise system, this study demonstrates that to improve financial management skills on a sustainable basis, governments need to ensure that human resource management policies and practices support the recruitment, retention, career development, and professional development of financial managers within the civil service.

### 4.1. Recruitment

Government recruitment policies and processes are key to increase the flow of financial management expertise into the public sector as well as to provide a clear signal that financial management skills are valued there. The recruitment process followed plays an important role in determining the long-term quality of finance personnel and, inversely, the additional effort that may be needed to raise skills and knowledge to the required level at a later date. Countries have experimented with a range of entry schemes, both for new graduates and mid-career professionals. Examples of such schemes are described in more detail in Table 3. An important feature of many of the new joiner schemes is that these are linked to training, leading to professional accreditation.

**Table 3. Examples of different kinds of finance specialist entry points to the civil service**

|                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Non-graduate specialist recruitment schemes                | The UK and the Netherlands have school-leaver and sub-graduate vocational level recruitment schemes for financial professionals. The UK's financial apprenticeship scheme enables school leavers to obtain a professional qualification as an accounting technician.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Graduate specialist recruitment schemes.                   | <p>Many countries operate an open-entry graduate recruitment scheme to the civil service, usually complemented by formal processes of training and development for successful candidates. These are often explicitly developed with the intent of identifying and recruiting future high-flyers within the civil service.</p> <p>The UK has taken its existing "Fast Stream" approach and created a specific 'Finance Fast Stream' to attract graduate entrants with a particular interest in predominantly finance-focused work. It offers informal prospects for networking, development of a professional community and access to a ministry-level 'champion' for the finance function to bolster morale and maintain interest in the finance function as a career path.</p> <p>The Netherlands Budget Affairs Directorate facilitates the inflow to central government of young qualified personnel whose university study was in macroeconomics, business economics, government administration, or political studies. For the first two years trainees are paid by the finance ministry with contribution from the line ministry where they are assigned. The National Academy provides a specific training programme for financial trainees. After 40 days of the programme, trainees serve in three different central financial positions over two subsequent years (the finance ministry; a line ministry central financial directorate; or an agency) to develop rounded experience on how financial management processes operate across government.</p> |
| Mid-career specialist recruitment                          | <p>An alternative approach to capacity building of existing staff is to hire mid-career professionals from outside the civil service to fill specific posts that require public finance skills.</p> <p>The experience of the UK and Korea suggests that, while this can be effective in attracting individuals for a short period of time, these individuals rarely go on to make a long-term career in the public service.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Alternatives to specialist recruitment (e.g. outsourcing). | <p>Where specialist financial skills cannot be developed in-house or easily recruited into the civil service, there are examples of countries that outsource financial management work to other agencies. In the UK, for example, there is a trend towards contracting out routine financial administration work to shared service centers.</p> <p>Russia is seeing the potential of using IT to centralise finance work to cut costs and improve accuracy. In Korea and Russia there are specialised institutes – the Korea Institute of Public Finance and NiFi – that can provide specific finance-related advice and expertise to government when needed.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

### 4.2. Competency frameworks and job specifications

Specifying more precisely and clearly the exact requirements of a finance-related post(s) is an important tool supporting career development and promoting professionalism. In the United Kingdom an important basic step, taken in 2006, was to require that the finance directors of each ministry have a recognised professional finance qualification. This also helped to affirm that finance has a specific status and value within the civil service.

Having a unified system of competencies and job specifications can facilitate mobility of expertise within the civil service, making it easier for skilled staff to move to similar jobs in different institutions, and move away from a sense that being a true finance professional could only be achieved by working in a select few "finance" agencies.

South Africa has recently published a Capacity Development Plan for Public Financial Management supporting the governments 'Financial Management Improvement Plan' and the Presidential Outcomes Framework. This new capacity development plan will equip a large number of civil servants with the finance skills they need to do their jobs better. In addition, new internal structures are being established that set out a clearer career path for finance professionals.

Russia is introducing a clearer 'professional standard' in the accountancy profession which will specify in more detail what competencies, skills and experience are required for specific accounting roles in the public service as well as the private sector. This will bring more consistency and comparability to the work of finance professionals who currently work under a wide variety of job titles and role specifications.

The UK has increasingly recognised specific competencies required for financial management posts. Of the 25 recognised civil service "professions" eight relate to financial management areas and each has their own centralised leadership program. HM Treasury has established a "Financial Capability" team with a remit to develop and deliver improvements in financial capability across government.

#### **Box 26. The Controller's role-Netherlands**

Over the past two decades the traditionally administrative role of the controller has to a large extent been transformed into a policy- and business-oriented role. Recent studies indicate that the value of the role will lie in the incumbent's skills in business support, risk management, governance, data analysis, integrated forecasting, human capital analysis, strategic advice, and ability to formulate scenarios and rolling forecasts. This means that financial management needs to add value to the business and to be in an open relation with the outside world and policy practice. The controller of the future will be both a specialist for internal administration and a policy adviser responsive to developments in society.

*Source:* Netherlands Case study

### **4.3. Career management**

A key issue for finance professionals within the public sector is how to maintain and develop a successful career as a professional. Without a clear career path, leading either to advancement and continued professional growth within public finance, or the opportunity to transition to a more senior job as a generalist civil servant, professionals are unlikely to commit to a long term career in the civil service. This is an issue not just for these individuals but also for governments that want to retain skills, especially when they have made substantial investments in training.

The case studies present a range of models for how governments can create career paths in financial management. There is naturally a balance to be struck between offering an entirely finance-focused career for certain civil servants and ensuring that the benefits of a "generalist" approach are not lost. Certain staff – for example, those who have moved in a "lateral entry" path later in their career – may expect to develop expertise and specialisation in their chosen field rather than range widely over different work and career options.

Some civil service traditions put greater emphasis on the individual managing their own career, and provide formal and/or informal encouragement for "working widely" and broadening experience across a number of portfolios. Indeed, for some entrants to the civil service the opportunity to work on a wide (and possibly unrelated) set of policy issues is part of the attraction of a career in government.

Amongst the case study countries there are no examples of management practices that result in an entirely separate "parallel career path" for financial management professionals (i.e. a career path that means finance staff can only undertake finance roles and with staff moves, promotions, transfers and hires restricted to designated finance positions only). However, several countries had explicit schemes and policies to encourage and facilitate a finance focus in career development.

The French model comes closest to providing entirely separate career tracks for finance professionals. This is due to the unique role played by the French Ministry of Finance, which essentially provides financial management expertise across the whole of government, with civil servants from the Ministry of Finance posted to line ministries and local governments. This affords them wide-ranging career opportunities. In addition to the Ministry of Finance two other services or corps, the General Inspectorate of Finance and the Court of Accounts provide strong career development opportunities for finance professionals. Members of both these corps enjoy a high level of career mobility in the public sector extending to state-owned enterprises and can take leave from the civil service to work in the private sector.

#### **Box 27. Managing the careers of financial management professionals in government**

In the UK qualified staff can be formally part of the civil service-wide "Government Finance Function". As part of this they can take advantage of both formal and informal networking and mentoring activities operated by a designated 'Head of Finance Profession' in each ministry they might work in. The government has also introduced a specific 'Finance Fast Stream' for new entrants seeking a civil service career that focuses on finance-related roles.

In France, high-flyers in the civil service tend to cluster around finance and economics-related institutions, including the finance ministry and the court of audit. As a result, these staff often invest in accessing the training and experience required to perform well in such roles.

#### **4.4. Pay and incentives**

A discussion on the levels of pay and other incentives needed to retain finance staff is unavoidable. As noted above in the general discussion of tools available to governments to attract, retain and advance staff with technical financial skills, civil service managers face a trade-off between specifically favouring certain types of staff in order to retain their expertise, while ensuring that the civil service as a whole remains a unified structure with well-motivated staff. Staff that have strong technical financial management skills are valuable to the private sector, where there is an assumption that the salaries on offer are higher than in the civil service. The case studies might therefore have been expected to show that some countries have taken steps to offer higher pay and/or other clear material incentives in order to attract and retain specialist financial staff.

However, the countries reviewed in this study provided no clear evidence that significant additional financial rewards were necessary to attract or retain professional finance staff. Some case studies noted that non-monetary rewards such as training and clear career networking options are typically available to motivate financial staff. Others make the point that a career in the civil service (regardless of specialisation) offers non-financial rewards such as job stability, family-friendly working hours, the opportunity for wider contribution to society that keep public service jobs competitive. This finding may also reflect the fact that in all the countries reviewed, civil service jobs were well paid.

Nevertheless, amongst the case study countries the Netherlands and France explicitly keep private sector reward comparisons in mind, but found no evidence that pay differentials between the public and the private sector were an obstacle. Clearly, this may not be the case in other countries.

#### **Box 28. France: Pay comparisons**

France has no specific premium for PFM professionals, except for staff working in the tax administration (DGFIP). However, in the Ministry of Finance, which employs a large majority of the State's PFM staff, the premiums are more generous than in the other ministries. Remunerations are on average higher in the civil service than in the private sector, because the level of qualifications to enter the civil service is also higher. Top jobs represent an exception to this rule since they are paid on average 20-25% below the private sector for an equivalent level of responsibilities; but this difference is compensated for by job stability and the participation in the State's higher circles of decision-making, which entails much prestige.

*Source:* Case study of France

## **5. Challenges and impediments to change**

In most of the countries reviewed for this study, efforts to strengthen financial management skills in government have been closely linked to larger PFM reform programmes. However, sustainable solutions to capacity building require changes in human resource management processes, which are typically the responsibility of the ministry responsible for the civil service. The need to accommodate the perspectives of two important ministries makes reform challenging, and requires leadership, high-level support and co-ordination across government.

The case studies illustrate that the perspectives and priorities of the central budget authority and the civil service ministry are often different. While the central budget authority may argue the case for attracting and retaining technical financial management skills, civil service ministries tend to support a unitary system and resist suggestions that technical specialists, or other interest groups, should be given special treatment. Creating new career pathways and reserving senior management posts for technical specialists also runs counter to the interests of elite generalist civil servants. Overcoming resistance from top civil servants is particularly challenging. In the UK, for example, the need to take action to attract technical professionals to work in the civil service was identified in the Fulton Report half a century ago, but major reforms only began approximately 12 years ago. In Korea the elite generalist civil service remains dominant with limited recognition of the need to attract or retain technical specialists. The solution is perhaps to recognise, that to

be effective, today's civil servants need to have both specific technical skills and generic capabilities in areas such as management, innovation and strategic orientation.

Governments that want to strengthen financial management skills may face opposition from elite generalists within the civil service. In countries (such as Korea and the UK) where there are powerful and well-established elite cadres resistance can be expected to the idea that important positions in public administration (e.g. Finance Director) should be reserved for technical professionals. In the UK, South Africa and the Netherlands this opposition has been neutralised, to some extent, by defining the skills and competencies required for specific posts, or groups of posts with similar responsibilities. In the UK generalists are given the opportunity to acquire professional qualifications but in Korea the generalists are still firmly in charge.

While weaknesses in financial management may be perceived as an important issue by the Ministry of Finance or the SAI, they may look less important when viewed from the perspective of the department responsible for the civil service. The issues may even be seen as problematic, for example if government conflates it with wider issues such as how to 'professionalise' the civil service as a whole, or how to manage numerous groups with specialised technical skills. The UK case illustrates that even when the need to professionalise financial management was recognised, it took decades to bring this about. South Africa offers a good example of a joint approach, led by the Ministry of Finance (Office of the Accountant General) but with the active involvement of the Department of Public Administration leading to a jointly agreed strategy for capacity building.

## 6. Conclusions and recommendations

Financial management is an indispensable capability for all governments but reports by independent SAIs' (and others) suggest that many governments, including those in OECD countries, have done a poor job equipping themselves with the necessary skills. Not enough attention has been paid to human resource management practices and how these encourage, or constrain, the development, retention and effective use of financial management expertise.

Each of the countries studied for this report has made a systematic, if not always comprehensive, effort to strengthen financial management capability. None individually offers a complete solution, but taken together the experiences of the six countries suggest a set of common principles or characteristics of a successful reform and a well-functioning system (see Box 9).

Governments generally do not keep track of financial management or other technical groups within the civil service making it hard to track their recruitment, career progress, etc. Better tracking of these groups, and other groups of technical professionals, within the civil service HRM systems could aid capacity development.

**Box 29. Seven principles for developing professional financial management skills**

1. Government develops a rationale and strategy for strengthening financial management skills, based on needs analysis and co-ordinated with any plans for public finance and/or civil service reform.
2. Technical competencies and qualification requirements are set out in job descriptions for all positions that carry financial management responsibility
3. Internal staff selection processes ensure that competent/qualified staff are appointed to positions requiring significant financial management capabilities
4. External recruitment processes enable recruitment of staff who already have specialised financial management skills and experience
5. In-service training systems enable staff to acquire and develop financial skills to match the needs of government
6. Career management paths allow finance professionals to develop rewarding careers in public service
7. Compensation can be adjusted to attract and retain financial management professionals.

Each country in this study has taken a different approach. They have chosen a different "mix" of technical, human resource and management reforms in order to deliver an improved (and improving) level of capacity of financial management staff, reflecting different institutional structures and administrative traditions. The experiences of the case study countries point to several generalizable lessons and examples of effective practices.

- A drive for finance professionalism needs the support of senior level technical leadership, together with sufficient political support to overcome typical obstacles, including the territorial boundaries between ministries and entrenched civil service interests.
- In countries where there are well developed private sector professional finance training institutes, their qualifications, training delivery mechanisms and accreditation systems offer government ready access to training, without the costs of establishing and maintaining a training staff and facilities. However, relationship building is required to develop training options tailored to the needs of the public sector.
- In countries that have established government-training colleges, financial management training provided by serving government officials can ensure that training is fully relevant and up to date. Higher education institutions and government financed research into financial management in government provides an important source for policy advice, career development and recruitment.
- Strengthening professionalism could be advanced by opening up recruitment pathways into the civil service. The UK offers some good practice examples of targeted recruitment, including a separate "fast track" entry programme devoted to finance specialists and a finance apprenticeship scheme to recruit school leavers and offer them professional training and accreditation.
- Mid-career recruitment is also an important potential means of increasing the availability of financial management expertise. In some cases, such as Korea,

recruitment is on a temporary basis to fill a specific need. While this adds to the complement of skills, without the prospect of developing a longer-term career most people entering via these schemes leave public service after a few years. The UK offers an interesting alternative option whereby mid-career generalist civil servants can convert to become specialists, undertaking a programme of professional training and accreditation.

- Definition of finance competencies has been an important tool for boosting the financial management profession within government. For example, in South Africa use of standard job definitions linked to competences in financial management and professional training and accreditation create both a demand for financial management skills and increased career opportunities for professionals.
- Governments such as the UK have also tried to boost career development through creation of a government finance profession, essentially a network of finance staff, and senior level ‘champions’, in the form of professional heads of finance in each government department. This is a soft tool to make clear that finance staff are considered important in government operations.
- France offers a distinctive alternative model whereby careers are developed within official institutions and groups of finance staff who are proactively managed in terms of career development.

## Notes

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2. States and Development: Historical Antecedents of Stagnation and Advance: Lange, M., Rueschemeyer, D, 2005.
3. Building State Capacity for Inclusive Development: The Politics of Public Sector Reform: Bukenya and Yanguas, 2013
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- Skills for a High Performing Civil Service, OECD (2017).

## Annex 1.A. Summary of Country Case Study Findings

### A - External environment

#### *Policies and leadership*

|                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
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| In regard to financial management professionalization, to what extent does the country government have:                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <ul style="list-style-type: none"> <li>• Political commitment to financial management professional development?</li> <li>• Explicit financial management professional development policies?</li> <li>• Other change initiatives linked to financial management development policies?</li> <li>• A clearly articulated statement of the benefits of financial management professionalization?</li> </ul> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>France</b>                                                                                                                                                                                                                                                                                                                                                                                           | Political commitment on improvement to public financial issues relates to the overarching need to reduce expenditures and accommodate EU/Euro area fiscal rules. Explicit financial management professional development action has taken place as a result of a large-scale IFMIS/financial management /MTPB reform of the early 2000s (2001 Budget Act LOLF) that is seen as supporting government to better manage public expenditures. LOLF-related reform has required widespread re-engineering of financial business processes and retraining of financial management staff on a new financial system. Political commitment relates therefore to the implementation of the LOLF law rather than to financial management professionalization itself. The LOLF and its implementation requirements are well-known and publicised within the public sector, with dedicated units established to deliver it.                                                                                                                                                                                                                                                                                                                         |
| <b>Korea</b>                                                                                                                                                                                                                                                                                                                                                                                            | The government does not have an explicit financial management professionalization programme. Civil servants recruited as highly skilled elites generally consider themselves to be (or rapidly able to become) competent in regard to financial management issues as part of their regular work. Regular rotation of high-skilled civil servants, plus a culture of excellence and achievement, are considered sufficient to cover the government's financial management requirements. For civil servants, there is a requirement to undertake continuous professional development (measured as a number of hours training per year) and some of this can be - although not required to be - in financial management-related areas. Specific laws/rules allow the finance ministry to mandate particularly intensive training for finance related staff (although it is unclear if it actually does use this power). Procedures, laws and administrative culture encourage a high sense of professionalism across the civil service, but this is interpreted as meaning effective generalisation across a range of skills; not developing particularly deep skills in financial management.                                            |
| <b>Netherlands</b>                                                                                                                                                                                                                                                                                                                                                                                      | Efforts to promote financial management professionalization have occurred in different stages: <ul style="list-style-type: none"> <li>• From the mid-1980s to mid-1990s, the main aim of the major drive for financial management professionalization was improvement in overall management and sustainability of Dutch public finances. Financial management professionalization was part of this programme, but not a stand-alone reform effort itself.</li> <li>• From 2012, official government and Parliamentary reports have highlighted room for improvement in the accounting and budgeting system in the Netherlands. These policies focus on specific aspects of financial management: (i) development of a single accountancy service across government; (ii) development of a more strategic role for the finance units within line ministries in response to emerging trends in financial management and the external environment. This second wave of reforms can be more clearly characterised as a financial management capacity building programme as it has required changes to ICT systems, to training of staff and a strategic response to the pressure to reduce headcount numbers across government.</li> </ul> |
| <b>Russia</b>                                                                                                                                                                                                                                                                                                                                                                                           | No formal financial management professionalization programme but new professional standards for public sector work have been introduced as part of a wider public sector HRM improvement project. The first set of standards apply to two financial management professions - accountants and procurement specialists.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>South Africa</b>                                                                                                                                                                                                                                                                                                                                                                                     | Government has introduced a Financial Management Improvement Project, which aligns with the Presidential Outcomes Framework (medium-term performance budgeting framework). This strategy has been clearly articulated and broadly welcomed by government stakeholders. The Department of Public Service Administration has developed a change management framework to support implementation of the programme. A PPP project has been launched to support financial management professionalization in 60% of municipalities (where financial management skills are weakest) to train 1 210 staff.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

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| <b>United Kingdom</b> | <p>There have been multiple reform efforts over time designed to improve financial management within central government, with recognition that improvement is needed going back to the 1960s. Some structures and forms e.g. the Government Accounting Service are long-standing. Many of these including the latest efforts have been borne of the consequence of sustained fiscal pressures putting a premium on efficient use of resources and effective public sector financial management. Progress in articulating and communicating the benefits of a strong finance function have historically varied between institutions, and often depended on the efforts and success of individual department heads of finance.</p> <p>The Financial Management Review (FMR) is a current initiative designed to put finance more closely at the heart of decision-making and deliver more effective and efficient public spending. The FMR is a relatively high-profile reform effort, resulting in public reports, senior-level Ministerial sponsorship and a multi-year programme of interlinked changes, led by HMT but supported by line ministry finance leads. It explicitly aims to improve the finance function and its professionalization. It puts great emphasis on developing a talent pipeline of finance professionals across government. The wider cross-government Civil Service Reform Plan also emphasises the importance of professional skills development not only finance across government. The number of finance professionals in government has grown substantially. There is now a clearer competency model and set of expectations for senior finance professionals. The status and policy importance of the finance function is reported to have grown.</p> |
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### *Civil service characteristics*

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|                    | <ul style="list-style-type: none"> <li>• Are financial management experts within government organised in a skill/function based group/cadre?</li> <li>• Are financial management jobs open positions for external applicants; or are they career based and open to advancement from people already recruited?</li> <li>• Are financial management professionals limited by a ceiling on advancement, through political appointments or other reasons?</li> <li>• What is the perceived status and role of financial management specialists within the civil service?</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>France</b>      | <p>Most financial management jobs are career based and civil servants recruited into the service and advance upwards including into financial management related jobs as their career develops. Candidates for finance roles are typically chosen because they meet the criteria for the post, rather than that they are part of a cadre or group of finance professionals. Formal rules for promotion, hiring and application are strictly governed by civil service law.</p> <p>Staff at senior grades (A category) are likely to undertake general financial management responsibilities (e.g. managing budgets) and may even work for financial management specialist agencies (e.g. Inspectorate General of Finances) as they rotate through jobs in their career, but they are not normally required to be formally specialised as financial management professionals or similar for specific roles. Many finance-related institutions that offer A positions (e.g. Inspectorate General of Finances; Budget Directorate; Treasury) are prestigious within the French civil service, and therefore attract high quality candidates with good capability for the role. In part, this is because such finance positions are likely to contribute to high-level strategy and policy decisions, which involve direct interaction with Ministers. Management jobs with finance responsibilities also have a certain degree of respect since they imply technical knowledge.</p> <p>At lower levels (e.g. B and C categories) jobs are more specialised (and routine) and staff may de facto end up following a finance/financial management career, although this is not explicitly planned for and/or required. Staff in these groups are often seen as accountants or technicians rather than strategic finance advisers.</p> |
| <b>Korea</b>       | <p>There is no specific organisation, group or cadre of financial management professionals. Financial management related jobs are career based (i.e. existing civil servants and not necessarily financial management experts will apply for them). There is a strong culture of being a highly-skilled generalist and the expectation that elite civil servants will be able to learn and perform in any role, including a financial management-focused one. Where specific expertise is required (e.g. for financial management analysis) it will be drawn in on a short-term contract/project basis.</p> <p>There has been a civil service-wide shift in recent years to allowing lateral entry of non-career civil servants to senior positions, but this has had only limited impact so far (and these lateral entry roles are not specifically focused on financial management issues). There are no specific political appointments that require financial management skills and expertise. Political appointments are almost always filled by career (i.e. generalist) civil servants.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Netherlands</b> | <p>There is no specific defined career path or professional cadre for finance professionals. With very few exceptions, every civil servant is appointed to a general service position and is expected to rotate around a number of jobs while being subject to a general system of wage and rewards. Staff may move in and out of financial management roles over the course of their career.</p> <p>Within this generalist approach, some schemes exist to promote finance professionalism in particular and there are some well-established routes by which finance professionalism is developed and disseminated. For example, the Budget Affairs Directorate sends trainees to line ministries after working in the Directorate for some time, and a small number of trainees receive financial training before being rotated between finance positions at the finance ministry and in-line ministries. A modest number of trainees are also recruited into a separate financial administration programme. The Central Government Audit Service has a more structured programme of recruitment and training of its staff, including a training programme for beginners, a job rotation system and talent management programme.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Russia</b>      | <p>There is no specific defined career path for financial management professionals in the civil service. Staff performing similar financial management-related functions may have very different job titles and job specifications given the wide range of classification of roles and functions available in the Russian civil service. However, new professional standards have been introduced for accountants and procurement specialists, and more may follow. Alongside the development of</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |

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|                       | professional standards, the Ministry of Labour is working to unify and harmonise the current wide-range of jobs within similar institutions. The salaries available at financial management-related public institutions (e.g. MoF, Federal Treasury) are slightly higher than the national average.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>South Africa</b>   | There is no defined career path for financial management professionals. Financial management jobs are currently position based (i.e. they are open to a large pool of applicants). The National Treasury is however, in the process of establishing internal structures that more clearly create a career path for financial management professionals.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>United Kingdom</b> | <p>While there is a Government Finance Profession and a new Finance Fast Stream entry programme with specific managed stages over two years, there is no set career path for financial management professionals. With a few exceptions, the UK government central civil service operates a career-based approach to recruitment where most posts are open to all existing civil servants rather than reserved for certain cadres. Usually, only once a post has been advertised internally will it be opened for external recruitment. Some roles within the civil service do require a professional finance qualification although they are not necessarily reserved for a particular cadre or group of civil servants (i.e. qualified applicants may apply from across the civil service rather than be pre-qualified through membership of a designated financial management group).</p> <p>The recognition of the importance of a finance profession is growing however, and there are a growing number of informal ways beyond the Government Finance Profession grouping in which a financial management professional group is being identified and developed across government.</p> <ul style="list-style-type: none"> <li>• The roles of Director-General Finance in line ministries are now reserved for qualified accountants.</li> <li>• These DGs are responsible for building an [informal] network of financial management professionals within their departments although the nature and shape of this effort will vary between institutions.</li> <li>• Informal signalling of government priorities through various reform programmes and high-profile policy statements are clearly elevating the unofficial importance of finance roles.</li> <li>• Of the 25 recognised civil service professions, eight relate to financial management areas, and each has their own centralised leadership programme.</li> <li>• A Financial Capability team in HMT is responsible for developing and delivering financial management improvement projects across government, including delivery of the high profile Financial Management Reform programme.</li> </ul> |

### *Drivers and obstacles to change*

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|               | <ul style="list-style-type: none"> <li>• What have been the main drivers of financial management professional development? (e.g. new accounting standards; service delivery challenges; audit findings).</li> <li>• What are the obstacles to the promotion of financial management professional development? (e.g. low wages; limited training; resistance to financial management being identified as a special skill).</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>France</b> | <ul style="list-style-type: none"> <li>• The <i>background</i> driver to improved financial management professionalization has been the ongoing requirement to reduce government expenditure and, in doing so, reduce civil service numbers. This is likely to remain for the medium-term at least. Civil service institutions are required to reduce their budgets and overall headcounts year-on-year. Alongside this, pressure for improved/maintained public services continues. Improved financial management will support this ambition. The more <i>immediate</i> driver of the reform programme that has been put in place is the need to implement large-scale reforms to public finance practices in order to deliver the LOLF reforms. The legal framework for both LOLF and its predecessor statutory instrument was clear and rigorous with high expectations for reform. More broadly, there is a strong ethic of public service within the French civil service that drive effective financial management systems.</li> <li>• No serious obstacles to financial management professionalization are identified. The overall remuneration package for finance-related civil servants is competitive with the private sector. Training opportunities for all civil servants are numerous, and time is allowed within civil servants' working year to take advantage of them. Broadly, senior management in the civil service are supportive of the series of reforms stemming from LOLF.</li> <li>• There may be bureaucratic cultural challenges in some areas. In common with other countries, the most prestigious jobs often involve strategic policy ideas and proximity to ministers rather than the technical work of financial management. The highest prestigious positions within the French civil service tend to cluster around peak financial/economic management institutions.</li> </ul> |
| <b>Korea</b>  | <ul style="list-style-type: none"> <li>• There is no specific drive towards financial management professionalism. There is a constant and long-standing institutional incentive (and requirement) that civil servants must train and equip themselves to deliver effectively in their various roles as they rotate positions through their career. A civil service position is considered innately prestigious/elite and therefore intrinsically professional. Four particular financial management reforms of the 2000s required that civil servants working in the relevant positions educate themselves on particular financial management reforms (e.g. accrual accounts; performance management).</li> <li>• The main driver working against financial management professionalization is the inverse of the issue noted above - a strong culture of a skilled generalist who rotates frequently between positions. Relatively short</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

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|                       | tenures in individual positions obviate the need for and incentive to develop depth in financial management skills.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Netherlands</b>    | <p>Concerted programmatic efforts to improve financial management skills across government have come from various sources:</p> <ul style="list-style-type: none"> <li>• Fiscal and economic challenges. The early 1980s Dutch Disease fiscal challenges motivated numerous reforms to improve and reform the shape of the Dutch public sector, of which one pillar was improvement in financial management skills. In the late-2000s, fiscal pressures returned and the Strategic Agenda 2020, which focuses on smaller and smarter government explicitly made the link with the need to respond to prolonged reductions in departmental budgets, including pressure on the size of the finance function.</li> <li>• Parliamentary pressure for improved financial reporting. Around the same time as the first round of fiscal challenges above, critical reports and reviews from the Dutch Court of Audit on the quality and usefulness of financial information provided to Parliament led to pressure for better financial information. This motivated reform of the budget and accounting systems.</li> <li>• Challenge of implementing EU requirements. EU and Euro area rules and regulations, including those relating to procurement and tax management, require more sophisticated financial skills that were commonly found in many line ministries.</li> <li>• Changing ICT capabilities and opportunities. The possibilities of improved financial ICT have meant that shared services centres, automation of routine tasks and more advanced analysis of data has become possible. These mean a change in role and skills required to run professional public finance systems.</li> </ul> |
| <b>Russia</b>         | <p>Several factors are identified as driving financial management skills development:</p> <ul style="list-style-type: none"> <li>• The political changes of the early 1990s: <ul style="list-style-type: none"> <li>○ Many political and economic institutions were significantly reformed in the post-Soviet era. This drove initial changes in many areas of public administration, including financial management processes.</li> <li>○ A new decentralisation arrangement within the Russian Federation. Reforms of the early 1990s also included the move towards a more clearly federal state, with significant reform required of intergovernmental fiscal relations.</li> <li>○ Need for greater clarity between state and providers of public services. As part of a drive to improve public services, agencies were (re)classified in terms of their financial relationship with government.</li> </ul> </li> <li>• Introduction of second generation financial management reforms has required greater financial management skills. For example, medium-term expenditure frameworks, accrual accounting, contracting within the public sector, programme-based budgeting and use of performance information in the budgeting process.</li> <li>• Changes in the availability and use of technology within the financial management system. Web-based technology in particular has increased the capability of financial management systems.</li> </ul>                                                                                                                                                                                                                                        |
| <b>South Africa</b>   | <p>Numerous obstacles stand in the way of a more professionalised financial management function within the civil service. The broader public administration environment does not support development of high performance organisations, including the development of a strong financial management function. Challenges identified include: scarce skills; appointment of people without the right skills to financial management posts; low staff morale and service ethic; inadequate implementation of performance management systems; no dedicated professional body accountable for financial management practice/practitioners. In general, the typical civil service department does not operate practices that attract, recruit, retain and develop talent in this area. There are relatively few training and development opportunities for appropriately qualified staff. These issues are evident at both national and provincial level. Audit reports reveal consistent under-performance in many financial management related areas. Some government reports attribute this to a lack of leadership to deliver the existing mandates. There is strong competition from the private sector for the limited pool of professional financial management skills. There is no official code of ethics or code of conduct that covers the specific work of financial management professionals.</p>                                                                                                                                                                                                                                                                                                 |
| <b>United Kingdom</b> | <p>Recognition of the need to upskill financial skills within UK central government has been a long-standing observation of numerous reports, in some cases going back decades. The relative success of more recent attempts to improve and professionalize financial management skills is attributed to:</p> <ul style="list-style-type: none"> <li>• The pressures of the post-financial crisis reductions in public expenditure. This has put a clear premium on doing more with less in public service delivery, and therefore elevated the importance of incorporating finance considerations across government.</li> <li>• The personal drive and commitment of a particular head of profession for the Government Accountancy Service (GAS). The case study identifies one former government official as being particularly driven, charismatic and influential in terms of ensuring that finance skills were more widely recognised and welcomed across government.</li> <li>• The implications of the move to accrual accounting, beginning in the late 1990s. This government-wide effort required significant reform, re-training and upskilling of the transactional and process-focused accountancy</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

function in government. As an example, this turned the most senior financial staff in departments from Principle Finance Officers into Finance Directors.

- Pressure from the NAO (and subsequently Parliament) to improve financial reporting and accounting. NAO deliberately raised the public profile of its work in auditing government accounts, generating additional pressure on government to improve its financial management processes.
- A greater focus on results and delivery in public services. From the 1998 spending review onwards, budgeting moved towards a medium-term orientation with a greater emphasis on what will be delivered in return for additional funding. This incentivised the operation of better financial systems that could respond to these pressures.
- The use of financial management assessments in government departments. All departments undertook a self-assessment of their financial management capability, against a common framework. This has been used to diagnose weaknesses and identify areas for improvement.

Obstacles to change are highlighted as:

- Continued reductions in civil service department budgets, including for the finance function. There will be continued pressure to upskill finance professionals while also spending less overall on the civil service.
- Aging IT and cumbersome infrastructure. Many departments systems are old, and the legacy of department being split and merged has affected the efficiency by which financial information can be accessed and used.
- Changing personnel at the top of the reform effort. Previous reviews of what works and what doesn't in UK civil service reform have highlighted the importance of sustained senior level commitment, particularly from the Treasury. Two senior figures from HMT responsible for these issues have moved position in the past 1-2 years, meaning a smooth transition will be required by their successors if progress is to be sustained.

## B - Organisational framework

### *Organisational network*

- Identify which organisations play a significant role in financial management professional development (e.g. MoF; other public finance agencies; financial management training institutes; professional accountancy bodies; civil service commission; central civil service ministry; line ministries).
- What is the role of those organisations and how effective are they? What are their main strengths and weaknesses?
- What training institutes provide financial management training for public servants? Are these public or private?
- How is the training delivered? Is it accredited?
- What is annual volume of training conducted?
- What is the annual budget for financial management professional development?

**France** Numerous institutions have a responsibility for some form of financial management professional development across the French public sector. All are government-owned and government-led. Indeed, the case study notes private and non-profit professional accounting and auditing bodies have no role in providing training or recruits. While the public sector may take into account the evolution of the private sector approach to accounting, it operates according to its own logic. The training offered by these institutes does not lead to an externally-recognised qualification or certification as the training is designed to meet the needs of the public sector and the skills obtained are specific to that role.

Key specialist training institution for public agencies with a focus on financial management include:

- *Ecole Nationale des finances publiques* (ENFiP) created from a merger of two separate finance-related training institutes. This is the official training body of the Public Finances Directorate General (DGFIP). As a result of the merger, training courses available [on public finance] are categorised and standardised, following consultation and discussion with unions and central administration. ENFiP is responsible for recruitment, training and continuous professional development of tax agents and public managers of budgets/accountants for DGFIP. It operates in the field through a network of training agents. ENFiP has recently revitalised its training to focus more in adaptable knowledge and acquisition of re-deployable knowledge, rather than focusing only on rote learning.
- *Institut de la gestion publique et du développement économique* (IGPDE). The continuous professional body for the Ministry of Finance and Economy, although it also offers training to other departments and offers courses on a commercial basis. Other departments can ask IGPDE to develop training modules for its own staff as necessary. This institution trains senior staff working on CHORUS and organises the LOLF School for staff with key responsibilities in its implementation. There is no core curriculum for financial management skills offered by IGPDE its training is adapted to the requests and requirements of individual institutions.

Key training institutions for non-specialist civil servants who may have finance-related functions as part of their roles:

- Higher schools (e.g. ENA) although not having a formal role in training finance specialists, a large number of senior (A+ category civil servants) are recruited from these schools, meaning they have a role in preparing people who will become finance managers within the civil service.
- Regional administration training institutes (IRAs) training centres for A category civil servants, with a generalist (i.e. non-financial management specialist) mandate.

Continuous professional development is the responsibility of each ministry. Training, including financial management training, is therefore focused on the self-determined needs of the department, working under the direction of the Directorate General for Public Administration (DGAFP). This institute defines inter-ministerial priorities (e.g. in 2014 three of the eight identified related to financial management issues such as public procurement, professionalization of IT project management). Each ministry then drafts its own training plan, taking into account these cross-ministry priorities. So, the Ministry of Finance and Economy will develop its own training plan, although this covers areas beyond technical skills (e.g. recent training has covered softer issues such as staff wellbeing). This training planning cascades down to directorates of the Ministry of Finance and Economy, reflecting the views of HR and staff working in those units. These training needs can be wide-ranging within the financial management sphere. For example, in 2013 training within the Directorate General of the Treasury included: financial products in relation to financial markets; representation of finance ministry interests on boards of public enterprises; and upgrading of computer specialists with formal qualifications. Not all directorates within ministries accurately identify their training needs, potentially because HR managers leading the process are not aware of the technical side of financial management.

#### Korea

There are few specific financial management professional development bodies that operate as training institutes for a financial management specialization. The professional expertise required for financed-focused positions is generally expected to be rapidly acquired on-the-job and/or by self-directed learning. So, for staff working in the MoF for example, it would be this institution that would lead on training and development of the skills necessary for effective functioning. Upon entry to the civil service, new recruits undergo a government-wide training program covering general orientation. This includes a small amount of training on budgeting and accounting, but alongside a wide and varied curriculum. Mid-career staff are required to undertake a certain number of hours training per year at accredited institutions. Promotion for civil servants is dependent upon attending a certain number of hours of this kind of training. There are 30 institutes offering such training, in a variety of formats and of differing duration. These include financial management courses, but alongside a very wide range of other offerings. These courses are generally self-directed and not intended to lead to a formal accredited qualification. Professional development is funded from the operational expenses of the ministry concerned.

The main institute that focuses on financial management issues is the Korea Institute of Public Finance a government-owned body. This institution is accredited and by the civil service department to deliver training in the same way as many other institutions modular training of various types. Senior civil servants working in MoF may deliver some of the training courses that KIPF offers.

#### Netherlands

Government departments and allied public training institutes provide qualifications and learning relating to financial management professionalization.

Several of the training providers are part of the MoF:

- MoF National Academy for Finance and Economics. This institution is an integral part of the MoF Budget Affairs Directorate and is responsible for delivering training on financial management to government staff. It runs modules on financial management, audit, economics and operational management of varying lengths. Around 3,500 civil servants attend courses each year. The Academy is self-financing and must attract sufficient interest in its courses to cover its costs. Courses vary in length and depth and are designed for the differing needs of civil servants with varying roles in financial management. The Academy also offers training for a selected number of other countries civil servants who are keen to benefit from Dutch experience on public finance issues.
- MoF Budget Affairs Directorate. This institution runs an informal training program in that it sends out around 20 staff to line ministry finance functions to support their operations after an intensive training session at the National Academy.
- MoF Inspectorate of the Budget. Although not formally a training institute, this part of government also sends out well-trained young finance professionals as policy advisers to other parts of government. The outflow means that each year the Inspectorate recruits around 10-15 new entrants.

There are plans to increase and expand training programs for young finance professionals and to increase the role of the National Academy.

In addition, other parts of government have a role in supporting financial management professional skills development:

- Central Government Audit Service. This institution part of the MoF has an annual intake of 10 staff for its graduate auditor program.
- General training budgets (not specific to financial management areas). Managers hold a training budget of 2-4 per cent of wages to support civil servants in accessing training relevant for their work. This can include purchasing training from the National Academy for Finance and Economics.

**Russia**

All civil servants must undergo some form of professional development every three years as part of their performance management process. These individual plans are consolidated at an institutional level and training budgets drawn up on this basis. Training can include both formal instruction and on-the-job learning. Contracts for training are put out to tender, but can only be won by institutions with a formal license to deliver such inputs.

Financial management topics feature prominently in many types of training. Indeed, around 15% of civil servants undergoing training in 2012/13 received some form of specialised training on planning and financial topics, and a further 16-18% were trained on other topics that are likely to have contained a financial management element.

There are no formal organisational frameworks for financial management professions. Lead financial management bodies (e.g. MoF) are not expected to lead the respective professions within government, and there are no other clear focal points for these training and development functions in the public sector. Instead, lead responsibility for the co-ordination of the work on professional standards is assigned to the pre-existing Professional Qualification Councils, who work under the office of the President. These councils will ultimately determine the content of professional standards, and as noted, two of these standards currently being debated, relate to two financial management professions (accountancy and procurement).

In terms of the institutions that actually deliver financial management-related training, there are several types of providers:

- Higher education institutions (universities, academies): The introduction of competitive bidding for training services has stimulated a market in such provision among licensed education institutions. Despite a series of mergers and reorganisations, there is no single preeminent financial management training institute that has emerged from the existing set of providers. Among these institutes, anecdotal discussion suggests there are several well-known market leaders in this field. Two are an amalgam of private-facing and public-facing institutions, with a different emphasis on finance vs. planning/economics/public administration. Competition on a commercial basis for training contracts is well acknowledged by these institutions. Of the two institutions discussed in the report the Financial University has a department specialising in public finance, and offers formal bachelor and master's degrees, alongside short-term courses.
- Specialised institutes and professional associations: In contrast to the universities/academies discussed above, these institutions tend to be smaller and more focused on particular sub-topics. Associations/Institutions exist for public procurement and accountants/auditors. While these professional associations might appear to be peak bodies for their professions (e.g. the Institute of Professional Accountants is a member of IFAC) it does not lead the accreditation process for accountants (although it was established with MoF support). It has been the lead developer of the professional standard for accountants, being developed and ultimately authorised by the (public sector) Professional Qualifications Councils. However, it appears that the focus of the institution is on the private sector, with a relatively limited offering of courses for public sector financial specialists.

The Ministry of Labour is planning to harmonise and unify the current multiplicity of responsibilities and job descriptions with a single harmonised system of job classification within a number of broad professional categories. It is expected that this formalisation will make training and development within these categories easier to deliver since the scope of duties of the various roles will be clarified. Note these standards are expected to cover both the public and private sector, although their use is only obligatory in the public sector at present.

Alongside formal training and development as part of professional development, and the different institutions that provide them, there are other forms of financial management-related skills development. Notably, frequent changes in laws, processes and procedures determined by the MoF and Federal Treasury require changes in practices and behaviours across the country. These institutions will therefore take time to develop training materials and/or explanatory notes to ensure that the new guidelines are understood. The Federal Treasury also operates monthly meetings to familiarise staff with new processes and procedures.

There is not a clear formal framework for financial management professions within government and at present, despite steady demand for financial management-related training as part of civil servants' professional development. There are relatively few focused financial management training institutions that deliver advanced and specialised courses. Indeed, the professional finance community have expressed concern that many training programmes on financial management topics are of limited scope and content. There are many introductory options, but relatively few intermediate and advanced training offerings. Training institutes are focused predominantly in procurement, with relatively little in the way of public sector finance and/or budget specialists. Quality of training remains an issue. Development of the national standards will help clarify what is in scope and out of scope for training. The development of the professional standard for accounting will help harmonise training and development quality around meeting the standard. The current accountancy standard draft, however, does not particularly distinguish between the public and private sector, although much of the curriculum is relevant for both. Further work will be required on the regulation of the certification offered.

**South Africa**

[The questionnaire response provides a list of institutes but does not prioritise, discuss or differentiate between them]

- PALAMA / National school of Government (NSG)
- International Project Finance Association (IPFA)
- South African Institute of Government Auditors (SAIGA)
- International Consortium on Governmental Financial management (iCGFM)
- The Department of Public Service and Administration (DPSA)
- The Department of Higher Education and Training (DHET)
- The Department of Cooperative Governance (DCoG)

- AAT (SA) Association of Accounting Technicians
- ACCA (SA) Association of Chartered Certified Accountants
- CIMA Chartered Institute of Management Accounts
- IAC Institute of Accounting and Commerce
- IIA (SA) Institute of Internal Auditors
- IRBA Independent Regulatory Board for Auditors
- SAIBA South African Institute of Business Accountants
- SAIPA South African Institute of Professional Accountants
- SAIT South African Institute of Tax Professionals
- SAICM The Institute for Credit Management
- SAMA South African Asset Management Association
- IRMSA Institute for Risk Management South Africa

#### United Kingdom

The civil service distinguishes between 25 professions, of which some are finance-related. For the financial management professions, the following institutions play a key role in professional development:

- Head of Function, responsible for leading their profession and raising professional standards. For the finance function the Head of Function is the Director General Public Spending (DGPS). The DGPS has some managerial oversight of all Director Generals Finances in line ministries. The DGPS is also the lead of the Director Generals Finance group, which brings all finance directors together across government. The civil service finance function profession is managed by the Finance Capability team in HM Treasury. There are similar Heads of Function for finance-allied professions, such as internal audit, procurement, project delivery etc.
- Head of Profession in each department. Each department has a nominated head of finance function. They are intended to provide continuous professional support and development for staff in the finance area working in their specific department. The level and intensity of activity of this role depends to a large degree on the individual concerned.

Across the civil service generally, there are resources for improving skills development. Many of these will include a finance component:

- Civil Service Learning. There are numerous finance-related modules available through generic training courses open to all civil servants. These do not always lead directly to a qualification and would not be of the same level as professional certification by a chartered institute. This is managed by the civil service department.
- The Finance Academy. Launched in January 2016, the government finance function launched an effort to focus training and development on financial management-focused staff across the civil service. This is managed by HMT's Finance Capability team.

Professional qualifications are recognised as vital in delivering better financial management outcomes. For some core finance work, a university degree is typically not sufficient. A recognised qualification from a training or certification body is usually required, in addition to a degree. The recent financial management improvement project has introduced a requirement that departmental DG Finance holders must be chartered accountants although it is not clear to what degree this requirement filters down the chain to other positions.

Professional chartered institutes related to finance. Institutions operating by formal charter are not classified as public sector institutions but are instead private/charitable institutions that undertake a quasi-public role in regulating various professions in England/UK. In terms of accountancy, there are four main chartered institutes of accountancy in England (with allied UK versions). Chartered institutes offering certified levels of qualifications also exist in many allied financial management roles such as internal audit, procurement and project delivery. Often the training that leads to certification by these bodies is delivered by private sector providers who are themselves accredited by these chartered bodies.

## C - Supporting HRM processes

### *Structure of jobs*

What jobs exist to carry out the core financial management functions? Do these jobs have a job description with defined responsibilities and person specifications? Do these include recognised professional or technical qualifications awarded by an independent professional body? What are the recognised professionals/cadres/groups, which perform these jobs?

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| <b>France</b>         | <p>Some senior-level jobs are considered to have a financial management focus in that applicants are required to demonstrate solid experience in financial matters. For some senior-level (e.g. A and A+) jobs there is a requirement for specific qualification; although this is not general practice. These jobs have publicly available job descriptions covering expected areas of knowledge and experience. Applicants for such jobs must have the right rank within the civil service and sufficient seniority to apply.</p> <p>Across the job ranks (A+ through to B) of posts related to public finance several domains of common focus can be determined, for example:</p> <ul style="list-style-type: none"> <li>• Support to steering and improving performance</li> <li>• Budget</li> <li>• Economic Development</li> <li>• Public Management</li> <li>• Taxation (of which there are several sub-domains)</li> <li>• State domain</li> </ul>                                                                                                                                                                                                                                                                                                                                                              |
| <b>Korea</b>          | <p>Professional qualifications are not required for these positions.</p> <p>Aside from these expenditure and budget management policy roles, each ministry will have its own administrative accounting and budgeting function. However, staffing in these units is not particularly extensive and activities are predominantly clerical involving liaison with MoSFs budget office.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Netherlands</b>    | <p>With very few exceptions, most staff are appointed to the general service of central government. There are families of working specialisation with a financial management-related element (E.g. resource mobilisation; project and programme management) but choosing a function with a financial management focus early in a career does not automatically mean following this path indefinitely; indeed, many staff starting in financial management-related areas move to other specialisations during the course of their work.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Russia</b>         | <p>The Russian definition of civil service tends to apply to central government ministries and associated agencies, but this is only a fraction of the larger public sector workforce.</p> <p>There are several different official job descriptions and classifications used for different purposes. As a result, similar financial management related functions can be performed by staff with very different job titles and job descriptions. This is expected to change in the future, with comprehensive and unified classification systems for similar jobs within broad professional categories being developed by the Ministry of Labour. While this will involve a statement of qualification required to undertake specific work, this is taken to mean a combination of skills and experience, rather than a formal certified qualification.</p> <p>Government is introducing new professional standards in areas of civil service work, including accountants and procurement specialists. These standards are expected to be used by the public and private sector and begin in July 2016. In the absence of independent professional standards bodies for these institutions, lead responsibility for the work of outlining the standard lies with the government Professional Qualifications Council.</p> |
| <b>South Africa</b>   | <p>Some core roles are recognised within a government strategy as being clearly related to financial management work: management accounting (planning and budgeting); revenue management; expenditure management; asset management; financial accounting; supply chain management; internal control; enterprise risk management; and internal audit.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>United Kingdom</b> | <p>The UK governments finance function leadership has developed a Target Operating Model, which divides finance-related activities into three functions: Decision Support; Reporting and Control; and Finance Operations. These have specific role descriptions and specified levels of expertise. Alongside this, corporate centres of excellence have been established in various government departments and agencies to act as learning hubs (e.g. governance finance in HMT; Internal audit in the Government Internal Audit Agency). Central Heads of Profession develop and oversee the selection, recruitment, deployment, career and CPD of trainees and finance professionals across government. The department level Heads of Profession present their bids for new graduates through the central recruitment to the overall cross-government Head of Profession. They then request civil service HR to manage the recruitment of those graduates and are charged for this.</p>                                                                                                                                                                                                                                                                                                                               |

## Grading and pay

Is there a separate pay structure for financial management jobs, or are these jobs graded within a unified civil service salary structure? Do ministries/departments have discretion to determine their own pay structure for financial management jobs? Are financial management professional/technical qualifications valued in the grading/pay of financial management positions? Does enhanced remuneration take into account the external market? How?

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| <b>France</b>         | <p>There is no separate pay structure for financial management jobs. They are graded within the unified civil service structure. Ministries/departments have no discretion to vary this. Comparisons with the external private sector market are not explicitly taken into account, but they are carried out and informally there is an awareness as to whether differences between the two sectors are significant.</p> <p>Only DGFIP staff working with taxation are paid a premium.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Korea</b>          | <p>There is no separate pay structure for financial management jobs. There is no ministerial discretion to determine pay structures or financial management jobs. There are rules and regulations governing when there can be pay enhancements for public officials, but these do not relate specifically to financial management related jobs. Similarly, civil service managers have a duty to investigate and consider private sector comparisons when setting public sector remuneration, but again this is not financial management specific.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Netherlands</b>    | <p>Civil servants are subject to a general system of wages and special rewards. These are set with an awareness of the comparator remuneration offered by the private sector. The case study notes that competition with the private sector for young financial professionals is becoming harder, and government has responded with specific training programmes [although seemingly not increased pay as a result.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Russia</b>         | <p>There is a unified pay scale for civil servants (and the municipal service). Each employee is appointed to a position within a fixed pay-scale. There are no pay-related incentives for specific professions including financial management. Salaries for staff working in financial management-leadership institutions (e.g. MoF, Court of Accounts, Federal Treasury) are generally above the civil service average. Informal interviews with these institutions suggested that turnover was relatively low in these institutions.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>South Africa</b>   | <p>Financial management specialists do not receive additional remuneration compared with other civil servants. There is no particular financial incentive for being considered a financial management professional.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>United Kingdom</b> | <p>Civil service departments and organisations are responsible for their own pay, grading and performance management arrangements; including performance-related pay (although this is quite a small part of overall remuneration). Departments can arrange their pay and grading as they wish, provided their total costs in this area fit within the centrally determined administration costs total.</p> <p>As a result of this local discretion, salaries can vary for new entrant Finance Fast Streamers (for 2015, they varied between GBP 25 000 and 27 000); compared to around GBP 28 000 for similar roles in the private sector. Varying salaries for new entrants on the same scheme are recognised as risking demotivation and feelings of unfairness. Bonuses, allowances and other forms of additional remuneration are determined by departments and formal professional qualifications may attract a bonus. Specialist pay can be provided to staff bringing skills that are particularly required. As noted, performance pay is not widely used within the civil service.</p> <p>The above discussion of pay variation is true of the civil service <i>below</i> Senior Civil Service level. At SCS level there is a cross-government pay and reward policy and departments do not manage this themselves. At senior levels, SCS pay is markedly lower than generally equivalent roles in the private sector (although the extremely specialised nature of SCS work makes comparisons difficult).</p> |

## *Recruitment and selection*

Is the recruitment process for financial management employees managed centrally, or are ministries/departments responsible for their own recruitment? Are financial management specialists recruited to the general civil service, or to a finance cadre/group? Are certain financial management qualifications a minimum entry requirement for certain jobs? Which posts (and at what level) are filled through external recruitment, and which through internal promotions? Is there an official policy?

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| <b>France</b>         | <p>Ministries are generally responsible for recruitment of their own staff. There is one particular exception, it is the MoF who appoints overall budget controllers at line ministry and regional level to supervise financial matters both centrally and locally.</p> <p>Staff are recruited into the general civil service and there is no official financial management staff category; however, some specific corps (e.g. taxation, public accountants) clearly have a strong financial management element to their work. Recruitment to the civil service is by competitive exam, followed by training in a civil service school and then deployment to a specific role. Most staff are permanent civil servants, but some are contracted staff (i.e. fixed term, non-permanent). Jobs, including financial management-related jobs are first opened to staff within the ministry; then opened out to the wider civil service; and if no suitable candidate emerges then an external contractor can be considered.</p> <p>Regarding diversity, there exist cross-civil service scheme to encourage applications by non-traditional candidates. Diversity efforts have been undertaken by certain ministries, including recent examples from the Ministry of Economy and Finance.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Korea</b>          | <p>There is no separate recruitment process for financial management professionals. There are rules that allow certain positions to be designation as professional positions and for specific requirements to be attached to the person who fulfils that role, but these are general powers and not specific to financial management work. In practice, staff working in these particularly designated positions are at lower ranks.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Netherlands</b>    | <p>Financial management-related HR reforms aimed at recruitment include:</p> <ul style="list-style-type: none"> <li>A traineeship for academic graduates joining ministerial finance units at the DG of the State Budget</li> <li>A separate traineeship for financial administration (at the bachelor/vocational level)</li> <li>A voluntary learning package for financial staff at the National Academy of Finance and Economics.</li> </ul> <p>The MoF Central Government Audit service recruits a small number of trainee auditors each year. The Budget Affairs Directorate and the Inspectorate of the Budget are noted as sending out high quality financial/budget staff to other departments each year, but it is not clear if they specifically recruit these themselves. The National Academy for Finance and Economics is noted as stepping up its training of young finance professionals, but it is not clear if a cadre of people are specifically recruited into this traineeship role. A supplementary information box suggests that staff join the civil service first, and then apply for this kind of focused training afterwards.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Russia</b>         | <p>Recruitment of staff is handled directly by the institution that has a vacancy. These are supposed to be filled through open competition on hiring websites. This is complemented by the staff reserve system whereby high-performing staff can be placed into managerial positions (sometimes obviating the need for advertising the relevant position).</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>South Africa</b>   | <p>No information provided</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>United Kingdom</b> | <p>In general, departments are responsible for managing their recruitment to the civil service, provided they follow the Recruitment Principles set out by the Civil Service Commission. Selection must be impartial and on merit. Vacant positions including finance positions are advertised on the Civil Service jobs website, and all jobs are open to all applicants who meet the relevant criteria.</p> <p>Specifically regarding financial management-related recruitment schemes, there are several:</p> <ul style="list-style-type: none"> <li>• Finance Apprenticeship Scheme for school leavers</li> <li>• Fast Stream for graduates.             <ul style="list-style-type: none"> <li>○ Finance Fast Stream: In 2015 the civil service launched the Finance Fast Stream with its first intake (following the long-established general Fast Stream entrance for high-performing graduates joining the civil service). There is also a Finance Apprenticeship Scheme. A key element of both schemes is that participants must complete a finance qualification. Existing civil servants can apply for the scheme provided they are supported by their manager and meet the relevant entry criteria. Finance trainees in the civil service are allocated to a particular finance function specialisation (e.g. accounts), although they are expected to work across all three of the functional areas. Some selection of work areas are influenced by the need to meet qualification requirements.</li> <li>○ Commercial Fast Stream: Is likely to follow the same kind of rules as above</li> <li>○ Internal Audit Fast Stream: Is likely to follow the same kind of rules as above</li> </ul> </li> <li>• Qualified and part qualified direct entry via advertisement of specific posts [no further information provided]</li> </ul> <p>In terms of deployment of Finance Fast Stream staff, at a department level the relevant Heads of Profession present their bids for new graduates through the central recruitment to the overall cross-government Head of Profession. They then request civil service HR to manage the recruitment of those graduates and are charged for this.</p> <p>Central Heads of Profession for each of the main financial management sub-specialties identified by government, develop and oversee the deployment, career and CPD of trainees and finance professionals across government.</p> |

## Transfers

Are financial management employees subject to management transfers to other ministries/departments from time to time? What are the reasons for such transfers? Can financial management employees request a transfer for career development reasons?

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| <b>France</b>         | Since there are no financial management cadres, civil servants with a financial management-focused skill set or career are covered by the general rules of the civil service. The French civil service encourages mobility (between jobs and between regions) in general, including for financial management staff, and administrative rules enshrine the right to move between institutions for civil servants. This tradition results from Republican values to integrate all civil servants from all regions into the central state. Some posts (e.g. sub-prefects overseeing local governments) have a fixed period before compulsory redeployment. There are no particular rules on transfers or moves between departments/ministries although mobility appears to vary by seniority (e.g. senior A+ civil servants tend to be very mobile; junior C grade staff less so). Most transfers are through personal application rather than managed moves. |
| <b>Korea</b>          | There are no specific rules on transfers for civil servants. Transfers are not mandated. Financial management staff as any staff member could request a transfer for career development reasons.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Netherlands</b>    | Civil servants (not specifically financial management professionals) are responsible for their own career development and expected to change jobs regularly (rotations usually occur every 3-7 years).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Russia</b>         | Some staff particularly financial controllers and auditors are subject to compulsory rotation to reduce corruption risk.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>South Africa</b>   | No information provided                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>United Kingdom</b> | All civil servants may move between departments to develop their careers. Financial management staff do this as well. Graduates joining the specific Finance Fast Stream will be expected to experience a number of roles across several departments so as to develop breadth of experience and support progression to leadership roles. Similar rotations are expected among Internal Audit and Commercial Fast Stream entrants.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

## D- Professional Development Processes

### Career planning and management

- Is there a separate professional cadre or group of financial management employees whose careers are managed separately?
- Are there defined career paths for financial management-related staff? How is their potential for advancement identified?
- Does progression depend on the existence of a vacancy for the individual? Is it a merit-based process?
- Is there a fast track development scheme for high potential financial management professionals?

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| <b>France</b>      | <p>The only cross-government financial management-related cadre of civil servants who are managed as a group are the Budget and Account Controllers who oversee expenditure in various ministries, but whose career is managed by the Ministry of Finance. Beyond this, ministries are responsible for their staff and there are no specific career paths for financial management staff. Staff may take internal professional examinations and <i>concours</i> to move up and develop their career. These professional exams are administered by the relevant Directorate, and may therefore involve some degree of financial management-related study and assessment. For example, ENFiP and DGFIP manage professional examinations and internal <i>concours</i> for taxation and public accounting work.</p> <p>Career progression depends on time served/seniority with an element of manager assessment. Managerial opinion on performance has a large impact on the likelihood of promotion. Time served/seniority progress is slow, however, and dependent on available budgets and funds. Alternatively, staff can progress by passing a <i>concours</i> to attain the higher designation (e.g. C to B, B to A etc). Changing job to demonstrate competence in different roles depends on the availability of a vacant position.</p> <p>There is no official fast track. However, preparation at ENA followed by selection of a work placement in Budget, Treasury or the General Inspectorate of Finances is typically considered the best way to senior level.</p> <p>There is no financial management or similar competency framework in use across the civil service, but specific jobs relating to financial management will have a defined job description.</p> |
| <b>Korea</b>       | <p>There is no separate financial management or similar cadre or career path for civil servants. As a result, there is no central management of such a group.</p> <p>Selection to posts is generally merit-based, but often takes place as a mass reassignment rather than individuals applying for specific jobs. Mass-reassignments under the rotation system means that advancement will broadly match the rank/order by which one entered the civil service (i.e. staff rotate into the next higher position in turn); although variation will exist as a result of individual preferences and specific available vacancies.</p> <p>There is a higher-level (Grade 5) Open Competitive Entrance Exam, allowing for senior-level entry from outside the civil service. However, this is relatively new with few people entering in this manner. This is not specifically for finance professionals.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Netherlands</b> | The generalist nature of recruitment to the Dutch civil service means that starting in a financial management related role does not necessarily mean staying in this for the whole of one's career.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

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|                       | There are plans for a talent programme in the future, but it is unclear if this involves financial management staff specifically, or is more general in nature.<br>The report notes that participation in National Academy learning programmes, courses and traineeships have the positive effect of building informal network that transcend ministry boundaries.                                                                                                                                                                                                |
| <b>Russia</b>         | The case study does not conclude definitively, but in the above discussion it noted that financial management-related posts and functions will have a number of different job titles, classifications and names across the civil service, although this is being rationalised at present. It also notes that there is an absence of formal organisational frameworks for the financial management professions. Taken together, this suggests there is not a single or unified professional cadre and/or career management process for financial management staff. |
| <b>South Africa</b>   | There is no particular career path and/or talent management process for financial management staff.                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>United Kingdom</b> | As noted in the sections above, there are recognised cadres within the civil service, including the Government Finance Profession, and other professions in related financial management areas. Some financial management related fixed criteria have been added to certain positions for example, new DG Finance positions in departments must be qualified accountants; and new Permanent Secretaries must have completed a business school leadership programme (which will include financial management-related elements).                                    |

### *Training and development*

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|                    | <ul style="list-style-type: none"> <li>• Are there specific qualifications or competency frameworks for financial management professionals?</li> <li>• Are the training needs of financial management professionals identified against such a framework?</li> <li>• Are financial management training plans prepared based on this process?</li> <li>• Is financial management training geared towards an approved qualification?</li> <li>• To what extent is work experience used to develop financial management skills?</li> <li>• To what extent are universities and training institutes used to meet the needs of civil service financial management professionals?</li> <li>• What is the balance of on/off job training; how much training; what options for structured CPD in financial management?</li> </ul>                                                                                                                                                                                                     |
| <b>France</b>      | <p>Training needs are typically identified by the staff members themselves. The HR department aggregate these into training plans, although there can be specific inter-ministerial trainings for CHORUS. These plans are funded by the ministries concerned.</p> <p>Training in the financial management sphere is not typically geared towards achieving formal qualifications, although such training may be requested and granted so as to better equip the staff member for their job. Training is typically provided by the public sector institutions discussed above. It is assumed that the quality and quantity of training on offer has been sufficient. Where specific reform programmes are undertaken, notably the CHORUS reform, private companies may be involved in training staff on the use of the new system. Training of civil servants is frequently delivered by other civil servants, including those who have direct experience of the issue at hand.</p>                                           |
| <b>Korea</b>       | <p>There is no specific qualification or competency framework for financial management professionals.</p> <p>Two universities (Seoul National University and Yonsei University) run lectures and courses on financial management - related topics that civil servants can take. However, staff undergoing such training use it for general capacity augmentation rather than formal training in financial management disciplines. Overall, financial management is not recognised or highlighted as a particular area for training, and therefore there are no specific courses or qualifications to deliver it.</p>                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Netherlands</b> | <p>The National Academy for Finance and Economics has a prominent role in providing financial management-related training. It is housed in the Directorate of Budget Affairs. It has specific trainee programmes for financial staff. In 2016, 185 trainees in various financial management-related fields started a two-year Academy training programme at the bachelor/vocational level.</p> <p>The report notes that more senior civil servants now take the lead in training their colleagues on financial management-related topics and this represented an advance on using external consultants.</p> <p>Within the Central Government Audit Service (one of the agencies targeted for improvement in financial management-related reforms) there is a clear system of CPD, with a yearly summer school for all auditors and support to internal learning communities.</p> <p>The Dutch system of regular generalist rotation is considered by the case study to adequately promote on-the-job skills development.</p> |
| <b>Russia</b>      | <p>Regarding competency frameworks, efforts have been made by government to specify more precisely the professional standards for accountants and procurement staff. This could be described as the beginnings of a competency framework.</p> <p>Every civil servant must undergo some form of CPD programme at least every three years in order to maintain a satisfactory performance evaluation. This is not specific to financial management as it is a requirement for all civil servants. Financial management and allied disciplines are not considered separately, but statistics indicate that sizeable minorities of civil and municipal civil servants went through training courses that contain some element of financial management. Individual plans are consolidated into institutional plans and submitted to the Ministry of Labour for approval and ultimately tendering out for service delivery. Training policy distinguishes between short courses and longer-term professional education.</p>        |

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| <b>South Africa</b>   | <p>There is no competency framework for financial management specialists or sub-groups in the civil service currently available. Financial management professional development is geared towards an approved competency framework and collaborates with several professional bodies to develop professional qualifications. There is planned structured financial management professional development with government support. The Minister of Finance is on-board with regards to the financial management professionalization programme.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>United Kingdom</b> | <p>The UK has a number of schemes to attract and manage talent in the civil service, although these are not all specific to financial management (e.g. Civil Service High Potential Scheme; Fast Track Apprenticeship Scheme; Graduate Fast Stream)</p> <p>As noted in the above sections, the UK does specify a framework for different kinds of financial management professionals and runs various schemes to attract entrants into managed development programmes e.g. Finance Fast Stream.</p> <p>CIPFA and CIMA offer accelerated routes to qualifications for experienced professionals working in government at various levels (e.g. full accountancy qualification; lower level qualifications). Selected civil servants are supported to prepare for the entrance examination for these institutions before moving to the full course. A pilot group from HMT have already undertaken this process and are on the first stage of the full qualification. This is part of the wider cross-civil service effort to improve the policy/finance interface.</p> <p>In terms of competency frameworks, there is a core civil service competency framework. This covers some finance-related areas, and the finance function have pushed to have VfM and other finance-related issues included. Certain allied financial management disciplines (E.g. Commercial Profession; Project Delivery Profession) have developed their own frameworks. These frameworks set out the levels of behaviours and skills required of individuals as they progress.</p> <p>Civil servants across all disciplines are required to carry out five days of CPD a year, although the focus of this will vary by person. For civil servants who are professionally qualified in financial management-related disciplines, there may be CPD requirements attached to the institute that accredit them which must be fulfilled to maintain accreditation. Across departments, there is recognition of skills gaps among finance professionals, notably in the soft skills areas of presentation and persuasion. Some departments have developed their own training plans to deal with this.</p> <p>There are <i>generic</i> training courses on a wide range of topics (not just financial management) on the Civil Service Learning platform. Accessing learning can be done through framework contracts and paying for specific learning products. In terms of managing and delivering training, HR departments are responsible for collating and aggregating training requirements and using their administration budgets to fund activity.</p> |

## Annex 1.B. Case study questionnaire

### A: External Environment

#### Policies and leadership

- To what extent is there political commitment (e.g. Cabinet, President/PM, and Minister of Finance) for strengthening financial management professional development?
- Are there any explicit policies, which promote financial management professional development? (e.g. laws, regulations, Cabinet policy papers)
- Are there supporting change initiatives or plans to implement these policies?
- Are these initiatives linked to other financial management reform initiatives within government, and if so how?
- To what extent have the benefits of financial management professional development been articulated and communicated throughout government?

#### Civil service characteristics

- Are financial management experts within Government organised in skill or function based groups or cadres within Government? What are these groups/cadres?
- Are financial management jobs in the civil service mostly “position based” and open to external recruitment, or are they “career based” i.e. employees are recruited at lower levels and advance to higher positions throughout their careers.
- Is there a limit or ceiling on the advancement of financial management professionals because senior positions are filled through political appointments or for other reasons?
- What is the perceived role and status of financial management specialists working in the civil service? (e.g. technical accounting role, business partner, contributor to policy/strategy).

#### Drivers and obstacles to change

- What have been the main drivers of financial management professional development? (e.g. new accounting standards, performance measurement, service delivery challenges, major procurement, efficiency, performance measurement, audit findings).
- What are the obstacles to the promotion of financial management professional development? (e.g. low civil service pay, limited training provision, resistance by civil service management).

### B: Organizational framework

#### Organisational network

- Identify which organisations play a significant role in financial management professional development. These might include:
  - Treasury/ministry of Finance
  - Public finance agencies/authorities (e.g. tax, external audit)
  - Financial management training institutes (public & private)
  - Professional accountancy bodies
  - Body/team responsible for the government accountancy/finance profession
  - Civil Service Commission or other body responsible for civil service appointments
  - Central Ministry/Department for human resource management in the civil service
  - Human resource management divisions/units in line Ministries/agencies
  - Line ministries/agencies
  - Others?

#### Responsibilities and effectiveness

- In brief, what is the role of those organisations in financial management professional development?
- How effective are these organisational arrangements in promoting financial management professional development?
- What are the main strengths and weaknesses?

#### Training Institutes

- What training institutions provide financial management training for public servants and/or potential recruits to the public service? Are these public or private?
- For which disciplines is specialised financial management training provided? (e.g. accounting, audit, procurement)

- How does the training institute ensure that its training is tailored to the specific needs of financial management specialists working in the civil service?
- Does the training offered include credits or modules for particular financial management professional qualifications? Which?
- Is the institute or its training program accredited and if so by whom?
- How is the training delivered? (E.g. off-shelf courses, modular training, certificates/diplomas, skills workshops, distance learning.) What is the duration?
- What is the annual volume of training conducted for different programmes? (e.g. number of training days, number of graduates) per employee.
- How effective is the training conducted by training institutions? Is there any hard evidence of effectiveness? How could effectiveness be improved?
- What is the annual budget for financial management professional development (per employee, as a proportion of total government training spend?) How is this budget financed (e.g. government line item budget, government subvention, trainee fees)

### C: Supporting human resource management processes

#### Structure of jobs

- What jobs exist to carry out the core financial management functions? These functions include:
  - forecasting, planning and budgeting;
  - expenditure control;
  - internal and external audit;
  - financial reporting and accounts preparation;
  - funding, treasury operations, cash management;
  - asset management;
  - performance information/management accounting;
  - procurement, supply chain, contract management;
  - support for decision making (investment appraisal, cost management, risk management.)
- Do these jobs have a job description with defined responsibilities and person specifications in terms of knowledge, skills and experience? Do these include recognised professional or technical qualifications awarded by an independent professional body?
- What are the recognised financial management disciplines or sub-groups which perform these jobs? (e.g. accounting, procurement, audit)

#### Remuneration

- Do financial management specialists receive additional remuneration compared with other civil servants? How is this done? (e.g. a separate salary structure, a market premium, a higher salary grade based on the perceived higher value of financial management professional/technical qualifications)
- What is the size of any additional remuneration? Does it apply uniformly to all ministries/departments or do individual ministries/departments have discretion to set their own level of additional remuneration?

#### Recruitment and selection

- Are financial management employees recruited to the civil service or to a finance cadre/group?
- Are financial management technical or professional qualifications (beyond a first academic degree) an entry requirement for some jobs? Which qualifications, for which jobs and which organisations?
- Which posts (by level/grade) are filled through external recruitment and which through internal promotions or a combination of external recruitment and internal promotions? Is there an official policy on this?

### D: Professional development processes

#### Career planning and management

- Is there a separate cadre/group (or sub-groups) of financial management specialists whose careers are managed centrally? (e.g. by the ministry of Finance) What career management activities are carried out for them?
- Are there defined career paths or ladders for the financial management cadre/group or sub-groups (e.g. audit, procurement)? Do these specify the skills, competencies or experience required for advancement?
- What criteria or factors determine an individual's progression? Does career progression depend on the existence of a vacancy for which the individual applies?
- Are high potential financial management specialist identified and given preferential access to professional development? If so, how does this scheme work?

#### Training and development: needs analysis and planning

- Is there a competency framework for financial management specialists or sub-groups in the civil service? Does this framework specify levels/bands of skill/competency? To which financial management disciplines or sub-groups does it apply? Who is responsible for developing and maintaining this framework(s)? Is it related to professional qualifications awarded by an independent professional body?
- Are the training needs of financial management employees identified against this framework? How is this done? (e.g. individual training needs analysis, through performance appraisal process)
- Are financial management training plans prepared based on identified training needs and skill gaps? To what extent are these plans funded? From what sources?

## Training and development: design and delivery

- Is financial management professional development geared towards an approved competency framework(s) or any professional qualification?
  - To what extent does the training curriculum of training institutes and universities meet the needs of financial management specialists working in the civil service?
  - How much financial management training (training days for each financial management employee) is carried out each year? How is this distributed between public and private training institutions?
  - To what extent does the provision and funding of financial management in-service training and development meet the demand for financial management knowledge, skills and experience within the civil service? Does this include funding for financial management professional qualifications where these exist?
  - What is the balance of on-job and off-job training methods used for in-service financial management training? Is this appropriate? What specific methods are used? (e.g. courses, skills workshops, coaching, E-learning)
  - Is there any structured continuing financial management professional development? Is it supported by government? (e.g. mentors, financial resources)
  - To what extent is employee work experience used to develop financial management specialists? (E.g. special assignments, job rotation, secondments). How is this planned and managed?
-

## Who has power over the budget-The Legislature or the Executive?: A comparative analysis of budgetary power in 70 Countries

by  
Chunsoon Kim

*This paper aims to study the distribution of fiscal power between the legislature and the executive in each of the 70 countries analysed - by comparing Legislative Budget Institutions of 70 countries. This paper also provide practical insights for developing financial strategies that would ensure an appropriate distribution of fiscal authority between the legislature and the executive.*

*Fiscal authority between the legislature and the executive should not only be distributed appropriately in order to ensure checks and balances, but also supplemented by organisational capacity for each body to perform its respective roles well. This study thus categorises 70 countries into four groups based two-dimensions: financial authority (FA) and organisational capacity (OC) - G1 (high FA/high OC), G2 (high FA/low OC), G3 (low FA/low OC), and G4 (high OC/low FA).*

*The empirical findings show that the different political contexts affecting each country's budget operation is the cause of a wide range of difference between these four groups. Compared to 2011, the number of G2 and G3 countries decreased while G1 and G4 countries increased in 2018. This may be the result of overall enhancement in organisational capacity of the legislature over time.*

*Overall, FA (amendment authority, scope of reversionary budget, and executive flexibility during implementation) and OC (time for scrutiny, committee capacity, and access to budgetary information) for each country seems to be developed at an appropriate, balanced level. In addition, the role of independent fiscal institutions (IFIs) may be important for a balanced allocation of fiscal authority between the legislature and the executive.*

*JEL codes: H10, H60*

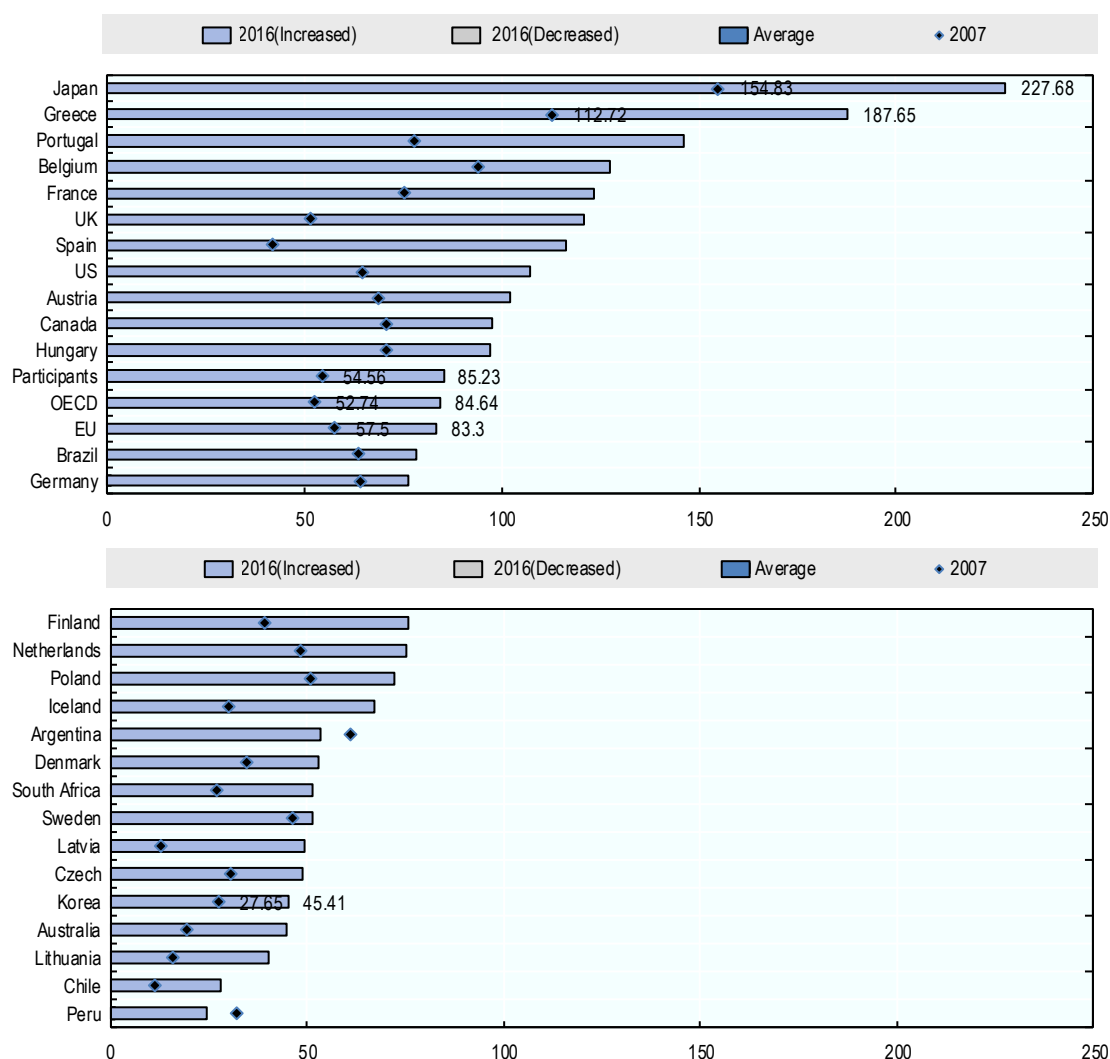
*Keywords: Fiscal Authority, budget operation, Independent fiscal institutions, organisational capacity*

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## 1. Introduction

The global financial crisis in 2008, followed by the 2010 European debt crisis have caused countries to face difficult financial situations. As a result, a debt ratio has increased for all countries, except Peru and Argentina, for the past 10 years. The debt ratio in 2016 reached 85.2%, which is similar to the average of OECD (84.6%) or EU (83.3%); this represents a 30.6%p increase compared to 2007. Figure 1 shows the changes in general government debt relative to GDP between 2007 and 2016.

**Figure 20. Change in general government debt-to-GDP ratio**

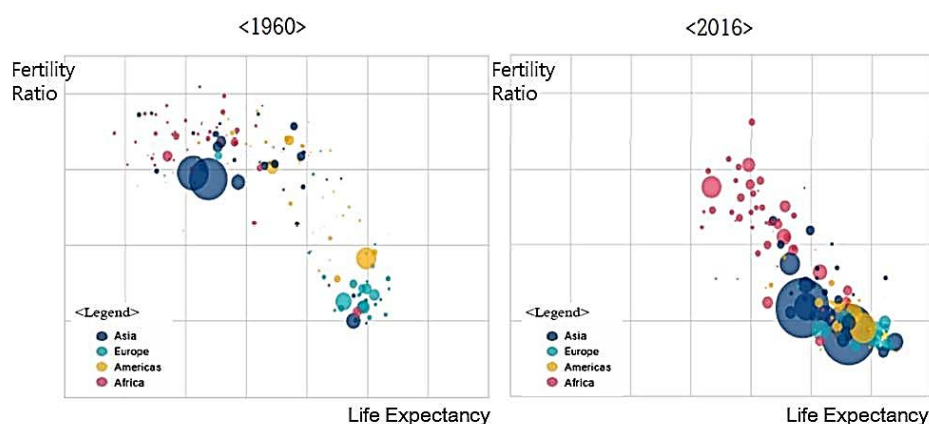


Source: OECD, Government at a Glance

Of course, some countries, such as Korea, Australia, and Lithuania, show relatively good financial condition with debt ratio below 50%. Considering global issues such as low fertility and ageing, however, stringent financial management is becoming an increasingly necessary measure.

In the 1960s, many countries in Asia and Africa showed high fertility rates and low life expectancy, whereas developed countries in Europe and North America showed low fertility rates and high life expectancy. In 2016, however, many countries in Asia and Africa have changed, making most countries converge toward lower fertility rates and higher average lifespans. Figure 2 illustrates the worldwide change in fertility ratio and life expectancy.

**Figure 21. Global decrease in fertility ratio and increase in life expectancy**



*Note:* The size of bubble indicates the population size.

*Source:* World Bank, World Development Indicator

Overall, many countries are not in good fiscal condition, and countries that are in good fiscal condition now have a dimmer outlook judging from the forecast of demographic changes caused by a lower fertility rates and higher life expectancies. Concerted efforts for stringent financial management will be essential to ensure stable and consistent growth of the global economy.

In this context, the role of the legislature and the executive - the two key players of national financial management - are crucial in order to ensure sound and efficient management of national finance. Fiscal authority between the legislature and the executive should not only be distributed appropriately to ensure checks and balances, but also supplemented by organisational capacity for each body to perform its respective roles well.

In accordance with such issue, this paper aims to study the distribution of fiscal power between the legislature and the executive of each country - by comparing an index of Legislative Budget Institutions (BI) of 70 countries, to provide practical insights for developing financial strategies that could ensure a balanced distribution of fiscal authority between the legislature and the executive.

The BI index measures the financial authority institutionally possessed by the legislature as well as the organisational capacity supporting such authority. A high BI index indicates that the authority of legislature is higher than that of the executive. In contrast, a low BI index indicates that the authority of the executive is higher than that of the legislature.

## 2. Literature review

The fiscal authority of the legislature has been expanded and strengthened from the past. There have however, been attempts to limit legislative power under the criticism that

lawmakers traditionally seek to expand the budget for the benefit of their districts, which in turn may degrade the fiscal health of the government (Wehner, 2013; von Hagen, 1992; Alesina & Perotti, 1995; Hallerberg, Struach, & Von Hagen, 1999). Despite this criticism, the legislature's fiscal authority is lauded as a positive governance tool that can check and balance executive powers (Santiso, 2005; Saporiti & Streb 2003: 3; Wehner, 2006; Schick, 2002; Kim et al., 2015: 114). As such, the budgeting authority of the legislature must continue, appropriately balanced with the executive.

The legislature's right to authorise the budget is an inherent worldwide (Kim, 2013: 116). The fiscal authority of the legislature is common in democratic governments, although its degree of participation and effectiveness differs between countries. In addition, the roles, authorities, and influences of the legislative budgetary powers can differ depending on the form of government and political systems in place (Kim et al., 2015: 115-116). The United States Congress uses the authority to approve the budget as the key "weapon" wielded against the executive (Wildavsky & Caiden, 2001: 10), which produces the assessment that the legislature in that country has a wider influence over the budget. Parliaments in other countries including France and the United Kingdom, however, have weaker budgetary influence compared to those in other developed countries (Chinaud, 1993; Schick, 2002; Wehner, 2006: 767). The legislature and executive bodies of a country exchange strategic influences during the budget cycle including planning, review, execution, and settlement. During this process, the influences the two branches of the government have on each other differs in various countries.

The Legislative Budget Institution (BI) index is the tool that defines budgetary systems from the legislative perspective and quantifies various aspects within it (Kim, 2014: 2). While there is a dearth of research on the legislative budgetary influences in different countries, various data on national budgetary systems have been produced since 2003, by organisations such as the OECD, leading to the vitalisation of research on the topic (Kim & Moon, 2012).

In particular, Von Hagen (1992) is the first study on BI index, discussing the legislative authority in the budgetary process. Later, Alesina et al (1999) measured the relative powers of the legislative and the executive, while other studies focused on the fiscal effectiveness of legislative bodies. Meanwhile, Lienert (2005) conducted a more macroscopic investigation on legislative budgetary institutions. The study identified 5 variables of the legislative budgetary power index: roles of the legislative in approving mid-term expenditure, revision authority, budget approval time, technical support for the legislature, and the flexibility allowed to the executive during budget execution. In addition, Wehner (2006) utilised data from 2003 as well as the index developed in Wehner (2005) and Lienert (2005) to extract 6 variables for 36 countries. Designed to understand the legislature's control over the budget, the variables were: revision authority, budget expansion, flexibility given to the executive in budget execution, time of budget review, function of committees, and access to budgetary information (Wehner, 2006: 768).

Meanwhile, Kim & Moon (2012) and Kim (2014) studied various perspectives on the legislative budget policies to develop the BI Index and make comparisons among various countries. These studies used the classification provided in Wehner (2006) to measure the BI index. The variables were divided into budget authority index and organisational competency index, with the former including budget revision power, tentative budget, and execution flexibility, while the latter encompassed review time, research competency, and committee structure. In addition, other studies made comparisons between systems of various countries through four categories including the legislative fiscal power index and

organisational competency index. This line of research is significant in its investigation of different legislative budget systems under the lens of political, economic, and social factors. Furthermore, Kim et al. (2015) developed a revised BI index that uses the measured BI index figures and expert interviews to give weight to the figures. Using the weighted index, the study looked at the influence of political, economic, social, and cultural factors on the BI index figures.

**Table 4. Type Studies on compilation of indices for legislative budget institutions**

| Author                | Index Name                           | Index Detail                                                                                                                                                                                                               | Research Scope         |
|-----------------------|--------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| Von Hagen(1992)       | Budget Index                         | Measured structural index (SI) and multi-year restriction index (OC) separately depending on the budget stage                                                                                                              | 13 EC countries        |
| Gleich(2003)          | Budget Institution Index             | Quantification of horizontal and vertical decision-making mechanism in the three stages of the budgeting process                                                                                                           | 12 CEEC countries      |
| Alesina et al. (1996) | Budget Institution Index             | The index is composed of ten sub-factors, which are categorised into the structure of the budget system (hierarchical/horizontal) and transparency (transparent/non-transparent)                                           | 20 Caribbean countries |
| Lienert (2005)        | Legislative Budget Power Index       | Partially utilised index developed in Wehner (2002)<br>Five factors (mid-term budget expenditure plan, budget revision authority, review time, expertise, execution flexibility) were quantified                           | 28 OECD countries      |
| Wehnert(2006)         | Legislative Budget Institution Index | The index is categorised into fiscal authority and organisational competency, with each category having three sub-factors; the index integration was done in the same way as in Von Hagen(1999) and Alesina et al. (1996). | 36 countries           |
| Kim & Moon (2012)     | Legislative Budget Institution Index | Used Wehner's (2006) methodology for structuring the index, but partially changed the way each sub-factor is measured                                                                                                      | 48 countries           |
| Kim (2014)            | Legislative Budget Institution Index | Wehner's (2006) methodology for structuring the index was partially changed for the way each sub-factor is measured                                                                                                        | 60 countries           |
| Kim et al. (2015)     | Legislative Budget Institution Index | Wehner's (2006) methodology for structuring the index was partially changed for the way each sub-factor is measured                                                                                                        | 60 countries           |

Source: Revised from Kim (2014)

### 3. Study design

This study is based on previously developed models such as the work of Leinert (2005) and Wehner (2006), who conducted comparative research on budget authority and executive types for OECD countries. The uniqueness of this study lies in the fact that the countries subject to the study have increased to 70 to include non-member countries while allocating different weighting on sub-indices and indicators.

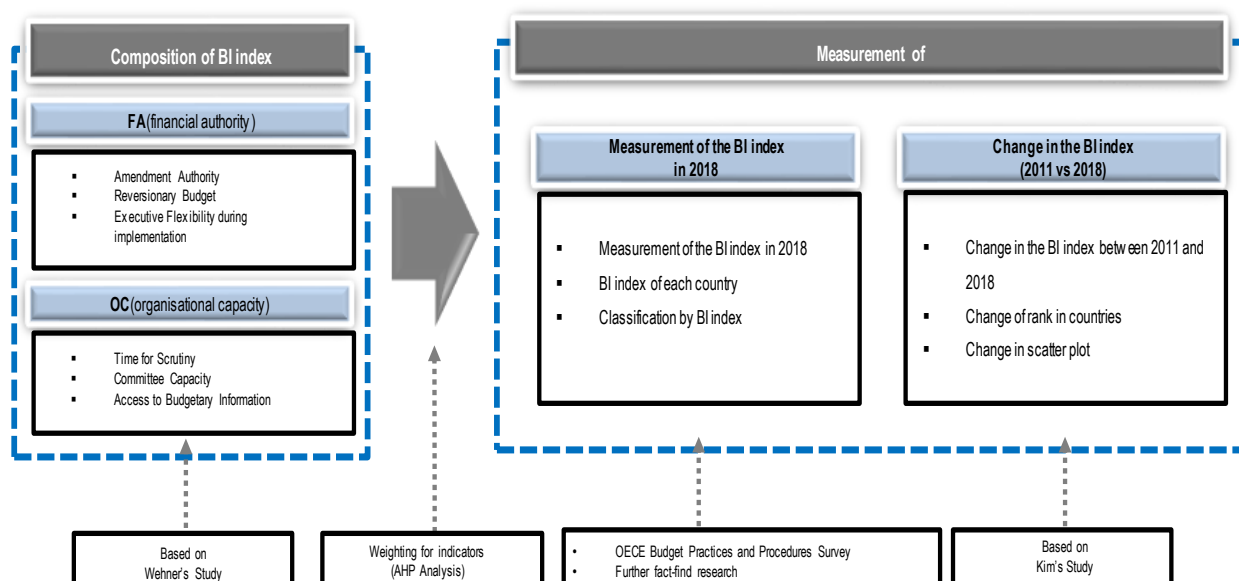
This study utilises OECD survey data announced every 4 or 5 years<sup>1</sup>. In order to rectify errors in survey responses and to enhance the accuracy of the survey, the author did further fact-finding research on institutional changes in the countries covered in the study.

A survey on the status of budget policy of each country was conducted for two time periods: 2011 (60 countries) and 2018 (70 countries). Table 2 shows the regional distribution of the countries subject to the analysis, based on their OECD membership.

**Table 5. Countries subject to an analysis of the BI index (70 countries)**

| Region            | OECE member countries(33)                                                                                                                                                                                                                                | Non-member countries(37)                                                                                        |
|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| Europe (33)       | Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Latvia, Luxembourg, Netherlands, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom | Albania, Georgia, Bulgaria, Romania, Russia, Serbia, Ukraine                                                    |
| North America (2) | Canada, United States                                                                                                                                                                                                                                    | -                                                                                                               |
| Asia (14)         | Korea, Japan                                                                                                                                                                                                                                             | Cambodia, Hong Kong, Indonesia, Philippines, Thailand, Tajikistan, Jordan, Laos, Malaysia, Pakistan, Uzbekistan |
| Pacific (3)       | Australia                                                                                                                                                                                                                                                | Fiji, New Zealand                                                                                               |
| Latin America (9) | Chile, Mexico                                                                                                                                                                                                                                            | Argentina, Brazil, Panama, Peru, Uruguay, Venezuela, Guatemala                                                  |
| Africa (9)        |                                                                                                                                                                                                                                                          | Ghana, Kenya, Malawi, Morocco, South Africa, Swaziland, Uganda, Egypt, Nigeria                                  |

The current study utilises the BI Index developed based on the work of Wehner (2006) and Kim (2014). First, the BI index for 2018 is extracted, and the figures for various countries are compared to understand different features of their budget systems. In addition, the countries are categorised into four groups based on the results of the BI index. The features of each type are identified in order to understand their implications on forming effective fiscal governance. Second, based on Kim (2014), the current study comparatively analyses the changes to the BI index figures between 2011 and 2018. The changes to the BI index in the various countries, as well as to the groups of countries, are analysed to understand the development they experienced with the passage of time.

**Figure 22. Framework of the study**

### 3.1. Composition of the BI index

The BI index measures the financial authority institutionally possessed by the legislature as well as the organisational capacity supporting such authority. A high BI index indicates that the authority of legislature is higher than that of the executive. In contrast, a lower BI index indicates that the authority of the executive is higher than that of the legislature. Using the BI index, the relative ratio in fiscal power between the legislature and the executive of specific countries can be understood; thus it provides useful information to facilitate the process of establishing fiscal strategies which are necessary for ensuring sound and efficient financial management.

The BI index is comprised of 2 upper level sub-indices; financial authority (FA) and organisational capacity (OC), and further divided into lower level 6 indicators.

FA contains 3 indicators, that is, amendment authority, reversionary budget, and executive flexibility during implementation. Amendment authority is a degree to which the legislature can amend the executive's budget proposal. Reversionary budget indicates a degree to which the legislature is involved in the executive's reversionary budget formulation in case of non-approval by the legislature. Executive flexibility during implementation refers to how much flexibility the executive is allowed to have in executing the approved budget.

OC also contains 3 indicators: time for scrutiny, committee capacity, and access to budgetary information. Time for scrutiny refers to a time given for the legislature to scrutinise the proposed budget. Committee capacity means a degree of intervention by the legislature in the budgeting process through its committee structure such as the budget committee and other relevant committees. Lastly, access to budgetary information is the extent to which the legislature has access to budgetary information. This study used the establishment of independent fiscal institutions (IFIs) and its affiliation with the legislature as a proxy variable.

Regarding the scope of measurement for these 6 indicators, the level of FA and OC for each indicator was graded from 0 to 10. A score of 0 indicates that the fiscal power of the legislature is the weakest, whereas 10 indicates the strongest.

For example, amendment authority in FA is dependent on the power of the legislature to revise the budget proposal submitted by the executive branch. If the legislature can only approve or reject the budget proposal as a whole, a score of 0 was given. 10 points were given if the legislature can freely revise the budget proposal<sup>2</sup>.

Committee capacity in OC refers to a level of intervention by and expert committee supporting the legislature in the budgeting process. According to the existence, capability, and role of the budget-related committee in the legislature, 10 points were given if the budget committee in the legislature participates in budget deliberation with the standing committee; 2.5 points were given if the standing committee determines the budget without a budget committee.

Table 3 shows the concepts and specific scope of measurement for each indicator.

**Table 6. Composition of BI index and methods for measurement**

| Sub-index | Indicators                                  | Concept                                                                                                                                                                                                                | Questions and distribution of points                                                                                                                                                                                                                                                                                                                                                                       |
|-----------|---------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| FA        | Amendment Authority                         | The degree of the Legislatures authority to amend a budget bill presented by the Executive.                                                                                                                            | If possible only to approve or reject a budget bill as a whole = 0<br>If possible to make a meaningful reduction or modification to and existing budget = 2.5<br>If possible to increase the amount on condition of securing revenue = 5<br>If possible to make an adjustment of projects without changing the scale of total expenditure = 7.5<br>If the Legislature may revise a budget bill freely = 10 |
|           | Reversionary Budget                         | Whether, and to what extent the Executive may compile and implement a temporary budget, if the Legislature decline a budget bill.                                                                                      | If the governments budget bill takes effect = 0<br>If the governments budget bill takes effect during a certain period = 2.5<br>If the budget for the preceding year takes effect during a certain period = 5<br>If the Legislature shall determine a certain period by voting = 7.5<br>If impossible to make disbursement = 10                                                                            |
|           | Executive flexibility during implementation | Whether, and to what extent the Executive can have flexibility during the period of implementation after the Legislature approves a budget.                                                                            | If possible for the government to reallocate ab budget in its discretion without the Legislatures approval='0' / If impossible=3.3<br>If a budget has reserve funds for emergencies='0' / If impossible=3.3<br>If possible to refused to implement a budget='0' / If impossible=3.3                                                                                                                        |
| OC        | Time for Scrutiny                           | How properly the Legislature can partially control its agenda.                                                                                                                                                         | Submitted after a budget is approved=0Submitted six months earlier=6<br>Submitted two months earlier=2Submitted eight months earlier=8<br>Submitted four months earlier=4More months earlier=10                                                                                                                                                                                                            |
|           | Committee Capacity                          | Whether the organisation of the committee can assist the Legislature in effectively influence the process of determining a policy or to what extent the structure of the committee can intervene in the budget process | The Legislature has a single budget committee for budgeting, in addition to a standing committee, and the standing committee jointly intervenes in budgeting = 10<br>A standing committee participates in the budget committee =7.5<br>The budget committee along handles budgets=5<br>A standing committee determines a budget without a budget committee=2.5<br>Other cases=0                            |
|           | Access to budgetary information             | To what extent the Legislature can access to budgetary information in order to exercise its power to oversee the budget.                                                                                               | [Number of IFI personnel * Whether affiliated]<br><Number of personnel><Whether affiliated><br>No specialized organization=0If affiliated to the 20 people or less=2.5Legislature = 100%<br>21 to 40 people =5If not affiliated to the 41 to 60 people=7.5Legislature = 50%<br>61 people or more=10                                                                                                        |

### 3.2. Weighting for indicators

To determine the objective weighting, this study conducted a survey targeting 22 financial experts<sup>3</sup> in 14 countries as well as an Analytic Hierarchy Process (AHP) analysis<sup>4</sup>.

Table 4 describes the result of calculating the overall weight using geometric mean. While all indicators show equal weight of 0.167 before weighting, they reveal a difference in importance after weighting. For example, amendment authority showed the highest value with 0.258 (25.8%), and time for scrutiny showed the lowest value with 0.063 (6.3%).

**Table 7. Determination of weighting for indicators of the BI index**

| Upper lever<br>(Sub-indices) | Lower level<br>(Indicators)                 | Default value | Weight | Rank in terms of importance |
|------------------------------|---------------------------------------------|---------------|--------|-----------------------------|
| FA                           | Amendment authority                         | 0.167         | 0.258  | 1                           |
|                              | Scope of reversionary budget                | 0.167         | 0.137  | 5                           |
|                              | Executive flexibility during implementation | 0.167         | 0.170  | 4                           |
| OC                           | Time for scrutiny                           | 0.167         | 0.063  | 6                           |
|                              | Committee capacity                          | 0.167         | 0.172  | 3                           |
|                              | Access to budgetary information             | 0.167         | 0.200  | 2                           |
| Sum of weighted value        |                                             | 1.000         | 1.000  |                             |

## 4. Analysis Results

### 4.1. Outcomes of compilation of the indices in 2018

#### 4.1.1. Outcomes of compilation of the indices in 2018: overall

Table 5 shows the results of compilation of the indices in 2018 using the aforementioned method. Scores for 6 indicators were based on a 10-point scale. The combined total of the two sub-indices were converted to a 100-point scale for the convenience of the analysis.

First, the post-weighted average of the 2018 BI index in 70 countries was found to be 44.0 points, FA scored 27.7 points, and OC garnered 16.3 points, indicating higher values for FA than those for OC overall. As for sub-indicators, amendment authority was the highest with 9.1 points, whereas time for scrutiny was the lowest with 1.3 points.

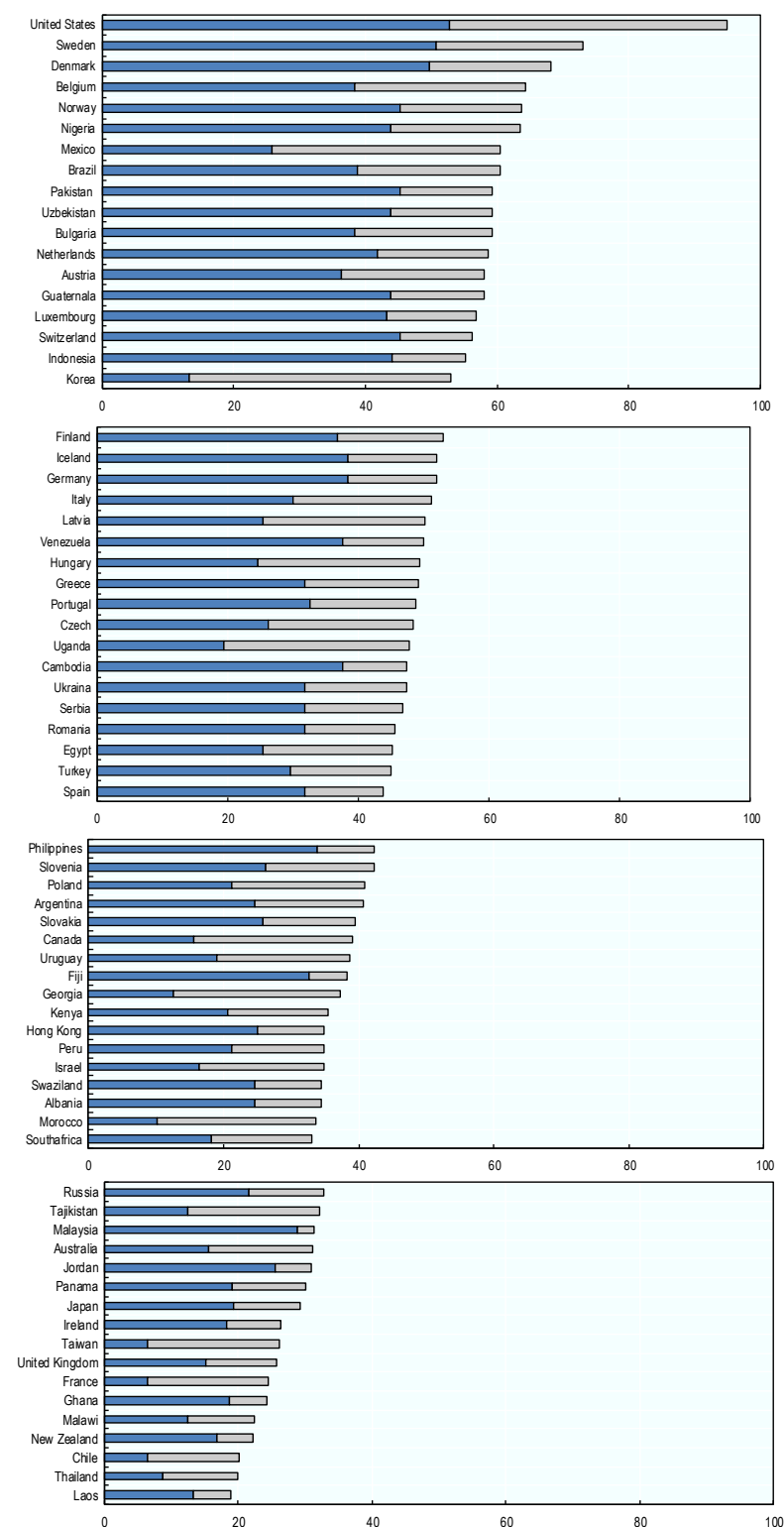
The overall average points rose 1.4 points after weighting. Here, FA increased by 4.0 points, whereas OC in fact decreased by 2.6 points. As for sub-indicators, amendment authority rose by 3.2 points, whereas time for scrutiny dropped by 2.1 points.

**Table 8. Change in the BI index after weighting (average)**

| Upper lever  | Lower level<br>(Sub-indices)                | Before weighting(a) | After weighting(b) | Change(b-a) |
|--------------|---------------------------------------------|---------------------|--------------------|-------------|
| FA           | Amendment authority                         | 5.9                 | 9.1                | 3.2         |
|              | Scope of reversionary budget                | 5.0                 | 4.1                | -0.9        |
|              | Executive flexibility during implementation | 3.3                 | 3.4                | 0.1         |
|              | Subtotal                                    | 23.7                | 27.7               | 4.0         |
| OC           | Time for scrutiny                           | 3.3                 | 1.3                | -2.1        |
|              | Committee capacity                          | 6.4                 | 6.6                | 0.2         |
|              | Access to budgetary information             | 1.6                 | 2                  | 0.3         |
|              | Subtotal                                    | 18.8                | 16.3               | -2.6        |
| <b>Total</b> |                                             | <b>42.5</b>         | <b>44.0</b>        | <b>1.4</b>  |

#### 4.1.2. BI index scores by country

In terms of rank by country (Figure 3), the United States (95.0 points), Sweden (73.1 points), Denmark (68.3 points), and Belgium (64.3 points) ranked among the top 4, whereas Japan (29.2 points), United Kingdom (25.7 points), France (24.4 points), and Chile (20.1 points) were ranked the lowest.

**Figure 23. BI index by country in 2018 (70 countries, after weighting)**

Regarding the rank of countries by sub-indicators, 21 countries – including the United States, Sweden, Germany, and Netherlands, which do not have any restrictions in revising the budget proposal – belong to the upper bracket in terms of amendment authority with 15.5 points; 6 countries including Israel and South Africa, which can only approve the overall budget proposal, belong to the lower bracket.

Regarding the scope of reversionary budget, 8 countries – including the United States, Sweden, and Brazil, which execute a reversionary budget only after obtaining approval from legislature – belonged to the upper bracket with 8.2 points, whereas 7 countries including Chile, France, Peru, and Poland, which can execute a reversionary budget without the approval of the legislature, belonged to the lower bracket with 0 points.

Regarding executive flexibility during implementation, Denmark (10.2 points), United States (7.9 points), Sweden (6.8 points), South Africa (6.8 points), and some others had the executive branch having the lowest discretion in spending reserve fund or transferring funds between accounts after approval by the legislature. A total of 11 countries including Chile, Czech Republic, France, Korea, and Portugal (0 points) had the executive branch enjoying relatively high authority in executing the budget.

Regarding the time for scrutiny, the upper bracket included the United States and Hungary, which were tied at first place (3.0 points), followed by Brazil (2.3 points). The lower bracket included 28 countries that scored 0.8 points – including Australia, Austria, Belgium, Canada, Greece, Israel, Japan, South Africa, and United Kingdom – and the Philippines, which scored 0 points.

Regarding committee capacity, 20 countries including Belgium, Canada, Czech Republic, Hungary, Israel, Korea, Latvia, Poland, Sweden, and the United States belonged to the upper bracket with 10.3 points, whereas 10 countries including Australia, Netherlands, Spain, and United Kingdom, which scored 2.6 points, and Malaysia – which scored 0 points – belonged to the lower bracket.

Lastly, regarding access to budgetary information, the United States and Korea – which possess enough IFI organisational personnel – were tied at first place with 12.0 points, followed by Mexico with 9.0 points and 4 countries including Australia and Netherlands, which scored 6.0 points; all of them belonged to the upper bracket. In contrast, 32 countries with no IFI, including Israel, Japan, Poland, and Ukraine, belonged to the lower bracket with 0 points for this detailed indicator.

**Table 9. BI index of each country (after weighting)**

| Name of country |              | FA                  |      |                     |      |                                             |      | OC                |      |                       |      |                       |      | BI index |      |
|-----------------|--------------|---------------------|------|---------------------|------|---------------------------------------------|------|-------------------|------|-----------------------|------|-----------------------|------|----------|------|
|                 |              | Amendment authority |      | Reversionary budget |      | Executive Flexibility during implementation |      | Time for scrutiny |      | Capacity of committee |      | Access to information |      |          |      |
|                 |              | 2011                | 2018 | 2011                | 2018 | 2011                                        | 2018 | 2011              | 2018 | 2011                  | 2018 | 2011                  | 2018 | 2011     | 2018 |
| 1               | Albania      | 3.9                 | 3.9  | 4.1                 | 4.1  | 6.8                                         | 6.8  | 0.8               | 0.8  | 5.2                   | 5.2  | 0                     | 0    | 34.5     | 34.5 |
| 2               | Argentina    | 3.9                 | 3.9  | 4.1                 | 4.1  | 6.8                                         | 6.8  | 1.5               | 1.5  | 5.2                   | 5.2  | 0                     | 3    | 35.8     | 40.8 |
| 3               | Australia    | 3.9                 | 3.9  | 2.1                 | 2.1  | 3.4                                         | 3.4  | 0.8               | 0.8  | 2.6                   | 2.6  | 0                     | 6    | 21.1     | 31.1 |
| 4               | Austria      | 15.5                | 15.5 | 4.1                 | 4.1  | 2.3                                         | 2.3  | 0.8               | 0.8  | 7.7                   | 7.7  | 0                     | 4.5  | 50.6     | 58.1 |
| 5               | Belgium      | 15.5                | 15.5 | 4.1                 | 4.1  | 3.4                                         | 3.4  | 0.8               | 0.8  | 10.3                  | 10.3 | 3                     | 4.5  | 61.8     | 64.3 |
| 6               | Brazil       | 11.6                | 11.6 | 8.2                 | 8.2  | 3.4                                         | 3.4  | 2.3               | 2.3  | 7.7                   | 7.7  | 0                     | 3    | 55.4     | 60.4 |
| 7               | Bulgaria     | 15.5                | 15.5 | 4.1                 | 4.1  | 3.4                                         | 3.4  | 0.8               | 0.8  | 10.3                  | 10.3 | 0                     | 1.5  | 56.8     | 59.3 |
| 8               | Cambodia     | 11.6                | 11.6 | 4.1                 | 4.1  | 6.8                                         | 6.8  | 0.8               | 0.8  | 5.2                   | 5.2  | 0                     | 0    | 47.4     | 47.4 |
| 9               | Canada       | 3.9                 | 3.9  | 2.1                 | 2.1  | 3.4                                         | 3.4  | 0.8               | 0.8  | 10.3                  | 10.3 | 3                     | 3    | 39       | 39   |
| 10              | Chile        | 3.9                 | 3.9  | 0                   | 0    | 0                                           | 0    | 1.5               | 1.5  | 5.2                   | 5.2  | 0                     | 1.5  | 17.6     | 20.1 |
| 11              | Czech Public | 11.6                | 11.6 | 4.1                 | 4.1  | 0                                           | 0    | 1.5               | 1.5  | 10.3                  | 10.3 | 0                     | 1.5  | 45.9     | 48.4 |

|    |                |      |      |     |     |      |      |     |     |      |      |     |     |      |      |
|----|----------------|------|------|-----|-----|------|------|-----|-----|------|------|-----|-----|------|------|
| 12 | Denmark        | 15.5 | 15.5 | 4.1 | 4.1 | 10.2 | 10.2 | 1.5 | 1.5 | 5.2  | 5.2  | 4.5 | 4.5 | 68.3 | 68.3 |
| 13 | Fiji           | 15.5 | 15.5 | 4.1 | 4.1 | 0    | 0    | 0.8 | 0.8 | 2.6  | 2.6  | 0   | 0   | 38.2 | 38.2 |
| 14 | Finland        | 15.5 | 15.5 | 2.1 | 2.1 | 4.5  | 4.5  | 1.5 | 1.5 | 5.2  | 5.2  | 0   | 3   | 47.9 | 52.9 |
| 15 | France         | 3.9  | 3.9  | 0   | 0   | 0    | 0    | 1.5 | 1.5 | 7.7  | 7.7  | 0   | 1.5 | 21.9 | 24.4 |
| 16 | Germany        | 15.5 | 15.5 | 4.1 | 4.1 | 3.4  | 3.4  | 1.5 | 1.5 | 5.2  | 5.2  | 0   | 1.5 | 49.4 | 51.9 |
| 17 | Ghana          | 3.9  | 3.9  | 6.2 | 6.2 | 1.1  | 1.1  | 0.8 | 0.8 | 2.6  | 2.6  | 0   | 0   | 24.2 | 24.2 |
| 18 | Greece         | 11.6 | 11.6 | 4.1 | 4.1 | 3.4  | 3.4  | 0.8 | 0.8 | 5.2  | 5.2  | 0   | 4.5 | 41.7 | 49.2 |
| 19 | Hong Kong      | 7.7  | 7.7  | 6.2 | 6.2 | 1.1  | 1.1  | 0.8 | 0.8 | 5.2  | 5.2  | 0   | 0   | 34.9 | 34.9 |
| 20 | Hungary        | 11.6 | 11.6 | 2.1 | 2.1 | 1.1  | 1.1  | 1.5 | 3   | 10.3 | 10.3 | 0   | 1.5 | 44.4 | 49.4 |
| 21 | Iceland        | 15.5 | 15.5 | 4.1 | 4.1 | 6.8  | 3.4  | 1.5 | 1.5 | 5.2  | 5.2  | 0   | 1.5 | 55.1 | 51.9 |
| 22 | Indonesia      | 15.5 | 15.5 | 4.1 | 4.1 | 6.8  | 6.8  | 1.5 | 1.5 | 5.2  | 5.2  | 0   | 0   | 55.1 | 55.1 |
| 23 | Ireland        | 0    | 0    | 4.1 | 4.1 | 6.8  | 6.8  | 0.8 | 0.8 | 2.6  | 2.6  | 0   | 1.5 | 23.7 | 26.2 |
| 24 | Israel         | 0    | 0    | 4.1 | 4.1 | 5.7  | 5.7  | 0.8 | 0.8 | 10.3 | 10.3 | 0   | 0   | 34.8 | 34.8 |
| 25 | Italy          | 15.5 | 11.6 | 4.1 | 4.1 | 2.3  | 2.3  | 1.5 | 1.5 | 5.2  | 5.2  | 0   | 6   | 47.5 | 51.1 |
| 26 | Japan          | 3.9  | 3.9  | 2.1 | 2.1 | 5.7  | 5.7  | 0.8 | 0.8 | 5.2  | 5.2  | 0   | 0   | 29.2 | 29.2 |
| 27 | Kenya          | 3.9  | 3.9  | 6.2 | 6.2 | 2.3  | 2.3  | 0.8 | 0.8 | 5.2  | 5.2  | 3   | 3   | 35.4 | 35.4 |
| 28 | Korea          | 3.9  | 3.9  | 4.1 | 4.1 | 0    | 0    | 1.5 | 1.5 | 10.3 | 10.3 | 12  | 12  | 53   | 53   |
| 29 | Latvia         | 7.7  | 7.7  | 4.1 | 4.1 | 3.4  | 3.4  | 1.5 | 1.5 | 10.3 | 10.3 | 0   | 3   | 45.1 | 50.1 |
| 30 | Luxembourg     | 15.5 | 15.5 | 8.2 | 8.2 | 2.3  | 2.3  | 1.5 | 1.5 | 5.2  | 5.2  | 0   | 1.5 | 54.4 | 56.9 |
| 31 | Malawi         | 0    | 0    | 4.1 | 4.1 | 3.4  | 3.4  | 0.8 | 0.8 | 5.2  | 5.2  | 0   | 0   | 22.4 | 22.4 |
| 32 | Mexico         | 3.9  | 3.9  | 8.2 | 8.2 | 3.4  | 3.4  | 1.5 | 1.5 | 10.3 | 10.3 | 9   | 9   | 60.5 | 60.5 |
| 33 | Morocco        | 3.9  | 3.9  | 0   | 0   | 2.3  | 2.3  | 0.8 | 0.8 | 10.3 | 10.3 | 3   | 3   | 33.7 | 33.7 |
| 34 | Netherlands    | 15.5 | 15.5 | 6.2 | 6.2 | 3.4  | 3.4  | 1.5 | 1.5 | 2.6  | 2.6  | 6   | 6   | 58.6 | 58.6 |
| 35 | New Zealand    | 3.9  | 3.9  | 2.7 | 2.7 | 3.4  | 3.4  | 0.8 | 0.8 | 2.6  | 2.6  | 0   | 0   | 22.2 | 22.2 |
| 36 | Norway         | 15.5 | 15.5 | 8.2 | 8.2 | 3.4  | 3.4  | 1.5 | 1.5 | 10.3 | 10.3 | 0   | 0   | 64.9 | 64.9 |
| 37 | Panama         | 3.9  | 3.9  | 4.1 | 4.1 | 3.4  | 3.4  | 1.5 | 1.5 | 5.2  | 5.2  | 0   | 0   | 30.1 | 30.1 |
| 38 | Peru           | 11.6 | 11.6 | 0   | 0   | 1.1  | 1.1  | 1.5 | 1.5 | 5.2  | 5.2  | 0   | 1.5 | 32.3 | 34.8 |
| 39 | Philippines    | 11.6 | 11.6 | 4.1 | 4.1 | 4.5  | 4.5  | 0   | 0   | 5.2  | 5.2  | 0   | 0   | 42.4 | 42.4 |
| 40 | Poland         | 11.6 | 11.6 | 0   | 0   | 1.1  | 1.1  | 1.5 | 1.5 | 10.3 | 10.3 | 0   | 0   | 40.9 | 40.9 |
| 41 | Portugal       | 15.5 | 15.5 | 4.1 | 4.1 | 0    | 0    | 1.5 | 1.5 | 5.2  | 5.2  | 0   | 3   | 43.8 | 48.8 |
| 42 | Romania        | 11.6 | 11.6 | 4.1 | 4.1 | 3.4  | 3.4  | 1.5 | 1.5 | 5.2  | 5.2  | 0   | 1.5 | 43   | 45.5 |
| 43 | Russia         | 7.7  | 7.7  | 4.1 | 4.1 | 1.1  | 1.1  | 1.5 | 1.5 | 5.2  | 5.2  | 0   | 0   | 32.7 | 32.7 |
| 44 | Serbia         | 11.6 | 11.6 | 4.1 | 4.1 | 3.4  | 3.4  | 0.8 | 0.8 | 5.2  | 5.2  | 0   | 3   | 41.7 | 46.7 |
| 45 | Slovakia       | 15.5 | 15.5 | 0   | 0   | 0    | 0    | 1.5 | 1.5 | 5.2  | 5.2  | 0   | 1.5 | 36.9 | 39.4 |
| 46 | Slovenia       | 11.6 | 11.6 | 4.1 | 4.1 | 0    | 0    | 1.5 | 1.5 | 5.2  | 5.2  | 1.5 | 3   | 39.8 | 42.3 |
| 47 | South Africa   | 0    | 0    | 4.1 | 4.1 | 6.8  | 6.8  | 0.8 | 0.8 | 5.2  | 5.2  | 0   | 3   | 28   | 33   |
| 48 | Spain          | 11.6 | 11.6 | 4.1 | 4.1 | 3.4  | 3.4  | 1.5 | 1.5 | 2.6  | 2.6  | 0   | 3   | 38.7 | 43.7 |
| 49 | Swaziland      | 3.9  | 3.9  | 4.1 | 4.1 | 6.8  | 6.8  | 0.8 | 0.8 | 5.2  | 5.2  | 0   | 0   | 34.5 | 34.5 |
| 50 | Sweden         | 15.5 | 15.5 | 8.2 | 8.2 | 6.8  | 6.8  | 1.5 | 1.5 | 10.3 | 10.3 | 1.5 | 1.5 | 73.1 | 73.1 |
| 51 | Switzerland    | 15.5 | 15.5 | 8.2 | 8.2 | 3.4  | 3.4  | 1.5 | 1.5 | 5.2  | 5.2  | 0   | 0   | 56.3 | 56.3 |
| 52 | Taiwan         | 3.9  | 3.9  | 0   | 0   | 0    | 0    | 1.5 | 1.5 | 10.3 | 10.3 | 0   | 0   | 26.2 | 26.2 |
| 53 | Tajikistan     | 0    | 0    | 4.1 | 4.1 | 3.4  | 3.4  | 1.5 | 1.5 | 10.3 | 10.3 | 0   | 0   | 32.2 | 32.2 |
| 54 | Thailand       | 0    | 0    | 4.1 | 4.1 | 1.1  | 1.1  | 1.5 | 1.5 | 5.2  | 5.2  | 0   | 0   | 19.8 | 19.8 |
| 55 | Turkey         | 11.6 | 11.6 | 6.2 | 6.2 | 0    | 0    | 1.5 | 1.5 | 7.7  | 7.7  | 0   | 0   | 45   | 45   |
| 56 | Uganda         | 3.9  | 3.9  | 2.1 | 2.1 | 5.7  | 5.7  | 0.8 | 0.8 | 10.3 | 10.3 | 6   | 6   | 47.8 | 47.8 |
| 57 | United Kingdom | 3.9  | 3.9  | 4.1 | 4.1 | 1.1  | 1.1  | 0   | 0.8 | 2.6  | 2.6  | 3   | 3   | 24.5 | 25.7 |
| 8  | United States  | 15.5 | 15.5 | 8.2 | 8.2 | 7.9  | 7.9  | 3   | 3   | 10.3 | 10.3 | 12  | 12  | 95   | 95   |
| 59 | Uruguay        | 3.9  | 3.9  | 4.1 | 4.1 | 3.4  | 3.4  | 1.5 | 1.5 | 10.3 | 10.3 | 0   | 0   | 38.7 | 38.7 |
| 60 | Venezuela      | 11.6 | 11.6 | 4.1 | 4.1 | 6.8  | 6.8  | 2.3 | 2.3 | 5.2  | 5.2  | 0   | 0   | 49.9 | 49.9 |
| 61 | Egypt          | 7.7  | 7.7  | 4.1 | 4.1 | 3.4  | 3.4  | 1.5 | 1.5 | 10.3 | 10.3 | 0   | 0   | 45.1 | 45.1 |
| 62 | Jordan         | 7.7  | 7.7  | 4.1 | 4.1 | 3.4  | 3.4  | 0.8 | 0.8 | 2.6  | 2.6  | 0   | 0   | 31   | 31   |
| 63 | Laos           | 3.9  | 3.9  | 4.1 | 4.1 | 0    | 0    | 0.8 | 0.8 | 2.6  | 2.6  | 0   | 0   | 18.9 | 18.9 |
| 64 | Malaysia       | 7.7  | 7.7  | 6.2 | 6.2 | 3.4  | 3.4  | 1.5 | 1.5 | 0    | 0    | 0   | 0   | 31.4 | 31.4 |
| 65 | Nigeria        | 15.5 | 15.5 | 4.1 | 4.1 | 6.7  | 6.7  | 1.5 | 1.5 | 10.3 | 10.3 | 0   | 0   | 63.6 | 63.6 |
| 66 | Pakistan       | 15.5 | 15.5 | 8.2 | 8.2 | 3.4  | 3.4  | 0.8 | 0.8 | 7.7  | 7.7  | 0   | 0   | 59.3 | 59.3 |
| 67 | Ukraine        | 11.6 | 11.6 | 4.1 | 4.1 | 3.4  | 3.4  | 1.5 | 1.5 | 7.7  | 7.7  | 0   | 0   | 47.3 | 47.3 |
| 68 | Guatemala      | 15.5 | 15.5 | 4.1 | 4.1 | 6.7  | 6.7  | 0.8 | 0.8 | 7.7  | 7.7  | 0   | 0   | 58   | 58   |
| 69 | Uzbekistan     | 15.5 | 15.5 | 4.1 | 4.1 | 6.7  | 6.7  | 1.5 | 1.5 | 7.7  | 7.7  | 0   | 0   | 59.3 | 59.3 |
| 70 | Georgia        | 0    | 0    | 4.1 | 4.1 | 3.4  | 3.4  | 1.5 | 1.5 | 10.3 | 10.3 | 3   | 3   | 37.2 | 37.2 |

## 4.2. Classification by BI index

Table 7 organises the countries subject to the study in quadrants by classifying FA and OC into upper and lower scores.

There are 12 countries including the United States and Sweden in a G1 group, where both FA and OC are in the upper bracket. A G2 group, where FA is in the upper bracket but OC scored low points, includes 20 countries such as Germany and Iceland. A G3 group, where both FA and OC are the lower bracket, includes 22 countries including United Kingdom and Japan. Finally, there are 16 countries including Korea and France in a G4 group, where FA is in the lower bracket but OC scored high points.

To study the characteristics of the four groups, G1 countries, which showed high FA and OC, generally adopt the presidential system and have IFIs, whereas G3 countries – which showed low FA and OC – were generally non-OECD countries and were inclusive of many Westminster-type countries.

G2 countries, which showed high FA and low OC, included many countries that experienced financial crisis but did not IFIs. In contrast, G4 countries – which had low FA and high OC – included many countries that adopt the presidential system and have IFIs.

**Table 10. Distribution of FA and OC into upper and lower bracket (2018)**

|    |       | OC                                                                                                                                                                                                            |                                                                                                                                              |
|----|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
|    |       | Lower                                                                                                                                                                                                         | Upper                                                                                                                                        |
|    |       | G2(20 countries)                                                                                                                                                                                              | G1(12 countries)                                                                                                                             |
| FA | Upper | Cambodia, Fiji, Finland, Germany, Iceland, Indonesia, Luxembourg, Pakistan, Philippines, Portugal, Romania, Serbia, Spain, Switzerland, Turkey, Venezuela, Malaysia, Ukraine, Guatemala, Uzbekistan           | Austria, Belgium, Brazil, Bulgaria, Denmark, Greece, Italy, Netherlands, Norway, Sweden, United States, Nigeria                              |
|    |       | Multiple countries experienced financial crisis and have no IFIs (60%)                                                                                                                                        | OECD member countries (78%), Multiple countries adopt the presidential system have IFIs(83.3%)                                               |
| FA | Lower | G3(22 countries)                                                                                                                                                                                              | G4(16 countries)                                                                                                                             |
|    |       | Albania, Argentina, Australia, Chile, Ghana, Hong Kong, Ireland, Japan, Kenya, Malawi, New Zealand, Panama, Peru, Russia, Slovakia, Slovenia, South Africa, Swaziland, Thailand, United Kingdom, Jordan, Laos | Canada, Czech Public, Egypt, France, Georgia, Hungary, Israel, Korea, Latvia, Mexico, Morocco, Poland, Thailand, Tajikistan, Uganda, Uruguay |
|    |       | Non-OECD member countries (63.6%), British Westminster-type countries                                                                                                                                         | Many countries adopt the presidential system and have IFIs I (68.6%)                                                                         |

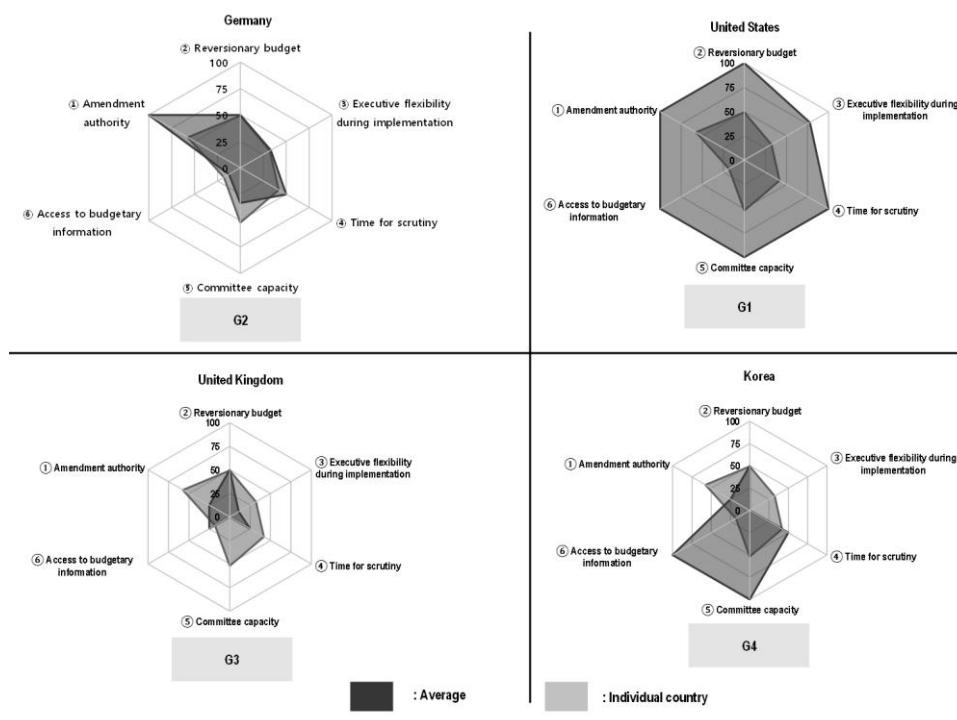
Figure 5 shows values that convert 6 sub-indices' total scores into values between 0 to 100. Detailed indicator points of the United States, Germany, United Kingdom, and South Korea, which represent each group, are compared to the average.

First, the United States in the G1 group shows that all of its 6 indicators are higher than the average. This seems to reflect the American uniqueness that emphasise checks and balances by the legislature on the president. United Kingdom in the G3 group shows access to budgetary information and scope of reversionary budget that are equal or slightly higher than average, whereas all other indicators, including amendment authority and committee capacity, are below average. This seems to reflect the characteristics of a Westminster-type country where the authority of the legislature is relatively weaker.

As a G2 country, Germany shows a way above average of FA indicators such as amendment authority but below average of OC indicators such as committee capacity. In contrast, South Korea in the G3 country has a way below average of FA indicators such as

amendment authority and executive flexibility during implementation but high OC indicators. This seems to be attributable to having the Special Committee on Budget and Accounts as a separate organisation for deliberating on the budget proposal with the other standing committees while establishing an independent financial organisation such as the National Assembly Budget Office in order to support budget deliberation by the legislature.

**Figure 24. Quadrants showing cases of major countries by type (2018)**



## 5. Change from 2011 to 2018

### 5.1. Change from 2011 to 2018: overall

This study also investigates changes in indices for the study period between 2011 and 2018 by focusing on 60 countries where the data in 2011 are available. In 2018, an overall average of BI index increased by 1.8 points (42.1 → 43.9 points) compared to 2011, with financial authority decreasing by 0.2 points and organisational capacity increasing by 1.4 points.

Regarding the upper level sub-indices and lower level indicators, FA dropped by 0.2 points overall, with amendment authority and executive flexibility during implementation decreasing by 0.1 points each; scope of reversionary budget did not show any change, however. Amendment authority decreased (-0.1 points) because Italy amended the Constitution in 2012 to have the Legislature revise the budget only within the limit of the aggregate budget limit, restricting its amendment authority. The decrease in executive flexibility during implementation (-0.1 points) in Iceland is attributable to the fact that the country newly created a general reserve fund in 2014 as part of its financial reform.

While, OC increased by 1.9 points, which is largely attributable to the high increase in access to budgetary information (1.1 points) as new IFIs considerably increased in number. In fact, the number of IFIs in the 60 countries, which stood at 13 in 2011, increased by 24 until 2018 to 375.

**Table 11. Change from 2011 to 2018 (after weighting)**

| Upper lever<br>(Sub-indices) | Lower level<br>(Indicators)                 | 2011(a)     | 2018(b)     | Change<br>(b-a) |
|------------------------------|---------------------------------------------|-------------|-------------|-----------------|
| FA                           | Amendment authority                         | 9.0         | 8.9         | -0.1            |
|                              | Scope of reversionary budget                | 4.1         | 4.1         | 0.0             |
|                              | Executive flexibility during implementation | 3.3         | 3.3         | -0.1            |
|                              | Sub-index                                   | 27.3        | 27.1        | -0.2            |
| OC                           | Time for scrutiny                           | 1.2         | 1.3         | 0.0             |
|                              | Committee capacity                          | 6.5         | 6.5         | 0.0             |
|                              | Access to budgetary information             | 1.1         | 2.2         | 1.1             |
|                              | Sub-index                                   | 14.8        | 16.7        | 1.9             |
| <b>BI</b>                    |                                             | <b>42.1</b> | <b>43.8</b> | <b>1.7</b>      |

*Note:* 1) The total may be different due to roundup; 2) Sub-index values out of 100 points, detailed indicators values out of 60 points

## 5.2. Change of rank by a study period

To discuss the changes in scores and ranks of 60 countries in the 2011 study by study period, Australia (58→49), Greece (29→22), Austria (15→10), and Hungary (25→21) increased in rank with a high jump in scores; United Kingdom (52→54), Czech Republic (22→24), and Iceland (11→16) showed a low increase or a decrease in score, ultimately dropping in rank.

Australia, Greece, and Austria all showed high increases in access to budgetary information with the establishment of IFIs around 2012. The increased rank of Hungary is the result of an increase in the time for scrutiny indicator as the date for the executive to submit the budget proposal was changed from end of August to end of April beginning 2015.

To discuss countries that dropped in rank, the United Kingdom showed a slight increase in time for scrutiny (0.0→0.8 points)<sup>6</sup> but at a lower level compared to other countries, decreasing in rank by one. The Czech Republic showed a slight increase in sub-indices with the establishment of IFI (Fiscal Council) in 2017 but still decreased in relative rank. Iceland's decrease in rank is due to the decrease in executive flexibility during implementation (6.8→3.4 points) as the general reserve fund was implemented with the amendment of the Financial Reporting Act in 2014<sup>7</sup>.

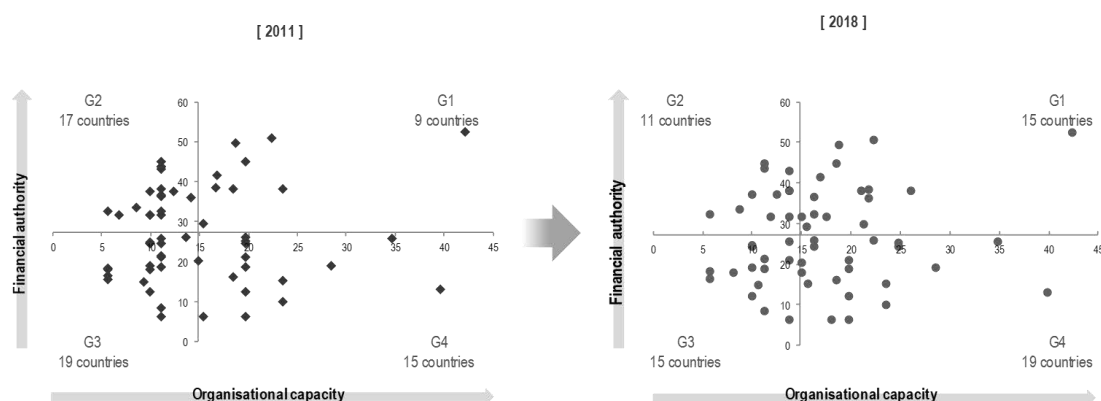
**Table 12. Change of rank by study period**

| Country        | 2011     | 2018     | Change of points(rank) |
|----------------|----------|----------|------------------------|
| Australia      | 21.1(58) | 31.1(49) | +10.0(?9)              |
| Greece         | 47.1(29) | 49.2(22) | +7.5(?7)               |
| Austria        | 50.6(15) | 58.1(10) | +7.5(?5)               |
| Hungary        | 44.4(25) | 49.4(21) | +5.0(?4)               |
| ...            | ...      | ...      | ...                    |
| United Kingdom | 24.5(52) | 25.7(54) | +1.3(?2)               |
| Czech          | 45.9(22) | 48.4(24) | +2.5(?2)               |
| Iceland        | 55.1(11) | 51.9(16) | -3.2(?5)               |

Figure 6 shows the change in overall scatter plots in the 2 study periods for the 60 countries subject to study in 2011<sup>8</sup>. G1 countries increased from 9 to 15, and G4 countries increased from 15 to 19. On the other hand, G2 countries decreased from 17 to 11, and G3 countries decreased from 19 to 15.

All of the countries that moved between the groups (G2→G1: 6 countries including Austria, Finland, Greece, Italy, Portugal, and Serbia, (G3→G4: 4 countries including Argentina, Australia, Slovenia, and South Africa) showed an increase in OC by newly establishing IFI and increasing its personnel. Specifically, out of the 10 countries, Slovenia showed an increase in personnel, whereas all others newly established IFIs.

**Figure 25. Change in quadrant scatter plot between the study periods**



## 6. Conclusion and implications

This report employs the BI index to study the relative size of FA and OC of the legislature in each country.

The empirical findings show a wide range of differences between the four groups of countries (G1, G2, G3, and G4), implying that the different political context in each country affects its budget operation. Furthermore, compared to 2011, the number of G2 and G3 countries decreased while G1 and G4 countries increased in 2018. This may be the result of overall enhancement in organisational capacity of the legislature over the time.

Regarding the two sub-indices and 6 indicators, the results show that countries subject to the study still showed weaker OC (16.3 points) than FA (27.7 points) overall. For OC, time for scrutiny (1.3 points) and access to information (2.0 points) showed weakness. There is a need to improve these indicators in order to improve the budgetary power of the legislature in the future.

When using the BI index, however, it should be noted that there is a difference between formal institutional authority and actual practice. Therefore, even if the amendment authority indicators show high scores, this does not necessarily mean that the legislature is actually making an expansive revision of the budget proposed by the executive. For example, Greece amended its Constitution in 2008 to extend the period for budget deliberation from 30 days to 40 days and allowed the legislature to revise the budget bill in part within the total amount, a change from the previous case wherein it was only able to approve or reject the budget bill. Note, however, that is legislature, the Hellenic Parliament, in actuality has very limited power for revision.

Another point that can be made is that the BI index shows the ‘relative’ distribution of fiscal authority between the legislature and the executive. A high score indicates that the fiscal authority of the legislature is relatively stronger, and a low score suggests that the fiscal authority of the executive is relatively stronger. For example, the legislature in a G1 country enjoys relatively higher authority, whereas the legislature in a G3 country possesses relatively weaker fiscal authority compared to the executive (or the cabinet).

If we think that the balanced distribution of fiscal authority between the legislature and the executive is better than a lopsided distribution in complying with fiscal rules and enhancing fiscal democracy owing to checks and balances, a high BI index – which includes FA and OC – would not necessarily be considered more beneficial.

Based on these results, this study provides practical insights for developing financial strategies that ensure an appropriate distribution of fiscal authority between the legislature and the executive as follows:

1. First, the FA (amendment authority, scope of reversionary budget, and executive flexibility during implementation) and OC (time for scrutiny, committee capacity, and access to budgetary information) for each country could be developed at an appropriate, balanced level.

For example, G1 countries such as the United States showed that the FA and OC of the legislature were stronger than those of the executive. As the legislature exercises powerful authority, we witness a conflict between the legislature and the executive or the president upon occasional shutdown of the federal agencies or excessive earmarks on budgetary projects<sup>9</sup>. In such case, there is a need to adjust authority between the legislature and the executive in order to facilitate checks and balances.

G3 countries such as United Kingdom had the legislature possessing relatively weaker FA and OC, resulting in almost no revision in budget proposal by the legislature. This means that the budget plan is essentially being determined by the cabinet, and that it would be difficult to view this as beneficial for fiscal democracy. Therefore, it would be recommended for these countries to reinforce the authority of the legislature in terms of both FA and OC.

Meanwhile, G2 countries – such as Germany and Portugal – and G4 countries, – such as France and South Korea, showed unbalanced strength in FA or OC, calling for the need to examine policy reinforcement for any insufficient points.

Specifically, G2 countries ought to reinforce OC by reinforcing weak indicators such as time for scrutiny, committee capacity, and access to budgetary information. Since G4 countries show weaker FA compared to OC, they would need to review the reinforcement of weaker indicators such as amendment authority, reversionary budget, and executive flexibility during implementation.

2. Second, the role of IFIs is very important for balanced allocation of fiscal authority between the legislature and the executive. In the 2018 study, access to information was shown to be very low (2.0) compared to amendment authority (9.1). This implies that assistance by and independent financial organisation, such as an IFI, is needed in order to mitigate the asymmetry of access to financial information.

IFIs enhance the transparency and accountability of finance by balancing financial information between the legislature and the executive. If combined with fiscal rules, it can reinforce the binding power of the fiscal rules and effectively check for

fiscal opportunism by the executive, thus contributing to the improvement of fiscal soundness.

Moreover, it should keep in mind that the financial information provided by IFIs to the legislature can contribute to reinforcing the fiscal authority of the legislature by changing the Constitution or other financial regulations.

It is critical to understand that this research draws implications on the institutions, not potential attributes of the institutions when operating them in practice. That is, the purpose of this study lies in exploring the institutions themselves, so a difference between the institutions illustrated and the practices in each country limits the implications of the results. Still, the findings provide theoretical contribution by creating the index for legislative budget institutions, which quantifies organisational capacity and financial authorities between the legislative and the executive branch across 70 countries including non-OECD countries. Furthermore, future research is expected to fill the lacuna discussed above by through case studies.

## Notes:

1. "Budgeting Practices and Procedures Database." Data from 2007, 2012, and 2016.
2. More specifically, scoring 7.5 means that it is possible to both increase and decrease budget within the scope of the budget bill submitted by the government. Whereas, scoring 5 means that it is possible to increase budget for a certain government project only if the government could find additional revenue. The difference between the two score means that in a country where both budget increase and budget cut are possible compared to the case where only budget increase is possible, the power of the legislative can be viewed as stronger than that of the executive. In addition, when comparing the precondition of 'within total expenditure' and 'securing additional revenue', it is more difficult to meet the latter condition, which requires finding a new source of tax money or tax rate increase.
3. 14 respondents associated with the legislature, 4 respondents associated with the executive, 4 respondents associated with international organizations.
4. The Analytic Hierarchy Process(AHP) is one of the methods for determining the relative importance of alternatives. The AHP technique to be applied in this study for determining the weighing for indices for legislative budgetary institutions undergoes the process of establishing a hierarchy related to decision-making, conducting a pair-wise comparison of elements at different levels, estimating weighting (relative importance) of elements compared pair-wise, and deriving composite weight by aggregating weighting for evaluated elements at each level.
5. The number of IFIs in the 70 countries subject to the study in 2018 is 38, with the addition of the Parliamentary Budget Office in Georgia.
6. The Spring Budget & Autumn Statement System was changed to Autumn Budget & Spring Statement.
7. With the financial crisis and IMF bailout, Iceland amended its Financial Reporting Act in 2014 as part of its financial reform in order to reinforce its mid-and long-term budget and created a general reserve fund to enhance the flexibility of financial execution.

8. To compare the changes between the two periods, the average value of FA indices and organisational capacity indices from those of 2011 were used.
9. Refers to the behaviour of the legislature to allocate a certain amount by specifying the target or region of the project when deliberating on and voting for budget legislation bill.

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