

Date: 18–22 June, 2007

Venue: Pretoria, South Africa

Budget Management and Public Financial Accountability: Training Workshop and Study Tour to South Africa

CABRI and World Bank Institute

Introduction

The overall aim of the training programme is to deepen capacity in the budgeting institutions of participating African countries to manage reforming budget systems. The training workshop will provide middle management participants with an overview of the key principles, theoretical frameworks, practical implementation challenges and lessons learnt surrounding the full policy/budget cycle in modern public finance systems. The workshop programme includes opportunities to apply the presented frameworks practically through the use of case studies, exercises and smaller discussion groups. The training workshop is followed by a two day study tour of the South African National Treasury. The study tour programme builds on the training workshop by allowing participants to engage in depth with key workshop themes in an applied setting.

Training Workshop, 18–20 June, 2007

The workshop agenda comprises the following themes:

- Modern approaches to public finance management
- Budget formulation, including medium term frameworks and programme performance budgeting
- Integration of intergovernmental fiscal transfers into the budget process
- Budget execution, including cash management systems, internal controls and the need for and limitations of Financial Management Information Systems (FMIS) in improving financial reporting and accountability
- Cash versus accrual accounting
- Policy and budget monitoring and evaluation, including budget examination, public expenditure reviews, public expenditure tracking, impact evaluations and other approaches to improve policy accountability
- Accountability and integrity systems, including fiscal transparency and the role of political institutions such as the public accounts committee
- Audit and evaluation, including financial compliance auditing, performance auditing, internal auditing
- The design and implementation of public financial management reform programmes

Study Tour to South African Ministry of Finance, 21–22 June, 2007

The study tour agenda comprises the following themes:

- Evolution of South Africa's Growth and Employment Strategy
 - The Budget Process: Budget formulation institutions and budget documentation
 - Shaping the budget: macroeconomic and fiscal policy and the budget framework
 - Legislative framework and institutional arrangements
 - Pillars of a comprehensive classification system
 - Intergovernmental fiscal system
 - Policy and budget analysis: internal institutions of budget examination
 - Framework for managing performance information
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Day 1 – Monday 18 June

Two themes will be tackled on Day 1: (i) an overview of the main themes and areas of reform in public finance management programmes and (ii) developments in budget formulation and approval processes.

09.00 – 09.50 Welcome remarks by Swedish Ambassador and acting Country Director, World Bank South Africa

Opening Address: National Treasury, Republic of South Africa

Theme: Modern Approaches to Budgeting

09.50 – 10.00 Overview of the training programme

10.00 – 10.30 Tea/Coffee

10.30 – 12.30 **Plenary session: Building towards budget credibility through improved budget formulation processes**

This session will pose budget credibility as a first requirement of the institutional arrangements of the budget system. It will look at the necessary institutions in the budget/formulation and approval process to achieve budget credibility, and how these institutions should be linked to budget implementation. Institutions that will be discussed include macro-fiscal and micro-fiscal planning processes as implemented through an MTEF approach; the importance of a credible calendar; the importance of accurate and timely information on actual spending; the importance of robust programming, costing and spending review institutions at sector levels; and the importance of institutions challenging budget proposals. The session consists of two presentations. The first presentation will look at the principles involved, while the second will present an African case study of successful reforms.

12.30 – 13.30 Lunch

13.30 – 15.00 **Plenary session: Modern approaches to expenditure planning – Programme performance budgeting**

A review of programme performance budgeting, including principles, terminology, necessary institutions, classification issues, implementation difficulties and sequencing.

15.00 – 15.30 Tea/Coffee

15:30 – 17.30 **Group Sessions: Developing a programme performance budget**

The plenary group will be broken up into 3 groups, each of which will be given a country institutional / line item budget and additional materials regarding the departmental structures and programme of action of the budget under review. The task of the group then would be to develop a programme performance budget using the materials, including looking at programmes and sub-programmes, institutional issues, classification, indicators and targets and migrating the spending across. Each group will have a resource person to facilitate/guide the work. The aim is for participants to deal first hand with the problems encountered in practice and think through possible solutions. Each group's outputs will be put up for general viewing in the plenary room.

Day 2 – Tuesday 19 June

On the second day the seminar will pay attention to decentralisation and to issues in budget implementation and financial management.

08.00 – 09.00 Plenary session: Intergovernmental grants

The design of an intergovernmental transfer system is an important topic for virtually all nations, federal or unitary, developed or developing. It is a challenging area as by its nature there is no single correct policy prescription. Conflicting objectives are involved, especially between the virtues of decentralized decision making and the achievement of national objectives such as fairness and equity, and creating a common economic union; and political, historical and institutional factors weigh into the discussion. The literature is evolving and much more work needs to be done. There is, however, a consensus that the structure of these transfers creates incentives for national, regional, and local governments that affect fiscal management, macroeconomic stability, distributional equity, allocative efficiency, and public service delivery. This session reviews the conceptual and empirical literature to distil lessons for policymakers looking to design fiscal transfers in a manner that creates incentives for prudent fiscal management and effective service delivery.

09.00 – 10.30 Plenary session: Expenditure control, accounting and Financial Management Information Systems

This session looks at (i) systems that need to be in place within spending agencies and between spending and central control agencies to ensure disciplined execution, including commitment control, approval, validation and payment processes (ii) the role of accounting and reporting processes and (iii) the critical role of FMISs in supporting these systems. A case study of implementing a FMIS in Ethiopia will be discussed.

10.30 – 11.00 Tea/Coffee

11.00 – 12.30 Plenary session: Should developing countries Adopt Accrual Accounting?

Despite strong encouragement from a number of international agencies and accounting organizations, developing countries should ask some searching questions before adopting accrual accounting in the public sector. At the most fundamental level, they should ask whether the accounting needs of the public sector, which centre on democratic accountability, are well served by private-sector-based accounts that focus primarily on financial performance and profitability. Our analysis of the interaction of accounting regimes and fiscal rules showed that seemingly simple fiscal rules like committing to budget balance have substantially different implications under cash and accrual accounting. Thus, careful attention should also be paid to the implications for fiscal rules when changes in accounting regimes are being considered. Developing countries' public sectors operate in difficult environments and face many constraints. In deciding whether to set accrual accounting as a goal of public sector reform, policy makers need to make a hard-headed assessment of their institutional environment and capacities. They should be satisfied that the benefits of moving to accrual accounting outweigh the substantial costs of transition.

12.30 – 13.30 Lunch

13.30 – 14.30 Plenary session: Managing cash – ensuring predictability and discipline in budget execution

This learning session examines the lessons learnt and systems put in place to manage cash in countries that experience revenue uncertainty. Issues that will be discussed are single treasury accounts, cash planning at ministry and central level, predictable forward allocations, commitment control and the role of information and sound institutions.

14.30 – 15.00 Tea/Coffee

15:00 – 17.00 Plenary session: Budget implementation, expenditure control and FMIS

Lessons from Experience

This plenary discussion session will allow participants to bring FMIS design and implementation issues from their country to the table for discussion.

Day 3 – Wednesday 20 June

On the final day of the seminar, participants will be exposed to the frameworks for and practical skills required in ensuring financial and policy performance and accountability. In the morning, the sessions look at the role of and necessary institutions of the audit function. The second session comprises an examination of the role of policy monitoring and evaluation. The afternoon looks at interfaces between accountability institutions and integrity in the budget process. The final session of the day brings the work of the three days together in reviewing lessons learnt for the design of Public Finance Management Reform Programmes.

08.00 – 10.00 **Plenary session: Policy and budget monitoring and evaluation**

This session explores the role of policy and budget monitoring and evaluation throughout the budget cycle. It will look at specific instruments of policy evaluation that can operate within the budget cycle, including Public Expenditure Reviews and Public Expenditure Tracking Surveys, and monitoring and evaluation systems.

10.00 – 10.30 Tea/Coffee

10.30 – 12.30 **Plenary session: Accountability and integrity of systems**

This session will look at key institutional arrangements throughout the budget process that underpin accountability and ensure integrity, in addition to those that have already been discussed (e.g. the audit function; performance accountability etc). It will look particularly at external or public accountability institutions.

12.30 – 13.30 Lunch

13.30 – 15.30 **Plenary session: Financial performance and accountability: the role of auditing**

This session will look at the role of compliance and performance audits and key institutional, process and information aspects of both.

15.30 – 16.00 Tea/Coffee

16:00 – 18.00 **Plenary session: Designing PFM reform programmes**

The final session of the day will look at PFM reform programme design. A presentation on key issues and the use of PEFA as a diagnostic tool in the design of PFM programmes will be followed by a facilitated round table discussion. The participants will be asked to nominate three members for the round table at the end of day 2. The facilitator will direct the discussion by providing opportunities for the panellists to discuss key themes. Finally the floor will be opened for questions and contributions by other participants. The session will aim to distil key learning points regarding PFM reform programmes arising from the seminar.

18.00 – 18.30 **Closing remarks and evaluations**

Housekeeping arrangements for study tour

Day 4 – Thursday 21 June

- 08.30 – 09.00** Welcome address: South Africa National Treasury
Evolution of South Africa's growth and development strategy
- 09.00 – 11.00** The budget process
- Budget calendar
 - Division of revenue
 - Three year rolling framework (MTEF)
 - Programme budgeting
- 11.00 – 11.30** Tea/Coffee
- 11.30 – 13.00** Shaping the budget
- Macroeconomic and fiscal policy
 - Budget Framework
- 13.00 – 14.00** Lunch
- 14.00 – 15.30** Legislative framework and institutional arrangements
- Policy thinking underpinning the Public Financial Management Act and the Municipal Financial Management Act
- 15.30 – 16.00** Tea/Coffee
- 16:00 – 17.30** Pillars of a comprehensive classification system
- Introduction of New Chart of Accounts in the South African context
- 19.00 arrival for** Evening Dinner Reception
19:30 start Roundtable: Interrogating the budget process
- National Treasury
 - Financial and Fiscal Commission
 - Line Department
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Day 5 – Friday 22 June

09.00 – 10.30 Intergovernmental fiscal system

- Structure of the intergovernmental system
- Distributions of powers and functions between the three spheres of government
- Intergovernmental transfers

10.30 – 11.00 Tea/Coffee

11.00 – 12.30 Framework for managing performance information

- An approach to developing performance indicators
- The capacity required to manage and use performance information
- Roles of key government institutions in performance information management
- Publication of performance information

12.30 – 13.30 Lunch

13.30 – 15:00 Policy and budget analysis

- Treasury guidelines
- Examining policy and policy proposals
- In-year expenditure monitoring – national, provincial and local government

15.00 – 15.30 Closing remarks and evaluations
