



Organisation for Economic Co-operation and Development

GOV/SIGMA(2024)5

Unclassified

English - Or. English

9 July 2024

PUBLIC GOVERNANCE DIRECTORATE

SIGMA - Support for Improvement in Governance and Management

Organisational structure of budget management

SIGMA Paper No.72

This paper studies the differences between the organisation of budget management in the government administrations of SIGMA partners in the Western Balkans and the European Neighbourhood and good practice across the European Union (EU). It observes that the ministry of finance (MoF) in these administrations typically engages in direct budget negotiations with a large number of budget organisations. This practice is in stark contrast with the budgeting approach observed in the EU, where the MoF only deals directly with government ministries and a limited number of constitutional bodies. The paper highlights the adverse consequences for the strategic role of the MoF for fiscal policy, the accountability of line ministries for budgeting and service delivery in their sector and the introduction of modern public financial management instruments such as medium-term budgeting and performance-based budgeting. This paper recommends that governments reduce the number of first-level budget organisations and give line ministries more responsibility for budget management in their sector. At the same time, the paper recommends strengthening line ministries' accountability for budget management towards the parliament.

For further information, please contact sigmaweb@oecd.org

JT03547321



SIGMA
Creating Change Together



A joint initiative of the OECD and the EU,
principally financed by the EU

Organisational structure of budget management

Directions for reform in the Western Balkans and the Republic of Moldova

SIGMA Paper No. 72

Authorised for publication by Ms. Elsa Pilichowski, Director,
Public Governance Directorate, OECD

2 Rue André Pascal
75775 Paris Cedex 16
France
E-mail: sigmaweb@oecd.org
Tel: +33 (0) 1 45 24 82 00
www.sigmaweb.org

This document has been produced with the financial assistance of the European Union (EU). It should not be reported as representing the official views of the EU.
This document, as well as any data and any map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.
© OECD 2024 – The use of this material, whether digital or print, is governed by the Terms and Conditions to be found on the OECD website page <http://www.oecd.org/termsandconditions>

Acknowledgements

This publication is the work of the SIGMA Programme, under the leadership of Gregor Virant, Head of Programme. SIGMA is a joint initiative of the OECD and the EU, principally financed by the EU, and is part of the OECD Directorate for Public Governance (GOV). Its key objective is to strengthen the foundations for improved public governance in EU candidate countries, potential candidates and EU Neighbourhood countries.

This report was prepared by Ferdinand Pot and Janez Šušteršič. The case studies were drafted by Marsed Harizi (Albania), Valmira Rexhëbeqaj (Kosovo*), Dawid Sześciło (Republic of Moldova), Tijana Stanković (Montenegro), Silvana Mojsovska (Republic of North Macedonia) and Svetlana Ljubičić (Serbia).

The final draft of the report benefited from peer review by various colleagues and external experts. Special thanks are granted to Alastair Swarbrick, Klas Klaas and Lech Marcinkowski from SIGMA, Brian Finn and Andrew Blazey of the Public Management and Budgeting Division of GOV, as well as external experts Dirk-Jan Kraan and Martin Johnson.

* This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

Table of contents

Acknowledgements	3
List of abbreviations and acronyms	5
Executive summary	6
Introduction	9
Background of the study	9
The administrative budget classification	10
Objective and structure of the report	12
Methodological notes	12
1. EU good practice examples	15
1.1. Overview of selected EU Member States	15
1.2. First-level budget organisation in good practice examples	20
2. Practice in the Western Balkans and Moldova	22
2.1. Number and structure of first-level budget organisations	22
2.2. Factors behind the number of FLBOs	26
2.3. Consequences for public financial management	29
2.4. Conclusions	32
3. Directions for reform	33
3.1. Limit the number of first-level budget organisations	33
3.2. Make line ministers accountable for budget management in their sector	35
3.3. Align the public administration and public financial management reforms	36
Annex 1: Number and types of FLBOs in the Western Balkans and Moldova	37
Albania	37
Kosovo*	39
Moldova	40
Montenegro	41
North Macedonia	42
Serbia	44

List of abbreviations and acronyms

COFOG	classification of the functions of government
EU	European Union
FLBO	first-level budget organisation
GFS	government finance statistics
IMF	International Monetary Fund
MoF	ministry of finance
MTBF	medium-term budgetary framework
OBL	organic budget law
PAR	public administration reform
PBB	performance-based budgeting
PFM	public financial management
PIM	public investment management
SLBO	second level budget organisation
WB	Western Balkans

The International Organization for Standardization (ISO) defines three letter codes for the names of countries, dependent territories and special areas of geographical interest. The table below presents the codes used for the geographical display of some figures in this publication in line with the ISO codes and, where there is not an official ISO code, the OECD practice.

Countries and territories included in this study

Albania	ALB
Austria	AUT
Denmark	DNK
Finland	FIN
Germany	DEU
Kosovo*	XKV
Republic of Moldova	MDA
Montenegro	MNE
Netherlands	NLD
Republic of North Macedonia	MKD
Serbia	SRB

Executive summary

A widely known principle for the sequencing of the reform of public financial management (PFM) practice is ‘basics first’. The dictum says that before introducing best practice, the capacity to carry out public responsibilities in a prudent and reliable manner should be increased by strengthening the basic institutions of public administration.

The organisational structure of budget management is one such basic practice that should be governed well, before advanced PFM reforms relating to budget preparation and budget execution are introduced. A fragmented organisational structure with a high number of budget organisations under the direct supervision of the ministry of finance (MoF) makes it more difficult to introduce advanced practices such as performance-based budgeting (PBB), public investment management (PIM) and ministerial accountability.

The organisational structure of the budgeting process has profound implications for the efficiency of budgeting and policy accountability. Maintaining direct relationships with a large number of budget organisations imposes a heavy workload on the MoF and takes away time and focus from its more strategic role in the medium-term budgeting process. Having a large number of budget organisations at the same level as ministries makes the introduction of advanced PFM reforms (such as PBB) more complex, as it results in large amounts of data that are difficult to transform into useful information for decision makers. Budget fragmentation also dilutes the line of responsibility for the results of government policy. When institutions within the ministry’s sector are able to negotiate their budgets directly with the MoF, they are less accountable to their line minister and the ministers are less able to allocate the budget according to policy priorities in their sector.

The organisational structure of budget management is formally defined by the administrative budget classification. In order to deal with the complexity coming from a large number of public sector entities and spending units, administrative classification is **commonly organised as a hierarchical structure** of first-level budget organisations (FLBOs) and second-level budget organisations (SLBOs).

In the absence of international standards for the administrative classification, this study presents **good practice examples from a sample of EU Member States** with a reputation for sound fiscal management. The countries studied are Austria, Denmark, Finland, Germany and the Netherlands. A common trait in all of these cases is a robust delegation of budget management and accountability for sectoral budgetary decisions to the line ministries. **The status of FLBOs in these countries is limited to the government ministries and a few key institutions of the non-executive branch of government.** Consequently, the number of FLBOs ranges from 13 in Finland, 14 in the Netherlands, to 23 in Germany. **This approach to structuring the administrative classification enhances the managerial accountability of line ministries. It respects the role of the MoF in setting the fiscal framework and that of line ministries for budget management within their sector.**

The number of FLBOs in the Western Balkans and the Republic of Moldova (hereafter, ‘Moldova’) **is on average four times larger than in the good practice examples.** In addition to government ministries and bodies of the non-executive government branch, they may include government agencies, professional institutions, administrative bodies, and social security funds.

There are a number of **factors that lead to and preserve fragmentation in the organisational structure of budgeting**:

- **Incomplete legal frameworks.** In the good practice examples, the organic budget law (OBL) either explicitly specifies the FLBOs or clearly limits their number to government ministries and a few non-executive government institutions.
- **Organisational structure of government.** The assignment of FLBO status reflects the organisational structure of government. The number of ministries in the Western Balkans and Moldova tends to be higher than in the good practice examples. Similarly, the number of independent oversight bodies is considerably higher.
- **Safeguarding independence with FLBO status.** FLBO status is understood as a way of safeguarding an institution's functional and professional independence from the executive government. The good practice examples significantly differ from this approach. Functional and professional independence is not secured by being a FLBO but rather by the statutes and governance arrangements of such institutions.
- **Budget organisations' quest for control and status.** FLBO status is often valued by the institutions' managers as important for retaining control over their own budget. They see the possibility of submitting budget requests directly to the MoF as a means of strengthening their negotiating position. Similarly, FLBO status elevates the perceived importance of the institution in comparison to those without this status.
- **The quest for control by ministries of finance.** Some finance ministries in the region consider that reducing the number of FLBOs by changing the status of some existing FLBOs to SLBOs and delegating control to their sectoral ministries will increase risk in budget preparation and execution control.

The effectiveness of budget management is negatively affected by a large number of FLBOs as it results in large amounts of data that are not transformed into information that is useful for decision makers. The larger the number of FLBOs, the more difficult it becomes for the MoF to arrive at policy-driven ceilings. The sector will get more fragmented in the budget presentation. The higher the number of FLBOs, the more voluminous and detailed the performance information will be for the MoF and parliament to digest. Moreover, sector ministry decision makers have less control over the results framework when other FLBOs in the sector act independently in planning budgets and performance. Lacking budgetary control of the sector, sector ministries will be less able to formulate good quality targets for sector outcomes. Monitoring of budget execution for multiple FLBOs within a sector produces data that is less useful for parliamentarians than would be the case for a combined sector ministry.

The following recommendations for reform of the organisational structure of budgeting in the Western Balkans and Moldova are based on the analysis carried out for this report.

1. Reduce the number of FLBOs

This recommendation has five components:

- i. Revising the normative framework for budget management.
- ii. Enhancing the budget management capacity of line ministries.
- iii. Safeguarding budgets of independent institutions.
- iv. Reclassifying entities that report to government as a second level budget organisation under one of the centre of government bodies.
- v. Redefining the role of the ministry of finance.

2. Strengthen line ministers' accountability for budget management in their sector

Reducing the number of FLBOs and making sector ministries responsible for budget management will significantly increase the powers of line ministers. In line with the principle that authority should be

accompanied with accountability, this needs to be complemented with stronger accountability mechanisms. Accountability can be **strengthened by obliging ministers to participate in the parliamentary review of their sectoral budgets and annual financial reports.**

3. *Align the public administration reform strategy and the public financial management strategy*

Stimulated by the European Commission, EU candidate countries and potential candidates need to prepare a public administration reform (PAR) agenda that includes the area of PFM. Many have chosen to prepare separate reform strategies for PAR and PFM. The above recommendations are linked to both agendas and co-ordination of the reform within the centre of government (CoG) is therefore critical. Strong commitment by the MoF and other CoG bodies will be needed to overcome the resistance of existing FLBOs to losing their status.

Introduction

Background of the study

This study originates from three closely linked observations on the organisation of the budgeting process and the role of the MoF in relation to the line ministries in the government administrations of SIGMA partners in the Western Balkans and the European Neighbourhood. The paper refers to six case studies, five from Western Balkan administrations (Albania, Kosovo*, Montenegro, the Republic of North Macedonia [hereafter, 'North Macedonia'], and Serbia) and one from Moldova.

One observation is that the MoF in these administrations typically engages in direct budget negotiations with a large number of budget organisations. For example, SIGMA found that the MoF of Serbia negotiated directly with over 100 budget organisations. This practice is in stark contrast with the budgeting approach observed in many EU Member States, where the MoF only deals directly with government ministries and a limited number of constitutional bodies.

A second observation is that budget departments in line ministries in the region tend to have a limited scope of responsibility as financial administrators of their ministry rather than as a “financial controller” for the sector.¹

A third observation is that the mechanisms ensuring ministers' accountability for budget implementation are weakly developed. Commonly, the MoF takes the lead and has the main responsibility for the budget proposal as well as the budget execution and accountability reports with the parliament, while the ministers of the line ministries do not directly report to the parliament and are rarely engaged in the parliamentary review process.

The organisational structure of the budgeting process has profound implications for efficiency of budgeting and policy accountability. Maintaining direct relationships with a large number of budget organisations imposes a heavy workload on the MoF's budget department. The workload gets worse once advanced PFM tools, such as medium-term budgeting and elements of PBB, are introduced. In Albania, for example, the MoF is required to analyse and evaluate the performance reports of more than 60 budget organisations as part of the annual budgeting process. The MoF budget department may lack the capacity and the detailed sectoral expertise necessary to engage in policy discussion with budget organisations during the annual budget cycle. More importantly, dealing in detail with the budgets and performance of so many organisations instead of delegating this responsibility to sectoral ministries, takes away time and focus from the primary, strategic role of the MoF in the budgeting process. Finally, a high number of FLBOs leads to proliferation of small programmes and performance reports, which limits the government's and the parliament's ability to oversee and evaluate the results of the policies funded by the budget.

Excessive budget fragmentation dilutes the line of responsibility for the results of government policy. The direct relationship of the MoF with many budget organisations other than line ministries infringes on the responsibility of the line ministry to design and implement policies in their sector. As a principle of good public administration, ‘managerial accountability’ holds that managers can only be held

¹ Dirk-Jan Kraan (2015), *Strengthening the role of line ministries in the budget process in South-East Europe*, Center of Excellence in Finance, April 2015

accountable for performance if they bear responsibility for all aspects of management including policy planning and budget allocation². The primary responsibility for designing, implementing and achieving results of public policies lies with the ministers. The ministers can only be fully accountable for results when they are able to negotiate their entire sectoral budget and to propose appropriations and set performance targets for all organisations and institutions in their sector. When institutions within the ministry's sector are able to negotiate their budgets directly with the MoF, they are less accountable to their line minister and the ministers are less able to allocate the budget according to policy priorities.

When the MoF assumes budget responsibility for a large number of budget organisations, line ministers are reluctant to take full accountability for the entirety of their sectoral budgets and performance. Consequently, the MoF assumes the main responsibility to the parliament for the proposed budget and its implementation, further limiting the accountability of line ministers for budget execution and performance in their sectors.

Modern approaches in **PIM and fiscal risk monitoring** assign a co-ordination, consolidation and gatekeeping role to the MoF, but a large part of the implementation rests on the shoulders of the sector ministry and agencies within the policy area of the ministry. Implementation of both PIM and fiscal risk management requires technical expertise and capacity within the line ministry's budget department. When there are a large number of FLBOs, capacity becomes fragmented and opportunities to realise economies of scale by centralising budget and planning functions for multiple FLBOs in a sector ministry are missed.

Monitoring of budget execution and performance for multiple FLBOs within a sector produces less useful data than would be the case for a combined sector ministry. Presenting combined data to line ministry decision makers enables a more cohesive view of developments at sectoral level. Treasury systems in the Western Balkans and Moldova are able to produce detailed figures on execution, but narrative reports that explain divergence from the original budget plans are mostly lacking. Indeed, creating a combined report for a sector is more complex with multiple organisations with FLBO status and line ministries have little incentive to consolidate the information across the sector.

The administrative budget classification

In many countries, the institutional structure of budget management is formally defined by the administrative budget classification (also known as the organisational or the institutional classification). In general terms, the administrative budget classification allocates revenues and expenditures to budget organisations. With the administrative budget classification, the entities of the public sector that are included in the central government budget are financed through dedicated budget appropriations and incur expenditures at the cost of the state budget. In principle, the administrative classification should be legally binding and implemented in structuring the annual budget.

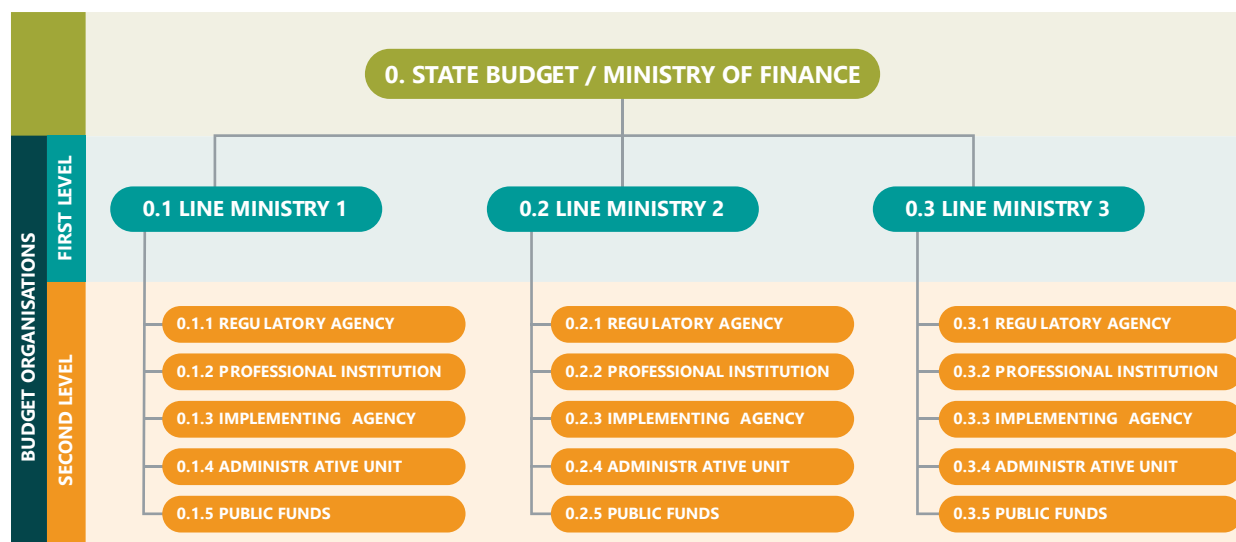
While international standards exist for the economic and functional budget classification, i.e., the government finance statistics (GFS) and the classification of the functions of government (COFOG), **there are no established international norms for structuring and coding the administrative classification**³. Nevertheless, it is commonly accepted that any administrative classification must be comprehensive, in the sense that it covers all spending units included in the state budget. This may result in complex classifications including a very large number of public sector entities at different levels of the administrative hierarchy.

² OECD (2023), *The Principles of Public Administration*, OECD, Paris, <https://www.sigmaweb.org/publications/Principles-of-Public-Administration-2023.pdf>

³ Jacobs, D., J.-L. Héris and D. Bouley (2009), *Budget classification*, IMF Fiscal Affairs Department, Washington, p. 11, <https://www.imf.org/external/pubs/ft/tnm/2009/tnm0906.pdf>.

In order to deal with the complexity resulting from a large number of public sector entities and spending units, the administrative classification is commonly organised as a hierarchical structure of FLBOs and second-level budget organisations (and possibly third-level budget organisations).

Figure 1. Schematic representation of the administrative budget classification



Source: SIGMA

The administrative budget classification may be viewed as a purely technical matter, reflecting the given organisational structure of the government and the public sector in a country. However, the purpose of the administrative classification is not purely technical; it also serves to “**identify the responsibilities**” for the main blocks of public expenditures and for day-to-day administration of the budget⁴. In this sense, the administrative budget classification is also a reflection of the power balance in the organisation of the government in the country concerned.

In the absence of an international standard, governments make their own decisions on how to structure the hierarchy. This report indicates that, in EU Member States with a track record of good fiscal management, FLBO status is only given to government ministries and a limited number of constitutional bodies whose independence is formalised in the constitution. All other units and organisations within the government structure would be classified as second or third-level budget organisations and subordinated to the responsible ministry or the CoG.

This approach to structuring the administrative classification respects the limitations in the extent of control of the MoF, it facilitates the efficiency of the budgeting process and enhances the managerial accountability of line ministries. It enables the MoF to set budget ceilings and negotiate budget appropriations with a relatively small number of FLBOs, thereby focusing on the strategic fiscal framework, fiscal policy and strategic allocation of resources through policy-based expenditure ceilings as the primary responsibility of the MoF. At the same time, the authority over the budgets of subordinate units and organisations (i.e. the second and third level budget organisations) enables government ministers to distribute resources in line with their policy objectives and priorities, while holding the heads of lower-level organisations accountable for the results achieved with the allocated budget appropriations.

⁴ Allen, R. and D. Tommasi (eds.) (2001), *Managing Public Expenditure: A Reference Book for Transition Countries*, p.125, OECD Publishing, Paris, <https://doi.org/10.1787/9789264192607-en>.

Institutional reforms devolving responsibility for specific spending decisions to line ministers and programme managers have long been advocated in PFM literature. They facilitate the enforcement of fiscal aggregates by reducing the number of matters on which the MoF must negotiate with the spending departments, thereby reducing budgetary conflict and transaction costs. They also improve the allocative efficiency of spending, under the condition that line ministers are responsible for setting programme priorities within the strategic framework laid down by the CoG and that the spending units are accountable for programme results.⁵

Objective and structure of the report

The objective of this report is to analyse the impact of the organisational structure of budget management on the efficiency of the budgeting process and policy accountability across a sample of SIGMA partner administrations and to understand the underlying reasons for the current set-up.

In the absence of international standards regarding the institutional structure of budgeting, Section 1 presents examples from a sample of EU Member States with a reputation for sound fiscal management. The countries studied are Austria, Denmark, Finland, Germany and the Netherlands.

Section 2 provides a comparative perspective by presenting the situation of five Western Balkan administrations (Albania, Kosovo*, Montenegro, North Macedonia and Serbia) and Moldova. It summarises the case studies and analyses the reasons for the complexity in their existing budget structures and processes.

The final section outlines possible reform directions, drawing in part from the experiences of some younger EU Member States.

Methodological notes

Terminology

This study uses some generic terms to capture concepts that are named differently in the national legislation. For example, the *administrative budget classification* may also be called ‘organisational’ or ‘institutional’ classification.

Budget organisation is a generic term that captures different terms used in national legislations such as ‘budget user’, ‘budget beneficiary’ or ‘spending unit’. Similarly, instead of ‘first-level’ budget organisation, national frameworks may use terms like ‘direct budget beneficiary’, ‘parent budget user’ or ‘key spending unit’. The responsible (*first-level*) *budget manager* may also be called (chief) budget administrator or (first-level) authorising officer.

The term *organic budget law* refers to any generic law or set of laws establishing the rules of budgeting and responsibilities of different institutions involved in the budgeting process. For the ministry responsible for the budgeting process and preparing the draft budget, the generic name *Ministry of Finance* is used, although, depending on their auxiliary responsibilities, they may be named differently in some governments. Similarly, although different titles and time-horizons may be used, the generic term *medium-term budgetary framework* (MTBF) is used for any medium-term document that sets out a fiscal scenario for more than the next fiscal year.

Finally, in the analysis of the structure of the annual budget presented by budget organisations, the term *budget chapter* is used for the first-level sections (codes) of the budget presentation. Given that all

⁵ Shick, A. (1998), *A contemporary approach to public expenditure management*, World Bank Institute, Washington, <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/739061468323718599/a-contemporary-approach-to-public-expenditure-management>.

countries included in this study have integrated recurrent and capital budgets, the scope of this paper covers both budget categories.

Categorisation of first-level budget organisations

There is considerable variety in the function and institutional position of government entities designated as FLBOs in the Western Balkans and Moldova. FLBOs may include such different entities as government co-ordination offices, inspectorates, academies of science, regulatory agencies and many others. At the same time, the institutional position of FLBOs with the same function may also differ between the administrations analysed. For example, inspectorates may be organised as organisational units within a ministry or as self-standing organisations.

To enable comparison between the case study countries, a categorisation of FLBOs based on their function is used in this study. The categorisation was developed solely for the purposes of structuring the information on FLBOs and does not aim to provide a general classification of the government sector. Only organisations with FLBO status are analysed in this report. Consequently, FLBOs alone are assigned to one of the categories distinguished in the table. The table does not provide a full account of public sector entities in any of the analysed cases. The table has no normative value, i.e. there is no implication that all categories and examples of organisations listed in the table should be FLBOs; they are simply included in the table because currently they are a FLBO in one or several of the analysed cases.

Table 1. Categories of public organisation that have FLBO status in one of the case-study administrations

Non-executive branches of government	
1.	The parliament and the president of the country (or, if the case, the monarch).
2.	Judiciary – courts with the FLBO status, including the constitutional court and the judicial council.
3.	Oversight bodies – entities outside the executive government overseeing the government or protecting citizens' rights whose members are appointed by Parliament. Examples are the supreme audit institution, anti-corruption commission, ombudsperson or bodies protecting human rights or data privacy.
Executive branch of government	
4.	Ministries and the CoG – consisting of the CoG ⁶ (the Office of the Prime Minister or the Chancellery), the ministries, ministers without portfolio, as defined by the normative framework on government organisation.
5.	Regulatory agencies – agencies regulating and protecting competition in markets prone to market failure due to network externalities, such as markets for electricity, gas, railway services, postal services, electronic communications, audio-visual media, as well as the general competition protection authority.
6.	Implementing agencies – agencies and other institutions implementing government policies (for example, investment and agricultural agencies), providing administrative services (such as land cadastre), law enforcement agencies (for example, the prosecution, inspectorates, tax and custom administrations, security and intelligence agencies).
7.	Professional institutions – public institutes such as statistics or accountancy, national science academies, cultural, media, education and health institutions, etc.

⁶ The CoG serves the executive (President or Prime Minister, and the Cabinet collectively) to enable and facilitate policy co-ordination across ministries and relevant institutions. It has a great variety of names across countries including General Secretariat, Cabinet Office, Chancellery, Office/Ministry of the Presidency, Council of Ministers Office, etc. In many countries, the CoG is made up of more than one unit. See also: Davies, A. and P. Vági (2023), "The role and functions of the centre of government in the European Neighbourhood Policy East region", *SIGMA Papers*, No. 67, OECD Publishing, Paris, <https://doi.org/10.1787/9e1fc1fd-en>.

8. Administrative units – organisational units within the structure of ministries or the CoG, such as directorates and co-ordination offices.
 9. Social insurance funds and other public funds –pension, health, employment insurance funds and other public funds, when included in the central government budget as a FLBO and/or the bodies set up to manage these funds.
-

Identification of first-level budget organisations

The study identified FLBOs by analysing the national normative framework regarding the organisation of budgeting and budget classifications, the budget chapters in the annual budget law and actual practice in the relation between the MoF and budget organisations based on interviews with MoF budget officials⁷. Where the three approaches resulted in different numbers of FLBOs, the latter criterion predominates. This means that where some FLBOs are clustered and engage with the MoF as a cluster, only the organisation that represents the cluster to the MoF is counted as a FLBO.

⁷ The normative framework consists of the organic budget law, any government or MoF regulations, any actual list of budget organisations published by the MoF. Practices differ. In some administrations, the by-laws or rulebooks to the OBL define budget organisations. In other cases, the status of FLBO is assigned to budget organisations not by a normative act, but simply by the Treasury's coding system or by the structure of the actual budget.

1. EU good practice examples

This section describes the organisational structure of budget management in five EU Member States with a reputation for sound fiscal management (Austria, Denmark, Finland, Germany and the Netherlands)⁸. The case studies focus on two aspects of the organisational structure of budget management. First, the administrative budget classification and in particular the number of FLBOs with whom the MoF holds a hierarchical relation regarding budget matters. Second, the accountability relationship of the executive towards the parliament.

1.1. Overview of selected EU Member States

Austria

The Austrian OBL, the Federal Budget Law⁹, classifies institutions and their heads directly by their role in the budgeting process. They are divided into the (heads of) leading budget entities and subordinated budget managers.¹⁰

The leading budget entities are explicitly enumerated by the Law and comprise:

- the Federal President and the presidents of the two chambers of the federal parliament (three),
- the president of the Constitutional Court, the President of the Administrative Court, the Chairperson of the Public Prosecution and the President of the Court of Audits (four),
- the Federal Chancellor and the ministers (but not ministers without portfolio).

Currently there are 12 ministers in the Austrian federal government. Together with the other institutions listed above, this adds up to 20 leading budget entities. In the budgeting process, only the leading budget entities interact directly with the MoF in the process of medium-term and annual planning, reporting and controlling of the budget.

The leading budget entities may establish a structure of subordinate budget managers within their organisation. The leading budget entities set the goals, performance plans and resource allocations for budget managers under their competence, taking into account the proposals received from them. In agreement with the MoF, they may also delegate budget management to other federal entities within their area of responsibility. In addition to budget managers designated by the leading budget entity, the Austrian Debt Management Agency and offices of the Labour Market Service are recognised as budget managers (but not as leading budget managers) by the Law.

⁸ The selection criteria for the good practice case study countries included (-) member state of the European Union and (-) good reputation for fiscal management as reflected by the sovereign credit ratings. Together with Sweden and Luxembourg, the five selected countries are among top 7 EU countries in terms of sovereign credit rating.

⁹ Bundeshaushaltsgesetz, <https://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=20006632>.

¹⁰ Haushaltsleitende Organe, Leiterinnen oder Leiter der haushaltsführenden Stellen.

However, the Austrian budget is not structured or presented by the structure of leading budget entities and budget managers but rather by sections¹¹. The 2022 Budget Law presents the budget divided into 35 chapters:

- 6 chapters corresponding to non-executive leading budget entities (both chambers of the Parliament are presented in one chapter).
- A special chapter for the federal Chancellery.
- 23 chapters corresponding to policy areas under the responsibility of the federal government.
- 5 special chapters, covering fiscal equalisation, financial market stability, federal property, cash management and financing.

Each chapter in the Budget Law includes a mission statement, objectives, result indicators, policy measures and budget appropriations. Chapters may be further divided into more specific policy areas. The Budget Law presents the budget at the global level, i.e., at the level of budget programmes. Detailed budgets for each chapter are presented as annexes, with a responsible budget manager named for each subprogramme.

During the parliamentary review of the budget proposal, every member of the Budget Committee has the right to address written questions to any member of the Government. The leading budget entities prepare annual financial reports and submit them to the MoF. The MoF consolidates the reports into the Federal Financial Statement and submits it to the Court of Audit.

Denmark

The Danish budget is divided into sections according to the number of ministers in the government. Each minister is responsible to the parliament for an expenditure chapter of the budget. The number of ministers and hence departments varies from government to government as the organisation of government is a prerogative of the Prime Minister. Currently there are 18 ministries and 19 ministers in the government and therefore the budget bill is divided into 18 expenditure chapters.¹²

Each expenditure chapter includes a department that serves as the secretariat for the minister, a number of agencies and a host of other appropriations for specific purposes. The ministers and their departments are responsible for approximately 2 000 individual appropriations within those chapters. Each appropriation, besides the actual appropriation amount for the budget year and forward projections for the coming years, includes a mission statement and a breakdown of expenditures, objectives and result indicators.

Apart from these 18 departmental chapters there are three extra chapters:

- 2 chapters dealing with appropriations for the King and the royal family respectively. The Prime Minister's Office manages these chapters, so the King's office is not considered a FLBO.
- 1 chapter for the Parliament that includes the budgets of the Parliament, the Auditor General and the Ombudsperson, as these institutions are separated from the Government.

The draft budget is presented to the Parliament by Minister of Finance. Sector ministers participate in technical briefings in the Finance Committee, with participation from other relevant sector committees. The general law on ministers' responsibility stipulates the main rule in Denmark that ministers are responsible for all aspects of their ministry including the budgets.

¹¹ Rubriken.

¹² The Minister for Nordic Co-operation serves as a minister without portfolio and thus no "Ministry of Nordic Co-operation" exists.

Finland

The Finnish OBL, the State Budget Law¹³, requires that expenditures are grouped into main budget categories according to the administrative sector. The Government's State Budget Decree¹⁴ defines 15 main categories comprising:

- the Parliament and the President of the Republic,
- the Government's Chancellery and 10 ministries,
- two special categories for the interest on state debt and the reduction of state debt.

Budgets of oversight bodies are included in these main categories. For example, the budgets of the ombudsperson and the national audit institution are included in the Parliament's budget, while the courts' budgets are included in the budget of the Ministry of Justice.

The ministries take the leading role in budget preparation and execution. They receive budget proposals from agencies and institutions in their administrative sector, combine them into the ministry's integrated budget proposal and submit them to the MoF. Budget proposals are based on the latest four-year General Government Fiscal Plan, which is updated annually, and on multi-year operational and financial plans of ministries, agencies and institutions, which include performance targets and estimates of revenue and expenditure. Performance targets and budget requests of agencies and institutions are approved by the responsible ministry.

Budget execution and reporting is structured by accounting units. The Office of the President, the ministries, as well as functionally and financially suitable agencies and departments are accounting units by law. Accounting units at subordinate entities may be established by a MoF order. The list of accounting units is provided in an annual order issued by the MoF Treasury department. Accounting units prepare annual financial statements which include an activity report. The activity report must provide information, among other things, on the economic efficiency of spending, performance, deliverables and the effects of spending. Activity reports are reviewed by the responsible ministry, which issues a formal written opinion.

The parliamentary review of the budget proposal starts with a preliminary debate in a plenary session, where the whole government may be present and sector ministers take questions related to their sectoral budget. The budget proposal is then scrutinised by the Finance Committee, which for this purpose works in eight subcommittees, each responsible for a specific administrative sector. Sectoral parliamentary committees also review the budget proposal and submit their statements to the Finance Committee. During the budget debate, committees hear from civil servants and experts and may invite ministers to their sessions. Ministers participate and have the right to take the discussion to the plenary meeting, which adopts the budget proposal and amendments.

Annual financial statements of state, non-budgetary funds and state business institutions are included in the annual government report to the Parliament. Ministers are required to prepare financial and activity reports for their administrative sector, consolidate financial and activity reports of accounting units, issue an opinion on accounting units' reports and issue certified financial statements of the business establishments and non-budgetary state funds in their sector. The final report is presented to the Parliament by the Office of the Prime Minister and reviewed by the Audit Committee, which receives opinions from sectoral committees. The report from the Audit Committee is discussed and adopted in a plenary session.

¹³ Laki valtion talousarviosta, <https://www.finlex.fi/fi/laki/ajantasa/1988/19880423#L2P12a>.

¹⁴ Asetus valtion talousarviosta, <https://www.finlex.fi/fi/laki/ajantasa/1992/19921243>.

Germany

The German Basic Law (the constitution) lays down certain fundamental requirements of the national budget process. It prescribes the fiscal relationship between the federation (i.e. the federal level of government) and the federal states (Länder). The federation and the Länder are autonomous in managing their budgets.

Further legislation specifies the budget process. The Budgetary Principles Act¹⁵ establishes the principles of budgeting with which the budget rules must comply. The Federal Budget Code¹⁶ applies the Budgetary Principles Act to the budget of the federation, and thus provides the basis for the annual procedure for presenting and authorising the budget. The Annual Budget Law establishes the federal budget as well as the financial plan for the current year and the next four years.

The federal budget is structured in revenue, expenditure, commitment appropriations and a staff appointment scheme. It is divided into 25 departmental budgets:

- 15 departmental budgets of line ministries corresponding to policy areas under the responsibility of the federal government, and the Chancellery's budget,
- 2 departmental budgets for the general revenue administration and for the federal debt in responsibility of the MoF,
- 4 departmental budgets of constitutional bodies: the Parliament (Bundestag), the Chamber representing the Länder (Bundesrat), the Federal President, the Federal Constitutional Court,
- 3 departmental budgets of independent oversight bodies: the Court of Audit, the Federal Commissioner for Data Protection and Freedom of Information, the Independent Control Council.

The Federal Minister of Finance is responsible for tax and fiscal policy including the preparation of the federal budget. The federal ministers conduct the affairs of their departments in line with applicable regulations issued by the MoF but independently from the MoF and on their own responsibility. The departments prepare their respective budget applications within their budget ceilings. For this purpose, they in turn involve the subordinate authorities in their area of responsibility, which forward their individual requirement notifications to the respective higher-level department. Within the departmental budget ceilings and further binding stipulations on individual items made therein, the departments are generally free to set the priorities they consider necessary and to stratify the estimates of their respective individual budgets accordingly.

If the bids submitted by the supreme federal authorities are in line with the specifications of the ceilings and are plausible, the MoF generally has no reason to work towards changing them. However, it is not bound by them and can change them after consultations with the authorities involved. These budget negotiations or discussions are held for all departmental budgets, if the bids do not correspond to the ceiling values or are within the ceiling values, but there is nevertheless a need for discussion from the perspective of the MoF. Budget discussions are also held with bodies of the non-executive government branch that are not subject to budget ceilings.

In the first parliamentary reading of the budget draft, the Federal Minister of Finance outlines the general framework requirements of the budget and emphasises the fundamental budgetary and financial policy considerations and objectives of the Federal Government. After the minister's speech, the session continues with deliberations of sectoral budgets. After the first reading, the draft budget is referred to the Budget Committee for lead deliberation. It is usually discussed there from the end of September to mid-

¹⁵ Haushaltsgrundsätzegesetz, Act on the Principles of Federation and Länder Budgetary Law, <https://www.gesetze-im-internet.de/hgrg/index.html>.

¹⁶ Bundshaushaltsordnung, <https://www.gesetze-im-internet.de/bho/BJNR012840969.html#BJNR012840969BJNG000100319>.

November in a large number of meetings. Before the Budget Committee debates a departmental budget, the committee's deliberations are prepared on an item-by-item basis by a panel of several committee members from all (government and opposition) parliamentary groups, i.e., the rapporteurs or co-rapporteurs. They discuss the government draft of the relevant section of the budget in so-called rapporteur meetings with representatives of the relevant supreme federal authority, the Federal Ministry of Finance and the Federal Audit Office. It is long standing custom that ministers are present and answer questions on their sectoral budget in the plenary session, in meetings of the Budget Committee and in sectoral committees.

The annual financial report is submitted to the Parliament by the MoF and is audited by the Federal Court of Audit. After considering the report and the audit, the Parliament grants discharge to the Government, but it can request further clarification from the Court of Audit and require corrective measures from the Government.

The Netherlands

The Dutch OBL, the Accountability Act¹⁷, does not define the administrative classification of budget organisations but puts the responsibility for budgeting firmly in the hands of ministers. Ministers are responsible for their own budget (Accounting Act art. 2.1 section 2), as well as for budget management including aspects as efficiency, lawfulness, propriety and controllability (Accounting Act art. 3.2 and 3.3). On the other hand, ministers have to inform the Minister of Finance about proposals to change the structure of the budget law, the financial report, the financial administration or the organisation or tasks of the finance directorate or their ministry (Accounting Act art. 14, section 1). These proposals can only be adopted after approval of the Minister of Finance (Accounting Act art. 14 section 2). Ministers are also responsible for developing, implementing and supervising the policy underlying their budget, as well as for examining the effectiveness and efficiency of that policy (Accounting Act, art. 4.1 section 1a to 1c).

A ministry's budget includes regulatory and implementing agencies and professional institutions within its area of policy responsibility. Examples include the statistical office, the Consumer and Market Authority and inspections. Although these bodies exercise authority in their domain independently from the minister, their budget proposals must be approved by the supervising minister and are included in the ministry's budget.

Such strong involvement and authority of ministers in the budgeting process requires adequate capacity and support. Therefore, the budget departments in line ministries, called Financial Economic Affairs¹⁸, are fairly large and professional. The appointment of the heads of these departments requires prior approval from the MoF and typically the heads are recruited from staff that previously held a senior position in the MoF.

Budget organisations of the non-executive government branch are referred to as High Colleges of the State. They comprise 11 institutions:

- the two chambers of the Dutch parliament,
- the State Council (Raad van State),
- the Cabinet of the King,
- the Cabinets of the Governors of Aruba, Curaçao and Sint Maarten,
- the Court of Audit,
- the National Ombudsman,

¹⁷ Comptabiliteitswet, <https://wetten.overheid.nl/BWBR0039429/2023-09-26#Hoofdstuk3>.

¹⁸ Financieel Economische Zaken.

- the Electoral Council,
- the Supervisory Committee on the Intelligence and Security Services.

Budget relations between the MoF and the budgets of the King/Queen and the intelligence supervisory committee are managed by the Minister of General Affairs (led by the Prime Minister). Budget relations of other High Colleges are managed by the Minister of the Interior and Kingdom Relations. As these institutions do not deal directly with the MoF, they are not categorised as FLBOs.

According to this structure of responsibilities, the state budget is presented in 15 chapters that currently comprise:

- 3 chapters covering separately the King's budget, the Parliament's budget and, jointly, the budgets of other High Colleges.
- 12 policy chapters which correspond to the structure of government ministries.¹⁹

Each chapter contains detailed information on policies, objectives, goals, indicators and structure of appropriations organised by budget programmes.

The parliamentary review of the budget proposals begins with the presentation by the Minister of Finance on the Budget Day, which is fixed on the third Tuesday in September. The Parliament then first debates the main political issues and the financial and economic policies in plenary session. The budgets of the individual ministries may be debated first in the relevant sectoral committees and are then debated in plenary session. In these debates the line ministers defend their own budgets.

The ministers prepare annual financial reports which are consolidated by the Minister of Finance and submitted to the Court of Audit. On the Accountability Day, fixed on the third Wednesday in May, the financial reports are presented to the Parliament together with the Court of Audit opinion. After consideration of the report, the Parliament decides on granting a discharge to each individual minister.

1.2. First-level budget organisation in good practice examples

The previous section presented the organisational structure of budgeting in five EU Member States with a track record of sound PFM. A common trait in all of these cases is a robust delegation of budget and performance management and accountability for budget execution from the MoF to the line ministries. Budget management is based on the relationship between the MoF and line ministries, with ministries in turn enjoying high levels of authority in distributing appropriations, setting performance targets and supervising subordinate units and institutions in their sector. In some cases, the line ministries even co-ordinate the budgets of independent oversight institutions and courts. The independence of these institutions from the executive government is assured by the legislation, statutes and governance arrangements rather than by giving them a FLBO status.

Accordingly, the number of FLBOs is limited to the government ministries and a few key institutions of the non-executive branch of government (see Table 2). The average number of FLBOs across the five countries is 17.6.

¹⁹ In addition, six chapters cover special purpose funds, managed by responsible ministers, i.e., the National Growth Fund, the Mobility Fund, the funds for municipalities and regions, the Delta Fund and the Fund for Defence Material.

Table 2. Number and types of FLBOs in the analysed EU Member States

	AUT	DEU	DNK	FIN	NLD
Total FLBOs	20	22	21	13	12
<i>Non-executive branches of government</i>	6	7	3	2	0
Parliament, president/monarch	3	3	1	2	
Judiciary	2	1	-	-	-
Oversight bodies	1	3	2	-	-
<i>The executive branch</i>	14	15	18	11	12
Ministries and the CoG	1	15	18	11	12
Regulatory agencies	-	-	-	-	-
Implementing agencies	1 ²⁰	-	-	-	-
Professional institutions	-	-	-	-	-
Administrative units	-	-	-	-	-
Social insurance funds	-	-	-	-	-

Note: For explanation of the FLBO categories, see the methodological notes in the introduction.

Source: SIGMA

As a rule, FLBOs are presented in a separate budget chapter, with the exception of Austria where the budget is organised by policy sectors. The line ministers are directly involved in the parliamentary review of the budget proposal. In the Netherlands, ministers are also individually discharged by the Parliament after auditing and discussing their annual financial statements. These arrangements strengthen the individual accountability of ministers toward the Parliament.

This approach is in line with Principle 13 of the Principles of Public Administration whereby the ministers and managers can only be held accountable for performance if they bear responsibility for all aspects of management including policy planning and budget allocation.

In the following section, a similar analysis is carried out for selected government administrations in the Western Balkans and Moldova.

²⁰ Public prosecution.

2. Practice in the Western Balkans and Moldova

This section presents a horizontal and comparative overview of findings from case studies of four countries in the Western Balkan region and Moldova. It describes the organisational structure of budget management and accountability to parliament in the cases analysed and demonstrates that the situation is very different from the good practice examples reviewed in the previous section. The MoF typically enters in direct relations and negotiations with a much larger number of budget organisations, including, in addition to line ministries, a variety of oversight bodies, agencies, professional institutions, and administrative bodies.

2.1. Number and structure of first-level budget organisations

Table 3 summarises the number and type of FLBOs in each of the analysed administrations. A full list of institutions identified as FLBOs is given in Annex 1.

The total number of FLBOs is **on average 67** and ranges from slightly below 50 in Kosovo*, Moldova and Montenegro to around 100 in North Macedonia and Serbia. These two stand out from the rest mainly by awarding FLBO status to a high number of government agencies and administrative bodies. Overall, the number of FLBOs is much higher in all of the administrations analysed than in the good practice cases, where it ranges from 12 in the Netherlands and 13 in Finland to 22 in Germany and is **on average 17.6** (see Figure 2).

In Albania and Serbia, not all FLBOs are presented as separate budget chapters; some are subchapters (sections) of another FLBO's budget and some are clustered into a generic budget chapter. Notwithstanding their presentation in the budget, these entities fit the definition of FLBO as they are in direct contact with the MoF for budget management purposes.

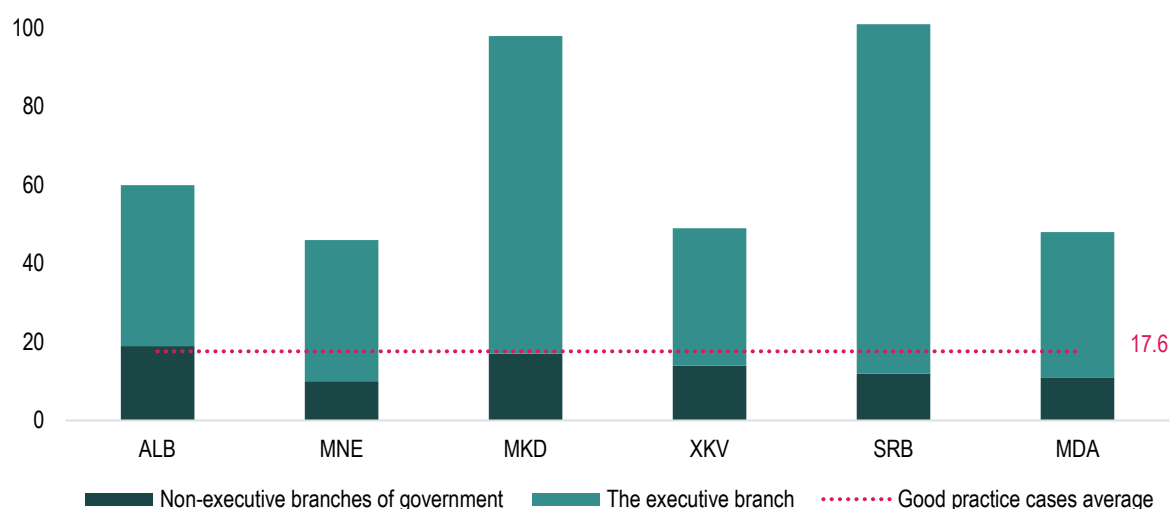
Table 3. Number and types of FLBOs in Western Balkans and Moldova

	ALB	MNE	MKD	XKV	SRB	MDA
Total FLBOs	60	46	98 ²¹	49	101 ²²	48
<i>Non-executive branches of government</i>	19	10	17	14	12	11
Parliament, president	2	3	2	2	2	2
Judiciary	4	2	2	2	2	2
Oversight bodies	13	5	13	10	8	7
<i>The executive branch</i>	41	36	81	35	89	37
Ministries and the CoG	12	19	17	16	24	15
Regulatory agencies	3		3	7	1	2
Implementing agencies	12	4	49	5	9	16
Professional institutions	8	7	4	6	9	4
Administrative units	6		5		46	
Social insurance, public funds		6	3	1		

Notes: (i) For explanation of the FLBO categories, see the methodological notes in the introduction.

(ii) The number of FLBOs in the category "Ministries and the CoG" reflects the structure of governments in 2023, to keep the comparison on the same basis, although the number of ministries has changed with the new governments in Serbia and North Macedonia in 2024.

Source: SIGMA

Figure 2. FLBOs in the Western Balkans and Moldova compared to the EU good practice average

Source: SIGMA

²¹ A reform of the administrative budget classification is currently being prepared in North Macedonia. The recently adopted OBL explicitly requires the MoF to publish the administrative budget classification. The ambition of the MoF is to use this opportunity for reducing the number of FLBOs from 98 to less than 50. At the writing of this report, no decisions to implement this reform were made.

²² In Serbia, there are 146 direct budget beneficiaries in the Treasury's coding system. However, 45 of them are represented to the MoF by another designated FLBO and, for that reason, they are deduced from the total number of FLBO.

Non-executive branch of government

In all of the case studies, constitutional bodies with FLBO status include the president, the parliament, the constitutional court and the judicial council. This corresponds well to the principle of division of power between the executive, the legislative and the judicial branch of government²³. Nevertheless, in some of the good practice countries, budget management of the courts is managed by the ministry of justice as the sectoral ministry responsible for the rule of law and access to justice. In these countries, the courts are not considered as FLBOs. Constitutional and other legal provisions ensure the functional and professional independence of the courts. There are valid national considerations for either perspective.

Within the non-executive branch of government, the main difference with the good practice examples is the number of independent oversight bodies with FLBO status. While in the good practice examples, this status is reserved for only a few, oversight bodies, in the case studies their numbers range from five in Montenegro to 10 and more in Albania, Kosovo* and North Macedonia. These FLBOs include bodies protecting different constitutional rights of citizens, anti-corruption institutions and budget oversight bodies. Their number reflects the drive to establish specialised oversight bodies as part of the democratisation process and to give them the FLBO status as a way of securing their financial independence. This reasoning may have merit in the context of new democracies where constitutional oversight bodies are still weak. Although the good practice countries have found different ways to limit the number of entities with FLBO status, this paper does not challenge the approach of classifying independent oversight bodies of the non-executive branch as FLBOs (see also Section 2.2 and Section 3.1).

Ministries

In all of the case studies, government ministries and, in most cases, the CoG (i.e. the chancellery or the office of the prime minister) are FLBOs. In Serbia, offices of some deputy prime ministers and ministers without portfolio are also FLBOs.

The main difference in this category is that the number of ministries tends to be lower in the good practice examples. On average, the difference is only 3 FLBOs (see Figure 2), but the comparison between Finland and Serbia, that shows a range of 11 FLBOs, indicates it can be material to explain the overall difference of the number of FLBOs between the WB region and the EU good practice examples.

Table 4. Number of government ministries in 2023

Number of ministries	Good practice examples	Analysed administrations
10	Finland	
11	Austria	Albania
12	The Netherlands	
14		Moldova
15	Germany	Kosovo*
16		North Macedonia
18	Denmark	Montenegro
21		Serbia
Average number of ministries	13	16

Source: SIGMA

²³ In Albania, the Appellate Court and the School of Magistrates are also FLBOs.

Agencies and professional institutions

In this category, the Western Balkans and Moldova differ significantly from the good practice examples. In the good practice examples, agencies and institutions working in the policy sector under responsibility of a ministry are never FLBOs. Their budgets are presented to the MoF by the responsible minister, who, in turn, sets performance targets and budget allocations for these institutions. In a stark contrast to this practice, in the Western Balkan and Moldova examples many agencies and other institutions working in the executive government domain have FLBO status. Within this general picture, the number of FLBOs in this category is lowest in Montenegro (11), highest in North Macedonia (58), and around 20 in other cases. The main reason for the comparatively high number in North Macedonia is that there are 18 inspectorates with FLBO status.

This category includes very different institutions²⁴. One group consists of regulatory and policy implementation agencies in different areas such as agriculture, economic development and investment, property management, education and similar. Another group are professional institutions in areas such as statistics, intellectual property, geodesy, metrology, cadastres etc., with some of them performing regulatory functions as well. Prosecution and state attorney offices, some second-instance dispute resolution bodies, as well as national security bodies, are also FLBOs.

A common feature in all of the case studies is the inclusion of some cultural, media, educational, health and even non-governmental organisations as FLBOs. In all cases, national academies of science are FLBOs. Cultural organisations with FLBO status include state heritage organisations in Kosovo* and Montenegro, the state archives in Albania and North Macedonia, and the National Cinematographic Centre in Albania. The national public broadcasters are FLBOs in Albania, Kosovo* and Montenegro, coupled with the national Press Agency in Albania and the Official Gazette in Montenegro. In Kosovo*, the main state university and the clinical hospital are also FLBOs. In Montenegro, FLBO status is awarded to the Red Cross organisation. In the good practice countries, such institutions are generally not considered to be budget organisations and only transfers to them are included in the budget.

Further, Kosovo*'s budget includes seven regulatory agencies as FLBOs, while, on the other hand, regulatory agencies are placed outside the budget by the Montenegrin OBL. In Moldova, some professional institutions and agencies, which would usually be included in the budget, have the special status of extra-budgetary self-management organisations.²⁵

Administrative units

Serbia stands out by awarding FLBO status to many government administrative units, such as government offices, councils and territorial administrative units. Overall, 46 such units have FLBO status in Serbia, 6 in Albania and 5 in North Macedonia. On the other hand, the normative frameworks in Kosovo*, Moldova and Montenegro do not support awarding FLBO status to administrative units within the structure of ministries or the CoG.

The large number of FLBOs in this category in Serbia includes 29 territorial administrative units. These are branches of the central government where administrative services of the state are provided to citizens, such as ID cards. These units are also common in other countries of the former Yugoslavia, but they are managed as second level BOs under the ministry of public administration or ministry of interior.

²⁴ Full list is provided in the annex.

²⁵ The case study of Moldova provides details on such organisations.

Social security and other public funds

The categorisation of public funds as FLBOs is particularly applied in Montenegro. In line with the OBL in Montenegro, six public funds have FLBO status including the Pension and Disability Insurance Fund, Health Insurance Fund, Employment Office, Labour Fund, Restitution Fund and the Fund for Protection and Realisation of Minority Rights. In North Macedonia, three funds have FLBO status (health, pension and employment) and one in Kosovo (health). By categorising the social security funds as FLBOs, these funds are integrated in the budget in Kosovo*, Montenegro and North Macedonia.

The practice is different in Albania, Moldova and Serbia where social security funds are not integrated in the budget but presented as extra-budgetary institutions.²⁶ The latter practice is in line with the good practice cases. None of the good practice cases categorise social security funds as FLBOs. In the Netherlands, the social security funds are extra-budgetary funds under the mandate of the Ministry of Social Affairs and the Ministry of Health, Welfare and Sport and governed by independent agencies. Similarly, in Finland, the pension fund and ten other public funds are extra-budgetary units, but strongly supervised by line ministries. In Austria, the Government submits a separate document to the Parliament regarding the social insurance funds, which are not included in the budget, and reports annually on major extra-budgetary units.

2.2. Factors behind the number of FLBOs

The previous section documented that the number of FLBOs and the level of government at which they are placed differ from the good practice examples in all of the case studies, albeit to varying extents. The present situation results from a number of factors, related to the normative framework, motivations of actors in the budgeting process and conceptual issues. On the basis of the case studies and observations from the interviews, this section outlines the key factors leading to a fragmented organisational structure of budgeting in the case studies.

i. Incomplete normative frameworks

In all of the good practice examples, the OBL either explicitly specifies the FLBOs (i.e., the main budget categories in Finland, the lead budget managers in Austria) or clearly limits their number to government ministries and a small number of constitutional bodies (Denmark, Germany and the Netherlands,).

This practice is somewhat followed by the OBL of **Montenegro**, which defines six categories of FLBOs (“first-level spending units”). Four categories are dedicated to the basic branches of the state power (the president, the parliament, the judiciary, the government), while the other two categories are reserved for independent spending units and state funds. The OBL specifies four of the six state funds now included in the budget and some of the 16 independent organisations. While this enumeration of FLBOs is not complete and probably reflects the situation at the time the law was passed (2014, with most recent amendments in 2018), it clearly restricts the FLBO status to organisations that fall in one of the six categories defined by the law. This is the key reason why the number of FLBOs is comparatively low in Montenegro.

Kosovo* has a relatively low number of FLBOs in comparison to other examples in the region. The OBL defines budget organisations as entities whose budget appropriations are not part of another organisation’s budget. This effectively implies that entities included in the budget of ministries are not considered as budget organisations and therefore cannot be awarded FLBO status. However, budget organisations are not explicitly listed in the OBL or in any bylaw, and their specification is only available from the annual

²⁶ The budgets of the funds are approved by the Parliament and they are obliged to submit their annual financial statements to the MoF.

budget. It includes some agencies and professional institutions that are considered as separate budget organisations outside the organisational structure of any ministry.

In **North Macedonia, Serbia and Albania**, the OBL introduces a hierarchy between the first and the second level budget organisations. However, the legal definitions of budget organisations, public sector or general government entities are phrased in rather general terms, which leaves a lot of room for interpretation. Only in Serbia are the OBL definitions further elaborated in a government regulation, but with some divergences from the law. In open-ended normative frameworks, the FLBO status for a particular institution is determined by the Treasury's coding system or simply by the institutional presentation of the annual budget law. In Serbia, FLBO status is sometimes awarded by sectoral legislation establishing the status and functions of a particular organisation.

Albania and Moldova are the only countries where the MoF adopted an official list of FLBOs. In Albania, this consisted of producing a list of general government units, but it has become outdated and has not been consistently used in the budgeting process. In Moldova, a MoF order explicitly specified the list of FLBOs.²⁷

Another notable difference is that **in the good practice examples, the term budget organisation (or beneficiary) is not used by the OBL**. The OBL either directly specifies FLBOs or sets out the responsibilities of ministers in the budgeting process. In Austria, the institutional structure of budgeting is defined by making a distinction between leading and sub-ordinate budget managers. This approach is also used in **Albania**, where a hierarchy of authorising officers is established.

ii. Organisational structure of government

The organisational structure of budgeting, i.e. the administrative budget classification and the assignment of FLBO status, reflects the institutional structure of government. As explained in the previous section, **the number of ministries** in the Western Balkans tends to be higher than in the good practice examples and partly explains the higher number of FLBOs.

A similar observation applies to **independent oversight bodies outside the executive government domain**. As new democracies, the Western Balkans and Moldova have established a significantly larger range of independent bodies keeping oversight on the executive government. The higher number of such bodies is another explanation for the high overall number of FLBOs in these countries. Assigning FLBO status to constitutional and independent oversight bodies is in line with the good practice examples and is not contested.

iii. Safeguarding independence with FLBO status

The overview of FLBOs and the information gathered through interviews suggest that, in the Western Balkans and Moldova, **FLBO status is understood as a means of safeguarding an institution's functional and professional independence** from politically motivated interference by the government or ministers. While the good practice countries only apply this reasoning to independent oversight bodies outside the domain of the executive government, in the Western Balkans and Moldova the same argument is used to justify the FLBO status of regulatory and implementing agencies, professional institutes, cultural and media institutions and even some administrative bodies. In **Serbia**, for example, a specific institutional form of "special organisations" was introduced for professional institutions.²⁸

²⁷ Due to subsequent changes in the institutional status of some government organisations, the list included in the MoF order is not completely accurate anymore.

²⁸ Special organisations are established as legal persons by the government, are supervised by the line ministry responsible for their area of work and have FLBO status by law. An initial list of ten special organisations was introduced by the Law on Ministries but further special organisations were established by sectoral legislation, including some CoG offices with no obvious justification for special status.

The process of “agencification”, that is the process by which policy formulation is separated from policy implementation, is widely applied in public administration in the good practice countries. In line with these principles, policy implementation is transferred to specialised organisations that can be separated into ‘arm’s length agencies’ (organisations that are tasked with executive tasks but remain under ministerial responsibility) and ‘independent bodies’ (organisations that conduct executive tasks and take over the ministerial responsibility). However, three arguments counter the perception that FLBO status is required for such executive bodies to conduct their mandate.

First, FLBO status does not guarantee any financial independence. FLBO status only implies that such institutions negotiate their budgets directly with the MoF. As such, it does not guarantee more independence from the government than negotiating with the responsible line minister.

Second, the good practice countries classify all organisations of the executive branch that are not ministries as second level budget organisations (SLBOs) under the budget of the applicable sector ministries. Their functional and professional independence is not guarded by being a FLBO but rather by statutes and governance arrangements of these institutions, for example, by the rules of appointment, reporting and supervisory requirements, and the managerial autonomy in allocating the institution’s budget between different uses.

Third, the EU *acquis* includes requirements for securing the functional independence of regulatory bodies regulating the newly liberalised markets but does not require FLBO status for them. In general, EU standards for regulatory bodies seem to have been misunderstood and misinterpreted when applied in the Western Balkans and the European Neighbourhood, resulting in a mixture of rather extensive autonomy and absence of performance monitoring and accountability for results.²⁹ For budget management purposes, such bodies have been assigned FLBO status but the EU *acquis* only refers to the requirement that these bodies have a separate, identifiable budget allocation in the country’s budget law and autonomy in managing their budgets. Furthermore, the *acquis* focuses on the adequacy of the budget for the tasks and spending autonomy. A specific budget line under the sector ministry, together with statutes and governance arrangements to guarantee functional and professional independence, would comply with the *acquis*.

iv. Budget organisations’ quest for control and status

Interviewees in the region pointed out that FLBO status is often understood by the institutions’ managers as “having their own budget” and “being at the same level as ministries”. The possibility to go directly to the MoF with their budget requests is perceived as giving them a better negotiating position than they would have as one of many spending units within a large sectoral ministry. This may or may not be true, as the sectoral minister could be expected to have a better understanding of the importance and needs of sectoral institutions and to represent their needs better in the government and parliamentary budget approval procedure. Regardless, the pressure to award FLBO status may often come from the institution’s management. As well as the motive of having control over their own budget, being a FLBO signals the importance of the institution in relation to the Ministry and in comparison, to those without such status.

v. The quest for control by Ministries of Finance

Some finance ministries in the region are well aware that the organisational fragmentation of the budgeting process is a risk for sound PFM (as outlined in the introductory chapter). In **North Macedonia**, the MoF is already planning to use the recently adopted OBL to reduce the number of FLBOs and to apply the concept of ‘parent ministry’. On the other hand, some MoFs seem more complacent with the current situation. They emphasise that reducing the number of FLBOs and delegating budgetary control to their sectoral ministers will increase the risk to budget preparation and execution control. This reasoning has merit in

²⁹ Johnsen, J., L. Marcinkowski and D. Sześciło (2021), "Organisation of public administration: Agency governance, autonomy and accountability", SIGMA Papers, No. 63, OECD Publishing, Paris, <https://doi.org/10.1787/07316cc3-en>.

circumstances where the capacity for budgeting in line ministries is weak and would not be able to support a stronger delegation of budgeting responsibilities from the MoF to line ministries. This risk could be addressed by increasing the financial management capacities of line ministries.

2.3. Consequences for public financial management

The proliferation of FLBOs has several negative implications for wider PFM. It is noted that these implications are not absolute relationships and can be mitigated by complementary measures of the government. Nevertheless, the case studies of the Western Balkans and Moldova give support to the concerns raised below.

Medium-term budget frameworks and the use of ceilings

The use of expenditure ceilings is common practice in budget management. The use of ceilings is negatively affected in two ways when there is a large number of FLBOs.

First, a key issue in budget preparation is determining the expenditure ceilings of FLBOs. In line with good practice, the ceilings for FLBOs are calculated in a **MTBF** respecting the aggregate expenditure ceiling of the medium-term fiscal framework. The FLBO ceilings should recognise variations in baseline costs and new policy priorities to ensure that the budget is aligned with government policies. To carry out this task adequately, the MoF needs to co-ordinate closely with the FLBOs and have sufficient knowledge of policy developments. The higher the number of FLBOs, the more challenging this role will be for the MoF, in terms of capacity, time planning and detailed policy knowledge. As a result, with a high number of FLBOs, MoFs are likely to be more inclined to resort to incremental budgeting practices for the medium term rather than ensuring their alignment with policies.

This practice is apparent in the case study examples with the highest number of FLBOs. Both in **Serbia** and **North Macedonia**, a three-year fiscal strategy is approved by the government. These documents focus on the economic parameters and the fiscal aggregates and do not break down the aggregates into budget ceilings linked to a discussion of policy priorities. Recently, both countries have made efforts to prepare ceilings for three years for all FLBOs. The reforms are in their infancy and stable practice has not been demonstrated yet.³⁰

Second, ceilings play an important role in budget management during execution. As unexpected developments are unavoidable in the domain of government policy, budgets must allow flexibility. By using ceilings, budget organisations have the possibility to reorganise the line items while respecting the aggregate ceiling. The ceiling must be high enough to accommodate the most common needs for reallocation. Following this reasoning, having a (too) large number of FLBOs will narrow each ceiling making it harder to accommodate needs for readjustment. This implies that the budget becomes less flexible and that maintaining budget discipline becomes more difficult.

Performance-based budgeting

A form of **PBB** has been adopted in all of the case study examples, with the use of non-financial information to inform decision makers on the performance linked to the budget allocation. Although there is no single best practice on the presentation and use of performance information, the effective use of performance information is more complicated when there is a large number of FLBOs. The larger the number of FLBOs,

³⁰ In North Macedonia, a break-down of the aggregate expenditure ceiling was done for the first time in the Fiscal Strategy 2024-2026. In Serbia, a break-down of the aggregate ceilings for three years was included for the first time in the 2024 Budget Law.

the more voluminous, detailed and fragmented the performance information will be. For decision makers, it will be increasingly challenging to make use of this data in making budget decisions. With multiple FLBOs within a sector, sector ministries do not have full control of budget and performance planning for the sector and are less able to formulate high-level performance indicators, thereby reducing incentives to devote sufficient attention to formulation of good quality high-level indicators for the sector. This will mean the PBB system is focused on outputs and activities rather than on sectoral outcomes, making it less relevant as a tool for parliament.

In **North Macedonia** and **Serbia**, comprehensive information on budget programmes, objectives and targets is provided, but in a separate document detached from the main budget structure and without financial information. With this approach, programme budgeting serves as auxiliary information but fails to provide a clear link between policy priorities and the allocation of budget appropriations. Similarly, in **Moldova**, performance information on objectives and performance indicators is only presented as annexes to the MTBF but not the annual budget law. In **Kosovo*** and **Montenegro**, budget programmes are generally identical to the budgets of subordinate organisations or their clusters and targets are not presented in the budget documentation.

Albania has developed the most elaborate formal structure for performance-based programme budgeting. The expenditure ceilings are set at the level of programmes and then aggregated into a total ceiling for the responsible general government unit. During budget implementation, the units report every four months on the achievement of results and present this information to the MoF. Additionally, line ministries prepare their own consolidated reports on achievement of performance indicators and objectives. Reports on implementation of programmes and their results are included in the end-year budget account that is presented to the parliament and approved by law. Nevertheless, with the high number of FLBOs (60) and performance reports, this creates a lot of data that is difficult to transform into information that is useful for decision makers.

Reforms aimed at strengthening the link between policy and budgetary planning are being introduced in some administrations. In **Serbia**, the new Planning System Law introduced institutional medium-term plans as bridging documents presenting the policy objectives of the institution together with the measures for their achievement, as well as the funds allocated for the measures in the institution's budget programmes with performance indicators for each programme. Although this new practice is being introduced with delays. It could also serve as the basis for reducing the number of FLBOs by only retaining this status for institutions obliged to submit medium-term plans³¹. In **North Macedonia**, the new OBL obliges the government to submit a fiscal statement to the Parliament within the first 100 days of its mandate, containing five-year macroeconomic and fiscal projections and an outline of planned tax policy changes. On the basis of the fiscal statement, the Government is further obliged to adopt strategic priorities for the period of five years, and the FLBOs are then required to elaborate their own strategic plans with fiscal implications. Combined with a lower number of FLBOs, the new approach is expected to improve the links between policy and programme information and the budget structure.

While these reforms go into the right direction, more fundamental changes in budget management are required to fully integrate performance budgeting into the annual budget process and into a single budget document.

Accountability towards the parliament

The accountability for the results achieved by sectoral budgets can be strengthened by requiring the line ministers to participate in the parliamentary review of the draft annual budget and the draft final financial report. Discussion with line ministers in the sectoral parliamentary committees may focus on the objectives

³¹. Out of 101 FLBOs, only 44 organisations are obliged by the law to prepare their MTP (21 ministries, 19 special organizations and 4 mandatory social organizations).

of the sectoral policy and their achievement. Although not regulated by the normative framework, this practice is common in all of the good practice examples, where line ministers participate in plenary budget sessions and may be called to hearings of the relevant sectoral committees.

Albania has a well-structured process supporting the accountability of ministers to the Parliament. Line ministers are legally obliged to present and discuss their sectoral budget in front of the relevant parliamentary sectoral committee, while the Minister of Finance takes the lead in plenary sessions. Periodic and final budget reports are presented to the parliamentary budget committee by the First Authorising Officer, i.e. the Secretary General of the Ministry of Finance and Economy. At the request of the commission, the Officer reports during the year on other issues related to the implementation of the budget and internal public financial control. Heads of central government units (the FLBOs) are required to report to the Parliament on the actual budget implementation for the previous year, which is followed by adoption of the Law on the Approval of the Actual Budget.

In other administrations, participation of ministers in parliamentary debates is not mandatory. In **Kosovo***, it has become a regular practice that line ministers participate in parliamentary deliberations on budget proposal and the final report in both plenary and sectoral committees' sessions. In **Moldova, Montenegro** and **Serbia**, the government budget proposal is presented to the parliament by the minister of finance, with other ministers present but not taking part in deliberations. Separate discussions of line ministries' draft budgets or annual reports in front of the parliamentary committees responsible for their policy areas are optional and not a regular practice. In **North Macedonia**, the line ministers are not present at the plenary session and they do not take part in parliamentary deliberations on the budget proposal and the final account. With the new OBL, the Minister of Finance or at least five members of the Parliament have the right to request that a line minister or a head of a budget organisation presents their budget before the Parliament.

Public investment management / fiscal risk monitoring

Modern approaches in PIM and fiscal risk monitoring assign a co-ordination, consolidation and gatekeeping role to the MoF, but a large part of the implementation should be done at the level of the sector ministry and agencies within the policy area of the ministry. For PIM, this includes conducting the various preparatory stages of appraising the investment project by conducting (pre-) feasibility studies and calculating the investment and recurrent costs. The MoF will have the role of 'gatekeeper' and co-ordinate the total public investment project pipeline. For fiscal risk management, line ministries have the main responsibility for analysing the budget risks in their sector, with the MoF playing the role of consolidator and sparring partner.

Both PIM and fiscal risk management require expertise and capacity at the level of the sector ministry. Most commonly, it will be the line ministry's budget department that will be allocated these tasks and need to be allocated sufficient staff. When there is a large number of FLBOs, capacity becomes fragmented and opportunities to realise economies of scale by concentrating PIM and fiscal risk management functions in sector ministries are missed.

Moldova, North Macedonia and **Serbia** have initiated PIM and fiscal risk reforms. However, the results of their implementation are still to be demonstrated. The capacity of the budget departments of line ministries or other FLBOs is commonly regarded as the main bottleneck.

Monitoring of budget execution

Monitoring of budget execution typically distinguishes in-year monitoring reports and a final report on budget execution. In-year budget reporting aims to identify spending patterns in order to reallocate budget funds from budget lines with underspending to budget lines where needs are more pressing. The main

objective of the final budget execution report is linked to the need of government to be accountable to parliament and the wider public.

Monitoring of budget execution should be done at the level of the FLBO. As a consequence, the amount of budget execution data and performance information will proportionally increase with the number of FLBOs. When there is a large number of FLBOs, it is more challenging to transform the data into information that is used by or understandable to readers of the report.

The case studies of the Western Balkans and Moldova show that in-year budget reports and the final report on budget execution are mostly quantitative reports with budget execution figures, but without sufficient narrative explanation of the main budgetary developments during the period overseen by the report and mostly lacking performance information.

2.4. Conclusions

Compared to the good practice examples, the number of FLBOs in the Western Balkans and Moldova is considerably higher. Within these high numbers, those in Kosovo*, Moldova and Montenegro are relatively lower, as government administrative units are legally excluded from having FLBO status. Nevertheless, these cases also diverge from good practice by awarding FLBO status to government agencies and professional institutions.

The factors resulting in the high number of FLBOs are manifold, including incomplete normative frameworks and dispersed government structures, motivations of budget organisations and the MoF, and seeing FLBO status as a means of safeguarding financial independence of organisations within the executive government domain. The proliferation of FLBOs results in fragmentation of budgets and capacity, excessive workload for the MoF budget departments diverting their attention from policy-based medium-term budgeting or real use of performance information included in budget management, diluted accountability of sectoral ministers, fragmented and weak public investment management systems and limited consolidation of budget execution data by budget organisations.

3. Directions for reform

This concluding section outlines directions for reforming the current institutional structure of budgeting in the Western Balkans and Moldova. As well as providing recommendations, it highlights reform efforts already taking place in some of the analysed administrations. Examples are also provided on the basis of the experience of two younger EU Member States, namely Latvia, a Baltic country that may be considered as a good example of reforming inefficient governance, and Slovenia, a country that shared the same budgeting system with most of the Western Balkans prior to transition.

The recommendations in this section apply horizontally to all of the analysed administrations.

3.1. Limit the number of first-level budget organisations

A first recommendation is to reduce the number of FLBOs. In line with the arguments in this paper, this will focus the role of the MoF on the strategic framework for budgeting and facilitate the introduction of advanced PFM tools. In addition, it will empower sector ministries to manage the sectoral budgets in line with their sectoral priorities.

This recommendation requires actions related to five elements.

i. Revise the normative framework for budget management

The normative framework should be amended to reduce the number of FLBOs that are in direct contact with the MoF on budget management.

In most of the good practice examples, the list of FLBOs is explicitly provided by the OBL. Explicitly listing the FLBOs in the OBL is the most efficient way of limiting their number and proliferation.³²

In **Latvia**, the OBL does not provide an explicit list, but it limits the state budget institutions to ministries and institutions outside the control and structure of the executive. By this provision, the number of FLBOs in Latvia (28) is kept at a level close to the good practice examples.³³

When amending the OBL over the short term is not politically feasible, the second-best solution is using MoF regulations to provide a full and exhaustive list of FLBOs, i.e., the units of the administrative budget classification.³⁴

³² In countries where there are laws attributing the FLBO status other than the Budget Code, for instance laws by which institutions are established, these other laws should be changed simultaneously along with the amendment of the Budget Code.

³³ Similar provisions exist in the OBL of **Montenegro** and **Kosovo***, but are less effective in practice, as the number of FLBOs remains much higher (46 and 49, respectively).

³⁴ A reform along these lines is currently being prepared in **North Macedonia**. The recently adopted OBL explicitly requires the MoF to publish the administrative budget classification. The ambition of the MoF is to use this opportunity to reduce the number of FLBOs from 98 to less than 50. This would still be high in comparison to the good practice examples, but a significant improvement in relation to the current situation.

A third-best solution is to introduce the role of 'representative FLBOs' in the OBL. In **Slovenia**, a very high number of institutions designated as direct budget beneficiaries (180) still exists. However, the OBL regulates that most budget organisations must submit their budget proposals to the MoF through their superior organisation, the so-called "submitter of financial proposals". In this way, the number of budget organisations that negotiate directly with the MoF, i.e., the FLBOs, was reduced to 42.³⁵

ii. Enhance the budgeting capacity of line ministries

Whatever the approach taken, a reduction in the number of FLBOs implies transferring control and responsibility for sectoral budgets from the MoF to the line ministries. The idea is to "make the line ministers effectively the finance ministers of their sector", giving them the authority to prioritise between different budget organisations and spending programmes within their competence and thus enabling them to better align the budgets with their policy priorities.

Together with building capacity and staffing of budget departments in line ministries, the understanding of their role should also evolve. Rather than the management and execution of the ministry's financial administration, the financial departments play the "budget controller" of the ministry and the sector. The finance director should serve as the co-ordinator of internal budget policy and enforcer of budget discipline in the sector. To do this, politicians and senior civil servants will have to agree on a stronger role for the finance director of a line ministry and on more autonomy for line ministers to put their stamp on sectoral policy.³⁶

This obviously requires enhancement of the budgeting capacity of line ministries. In **the Netherlands**, the heads of budget departments in line ministries must be approved by the MoF and are often recruited from staff who previously held a senior position in the MoF. This practice could usefully be applied in the Western Balkans and Moldova. In addition, the MoF could organise training sessions for budget staff of line ministries and temporarily second their experts to line ministries' budget departments.

A third way to ensure sufficient capacity in the budget department of the sector ministry is to transfer capacity from subordinate entities to the sector ministry. This option would require a functional review of budget capacities across the sector.

iii. Safeguard budgets of independent bodies

There may be resistance to reducing the number of FLBOs, with the argument that FLBO status safeguards the budgets of independent bodies. As discussed in section 2.2, on the basis of the good practice examples, this argument should distinguish between oversight bodies outside the executive branch of government and organisations that operate within it.

For the first category of constitutional and oversight bodies, it is not recommended to change their status as FLBOs. In contrast, these bodies need to be included in the state budget with a separate chapter. Furthermore, the financial independence of these bodies should be anchored in the constitution by allowing them to make budget requests to the parliament outside the appropriations proposed in the government's draft budget. Further safeguards for these bodies would be more effective if corroborated by budgetary rules. An example from international good practice is a rule allowing the reduction of an independent institution's budget only when budgetary cuts are applied across all budget organisations in a uniform way.

For the second category of independent bodies within the executive branch of government, FLBO status should be reserved for ministries only. Organisations within the executive domain that need to operate with a certain level of functional independence, such as arm's length agencies, inspections and regulatory

³⁵ A similar solution is used in **Serbia**, but it is not formally established by the OBL and it is much less effective in reducing the number of budget organisations with direct access to the MoF.

³⁶ Kraan, D.-J. (2015), *Strengthening the role of line ministries in the budget process in South-East Europe*, CEF, Ljubljana, https://www.cef-see.org/mnt/webdata/static/fisr/CEF_RoleLMs.pdf.

bodies, need to ensure their functional independence via regulations and statutes. As discussed in section 2.2, FLBO status does not guarantee their financial independence. Being a FLBO only provides a direct link to the MoF, surpassing the sector ministry. This is not good practice and the sector ministry should be accountable for the budget allocation of these bodies.

To ensure that parliaments can hold the minister accountable for the budget allocated to these bodies, it is necessary for them to be identifiable as separate SLBOs in the sector ministry's budget and for the sectoral minister to be required to present the budget to parliament (see recommendation 4.2).

This recommendation is in line with expectations of the EU *acquis* for national regulatory authorities in candidate countries and potential candidates. The *acquis* does not require FLBO status for them, but in addition to functional independence, it is necessary for them to have a separate allocation and the budget cannot constitute part of the applicable sector ministry's budget.

iv. Reclassify entities that report to government as a SLBO under one of the CoG bodies

In each of the Western Balkan case study examples and Moldova, several FLBOs currently report to the government or the cabinet of ministers. In line with the recommendations above, they should be reclassified as SLBOs. The applicable sector ministry that will need to act as the FLBO should be part of the CoG, such as the prime minister's office or chancellery.

v. Redefine the role of the ministry of finance

The revised role of line ministries will also have consequences for the role of the MoF. The revised role can be summarised as a stronger focus on the strategic framework. Key activities of the MoF in budget management are the preparation of the medium-term fiscal framework and the MTBF including the expenditure ceilings of sector ministries. The focus on the strategic framework can gradually be expanded by taking on new instruments for managing 'fiscal risks' and managing a regular system of spending reviews.

On the other hand, the MoF would gradually become less involved in decision-making or approvals during budget execution. As long as sector ministries remain within the limits of the budget ceilings and respect the general rules for budget execution, they will be empowered to make their own decisions in re-allocating budgets within their sector. Where the finance function in a sector ministry fails to perform, MoFs should retain the right to work with the finance function of the agencies within the sector.

A focus on the strategic framework does not imply that the MoF will have no involvement in sectoral spending. In particular, for setting the medium-term expenditure ceilings, the MoF is required to have good insight of the expenditure patterns within sectors in order to act as a counterpart of the sector ministries. The MoF will be responsible for the fiscal outcomes, and it will need to be well-prepared when faced with the more professional finance departments of sector ministries requesting higher ceilings. The analytical capacity of the MoF budget departments should not, therefore, be reduced.

3.2. Make line ministers accountable for budget management in their sector

In line with the principle that powers should be accompanied with accountability, the idea to "make the line ministers the finance ministers of their sector", requires stronger accountability mechanisms on their performance.

In line with the first recommendation, reducing the number of FLBOs and making sector ministries responsible for budget management in their sector will serve to integrate budgeting with policy planning. Line ministers will be given the authority to prioritise between different budget organisations and spending programmes within their sectoral competences to enable them to better align budgets with their policy

priorities. This reform should be complemented with accountability mechanisms from the minister to the sectoral committee in the parliament.

This aspect of ministerial accountability includes both the budget document and the budget execution reports. It can be more pronounced if ministers are formally obliged to participate in the parliamentary review of their sectoral budgets and annual financial reports. This would strengthen their accountability for the policy results achieved by the allocated budget appropriations. In this way, the parliamentary budget review would involve all relevant sectoral committees and could address the policy priorities of ministries rather than only the allocation of funding.

The Dutch practice illustrates this point and offers an example of good practice. The Dutch OBL does not define the administrative classification of budget organisations but puts the responsibility for budgeting firmly in the hands of ministers. Ministers are personally responsible for budget management, setting up the structure of financial and budget administration within the ministry, operational management of the ministry and the information provided in the budget and in annual reports. In the process of parliamentary scrutiny of the budget proposal, each minister will need to discuss the budget intensively in terms of appropriations and policies with the sectoral committee. After the fiscal year, the ministers have to prepare an annual report for their ministry (sector), which is included in the package of financial statements that is submitted by the Government to the Parliament. After discussion of the report with the sectoral committee, the Parliament decides on granting a discharge to each individual minister.

3.3. Align the public administration and public financial management reforms

Stimulated by the European Commission, EU candidate countries and potential candidates need to prepare a PAR agenda that also covers the area of PFM. Most (if not all) have chosen to prepare separate reform strategies for both PAR and PFM. The above recommendations are linked to both agendas and co-ordination of the reform within the CoG is critical. Strong commitment by the MoF and the CoG will be needed to overcome the resistance of existing FLBOs to losing their status. At the same time, the MoF should engage in supporting and enhancing the budget management capacity of line ministries to overcome reluctance relating to reform due to lack of capacity and skills for their implementation.

Annex 1: Number and types of FLBOs in the Western Balkans and Moldova

Albania

Number and types of FLBOs in Albania

FLBO category	No.	Institutions
Non-executive branches	19	
Parliament, president	2	President, Assembly
Judiciary	4	Constitutional Court, High Judicial Council, Special Appellate Panel, School of Magistrates
Oversight bodies	13	Office of the High Inspector of Justice, Independent Qualification Commission, Public Commissioner State Election Commission Supreme Audit Institution, Public Procurement Commission High Inspectorate for Declarations and Control of Assets and the Conflict of Interest Ombudsman, Commissioner for the Right to Information and Personal Data Protection, Commissioner for Protection Against Discrimination, Commissioner for Civil Service Supervision, State Committee of Minorities, State Committee of Cults
The executive branch	41	
Ministries and the CoG	12	Chancellery 11 ministries of the current government
Regulatory agencies	3	Competition Authority Water Resource Management Agency National Authority for Electronic Certification and Cyber Security
Implementing agencies	12	General Prosecutor's Office High Prosecution Council Special Structure against Corruption and Organised Crime ³⁷ State Information Service State Authority for Geospatial Information Authority for Information on Former State Security Documents Agency for the Audit of Assistance Programmes Accredited by the

³⁷ The Special Structure against Corruption and Organised Crime operates within the General Prosecutor's Office, but the head of the special structure submits the institution's budget directly to the MoF.

		European Union State Agency for Strategic Programming and Aid Co-ordination, Territorial Development Agency, National Agency of Territorial Planning, National Agency of the Information Society, Albanian Development Fund
Professional institutions	8	Statistical Office, Institute for the Study of the Crimes of Communism Albanian School of Public Administration Academy of Science Albanian Press Agency, Directorate for Radio and Television, ³⁸ National Cinematographic Centre National Accountancy Council
Administrative units	6	Directorate of Government Services, Public Procurement Agency, State Attorneys, Directorate for Securing Classified Information, Directorate of the State Archive, Department of Public Administration
Social insurance, public funds	0	
Total	59	

³⁸ The status and activity of the Albanian Radio and Television is regulated by a specific CoM decision. The annual financial plan and budget are prepared and approved by the institution's governing council.

Kosovo*

Number and types of FLBOs in Kosovo*

FLBO category	No.	Institutions
Non-executive branches	14	
Parliament, president	2	Assembly of Kosovo*, Office of the President
Judiciary	2	Constitutional Court, Judicial Council
Oversight bodies	10	Ombudsperson, Privacy and Information Agency Anti-Corruption Agency Central Election Committee, Election Complaints and Appeals Panel Independent Media Commission National Audit Institutions, Public Procurement Regulatory Commission, Procurement Review Body, Independent Oversight Board for the Civil Service of Kosovo*
The executive branch	35	
Ministries and the CoG	16	Office of the Prime Minister and 15 ministries
Regulatory agencies	7	Regulatory Authority of Electronic and Postal Communications, Energy Regulatory Office, Water Services Regulatory Authority, Railway Regulatory Authority, Minerals and Mines Independent Commission, Competition Authority, Civil Aviation Authority
Implementing agencies	5	Prosecutorial Council Kosovo* Intelligence Agency Privatisation Agency, Property Comparison and Verification Agency Air Navigation Service Agency
Professional institutions	6	Justice Academy Kosovo* Academy of Sciences and Arts, University of Prishtina Kosovo* Council for Cultural Heritage Radio Television Kosovo* Hospital and University Clinical Service of Kosovo*
Administrative units	0	
Social insurance, public funds	1	Health Insurance Fund
Total	49	

Moldova

Number and types of FLBOs in Moldova

FLBO category	No.	Institutions
Non-executive branches	11	
Parliament, president	2	Secretariat of the Parliament, President's Office
Judiciary	2	Constitutional Court, Superior Council of Magistracy
Oversight bodies	7	People's Advocate, National Centre for Personal Data Protection, Equality Council National Integrity Authority, National Anti-Corruption Centre Central Electoral Commission Court of Accounts
The executive branch	37	
Ministries and the CoG	15	State Chancellery and 14 ministries
Regulatory agencies	2	Competition Council, Audiovisual Council
Implementing agencies	16	Superior Council of Prosecutors, General Prosecutor's Office National Agency for Resolution of Appeals Security and Intelligence Service, Centre for Strategic Communication and Disinformation Countering, Prevention and Combating of Money Laundering Service, State Protection and Guard Service, National Research and Development Agency, State Agency for Intellectual Property, National Agency for Food Safety, Medicines and Medical Devices Agency, National Anti-Doping Agency, Land Relations and Cadastre Agency, Public Property Agency Interethnic Relations Agency Civil Service Centre
Professional institutions	4	National Bureau of Statistics Academy of Sciences of Moldova National Institute of Justice National public broadcaster Teleradio Moldova
Administrative units	0	
Social insurance, public funds	0	
Total	48	

Montenegro

Number and types of FLBOs in Montenegro

FLBO category	No.	Institutions
Non-executive branches	10	
Parliament, president	3	President of Montenegro, Parliament of Montenegro, Senate of the Old Royal Capital
Judiciary	2	Constitutional Court, Judiciary Council
Oversight bodies	5	Protector of Human Rights and Freedoms, Agency for Protection of Personal Data and Free Access to Information Agency for Prevention of Corruption State Auditing Institution, Commission for the Protection of Rights in Public Procurement Procedures
The executive branch	36	
Ministries and the CoG	19	General Secretariat and 18 ministries ³⁹
Regulatory agencies	0	
Implementing agencies	4	Prosecutorial Council National Security Agency Audit Authority ⁴⁰ Agency for Peaceful Resolution of Labour Disputes
Professional institutions	7	Centre for Judiciary and Prosecutorial Training Montenegrin Academy of Sciences and Arts, Matica Montenegrin Official Gazette of Montenegro, Radio and Television of Montenegro ⁴¹ Regional Diving Centre for Underwater Demining and Diver Training Red Cross of Montenegro
Administrative units	0	
Social insurance, public funds	6	Pension and Disability Insurance Fund, Health Insurance Fund Employment Office, Labour Fund Restitution Fund, Fund for Protection and Realisation of Minority Rights
Total	46	

³⁹ The latest, 43rd Government of Montenegro established 18 ministries.

⁴⁰ The Audit Authority is competent for auditing the use of EU funds.

⁴¹ The Radio and Television of Montenegro is a public company.

North Macedonia

Number and types of FLBOs in North Macedonia

FLBO category	No.	Institutions
Non-executive branches	17	
Parliament, president	2	President of the Republic, National Assembly
Judiciary	2	Constitutional Court, Judiciary Budget Council ⁴²
Oversight bodies	13	Citizens' Ombudsman, Commission on Prevention and Protection Against Discrimination, Agency for Protection of the Right to Free Access to Public Information; Personal Data Protection Agency, Operational Technical Agency ⁴³ Agency for Community Rights Realisation, Agency for Implementation of Languages, Commission for Relations with Religious Communities and Groups Anti-Corruption Agency State Election Commission Fiscal Council, State Commission for Public Procurement Appeals, State Audit Office
The executive branch	81	
Ministries and the CoG	17	Government and 16 ministries
Regulatory agencies	3	Commission for Protection of Competition, Regulatory Commission on Home Construction, Compulsory Oil Reserves Agency
Implementing agencies	49	Council of Public Prosecutors, Public Prosecutor's Office ⁴⁴ State Attorney's Office Sanctions Enforcement Authority Intelligence Agency, ⁴⁵ Agency for National Security, Directorate for Security of the Classified Information Protection and Rescue Directorate, Crisis Management Centre Agency for Managing the Confiscated Property Council of Inspection Authorities,

⁴² The Law on Judiciary Budget stipulates that the projection of the budget, negotiation with the MoF and the execution of the budget of the judiciary authority is to be done by the Judiciary Budget Council. It therefore serves as a FLBO, acting in front of the MoF on behalf of its members. The Judiciary Budget Council consists of 11 members, including the Minister of Justice. The budget for the judiciary is presented in a generic budget chapter "Judiciary Authority", which includes, among others, the Judiciary Council and the Academy of Judges and Prosecutors ([www.pravda.gov.mk/upload/Documents/Закон%20за%20судскиот%20буџет\(3\).pdf](http://www.pravda.gov.mk/upload/Documents/Закон%20за%20судскиот%20буџет(3).pdf)).

⁴³ The Operational Technical Agency is intended to prevent any abuse of surveillance of electronic communications of the citizens on the part of the bodies authorised to monitor communications or the operators. The members are appointed by the Parliament and the agency is accountable to the Parliament.

⁴⁴ The Public Prosecutor's Office is a FLBO that projects, negotiates with the MoF and executes the budget on behalf of the Higher Public Prosecutors' Offices (four on the territory of North Macedonia), the Basic Public Prosecutor's Office for Prosecuting Organised Crime and Corruption, as well as the Basic Public Prosecutors' Offices (22 in total). The Council of Public Prosecutors is an independent body since 2007 and since 2021 acts as a FLBO that submits its budget projection to the MoF, negotiates directly upon its final amount and executes the approved budget.

⁴⁵ Director of the Intelligence Agency is appointed by the President of the Republic of North Macedonia and the agency is accountable to the President and the Parliament.

		<p>Administration Agency State Commission for Decision-making in Administrative Procedures and Employment Procedures in Second Instance State Commission for Decisions in the Second Degree in the Field of Inspection Supervision and Offense Procedure Council for Advancement and Oversight of the Audit of the Republic of North Macedonia, Audit Authority for Audit of the Instrument for Pre-Accession Assistance Agency for the Real Estate Cadastre, Office for Management of Register of Births, Marriages and Deaths State Office of Industrial Property Agency for Stimulating Agricultural Development, Agency for Financial Support of Agriculture and Rural Development, Food and Veterinary Agency, Investment and Export Promotion Agency, Directorate for Technological Industrial Development Zones, Agency for Support and Promotion of Tourism, Regional Development Bureau, Commodity Reserve Agency National Agency for European Educational Programmes and Mobility, Office for Development of Education, Agency for Youth and Sport, Agency for Diaspora Customs Administration, Public Revenue Office, Financial Police Office, State Foreign Exchange Inspectorate State Market Inspectorate, State Technical Inspectorate, State Environmental Inspectorate, State Transport Inspectorate, State Inspectorate for Construction and Urbanism, State Communal Inspectorate, State Inspectorate for Agriculture, State Inspectorate for Forestry and Hunting, State Labor Inspectorate, State Education Inspectorate, State Administrative Inspectorate, State Sanitary and Health Inspectorate, State Inspectorate for Local Self-Government, State Inspectorate for the use of Languages</p>
Professional institutions	4	<p>State Statistical Office, State Archive of the Republic of North Macedonia, Hydrometeorological Service of the Republic of North Macedonia Macedonian National Academy of Science and Art</p>
Administrative units	5	<p>Secretariat for European Affairs, Office for General and Common Affairs, Legal Secretariat Office for Representation of the Republic of North Macedonia to the European Court of Human Rights, Office for Judicial Expert Opinions of the Republic of North Macedonia</p>
Social insurance, public funds	3	<p>Health Insurance Fund Pension and Disability Insurance Fund Employment Agency</p>
Total	98	

Serbia

Number and types of FLBOs in Serbia

FLBO category	No.	Institutions
Non-executive branches	12	
Parliament, president	2	National Assembly ⁴⁶ , President of the Republic
Judiciary	2	Constitutional Court, High Judicial Council ⁴⁷
Oversight bodies	8	Citizens' Ombudsman, Commissioner for Information of Public Importance and Personal Data Protection, Commissioner for Protection of Equality, Anti-Corruption Agency, Fiscal Council, State Audit Institution, Republic Commission for Protection of Rights in Public Procurement Procedures, Commission for State Aid Control
The executive branch	89	
Ministries and the CoG	24	Prime Minister's Cabinet 2 cabinets of deputy prime ministers / ministers without portfolio ⁴⁸ 21 ministries ⁴⁹
Regulatory agencies	1	Railway Agency
Implementing agencies	9	State Prosecution Council ⁵⁰ State Attorney's Office Security Information Agency Agency for the Property of the Republic of Serbia, Commodity Reserves Agency, Agency for Peaceful Settlement of Labour Disputes Traffic Accidents Investigation Centre, Mine Action Centre Commissariat for Refugees and Migration
Professional institutions	9	Serbian National Academy of Science Statistical Office

⁴⁶ The budget for Professional Services of the National Assembly, which are coded as direct budget beneficiary in the Treasury system, is included in the financial plan of the National Assembly.

⁴⁷ The High Judicial Council presents to the MoF the financial plans of courts, including four that are coded as direct budget beneficiaries in the Treasury system, i.e., the Supreme Cassation Court, the Economic Appellate Court, the Misdemeanour Appellate Court, the Administrative Court. It also presents the financial plan for the Judicial Academy. Members of the Judicial Academy's management board are appointed by the High Judiciary Council, the State Prosecution Council and the Government.

⁴⁸ The Government's General Secretariat submits to the MoF financial plans for some of the cabinets (currently for 5 out of 8).

⁴⁹ Financial plans of ministries include financial plans of administrations, agencies and inspectorates under their area of responsibility, including those that are coded as direct budget beneficiaries. There are currently 30 such entities, including some administrations, implementing agencies and inspectorates. However, financial plans of ministries do not include special organisations in their area of responsibility.

⁵⁰ The State Prosecution Council presents to the MoF the financial plans of prosecution offices, including three that are coded as direct budget beneficiaries in the Treasury system, i.e., the Public Prosecutor of the Republic, the Organised Crime Prosecution and the War Crimes Prosecution.

		Intellectual Property Institute Geological Institute Geodetic Institute Hydrometeorological Institute Seismology Institute Social Insurance Institute National Public Administration Academy
Administrative units	46	Secretariat for Public Policies Legal Secretariat Public Procurement Office General Secretariat of the Government ⁵¹ Human Resources Management Office Administration of Joint Affairs of Republic Entities Information Technologies and E-Administration Office Public Investment Management Office Media Office Aviation Office Office for Revision of the EU Funds Management System Office for Kosovo* and Metohija Anti-Drug Office Office of the National Security Council and Classified Data Protection Office of the Government's Co-ordination Body for Preševo Bujanovac and Medveđa Municipalities Office for Co-ordination Tasks in the Negotiation Process with the Temporary Self-Government Institutions in Priština Office of the National Council for Co-ordination of Co-operation with the Russian Federation and the People's Republic of China 29 territorial administrative unit ⁵²
Social insurance, public funds	0	
Total	101	

⁵¹ The Government's General Secretariat submits to the MoF the financial plan for the Government's Anti-Corruption Council but not for other government offices.

⁵² Territorial administrative districts (*upravne jedinice*) carry out the tasks of the state administration at the sub-national level.