

## **Briefing Note**

Commission 2 of the Senate of Cambodia

# **PBO: Model and Process in Sweden, Finland, and Vietnam**

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## Introduction

The models and functions of Parliamentary Budget Offices (PBO)<sup>1</sup> varies from one country to another. In Sweden, the PBO has been set up as an independent organization since 1997, but as a part of the parliamentary research services which has been established since 1955 to analyze budget and tax estimates. In Finland, the PBO was established in 2011 within the Parliamentary Research Service and focuses on costing budget proposals and economic analysis. In Vietnam, however, a PBO has not yet been established but a Parliamentary Committee for Financial and Budgetary Affairs (CFBA) has undertaken some PBO functions under the State Budget Law 2002.

Although the model takes different forms depending on the circumstances and political culture of each country, the mandate and mission of a PBO is to: equip staff from parliament with technical knowledge and practical skills (on-the-job-training) on budget analysis;<sup>2</sup> “provide independent and objective analysis to Parliament on the state of the nation’s finances, the government’s estimates and trends in the economy; and upon request from a committee or parliamentarians, to estimate the financial costs of any proposal for matters over which parliament has jurisdiction.”<sup>3</sup>

This briefing note will provide a brief description of PBO models and functions in Sweden, Finland, and Vietnam.

## Studied Countries

### *Sweden*

The Swedish model covers the whole range of tasks of a PBO and is divided into three main institutions, the PBO, the Fiscal Policy Council, and the Secretariat in the Commissions. The PBO was established in 1997 as part of the parliamentary research service (specifically in the section on Economic Analysis) under the initiative of members of parliament (MPs) with financing from the Swedish parliament because there was a need for in-house competence for calculating state budget effects of economic proposals. Before the PBO was created, MP, as well as Opposition Parties, had to turn to various ministries to estimate the effects of economic proposals. The purpose of the PBO is to better match the resources available to parliamentarians with that of government ministries. The PBO in Sweden began with only two staff and gradually expanded to six, plus one manager who provides technical guidance and instruction, and manages the day-to-day operations of the office.

Despite the fact that the number of PBO staff is fewer than that of some other PBO’s, the Swedish PBO has operated efficiently and effectively because all of the six staff are highly trained economists. The Swedish PBO, upon request from parliamentary clients, produces approximately 600 reports annually ranging in length from two to 10 pages.

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<sup>1</sup> “PBO is a highly specialized unit that operates objectively to produce budgetary, fiscal and programmatic for legislators with a high degree of independence and authority while remaining non-partisan.” (Cited in PIC. 2014. *Perspectives on Parliamentary Budget office*. Briefing Note, Phnom Penh: Parliamentary Institute of Cambodia, 1-5.)

<sup>2</sup> Fors, Gunnar and Robin Travis. 2015. "Seminar on Parliamentary Budget Offices (PBO)." *Seminar on Parliamentary Budget Offices (PBO)*. Phnom Penh: Senate of Cambodia and Parlimantary Institute of Cambodia. 1-28.

<sup>3</sup> Cited in Frechette, Jean-Denis. 2014. *2013-14 Report on Activities of the Parliamentary Budget Office*. Activities Report, Ottawa: Office of the Parliamentary Budget Officer, 1-32.

Since the PBO has been purposely established to serve MPs and commissions, it works on request only, not on its own initiative, and serves only party secretariats, MPs and commissions. However, it is worth noting, that after the PBO came into existence, not only the above mentioned clients use PBO's services, but all [8] parties including opposition ones are using the services.

The Swedish PBO is independent, non-partisan, and objective. Based on these principles, it provides clients with estimates on the financial effects regarding various policy proposals. This information is often used in policy debates regarding public finance and budgeting and to provide alternative economic policies.

Insightful debates on the budget require accurate PBO reports using up to date information from Statistics Sweden. For instance, to be able to understand how a tax proposal from the government affects revenue streams or the state of welfare of different population groups, the PBO's staff may need to employ sophisticated economic models that sometimes are parallel to the models employed by the government that can provide sound estimates to inform parliamentarians.<sup>4</sup>

Another important task of the PBO is "costing of policy proposals" coming from the government. This is necessary to enable clients to understand the implications of the proposals on the budget. After the budget proposals are approved and implemented, there is a need for follow-up and evaluation which are called "ex-post" evaluation or evaluations based on historical data and done after the proposals are complete. It is also important to note that the Swedish PBO does not provide forecasting and recommendations on the fiscal policy.

Capacity development via on-the-job-training and knowledge transfer is another important objective of the PBO. Through this approach, qualified secretariat and parliamentary staff can learn how to analyze a budget and understand economic analysis provided by experts. This could result in such staff providing more in depth expertise on budget matters to parliamentarians.

The Fiscal Policy Council (FPC) is a body established independently from the parliament but is financed by the government. Unlike the PBO, it can work on its own initiative. Its role is similar to the PBO but its main focus is to evaluate whether or not fiscal and economic policies achieve their goals, are sustainable, and are transparent.

Another important unit is the Secretariat within the Commissions which focus only on the "evaluation" of fiscal and economic policies."

### ***Finland***

The Finnish PBO is similar to that of Sweden. It was established in 2011 to do costing of budget proposals and economic analysis. The functions of the PBO is undertaken by two institutions: the National Audit Office (which monitors compliance with fiscal policy rules) and; the PBO inside the parliamentary research service (which works on request from parliamentarians and does costing on request). The economic analysis capabilities of the PBO have been strengthened during the 2011-2015 parliamentary term. The team of economic analysts consists of four economists and one legal advisor.

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<sup>4</sup> SR. 2011. *Utredningstjänsten*. Briefing note, Stockholm: Seriges Riksdag.

The PBO which is mandated to serve MPs, parliamentary groups and committees (both the opposition and government use the PBO's services) mainly produces three products/services. These are:

- Assessments of (at the micro and macro level) the effects of proposed policy changes on the economy (i.e., costing). The majority of this analysis focuses on the effects of reforms to the tax-benefit system. The results of this analysis are often used to provide a comparison with the proposals of the government and can also be used to develop alternate budget proposals;
- Economic reviews and summaries which cover all fields of economics and specific subject areas and are usually linked to the current economic situation (e.g., energy, social security etc.); and
- Statistics and information retrieval that can be used for alternative budget proposals, policy reports etc.

In addition to these services, before the parliamentary elections in 2015, the speaker of Parliament informed parliamentary parties that they could use the PBO services for costing of election manifestos. All parties took advantage of this and over 100 reforms related to the election manifestos were estimated.

### *Vietnam*

Vietnam has built capacity within parliament to handle PBO tasks through the Committee for Financial and Budgetary Affairs (CFBA). Resolution 387 of the National Assembly (NA) provides for the active involvement of the CFBA in the scrutiny of budgets and it reports to the Standing Committee and/or NA plenary sessions on budget matters. Other committees of the NA report to the CFBA on budget matters. The NA does not first approve the overall budget framework and detailed expenditure estimates. Rather, all work regarding budget analysis is done in workshops of the government or the CFBA prior to deliberation of the entire budget "package". In terms of staff, the CFBA has qualified staff (37), many of whom are former employees from the Ministry of Finance (MoF) who are capable of analyzing the draft budget.<sup>5</sup>

Ministers are not individually responsible before the NA when examining the annual budget but rather, a collaborative process is used whereby working sessions of the CFBA are attended by government agencies. The process can also work the other way, whereby after the Ministry of Finance sends the final state budget accounts to the government, it sends them at the same time to the CFBA, which in turn is invited to attend the working sessions of the government. Through this process, both the government and CFBA are accountable before the Standing Committee of the NA as they are instructed to cooperate and complete the report on state budget implementation and final state budget for submission to the NA.<sup>6</sup>

The State Budget Law 2002 provides the legal basis for budgeting at all levels of government including pre-budget examination by the National Assembly (NA) before May 1<sup>st</sup> of each year.<sup>7</sup>

In Vietnam, in principle, the government budget is classified by: 1) administrative units - which provide information on major chapters (e.g. ministries), not sub-chapters, at the central and provincial levels of the government; 2) functional - refers to the various items the government

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<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

provides funds for; and 3) economic - in which public documents provide only recurrent (broken down by 11 functions) and aggregate capital spending (not broken down by functions except for education, science and technology).

In practice, the annual budgets presented to the NA and provincial councils are very broad-based and mainly a mix of administrative and functional categories for current spending, but not capital spending.<sup>8</sup> It is interesting to note that since Vietnam has not yet adopted a performance-oriented budget system, performance indicators are not part of the ministries/agencies/provinces budget proposals.

## Conclusion

The PBOs in Sweden and Finland and the CFBA in Vietnam have been established to provide parliamentarians, commissions and secretariats with budget analysis, budget costing and economic analysis at the micro and macro levels in order to allow them to better understand the budget and the budget process.

The PBO in Sweden is more mature than the others and has responded to all requests on economic analysis and budgeting from all parliamentarians, commissions, and all parliamentary parties. More importantly, the PBO also provides on-the-job-training to qualified secretariat staff, budget information to enhance political debate and unbiased data that can be used to produce alternative budget proposals.

The PBO in Finland is similar to that of Sweden and provides costing of budget proposals and economic analysis. The economic team also analyzes the effect(s) of particular economic issues (e.g. employment) and reviews economic literature on request. In addition, the Finnish PBO also provides costing of election manifestos to all parliamentary parties before the election.

The PBO in Vietnam has not been established but the CFBA performs some of the functions of a PBO such as examining sections of the budget and reporting to the National Assembly and/or the Standing Committee on its findings.

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<sup>8</sup> Lienert, Ian. 2014. *Parliamentary Budget and Transparency in Six ASEAN Countries*. Working Paper Based on Outcome