



United Arab Emirates
Ministry of Finance

Medium Term Federal Budget Process Reform

Agenda

Project objectives and benefits

Core concepts of reform

Project plan and organization

Support needed from LMs/AAs

Current budgeting process can be improved

What we heard you say:

"It is difficult to detail each cost for strategic initiatives every year. A longer-term horizon would be helpful"

"Current program structure does not reflect natural grouping of activities and related costs"

"The lack of benchmarks and bottom-up costing makes it hard to fully assess budgets"

"The budgeting process currently requires too much time and resources for all parties"

The budget process reform is key strategic objective of Ministry of Finance



- **Ministry of Finance initiated cabinet resolution 181/1 for 2008 to freeze the budget and allow LM/AAs ability to focus on the 3-year budget period 2011 – 2013**
- **Ministry of Finance has appointed BCG to provide technical assistance and comprehensive trainings on the budget process reform to ensure a smooth transition to the new process and a successful project outcome for all stakeholders**

Core concepts of budget process reform



Issues identified...

...are addressed in budget process reform

- 1** Budgeting process needs to better accommodate PMO Strategic approach → We will introduce a 3-year budget cycle linked to strategy cycle from 2011-2013
- 2** Limited activity and cost transparency exists → We will move to zero-based budgeting to increase transparency
- 3** Process is complex and time of budgeting teams and MoF is not used efficiently → We will streamline the budgeting process and provide a clear and concise budgeting handbook and simple tools to support budgeting teams

Budget reform will result in benefits for all stakeholders



For the UAE

- Allocate resources to deliver maximum social impact
- Develop international reputation in budgeting

For LM/AA

- Link long-term objectives seamlessly to budgeting
- Provide transparent tools and processes for financial management and prioritization of activities

For MOF

- Facilitate clear understanding of LM/AA budget requests
- Encourage partnership with LMs/AAs in achieving strategic, operational and financial objectives

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Project objectives and benefits

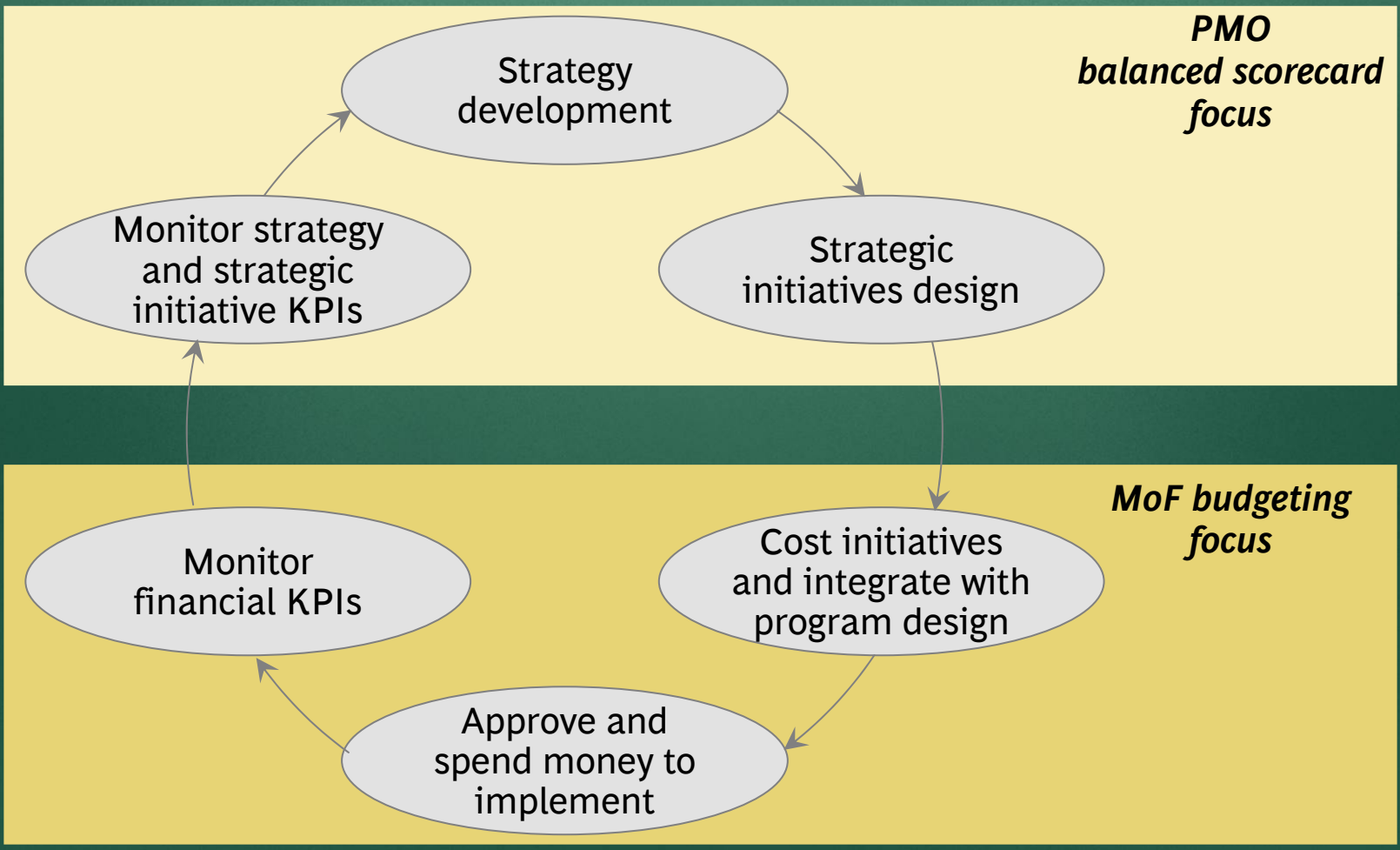
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Support needed from LMs/AAs

1

Budgeting process to be aligned with time horizon of strategy setting process of PMO



A 3-year budget cycle will link to strategy cycle from 2011-2013



Issues relating to short-term budgeting horizon ...

Budget
year 1

Budget
year 2

Budget
year 3



... Addressed by implementing multi-year budgets

Budget
year 1

Budget
year 2

Budget
year 3

Full potential of strategic plan not realized

Inappropriate for longer-term projects

Inefficient use of resources

Planning for three years integrated seamlessly with strategic planning process

Cost budget for three year cycle, however, 2nd and 3rd year allows for flexibility in activities

We will move to zero-based budgeting



Zero based budgeting means starting from a blank sheet of paper and building budget from bottom-up

Budgeting teams are then tasked to:

- Define activities contributing to agreed objectives that will exist over budgeting time horizon (e.g., 3 years)
- Justify activities and their associated costs providing a detailed cost analysis
- Prioritize the activities based on a cost-benefit analysis and rank them relative to their contribution to objectives

Zero based budgeting is useful under specific circumstances applicable to UAE

We are moving away from incremental budgeting for very good reasons

- Incremental budgeting assume a stable environment where current activities persist at roughly same cost in future years
- Assumes that current budget levels are well understood and therefore do not require bottom-up justification making budgeting a routine process

Zero based budgeting is useful under specific circumstances

- Rapidly growing GDP and need for large-scale infrastructure development
- Low historic transparency of budgets
- Clear differences between original budget requests from ministries and ultimately approved budgets

... however, it is a lot more work than incremental budgeting

We will simplify existing budgeting process to free up capacity for zero based budgeting

A full zero based budget will not be required every year

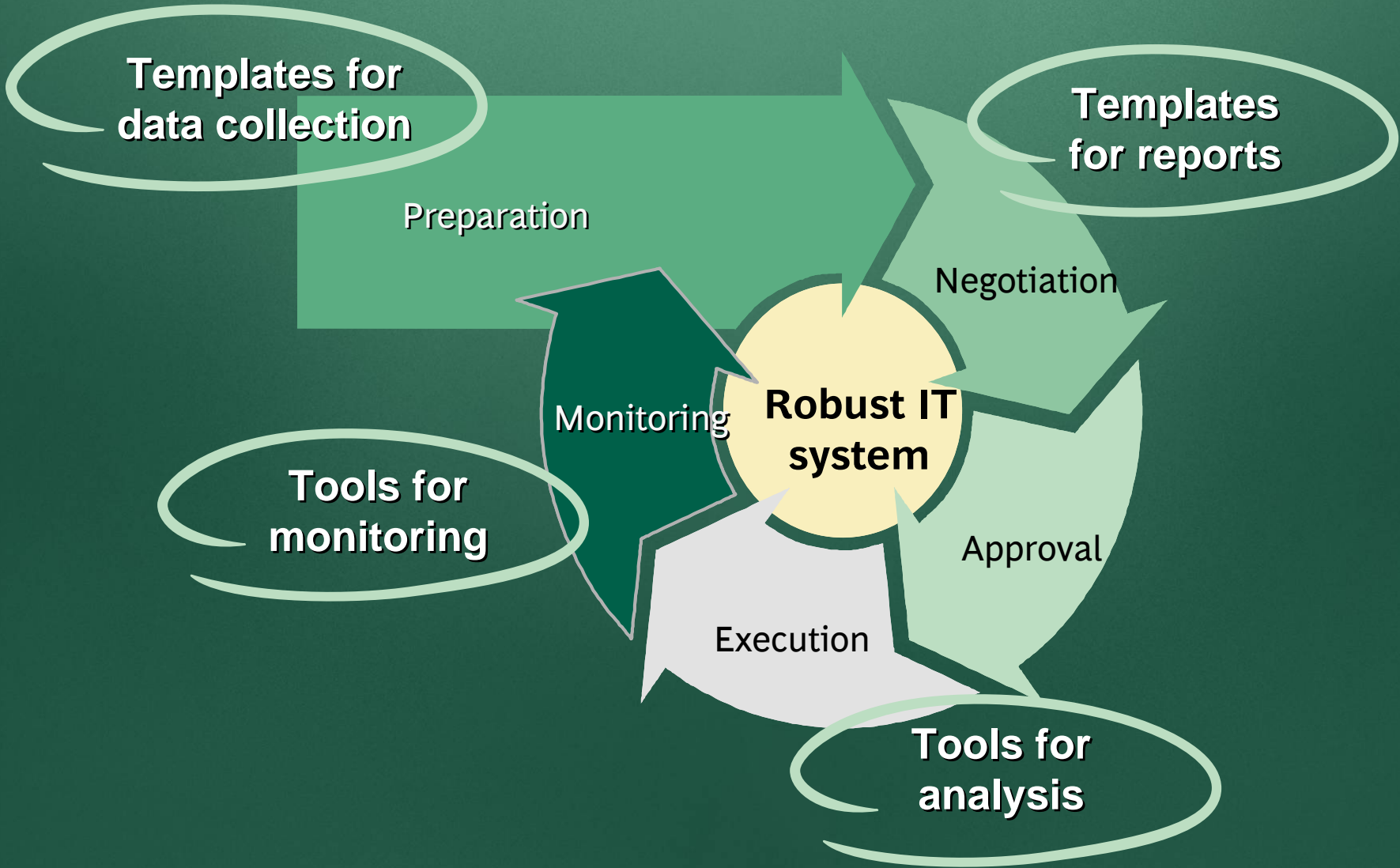
- The first time will be the most thorough process, but we will have help from BCG and we will learn
- Going forward a zero based budget will be set on a three year interval requiring more work from ministries budgeting teams
- During the two years within the set budget period only smaller adjustments will be needed

We will also simplify other aspects of the current budgeting process

- Clear program definitions and flexible allocation rules
- Clear calendar of activities aligned with PMO
- Shorter process for negotiations
- Better tools for analyzing and monitoring budget execution



... and provide simple tools and templates to budgeting teams for each step of process



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Project will be conducted in three key stages

Diagnostic and design (11 Feb – 28 June)

LM/AA interviews

International
benchmarks

Historic budget review

Revised budget
structure

UAE Budgeting
handbook, tools and
templates

Pilots

(29 Mar – 31 May)

3 LM/AA pilots

Test new budget structure
& process

Refine templates and
activities to ensure clarity
and implementability

Train budgeting teams on
new concepts

Implementation (May – 15 November)

All other LM/AA

Complete first draft of zero based 3
year budgets 2011-2013' for all
LM/AAs in accordance with new
budgeting process

- Final 2011-2013 budget due
in summer 2010

New budgeting concept will be tested through three pilot LMs/AAs

Purpose of pilots

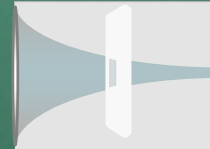
Test entire new budget structure and process with representative entities

Train and develop budgeting teams on new concepts

Refine templates and activities to ensure that clarity and implementability



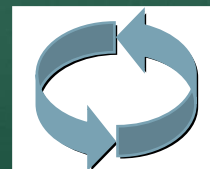
Structure of pilots



Pilot with MoF, one LM and one AA that contain majority of budgeting complexities



Require high-level of support and interaction with LM and AA budgeting teams;
Provide extensive support and training from BCG and MoF



Create feedback loop between design team and LMs/AAs in pilot

**Part of process design phase;
Starts March 29th and last to May 31th**

All LM/AA will be tasked to deliver draft zero based 3-year budgets 2011-13 mid November

Expected deliverables from LM / AA

Refined program structures for both major and detailed initiatives by Nov 15th 2009

A draft zero based 3 year budgets 2011-2013 by Nov 15th 2009

- in accordance with new budgeting process
- within new budget structure
- including detailed bottom up costing of entire budget

A final zero based 3 year budget 2011-2013 shall be developed in the first half of 2010

- Incorporating inputs from 2011-2013 strategic plans

Dedicated support



UAE budgeting handbook, tools and templates



Kick-off, workshops and dedicated training by BCG



Program office for ongoing support, dedicated contact for each LM / AA

Starts May and last to 15th November