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United Nations Institute for Training and Research

# Public Financial Management

**UNITAR Mustofi Fellowship  
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## Public Financial Management

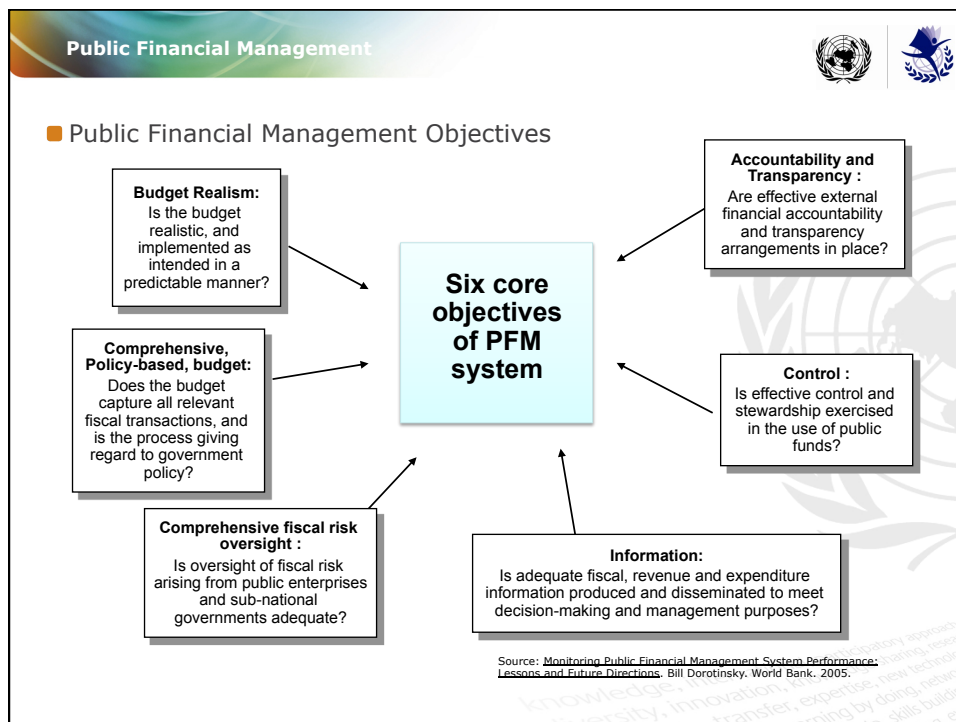


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- Limitations and Problems
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- Key Performance Indicators



knowledge, international, participatory approach, research, innovation, knowledge sharing, research, transfer, expertise, new technology, learning by doing, network, skills building, etc.





## Government and Financial Systems Management

### ■ Strategic Planning

- Translate political priorities into implementation
- Negotiate budgetary resources
- Determine size of the budget
- Assess the feasibility of the resources you are trying to raise and spend
- Get approval of budget composition (e.g. recurrent, capital, and public sector salaries)
- Maintain balance between national and sub-national priorities



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## Government and Financial Systems Management

### ■ Management Control

- Organize work and use information
- Make the fiscal management system deal with international obligations (e.g. World Bank, IMF, ADB)
- Criteria to determine efficiency of expenditure proposals

### ■ Operational Control

- Appropriate and evaluate budgets
- Transfer money to other ministries / provinces
- Transparency, accountability, anti-corruption



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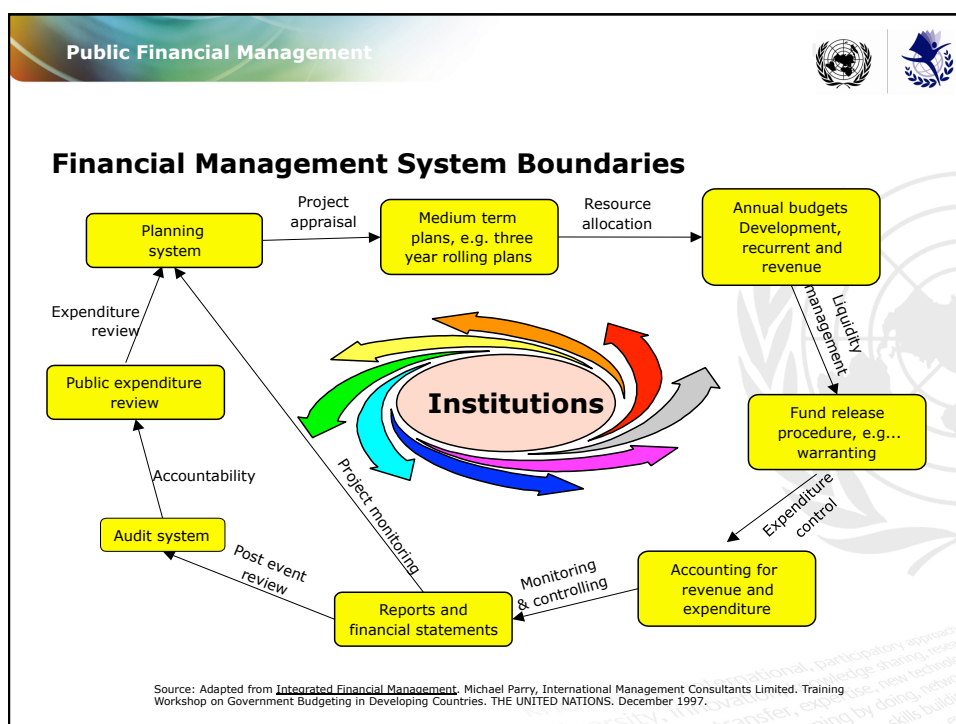
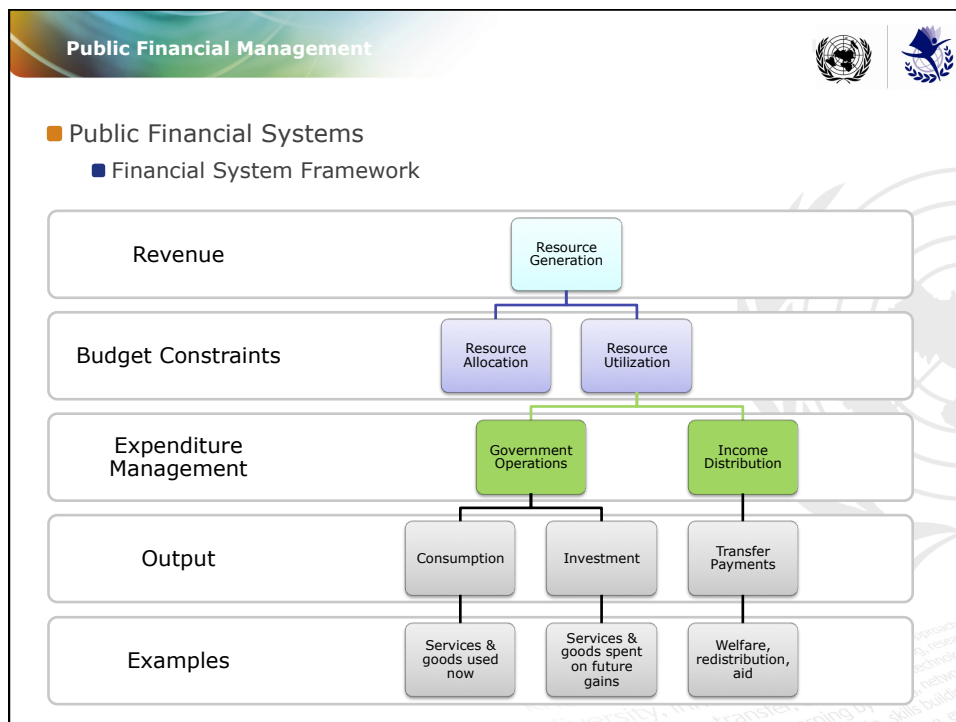
## Financial Systems Management Challenges

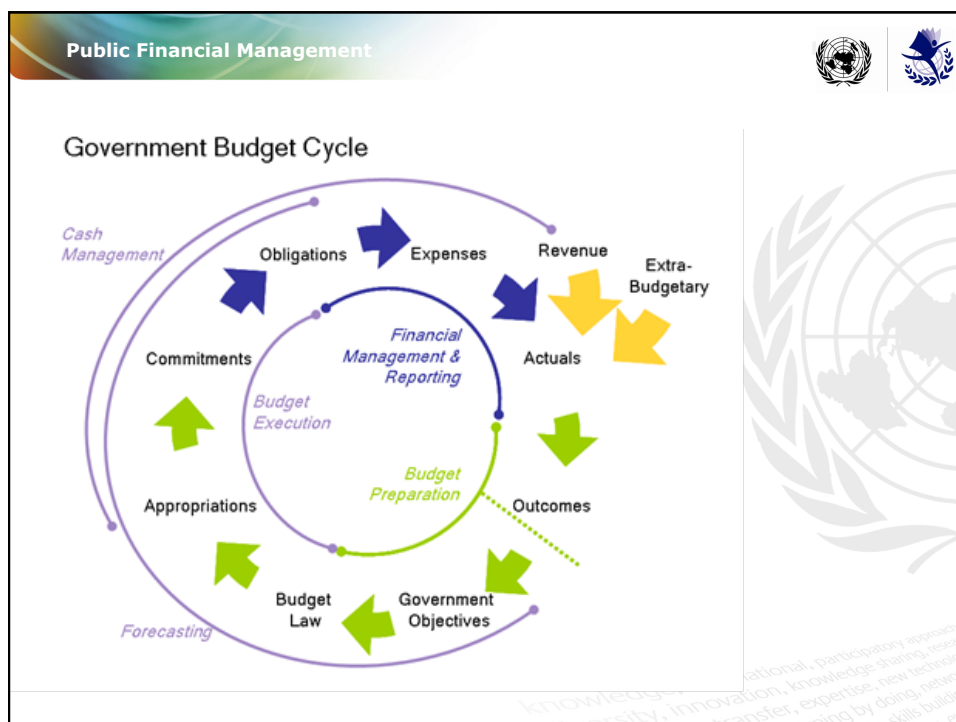
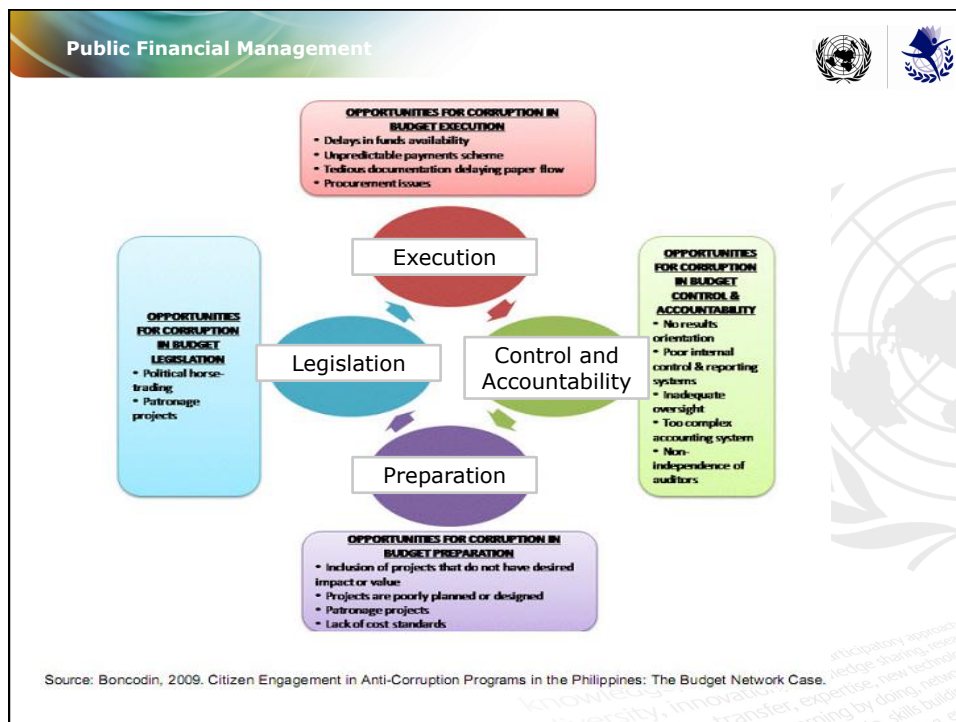
Limitations and Problems	Possible Solutions
Communicating value	Accountability and transparency gain credibility
Resistance to change	Right-sizing reforms, measures
Focus on diagnostics over implementation of reforms	Holistic views of PFM systems, focus on weakest links
Low Income Groups struggle to get basics in place	Limiting adverse impact of supply-push, transplanting of advanced reforms to weak environments
Limited short-term resources versus high costs of investments/ reforms	Redefining ownership as helping the country solve practical financial management challenges simply, directly
Short-term focus versus long-term vision	Sequencing reforms
Difficult to determine the extent of improvement in a country's PFM performance over time	Realistic time horizons



## Financial Systems Management Challenges

Resistance	Possible Solutions
Limited monitoring of progress, mainly concentrated on inputs -> no lesson-learning and did not encourage focus on results on the ground	Accountability and transparency gain credibility
Technical reform versus systemic/ institutional change	Holistic views of PFM systems, focus on weakest links
Fragmented approach to reforms and limited leadership in government	Limiting adverse impact of supply-push, transplanting of advanced reforms to weak environments
Unhelpful donor practices	Redefining ownership as helping the country solve practical financial management challenges simply, directly
Inadequate sequencing of reforms due to donor pressure or difficulties in gov't	Sequencing reforms
Unrealism, optimism fades, difficult to see pace of change	Realistic time horizons

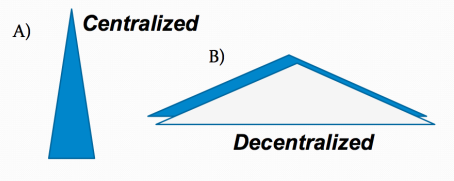






## ■ National and Sub-national Financial Roles and Responsibilities

- Budget design
  - Legislative oversight, involvement
  - Civil society oversight, participation
- Sub-national budgeting
- Debt sustainability analysis
- Sectoral measures (e.g. health, education, infrastructure)
- Anti-corruption
- Decentralization A vs B
- De-concentration
- Public-Private Partnerships
- Monitoring and Evaluation
- Long-term planning



Source: Adapted from *Monitoring Public Financial Management System Performance: Lessons and Future Directions*. Bill Dorotinsky. World Bank. 2005.



## ■ National and Sub-national Financial Roles and Responsibilities

- Changing role of MoF
  - From control only to also monitoring/oversight and advisory role
  - Risk management: analysis of emerging issues, problems, and health of decision-making and finance system
  - From excessive budget detail to policy analysis and development
  - Shifting authority and accountability towards line ministries
  - Emphasizing MoF training and guidance
  - Performance over compliance
- New Public Management
  - Separating policy from implementation
  - Balancing national and sub-national priorities
  - Empowering line ministries for efficiency

Source: Adapted from *Monitoring Public Financial Management System Performance: Lessons and Future Directions*. Bill Dorotinsky. World Bank. 2005.





## ■ National and Sub-national Financial Roles and Responsibilities

- Must avoid fragmenting of MoF
  - Separate debt agency
  - Separate procurement function
  - Separate treasury
  - Separate budget
  - Separate revenue authority
  - Separate planning and policy processes
- All tend to weaken the MoF
  - Effect on financial management unclear
  - Frequently done to improve pay or improve independence
  - Reflect political interference

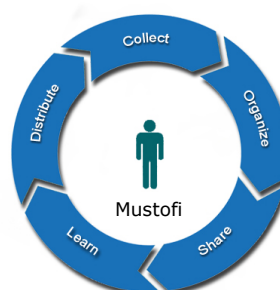
Source: Adapted from Monitoring Public Financial Management System Performance: Lessons and Future Directions. Bill Dorotinsky. World Bank. 2005.



## ■ Public Financial Systems Improvement

*The Way Forward: A Strengthened Approach*

- **A country-led agenda** – including a PFM reform strategy and action plan with inputs from the Mustofiates
- **A donor coordinated program of support** – coordinated, coherent, multi-year program of PFM work that supports and is aligned with the government's PFM strategy
- **A shared information pool** – a common framework and information set for measuring and monitoring results over time
- Mustofis are at the center of the system – at the sub-national level you are the main actor and must create a virtuous cycle



Source: Adapted from Monitoring Public Financial Management System Performance: Lessons and Future Directions. Bill Dorotinsky. World Bank. 2005.

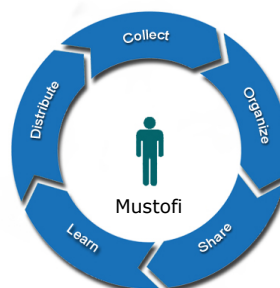




## Public Financial Systems Improvement

### *The Way Forward: A Strengthened Approach*

- **A provincial agenda** – including a Mustofiate revised strategy and action plan
  - Follows government-led reform program
  - Includes planning and undertaking diagnostic work on a long-term scenario
  - Includes a prioritized and sequenced reform program
  - Gives authority to implement reforms
  - Monitors progress over time
  - Includes donor coordination around the PFM reform agenda of the government at the sub-national level



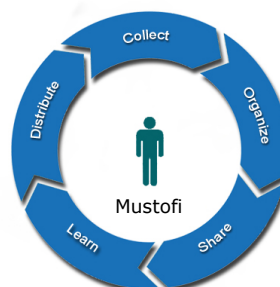
Source: Adapted from *Monitoring Public Financial Management System Performance: Lessons and Future Directions*. Bill Dorotinsky. World Bank, 2005.



## Public Financial Systems Improvement

### *The Way Forward: A Strengthened Approach*

- **Monitoring progress** – including Mustofiate specific monitoring and evaluation
  - M&E Systems
    - Enables decision-makers in government and donor agencies to assess the success and difficulties of the reform process and make decisions accordingly
    - Ensure that reform measures and activities are closely followed (training, new laws, etc.)
    - Implement institutional and system changes (IFMS, new budget calendar, etc.)
    - Builds upon changes in the performance of the PFM system over the years



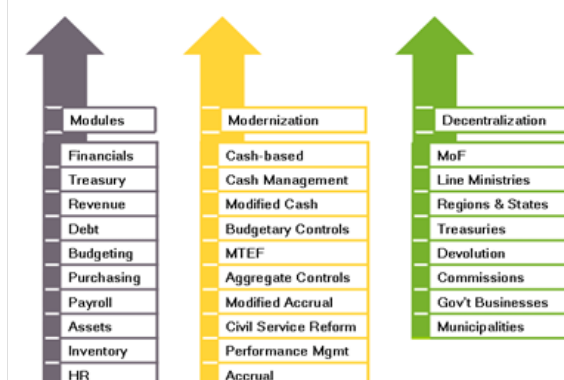
Source: Adapted from *Monitoring Public Financial Management System Performance: Lessons and Future Directions*. Bill Dorotinsky. World Bank, 2005.



### ■ PFM Reforms

- Good reforms generally try to change incentives to better meet objectives by changing rules, roles and information
- Communicate value of expenditures (whether consumption, investments)

### Progressive Activation to Support Modernization

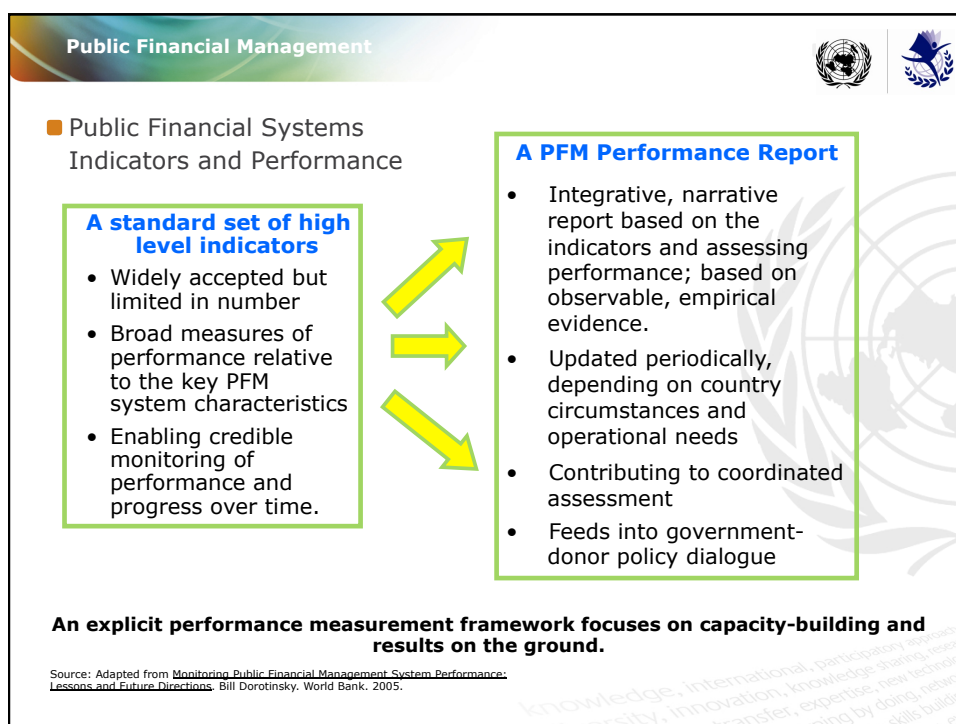
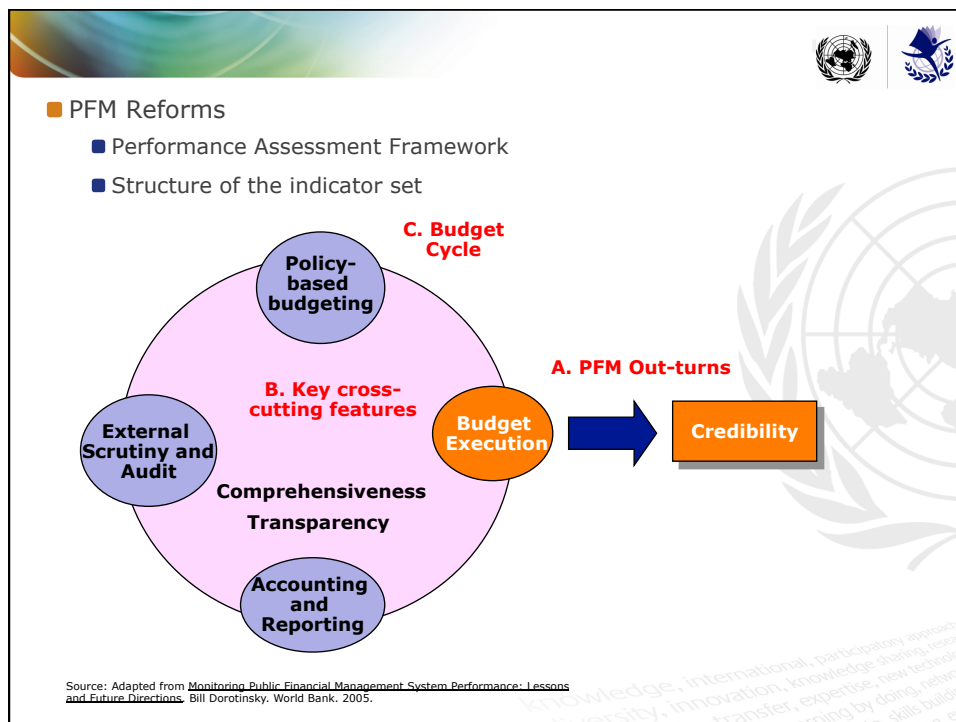


### ■ PFM Reforms

#### ■ Performance Assessment Framework

	Macrofiscal Discipline	Strategic Allocation	Operational Efficiency
Medium-Term Expenditure Frameworks	✓	✓	✓
Performance, Program budgeting		✓	✓
IFMIS, automation	✓		✓
Fiscal Responsibility Laws	✓		
Treasury Single Account	✓		✓
Budget classification, chart of account	✓	✓	✓
Reporting/ Transparency	✓	✓	✓
Procurement			✓
Internal control/audit			✓
External audit	✓		✓
Accrual Accounting	?	?	?

Source: Adapted from *Monitoring Public Financial Management System Performance: Lessons and Future Directions*. Bill Dorotinsky. World Bank. 2005.



## Performance indicators



	<b>A. PFM-OUT-TURNS: Credibility of the budget</b>
PI-1	Aggregate expenditure out-turn compared to original approved budget
PI-2	Composition of expenditure out-turn compared to original approved budget
PI-3	Aggregate revenue out-turn compared to original approved budget
PI-4	Stock and monitoring of expenditure payment arrears

	<b>B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>
PI-5	Classification of the budget
PI-6	Comprehensiveness of information included in budget documentation
PI-7	Extent of unreported government operations
PI-8	Transparency of inter-governmental fiscal relations
PI-9	Oversight of aggregate fiscal risk from other public sector entities.
PI-10	Public access to key fiscal information

Source: Adapted from *Monitoring Public Financial Management System Performance: Lessons and Future Directions*. Bill Dorotinsky. World Bank, 2005.

## Performance indicators



	<b>C. BUDGET CYCLE</b>
	<b>C(i) Policy-Based Budgeting</b>
PI-11	Orderliness and participation in the annual budget process
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting
	<b>C(ii) Predictability and Control in Budget Execution</b>
PI-13	Transparency of taxpayer obligations and liabilities
PI-14	Effectiveness of measures for taxpayer registration and tax assessment
PI-15	Effectiveness in collection of tax payments
PI-16	Predictability in the availability of funds for commitment of expenditures
PI-17	Recording and management of cash balances, debt and guarantees
PI-18	Effectiveness of payroll controls
PI-19	Competition, value for money and controls in procurement
PI-20	Effectiveness of internal controls for non-salary expenditure and assets management
PI-21	Effectiveness of internal audit

Source: Adapted from *Monitoring Public Financial Management System Performance: Lessons and Future Directions*. Bill Dorotinsky. World Bank, 2005.

## Performance indicators



	<b>C(iii) Accounting, Recording and Reporting</b>
PI-22	Timeliness and regularity of accounts reconciliation
PI-23	Availability of information on resources received by service delivery units
PI-24	Quality and timeliness of in-year budget reports
PI-25	Quality and timeliness of annual financial statements
	<b>C(iv) External Scrutiny and Audit</b>
PI-26	Scope, nature and follow-up of external audit
PI-27	Legislative scrutiny of the annual budget law
PI-28	Legislative scrutiny of external audit reports

Source: Adapted from *Monitoring Public Financial Management System Performance: Lessons and Future Directions*. Bill Dorotinsky. World Bank. 2005.

## Performance indicators



### And three donor practice indicators

	<b>D. DONOR PRACTICES</b>
D-1	Predictability of Direct Budget Support
D-2	Financial information provided by donors for budgeting and reporting on project and program aid
D-3	Proportion of aid that is managed by use of national procedures

Source: Adapted from *Monitoring Public Financial Management System Performance: Lessons and Future Directions*. Bill Dorotinsky. World Bank. 2005.

## Performance indicators



### PI-1 Aggregate expenditure out-turn compared to original approved budget

**Dimensions to be assessed:** The difference between actual primary expenditure and primary budgeted expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure).

Score	Minimum Requirements (Scoring Method M1)
A	(i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure.
B	(i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10 % of budgeted expenditure.
C	(i) In no more than one of the last three years has the actual expenditure deviated from budgeted expenditure by more than an amount equivalent to 15% of budgeted expenditure.
D	(i) In two or all of the last three years did the actual expenditure deviate from budgeted expenditure by an amount equivalent to more than 15% of budgeted expenditure.

Source: Adapted from Monitoring Public Financial Management System Performance: Lessons and Future Directions, Bill Dorotinsky, World Bank, 2005.

## Performance indicators



### PI-22. Timeliness and regularity of accounts reconciliation

**Dimensions to be assessed:**

- Regularity of bank reconciliations
- Regularity of reconciliation and clearance of suspense accounts and advances.

Score	Requirements: Scoring Methodology M2
A	The average of the numerical scores of the dimensions is 86-100
B	The average score of the dimensions is 56-85 (assign B+ if the average is above 70)
C	The average score of the dimensions is 26-55 (assign C+ if the average is above 40)
D	The average score of the dimensions is 00-25 (assign D+ if the average is above 10)

Source: Adapted from Monitoring Public Financial Management System Performance: Lessons and Future Directions, Bill Dorotinsky, World Bank, 2005.

## Performance indicators



Dimension	Minimum requirements for dimension score
(i) Regularity of bank reconciliations	<p>Score = 100: Bank reconciliation for all central government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period.</p> <p>Score = 67: Bank reconciliation for all Treasury managed bank accounts take place at least monthly, usually within 4 weeks from end of month.</p> <p>Score = 33: Bank reconciliation for all Treasury managed bank accounts take place quarterly, usually within 8 weeks of end of quarter.</p> <p>Score = 0: Bank reconciliation for all Treasury managed bank accounts take place less frequently than quarterly OR with backlogs of several months.</p>
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	<p>Score = 100: Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from end of period and with few balances brought forward.</p> <p>Score = 67: Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of end of period. Some accounts have uncleared balances brought forward.</p> <p>Score = 33: Reconciliation and clearance of suspense accounts and advances take place annually in general, within two months of end of year, but a significant number of accounts have uncleared balances brought forward.</p> <p>Score = 0: Reconciliation and clearance of suspense accounts and advances take place either annually with more than two months' delay, OR less frequently.</p>

Source: Adapted from *Monitoring Public Financial Management System Performance: Lessons and Future Directions*. Bill Dorotinsky. World Bank. 2005.

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