



PEMPAL TREASURY COMMUNITY OF PRACTICE (TCOP)

Videoconference of the Thematic Group on the Evolution of the Role and Functions of the Treasury

September 15, 2020

On September 15, 2020 the PEMPAL Treasury Community of Practice (TCOP) held a videoconference (VC) of the thematic group on evolution of the role and functions of the treasury. The VC was organized as a partial substitute for the TCOP plenary meeting which did not take place this year due to the COVID pandemic. During the VC Mrs. Aigul Baiguzhina, the Deputy Chair of the Treasury Committee, presented to the audience the structure of the Kazakhstan Treasury Committee, its role and functions, information systems in use, as well as described the rating system employed by the Treasury Committee to assess performance of its territorial units. The meeting was attended by 43 participants from 17 PEMPAL member countries (Albania, Armenia, Azerbaijan, Belarus, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Moldova, Montenegro, North Macedonia, Russia, Tajikistan, Turkey, Ukraine, Uzbekistan) as well as representatives of the Debt Management Agency of Hungary and PEMNA network. The meeting was facilitated by the World Bank Resource Team comprising Elena Nikulina (Resource Team Leader), Yelena Slizhevskaya (TCOP Consultant), Ekaterina Zaleeva, Galina Kuznetsova (PEMPAL Secretariat), and Mark Silins (TCOP Thematic Advisor).

Summary of Discussion

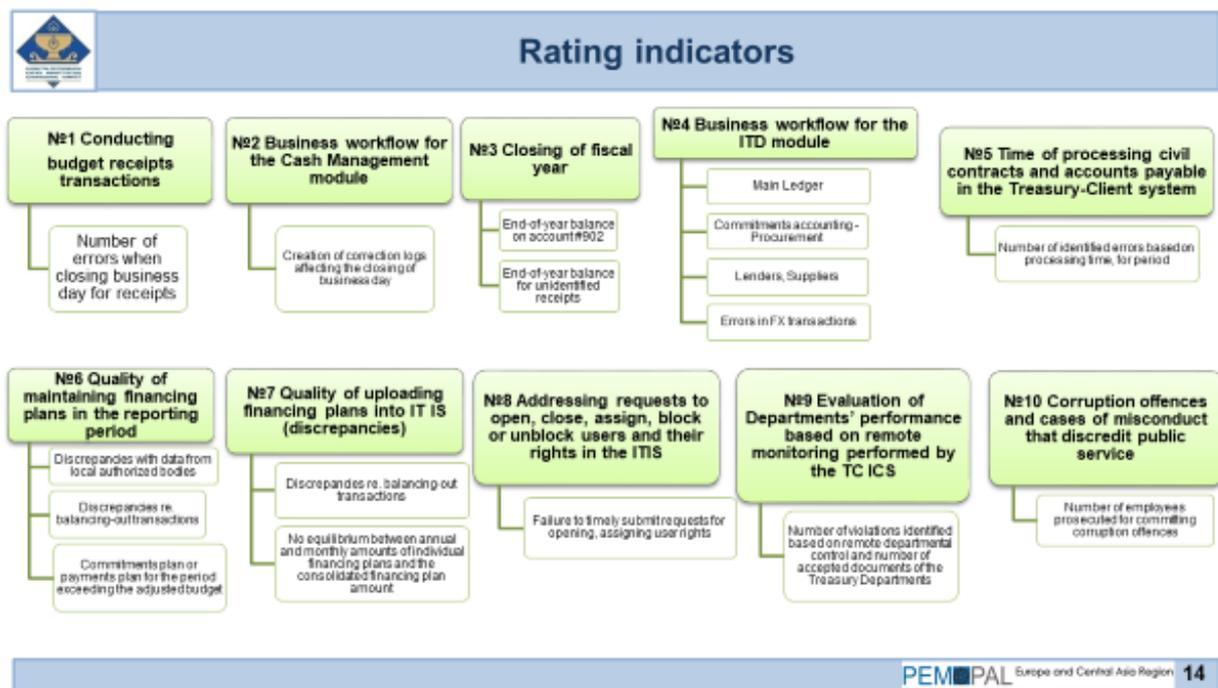
Lyudmila Guryanova, the Deputy Head of the Main State Treasury of the Republic of Belarus and the Deputy Chair of the TCOP Executive Committee, welcomed the participants on behalf of the TCOP leadership. She stressed that the VCs continue to be the only feasible format for meetings and knowledge exchange when no face-to-face events are possible, and thanked the Treasury Committee of the Republic of Kazakhstan for the willingness to share their experience. **Elena Nikulina, the Resource Team Leader, welcomed the participants on behalf of the World Bank** and noted that the first visit to Kazakhstan took place about 10 years ago, and all the members would be eager to learn about the progress of the Kazakhstan Treasury over the ensuing years. She also noted that the format of this event is similar to a standard opening session of a face-to-face event when a hosting country presents an overview of its system, and suggested that specific questions that may arise during today's event could be discussed in more detail during future virtual TCOP meetings.





Mrs. Baiguzhina commenced by presenting on the organizational structure and main functions of the Kazakhstan treasury system which was established in 1994. The Treasury currently has 3,122 staff working in 17 departments in regions and cities, 190 district and city offices and in the central office of the Treasury Committee, which is comprised of 24 directorates. The Treasury services more than 15,000 institutions of the central and subnational budgets, as well as quasi-public sector entities. The treasury information systems process about 50,000 payments, 60,000 receipts, generate 120,000 reports and cater to 45,000 service users daily.

There are a significant number of operations that must be monitored and assessed by the Treasury Committee. Therefore, Kazakhstan developed a system to rate the treasury units' performance in 2007. The approach to evaluation of these units is being constantly improved¹ and expanded to cover more business processes and to upgrade these processes in line with the introduction of new budget execution tools and approaches (see slide below). In 2020 the rating system was largely decentralized – now the Treasury Committee only evaluates its subordinate departments, while the departments in turn evaluate the performance of their respective subordinate district and city offices.

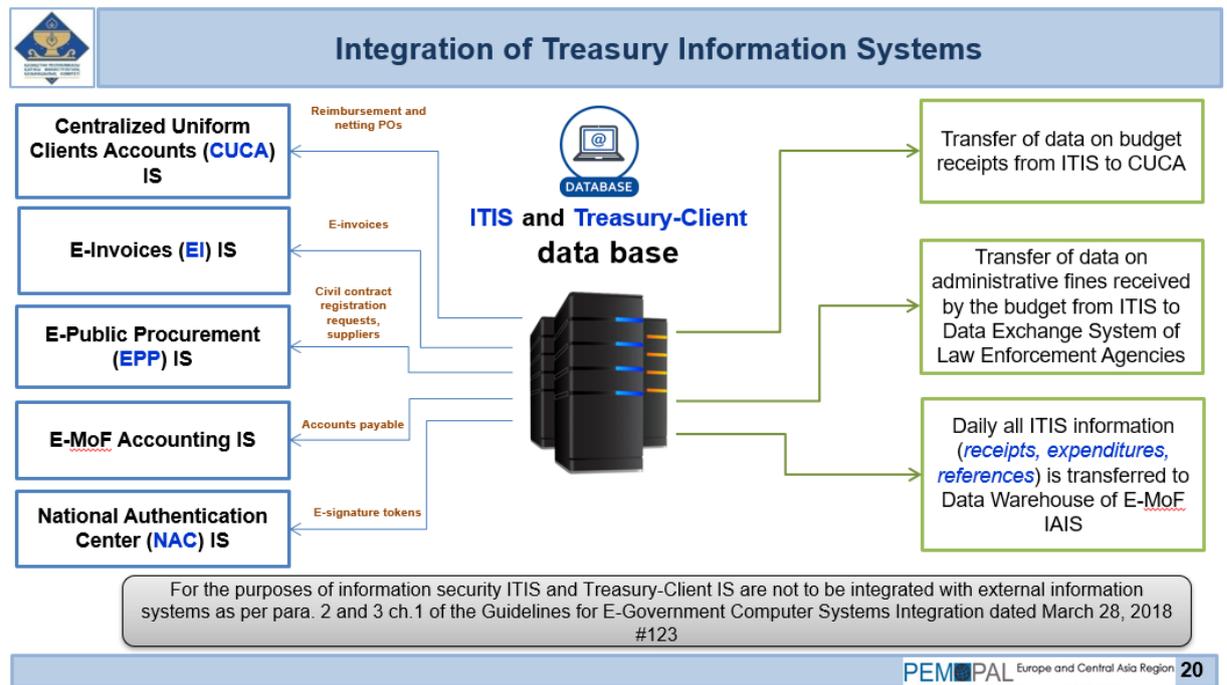


Aigul noted that the main treasury system was upgraded in 2000-2004 when the Treasury migrated to a new ORACLE-based system. Currently, the Treasury Committee operates two information systems: the Integrated Treasury Information System (ITIS) and the “Treasury-Client” information system (TCIS). Integration of ITIS with information systems of the budget,

¹ Recent version of the methodology was approved by the Order of the Treasury Head N1179 dated May 28, 2020 and is available at <https://www.gov.kz/memleket/entities/kazyna/documents/details/75667?lang=ru>



tax and customs authorities allows real-time payments and reporting. Interaction between the Treasury and clients (public institutions and quasi-public entities) is enabled by the “Treasury-Client” e-workflow system which is a shared information environment. Please see the slide below for more detail.



Mrs. Baiguzhina also provided details on two new areas being developed. First, Kazakhstan has implemented enhanced controls for public investment construction projects with the goal to ensure that funds are used appropriately by involving technical experts at key stages of the project life cycle to certify the status of the project. The new framework also ensures that vendors fulfil their tax obligations. Second, public private partnerships (PPPs) and concessions are now registered by the Treasury to ensure uniform accounting and monitoring of all commitments and contingent liabilities at both a national and subnational level, including compliance with the ceilings set forth by the Law on the National Budget.

The speaker also shared the Treasury’s plans to improve the ITIS and TCIS in 2020-2021, including:

- automation of year-end budget carryovers;
- migrating some of the business processes related to payment orders processing to open source software to make the system interface more user-friendly and to benefit from more flexible functionality compared to existing software;
- obtaining e-signatures online (elimination of paper-based workflow); and
- design of a risk management subsystem to collect, analyze, monitor and manage ITIS data in order to prevent unauthorized and illegal payments, misuse of budget funds, minimize cash gaps, delays in financing state institutions’ commitments, ensure timely public debt repayment, minimize accounting and reporting risks, ensure business continuity of the Treasury’s information systems, timely release of appropriations and provision of cash, etc.



Yelena Slizhevskaya opened the Q&A session with a question about the use of rating outcomes. The Deputy Chair explained that the Treasury Committee traditionally rewards the three top departments with end-year bonuses, while poor performers are required to submit plans for improvement and report back to the Treasury Board. The Treasury Committee provides guidance and training where appropriate. In addition, knowledge sharing between top and bottom performers is practiced.

Ilyas Tufan (Turkey) asked several questions to clarify the methodology used for performance rating. The Deputy Chair explained that the methodology is based on formulas and is constantly being improved. Each indicator has a scale (e.g. from 1 to 5, or from 1 to 10) and is assigned a weighting since the indicators' relative contribution to the unit's performance is different. Each department reports its indicators to the Analysis Directorate which produces summary ratings for management review.

Representatives of the State Treasury of Ukraine asked for a more detailed description of the treasury support mechanism used for public procurement construction contracts. It was clarified that under this mechanism all the settlement accounts are opened with the Treasury and all payments are effected against a payment certificate issued by an engineering company that performs necessary supervision at the construction site (in terms of scope, construction norms, etc.). Such supervision is vital since Treasury staff do not have relevant technical expertise in construction.

Zurab Tolordava (Georgia) and representatives of the Treasury of the Kyrgyz Republic asked several questions regarding the division of reporting functions between the Ministry of Finance (MoF) and the Treasury Committee. Aigul Baiguzhina explained that the MoF determines the financial reporting policy and guidelines. The Treasury includes directorates for national and local budget reporting. These units prepare consolidated reports and upload them into the information system of the MoF (e-Minfin). The MoF's Department for Reporting and Statistics verifies the reports and supplements them with further analytical information. The Department may interact with budget administrators directly or may request the Treasury to clarify selected issues through the regional offices of the Treasury.

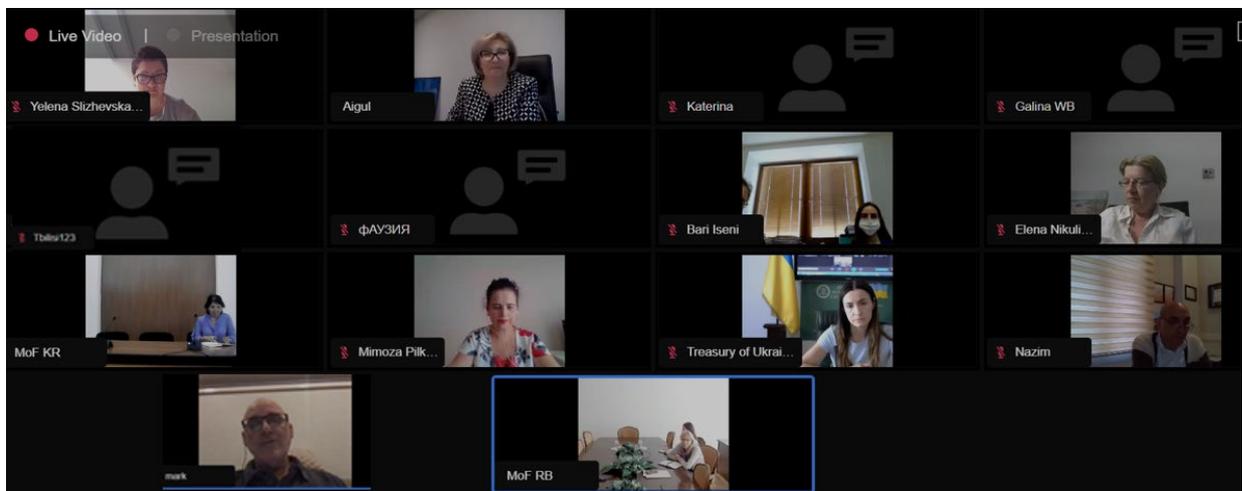
Elena Nikulina asked about the role of the Treasury regarding the National Fund of Kazakhstan. The participants learned that the Fund was established in 2001, initially it was modeled after the Norwegian Petroleum Fund. The current arrangement requires selected oil sector businesses to transfer their direct taxes and certain other proceeds into the treasury account of the Fund. These funds are in-turn swept to the Government's account in the National Bank. The National Fund is managed by the National Bank under a trusteeship agreement. The National Fund proceeds may only be used to support a guaranteed transfer to finance the budget deficit (monthly allocations) or for earmarked transfers based on priorities set by the President (this year the funds are being used to mitigate the coronavirus pandemic). The amounts of the guaranteed transfers are approved by the Law on the National Budget for three forward years. Domestically issued government securities are also used to finance the budget deficit in addition to the guaranteed transfer.

Bari Iseni (North Macedonia) wanted to clarify why the Treasury is maintaining such a broad regional network in parallel to such powerful central information system. The Deputy Chair acknowledged that the current level of automation allows to significantly reduce the network. However, she noted that regional offices are often the only central government body present in an area and are regularly tasked with implementation of broader government activities beyond the traditional Treasury role.



Representatives of the Kyrgyz Treasury asked if the Kazakhstan Treasury provides services to the Mandatory Health Insurance (MHI) Fund. Mrs. Baiguzhina confirmed that the MHI fund is serviced by the Treasury and is part of the Treasury Single Account (TSA)

Mimoza Pilkati (State Treasury of Albania) queried whether Kazakhstan has a central system that supports HR and payroll. It was explained that these functions are currently only integrated within the MoF itself through the e-Minfin system. It has HR functionality which allows data-entry regarding each staff member, and e-accounting (part of the e-Minfin) uses it for automatic payroll calculations and the generation of the pay-lists, which contain staff names and their respective bank accounts. While the Treasury had originally planned to implement an HR and payroll management module in its treasury information system, the Public Service Agency took the lead on this issue and developed its own system which is to be integrated with accounting systems of all government institutions in the future. The presenter reiterated that currently there is no centralized system for payroll management and salary payments that cover all government institutions.



Mark Silins, the TCOP thematic advisor, was invited to comment at the end of the question and answer session. He began by thanking Aigul and the team from Kazakhstan for the excellent presentation which had stimulated many interesting questions and comments. He also congratulated participants in general for the thoughtful questions that had made this a very interesting session. He also noted that it is disappointing that it was not possible to meet face-to-face in Astana as was planned for this year's major event, but it is pleasing to see most colleagues here in this virtual meeting.

Mark commented that it was very interesting to see the progress made in Kazakhstan in these 26 years since the President created the legal basis for a central treasury function. Mark commented that very soon after commencing international work twenty years ago he became aware of the Kazakhstan treasury system which was used as an example of good practice in the seminal Treasury Reference Model paper authored by Ali Hashim and Bill Allan. It was clear from the presentation that since then, significant further modernization has occurred, including the evolution to a treasury-client information system. Importantly this new model is interoperable with the ministries, departments and agency (MDAs) accounting systems such as 1C and this continues the best practice evolution from over twenty years ago!



It is important to emphasize one significant change from twenty years ago. In the past the goal for many countries supported by development partners was the creation of a single integrated ICT solution, an IFMIS. Modern understanding of the risks and challenges of such mega developments has tempered thinking and so now the focus is much more on how to ensure the interoperability between different software and systems. This is what Kazakhstan described to PEMPAL today. We should all note the emphasis today not on integration into a single mega-system but the interoperability and data exchange between systems - thus mutual data exchange is the key and through this the interoperability of many different systems – this is best practice. Kazakhstan has not sought to replicate existing IT tools in use in different parts of government but to ensure these IT tools share information and data seamlessly to and from the central treasury system.

The presentation also highlighted several key areas of treasury reforms in Kazakhstan:

- The move to a performance management framework including using benchmarking to compare performance between different treasury offices and developing specific metrics regarding the performance of key processes and functions;
- Linking payment release for capital projects to an independent assessment by a technical expert ensuring funds are only transferred once real progress and compliance have been confirmed;
- Public private partnerships are now managed on the Treasury books as liabilities providing better coverage of fiscal risks and control over emerging debt issues; and
- Adoption of e-signature – this was originally scheduled for 2021 but was brought forward to 2020 to ensure business continuity by allowing remote approvals required due to the COVID -19 pandemic.

In conclusion, Mrs. Elena Nikulina thanked all the attendees for their active participation. The audience benefited from the detailed and rich information presented in a systemic way, and the Resource Team expressed its gratitude and commended Mrs. Baiguzhina for her thoughtful presentation and clear responses to the many questions. Participants found some of the topics especially interesting, for example, the scoring methodology and technique for assessing performance as well as risks. Elena suggested that the TCOP participants could consider a separate event to cover these in the future.

