

# ECA - PFM PERFORMANCE AND REFORM PRIORITIES

**PEMPAL cross-COP leadership meeting  
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# Objectives/Scope

Present the conclusions of a World Bank review of PFM performance of ECA countries using available data:

- World Bank CPIA Index
- PEFA reports
- Open Budget

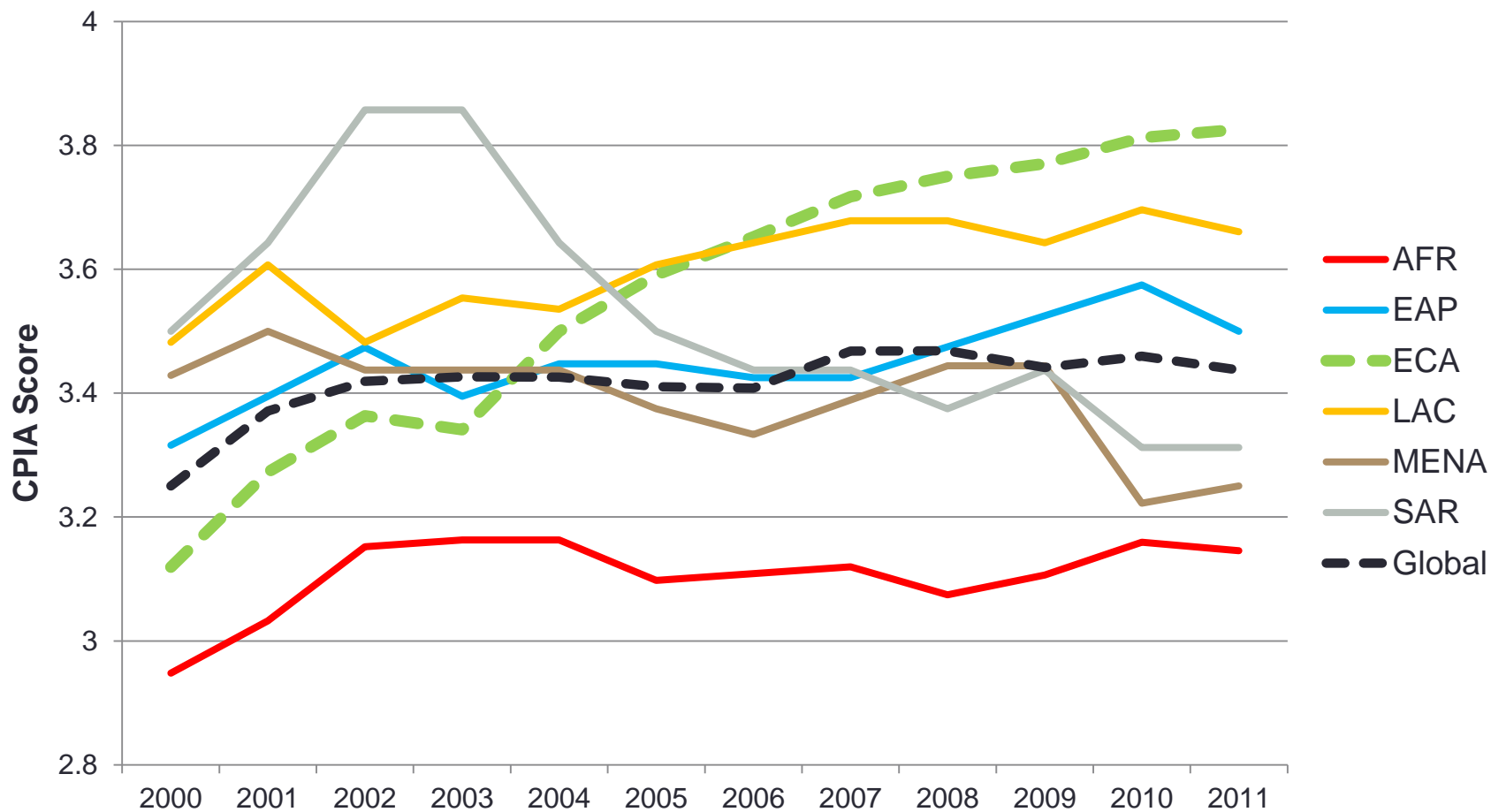
Identify regional PFM issues and challenges

Suggested PFM reform priorities

Linkage to PEMPAL activities

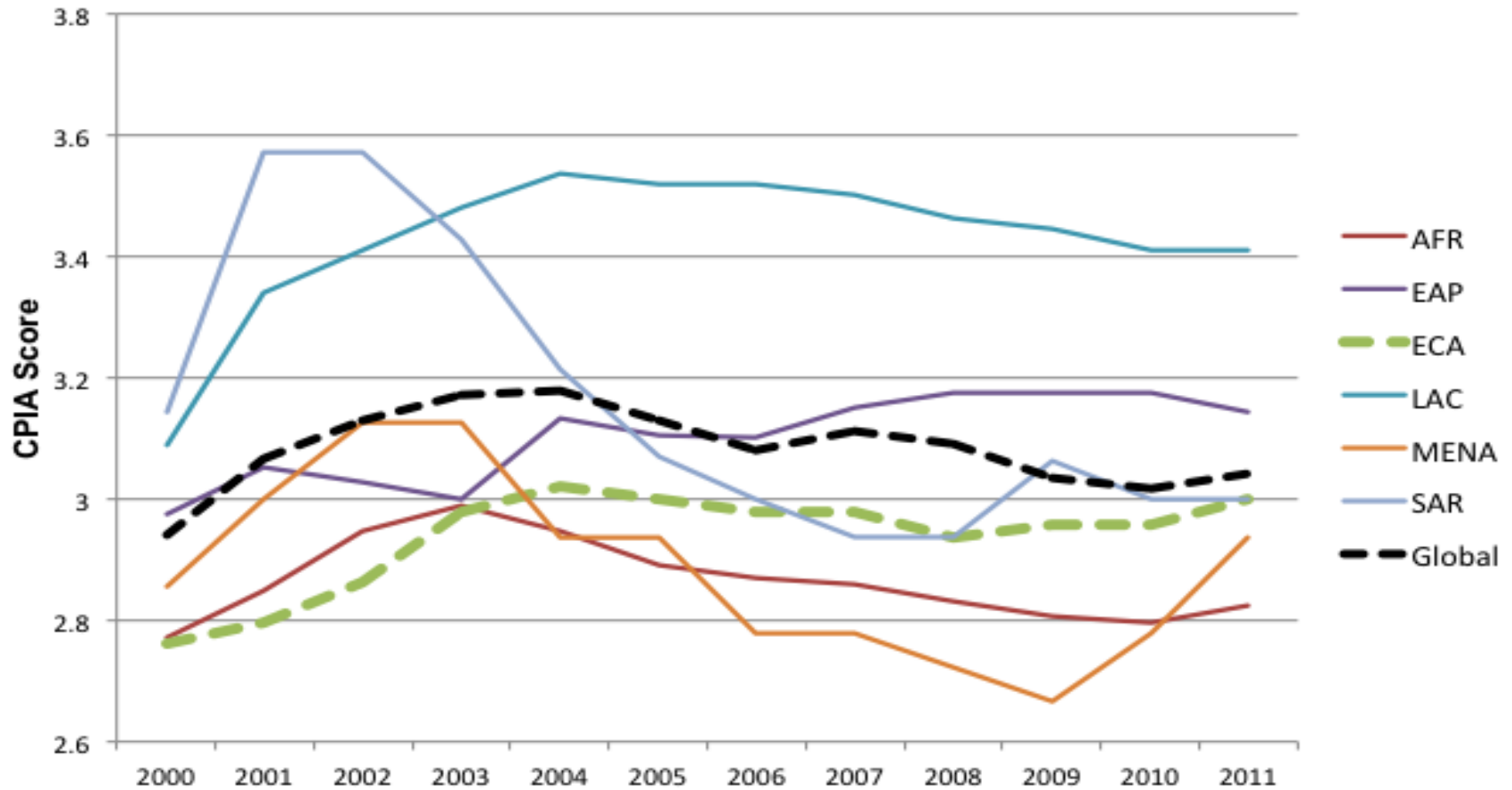
# PFM Performance

## CPIA Q13: Quality of Budget & Financial Management

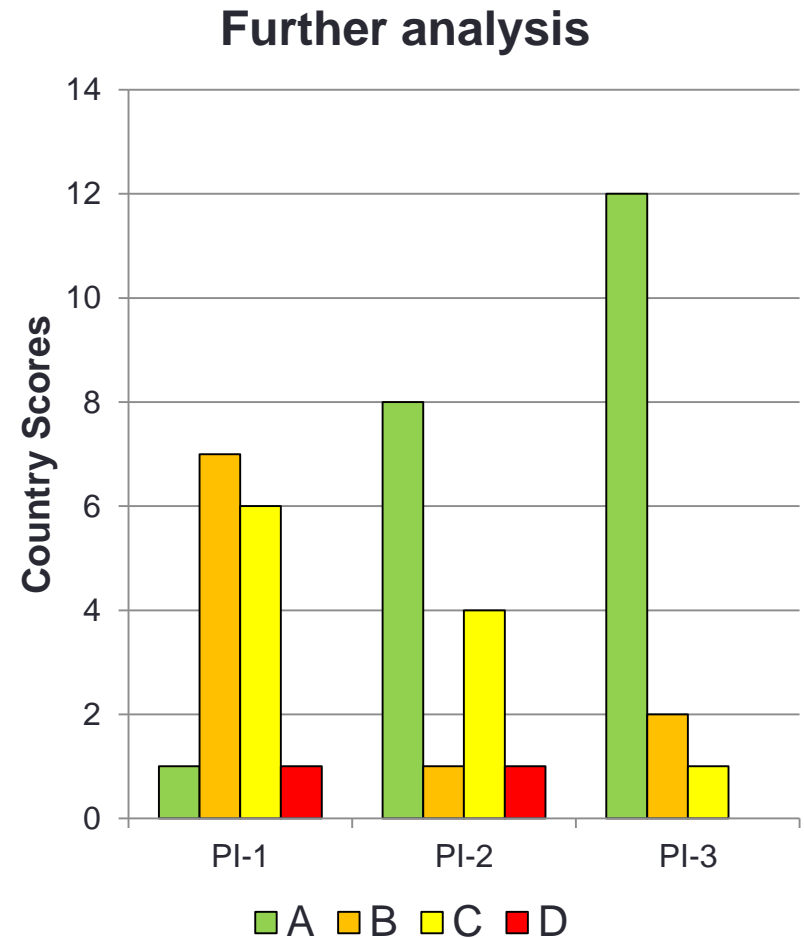
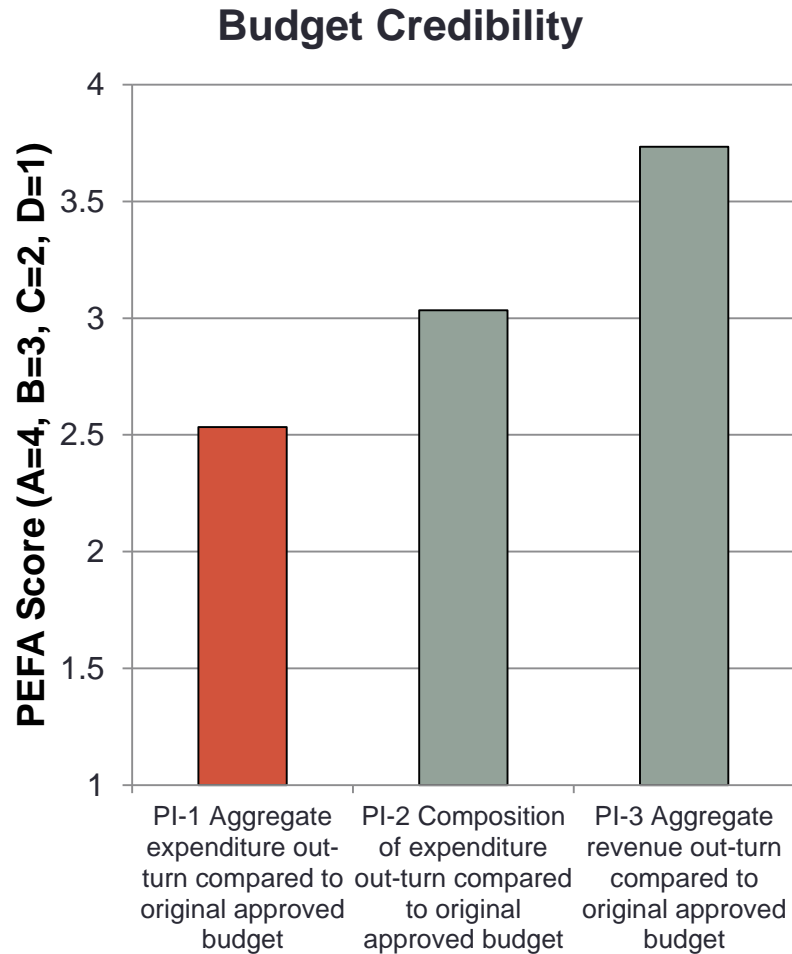


# PFM performance

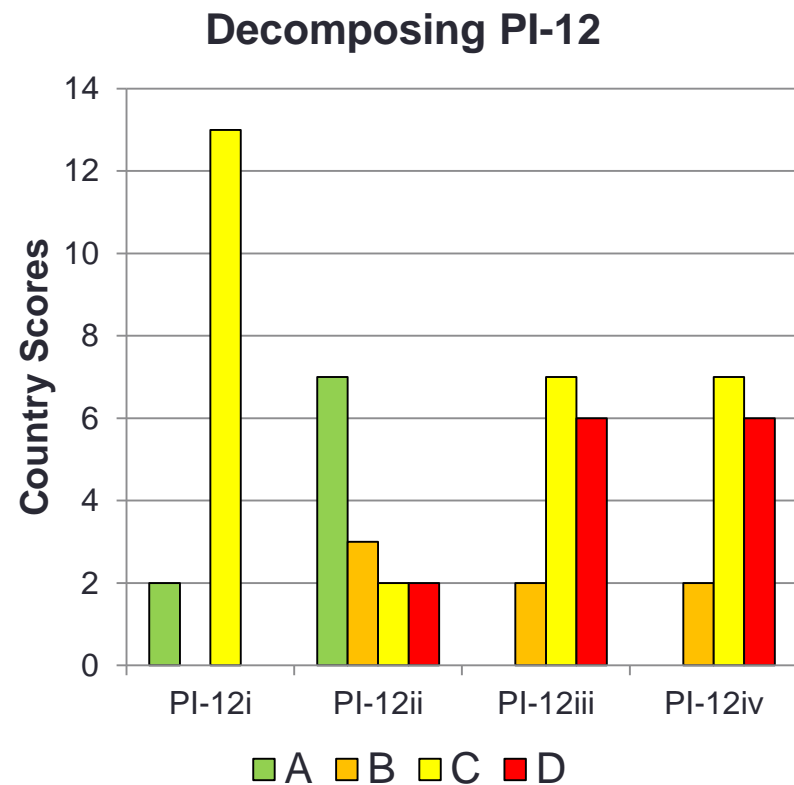
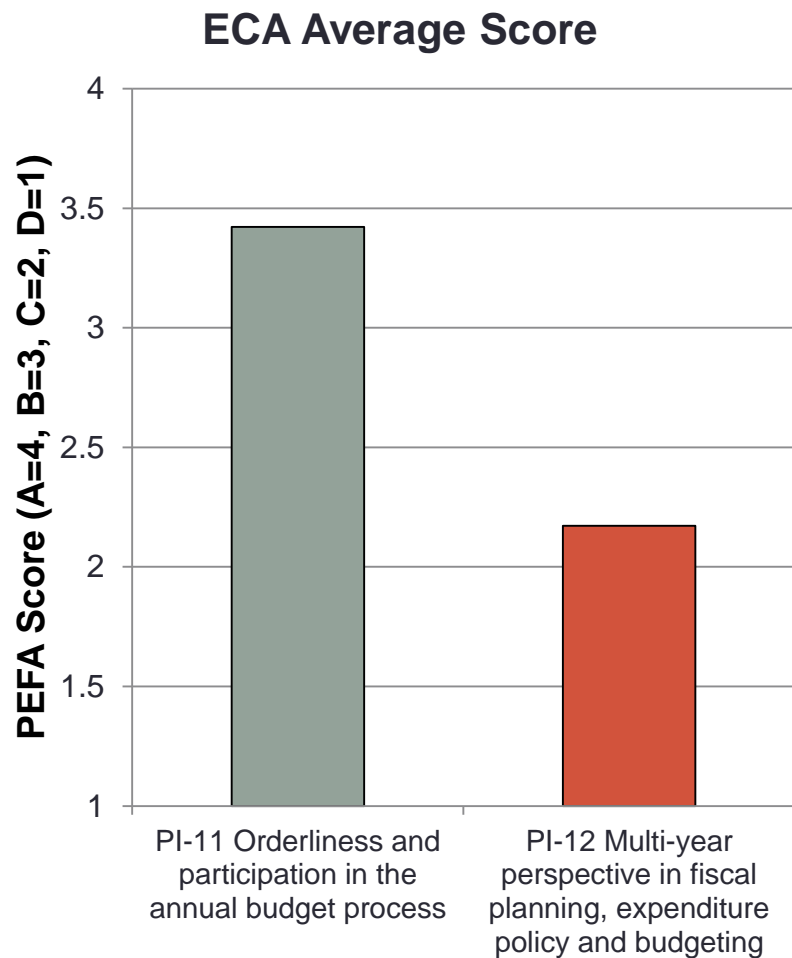
## CPIA 16: Transparency, Accountability, and Corruption



# Budget Credibility

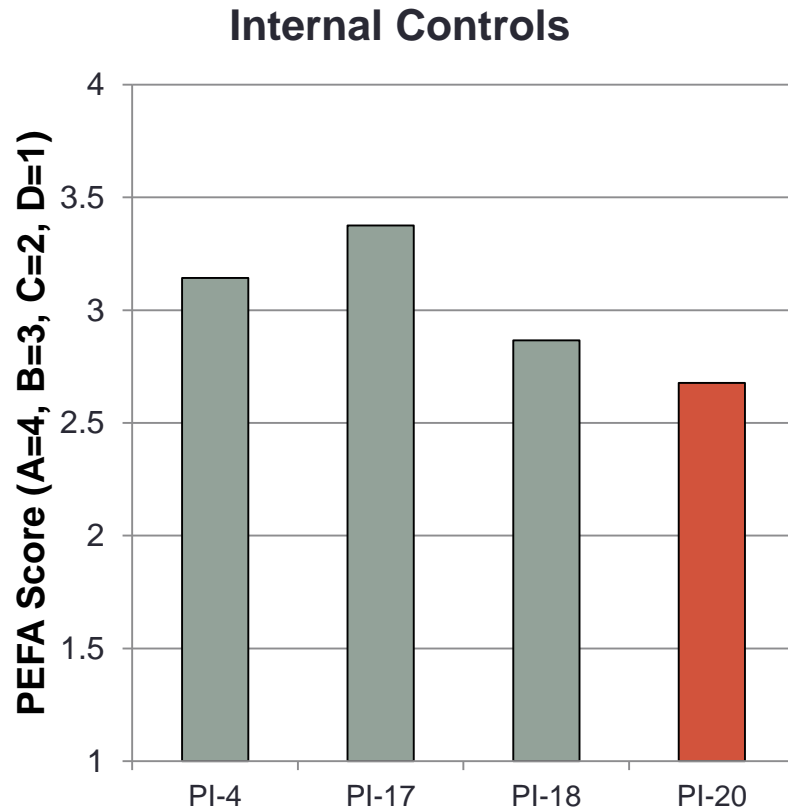


# Policy-Based Budgeting

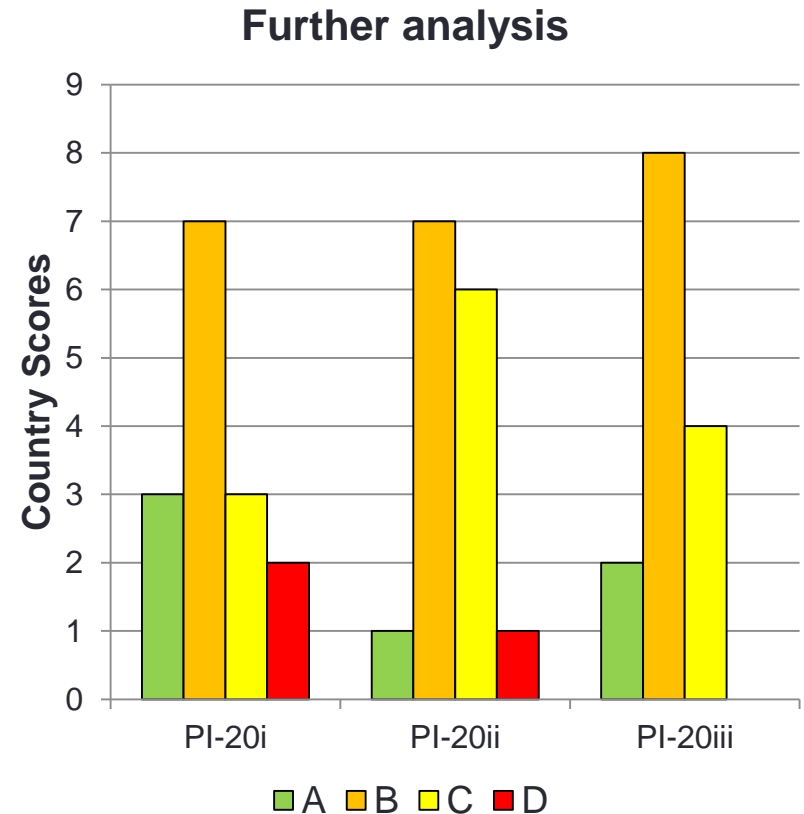


- (i) Multi-year fiscal forecasts and functional allocations
- (ii) Scope and frequency of debt sustainability analysis
- (iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure
- (iv) Linkages between investment budgets and forward expenditure estimates

# Internal Controls



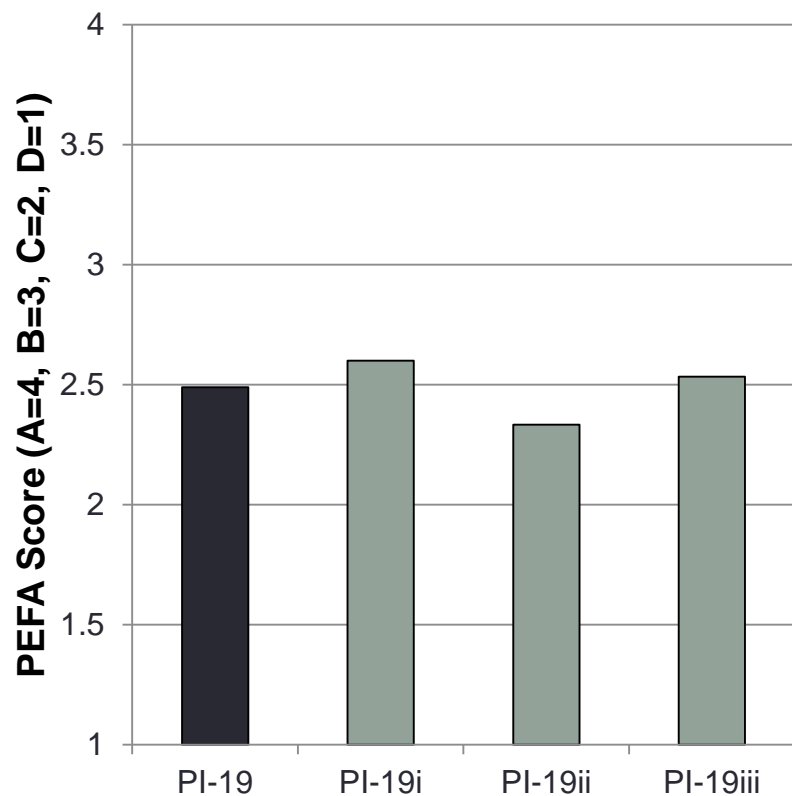
PI-4 Stock and monitoring of expenditure payment arrears  
 PI-17 Recording and management of cash balances, debt and guarantees  
 PI-18 Effectiveness of payroll controls  
 PI-20 Effectiveness of internal controls for non-salary expenditure



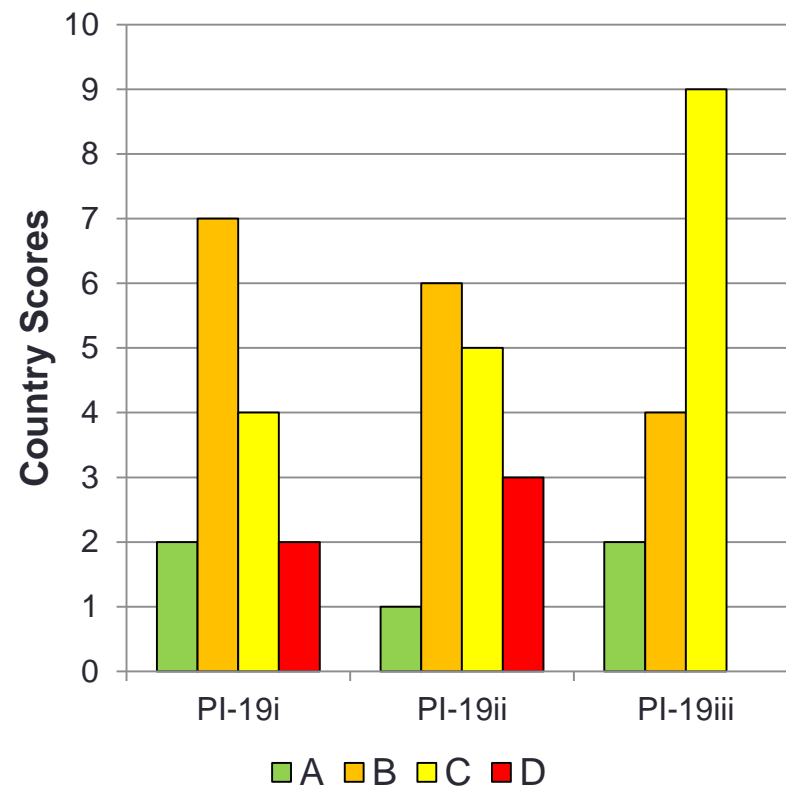
(i) Effectiveness of expenditure commitment controls  
 (ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures  
 (iii) Degree of compliance with rules for processing and recording transactions

# Procurement

## PI-19 Procurement



## Further analysis

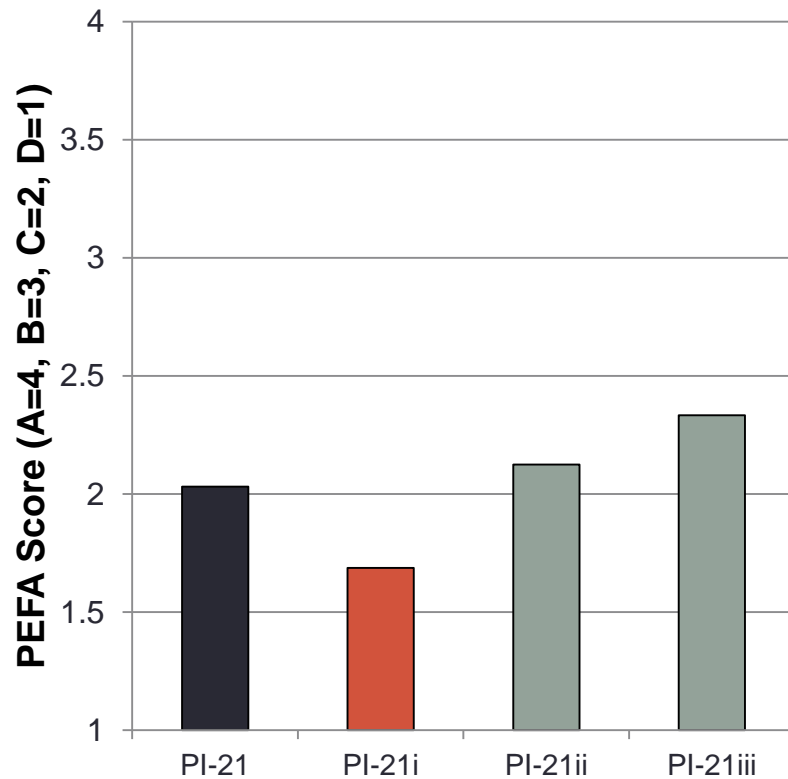


- (i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold)
- (ii) Extent of justification for use of less competitive procurement methods
- (iii) Existence and operation of a procurement complaints mechanism



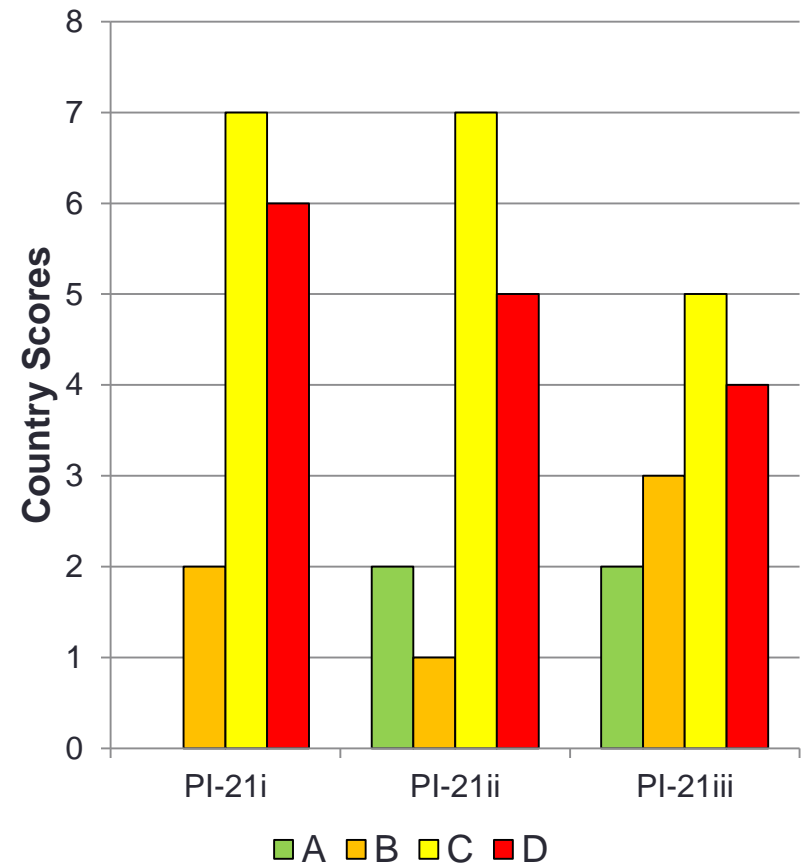
# Internal Audit

## PI-19 Internal Audit



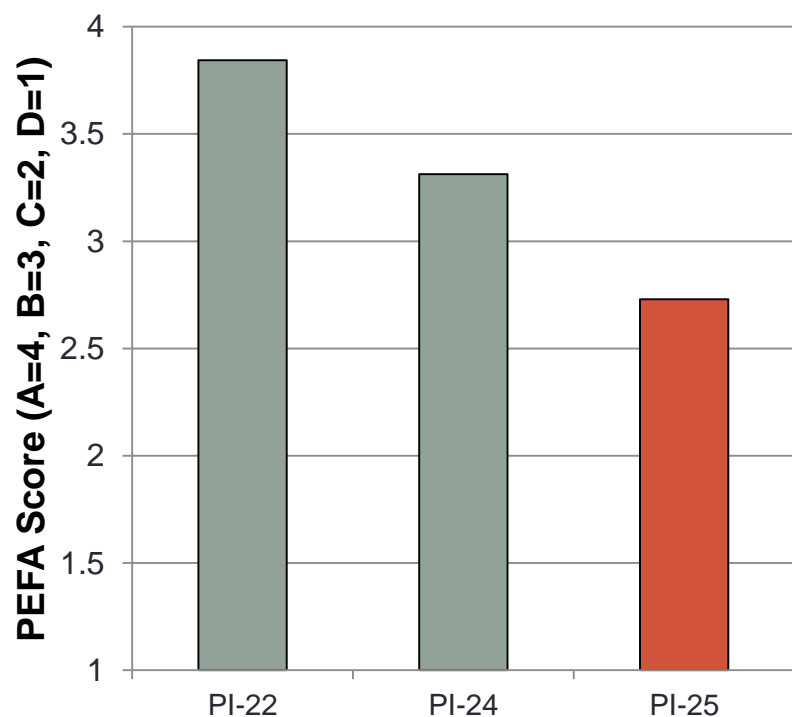
- (i) Coverage and quality of the internal audit function
- (ii) Frequency and distribution of reports
- (iii) Extent of management response to internal audit findings

## Further analysis



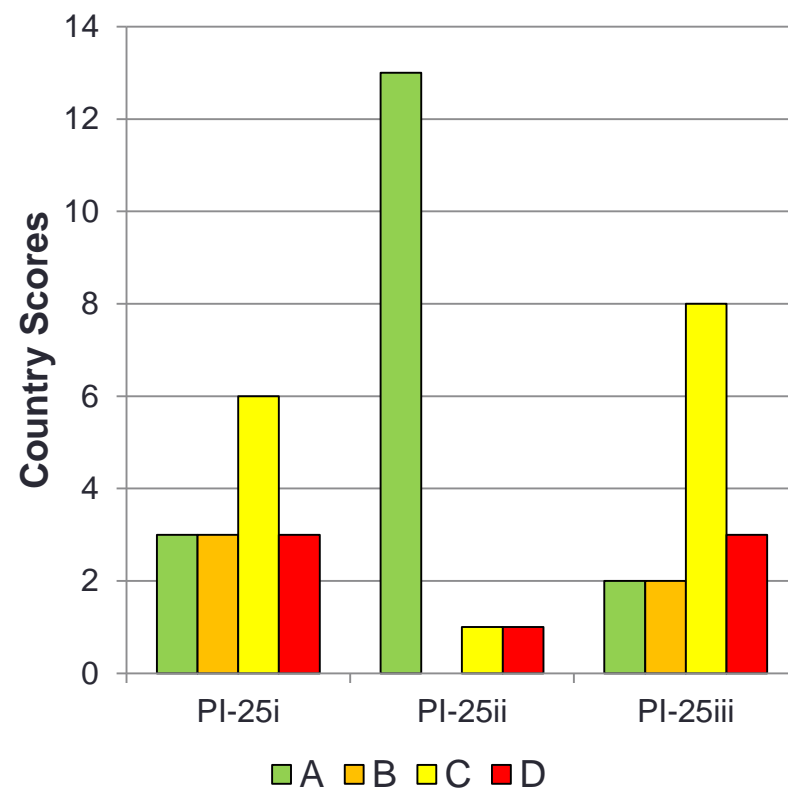
# Accounting, Recording and Reporting

## Accounting and Financial Reporting



PI-22 Timeliness and regularity of accounts reconciliation  
 PI-24 Quality and timeliness of in-year budget reports  
 PI-25 Quality and timeliness of annual financial statements

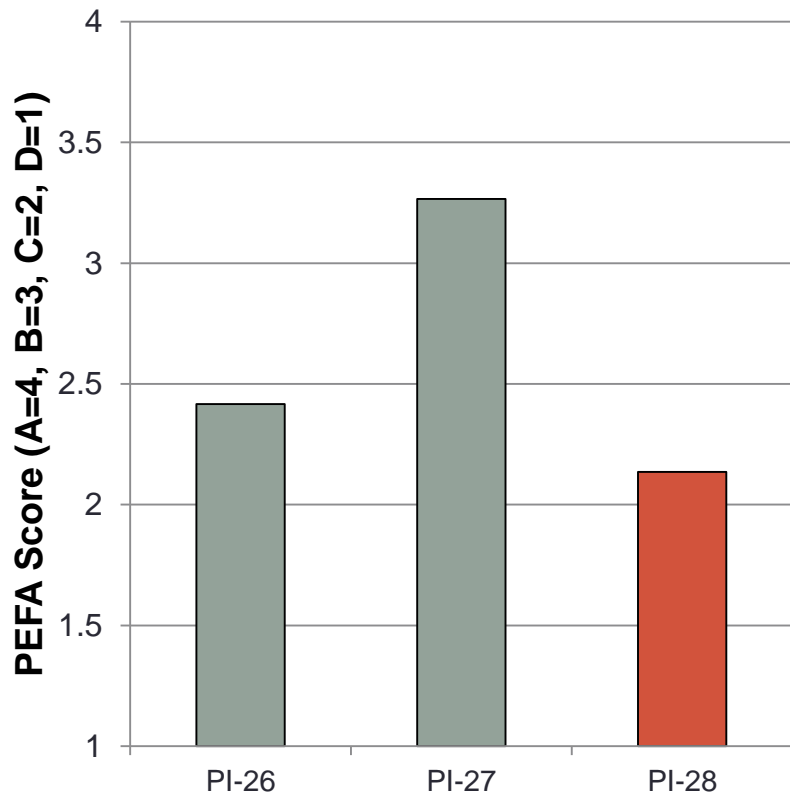
## Further analysis



(i) Completeness of the financial statements  
 (ii) Timeliness of submission of the financial statements  
 (iii) Accounting standards used

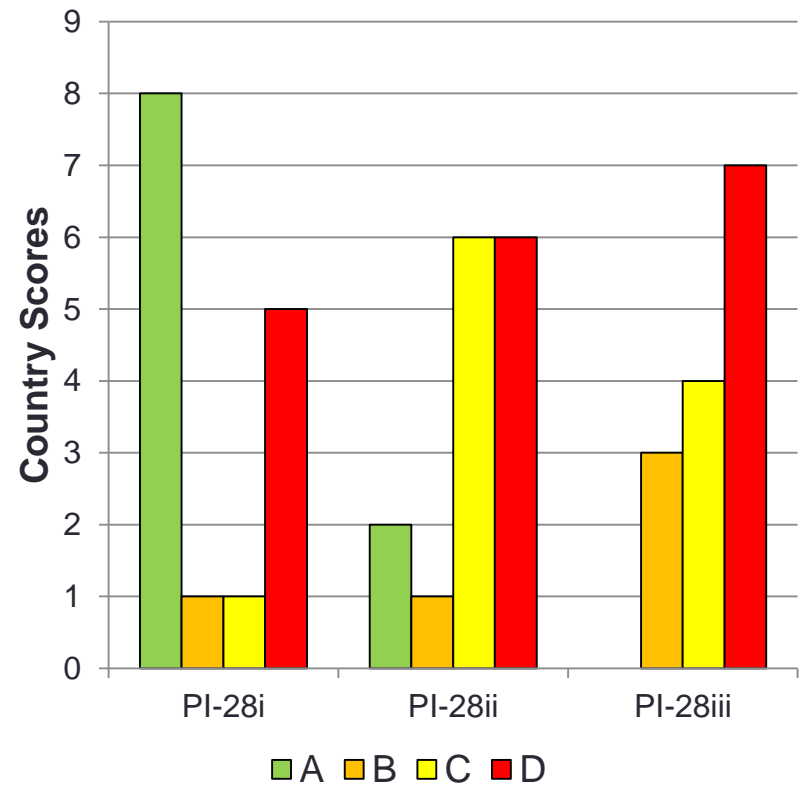
# External Scrutiny and Audit

External Audit and Scrutiny



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

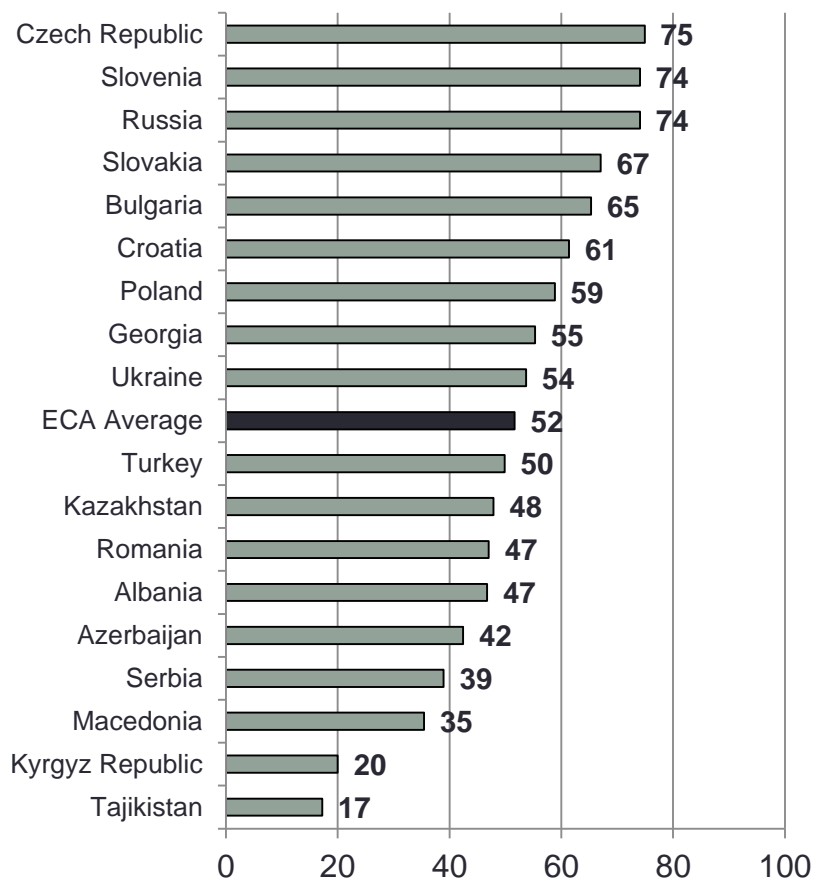
Further analysis



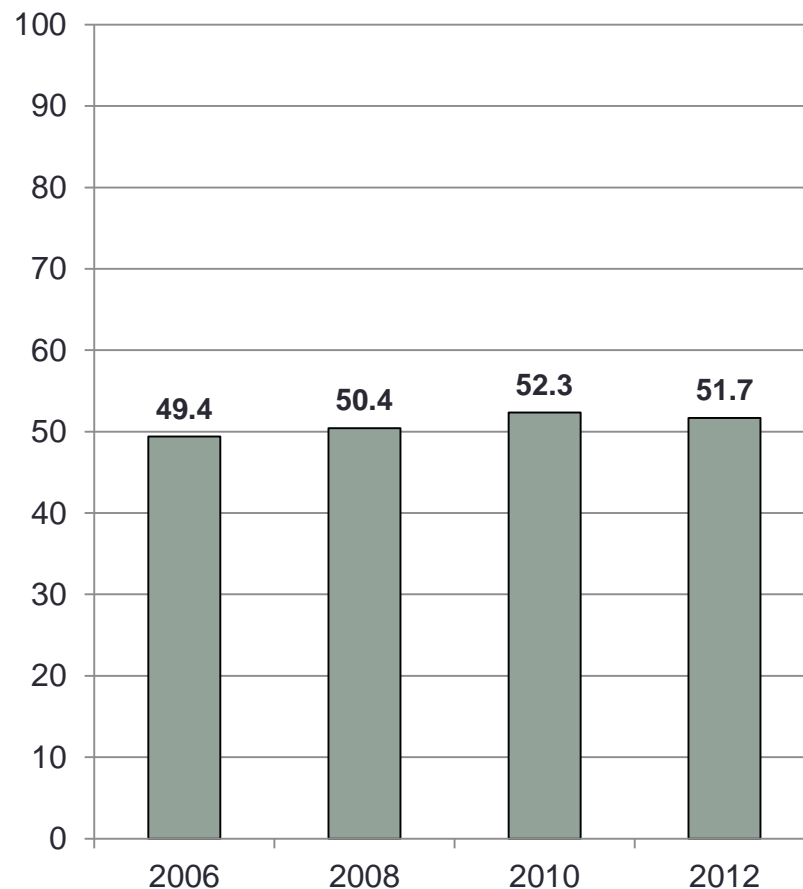
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years)  
 (ii) Extent of hearings on key findings undertaken by the legislature  
 (iii) Issuance of recommended actions by the legislature and implementation by the executive

# Fiscal Transparency

## Open Budget Index 2012

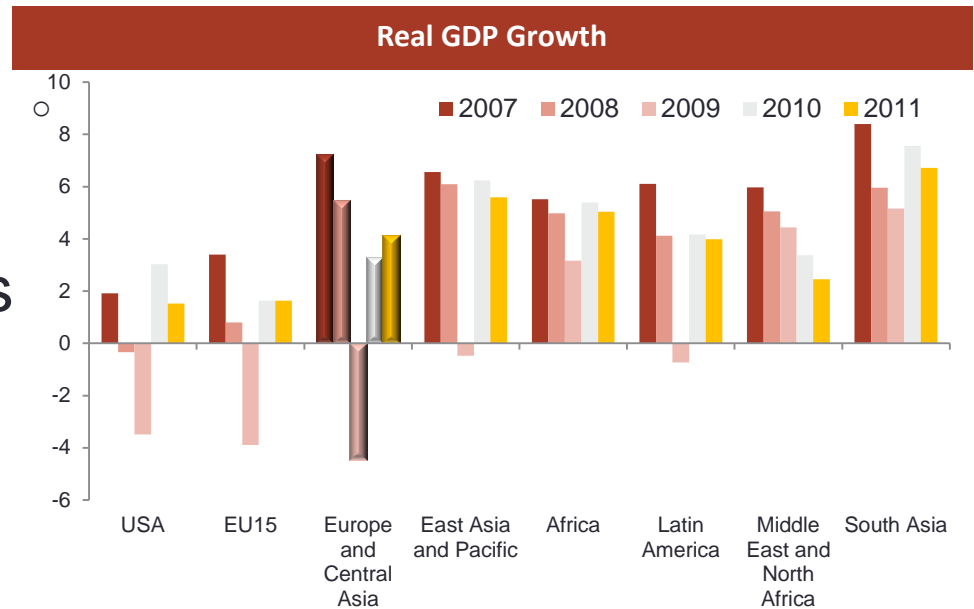


## ECA Average over time

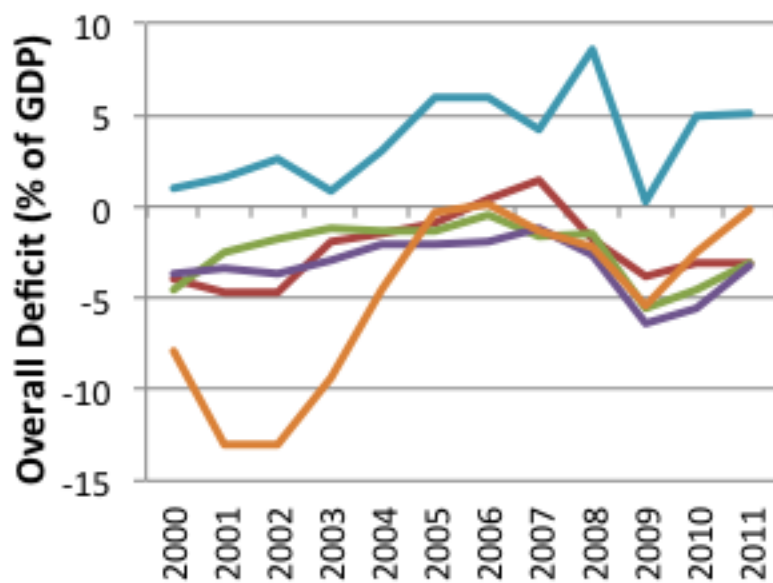


# Strategic challenges to ECA countries fiscal stability and future prosperity?

- Slow projected growth
  - Need to invest in infrastructure and skills to boost competitiveness

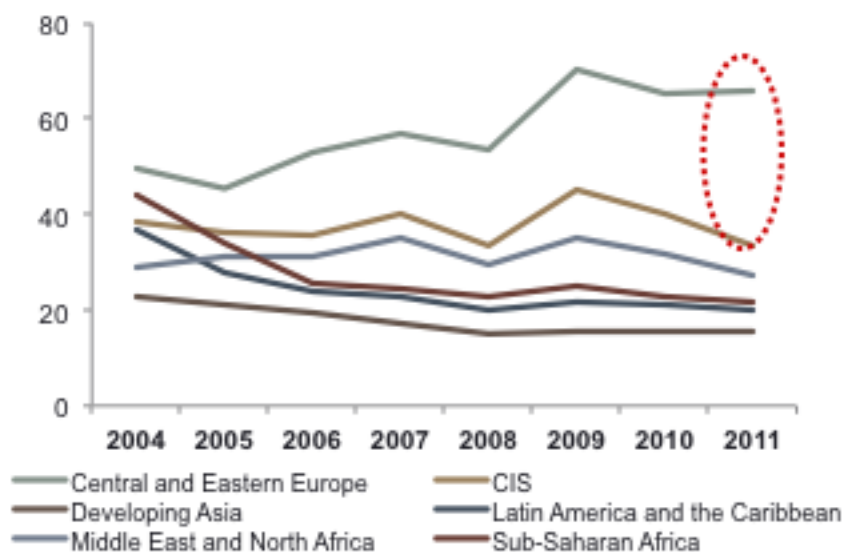


# Fiscal imbalances and debt



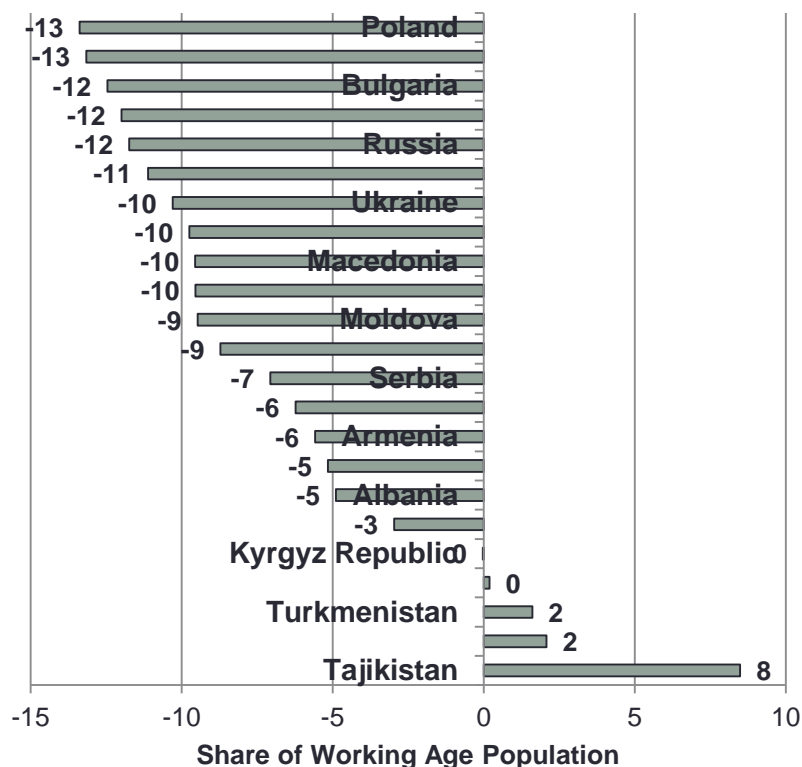
- Balkans
- CIS and South Caucasus
- EU10+1
- Russia and Oil Exporters
- Turkey

External Debt (Public and Private)



# Bad Demographics

Projected Change in Share of Working Age Population, 2010-2050



- Pressure on discretionary budget
- Reform of entitlement programs to ensure sustainability
- Rebalancing revenues (declining payroll tax)
- Inter-generational equity issues

# ECA Priorities for PFM Reform

## Long term budget sustainability

- Use of medium/longer term budgeting and fiscal rules
- Management of debt and arrears (incl. municipal)
- Governance of SOEs, and associated fiscal risks
- Reform of entitlement programs to ensure sustainability
- Broadening the tax base and improving collection

## Budget efficiency – doing more with less

- Results orientation in budgeting (MTEF, PBB)
- Investment in information management (IFMIS)
- Improved evaluation and management of capital projects
- Supporting new models of service delivery (incl. PPPs)
- Reducing waste and corruption in public procurement

## Strengthening PFM at sub-national level to support decentralization

- Control of debt and arrears
- Modernization of transfers and grants
- Management of EU funds (structural, cohesion, climate change etc.)
- Capacity building

## Increasing fiscal transparency and accountability

- Modernization of internal controls and development of internal audit
- Strengthening independent audit and oversight
- Improving the quality and availability of budget information (quality of accounting systems, citizen budget, IFMIS etc.)
- Improving civic consultation and participation



# Linkage with PEMPAL Activities

- All the themes that PEMPAL COPs have identified as priorities in their action plans are among the suggested PFM reform priorities for ECA countries.
- COPs might want to use the list of suggested reform priorities as a reference when revisiting the action plans in the future
- Budget efficiency, and fiscal transparency and accountability are the two areas of priority interest for PEMPAL members that coincide with suggested PFM priorities for the region.
- The theme of 'Budget Transparency' proposed by the Russia MOF and BCOP for the May 2014 plenary is among the PFM reform priorities for the region and one of dimensions of priority interest for PEMPAL members.

# COMMENTS-QUESTIONS?



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