



A joint initiative of the OECD and the European Union,
principally financed by the EU

Working Party of Senior Budget Officials

Implementing a PFM reform agenda

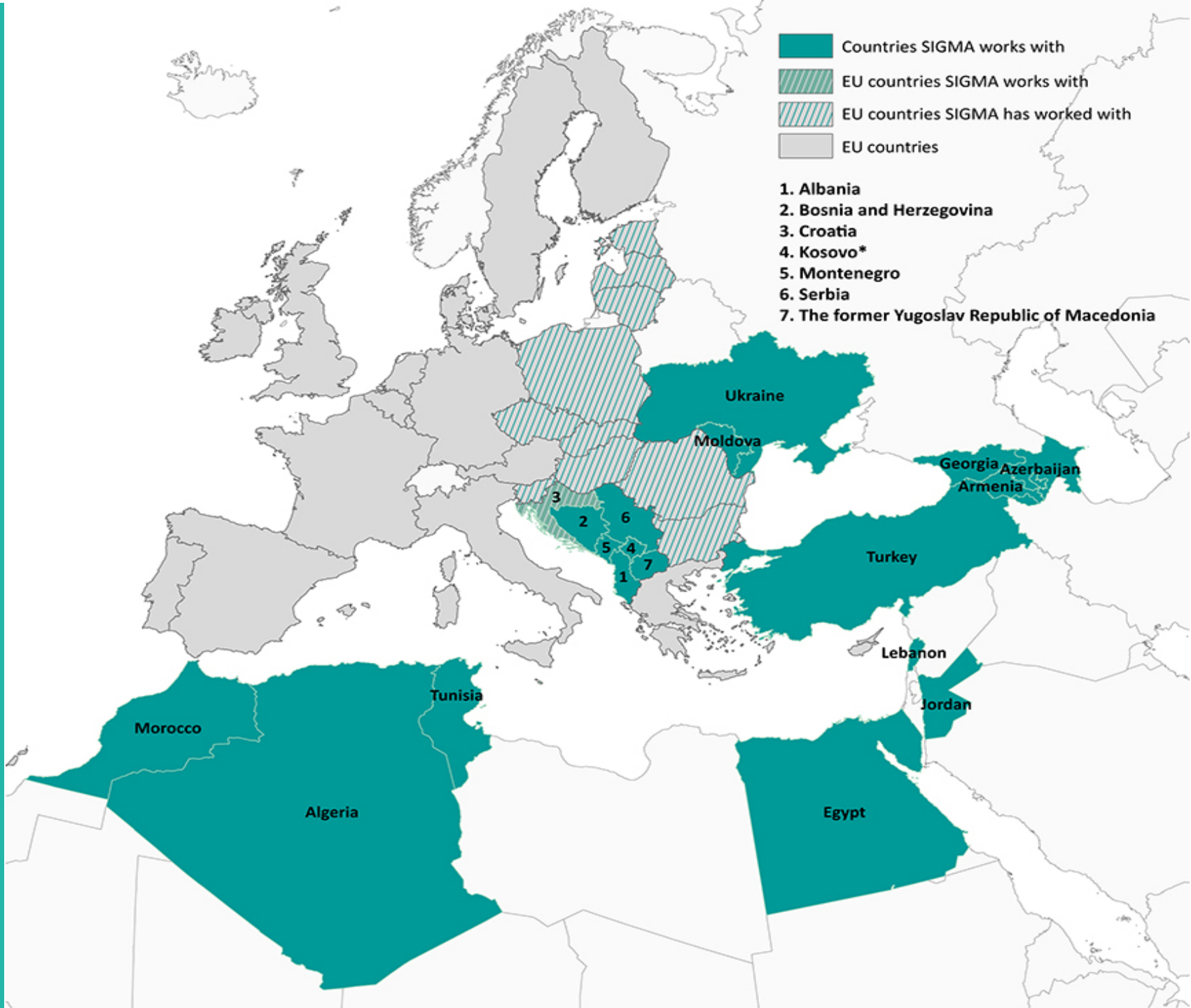
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The scope of PFM is wide

OECD DAC 2009 Definition of PFM:

“ PFM includes all components of a national budget process... **including strategic planning**, medium-term expenditure framework, annual budgeting, as well as revenue management, **procurement**, controlling, accounting, reporting, monitoring and assessing, **audit and external supervision**. ”





Different approaches to PFM

The "traditional" approach

Focus is placed on compliance – respecting procedures

The "modern" approach focuses on:

Focus is on the formulation and planning of public policies and performance





Development path of PFM systems

1. Focus on input controls, compliance and annual cycle, centralised approach
2. More focus on fiscal aggregates, medium-term cycle and assets/liabilities
 - Input controls still dominate
3. Focus on policy objectives and outcomes, decentralised approach





PFM reforms first

- Introducing new technical or separate functions is easier than changing the behaviour of public sector managers
- Resource allocation procedures are key to changes in the way managers approach value for money
- Modernising internal control and financial management arrangements in public organisations should not lead PFM reform but should follow





Emerging trends

- Fiscal challenges prevail, PFM reforms postponed or delayed
- Fiscal rules – the CESEE countries follow the trend
- Accounting standards towards elements of accruals
- Performance budgeting reforms slowed down
- Treasury single account systems mostly operational





Typical problems

- Focus on one calendar year
- Agreed ceilings are not kept
- Fiscal risk not disclosed
- Cash controls robust, often on the expense of value for money, budget flexibility low
- Transparency in budget execution limited
 - only aggregate information provided in many cases
- No culture of evaluation and prioritisation – focus is on compliance rather than on results, legalistic approach





Usual mistakes with performance budgeting

- No policy assessment tradition beforehand
- Strategic planning framework not developed
- Focus on one calendar year
 - MTBF should function before performance budgeting
- Detailed line item budget kept, including Treasury controls based on the same details
- Operational managers in line ministries without financial responsibility – lack of accountability



FMC as part of EU accession process

The EU accession includes a focus on PIFC:

- Financial Management and Control (FMC)
- Internal Audit (IA)
- External Audit (EA)

FMC appears the most difficult to advance

- a) It cannot be built from zero
- b) Interdependent with a variety of existing practices, interests and traditions within the public sector





What is public administration reform?

- Public administration is the organised state apparatus that ensures the accomplishment of the executive power's missions and responsibilities
 - subjected to the rule of law, i.e. to internal and external controls
- Public administration reform (PAR) is about making changes in:
 - the legal administrative framework of the state and
 - its administrative/managerial practices in order improve the functioning of the state





PAR includes PFM/PIFC

- A holistic approach towards PAR includes efforts at least in:
 - Civil service and public sector human resource management
 - Administrative organisation, procedures and oversight
 - **Public financial management**
 - Policy-making and quality of legislation
 - E-government
 - Improvement of public services
 - Multi-level governance





FMC and management

- FMC can be properly implemented only when there is good management
- FMC alone cannot drive managerial reform
- FMC needs to rely the need for ‘trust’, ‘loyalty’ and ‘accountability’

There is consent that success in FMC is dependent on other reform areas relevant to public management





Examples of concepts relevant to FMC

- Delegation and empowered decision-making
 - Accountability and performance
 - Risk management
1. These issues are not only about financial controls
 2. Doing these in a way to achieve value for money, requires trust and a high level of professionalisation in public management capacities

But what are the basics?





Examples of basics for FMC

The following are important for the success of FMC in any country

- Clarity and transparency in responsibilities between public sector organisations
- Recruitment procedures that are transparent, enable the appropriate manager to influence the process and focus on merit
- Administrative procedures that ensure accountability for the delivery and quality of public services
- Regular work planning
- Provisions requiring estimations about cost implications when new projects and new laws are proposed
- Transparent public procurement procedures and practices
- Strong treasury function and clear cash management and accounting rules, with reliable accounting information





More advanced objectives of FMC: efficiency and effectiveness

Key processes where value for money is determined:

- Deciding the right strategic direction
- Making optimal choices for individual actions and allocating resources in the budget process
- Public procurement
- Management of assets, using these to the maximum potential

None of these are directly part of typical FMC instructions in the EU candidate countries and only the second point relates to budget management in reality





Public finance related to other governance areas

- Strategic planning and government work planning can become meaningful only if budget practices are changed to support the aims of the reform
- Performance budgeting difficult without proper policy analysis and strategic planning in ministries
 - Easy to create ‘potemkin’ facades
- Civil service recruitment and HRM more widely needs to cater for modernisation in the administration





Sequencing of reform steps

Sequencing is needed but more realistic within narrower reform areas

- Such as civil service, budget management, strategic planning or public procurement
- e.g. in public finance management first improve compliance to rules, then move from annual to medium term financial planning and only later think of performance budgeting

Sequencing more widely is difficult:

- Many areas of PAR are highly interdependent
- PAR needs to be often opportunistic





Comprehensiveness of reform agenda

- Reforms fail because they are incomplete
- Reforms fail also because they try to be perfectly complete
 - Comprehensive reform strategies tend to be successful when the initiative comes from the political leadership of the country coupled with sound implementation plans
 - Reforms that are instigated by civil service actors should be pragmatic and opportunistic (having a vision in the background)





New approaches from the EU to the PFM reform agenda

- Comprehensive PFM reform programmes
- Linkages with the PAR agenda
- New requirements for economic governance
- Clearer requirements for ESA compliant accounting
- More oversight on the application of fiscal rules
- Clearer emphasis on the need for MTBF

