

PFM Reform Progress in Treasury and External Financing

Tbilisi, Georgia



In accordance with the Activity Plan for 2010-2012, on February 27-29th, 2012, PEM PAL Treasury Community of Practice (TCOP) held a three-day workshop on PFM reform progress in Treasury and External financing, in Tbilisi, Georgia. The representatives of ten countries (Albania, Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan and Ukraine) have attended the workshop.

The **first day** of the workshop was devoted to the presentation of the hosting country experience in implementation of PFM reforms¹.



Workshop participants have been informed about the **overall progress of the reforms** implemented in the treasury system of Georgia, as well as about the **future plans** in this area (**Ms. Nino Tchelishvili.**). The experience of Georgia in **Cash and Debt Management** was presented by **Mr. Erekle Glavadze**. The presentation devoted to the **PFM Model and Treasury General Ledger** of Georgia was presented by **Ms. Lela Kurashvili**. The workshop participants have

been informed, also, about Georgia's experience in modernising **tax and non-tax refund** system (**Mr. Levan Todua.**) Following the presentation "**Implementation Strategy for Georgia's IFMIS. Analysis and Conclusions from April, 2011 Consultant Study**", made by **Mr. Eduardo Talero** from the World Bank, **live demonstration** of the information system of the treasury of Georgia took place (**Mr. Zurab Tsitaluari.**)

The experience of Georgia in implementing PFM reforms has been discussed by workshop participants in small groups. The main objective of these discussions was to identify successful aspects of the reforms implemented by the hosting country, which could be applicable in other participating countries.

¹ All presentations demonstrated during the workshop are available on TCOP wikispace - <http://tcopempal.wikispaces.com/>



Reports² on the small group discussions were presented at the beginning of the second day of the workshop. **Mr. Rustam Boboev, Ms. Angela Voronin and Ms. Anila Cili** informed the workshop participants about the most important conclusions of the discussions in their groups, underlining the following interesting aspects of the reforms undertaken by the hosting country, noticed by the participants as applicable in their countries:

- ✓ *Use of multi currency account. The representatives of Ukraine, Moldova and Tajikistan consider this experience useful, and have expressed their interest to implement it in their countries.*
- ✓ *Removing paper documentation form treasury business process. A number of participating countries intend to implement this experience in their treasury systems.*
- ✓ *Full or partial elimination of cash transactions from the treasury operations. This experience of the hosting country raised a lot of interest among the workshop*

² All reports presented during the workshop are posted on TCOP wikispace - <http://tcopempal.wikispaces.com/>

participants, and many of them indicated an intention to implement it in their countries.

- ✓ *Georgia's Treasury Analytical Service. Many participants of small group discussions have expressed their interest to create such entities within the treasuries of their countries.*
- ✓ *Use of a singular banking account and integrated sub-accounts. This approach might be implemented by Tajikistan.*
- ✓ *In-house development of the treasury information system. Workshop participants have discussed this experience of the hosting country, paying special attention to the findings and conclusions of the analysis made by Mr. Eduardo Talero, which served the basis for the decision on the approach for developing Georgia's treasury IT system.*
- ✓ *Integration of treasury information system with other modules, such as procurement, payroll, etc. This experience was noted as very useful and worth for implementation in other countries.*
- ✓ *Georgia experience of external debt management, including replacement of external debt with internal debt through, issuance of treasury bills with long maturity.*
- ✓ *Connection to the SWIFT system*
- ✓ *Accounting of arrears. Albania might use Georgia experience in this area.*

The second day of the workshop was devoted to integration of external financing into the national treasury operations in PEMPAL countries. Presentation of the World Bank financial management specialists **Mr. Arman Vatyan, Mrs. Oxana Druta and Mr. John Ogallo**, on „**Use of national treasury systems in implementing the projects funded from external sources in Europe and Central Asia region**”, was followed by thematic presentations by the following countries:

Georgia (Mr. Zurab Tolordava and Zaza Rukhaya),



Moldova (Mrs. Angela Voronin),



Ukraine (Mrs. Natalia Sushko)



and Kazakhstan (Mr. Ablay Dostiyarov and Mrs. Lazat Jusipalieva)



Following the presentations by the experts and member countries, discussions on the topic of the day took place in three small groups. The participants discussed the following issues:

1. *Advantages and challenges of channeling donor funding through the national treasury system*
2. *Difficulties faced by countries in meeting donor fiduciary requirements*
3. *Technical difficulties associated with operations in foreign currencies and possible solutions*

Following the discussions, each of the groups presented the report with the main results.



The reports on the work of the small groups were presented at the beginning of the third day by **Mrs. Zaifun Yernazarova, Mrs. Natalia Sushko, and Mr. Vugar Abdullayev**. The following conclusions on the advantages and challenges of channeling donor funding through the national treasury systems were noted:

Advantages:

- *Strengthening integrity of public finance;*
- *Transparency of use of donor funding;*

- *Possibility for real time monitoring of the movement of funds and operational control over their use;*
- *Timely and reliable reporting to the interested users;*
- *Lower costs of financial operations;*
- *Improved quality of foreign currency forecasts in some countries;*
- *Signal of trust of donors to the public finance management system;*
- *Stimulus for modernizing treasury systems based on international standards.*

Challenges:

- *Need to modernize treasury system to assure compliance with the donor requirements;*
- *Need for legislative changes;*
- *Need to align procurement procedures with the donor requirements;*
- *Accounting challenges;*
- *Lack of necessary software;*
- *Technical difficulties of maintaining multiple sub-accounts in the treasury system (in cases of weak of information systems).*
- *Lack of access to the SWIFT system;*
- *Difficulties associated with the use of multiple currencies, exchange rate differences;*
- *Need to address the issue of the roll-over of the end-year balances;*
- *Lack of qualified personnel and need for training;*
- *Work required to convince donors*
- *Resistance from the project implementation units;*

The following challenges of meeting the donor fiduciary requirements were mentioned:

- *Speed of processing the payments constrained by the required internal procedures;*
- *Lack of adequate software;*
- *Lack of methodological basis;*

- *Problems of incorporating direct payments in reporting (donors impose strict requirements for direct payments);*
- *Need for maintaining parallel reporting in various currencies and formats;*
- *Technical difficulties with calculating and reimbursing taxes for consultants;*
- *Variance in donor requirements (lack of harmonization).*

The reports also mentioned the following technical difficulties related to multiple currency operations and possible solutions:

- *The necessity to undertake operations in multiple currencies presents significant difficulties for many treasuries. **Possible solution**, discussed by participants based on Georgia's experience – creation of a multi-currency account, also connection to the SWIFT system;*
- *Technical difficulties are also associated with the need for conversion and resulting exchange rate differential. **Practical solution** used in several countries – conducting respective operations within a single operational day.*

The third day of the workshop concluded with the **visit to the customs service center**, where participants had an opportunity to get familiar with the customs clearance procedures used in Georgia, as an example of modernization of public services with the use of information technology.

More detailed information on the workshop, presentations and participants' reports can be found on TCOP wiki page - <http://tcopempal.wikispaces.com/>, in the section Tbilisi-2012, as well as at the official web site of PEMPAL program – www.pempal.org