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# Public Finance Reforms: The State of Play in Asia

**IMF-JICA Conference on Developing Asia: Achieving Inclusive and Sustainable Growth with Sound Fiscal Management**

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**IMF Fiscal Affairs Department (FAD) and Capacity Development Office in Thailand (CDOT)**

**Holger van Eden**  
**IMF Regional Public Financial**  
**Management Advisor for SE Asia**  
[hvaneden@imf.org](mailto:hvaneden@imf.org)

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# Outline

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- **Overview**
- **Key PFM Objectives and related Reforms in Asia**
- **Reform Development and Key Issues**
  - **Fiscal Rules**
  - **Medium-term Budget Frameworks**
  - **Fiscal Risk Management**
  - **Performance Budgeting**
  - **Public Investment Management**
  - **Institutional Reform**
- **Conclusions**

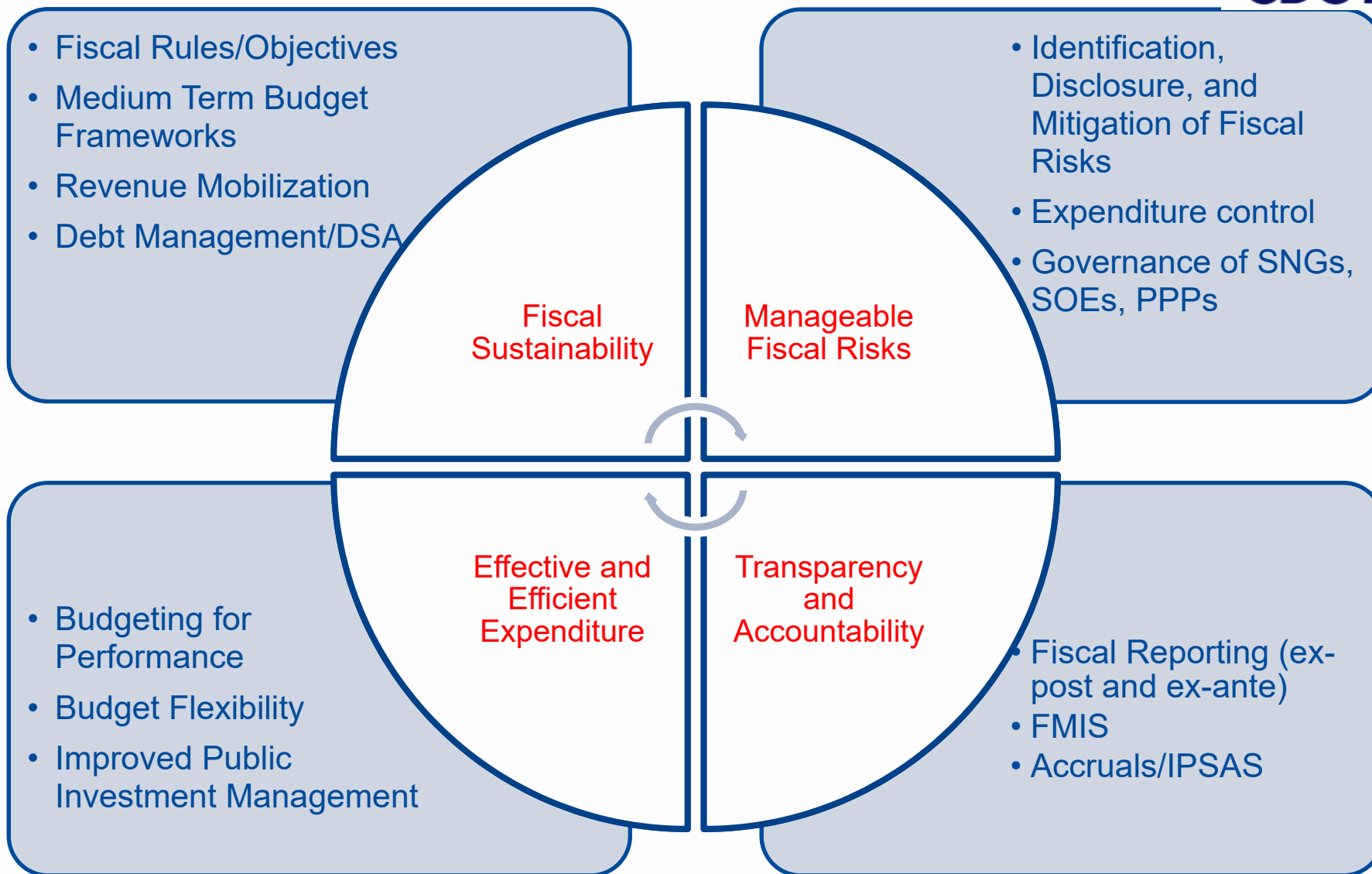
# Asia-Pacific Region has strong interest in PFM Reform

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- Most countries actively engaged in PFM reforms guided by a multi-year reform strategy
- Extensive use of diagnostic tools to direct reform and benchmark progress (PEFA, PIMA, FTE, DEMPA, Open Budget Index)
- IMF and other development partners focused on supporting LICs and EMEs, but some advanced countries at the forefront internationally (Australia, New Zealand, Korea, Singapore)
- PFM reforms in Asia range from basic to intermediate to advanced, reflecting the wide-range of country development
- Significant regional learning through conferences, research and training institutions, and peer-to-peer networks

# Key PFM Objectives and Associated Reforms in Asia



# Fiscal Objectives and Rules



Fiscal objectives and constraints designed with the objective of promoting fiscal discipline, stability and sustainability.

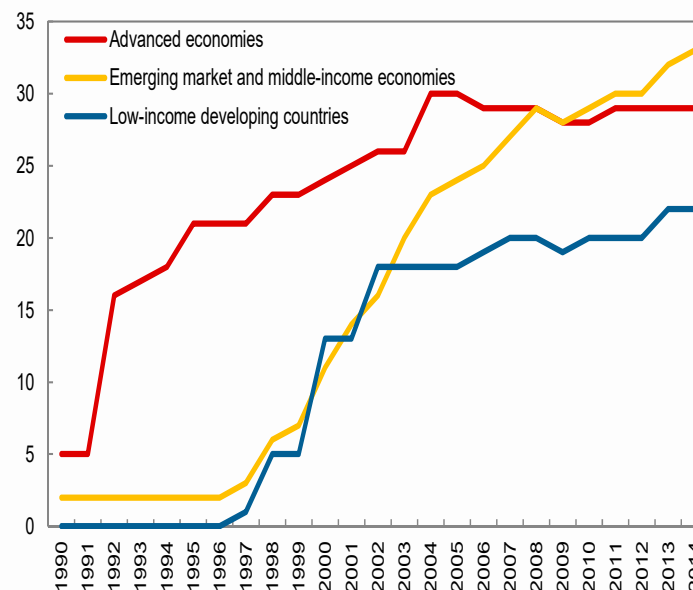
## State of Play In Asia

- Maastricht criteria have been very influential
- Debt and deficit rules introduced by many Asian EMEs, increasingly in fiscal responsibility laws
- SE Asian countries have stuck to them quiet well, S Asian countries less so
- New trends in OECD (more flexible rules, enforcement mechanisms, independent fiscal councils) have had limited uptake (as yet)
- Legislation does include escape clauses and periodic review of rules

## Key issues:

- Bypassing of fiscal rules through SOE financing and PPPs
- Should local government be included in rule framework?
  - >> Are Asia's mega-cities constrained in financing?
  - >> If the "front-door" of SNG financing is to be opened (as in in China), then how?
- Forecasting and monitoring capacity needs to be improved

Number of Countries Using Fiscal Rules - World



# Medium Term Budget Frameworks (MTBFs)



A set of institutional arrangements for prioritizing, presenting, and managing, revenue and expenditure in a multiyear perspective.

## State of Play In Asia

- Key reform objective for many LICs and EMEs in Asia
- MTBFs used more as a tool for multi-year planning than for fiscal discipline
- Quite a few countries have an MTBF in name only; not yet used for budgetary decision-making

## Key Issues:

- Readiness of political environment for multi-year budget decisions
- Disconnect from the budget process
- Credibility of out-year projections – both top-down and bottom-up
- Lack of reconciliation with macro-updates and in-year political decision making

MTBFs in OECD Countries: Key Characteristics	
Horizon	3-5 years
Type	Mostly rolling; fixed less common
Frequency of annual ceiling revision	Typically annually; Some multi-year. Not revised (Sweden).
Units of ceilings	Majority overall expenditure; Also by sector, ministry, or program

Source: OECD

# Fiscal Risk Management



Understanding the risks a government faces to the achievement of its fiscal outcomes, and developing a strategy for reporting and managing risks.

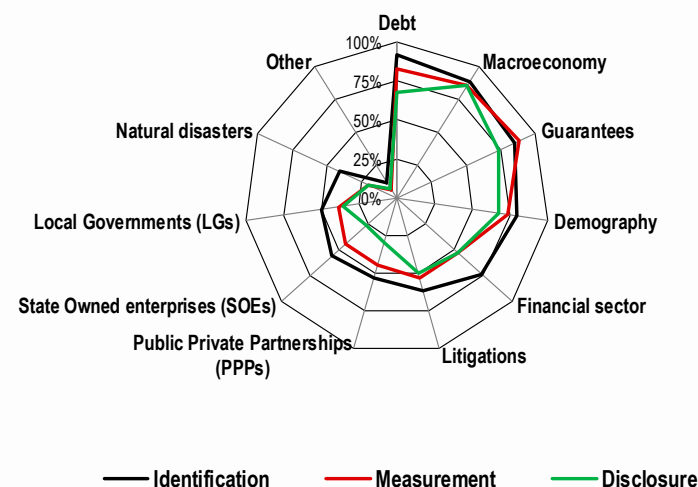
## State of Play In Asia

- Only a few countries publish fiscal risk statements. LIC and EME coverage and depth of fiscal risk reporting needs to improve. Quantitative analysis mostly absent.
- Contingent Liabilities arising from SOEs, SNGs, PPPs and financial sector not comprehensively reported on in budget documentation.
- Countries are making progress in moving towards IPSAS financial reporting standards, but public sector coverage is still limited and mostly incomplete balance sheets.

## Key Issues:

- Inadequate understanding of risk exposure.
- Lack of a systematic and comprehensive risk management approach.
- Institutional responsibility spread out over various MOF departments
- Long-term fiscal projections only in more advanced Asian countries

Fiscal Risks Management in OECD Countries



Source: OECD

# Budgeting for Results

Budgeting that links funds allocated to measurable results; a key reform to improve efficiency and effectiveness of government spending

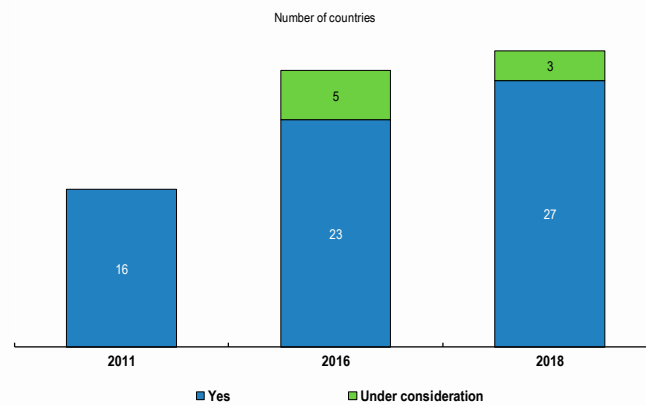
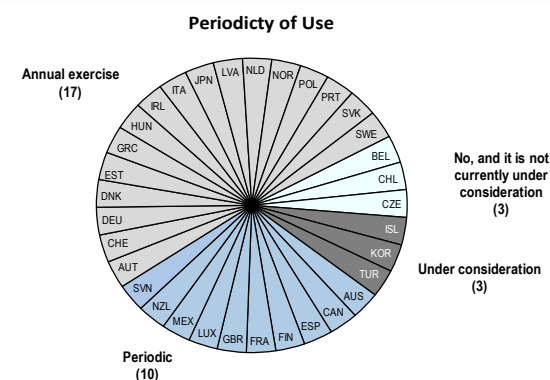
## State of Play in Asia

- Many countries have developed programmatic budget structures with linkages to performance indicator systems
- But review of efficiency and effectiveness of annual spending proposals is hardly done in emerging Asia.
- MoFs mostly focus on analyzing under-execution, constraining “wasteful” expenditure and imposing one-off measures such as hiring freezes
- Some more advanced countries are already developing their second or third performance management system

## Key issues:

- Difficult reform: impact on budgetary decision-making is very limited for most countries.
- Ministries of Finance do not have the time or capacity to use performance information in the budget process
- In-depth, narrowly focused **spending reviews** hardly used.
- Performance indicator systems need to be streamlined, targeted to users, and amended with performance analysis

## Use of Spending Reviews in OECD Countries



Source: OECD



# Public Investment Management



The processes, institutional arrangements and legal framework to effectuate planning, allocation and implementation of public investment

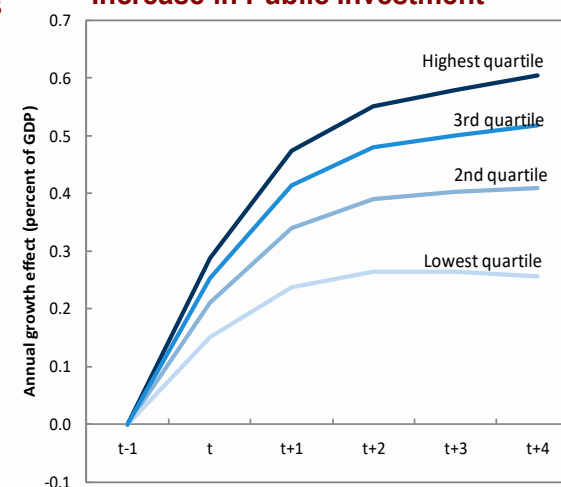
## State of Play in Asia

- Public investment a development priority in all of “emerging” Asia.
- Fiscal constraints are stimulating financing through PPPs, SOE and SNGs
- PIM system often fragmented especially in in planning, appraisal and selection phases
- Dual budgeting still the reality in many countries
- Under-execution of investment budget very common
- Focus on new projects not maintenance
- Project fragmentation causes slow realization of benefits

## Key issues:

- A multitude of reforms across government are needed
- Poor linkage between planning and budgeting processes, and weak coordination between MOF and Planning Ministry
- Planning phase underfunded. Leads to weak and delayed implementation
- Need to strengthen multi-year budgeting/contracting

**Growth Effect of a 1 Percent of GDP Increase in Public Investment**

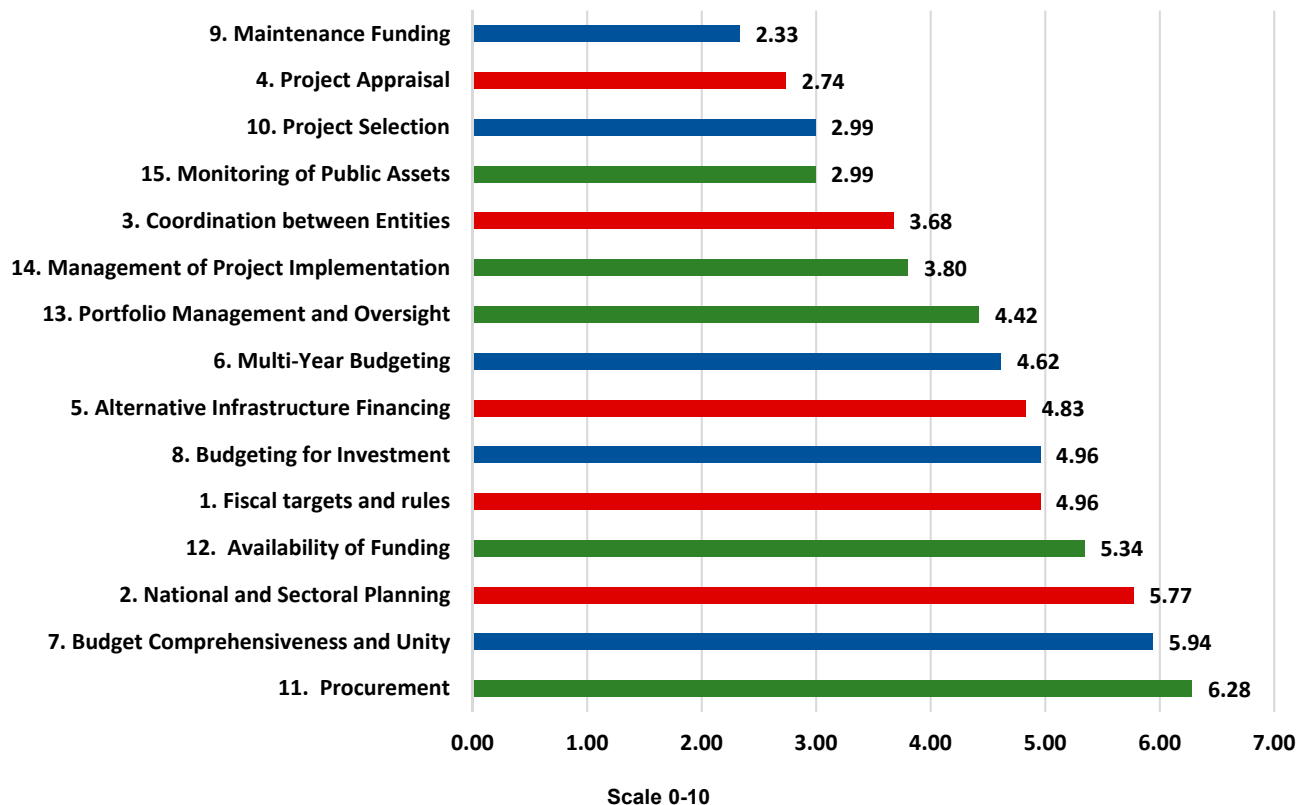


Source: IMF

# What have we learned from the PIMA framework?– Scores globally



Ranking of Institutional Scores for PIMA Missions (n=39)

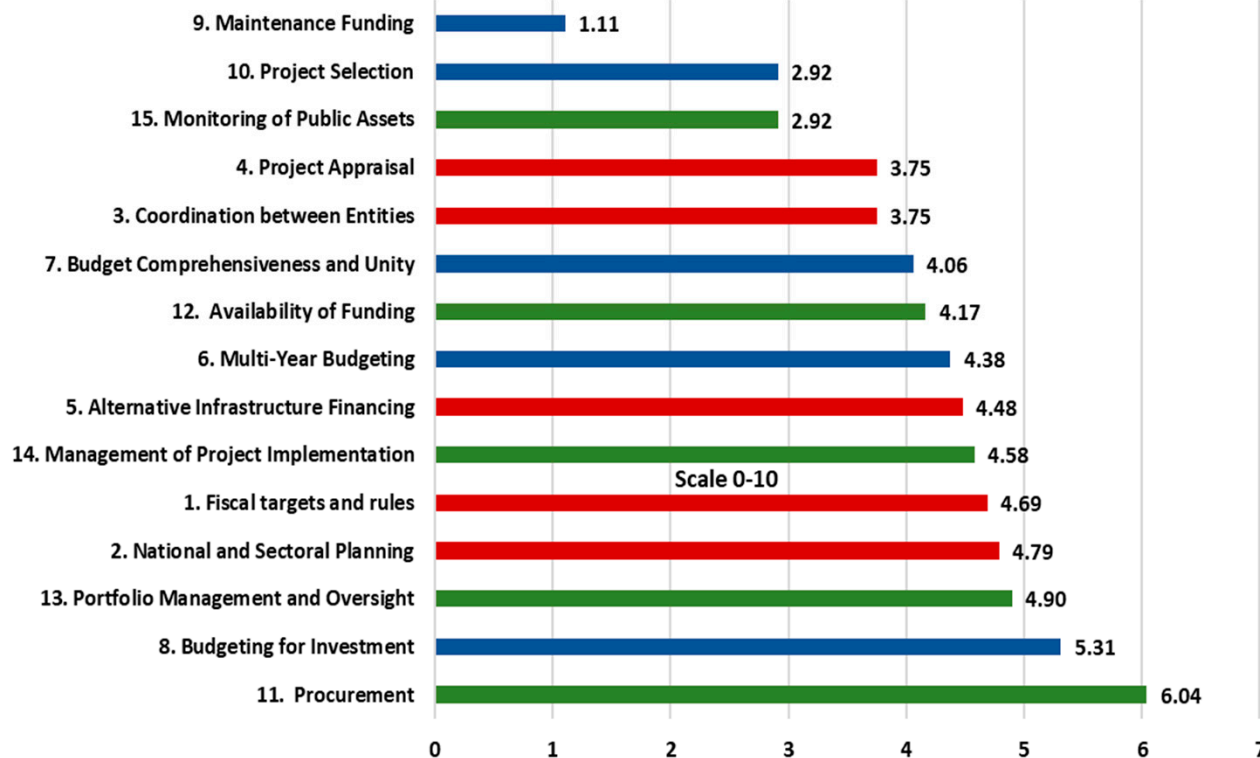


- **Weakest institutions:** maintenance funding, project appraisal, project selection
- **Strongest institutions:** procurement, budget comprehensiveness and unity, and national and sectoral planning

# Issues in Asia Pacific similar, but also different



Ranking of Institutional Scores for Asia-Pacific (n=8)



- **Weakest institutions**  
Maintenance Funding, Project Selection and Monitoring of Public Assets
- **Strongest institutions**  
Procurement, Budgeting for Investment and Portfolio Management and Oversight

# Institutional Reform Trends in Asia



## State of Play

- **Need to better integrate finance and planning functions**
- **MOFs still too much focused on compliance and control**
- **Policy analysis and review capacity still weak**
- **In-house fragmentation and weak communication**
- **Strong focus on automation of business and support process**

## Key Issues

- **Could merger of Planning and Finance Ministries be a solution?**
- **Need to shift detailed budget management responsibility to line ministries**
- **Changing MOF mindset/culture from administrative to policy, and from compliance to performance**
- **Use IT systems effectively**
- **Retrain and reposition staff; improve internal communication**

## Some Concluding Thoughts



- **PFM Reform is a long-term, even a generational, change process**
- **Ministries of finance in Asia, like elsewhere, often have the best staff and the strongest internal culture**
- **Their strength is sometimes their weakness**
- **To successfully implement reforms Ministries of Finance need to change their core staff capacities and their internal culture**
- **Financial management responsibilities will need to be shifted to line ministries.**
- **Ministries of finance need to change focus from detailed annual budget determination to supporting expenditure optimization within clear medium-term fiscal constraints**
- **Strong political leadership is essential for realizing PFM objectives**

# **Appendix: How does the IMF support PFM in Asia - 1**

## **Modes of delivery:**

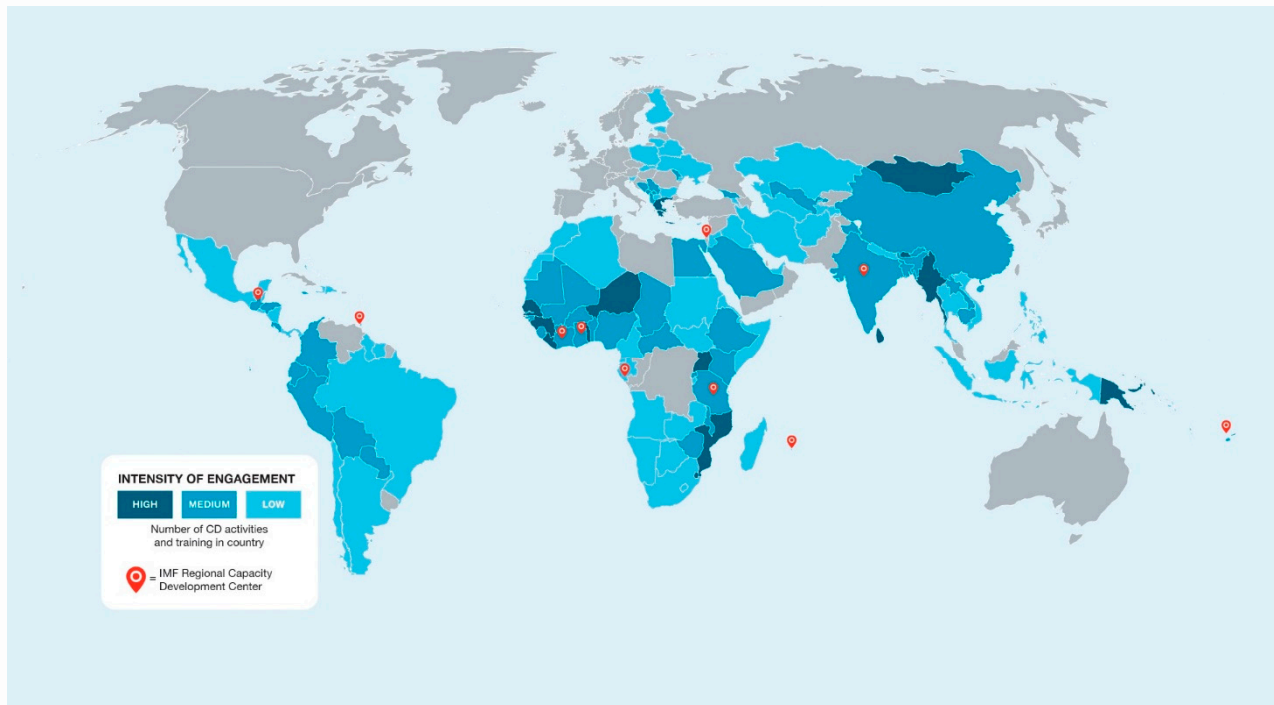
- HQ-led missions led by Fiscal Affairs Department staff**
- Regional TA and Training Centers**
- Regional and Resident Advisors**
- Short-term experts**
- Regional and national training, workshops and outreach**

## **PFM Capacity Development in Asia**

- Capacity Development Office in Thailand (CDOT)**
- South Asian Regional Training and Technical Assistance Center (SARTTAC)**
- China-IMF Capacity Development Center (CICDC)**
- Singapore Training Institute (STI)**
- New Center to be established in Central Asia**

# Appendix: How does the IMF support PFM in Asia - 2

## Intensity and Coverage of FAD Capacity Development - FY2019

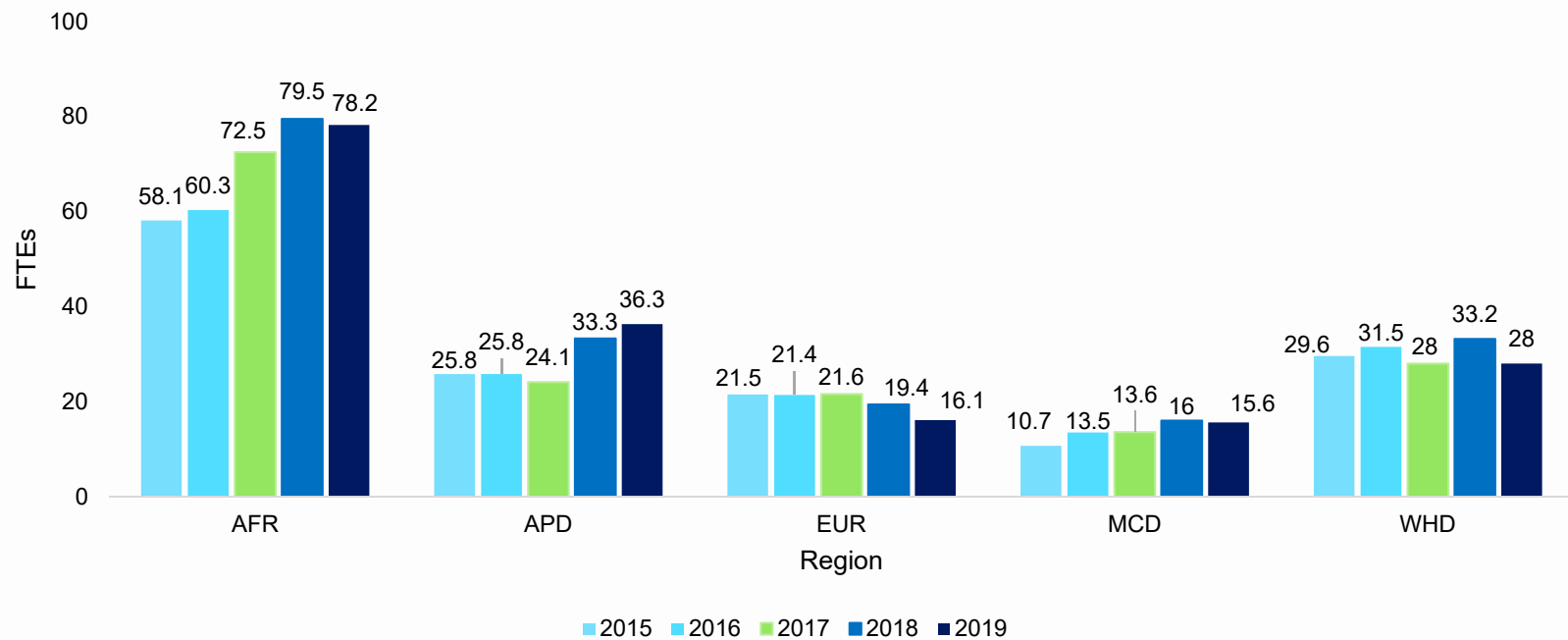


### FAD FACTS:

- Over 120 countries
- US\$113 million
- 273 HQ-led missions
- 1,500 Short-term expert (STX) visits
- 70 Long-term experts (LTX)
- 95 CD seminars
- 2000 participants in FAD online training

# Appendix: How does the IMF support PFM in Asia – 3

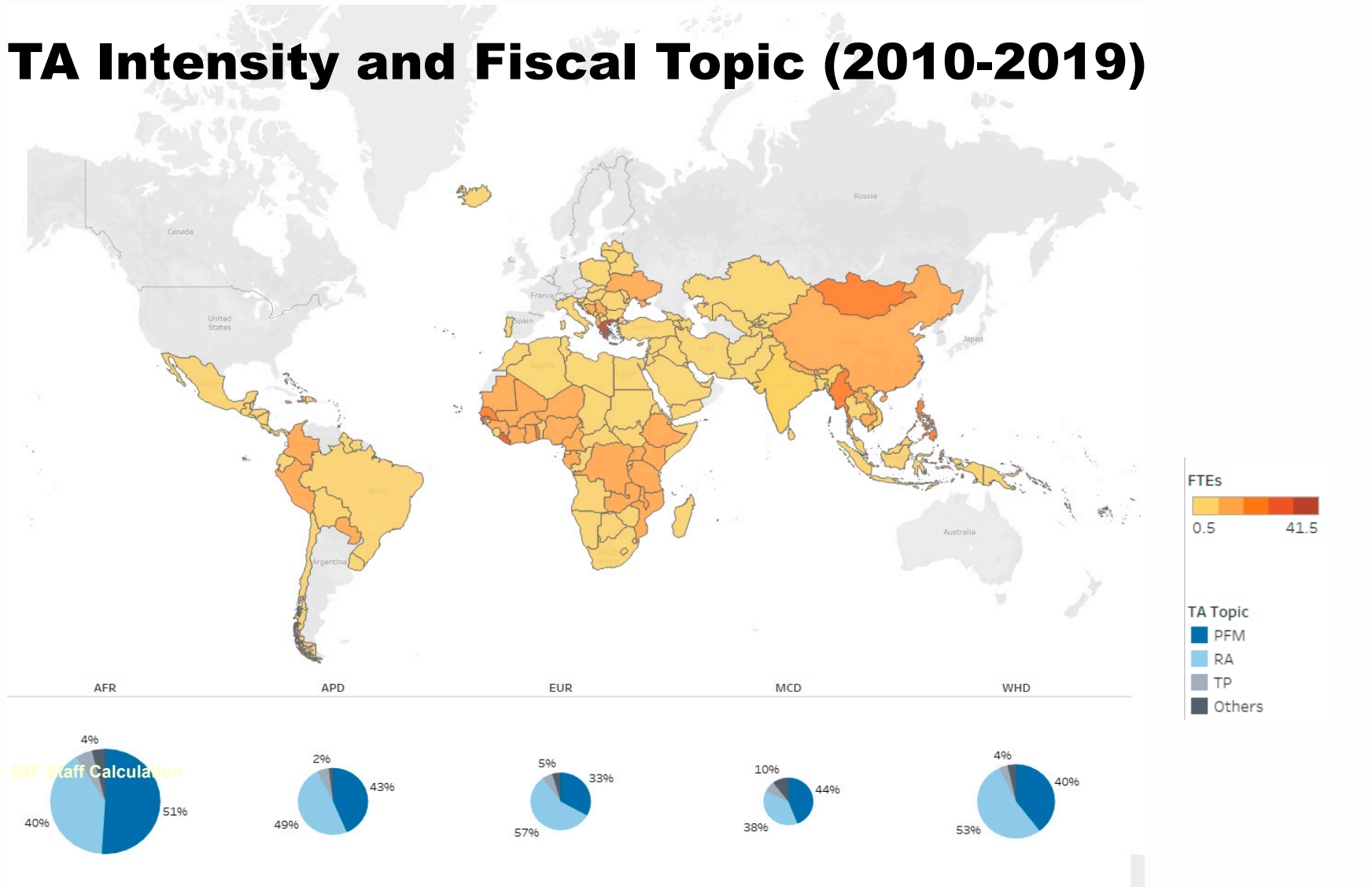
## Fiscal Affairs Department TA Delivery by Region, FTEs (Full Time Equivalent) 2015-2019





# Appendix: How does the IMF support PFM in Asia - 4

## TA Intensity and Fiscal Topic (2010-2019)



Source: IMF Staff Calculation